

**Nicor Gas (Utility)**  
**Energy Efficiency Project On-Bill Financing Program**  
**Program Design Document**

This Program Design Document presents to the Illinois Commerce Commission (the “Commission”) for review and approval the plans of Nicor Gas (the “Utility”)<sup>1</sup> to implement a residential sector energy efficiency (EE) project on-bill financing program (the “Program”) in compliance with Illinois SB 1918.

**1. Background & Compliance with Program Design Features Prescribed by SB 1918**

1.1. Program Goals. In its 2009 session, the Illinois legislature passed SB 1918 and mandated that all large electric and gas utilities in Illinois design and implement an “on-bill financing” (OBF) program to finance energy efficiency (EE) projects for residential sector customers (the Program). Small commercial customers may also be addressed by the Program.

The legislative intent of the OBF Program is to promote energy efficiency (EE), save energy and energy costs for customers, and make energy savings investments convenient for residential customers, allowing them to pay for EE measures over time. Secondary goals include economic development, job creation and reducing emission of greenhouse gases. The OBF Program is complementary to existing and future demand side management (DSM) and energy efficiency programs. The Utility is preparing new DSM/EE plans that will be submitted to the Commission October, 2010 for implementation starting June 2011. Implementation of these new DSM programs is expected to complement and significantly increase opportunities and demand for the OBF Program financing.

1.2. SB 1918: Summary of Prescriptive Features & Program Design Summary. The Program must meet the prescriptions of SB 1918. This section summarizes the elements of SB 1918 concerning the OBF Program design and indicates the Utility’s plan to comply, referencing subsequent sections of this Program Design Document.

1.2.1. *Target Sectors & Customers.* The Utility’s Program targets the residential sector: single family and multi-family up to four units. Multi-family housing with greater than 4 units are not eligible. Customers/borrowers must be property owners and owner-occupants. Renters are not eligible, except for tenants in multi-family housing where the property owner lives in one of the units. Residential customers served under Rate 1, and commercial customers served under Rates 4 and 74 with Meter Class A, and which meet the definition of small commercial retail customers as defined in Section 19-105 of the Act, shall have the option to apply for loans offered by a Third-Party Lender to facilitate Eligible Customers’ purchase and installation of Efficiency Measures from and by Vendors.

1.2.2. *Procurement of Financial Institution Partner.* The Utility will issue a request for proposal (“RFP”) to procure a financial institution (“FI”) to serve as lender, provide financing to customers and serve as partner in several roles to implement the Program. To meet this requirement, the Utility is cooperating with the other utilities subject to SB 1918 to conduct a joint FI RFP process. The

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<sup>1</sup> Ameren Electric and Ameren Gas will present one plan for the two utilities.

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 rationale for conducting a single FI RFP for all subject utilities is as follows.

- a) *FI Recruitment.* SB 1918 caps the size of each utility OBF program at \$2.5 million in total financing principal; this amount can be increased at the request of a Utility and with approval of the Commission. The \$2.5 million program size per utility is relatively small, thereby limits 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.<sup>2</sup> The utilities believe that this larger size will be more interesting for prospective FIs and aid in recruitment and procurement of an effective FI partner. Further, a joint FI RFP will simplify the tasks and process for FIs to respond to the several utilities.
- b) *Customer Perspective, Make Program User-Friendly.* Having a single FI partner will make the program easier to implement and understand for those customers served by different utilities for electric and gas. Instead of two loan programs to deal with, a single FI could offer loans for EE projects promoted by the respective utilities.
- c) *Commission Process.* 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.
- d) *Implementation Efficiencies.* A common financing program adopted by the utilities can yield implementation efficiencies in marketing and administration, including FI fees.

The FI RFP process will lead to selection of an FI for contract negotiations, and, subsequently, a Lending Facility Agreement between the selected FI and the Utility to establish the Lending Facility, the Loan terms and pricing, all fee arrangements including fees payable by the Utility, and procedures for Loan origination and administration.<sup>3</sup> The FI RFP process is further described in Section 2, below. A draft of the FI RFP is attached as Annex A.

1.2.3. *Measures & Equipment.* Many types of energy efficiency (EE) measures may be financed, provided they meet the cost-effectiveness criteria set forth in SB 1918. The Utility’s approach to determining cost-effectiveness of measures and equipment is described in Section 5, below. Typical EE measures can include but are not limited to the following:

**Typical Energy Efficiency Measures:**

Residential	<ul style="list-style-type: none"> <li>• new central heating systems, including heat pumps and gas furnaces</li> <li>• air conditioning equipment and systems</li> <li>• air duct sealing</li> <li>• air sealing, building envelop</li> <li>• insulation (wall and attic)</li> <li>• hot water heater and piping insulation</li> <li>• windows</li> <li>• lighting and appliances (e.g., refrigerators), potentially in a package with</li> </ul>
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<sup>2</sup> Five utilities are subject to SB 1918: AIU Electric, AIU Gas, ComEd, Peoples Gas and Nicor Gas. The \$12.5 million total finance program value equals \$2.5 million per utility multiplied times the five utilities.

<sup>3</sup> The other utilities also will each separately have an agreement with the selected FI.

	other measures <ul style="list-style-type: none"> <li>• solar water heaters</li> </ul>
Commercial	<ul style="list-style-type: none"> <li>• heating, ventilation, and air conditioning (HVAC) systems</li> <li>• new boilers Insulation and building envelope improvements</li> <li>• lighting</li> <li>• controls</li> <li>• refrigeration &amp; compressors</li> </ul>

The Utility will publish its list of EE measures to be supported by the Program prior to Program operations start up and may add to this list as Program operations proceeds.

Nicor Gas’ Efficiency Measures will initially include the following items meeting the Energy Star rating:

- Gas hot water heaters
- Gas furnaces
- Gas boilers

1.2.4. *Vendor & Contractor Network.* The Utility will develop a network of EE project, equipment and service contractors (“Vendors”) to provide marketing and turnkey development and implementation of EE projects as part of the Program. See Section 4, below. An additional service from the FI partner may include assistance in the further development and management of the Vendor network, using Vendor qualification standards agreed with the Utilities; these potential roles of the FI partner are to be identified and negotiated through the procurement process.

1.2.5. *Evaluation.* The Utilities will have an evaluation report prepared by an independent evaluator after three years of Program operations. Data will be collected on financial and loan payment performance and energy savings aspects of the Program. As part of its services, the FI partner will be responsible to collect data regarding lending activity, including, for example: number of applications, approvals, and booked loans; reasons for rejection; customer service matters; approval times; and, loan amounts and tenors. Recommendations on Program improvement and expansion will also be requested. Further description of the evaluation plan is provided in Section 6, below.

1.2.6. *Utility Program Costs.* SB 1918 allows that the Utility’s’ costs for operating the Program to be recoverable via tariffs. Program costs will include: Utility staffing, marketing, Vendor network development and management, evaluation and FI fees paid by the Utility, if any. Program costs may include some fees paid by the Utility 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. The FI RFP requests proposing FIs to suggest such a budget for Program costs that would be reimbursed by the Utility directly; these amounts will be determined through the FI procurement and negotiation process. Budget for Utility Program costs is provided in Section 7, below.

## 2. Financial Institution Request for Proposal

This section provides summary description of the financial institution (FI) request for proposal (RFP) and RFP process. The reader is referred also to the draft FI RFP provided as Annex A.

2.1. Services to be Procured. The Utility, through the joint FI RFP process, will procure a financial institution partner (also referred to as the “Lender”) for the Program to provide the following services:

- a) assist in final financial structuring of the EE OBF Program, in collaboration with the Utilities;

- b) establish a lending facility (the “Facility”) of up to \$12.5 million (\$2.5 million per utility) and originate and provide EE loans (“Loans”) to eligible residential energy users, coordinating with EE service and engineering companies, equipment vendors, installers and contractors (collectively referred to as “Vendors”) and the Utilities;<sup>4</sup>
- 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;
- f) provide quarterly reports on lending activity and the Loan portfolio.

Additional potential FI roles and services, to be determined through the RFP and negotiation process.

2.2. **RFP Process & Timeline.** The Utility, coordinating through the IEA with the other utilities, will issue the FI RFP following Commission approval of this Program Design Document. The FI RFP provides: 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, including evaluation criteria, and a timeline that will lead to selection of the FI partner and negotiation and execution of implementing agreements for the Facility. 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.

2.2.1. *FI RFP Timeline.* Key steps and schedule for the FI RFP process, following RFP issuance, which will come following Commission approval of this Program Design Document, are estimated as follows:

<b>RFP Schedule Event</b>	<b>Date (from RFP issue)</b>
RFP Issued by Illinois Energy Association on behalf of the utilities	<i>To be determined</i>
Submission of Notice of Intent to Propose by Financial Institutions	<i>Week 3</i>
Bid Conference among financial institutions, and representatives from the utilities	<i>Week 4</i>
Final Day for FIs to Submit Questions to the IEA	<i>Week 6</i>
IEA provides written answers to final questions	<i>Week 7</i>
Proposals Due	<i>Week 9</i>
Evaluation Period	<i>Weeks 9-11</i>
FI selected by the utilities for Negotiations	<i>Week 12</i>
Negotiation period: Utility/FI Lending Facility Agreements	<i>Weeks 13-18</i>
Target date to complete Lending Facility Agreement for each utility	<i>Week 20-21</i>

These dates are estimated and subject to change both by the IEA and through the negotiation process with the FI(s).

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<sup>4</sup> Utilities may want to add small commercial sector borrowers to the set of eligible borrowers.

2.3. Proposal Evaluation & Selection Criteria. An Evaluation Committee will be formed and coordinated by the IEA to evaluate FI proposals qualitatively. The Utility will be represented on the Evaluation Committee. Evaluation criteria are indicated below

- a. *Loan interest rates & pricing.* Attractiveness of the proposed Loan pricing, including fees charged to borrowers.
- b. *Loan Terms.* Attractiveness and suitability of proposed Loan tenors, prepayment options and other terms.
- c. *Loan origination processes.* Thoroughness and ease of administration of Loan origination procedures and coordination with Program partners. Clarity and suitability of proposed Loan underwriting criteria and ability to meet the Program goals. Plan for obtaining Utility security interest.
- d. *FI Experience & Qualifications.* FI experience and qualifications in similar programs such as retail lending, home improvement lending, vendor finance and EE lending. Commitment to the Program.
- e. *Experience & Qualifications of specific staff proposed.* Skills of specific staff proposed.
- f. *Loan Marketing & Geographic Coverage.* FI's marketing plan, geographic coverage, ability to serve State-wide and ability to market to FI's existing customers.
- g. *Proposed Additional Services.* Ability to provide additional services.
- h. *Program Fee Proposal.* Amount and reasonableness of proposed Program fees to be paid by the Utilities.
- i. *Potential to expand lending.* While this service is not requested presently, the ability to expand lending and willingness to consider doing so on a limited recourse basis will be considered.

A proposal evaluation and scoring worksheet is included in the FI RFP.

2.4. Recruitment of Interested FIs. The utilities intend that the Program be an attractive business activity for the FI and serve the FI's business goals and interests which may include the following: significant potential for expanded lending; opportunities to cross sell other services; 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 existing FI and banking 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 of the utility guarantee feature. Further, transaction costs can be managed through design of the Loan origination process which shall include roles for the Vendors (see Section 4, below) and having certain FI servicing costs paid by the Utility directly as part of the Program budget. The RFP requests proposing FIs to suggest ways to manage transaction costs with view to creating streamlined efficient processes and keeping the Loans affordable and attractively priced to borrowers.

### **3. Structure and Terms of the OBF Lending Facility and EE Loans**

This section describes the structure and terms of the proposed OBF Program Lending Facility and EE Loans to be established with the FI partner consistent with the Utility's Program design and the prescriptions of SB 1918 legislation. This financing structure is subject to modification and negotiation with the selected FI partner. In the RFP process, FI's are asked to propose and recommend modifications as needed to meet Program goals and the FI's business interests. The proposals will be the basis for negotiating the Lending Facility Agreement and final Loan terms.

The RFP for the FI is attached to this filing.

#### **4. Vendor Network & EE Project Marketing**

4.1. Vendor Network. The Utility will develop a network of EE project, equipment and service contractors ("Vendors") to provide marketing and turnkey development and implementation of EE projects as part of the Program. The Utility's Vendor network established for its existing EE/DSM programs will be drawn upon and augmented for this Program. An additional service from the FI partner may include assistance in the further development and management of the Vendor network, using Vendor qualification standards agreed with the Utilities.

Vendors will have an important role in Program and EE project marketing, including marketing the EE Loan products. Nationally, the most successful residential financing programs, as measured by volume, take advantage of existing utility trade allies and vendor networks. While offering financing alone is not enough to close sales, as the needs and value proposition must first be established before addressing first cost concerns, in the hands of a properly trained Vendors, financing can help overcome critical implementation barriers, starting with "I don't have the money." 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. As such, Vendors need to fully understand the finance program, as they will be explaining them 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 that projected energy savings are achieved.

4.2. Vendor Qualifications & Training. Qualification and training of Vendors are important functions for Program success. In order to qualify to participate in the Program, Vendors must provide the Utility with qualifying information, to be assessed by the Utility 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, and acceptance of Program business terms and methods.

Vendors may be required to take a Utility approved training program. Organizations such as the Residential Energy Services Network's (RESNET<sup>®</sup>) 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."<sup>5</sup> The Building Performance Institute (BPI) "offers nationally-

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<sup>5</sup> <http://www.natresnet.org/>

recognized training, certification, accreditation and quality-assurance programs”,<sup>6</sup> including written exams and field oversight which may allow for the removal of contractors who do not meet established standards. For example, in New York State, NYSERDA Home Performance contractors are accredited by the Building Performance Institute (BPI).

Vendors will have to take an assignment of any applicable rebates to insure that the customer has no up-front 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 installing companies. The Utilities intend that the Lender will make disbursements of Loan proceeds to the Vendor upon completion of projects and acceptance by customers. As regards the Program, prompt payment of Vendors following project completion will be a priority in negotiating the Lending Facility with the FI.

4.3. Utility’s Existing Vendor Network. The Utility’s existing Trade Ally and Vendor network is being established for its existing EE/DSM programs is described in Section 4.2, below. This existing network will be drawn upon and augmented for this Program.

**The Commonwealth Edison Company (ComEd)** – ComEd currently partners with leading businesses to promote energy-efficiency in the home and workplace. Their Trade Allies include contractors, engineers, ESCOs, architects, and vendors who have been educated about ComEd's programs, and are committed to following the rules and processes. Currently there are 260 Allies listed on ComEd’s web site, although not all provide services applicable to products covered under SB 1918. In order to become a ComEd 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. ComEd currently uses Honeywell Utility Solutions (see below for more information) to administer an energy conservation program targeted at residential cooling system installation and maintenance, which includes a network of HVAC vendors.

**Ameren** – Ameren’s Trade Allies must sign an agreement that states they agree to abide by all Local, State and Federal guidelines, applicable laws, building codes, regulations and licensing requirements and to install the eligible equipment according to manufacturer specifications, to provide proof of insurance, abide by follow established co-branding guidelines, provide a completed W-9 tax form., allow random "spot check" inspections by an Ameren Illinois Utilities representative and be familiar with all Ameren programs. The Ameren Trade Ally program is voluntary and may be terminated by either party at any time or for any reason. Cross Country Homes has a contractor (installer) network that could be a potential partner for the Statewide on-bill financing program.

**Integrus (Peoples Gas)** – Integrus Chicagoland Natural Gas Savings Program currently offers rebate program for energy efficient furnaces, boilers, water heaters, and insulation. To qualify, gas furnaces, boilers and water heaters must be installed by professional contractors. Peoples Gas will be consistent with the RFP.

**Nicor Gas** – Nicor is currently working on its Energy Efficiency Portfolio of vendors. Nicor EE plan will be launched in June, 2011 and is included in the timeline for the OBF Program.

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<sup>6</sup> <http://www.bpi.org/content/home/index.php>

4.4. Marketing & customer uptake strategy. The OBF Program will be primarily marketed by the Vendor network, which will focus on offering the Program at the point of sale. The marketing advantages of this program will focus on (a) speed (fast approvals), (b) ease (i.e., simple application process, “snap out” financing agreements, simple fixture filing, etc.), and (c) an aggressive interest rate and longer terms than a client would be able to obtain on their own. Vendors will have the primary role to market and develop projects. Vendors will be set up to utilize all available Utility programs and other available funding to support energy audits. A favorable interest rate will be a primary attraction in the Program offering. An advertizing campaign will be implemented which may include messages communicated using bill stuffers, point of sale brochures, and public service announcements. Co-marketing between gas and electric utilities serving the same territories will be coordinated. A methodology will be developed to attribute the value of EE projects between the two utilities. In addition to the Utility’s Vendor networks, the Utility will consider using appropriate Illinois trade associations to market the program. The Utility will integrate the marketing of the OBF Program with the marketing of its existing EE/DSM programs targeting the residential sector.

Discussions with vendors indicate that HVAC and heater purchases are primarily motivated by product failures, with first cost and energy efficiency being secondary considerations. The implementation of weatherization projects, outside of low income audiences, is primarily driven by comfort. Customers will be served and projects will be funded on a “first come, first serve” basis and no distinction between measures or sub-markets in the Utility’s territory will be made. The Utility 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.

**Midwest Energy Efficiency Alliance (MEEA)** - MEEA's newest offerings 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 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.

**Illinois Association of Energy Raters Energy Raters (IAER)**<sup>7</sup>. IAER currently lists approximately 35 members. IAER is a RESNET Accredited Rating Provider. To become a member of IAER the applicant must provide 3 supervised ratings completed with an approved mentor and provide the equipment needed to complete the field testing (blower door, duct blaster, etc), which may be provided by the mentor.

**Additional associations.** Outreach will include other regional associations. While these institutions typically have a strong presence in low income and multifamily properties, their membership will be trained in the implementation and qualification requirements of the financing program. These associations include:

- CEDA (Community and Economic Development Association of Cook County)
- Chicago Bungalow Association

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<sup>7</sup> <http://www.ilenergyraters.org/>

- Delta Institute
- Home Builders Association of Illinois (HBAI)

## 5. Energy Efficiency Measures

5.1. Cost effectiveness Criterion. This criterion is key to the choice of measures to be financed by the Program. As per SB 1918, EE measures financed by the Program must have energy cost savings greater than or equal to the customer's costs of implementing the measures, including finance charges. Consistent with this definition, the Utility will use the following formula to determine cost-effectiveness.

- (A) Energy cost savings will be calculated as follows. First, energy cost savings will be estimated for the package of EE measures to be installed for the customer. Energy cost savings will be calculated over the life cycle of the EE measures. Current energy tariffs will be used, without applying any estimated inflation factor to the value of the energy estimated savings. Cumulative cost savings will be used, without discounting.
- (B) Customer cost of implementing the measures, including finance charges will be calculated as follows. Total measure cost will be determined based on the Vendor's turnkey cost proposal. Utility rebates, other applicable rebates or incentives and applicable federal income tax credit rebate which the customer will receive will be estimated. Total measure costs minus the applicable rebates and tax credits equals the Customer's net capital cost and the net amount financed via the Loan. Then, total Loan payments over the applicable Loan term will be calculated given the Lending Facility terms, interest rate and fees. Cumulative Loan payments will be used. Though not required, any capital contribution or downpayment chosen to be made by the customer will be added to the cumulative Loan payments to determine the total customer cost of implementing the measures.
- (C) Cost-effectiveness and hence eligibility of the package of EE measures for Program financing will be determined by the following formula: (A) must be greater than or equal to (B) for the proposed set of EE measures to qualify.

Cost-Effectiveness Calculation Methodology. This cost-effectiveness calculation methodology uses a life cycle cost (LCC) savings analysis. The Utility expects the maximum loan term for residential customers to be 10 years, reflecting the longest risk horizon feasible to obtain from FI partners.

5.2. List of Approved EE Measures. The Utility will be responsible for confirming that EE projects meet the cost-effectiveness criterion and will have the qualified Vendors apply this methodology in operations. The Utility will publish its list of EE measures to be supported by the Program prior to Program operations start up and may add to this list as Program operations proceeds and experience is gained, consistent with the cost-effectiveness test defined above.

Nicor's criteria for qualifying a customer and a measure for acceptance are:

- Maximum 10 year loan period
- Measure's Energy Star rating must be 90% or greater

- Customer must be creditworthy (based on FI criteria)
- Cost of measure ranges between \$500 and \$50,000

Nicor Gas' Efficiency Measures will initially include the following items meeting the Energy Star rating:

- Gas hot water heaters
- Gas furnaces
- Gas boilers

## 6. Program Monitoring & Evaluation

The Utilities will have an evaluation report prepared by an independent evaluator after three years of Program operations. Evaluation will be conducted and data will be collected on both financial and energy savings aspects of the Program. The monitoring and evaluation (M&E) plan is integral to the Program design and plans will be established from Program start to collect key data necessary for the evaluation.

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

- On applications:* number of applications; approvals; approval times; approval date to funding; rejections; reason for rejections;
- On booked loans:* number of booked loans; loan amounts and tenors; types of EE projects; total investment amount of EE projects;
- On collections performance:* aging receivables; defaults and bad debts; service suspensions; recoveries; actual final losses.

Financial data will be collected by both the Utility and the FI partner. As part of its services, the FI partner will be responsible to collect data regarding lending activity for which it is responsible, primarily during the origination of the Loans.

Qualitative analysis will be conducted on the Program experience of customers, Vendors and the FI partner, 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, resolution of problems versus unresolved cases. Vendor experience includes ease of use of the finance Program, roles in Loan origination, and timeliness of disbursements.

## 7. Program Budget & Timeline

7.1. Program Budget. SB 1918 allows that the Utility's costs for operating the Program to be recovered via tariffs. The Utility's annual budget to implement the Program is as follows.

Program Budget Category	Amount
Utility staffing, three years	\$125,000

Program marketing	\$25,000
Outsourced development/management of Vendor network	\$40,000
FI Program fees	\$0
Evaluation	\$50,000
Other (IT Cost) – One time expenditure	\$240,000
<b>Annual Total (excludes IT cost)</b>	<b>\$160,000</b>
<b>Total for 3 Year Program</b>	<b>\$880,000</b>

7.1.1. *Utility Staffing.*

Utility Staffing would require 1 management and 1 clerical for support and administration of the program.

7.1.2. *Program Marketing.*

Marketing cost to be provided by the Vendor or Financial Institution.

7.1.3. *Vendor Network Development & Management.*

These costs would include training and education expenses. To reduce cost Nicor may collaborate with other utilities.

7.1.4. *FI Program Fees.*

These costs should be imputed through the loan margin. Therefore there are no costs.

7.1.5. *Evaluation.*

Pursuant to the SB1918 an external party must provide an evaluation of the program after three years. The utility would like to partner with the other four Illinois utilities also providing On Bill Financing Services. The estimated cost of an external vendor is \$50,000.

7.1.6 Other (IT Cost/Programming)

The cost would include the cost to make modifications to the billing system to allow OBF to be incorporated onto the existing utility bill. Some of the modifications needed include:

- The creation of a new billable item on the utility bill
- Modifications to the cash posting process
- Inclusion in current credit/collection cycles
- Creation of a bill payment file for the FI

7.2. Program Timeline. The estimated timeline for key steps for FI procurement and Program start-up

<b>Program Step</b>	<b>Estimated Schedule</b>
Submittal of Program Design Document by Utility to Commission	February 2, 2010
Commission comments	May, 2010
Revised PDD and Commission Order	June, 2010
FI RFP issued	July, 2010
FI RFP process (see above, section 2.2, for FI RFP process timeline)	July-October, 2010
Utility Program operations planning to achieve start-up readiness	October - December, 2010
Educate and Train Vendors	January – June, 2011
Educate Nicor Gas Customers	January – June, 2011
FI Lending Facility Agreement executed; Program operations start	June, 2011

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

7.3 Tariff. Nicor Gas will file Rider 31 On-Bill Financing Program in conjunction with this plan.

## 8. Preliminary EE Loan Term Sheet & Underwriting Guidelines

This preliminary term sheet outlines estimated key terms of and underwriting guidelines for the EE Loans to be offered. Terms will be finalized in negotiations with the select financial institution (FI) partner.

**Eligible Borrowers:** Residential customers served under Rate 1, and commercial customers served under Rates 4 and 74 with Meter Class A, and which meet the definition of small commercial retail customers as defined in Section 19-105 of the Act, shall have the option to apply for loans offered by a Third-Party Lender to facilitate Eligible Customers' purchase and installation of Efficiency Measures from and by Vendors.

**Utilities:** Ameren Illinois Utilities (AIU) Electric, AIU Gas, Commonwealth Edison (ComEd), Peoples Gas and Nicor Gas (together the "Utilities").

**Lender:** \_\_\_\_\_ ("FI") chartered to make loans in Illinois.

**Eligible Projects:** Energy efficiency projects and equipment, as defined by each Utility, implemented in properties owned by Eligible Borrowers ("Projects"). Eligible project costs include: equipment, labor and installation (turnkey service including bonding as applicable), project engineering and development, construction management, legal and financial, construction period interest, construction contingency, contractor overhead and profit, and equipment replacement reserves, as applicable.

**Minimum Loan:** to be determined with FI; estimated \$500.

**Maximum Loan:** to be negotiated with FI and determined case-by-case based on individual Borrower credit analysis; estimated at \$50,000 for loans.

**Project Construction Financing:** To be negotiated by FI with Vendors. Current plan is for construction financing to be provided by contractors, with interest costs during construction capitalized. Thus, the Loan will be for term finance only and will disburse at and immediately following project completion and acceptance.

**Loan term:** Up to 10 years, to be determined case by case.

**Payment Schedules:** Monthly in arrears, level payments of principal and interest.

**Prepayment Option:** Option to prepay the outstanding loans in whole without penalty is expected; partial prepayment options to be investigated.

**Minimum Borrower**

**Capital Contribution:** To be determined case-by-case. Up to 100% financing for net project costs, net of applicable Utility incentives shall be possible, as prescribed in SB 1918.

**Interest Rates:** Interest rates on the loans will be determined based on financial market conditions and published indices, to be established in negotiation with the FI. Fixed interest rates are sought. Under current market conditions, estimated rates as follows:

a) for residential loans, \_\_\_\_%

b) for commercial loans, \_\_\_\_%

Rates will be fixed for each Loan at the time of loan application approval. FI will provide a published interest rate index as a benchmark for Loan pricing.

**Loan application & documentation:**

Standard loan application and Loan document materials provided by the FI, to be approved by Utilities.

**Loan Collections:** By Utility, with full payments remitted to FI by Utility

**Other Loan Servicing:** By FI, except Utility will be responsible for recoveries in default events.

**Estimated Underwriting**

**Criteria, Residential:** SB 1918 Section (c) (4) states “The lender shall conduct credit checks or undertake other appropriate measures to limit credit risk,” Per the legislation this will be finalized with the FI.

**Reporting:** FI will cooperate with Utility, and cause Borrowers to cooperate also through provisions in the Loan Agreement, to gather information on achieved Project energy savings as required to evaluate the Program. This information will be gathered and reported by Utility evaluation contractor.