Commonwealth Edison Company's
On-Bill Financing Program

Program Design Document

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ComEd Attachment A

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An Exelon Company

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This Program Design Document ("PDD") presents to the Illinois Commerce Commission (the "Commission") for review and approval the plans of Commonwealth Edison Company ("ComEd") to implement a residential sector energy efficiency ("EE") project on-bill financing program (the "OBF Program" or the "Program") in compliance with Section 16-111.7 of the Public Utilities Act (the "Act").

EXECUTIVE SUMMARY

In its 2009 session, the Illinois legislature passed Senate Bill 1918, which became Public Act 96-0033. The bill added new Sections 16-111.7 (applicable to electric utilities) and 19-140 (applicable to gas utilities) to the Act.[1] The Act's new provisions mandate that all large electric and gas utilities in Illinois design and implement "on-bill financing" programs to finance EE projects for residential sector customers. The OBF Program is designed to permit qualified and eligible utility customers to borrow funds from a third party lender in order to purchase energy efficiency measures approved under the Program with no required initial upfront payment, and to pay the cost of those products and services over time on their utility bills. 220 ILCS 5/16-111.7(a). The Program must satisfy the requirements of the statute, which are summarized in this section and subsequently detailed in the remainder of this Program Design Document.

Eligible Customers. ComEd's Program targets property owners in the residential sector – single family and multi-family buildings up to four units, including duplexes and condominiums where service is provided. Multi-family buildings with greater than four units are not eligible. 220 ILCS 5/16-111.7(b). Customers of alternative retail electric suppliers ("ARES") may participate in the Program under the same terms and conditions applicable to the utility's supply customers. 220 ILCS 5/16-111.7(i).

Recommended Energy Efficiency Measure(s). Many types of EE measures may be financed, provided they meet the eligibility criteria set forth in the statute. Namely, an eligible measure must apply to or replace energy using equipment (220 ILCS 5/16-111.7(c)(1)(A)), and application of the measure must result in savings realized over the life of the measure sufficient to cover the cost of implementing the measures including interest and associated administration costs (220 ILCS 5/16-111.7(c)(1)(B)). ComEd will publish its final eligible measure(s) prior to the Program's

[1] The statutory structure and provisions of Section 16-111.7 and Section 19-140 are virtually identical, except for the applicability to electric or gas utilities. The key difference between the provisions is distinguishing between electric-using and gas-using EE measures.

start up and may add to this list as Program operations proceed, provided any new measure satisfies the eligibility criteria.

Request for Proposals from Financial Institutions. ComEd will issue a request for proposals ("RFP") to procure a financial institution ("FI" or "lender") to provide financing to customers and to partner with ComEd in other roles to assist in Program implementation. 220 ILCS 5/16-111.7(c)(2). Specifically, ComEd proposes to coordinate with the other utilities subject to the statute and conduct a joint FI RFP process. The Illinois Energy Association ("IEA"), of which all the utilities are members, will facilitate this cooperation, issue the FI RFP, and coordinate the process on behalf of all the utilities. The filing of a single RFP creates a more attractive, efficient, and streamlined process that provides benefits to the utilities, lenders, participating customers, and the Commission.

ComEd will seek to arrange a lending facility with loan durations up to 10 years for residential customers, payment schedules of level monthly payments of principal and interest, in arrears, and liberal prepayment options. Fixed interest rates will be sought, with the rate fixed at the time of loan commitment based on a published index agreed with the selected FI. The minimum loan amount will be set at $500, and the maximum will be set at $20,000 for qualifying participants. No borrower down-payment will be required, in compliance the statute. 220 ILCS 5/16-111.7(a).

After receiving proposals from interested FIs, an Evaluation Committee of utility representatives will make a selection according to the statutory criteria, including favorable loan pricing, loan terms, specifics of the loan origination process, lender experience and qualifications, marketing and geographic coverage, expanded lending potential, program fees and service charges, and additional services requested from the FI. The selection of an FI will be an invitation to negotiation. Subsequently, the utilities and the FI will execute a Lending Facility Agreement to establish lending terms and structure with the selected FI.[2]

Coordination among Utilities, Vendors, and Lender to Attract Participants. The Program will be marketed by the vendors (including retailers), lender, and utilities, but vendors will bear primary responsibility for marketing given their immediate proximity to the point of sale with customers. Expanding upon existing contacts when possible, the utilities will develop a network of EE project, equipment, and contractor vendors to provide marketing and turnkey development and to assist with the implementation of EE projects as part of the Program. Only qualified and well-trained vendors will be able to participate in the Program. ComEd will seek assistance from the FI to develop and manage the vendor network.

Lender Approval Process and Subsequent Billing Arrangements. The Lender will perform the credit analysis of prospective borrowers using underwriting guidelines as agreed with ComEd. 220 ILCS 5/16-111.7(c)(4). Although the details of the credit check process will ultimately be negotiated and finalized through the RFP

[2] Each separate utility will execute an agreement with the selected FI.

process with the FI, ComEd has prepared a list of initial suggested underwriting criteria to propose to the Commission. The lender will be responsible for loan origination and coordinating with ComEd and vendors. To assure proper application of loan proceeds and timely payment to vendors, the lender will make disbursements of loan proceeds directly to the vendor upon project completion and acceptance.

Participant Obligations and Rights. The customer's obligation to pay the loan payment will be incorporated into its existing utility bill and treated commensurate with the obligation to pay the utility bill. Any dispute arising concerning the loan's terms, conditions, or charges is to be resolved between the participant and the lender. 220 ILCS 5/16-111.7(c)(5). Loan disputes shall be handled in the normal and customary manner established by the FI to be selected. The dispute resolution procedures will be finalized during negotiations with the selected FI. In the event that a participant transfers title of the underlying property receiving utility services or terminates the utility service, the participant will be required to pay the utility bill in full. *Id.* In practice, when ComEd receives notification of the transfer or termination, it will issue a final bill to the participant for payment in full of all charges, including the amount financed under the Program.

ComEd's Obligations and Rights. As mentioned, loan repayments will be made through the utility bill. 220 ILCS 5/16-111.7(c)(6). Because participants will be on different billing cycles, ComEd will aggregate all loan repayments from customers and make an aggregated monthly or semi-monthly payment to the FI.

If a participant defaults on payment of its utility bill, ComEd will continue to make payments to the lender as required by the statute. *Id.* In the event of non-payment, ComEd may terminate the participant's electric service, according to existing established collections procedures. *Id*. ComEd also retains a security interest in the installed measures. *Id.* Furthermore, ComEd can recover any ultimate losses due to default or non-payment through ComEd's tariff established under Section 16-111.8 of the Act, identical to its normal bad debt cost recovery method. *Id.*

Lending Limits. The maximum outstanding amount financed under the Program is limited to $2.5 million per utility by statute. 220 ILCS 5/16-111.7(c)(7).

Estimated Program Budget. Program costs include, but are not limited to, third party administrative costs, internal management activities, information technology ("IT"), and incremental fully-loaded labor costs. Additionally, Program costs may include fees paid by ComEd to the FI to cover certain FI costs for its services, including loan program set up, loan origination and administering the Program. This approach will reduce costs to the participating customers.

Independent Evaluation Planning. In order to facilitate the preparation of the report addressing the first three years of the Program's operation, ComEd proposes to collect data on financial and loan payment performance and energy savings aspects and effects of the measures. As part of its services, the FI partner will be responsible for collecting data regarding lending activity, including, for example: number of applications, number of approvals, number of booked loans, reasons for rejection, customer service matters, approval times, loan amounts, and loan terms.

1. ELIGIBLE PARTICIPANTS.

Consistent with the requirements of subsection (b) of Section 16-111.7, the following section describes what classes of customers are eligible to participate in the Program. The statute already provides a clear description of whom these classes should include. 220 ILCS 5/16-111.7(b).

1.1. **Residential Retail Customers**. ComEd's Program targets the residential sector – single family and multi-family buildings with up to four units, including duplexes and condominiums where service is provided. *Id.* Participants must be property owners and take electric service at the premises. Owners of multi-family buildings with greater than four units are not eligible. Participants must also be "eligible retail customers" as defined in subsection (a) of Section 16-111.5 of the Act, which means customers who receive their service from ComEd under fixed-price bundled service tariffs and whose service has been declared competitive under Section 16-113 of the Act. 220 ILCS 5/16-111.5(a). Also excluded are the customer groups specified in Section 16-111.5 of the Act, including self-generating customers, customers electing hourly pricing, or those customers who are otherwise ineligible for fixed-price bundled tariff service. *Id.*

1.2. **ARES Customers**. Notwithstanding Section 1.1 *supra*, the statute provides that customers of ARES may participate in the Program under the same terms and conditions applicable to ComEd's supply customers. 220 ILCS 5/16-111.7(i). In other words, residential customers taking their electric supply service from an ARES would be permitted to participate in the Program if those customers also "own a residential single family home, duplex, or other residential building with 4 or less units, or condominium at which electric service is being provided." 220 ILCS 5/16-111.7(b).

2. RECOMMENDED ELIGIBLE ENERGY EFFICIENCY MEASURE(S).

The following section details the recommended eligible energy efficiency measure and the methodology used to determine eligibility for Program financing. 220 ILCS 5/16-111.7(c)(1).

2.1. **Eligibility Criteria**. An EE measure is an individual technology (*e.g.*, energy efficient refrigerator) that reduces the amount of electricity used when installed or performed. Under the statute, EE measures financed by the Program must meet the requirements of a two-part definition.

The first part provides that the measure "be applied to or replace electric energy-using equipment." 220 ILCS 5/16-111.7(c)(1)(A). Two types of measures could fall within this definition – measures that would be "applied to" electric energy using equipment (*e.g.*, retrofits of existing systems such as heating, ventilation, and air conditioning ("HVAC") systems), and measures that would replace electric energy-using equipment (*e.g.*, replacing an inefficient refrigerator with an energy efficient refrigerator).

The second part requires that "application of the measure to equipment and systems will have estimated electricity savings (determined by rates in effect at the time of purchase), that are sufficient to cover the costs of implementing the measures, including finance charges and any program fees not recovered pursuant to subsection (f)." 220 ILCS 5/16-111.7(c)(1)(B). In other words, to be an eligible measure, its application either as a retrofit of an existing system or as a replacement of an appliance would have to create savings over the life of the measure sufficient to cover its costs of implementation, financing, and any Program fees not recovered pursuant to subsection (f) of Section 16-111.7. 220 ILCS 5/16-111.7(c)(1)(B).

Consistent with this definition, ComEd proposes to use the following methodology to determine eligibility:

A. **Energy Cost Savings**. These savings will be estimated for the package of energy efficiency measures to be installed for the customer. Specifically, savings will be calculated over the life cycle of the measures ("life cycle cost" or "LCC" savings analysis), meaning that the electricity savings realized over the useful life of the measure must exceed the customer's net cost for the measures, including finance charges. The useful life of measures will be determined based on reputable published data, such as the data publicly available on the United States Environmental Protection Agency's Energy Star website. Finally, the electricity savings must be determined using the applicable ComEd rates in effect at the time of the purchase.

B. **Customer Cost of Implementing the Measures**. The total customer cost equals the cumulative amount of the customer's loan payments, which is calculated as follows. First, any utility rebates, other applicable rebates or incentives, and applicable federal income tax credit that the customer will receive will be estimated and subtracted from the total measure cost, which will be determined based on the prescriptive turnkey costs (*i.e.*, the cost to complete the project from start to finish, including the equipment or appliance, materials, installation, labor, and other charges such as State tax). This amount equals the customer's net capital cost and the net amount to be financed via the loan. Second, total loan payments over the applicable loan duration will then be calculated according to the lending facility terms and interest rate, the sum of which will equal the cumulative loan payments and the total customer cost for purposes of the eligibility analysis. Because ComEd is proposing that the Program fees be recovered through the cost-recovery mechanism set forth in subsection (f) of Section 16-111.7, such fees are not included in the customer cost of implementing the measures.

C. **Result**. Eligible measures and hence eligibility of the package of EE measures for Program financing will be determined by the following methodology: (A) must be greater than or equal to (B) for the proposed set of EE measures to qualify.

2.2. **Recommended EE Measure**. Based on ComEd's analysis, the initial measure proposed to be offered under the Program is energy efficient refrigerators, which satisfies the eligibility methodology based on current estimated inputs. Following Commission approval of the Program, ComEd will proceed to finalize the proposed recommended measure using the eligibility methodology approved by the Commission in this docket and based on then-current inputs.

ComEd will be responsible for confirming that EE projects meet the eligible measures criteria and will have the qualified vendors apply this methodology in operations. ComEd will publish its final EE measure(s) eligible for the Program prior to the beginning of Program operations.

2.3. **Flexibility to Modify the List of Eligible Measures**. ComEd is proposing that the Commission grant it the flexibility and discretion to add, delete, or modify proposed measures. Such flexibility is necessary in order to take into account the dynamic variables used to calculate whether or not a measure is eligible under the methodology described in Section 2.1. *See supra*. For example, new electricity supply rates are established annually for eligible retail customers under Section 16-111.5 of the Act, and the lender's interest rates will likely fluctuate as well. Revised inputs to the eligibility methodology could result in new measures passing, existing measures failing, or other necessary modifications. Moreover, granting ComEd the flexibility to add, delete, or modify measures gives it the ability to respond to customer preferences, market conditions, and actual experience in implementing the Program. However, any additions to the list of eligible measures would still be subject to satisfying the criteria of the eligibility methodology.

2.4. **Sample Analysis**. ComEd Ex. A.1 to the PDD provides a sample analysis of an eligible measure that may be financed. The sheet provides an overview of how the measure was assessed to meet the eligible measures test.

3. REQUEST FOR PROPOSALS FROM FINANCIAL INSTITUTIONS.

The following section provides a summary description of the FI request for proposals ("RFP") and the RFP process, as required under the statute. 220 ILCS 5/16-111.7(c)(2). The Draft FI RFP has also been provided as ComEd Ex. A.2 to the PDD.

3.1. **Joint RFP**. ComEd is cooperating with the other utilities subject to the statute to conduct a joint FI RFP process.[3] The Illinois Energy Association ("IEA"), of which all the utilities are members, is facilitating this cooperation and will issue the FI RFP and coordinate the FI RFP process on behalf of all the utilities. The filing of a single RFP provides the following benefits to the involved parties:

a) **Enhances Attractiveness of Program to Prospective FIs**. Section 16-111.7 caps the size of each utility's OBF Program at $2.5 million in total financing principal. 220 ILCS 5/16-111.7(c)(7). The $2.5 million Program size per utility is relatively small, and thereby may limit the number of potential FIs interested in participating in the Program. By joining together, the utilities can aggregate their OBF Program requirements and present a $12.5 million total financing requirement to interested FIs. The utilities believe that this larger size will be more attractive to prospective FIs, thereby aiding the procurement of an effective FI partner. Furthermore, a joint FI RFP will simplify the tasks and process for FIs to respond to the several utilities.

b) **Limits Potential for Customer Confusion**. Having a single FI will make the Program easier to implement and understand for those customers served by different utilities for electric and gas. A single FI could offer loans for EE projects promoted by both utilities.

c) **Facilitates Commission Review and Promotes Consistency Across Utility Programs**. The joint FI RFP supports the harmonization of the various utility program designs and FI RFP processes and simplifies the Commission's review and approval process, which satisfies the requirement of subsection (e) of Section 16-111.7 that the Program "shall be consistent with the provisions of this Section that define operational, financial and billing arrangements between and among program participants, vendors, lenders, and the electric utilities." 220 ILCS 16-111.7(e).

d) **Creates Implementation Efficiencies**. A common financing program adopted by the utilities can yield implementation efficiencies in marketing and administration, including FI fees.

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[3] Five utilities are required to create an OBF Program under Senate Bill 1918: AIU Electric, AIU Gas, ComEd, Peoples/North Shore Gas and Nicor Gas.

3.2. **<u>Services to be Procured</u>**. Through the joint RFP process, the utilities will procure an FI partner for the Program to provide the following services:

a) assist in final financial structuring of the OBF Program, in collaboration with the utilities;

b) establish a lending facility of up to $12.5 million ($2.5 million per utility); originate and provide EE loans to eligible residential energy users, coordinating with the utilities and vendors, including EE service and engineering companies, equipment vendors, installers, and contractors, *(see also infra,* § 3.3, discussing Proposed Loan Terms);

c) perform credit analysis of prospective borrowers and make loan credit decisions, applying underwriting guidelines as agreed upon with the utilities;

d) notify each utility upon approval of a loan and disbursement of funds, using information exchange protocols to be established;

e) administer the loans, with loan collections being performed by the utilities; and

f) provide monthly reports on lending activity and the loan portfolio.

Additional potential FI roles and services, to be determined through the RFP and negotiation process, may include:

g) marketing of EE loans;

h) assisting the utilities in developing and managing the vendor network; and

i) providing additional lending over and above the $2.5 million cap subject to a utility's election and the Commission's approval.

3.3. **<u>Proposed Loan Terms</u>**. Given the size of the market, the utilities expect the lending facility of $12.5 million to be fully obligated relatively quickly, possibly in less than two years. Residential loans are expected to average in the range of $500 to $3,000. A total of 2,000 to 3,500 loans are expected to be made over a two to three year period. The RFP proposes that the loans distributed through the Program comply with the following terms and conditions:

3.3.1. **Source of Funds and Lending Responsibilities**. Loans will be made by the FI, and the source of funds will be the FI's own liquidity. The FI will be responsible for loan origination and coordinating with the vendors and ComEd. The utilities are also in discussion with the Illinois

State Treasurer's Office about a linked deposit program, which could provide a low cost source of funds for the lender to make the loans. *See infra*, § 5.3.

3.3.2. **Geographic Coverage**. Subject to the limitations noted above, loans will be available to all qualifying electric service customers in the service territory of ComEd.

3.3.3. **Loan terms**. ComEd will seek to arrange a lending facility with loan durations of up to 10 years for residential customers, payment schedules of level monthly payments of principal and interest, in arrears, and liberal prepayment options. Fixed interest rates will be sought with the rate fixed at the time of loan commitment based on a published index agreed upon with the selected FI. The minimum loan amount will be set at $500, and the maximum will be set at $20,000. No borrower down-payment will be required, in compliance with subsection (a) of Section 16-111.7 of the Act. The proposed loan terms are described in the Preliminary EE Loan Term Sheet and Underwriting Guidelines attached as ComEd Ex. A.3 to this PDD.

3.3.4. **Availability Period**. The proposed availability period for lending under the Program is three years or until the $2.5 million in loans is made, whichever occurs first.

3.4. **Recruitment of Interested FIs**. The utilities intend that the Program be an attractive business opportunity for the FI and serve the FI's business goals and interests, which may include the following: positive public relations benefits due to its innovative features and environmental benefits, and potential for the FI to receive Community Reinvestment Act ("CRA") compliance credit. The utilities are identifying interested FIs via market research, consultant contacts with FIs already active in the EE finance market, the State Treasurer's office network, and finance relationships of the utilities themselves. Contacts are being pooled amongst the utilities.

Key interests of prospective FIs concern credit structure and transaction costs. The credit structure of the Program is strong from the FI's perspective because each utility will ensure that all loans are repaid as required by the statute. Further, transaction costs can be managed through design of the loan origination process, which shall include roles for the vendors and flowing certain FI servicing costs through to ComEd directly as part of the Program budget. The RFP also requests that FIs propose ways to manage transaction costs with a view toward creating streamlined and efficient processes while keeping the loans affordable and attractively priced to borrowers.

3.5. **RFP Issuance**. The IEA, coordinating through the utilities, will issue the FI RFP following Commission approval of this Program Design Document. As provided in ComEd Ex. A.2, the FI RFP includes sections concerning: Program background; structure and terms of the proposed lending facility and loans; a prescribed format and content for the FI proposals; and a description of the RFP process. Selection of an FI will be a selection for negotiation. The utilities will proceed to negotiate an implementing Lending Facility Agreement with the selected FI, but reserve the right to proceed to a second candidate if negotiations fail with the first. Each utility will execute a separate Lending Facility Agreement with the FI.

3.6. **RFP Timeline**. Key steps and a proposed schedule for the FI RFP following its issuance are estimated as follows:

RFP Schedule	**Date (from RFP issue)**
RFP Issued by Illinois Energy Association on Behalf of the Utilities	*To be determined*
Submission of Notice of Intent to Propose by Financial Institutions	*Week 3*
Bid Conference among Financial Institutions and Representatives from the Utilities	*Week 4*
Final Day for FIs to Submit Questions to the IEA	*Week 6*
IEA Provides Written Answers to Final Questions	*Week 7*
Proposals Due	*Week 9*
Evaluation Period	*Weeks 9-11*
FI Selected by the Utilities for Negotiations	*Week 12*
Negotiation Period: Utility/FI Lending Facility Agreements	*TBD*
Target Date to Complete Lending Facility Agreement for Each Utility	*TBD*

These dates are estimates and subject to change.

3.7. **Proposal Evaluation and Selection Criteria**. Consistent with subsection (c)(2) of Section 16-111.7, the utilities have established evaluation criteria that emphasize “interest rate, origination fees, and credit terms”, “with a preference for those bids containing the rates, fees, and terms most favorable to participants.” 220 ILCS 5/16-111.7(c)(2). An Evaluation Committee of utility representatives will be formed and coordinated by the IEA to evaluate FI proposals qualitatively.

Specifically, the utilities have prepared a Proposal Evaluation Worksheet, reproduced in part below, whose point value system demonstrates the preference for bids containing the most favorable rates, fees and terms:

	Criteria	Point Value	Grade (0-100%)	Score
1	Loan pricing: interest rate pricing and fees	25		
2	Loan duration, prepayment & other terms	10		
3	Loan origination process	20		
4	FI experience & qualifications	10		
5	FI staff experience & qualifications	5		
6	Loan marketing & geographic coverage	10		
7	Additional services	10		
8	Program fees to be paid by utilities	5		
9	Expanded lending potential	5		
	Total Points	100		

A more detailed description of the criteria follows:

a) **Loan Pricing (interest rate pricing and fees)**: Focuses on the attractiveness of the proposed loan pricing, including fees charged to borrowers.

b) **Loan Duration, Prepayment, and Other Terms**: Evaluates the attractiveness and suitability of the length of the proposed loan, as well as prepayment options (for example, without penalty) and other applicable terms.

c) **Loan Origination Process**: Examines the thoroughness and ease of administration of the loan origination procedures and coordination with Program partners. Additional considerations include the clarity and suitability of the proposed loan underwriting criteria, and if applicable, the filing of ComEd's security interest in the measure.

d) **FI Experience and Qualifications**: Focuses on the FI's experience with similar programs, such as retail lending, home improvement lending, vendor finance, and energy efficiency lending, and also evaluates the FI's overall commitment to the Program.

e) **Experience and Qualifications of Specific Staff Proposed**: Evaluates the skill sets of the specific staff proposed by the FI and their suitability for and alignment with the Program goals.

f) **Loan Marketing and Geographic Coverage**: Examines the FI's marketing plan, geographic coverage, the ability to serve state-wide, and the ability to market to its existing customers.

g) **Proposed Additional Services**: Considers the FI's ability to provide additional services, such as vendor network certification, training and coordination, marketing, and web and phone application support.

h) **Program Fee Proposal**: Focuses on the amount and reasonableness of the proposed Program fees to be paid by the utilities.

i) **Potential to Expand Lending**: Although such an expansion is at the election of each utility and subject to Commission approval, this criterion evaluates the ability to expand lending should a utility choose to petition the Commission for such authority.

4. COORDINATION AMONG COMED, LENDER, AND VENDORS TO ATTRACT PARTICIPANTS.

This section addresses the statutory requirement that the utility work with lenders and vendors to establish the terms and processes pursuant to which a participant can purchase eligible measures. 220 ILCS 5/16-111.7(c)(3).

4.1. **Vendor Network**. Vendors will have an important role in Program and EE project marketing, including marketing the EE loan products. Offering financing alone is not enough to close sales, as the customer's product needs must first be determined before addressing cost concerns. In the hands of a properly trained vendor, financing can help overcome the customer's barriers to implementation. Because vendors' profitability directly depends on closing a sale, these organizations are highly motivated program participants. Vendors will play a key role in marketing the OBF Program because they are on the front line with the customers. Thus, vendors need to fully understand the finance program, as they will be explaining it to the customers. In addition to helping customers choose products, trained vendors will explain available rebates, help capture federal tax credits, and complete the loan application forms. Furthermore, working with a qualified vendor network helps keep transaction costs low, ensures that customers are satisfied with equipment installations, and achieves projected energy savings. An additional service from the FI may include assistance in the further development and management of the vendor network, as determined during negotiations with the FI.

4.2. **<u>Existing Vendor Networks</u>**. Existing Trade Ally and vendor networks established for energy efficiency programs are described below. Where possible, ComEd intends to draw upon and expand its own networks, as well as other existing networks, in order to implement the Program.

4.2.1. **ComEd** - ComEd currently partners with leading businesses to promote energy efficiency in the home and workplace. Its Trade Allies include contractors, engineers, engineering service companies, architects, and vendors who have been educated about ComEd's programs, and are committed to following the rules and processes. Currently there are 260 Trade Allies listed on ComEd's web site, although not all provide services applicable to products covered under the OBF Program. In order to become a ComEd Trade Ally, vendors must complete an application indicating professional licenses and certifications, provide three energy efficiency references, attend a Trade Ally Workshop and demonstrate familiarity with ComEd's existing programs. In some cases, ComEd may conduct an inspection of an applicant's project. In addition, ComEd has relationships with several large retailers in its service territory as a result of the compact fluorescent light bulb ("CFL") and appliance recycling programs.

4.2.2. **Midwest Energy Efficiency Alliance ("MEEA")** - MEEA's newest offering is the Participating Energy Efficiency Contractor ("PEEC") Network. The PEEC Network serves as a resource for utilities and homeowners with a web-based listing of contractors trained by utilities to properly install and maintain high-efficiency equipment offered through their energy efficiency programs. To join the PEEC Network, contractors must successfully complete utility trainings, provide a business license and proof of insurance, and agree to participate in post-installation, third-party verification of their work, which is required for utilities to claim energy efficiency savings toward their program goals. As contractors attend and complete trainings and meet the certification requirements, MEEA will add their names and contact information to the PEEC Network database.

4.2.3. **Illinois Association of Energy Raters ("IAER")**[4] - IAER currently lists approximately 35 members. IAER is a Residential Energy Services Network® ("RESNET®") Accredited Rating Provider. To become a member of IAER the applicant must provide three supervised ratings completed with an approved mentor, and provide the equipment needed to complete the field testing (*e.g.*, blower door or duct blaster), which may be provided by the mentor.

4.2.4. **Additional associations** - Outreach may include other regional associations. While these institutions typically have a strong presence in low-income and multi-family properties, their membership will be trained in

[4] http://www.ilenergyraters.org/

the implementation and qualification requirements of the financing program. These associations include:

- CEDA ("Community and Economic Development Association of Cook County")
- Chicago Bungalow Association
- Delta Institute
- Home Builders Association of Illinois ("HBAI")

4.3. **Vendor Qualifications and Training**. Qualification and training of vendors are important functions for Program success. In order to qualify to participate in the Program, vendors must provide ComEd with qualifying information to be assessed by ComEd or its outsourced Program contractor performing this function, which may be the lender. Qualifying information may include: specifications on EE services and products offered, EE specifications and warranties on equipment offered, time in business, staffing, experience in the field of EE, customer references, financial data including bonding capacity and insurance, licenses, certifications, and acceptance of Program business terms and methods as applicable.

Vendors may be required to take a ComEd-approved training program. Organizations such as RESNET® and Building Performance Institute ("BPI") may be used to screen, train, and qualify contractors. RESNET®'s mission is to "ensure the success of the building energy performance certification industry, set the standards of quality, and increase the opportunity for ownership of high performance buildings."[5] BPI "offers nationally-recognized training, certification, accreditation and quality-assurance programs",[6] including written exams and field oversight, which may allow for the removal of contractors who do not meet established standards.

Vendors may also have to take an assignment of any applicable rebates to ensure that the customer bears no upfront costs, as the financed loan amount will be for the project cost net of the rebate. Financially challenged contractors may not have the working capital needed to be able to float this delay, effectively creating a simple financial test that should favor sound installation companies. The utilities intend that the lender will make disbursements of loan proceeds to the vendor upon completion of projects and acceptance by customers, and prompt payment of vendors following project completion will be a priority in negotiating the lending facility with the FI.

4.4. **Marketing and Customer Uptake Strategy**. As an initial matter, the Program has several inherent advantages that will market themselves, including (a) speed (fast approvals), (b) ease (*i.e.*, simple application process, "snap out"

[5] http://www.natresnet.org/
[6] http://www.bpi.org/content/home/index.php

financing agreements, and, when applicable, simple fixture filings), and (c) an aggressive interest rate and longer terms than customers would be able to obtain on their own.

In addition, ComEd proposes an aggressive marketing strategy involving the utilities, vendors, and lender. Although the Program will be marketed by the utilities and the lender, vendors will bear the most responsibility for marketing the available loans. The marketing strategy will focus on offering the Program at the point of sale. Vendors desire to sell their EE products and services, making them effective agents to drive the marketing. Loan product information, approved by ComEd and the lender, will be provided to the vendors. Vendors may be set up to utilize all available ComEd programs and other available funding to support energy audits where applicable.

An advertising campaign will be implemented, which may include, but is not limited to, messages communicated using bill stuffers, point of sale brochures, and public service announcements. Contacts will be sought with vendor networks and relevant Illinois trade associations to market the program. ComEd may also market the Program through its energy efficiency programs, billing information, and other channels. The lender may market the loan product to its existing customers and make referrals to the utilities and qualified vendors. To this end, the FI RFP requests that FIs propose marketing activities they will undertake. (ComEd Ex. A.2, § 4.2.4.)

Customers will be served and projects will be funded on a "first come, first served" basis and no distinction between measures or sub-markets in ComEd's territory will be made. ComEd will anticipate when its $2.5 million total Program lending cap limit is approaching and will adjust its marketing program according to the remaining availability of lending capacity.

5. LENDER APPROVAL PROCESS AND SUBSEQUENT BILLING AND PAYMENT ARRANGEMENTS WITH COMED AND PARTICIPANTS.

This section describes the lender approval process and subsequent billing arrangements of the proposed Program as prescribed by the statute. 220 ILCS 5/16-111.7(c)(4).

5.1. **Loan Underwriting Guidelines**. The Program's goals to promote EE measures must be balanced with the need to manage credit risk. According to subsection (c)(4) of Section 16-111.7, the Lender shall conduct credit checks or undertake other appropriate measures to limit credit risk. ComEd will seek advice from the FI partner on loan underwriting guidelines, and although the details of the credit check process will ultimately be negotiated and finalized through the RFP process with the FI, it is presently anticipated that the following factors will be considered when evaluating loan applications:

a) Lender will obtain confirmation from ComEd that applicant is eligible, including verification of residential customer class.

b) Lender will confer with ComEd to determine whether applicant is current with respect to utility bill payment and ascertain any late payment history.

c) Lender shall undertake a confirmation of applicant's income and property ownership.

d) Lender shall calculate a debt ratio to disposable income, the result of which must not exceed 50%.

e) Lender shall perform a disposable income calculation to include a prudent fraction (*e.g.*, 70% of estimated energy cost savings associated with the project).

f) Lender shall obtain applicant's Fair Isaac Corporation ("FICO") score, with minimum score levels to be determined during negotiations with the FI.

g) Lender may make a security interest filing on behalf of ComEd for the project equipment, depending on ComEd's decision on whether or not to exercise its security interest.

The FI RFP requests FIs to propose underwriting guidelines that will be reasonable and prudent for credit risk management, easy to administer, and reflect the underlying support of ComEd. (ComEd Ex. A.2, § 4.2.3.)

The lender will perform the credit analysis of prospective borrowers using the agreed underwriting guidelines. The lender will then report on its credit decisions, applications, rejection rates, and approval rates. ComEd proposes that the Commission grant ComEd the flexibility to modify loan underwriting guidelines as experience dictates during Program operations.

5.2. **Loan Origination Procedures**. The lender will be responsible for loan origination and coordinating with ComEd and vendors. Vendors will distribute loan application materials and provide referrals to the lender's offices for origination. ComEd will confirm eligibility of the project and provide the customer's account number and payment history to the lender. Standard loan application and loan agreement materials will be provided by the lender, to be approved by ComEd. Once the borrower's credit is approved by the lender, the loan agreement can be executed. Following loan agreement execution, the vendor will proceed to install the EE measures.

To assure proper application of loan proceeds and timely payment to vendors, the lender will make disbursements of loan proceeds directly to the vendor following completion of the installation and acceptance of the installation by the borrower. Any interest or carrying costs incurred by the vendor during the short construction period can be capitalized into the vendor's price. Thus, the EE loans will be for term finance only and will disburse at and immediately following project completion and acceptance. This arrangement will be finalized during negotiation with the selected FI.

ComEd further proposes that the lender will report to ComEd monthly with a summary of information on all loans originated during the applicable period. The lender will provide ComEd with the participant's account number, interest rate, amount financed, and loan duration. ComEd will finalize the information sharing protocols and formats during negotiations with the selected FI.

5.3. **State Treasurer Linked Deposit Program**. The Illinois State Treasurer's Office has established a linked deposit program which offers funds to participating FIs at 2% interest for lending for "green energy" projects, including residential energy efficiency. The utilities, through the IEA, are exploring with the Treasurer's Office how this existing program might be adapted to the financing needs of this Program. Modifications are needed with respect to loan duration, security, collateral requirements, and disbursement procedures. If successful, use of the State Treasurer linked deposit funding could reduce interest costs for this Program and its borrowers.

5.4. **Line Item on the Utility Bill**. Collections of loan repayments will be performed by ComEd through a separate line item charge on the participating customers' utility bills. 220 ILCS 5/16-111.7(c)(4). Customers will then make their loan payments together with their regular utility payments

6. PARTICIPANT RIGHTS AND OBLIGATIONS.

This section explains how the Program satisfies the requirements of subsection (c)(5) of Section 16-111.7 concerning the rights and obligations of participating customers. 220 ILCS 5/16-111.7(c)(5).

6.1. **Payment**. The statute states that any loan issued to a participant shall be the sole responsibility of the participant. *Id.* The most basic responsibility of a participant is to make timely payments on the loan in conjunction with the participant's regular payment of its utility bill.

6.2. **Resolution of Disputes**. Any dispute arising concerning the loan's terms, conditions, or charges is to be resolved between the participant and the lender. *Id*. ComEd will request information concerning the FI's suggested procedures for resolving any disputes with Program participants, and these procedures will be finalized during negotiations with the selected FI. (*See* ComEd Ex. A.2, § 4.2.7.)

6.3. **<u>Payment upon Title Transfer or Termination of Service</u>**. In the event that a participant transfers title of the underlying property receiving utility service or terminates the utility service, the participant will be required to pay the outstanding loan amount in full. 220 ILCS 5/16-111.7(c)(5). In practice, when ComEd receives notification of the transfer or termination, it will issue a final bill to the participant for payment in full of all charges, including the remaining balance of the amount financed under the Program.

7. COMED RIGHTS AND OBLIGATIONS.

This section described the provisions of subsection (c)(6) of Section 16-111.7 as they relate to the rights and obligations of ComEd. 220 ILCS 5/16-111.7(c)(6).

7.1. **<u>Flow of Funds</u>**. The customer's obligation to make loan payments will be treated commensurate with the obligation to pay the utility bill. ComEd may suspend utility service in the event of non-payment consistent with the provisions of the Act and Illinois Administrative Code. *Id.*

ComEd will make monthly payments to the lender. *Id.* Because participants will be on different billing cycles, ComEd will aggregate all loan payments from customers and make an aggregated monthly payment to the lender. ComEd would also be amenable to a semi-monthly payment if requested by the lender during the RFP and negotiation process.

7.2. **<u>Utility Assurance</u>**. ComEd will repay all loans to the lender, regardless of customer payment timing and performance. This is a requirement of subsection (c)(6) of Section 16-111.7, and effectively means that ComEd will ensure that all loans are repaid to the lender. ComEd expects the loan pricing offered by and agreed to with the lender will reflect this arrangement and credit structure.

7.3. **<u>Recovery Upon Default</u>**. In accordance with subsection (c)(6) of Section 16-111.7, ComEd may suspend utility service in the event of non-payment, under existing established collections procedures. Furthermore, ComEd can recover any losses due to default or non-payment through its tariff established under Section 16-111.8, identical to its current bad debt cost recovery method. *Id.*

7.4. **<u>Retention of Security Interests</u>**. Pursuant to subsection (c)(6) of Section 16-111.7, ComEd shall retain a security interest in the equipment. ComEd will exercise its discretion regarding whether to take advantage of its security interest based on whether it is cost-effective to do so. If appropriate, ComEd will negotiate cost-effective methods to achieve this, *e.g.*, UCC-1 filing, with the lender. In the FI RFP, ComEd requests that the lender be able to file the security interests as part of its services. (ComEd Ex. A.2, § 4.2.5.) Costs associated with the security filing may be treated as Program costs, to be reimbursed to the lender by ComEd.

8. LENDING LIMITS.

The following section describes the Program's compliance with the statute's limitation that the amount financed under the Program not exceed $2.5 million for each utility. 220 ILCS 5/16-111.7(c)(7).

8.1. **Amount Authorized**. Under the joint RFP process, ComEd intends to solicit proposals for the full $2.5 million credit facility. (ComEd Ex. A.2, § 3.1.8.) When combined with the other four utilities, the total amount available for financing under the utilities' Programs is $12.5 million.

8.2. **Program Expansion and Potential for Additional Lending**. The statute contemplates the potential for expanding the Program beyond the $2.5 million cap. 220 ILCS 5/16-111.7(c)(7). ComEd will determine whether or not to request such expansion after Program operating experience is gained.

9. ESTIMATED PROGRAM BUDGET.

The following section describes estimated costs of operating the Program, as permitted by the statute. 220 ILCS 5/16-111.7(f).

9.1. **Estimated Program Costs**. The costs to implement ComEd's Program include, but are not limited to, third party administrative costs, internal management activities (*e.g.*, marketing, advertising, reporting, risk analysis), incremental fully-loaded labor costs, and IT. ComEd must implement changes to its IT systems because the statute requires both the addition of a separate line item charge on participants' utility bills and the ability to share information between the FI and ComEd. The following tentative Program budget table provides best estimates at this time of key Program costs associated with implementation of the Program, but is subject to change:

Category	PY1[7]	PY2	PY3
Administrative Overheads	$597,800	$812,400	$836,800
Consulting & Legal Services	$250,000	$40,000	$40,000
IT Costs	$150,000	$850,000	$0
Marketing & Training	$100,000	$50,000	$50,000
Evaluation	$20,000	$20,000	$60,000
Loan Servicing	$100,000	$100,000	$100,000
Total Costs	$1,217,800	$1,872,400	$1,086,800

[7] Includes costs incurred since Public Act 96-0033 became law.

9.2. **Loan Servicing Costs**. ComEd also proposes to recover any loan program, administration, and service costs charged to it by the FI. These would include loan program set up, loan origination, and administration charges. This approach will reduce costs to the participating customers. As part of the RFP process, FIs will be asked to submit a budget of the fees charged for the delivery of its services.

10. INDEPENDENT EVALUATION PLANNING.

The following section details the Program's plans for an independent evaluation after three years in compliance with the statute. 220 ILCS 5/16-111.7(g).

10.1. **Evaluation Overview**. The statute requires that ComEd hire an independent evaluator, and that that evaluator prepare an evaluation report after the first three years of Program operations. *Id.* To facilitate this review, data collection practices must be established from Program start to collect key data necessary for the evaluation.

10.2. **Selecting an Independent Evaluator**. ComEd proposes to hire an independent evaluator through an RFP process. Similar to the RFP it developed for the solicitation of the independent evaluator for its energy efficiency programs, ComEd intends to develop an RFP that includes a defined scope of work and a list of potential bidders. ComEd may seek to cooperate with the other utilities subject to Sections 16-111.7 and 19-140 of the Act in order to conduct a joint RFP process to select an independent evaluator.

ComEd also proposes that the independent evaluator be hired following the Commission's approval of ComEd's Program. It is important for ComEd, the FI and vendors to know what types of data must be collected from the inception of the Program rather than after three years have passed. Moreover, the experience of the evaluator can be very valuable in modifying the Program in its early stages. Selection of the evaluator may also be performed through single-sourcing efforts.

10.3. **Evaluation of Financial Aspects of the Program and Data to Be Collected**. Key financial data to be collected will include the following:

a) **On applications***:* number of applications; number of approvals; approval times; approval date to funding; number of rejections; and reason for rejections;

b) **On booked loans***:* number of booked loans; loan amounts and tenors; types of EE projects; and total investment amount of EE projects;

c) **On collections performance**: aging receivables; defaults and bad debts; service suspensions; recoveries; and actual final losses.

Financial data will be collected by both ComEd and the lender. As part of its services, the lender will be responsible to collect data regarding lending activity for which it is responsible, primarily during the origination of EE loans.

Qualitative analysis will be conducted on the Program experience of customers, vendors, and lender, assessing the experience and satisfaction of each key stakeholder with the Program financing methods. Customer service matters include experience in the sales process, ease of use of the finance Program, marketing approach, technical or product problems, vendor experience and problems, and resolution of problems versus unresolved cases. Vendor experience includes ease of use of the finance Program, roles in loan origination, and timeliness of disbursements. Recommendations for improvement will be considered and assessed, including assessment of underwriting guidelines. Recommendations will be considered and made regarding Program expansion, both in scale and in additional customer sectors, as well as concerning whether the payment obligation for permanent measures that will continue to provide benefits of energy savings should attach to the meter location. Recommendations on the Program's interaction and synergies with ComEd's energy efficiency and demand response programs will also be considered and assessed.

11. PROGRAM TIMELINE.

The following table sets forth the estimated timeline of key steps for FI procurement and Program start-up:

Program Step	**Estimated Schedule**
Submission of Program Design Document by Utility to Commission	February 2, 2010
Commission Order	June 2, 2010
FI RFP Issued	July 2010
FI RFP Process (Timeline proposed *supra*, § 3.6)	July-October 2010
Utility Program Operations Planning to Achieve Start-Up Readiness	July-October 2010
FI Lending Facility Agreement Executed	November 2010
Program Operations Start	June 2011

This timeline is subject to agreements with other parties and is therefore subject to change in operations.

Exhibits