

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

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| Northern Illinois Gas Company                            | ) |                    |
| d/b/a Nicor Gas Company                                  | ) |                    |
|  | ) |                    |
| Application pursuant to Section 9-201 and Section 19-140 | ) | Docket No. 10-0096 |
| of the Illinois Public Utilities Act for consent to and  | ) |                    |
| approval of Rider 31, On-Bill Financing Program and      | ) |                    |
| related changes to Nicor Gas' tariffs, and approval of   | ) |                    |
| the Energy Efficiency On-Bill Financing Program          | ) |                    |

**BRIEF ON EXCEPTIONS OF THE PEOPLE OF THE STATE OF ILLINOIS**

Pursuant to the Illinois Commerce Commission (“Commission” or “ICC”) rules of practice, 83 Ill. Admin. Code § 200.830, and the Administrative Law Judges (“ALJs”) Schedule of February 18, 2010, the People of the State of Illinois (“the People”), through Attorney General Lisa Madigan (“AG”), submit their Brief on Exceptions in this proceeding. This brief takes exception to certain conclusions in the ALJs Proposed Order (“PO”) of April 16, 2010 regarding Northern Illinois Gas company d/b/a Nicor Gas Company (“Nicor Gas” or “Company”) and its petition for approval of an On-Bill Financing Program (“OBF Program” or “Program”). The People respectfully request that the Commission adopt the modifications to the Proposed Order set forth below in its Final Order in this proceeding.

The People also request, pursuant to Section 9-201(c) of the Public Utilities Act (“PUA or “Act”), 220 ILCS 5/101 *et seq.* that they be given the opportunity to present oral argument on the issues of a Budget Cap (to estimated Program costs), Underwriting Criteria (credit checks), and Security Interest.

## INTRODUCTION

The People and other intervenors have been clear throughout the On-Bill Financing workshop process that in order for the Commission to approve any On-Bill Financing Program proposal, such a proposal needs to be cost effective for ratepayers as well as for the program's customer participants. This threshold condition stems from the General Assembly's core requirement that all rates or charges demanded for any service rendered or to be rendered by a public utility shall be just and reasonable, that unjust or unreasonable charges are unlawful, and that all rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable. 220 ILCS 5/9-101.

That the most fundamental principle underlying the Commission's ratemaking responsibilities applies to its jurisdiction over the On-Bill Financing programs cannot be in dispute. Notwithstanding these concerns, the Company estimated its three-year program costs at \$880,000, or approximately 35% of the \$2.5 million amount provided for the Program under Section 19-140(c)(7) of the Public Utilities Act ("PUA" or "Act"). The request to spend 35% of the total program budget on administrative and other program costs is excessive and should be denied.

Not only is the People's position that program costs should not exceed program benefits consistent with Section 9-101's "just and reasonable" standard, it is further supported by rules of statutory construction.

Although the legislative intent is sought primarily from the language employed in the statute, the judiciary may look also to the statutory objective and the evils sought to be remedied and then arrive at a common-sense construction. [citation omitted] Where several constructions may be placed upon a statute, the court should select that interpretation that leads to a logical result and avoid that which would be absurd, for the presumption exists that the legislature in passing a statute

did not intend absurdity, inconvenience, or injustice. *People v. Mullinex*, 125 Ill.App.3d 87, 89 (2<sup>nd</sup> Dist. 1984).

The Proposed Order's interpretation of the Commission's duty under the Act is, in contrast, wholly at odds with the "just and reasonable" standard that governs all Commission decisions. The Order's repeated deference to the judgment of the sponsoring utilities and the program's yet-to-be-determined lenders to determine the operating parameters of the program abdicates the Commission's ultimate responsibility to ensure that the program's rates are lawful and that the program itself comports with the Act. Furthermore, the Order's failure to scrutinize specific critical components of Nicor's proposed program is tantamount to interpreting the General Assembly's reference to "Commission-approved" on-bill programs as a task on a checklist rather than a directive to ensure that ratepayer dollars are spent wisely. *See* 220 ILCS 5/16-111.7(b).

Instead of adopting the Proposed Order's recommendations regarding administrative costs, the Commission should: 1) cap all program administrative costs at no greater than 10% of the program dollars available; or 2) deny Nicor's approval of its Program and direct them to re-submit their proposed Program including reasonable program administrative costs.

In addition, Nicor Gas: 1) did not include sample contracts and agreements as required under 220 ILCS 5/19-140 (d)(4); 2) submitted a Program Design Document lacking in sufficient detail to properly align incentives among the Lender ("FI" or "Lender"), vendor, and Nicor Gas in order to keep the program costs reasonable, avoid customer confusion, and provide enough customer benefits to make the Program worthwhile; and 3) provided a Request For Proposal ("RFP") that reads more like a Request For Information ("RFI") and does not provide enough specific detail for a Lender to understand what the program will include or what the Lenders obligations will

be.<sup>1</sup> The lack of detail is particularly troublesome in regard to program costs and the alignment of incentives associated with a security interest and underwriting criteria (credit checks). Accordingly, the Commission should require Nicor Gas to revise its proposed Program, as described below, before approving the Company's Program.

## **EXCEPTIONS**

### **EXCEPTION #1: The Nicor Gas Program Cost estimates are excessive.**

#### **A. Budget Cap**

The Proposed Order states, "The AG's request to cap Program Fees at 10% of the Program dollars is denied. It is contrary to the express statutory language that the utilities are allowed to recover all of their prudently incurred costs." PO at 27. This narrow view of Section 16-111.7 should be rejected. It is both inconsistent with prior Commission rulings that capped administrative expenses in energy efficiency programs, as well as principles of statutory interpretation.

The People stated in their revised Initial Comments,

the Company estimated its three-year program costs at \$880,000, or approximately 35% of the \$2.5 million amount provided for the Program under Section 19-140(c)(7) of the Act. The Company's proposed Program budget is unreasonable.

AG revised Initial Comments at 4. While not as excessive as ComEd's proposed program costs, the Nicor proposed spending level, at 35% of the program benefit, can hardly be characterized as a prudent or reasonable investment.

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<sup>1</sup> Nicor Gas witness Sharon Grove states, "The RFP is being submitted as a draft document so that the Commission's views can be incorporated into the final document before it is sent to potential lenders. Consequently, the draft RFP is not a[s] specific as it would be after Commission approval." Nicor Gas Ex. 1.0 at 6.

In construing a statute, courts presume that the legislation did not intend absurdity, inconvenience or injustice. *DeLuna v. Burciaga*, 223 Ill.2d 49, 60, 857 N.E.2d 229 (2006). Requiring ratepayers to pay for administrative costs that constitute 35% of the total amount to be financed under a utility's program can only be characterized as not just and reasonable under any definition of the phrase.

As noted above in the Introduction of these Exceptions, the Commission has an obligation to ensure that the charges assessed ratepayers are just and reasonable. 220 ILCS 5/9-201. Both Section 16-111.7 and the Public Utilities Act as a whole demand that the Commission approve only cost-effective on-bill financing programs proposed by Illinois utilities. As the Commission reviews the proposed programs, it is important to keep in mind that Section 16-111.7 of the Act permits utilities to recover "all of the prudently incurred costs of offering a program approved by the Commission pursuant to this Section, including, but not limited to, all start-up and administrative costs and the costs for program evaluation." 220 ILCS 5/16-111.7(f). This means that *all* of Nicor's residential and small commercial retail ratepayers, whether they take advantage of the program or not, will have their rates adjusted to cover the costs of an on-bill program through Rider EEP. *Id.* The changes in customer rates associated with the recovery of on-bill program costs are "rates" just like other charges on a customer's bill. As such, those rates must be "just and reasonable." This position is supported by Section 9-101 of the PUA, which states:

All rates or other charges made, demanded or received by any product or commodity furnished or to be furnished or for any service rendered **or to be rendered shall be just and reasonable**. Every unjust or unreasonable charge made, demanded or received for such product or commodity or

service is hereby prohibited and declared unlawful. All rules and regulations made by a public utility affecting or pertaining to its charges to the public shall be just and reasonable. (emphasis added)

220 ILCS 5/9-101.

Only prudently incurred expenses are recoverable from ratepayers. While not *specifically* provided in Section 16-111.7, it is the Commission's duty to establish limits *up front* some sort of guidance on permissible spending for administrative costs of the program so that a utility has some idea as to what amount can and should be spent on a proposed on-bill program. Neither ratepayers nor the utilities benefit if the Commission gives the green-light on excessive spending. Unfortunately, the proposed order's refusal to provide such guidance in numerous areas of the proposed program jeopardize both ratepayers as a whole, and the individuals who take advantage of on-bill programs.

Acceptance of anything less than cost-effective on-bill-financing programs jeopardizes the on-bill program as a whole, and the future evaluation of energy efficiency spending by the General Assembly.<sup>2</sup>

Simply because Section 16-111.7 provides no *explicit* cap on the administrative costs of an on-bill-financing program does not mean the Commission should wait until the reconciliation stage of a rider proceeding, as the Proposed Order recommends, to provide direction and guidance to a utility offering the programs as to what constitutes reasonable spending. There is plenty of Commission precedent for doing just that. For example, in the 2007 Peoples Gas Light & Coke Company/North Shore Gas Company consolidated rate case,

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<sup>2</sup> Section 16-111.7 requires an independent evaluation of on-bill programs after 3 years of a program's operation. The evaluator's report must be supplied to the Commission no later than 4 years after the date on which the program commenced, to be followed by a Commission report to the General Assembly. 220 ILCS 5/16-111.7(g).

the Commission capped administrative costs of the proposed utilities' program at 5 percent, despite the fact that there was no statutory cap, let alone a statute at the time, prescribing appropriate cost caps. ICC Docket Nos. 07-0241, 07-0242, Order of February 5, 2008 at 138. Similarly, in the most recent Nicor rate case, the Commission approved a 5% cap on administrative costs in Nicor's proposed program, again, despite the fact that at the time there was no statutory cap, let alone a gas energy efficiency statute at the time. ICC Docket Nos. 08-0363, Order of March 25, 2009 at 151, 156-159. The Commission also concluded that a rulemaking should commence to establish specific guidelines for gas energy efficiency programs. In doing so, the Commission noted that "utilities need to know that what they spend will not be subject to an arbitrary prudence review." *Id.* at 159.

This docket is the opportunity for the Commission to establish some sort of boundaries or guidance on permissible program costs of on-bill financing programs. The Commission's final Order should: 1) cap all program administrative costs at no greater than 10% of the program dollars available; and 2) direct Nicor to re-submit their proposed Program including reasonable program administrative costs.

For all the forgoing reasons, The Proposed Order should be revised to provide for just and reasonable program costs associated with the Nicor Gas Program. Therefore, the People propose that Section VII. G. at page 27 be modified as shown below.

The AG's request to cap Program Fees at 10% of the program dollars is necessary to insure costs associated with the Program in the form of rates passed through to ratepayers as Program costs are just and

~~reasonable. is denied. It is contrary to the express statutory language that the utilities are allowed to recover all of their prudently incurred costs. Furthermore, All costs that the utilities seek to recover from ratepayers will be subject to a prudency review in the annual reconciliation proceeding for the utility's automatic adjustment clause rider.~~

~~Any estimates that the Utility has provided are merely informational. The Commission's approval of the OBF program does not include approval of the associated proposed budget amounts.~~

**EXCEPTION #2: The Proposed Order in regards to Underwriting Criteria (credit checks) does not take into account the best interest of participants or ratepayers and does not assure the proper alignment of incentives.**

## **B. Underwriting Criteria**

Nicor witness Sharon Grove states,

The RFP provides for the potential **lender to specify** the interest rate, origination fees and **credit terms**, as well as any other criteria that **the lender would use to determine if it would provide credit to a potential customer.**

Nicor Gas Ex. 1.0 at 6 (emphasis added).

The Proposed Order states that “the statute itself recognizes that the FI will be conducting credit checks or other appropriate measures to limit credit risk.” Proposed Order at 28. 220 ILCS 5/19-140(c)(4). This statement implies that the Commission has no control or can offer no guidance over what terms are appropriate given the statute. The People respectfully disagree. The People believe there is a great benefit in establishing credit check guidelines for the utility-issued RFPs in an effort to ensure that the interest of limiting ratepayer risk for default loans is balanced with the desire to enable as many ratepayers as possible to qualify for the on-bill loans. Otherwise the FI would likely have a financial incentive to increase their profits through cost intensive

credit checks that inflate program cost fees passed through to ratepayers without a corresponding benefit to reducing bad debt exposure.

Likewise, CUB is concerned that the credit check practice “will add unnecessary costs and barriers to the Program.” CUB Initial Comments at 6. Additionally, CUB is concerned that people that could benefit from energy efficiency measures could be denied access to the Program because they have than ideal credit scores, even though it was demonstrated at the workshop process that individuals with poor credit scores still often pay their utility bills. *Id.*

The Proposed Order states, “The FI is guaranteed to recover its investment pursuant to the statutory scheme and it [is the] ratepayers that will be left footing the bill for bad loans” Proposed Order at 28. The Proposed Order, however, misses the bigger risk here. If the FI receives substantial profit in the form of credit check fees, otherwise credit-worthy participants may be excluded from the Program. In addition, it is the ratepayers who will be left footing the bill for expensive credit checks that provide minimal value.

The People recommended in their Corrected Reply Comments that:

the Commission should require the Petitioner to apply a tiered credit check approach that: 1) limits the requirement to prior bill payment history for measures under a \$1,000; and 2) applies a specific formula or methodology that does not inflate the interest rate or cause additional costs to be socialized to rate payers for measures greater than \$1,000. The specific credit check methodology should be stated clearly in the Program Design Document, as well as the RFP, Nicor Gas Exhibit 1.3.

AG Reply Comments at 5.

The Proposed Order should be revised to take into account the best interests of participants and ratepayers allowed for under the OBF Law, and

assure the proper alignment of utility, lender and participant incentives. Therefore, the People propose that Section VII. I. at page 28 be revised as shown below:

~~Several options have been proposed for determining the credit-worthiness of potential program participants. The Commission agrees with the Utilities the People and Nicor Gas is directed to apply a tiered credit check approach that: 1) limits the requirement to prior bill payment history for measures under a \$1,000; and 2) applies a specific formula or methodology that does not inflate the interest rate or cause additional costs to be passed through as program costs for measures greater than \$1,000. however, that this is a matter best left to the FI. In fact, the statute itself recognizes that the FI will be conducting credit checks or other appropriate measures to limit credit risk. The FI should utilize its expertise to determine what measures should be taken to limit credit risk.~~

~~Ensuring that only credit worthy customers participate in the program is in the best interest of ratepayers. The FI is guaranteed to recover its investment pursuant to the statutory scheme and it ratepayers that will be left footing the bill for bad loans.~~

**EXCEPTION #4: The Commission should direct Nicor Gas to reflect in its RFP and contracts and agreements when it would exercise its right to obtain a security interest.**

### **C. Security Interest**

The Proposed Order misinterprets the People’s position regarding the utilities statutory right to obtain a security interest. The Proposed Order states, “The statute gives the utilities the right to retain a security interest in the financed energy efficiency measure.” PO at 28. No party or Staff ever disputed the statutory right of Nicor Gas to obtain a security interest. The People never suggested “the Utility should be barred from any costs related to filing a security interest...” Proposed Order at 28.

Instead the People stated,

The People believe Nicor Gas’ recognition of the cost associated with perfecting a security interest is appropriate. For example Nicor Gas

states that it will exercise its right to a security interest “pursuant to Section 10-1040(c)(6) when it is financially prudent to do so...” Nicor response to Staff DR BCJ1.07, Staff Verified Comments Attachment A7. Nicor Gas, however, should spell out when it intends to perfect its security interest...Therefore the People expect to see Nicor Gas address in its Reply Comments, how it intends to keep costs reasonable for the Program and “when it is financially prudent to exercise this right.” to perfect a security interest.

AG Corrected Reply Comments at 7 and 8.

The Proposed Order states that, “it is left to the utility to attempt to collect as much money from the individual participant or, if necessary, attempt to repossess the item.” Proposed Order at 28. The People, however, believe that this is true only to the extent that the cost associated with filing, perfecting, repossessing, storing and selling a measure is reasonable compared to the amount a utility may potentially recover.

Nicor Gas witness Sharon Grove stated that “Nicor Gas only intends to reserve the right to retain a security interest in the installed measure, but does not propose to regularly enforce such a provision on a widespread basis.” Nicor Gas Ex. 1.0 at 9. While this is a reasonable position, Nicor Gas needs to reflect in their RFP, contracts and agreements filed with the Commission, prior to approval of their Program, when it would exercise its discretion to obtain a security interest. Nicor should spell out their methodology to the FI through the RFP and associated contracts agreements as to when it will require the FI to perfect a security interest. If the FI receives substantial fees associated with security interest filings without a clear methodology defined, then incentives would be misaligned.

The Proposed Order should be corrected to maintain accuracy and not misstate the position of a party. Additionally, the Proposed Order should be revised to take into

account the best interests of participants and ratepayers allowed for under the OBF Law, and assure the proper alignment of incentives. Therefore, the People propose that Section VII J. at page 28 be corrected as shown below.

~~The statute gives the utilities the right to retain a security interest in the financed energy efficiency measures. The fact that utilities are given this right, and not the FI, is consistent with the statutory scheme that utilities pay the FI whether or not the individual participant pays his or her utility bill. Accordingly, it is left to the utility to attempt to collect as much money from the individual participant or, if necessary, attempt to repossess the item, but only to the extent such associated costs are reasonable compared to the amount Nicor Gas could potentially collect. Nicor's~~ The Commission directs Nicor Gas to reflect in their RFP, contracts and agreements filed with the Commission prior to approval of their Program when it would exercise its discretion to obtain a security interest. ~~proposal to work with the FI to determine when this would be financially necessary is a reasonable approach. As Staff points out, perfecting the security interest may cost more than would be recovered.~~

~~The AG's suggestion that the Utility should be barred from any costs related to filing a security interest is contrary to the statutory scheme and fails to protect ratepayers. If Nicor and the FI institution determine that it makes financial sense to perfect a security interest, this protects ratepayers because any unpaid loans and any money not recovered through repossession will be charged to ratepayers.~~

**EXCEPTION #4: Despite the absence of any statutory requirement for customer education regarding OBF, a focused level of customer education could provide important consumer protections.**

#### **D. Consumer Information**

This section of the Proposed Order highlights the inconsistent interpretation of the OBF statute within the four corners of the document. As noted above, the Proposed Order rejects providing guidance to the utilities regarding permissible program costs, arguing that no such language exists in Section 16-111.7. On the other hand, the Proposed Order adopts Staff's recommendation to require utilities to work with Staff to

develop specific information that will be provided to residential customers, despite the absence of any such requirement in the statute. *See* PO at 14; 220 ILCS 5/16-111.7 (electric) and 220 ILCS 5/19-140 (gas).

The People supported Staff’s recommendation that “[c]ustomers who take advantage of the proposed OBF [P]rogram should be informed about how their participation may affect their bill when changes in utility service occur.” Staff Comments at 33; PO at 18. Although there is no requirement for consumer education anywhere in the On-Bill Financing Statutes 220 ILCS 5/16-111.7 (electric) and 220 ILCS 5/19-140 (Gas), “(t)he People support Staff’s recommendation as an important consumer protection issue.” AG Corrected Verified Reply Comments at 8-9; PO at 14.

The Proposed Order needs to be revised and modified to assure any program costs related to customer education must be just and reasonable. Therefore, the People propose that Section VII. F. at page 27 be modified as shown below.

The Utility has agreed to Staff’s proposal regarding consumer education. The reasonable costs associated with providing this information is a program cost recoverable through the utility’s automatic adjustment clause tariff.

**EXCEPTION #5: The Proposed Order misinterprets the Peoples position regarding being a named member or voting member of the RFP Evaluation Committee.**

**E. Selection of FI**

**1. Intervenors as Members of Evaluation Committee**

CUB in their Comments proposed “that it, the AG and Staff be named members of the RFP Evaluation Committee.” CUB/City Initial Comments at 3. Proposed Order at 29. In response to CUB’s recommendation, the People stated, “The People would be willing to join the RFP evaluation Committee, but believe that in order to make a meaningful

contribution to the evaluation process, the AG and CUB should be voting members of the committee and not just advisors.” AG Corrected Reply Comments at 5.

The Proposed Order again misinterprets the People’s position in this docket in its conclusion that “The AG’s proposal conflicts with the statutory right/directive that the utility shall make the selection. Not only that, it is not clear what additional value or expertise would be brought to the OBF Program to have these parties vote on the selection of the FI.” Proposed Order at 29.

The People in their Reply Comments were merely responding to CUB’s recommendation. The People, CUB, and other entities have been involved with countless meetings, committees, and collaboratives ranging from UCB/POR to Smart Grid and the time commitment for such participation is significant. To be sure, the People are not clear what the Proposed Order means in stating “it is not clear what additional value or expertise would be brought to the OBF Program to have these parties vote on the selection of the FI[Lender].” Proposed Order at 29. On the contrary, the People believe their and other stakeholders’ participation has brought significant value to the process time and time again.

The PO should be corrected to maintain accuracy and not misstate the position of a party. Therefore, the People propose that Section VII. M. 1. at page 29 be corrected as shown below:

As with other issues in this proceeding, the Commission will turn to the plain language of the statute for guidance. It states that the utility shall issue an RFP and the “utility shall select the winning bidders based on its evaluation.” 220 ILCS 5/19-140(c)(2); 220 ILCS 5/16-111.7 (c)(2) (emphasis added).

CUB proposes that it, the AG and Staff be named members of the RFP Evaluation Committee. ~~The AG goes further and proposes that it, CUB and Staff be named voting members. CUB does not specify what~~

~~role it intends to play as a member of the Evaluation Committee, but its reason for the request is that it wishes to stay informed of deliberations or actions.~~

The Commission agrees with the Utility that, pursuant to the statute, selecting the FI is the utility's responsibility and there is no basis for requiring the affected utilities to allow the workshop participants to participate in the selection process. ~~The AG's proposal conflicts with the statutory right/directive that the utility shall make the selection. Not only that, it is not clear what additional value or expertise would be brought to the OBF Program to have these parties vote on the selection of the FI.~~

#### **F. Non-Substantive Changes**

The ALJ's Proposed Order contains a non-substantive error and the People propose that the second to last paragraph for Section I. at page 1 be corrected as shown below.

220 ILCS 5/16-111.7(b-5); 220 ILCS 5/19-140(b-5).

#### **CONCLUSION**

For the reasons discussed herein, the People respectfully request that the Commission modify the Proposed Order in accordance with the arguments and exceptions language provided herein.

Respectfully submitted,

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Date: April 28, 2010