

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 07-_____
Proposed General Increase	:	
In Rates For Gas Service	:	
	:	

Direct Testimony of

ILZE RUKIS

Manager – Alternative Resources
Wisconsin Public Service Corporation,
A subsidiary of Integrys Energy Group, Inc.

On Behalf of
North Shore Gas Company

March 9, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Ilze Rukis. My business address is Wisconsin Public Service
5 Corporation, 700 North Adams Street, P. O. Box 19001, Green Bay, Wisconsin
6 54307-9001.

7 Q. By who are you employed and what position do you hold?

8 A. I am Manager- Alternative Resources in Regulatory Affairs for Wisconsin Public
9 Service Corporation (“WPSC”), a gas and electric utility subsidiary of Integrys
10 Energy Group, Inc.

11 **B. Background and Experience**

12 Q. Please describe your education and business experience.

13 A. I have an MBA degree from Indiana University (Bloomington) with a marketing
14 emphasis. I have worked in the electric utility industry since 1979 in various
15 positions including corporate governance, finance, and financial analysis. Since
16 1987, I have been involved with public benefits, such as low income, energy
17 efficiency, distributed generation and renewables, and more recently in such
18 related issues such as decoupling. I have been employed by WPSC since 1993.

19 **C. Purpose of Testimony**

20 Q. What is the purpose of your direct testimony in this docket?

21 A. The Illinois Commerce Commission’s (ICC) order in ICC Docket 06-0540
22 included as a Condition of Approval that The Peoples Gas Light and Coke

23 Company (“Peoples Gas”), and North Shore Gas Company (“North Shore”)
24 (together, the “Gas Companies”) propose to implement energy efficiency
25 program(s) (“Programs”) consistent with certain other Conditions pertaining to
26 the implementation of the Program(s). The Gas Companies accepted all the
27 Conditions.

28 The purpose of my direct testimony is to:

- 29 • Describe how the Gas Companies have met the Conditions of
30 Approval included in the order in Docket 06-0540, specifically
31 conditions 27, 28, 29 and 30 as listed in Exhibit LTB-1.6.
- 32 • Provide an overview of the Gas Companies’ proposed process to
33 implement Programs in the Gas Companies’ service territories.
- 34 • Provide a general description of the kinds of programs and efforts
35 that could be included in the Energy Efficiency Programs offered
36 in the Gas Companies’ service territories, and how they could be
37 promoted.
- 38 • Provide support as to why the proposed funding level of \$7.5
39 million is reasonable and appropriate.
- 40 • Provide an illustrative overview of the form and substance of
41 reports that may be produced documenting the results of the energy
42 efficiency initiative.

43 **D. Summary of Proposed Programs**

44 Q. You have referred to the Gas Companies. Are the Gas Companies proposing a
45 single program or are Peoples Gas and North Shore proposing separate programs?

46 A. Peoples Gas and North Shore will propose substantially identical programs
47 because that is what logically follows from the Commission's order in ICC
48 Docket 06-0540. However, as will be clear from Ms. Grace's direct testimony
49 (Peoples Gas Ex. VG-1.0), Peoples Gas and North Shore will each have separate
50 Programs. For example, each will have a rider to govern the Programs, each will
51 have a specific dollar amount allocated to the Programs and each will have utility-
52 specific charges to recover the costs allocated to that utility's Program. Peoples
53 Gas and North Shore intend that each utility fund programs for the benefit of
54 customers in that utility's service territory. While the same administrators may
55 manage the Peoples Gas and North Shore funds, it is the Gas Companies'
56 intention that the funds be accounted for separately so that Peoples Gas customers
57 benefit from amounts they pay and North Shore customers benefit from amounts
58 they pay. In other words, if \$6.4 million is recovered through Peoples Gas' rates
59 in a given year, then those \$6.4 million should fund programs in Peoples Gas'
60 service territory.

61 Q. How will the funding for these Programs change in the event of a statewide
62 energy efficiency mandate, as recently proposed by the Illinois legislature?

63 A. Upon the approval of the ICC to collect \$7.5 million for implementation of the
64 Programs, the Gas Companies are committed to continuing the support of energy
65 efficiency at no less than this amount. Should the State of Illinois, or other
66 government entity with jurisdiction, require the Gas Companies to fund energy
67 efficiency programs as part of a statewide initiative or as part of any other such
68 initiative imposed on all or some Illinois utilities ("new initiative"), the Gas

69 Companies will continue to fund the Programs established in this case at the level
70 for which the Commission has approved cost recovery, less all amounts that
71 customers are required to contribute to the new initiative. In any year in which
72 the funding required by the new initiative equals or exceeds the amount that the
73 Gas Companies would fund under the Programs, the Gas Companies would not
74 fund the Programs established in this case. As discussed by Ms. Grace, the
75 reconciliation mechanism under the Gas Companies' tariffs for the Enhanced
76 Efficiency Programs ("Rider EEP") would ensure that any funds collected for the
77 Programs but not expended due to a new initiative (or due to any other reason)
78 would be refunded to customers. This means, for example, that should the State
79 of Illinois or other government body establish a funding mechanism for energy
80 efficiency in Illinois that would result in an obligation of \$5 million for the Gas
81 Companies, the Gas Companies would continue to collect \$7.5 million in support
82 of the Programs of which \$5 million would be pursuant to the state program and
83 the remaining \$2.5 million would be pursuant to the Programs established in this
84 case. For simplicity, examples are couched in terms of the Gas Companies, but
85 the review of how much each utility funded would occur separately for Peoples
86 Gas and North Shore.

87 Q. Notwithstanding any action of the State of Illinois or other governing body, is it
88 reasonable for the Commission to approve and the Gas Companies to implement
89 energy efficiency in the amount of \$7.5 million per year?

90 A. Yes. Illinois, like many other states, is dependent on natural gas that is imported
91 from other states and countries. Natural gas prices have increased sharply, which

92 place not only a financial a burden on residential and business customers, but also
93 affect the ability of the State of Illinois to grow its economy and be competitive.
94 Energy efficiency programs can reduce expenditures for importing natural gas
95 supplies and assist all customers in better managing their energy use and lowering
96 energy bills. This amount satisfies Condition 27 of the Commission’s Final Order
97 in Docket 06-0540, and, as discussed below, is sufficient for the types of
98 Programs expected to be implemented.

99 Q. Did the Gas Companies meet with the stakeholders named in Condition 28 in ICC
100 Docket 06-0540 to develop, agree and present in good faith the details of the
101 Programs?

102 A. Yes, the Gas Companies had a series of discussions with the Environmental Law
103 and Policy Center (“ELPC”), the Illinois Attorney General and other interested
104 stakeholders on how to implement the Programs. These meetings were
105 productive and informative. While the group did not reach agreement on every
106 aspect of the proposed energy efficiency process, there were many areas of
107 agreement.

108 **II. IMPLEMENTATION OF PROPOSED PROGRAMS**

109 Q. Please describe the Gas Companies’ proposal for implementing Programs in the
110 Gas Companies’ service territories.

111 A. The other stakeholders have indicated an interest to be active participants in the
112 direction and design of reasonable and cost effective Programs. To this end, the
113 Gas Companies have developed a structure and process that is independent from
114 the direct oversight by the Gas Companies to the largest extent practicable,

115 permits ELPC and interested stakeholders to provide direction to the Programs
116 and also is flexible enough to comply with any tariff requirements or other
117 Commission requirements.

118 **A. Structure and Process**

119 Q. Please describe the Gas Companies' proposed structure and process.

120 A. North Shore Ex. IR-1.1 illustrates the proposed structure and process for
121 implementing the Programs for the Gas Companies. This structure, which
122 features third parties in key roles, satisfies Condition 29 of the Commission's
123 Final Order in Docket 06-0540. The principal components are:

- 124 • A Governance Board;
- 125 • An independent Contract Administrator;
- 126 • One or more independent third party Program Administrator(s);
- 127 • An independent Program Evaluator; and
- 128 • A Fiscal Agent.

129 **B. Governance**

130 Q. Please describe the Governance Board and its role.

131 A. The Gas Companies propose that the Governance Board consist of five voting
132 members with one representative from:

- 133 (1) the ELPC;
- 134 (2) the Gas Companies;
- 135 (3) a consumer advocacy group;
- 136 (4) City of Chicago; and

137 (5) an organization (governmental or consumer) that shall represent North
138 Shore's service territory.

139 The Gas Companies also propose that the Governance Board include a
140 representative from the Illinois Commerce Commission or its Staff as a sixth non-
141 voting member.

142 To ensure its independence from the Gas Companies, the Governance
143 Board's voting procedures would not give any one entity the ability, acting alone,
144 to approve or reject any matter coming before the Governance Board. In other
145 words, no single member, including the Gas Companies' representative, can
146 determine how funds are spent. For example, if the Governance Board's
147 procedures provide for any member to lead the group (for example, act as the
148 president or chairman to lead meetings, set agendas and oversee administrative
149 matters) or take minutes of meetings, the Gas Companies' representative would
150 not fill any such role. Also, the Governance Board would hold all meetings at a
151 location outside the Gas Companies' offices, with the exception that upon the
152 request of any member other than the Gas Companies' representative and with the
153 agreement of all other members, a meeting may be held at the Gas Companies'
154 offices.

155 The anticipated duties of the Governance Board would be to oversee the
156 creation and issuance of Request for Proposals and select (1) one or more
157 Program Administrators for implementation of energy efficiency programs, (2) a
158 Contract Administrator, (3) a Program Evaluator, and when needed, give direction
159 to the Fiscal Agent. This Board would also establish, in consultation with the

160 Contract Administrator, the general Program goals and performance criteria, e.g.,
161 which types of programs should be offered to which customer segments and in
162 what timeframe. The Board will also be responsible for providing to the Gas
163 Companies any reports required by the Gas Companies' Rider EEP.

164 **C. Contract Administrator**

165 Q. Please describe the role of the Contract Administrator.

166 A. A Contract Administrator would provide technical support to the Governance
167 Board in the areas of performance of gas energy efficiency programs. The
168 Contract Administrator would not only assist the Board with setting program
169 goals, performance criteria and budgets, but would also help draft the requisite
170 Requests for Proposals and approve program spending and invoices from the
171 Program Administrator(s) and Program Evaluator. The Contract Administrator
172 would be independent of the Gas Companies, the Program Administrator(s) and
173 the Program Evaluator.

174 Although the Board would ultimately determine the Contract
175 Administrator's qualifications, the Gas Companies have developed an illustrative
176 draft description of the types of skill sets and experience that may be needed for
177 the Contract Administrator which is attached as North Shore Ex. IR-1.2.

178 **D. Program Administrator**

179 Q. Please describe the role of the Program Administrator(s).

180 A. The Program Administrator(s) would be responsible for: developing detailed
181 program designs in cooperation with the Governance Board and the Contract
182 Administrator; delivery of agreed upon programs; hiring of sub-contractors for

183 program delivery as necessary; and delivery of periodic performance reports as
184 required by the Board. The Program Administrator(s) would also be responsible
185 for preparing and delivering to the Governance Board any reports and information
186 required by the Governance Board. The Program Administrator(s) would be
187 independent of the Gas Companies, the Contract Administrator and the Program
188 Evaluator.

189 **E. Program Evaluator**

190 Q. Please describe the role of the Program Evaluator.

191 A. The role of the Program Evaluator is to perform periodic audits on the
192 performance of the programs against established performance criteria and also
193 prepare annual reports for the Governance Board. The Program Evaluator would
194 also be responsible for preparing and delivering to the Governance Board any
195 other evaluation periodic reports and information that may be required by the
196 Governance Board.

197 The Program Evaluator would be independent of the Gas Companies, the
198 Contract Administrator and the Program Administrator(s).

199 **F. Fiscal Agent**

200 Q. Please describe the role of the Fiscal Agent.

201 A. The Gas Companies would account for the funding approved by the Commission
202 while acting as a Fiscal Agent of the Programs. More specifically, the Gas
203 Companies would maintain accurate accounting records, pay invoices as approved
204 by the Contract Administrator from the Program Administrator(s) or any sub-
205 contractors, and would help to prepare periodic financial reports. The Fiscal

206 Agent is largely a ministerial role and would not be involved in decisions about,
207 for example, what to fund or how much to spend on particular programs. At this
208 time, the function of the Fiscal Agent would reside at the Gas Companies but
209 would be overseen by the Governance Board. Any issues and concerns regarding
210 disbursements associated with the Programs will be directed to the Governance
211 Board for review and resolution. The function of the Fiscal Agent could be
212 transferred to an outside third party as needed for the efficient administration of
213 the Programs.

214 **G. Third Party Review**

215 Q. Do the Gas Companies recommend that this structure and the proposed processes
216 be reviewed?

217 A. Yes, a periodic review by an independent third party could provide valuable
218 information to the Governance Board. This review is different from the periodic
219 reports discussed later in this testimony. This periodic review is intended to
220 assess how well the overall structure and process of the Programs are performing
221 and whether changes should be considered by the Governance Board, the Contract
222 Administrator, the Program Administrator(s) and/or the Fiscal Agent in their
223 respective responsibilities to enhance the administration and performance of the
224 Programs. Within five years after Commission approval of the Programs
225 proposed in this case, an independent review would be conducted to demonstrate
226 that the Programs are meeting not only any terms and conditions imposed by the
227 Commission but that the overall structure and process are functioning as
228 efficiently as possible. The independent review would be funded by the Gas

229 Companies from the Program's funding with the hiring of the independent
230 reviewer to be done by the Governance Board. The report would be submitted to
231 the Governance Board. The Governance Board would consider whether and how
232 to implement the report's recommendations. After the initial report, such an
233 independent review will be conducted periodically, no sooner than three and no
234 more than five years after the previously completed report is submitted and, if
235 appropriate, may be part of a rate case.

236 **III. PROGRAM FEATURES**

237 **A. Energy and Technology Efficiency**

238 Q. Describe the various kinds of programs and efforts that could be considered as
239 part of the Gas Companies' Programs.

240 A. The most common energy efficiency program is the **technology rebate**, which
241 targets individual customers or businesses to purchase or install more efficient
242 technology rather than less efficient technology with lower initial purchase or
243 installation costs. Technology rebate programs may target retail customers
244 indirectly by partnering with wholesale and retail distribution channels to ensure
245 the availability and promotion of high efficiency products and services, partnering
246 with existing energy efficiency programs such as Energy Star, or partnering with
247 retail chains, manufacturers and trade allies to promote particular products or
248 services.

249 Broadly, the Gas Companies' Programs may offer technology rebates to
250 **business customers** and to **residential customers**.

251 The gas technologies that could be part of a rebate program for businesses
252 may include boilers, steam traps, HVAC, heat recovery, controls, process, water
253 heating, solar water heating, pre-rinse sprayers, gas dryers, building
254 insulation/sealing and stationary siphons.

255 The gas technologies that could be part of a rebate program for residential
256 homes, condominiums and multifamily housing stock may include insulation,
257 heating, water heating, energy saving (water saving) clothes washer, boiler,
258 furnace, high efficiency home, sealing and weatherization.

259 An energy efficiency program may also take the form of a door-to-door
260 **direct install** of free or low cost energy efficiency measures for homes and
261 apartments, such as low flow showerheads, faucet aerators, water heater wraps,
262 reducing water heater temperature settings and/or installing and programming
263 thermostats.

264 Some energy efficiency programs may target selected customer groups
265 such as certain **low income** customers to provide assistance to replace old,
266 inefficient furnaces and water heaters, or install weatherization measures to
267 homes and apartments.

268 Energy efficiency programs can also be structured as **shared savings**
269 **financing**, where the customer pays for the cost of the energy efficiency
270 installation through savings from the project with a low interest loan, often at a
271 buy-down interest rate.

272 Other energy efficiency programs could also target new customers and
273 new loads as part of an **economic development** package to ensure that any new
274 load additions to the system are as efficient as possible.

275 The above activities are conducive to the tracking of therms saved and the
276 number of customers assisted.

277 **Broad based support** of energy efficiency that leads to a sustainable
278 change in the marketplace dynamics of energy efficiency is often referred to as
279 **market transformation**. For the home and business, activities that support
280 market transformation may include such things as developing and providing
281 information on available energy efficiency options and energy saving best
282 practices. For businesses, educators, vendors and trade allies, activities that
283 support market transformation may include providing technical education,
284 training and accreditation at workshops and/or technical colleges. It can also
285 include outreach to these groups of customers at fairs, trade shows, and
286 conventions. Cooperative advertising (shared marketing costs between various
287 parties) and point of purchase materials and displays provided to retailer can also
288 lead to increased sales of specific high efficiency products in the marketplace.
289 Another example of market transformation support is developing and sponsoring
290 specific classroom curriculum and providing continuing educations credits for
291 teachers in grades K through 12 and in community colleges.

292 As the discussion above illustrates, market transformation support can take
293 many forms and can have a wide range of cost, depending on scale and scope of
294 the activity. By its nature, it is therefore more difficult to document the impact

295 and cost effectiveness of such market transformation support and usually requires
296 a sustained funding commitment over a period of time to create observable or
297 measurable changes.

298 **B. Incentives and Rebates**

299 Q. Please provide some examples of what may be appropriate levels of incentives or
300 rebates for Programs in the Gas Companies' service territories.

301 A. Determining the amount of **rebate** is dependent on the installed cost of the
302 technology, whether it is an accepted technology or an emerging one, and the
303 anticipated payback of the installation. For certain customers, rebates are
304 sometimes calculated on a customized basis, depending on the process or
305 application. In all cases, the rebate should be set at a level to incent the customer
306 to take action, yet maximize cost effectiveness.

307 A rebate of \$150 may be appropriate for a residential or multifamily hot
308 water boiler with an AFUE of 90% or greater. A rebate of \$150 may also be
309 appropriate for residential furnaces which have a high efficiency fan and an
310 AFUE of 90% or greater. However, larger sized boilers for centrally heated
311 multifamily housing units may require **custom rebates** based on the savings
312 potential at each building.

313 Incentives may also take the form of **co-funding**. A Program could co-
314 fund Feasibility Studies for new commercial and industrial economic
315 development projects up to 50% of the cost of the study, perhaps with an
316 additional dollar cap, for example, \$7,500. Custom rebates for actually installed
317 commercial and industrial projects could be calculated at a rate of \$0.30/therm of

318 anticipated first year savings, not to exceed, for example, 50% of the cost of the
319 project, and with an additional dollar cap. Structuring incentives in this way
320 prevents any one project from being completely funded through a rebate subsidy
321 or to disproportionately use up available program funds.

322 Incentives can also be used for **service or maintenance buy-downs**, such
323 as for the repair or replacement of steam traps. As an example, a rebate for a
324 steam trap may be \$25 per trap, up to 50% of the total service cost. Similarly,
325 retrofit of boiler reset and cutout controls could have a rebate of \$75 based on first
326 year savings. **Tune-up** programs are also an option that promotes partnering with
327 vendors and trade allies.

328 **Low income services** such as weatherization will vary from home to
329 home but may cost several thousand dollars. Heating unit repairs or replacements
330 for qualified low income customers may average over \$1,000.

331 Q. Who determines what types of incentives should be implemented and at what
332 level?

333 A. As part of its duties, the Governance Board, with the assistance of the Program
334 Administrator(s) and Contract Administrator, will need to set priorities as to
335 which markets and/or technologies should be pursued, based on market potential
336 and need. It is anticipated that the Program Administrator(s) and Contract
337 Administrator, based on their experience and expertise, will provide initial
338 guidance to the Governance Board on the type of incentive to use and how
339 aggressive it may need to be to achieve established goals, based on the
340 characteristics of the Gas Companies' service territories. The Governance Board

341 will ultimately approve programs and program designs, including the type and
342 level of incentive needed to move the market towards energy efficient options.

343 **C. Program Funding**

344 Q. Is an annual funding level of \$7.5 million sufficient in order for the Gas
345 Companies to implement the kinds of programs and activities described above?

346 A. Yes. However, the Governance Board may wish to consider commissioning a
347 market potential study for the service territories of the Gas Companies to enable
348 the Governance Board to make best use of the funds provided by customers,
349 recognizing the differences in the demographics, single family and multifamily
350 housing stock and businesses that are located in each of the service territories.
351 Periodic reports on savings achieved and costs incurred, as prepared by the
352 Program Evaluator and provided to the Governance Board, will also assist in
353 assessing effectiveness of the programs and making strategic decisions in the
354 scope and nature of the Programs offered over time.

355 Because of the differences in the approach to market and implement
356 programs between the residential, multifamily and business sectors (mass
357 marketing for the residential sector, vs. one-on-one advisory and consulting for
358 the business sector), the components of an overall program budget may vary in
359 importance and may be different from one service territory to another, but it may
360 be as follows:

361	<u>Residential</u>	<u>Business</u>	
362	Incentives and Rebates	58%	48%

363	Marketing/promotion	10%	4%
364	Implementation	23%	40%
365	Administration	6%	5%
366	Evaluation	3%	3%

367 These are rough approximations based on the experience of the Wisconsin
368 statewide public benefits program.

369 **D. Promotion**

370 Q. How will the Programs be promoted?

371 A. Programs will be promoted through the usual media: radio, newsprint, and
372 television. Specific point-of-purchase materials may also be developed for use in
373 retail stores. The Gas Companies will also provide promotional support through
374 bill inserts, company communications and outreach in various community special
375 events. The use of speaker bureaus and presentations to community and civic
376 groups are also possible. In addition, information about the Programs could be
377 included in the Gas Companies' and other stakeholders' websites to ensure the
378 widest dissemination of the availability of the Programs. Implementation of
379 recognition and achievement awards for individuals, businesses and buildings is
380 another means that the Governance Board may consider in further promoting the
381 Programs and raising the awareness of energy efficiency in general. These
382 promotional techniques satisfy Condition 30 of the Commission's Final Order in
383 Docket 06-0540.

384 **E. Reports to Governance Board**

385 Q. What should be included in the periodic reports to the Board? How frequent
386 should these reports be?

387 A. Reports can be customized to the oversight needs and interests of the Governance
388 Board, and may depend in part, on the nature of the Programs offered. These
389 reports may include such things as:

- 390 (1) Impact results of the programs in terms of therms saved,
391 customers served, dollars spent as compared to budget;
- 392 (2) Benefit cost analysis;
- 393 (3) Comparison of results to estimated potential;
- 394 (4) Market transformation effects;
- 395 (5) Economic and economic development impacts;
- 396 (6) Environmental impacts (emissions);
- 397 (7) Non-energy benefits; and
- 398 (8) Process and impact evaluations, by program and sector.

399 The frequency of reports is dependent on the oversight and information needs of
400 the Governance Board. A comprehensive year end report is advisable, but more
401 frequent reports on a quarterly or semi-annual basis may also be helpful. An
402 example of a year-end report for the Wisconsin statewide energy programs is
403 included as North Shore Ex. IR-1.3.

404 Q. Does this conclude your direct testimony?

405 A. Yes, it does. End of document. Do not delete.