



**Final Plan**

THE  
**CADMUS**  
GROUP, INC.

# Illinois Utilities' On-Bill Financing Evaluation Plan

June 14, 2013

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## LIST OF ABBREVIATIONS AND ACRONYMS

AIC	Ameren Illinois Company
AFC	AFC First Financial
ComEd	Commonwealth Edison
CUB	Citizens Utility Board
EEFC	Energy Efficiency Finance Corporation
ICC	Illinois Commerce Commission
IEA	Illinois Energy Association
OBF	On-Bill financing
PII	Personally Identifiable Information
Staff	Staff of the Illinois Commerce Commission

## PREFACE

This final version of the evaluation plan incorporates the findings and conclusion of the Illinois Commerce Commission's Final Order in Docket No. 11-0689 issued on May 15, 2013, which can be summarized by the following:

- Any cost-effectiveness analysis should be forward-looking and focus on On-Bill-Financing's marginal costs and benefits;
- The Evaluator's plan to work with Utilities and stakeholders to develop a cost-effectiveness approach is reasonable;
- The parties' other comments are appropriate and appear to be uncontested; and
- The Evaluator must keep the budget and statutory timeframe in mind while working with the Utilities, Staff and stakeholders.

As reflected in this plan, the evaluation team will implement recommendations from uncontested comments to the extent the budget and timeframe will allow. In particular, we wish to clarify the evaluation budget can only accommodate research with Utility customers who applied for OBF; general population research to determine why more people are not even applying to the program or determining different avenues for reaching customers would require additional resources.

## INTRODUCTION

Ameren Illinois Company (AIC), Commonwealth Edison (ComEd), People's Gas, North Shore Gas, and Nicor Gas (together, "the Utilities") are implementing, or pursuing implementation of, an on-bill financing (OBF) mechanism for eligible residential-sector customers to finance qualified energy-efficiency projects. The ICC deemed that the programs' commencement date was June 2011 to facilitate a due date for the evaluation report.<sup>1</sup> Since that time, applicable Illinois utilities have pursued the fulfillment of the requirements of Sections 16-111.7 and 19-140 of the Public Utilities Act (the Act), created by Senate Bill 1918 during the 2009 legislative session and revised per Senate Bill 1652 during the 2011 veto session. These sections of the Act also require that an independent evaluation of the mechanism be conducted, and require the evaluator to issue a report to the Illinois Commerce Commission (ICC) on its findings within four years of OBF's commencement.

In October 2012, the Illinois Energy Association (IEA) and the Utilities contracted with the evaluation team, composed of The Cadmus Group, Inc., and Research Into Action, to serve as the OBF evaluator. This plan is a guiding document for the evaluation that provides an overview of the issues the evaluation will address, how the evaluator proposes to conduct the research, and other important background information. Although the OBF is outside the Utilities' demand side

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<sup>1</sup> Not all utilities began program operations on this date. The ICC deemed the program commencement date as June 1, 2011 regardless of actual commencement dates of OBF program operation for the purposes of setting a due date for the program's evaluation report.

management portfolios, the evaluation will examine whether, and to what extent, the OBF mechanism can facilitate energy efficiency program participation.

To inform this evaluation plan's development, the evaluation team:

- Conducted an initial round of interviews with OBF managers at each of the Utilities, the IEA, and AFC
- Requested and reviewed databases and other materials from AFC and the Utilities to understand what is being tracked and to advise on data collection needs
- Reviewed the online OBF application forms
- Convened multiple calls with the Utilities to resolve issues identified early during our writing of the plan
- Reviewed pertinent parts of the Act and dockets related to the OBF evaluation and program filings together with all other information identified in the Request for Proposal ("RFP") issued in connection with this evaluation.
- Solicited the Utilities' input on the structure and content of the plan
- Solicited input from ICC Staff and intervenors in Docket No. 11-0689

## Evaluation Objectives

The following evaluation objectives were shaped by: the Act, Staff initial comments on 11-0689, the RFP, and discussions with stakeholders to Docket No. 11-0689. The evaluation is intended to:

1. Fulfill the Act's requirements
  - a. Evaluate overall operations, eligibility and loan underwriting criteria, measures financed (measure eligibility criteria and associated savings), and whether payment obligation should attach to the meter
  - b. Solicit feedback from participants and interested stakeholders
2. Fulfill the ICC's requirements
  - a. Assess OBF's benefits and costs
  - b. Provide information to enable the ICC to make a recommendation on whether OBF should be discontinued, continued with modification(s), or continued without modification.
3. Address additional research topics identified from the RFP and during discussions with stakeholders
  - a. Assess participation attrition at each step of the application process, along with reasons for attrition
  - b. Assess additional measure installation enabled by financing
  - c. Analyze loan performance

- d. Assess the potential to expand OBF to the small business market and whether the amount financed should exceed \$2.5 million per utility

## Parties to the Evaluation and Responsibilities

Because this is a statewide effort, multiple parties will need to collaborate to make the evaluation a success. Table 1 describes each key organization’s responsibilities.

**Table 1. Parties and Roles in Evaluation**

Organization	Role in Evaluation
IEA	Manage evaluator contract Accept deliverables Aggregate Utilities’ feedback to evaluator Facilitate meetings and communications as primary project contact Facilitate introductions to key external stakeholders
AIC ComEd Nicor Peoples/North Shore	Manage OBF and portfolio programs Participate in interviews and other evaluation activities Respond to data requests from evaluator Review deliverables Address regulatory matters Coordinate OBF evaluation with other evaluations Facilitate introductions to key external stakeholders
AFC First Financial (AFC)	Implement programs Participate in interviews and other evaluation activities Respond to data requests from evaluator Facilitate introductions to key external stakeholders
Energy Efficiency Finance Corporation (EEFC)	Advise evaluator procurement process Assist with evaluation start-up
ICC Staff and intervenors in Docket 11-0689	Provide input and participate in evaluation interviews
Evaluation Team: Cadmus Research Into Action	Conduct evaluation research Develop evaluation plan Produce deliverables, including interim results memos and a final report Provide regular updates on evaluation progress to IEA and Utilities Provide support post final report (final presentation/ICC workshop attendance)

## DESCRIPTION OF OBF OFFERING

OBF promotes energy efficiency by allowing eligible customers to borrow funds from a third-party lender to purchase approved measures with no up-front payment required. Customers repay their loans over time on their utility bill, as shown in the line item highlighted in Figure 1.

**Figure 1. Energy-Efficiency Loan Sample Bill Line Item\***

MISCELLANEOUS CHARGES DETAIL		
ActOnEnergy Financing: Energy Efficiency Loan	\$89.90	
<b>Total Miscellaneous Charges</b>		<b>\$89.90</b>
<b>Current Month Charges</b>		<b>\$220.35</b>

\*Example provided by Ameren

## OBF Milestones

The following milestones summarize OBF developments in Illinois to date.

- 2009: Senate Bill 1918 mandates that Utilities offer OBF<sup>2</sup>
- 2009: IEA hires EEFC as design consultant
- 2010: ICC approves OBF mechanism and eligible measures
- 2011: IEA and Utilities select AFC as the implementer
- 2011: Utilities officially “launch” OBF in June<sup>3</sup>
- 2011: Senate Bill 1652 amends the Act to allow electric measures in a Commission-approved energy-efficiency and demand response plan to be eligible for OBF. Pursuant to 220 ILCS 5/8-103, measures in a Commission-approved energy-efficiency and demand response plan must be cost-effective.
- 2012: IEA and Utilities select Cadmus and Research Into Action as the evaluator, file draft evaluation plan in December
- 2013: Final evaluation plan approved by the ICC<sup>4</sup>
- Additional anticipated milestones include: 2015: Evaluation report due to ICC

<sup>2</sup> This legislation also includes a general bad debt rider for the Utilities, which the Utilities can use to write off bad debt from OBF. See Public Act 96-33.

<sup>3</sup> ComEd was the only Utility to begin offering OBF in June 2011

<sup>4</sup> This process includes:

December 21, 2012 – Filing of the Proposed Evaluation Method/Plan;

February 1, 2013 – Filing of Parties’ Verified Initial Comments;

March 1, 2013 – Filing of Parties’ Verified Reply Comments;

April 26, 2013 – Date by which the Administrative Law Judge’s Report to the Commission must be submitted; and

June 14, 2013 – Filing of the Final Evaluation Plan

## OBF Goals

The following section from the Act describes the purpose of OBF.

The Illinois General Assembly finds that Illinois homes and businesses have the potential to save energy through conservation and cost-effective energy efficiency measures. Programs created pursuant to this Section will allow utility customers to purchase cost-effective energy efficiency measures with no required initial upfront payment, and to pay the cost of those products and services over time on their utility bill.

Pursuant to the Act, the Utilities offer OBF to residential customers.

## Design and Processes

### Financing Eligible Measures

The Act requires gas measures (equipment or non-equipment) financed through OBF to be cost-neutral, meaning the estimated energy cost savings (determined by rates in effect at the time of purchase) are sufficient to cover the customer's total cost of implementing the measure(s), including any up-front payments and finance charges, less the portion of the cost covered by incentives.<sup>5</sup> As of June 14, 2013, the General Assembly has passed Senate Bill 2350, which, if enacted into law, would expand eligible OBF gas measures to include those in a Commission-approved energy-efficiency plan.

The electric measures must either be cost neutral or be cost-effective<sup>6</sup> and part of a Commission-approved energy-efficiency plan.

Measures eligible for OBF, by utility, are shown in Table 2. Most of these measures are also eligible for incentives through the Utilities' existing energy-efficiency programs. For example, Ameren's approved contractors offer discounts<sup>7</sup> on insulation and air sealing through their home energy performance program and discounts on HVAC systems through the HVAC program. Heat pump water heaters receive a downstream rebate through the residential energy-efficient products program. People's Gas and North Shore Gas offer a downstream incentive for gas furnaces through their prescriptive rebate program. ComEd provides financing for appliances available from participating retailers. ComEd's energy-efficiency portfolio does not offer an incentive for refrigerators but does for clothes washers. The portfolio also offers an incentive for a central air conditioning system. Nicor currently does not offer any OBF eligible measures.

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<sup>5</sup> See Evaluator RFP page 4

<sup>6</sup> Pursuant to 220 ILCS 5/8-103, "cost-effective" means that the measures satisfy the total resource cost test as defined in 20 ILCS 3855/1-10

<sup>7</sup> Midstream incentives

**Table 2. OBF Eligible Measures by Utility as of 10/26/12**

	Ameren	ComEd	Nicor***	People's/North Shore Gas
Fuel	Electric and Gas	Electric	Gas	Gas
Incentive Available with Financing?	Yes*			
Eligible Measures	Insulation, HVAC Systems (gas or electric), Heat Pump Water Heater	ENERGY STAR Refrigerator, ENERGY STAR Clothes Washer, Central Air Conditioning**	TBD	92 AFUE or higher gas furnace
Installation by AFC First Approved Contractors?	✓	✓	TBD	✓
Appliances at Participating Retail Locations?	✓	✓	TBD	

\*ComEd offers an incentive for recycling appliances, but does not offer any incentive for the purchase of a new appliance. OBF participation requires that customers recycle the refrigerator they are replacing through ComEd's Fridge and Freezer Recycle Rewards program.

\*\* Only as part of the Complete System Replacement (CSR) program; participants must install both an efficient gas furnace along with their central air conditioner. The incentive for CSR program includes both an AC and furnace incentive.

\*\*\*Due to the low price of natural gas, Nicor stated it was unable to identify any cost-neutral measures, and thus is not offering financing.

## Loan Product and Underwriting

Table 3 summarizes OBF loan terms and customer underwriting criteria, which are identical for all the Utilities. AFC started from its standard underwriting template and worked with the Utilities to determine the final criteria.

**Table 3. Underwriting Standards**

Item	Ameren	ComEd	Nicor	People's/North Shore Gas
Loan Amounts*	\$500 to \$20,000**			
Loan Tenor	3, 5, or 10 years			
Interest Rate	4.99% Fixed			
Prepayment Penalty	None			
Loan Type	Unsecured***			
Eligible Building Owners	Single Family Home, Condo, Multi-family up to 4 units****			
Applicant Minimum Credit Score	640+			
Bankruptcy, Foreclosure, Repossession	None in last 7 years			
Unpaid Collection Accounts, Judgments, Liens	No more than \$2,500 total			
Income Verification	For loans \$4,000 or greater			
Debt to Income Ratio	For loans \$3,000 or greater 50% for W2 Wage Earners 45% for Self Employed			
Utility Account Standing	In good standing			
Partial Utility Bill Payment Priority	Energy Bill then OBF Loan		OBF Loan then Energy Bill	Energy Bill then OBF Loan

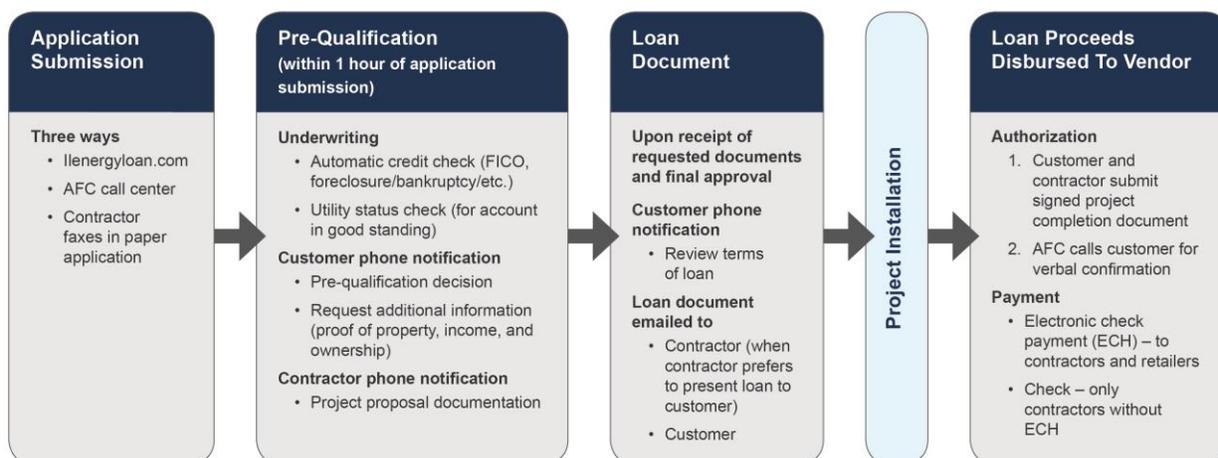
Item	Ameren	ComEd	Nicor	People’s/North Shore Gas
Overpayment Allocation	Utility Credit			
Reporting for Past Due Payments	No credit agency reporting Collections when account goes final		Credit agency reporting after 30 days past due Collections when account goes final	

\* Loan amount is up to total out-of-pocket cost to customer; downstream incentives do not reduce the maximum loan amount  
 \*\* For ComEd, minimum varies by product financed; for Nicor, the loan amount is up to \$50,000 for commercial customers  
 \*\*\* Nicor Gas’ tariff allows the Utility the right for a security interest in the measure for commercial customers  
 \*\*\*\* Certain small commercial customers are also eligible, as per the Act, although none of the Utilities currently offer OBF to small commercial customers.

### Application Process

After hearing about OBF from their contractor or through another promotional effort, residential utility customers apply for OBF through the process shown in Figure 2. The process begins when a customer submits an application to AFC through the statewide OBF Website, via AFC’s call center, or through their contractor, who forwards the application to AFC via fax. AFC performs a prequalification screening within one hour of receiving the application. During this time, AFC’s system automatically gathers the prospective borrower’s credit history, and an AFC underwriter reviews the information and checks that the borrower has an active Utility account. For Ameren customers only, the AFC underwriter checks that the borrower’s utility account is in good standing.<sup>8</sup> AFC contacts the borrower to convey the prequalification decision (approved or declined) and requests additional information, if needed. AFC also calls the contractor to request a copy of the proposed work.

Figure 2. OBF Application Process



Upon receipt of the requested information, AFC conducts a final approval review, then calls the borrower to review the terms of the loan, and e-mails the loan documents to either the contractor or the customer. If the customer does not respond within 30 days, the application is automatically withdrawn. The customer can also opt to withdraw the application.

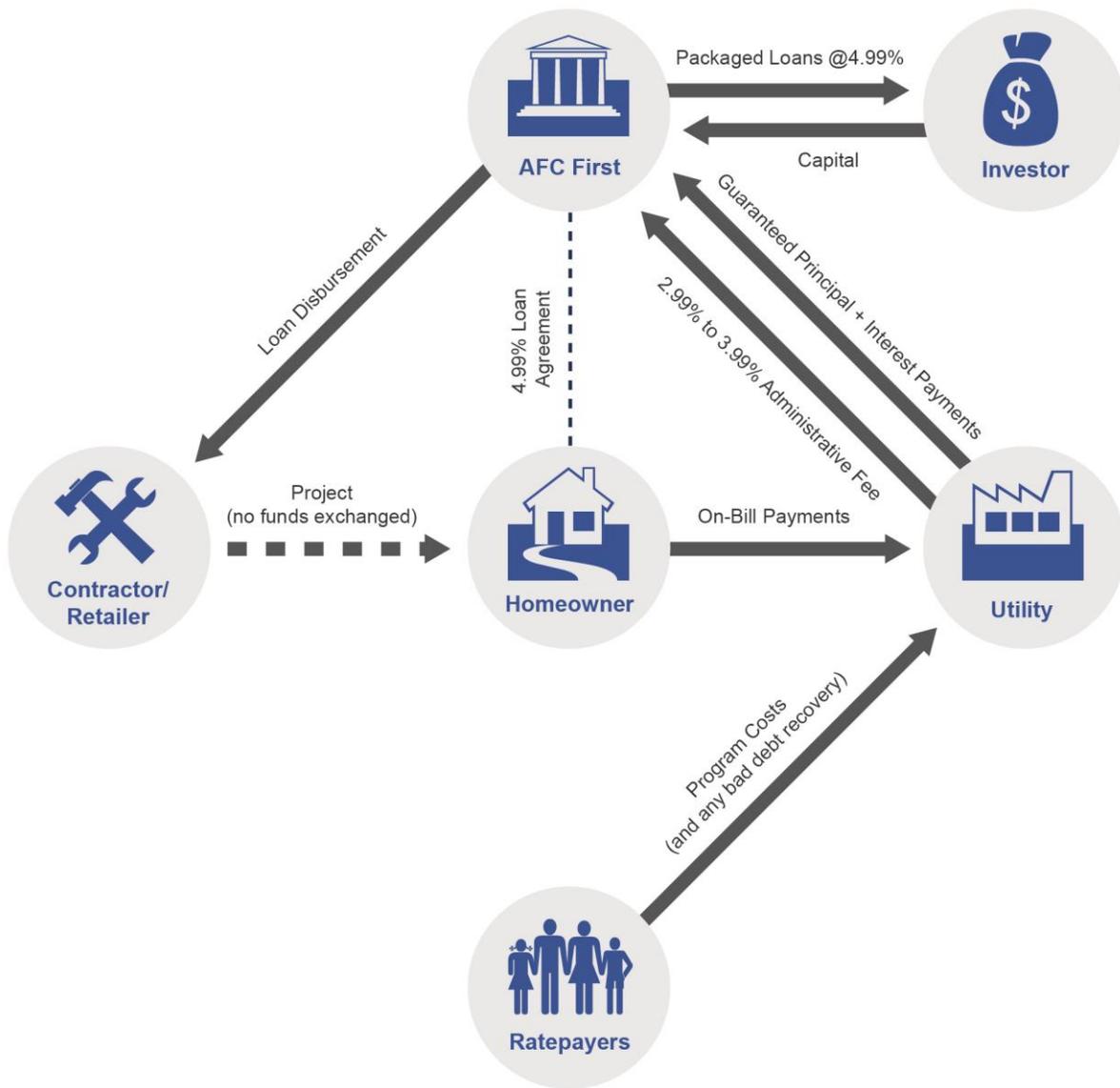
<sup>8</sup> Accounts with charges over 60 days past due are ineligible. Ameren and AFC had to coordinate their IT systems so that AFC would have access to detailed customer account information. The other Utilities have not set up this arrangement.

Once the customer signs the loan documents, the project may move forward. Upon project completion, the customer and contractor sign a project completion document and send it to AFC. AFC calls the borrower for a final verbal confirmation that the work was performed satisfactorily and releases payment to the vendor.

### Flow of Funds

Figure 3 shows the flow of capital through the various parties involved in OBF. The lending process begins with a homeowner applying to AFC for a loan. Upon homeowner credit approval and execution of the loan agreement, the contractor (or retailer) is authorized by the homeowner to proceed. Once the project is completed to the homeowner’s satisfaction, AFC disburses the loan proceeds to the contractor.

**Figure 3. Flow of Funds**



Each month, the homeowner repays the loan through the utility bill. Failure to pay the entire bill (loan and energy charges) could result in service disconnection.<sup>9</sup> The Utilities aggregate customers’ loan payments and make a single payment for all outstanding loans (principal and interest) to AFC. The Utilities also pay AFC an administrative fee of 2.99% to 3.99% (depending on the Utility and measure) of the average principal balance of the loans being serviced. The Utilities pay AFC in full regardless of customer late payments or defaults. Any Utility losses are recovered from ratepayers via a bad debt rider.

Once AFC collects a sufficient number of loans, the loans are packaged to yield a 4.99% return and sold to another lender in a secondary transaction. AFC then uses the proceeds to make more loans.

**Parties Responsible for Design and Implementation**

The IEA, which coordinates statewide efforts and advocates for the Utilities’ interests, hired EEFC as the OBF design consultant, AFC as the implementer/financial institution, and Cadmus/Research Into Action as the OBF evaluator. The Utilities, along with AFC and the approved program contractors, are responsible for implementing OBF.

Table 4 summarizes the key activities required to implement OBF and the responsible party or parties.

**Table 4. OBF Implementation Responsibilities**

Responsibility	Utilities***	Financial Institution	Contractors Vendors
Determine eligible measures	✓		
Recruit and train qualified contractors and retailers	✓	✓	
Market and promote OBF	✓	✓	✓
Process loan applications		✓	
Lending QA/QC*		✓	
Release payments to contractors/vendors		✓	
Collect loan payments from customers	✓		
Pay financial institution**	✓		
Recover bad debt	✓		

\*Program measure QA/QC is performed independently of loan processes

\*\*The utilities remit full payment to AFC each month regardless if the customers pay their loan charges

\*\*\* Ameren Administrator is Conservation Services Group, Peoples/North Shore Administrator is Franklin Energy

AFC is responsible for recruiting and training qualified contractors and retailers, which are subject to the Utilities’ approval. The Utilities determine eligible measures. All parties market and promote OBF; the Utilities may use bill inserts and their Website to inform customers. AFC

<sup>9</sup> There is a winter moratorium in Illinois that prevents shut off from October through April

develops marketing materials for contractors to use. AFC processes loan applications, which are separate from incentive applications;<sup>10</sup> the Utilities or their administrators process the incentive applications. The Utilities are responsible for collecting loan payments via customers' utility bills, and for paying AFC every month, regardless of whether their OBF customers have paid their loan charges. The Utilities handle any defaults through their standard nonpayment procedures and recover any loan losses through the bad debt rider.

## Current Participation

Table 5 summarizes OBF participation as of December 19, 2012. For the purposes of the statewide evaluation, OBF was deemed to have a start date of June 30, 2011 for all Utilities.<sup>11</sup> Actual start dates vary. As of December 2012, all the Utilities that offer OBF have funded loans. Declined applications are those that did not qualify because the applicant did not meet underwriting criteria. Withdrawn indicates customers who met underwriting criteria but chose not to continue and obtain an OBF loan. The Application Process section provides more information on when these events occur. The column titled "unidentified" indicates applications submitted to AFC without utility account information.

**Table 5. OBF Participation as of 12/19/2012**

Item	Ameren	ComEd	Nicor	North Shore Gas	People's Gas	Unidentified
Total Applications	678	866	0	87	206	62
Funded Loans*	263	163	0	42	53	0
Declined Applications	264	567	0	30	107	45
Withdrawn Applications	62	144	0	11	41	15
Total Lent	\$1,303,901	\$410,184	\$0	\$173,469	\$233,829	\$0
Total Principal Outstanding	\$1,287,033	\$386,437	\$0	\$165,381	\$225,636	\$0
Maximum Total Loan Principal Outstanding	\$5,000,000	\$2,500,000	\$2,500,000		\$2,500,000	NA

\*Some participants may have more than one loan

Table 6 summarizes AFC's statewide contractor recruitment and qualification efforts through December 19, 2012. Statewide, there are 289 approved contractors. AFC approved 15 contractors conditionally to observe their business practices. Declined contractors were those who did not meet AFC's minimum program standards. Terminated contractors are those who have violated some protocol in the program and may no longer participate. Withdrawn indicates a contractor submitted an application but did not respond to follow up from AFC.

<sup>10</sup> AFC also verifies that the project complies with the Utility's requirements, which include a determination of whether the applicant qualifies for any applicable incentives offered through the Utility.

<sup>11</sup> For further information, please refer to ICC Docket No. 11-0689 Staff Motion for Administrative Law Judge Decision on Start-Up Dates dated March 7, 2012

**Table 6. AFC OBF Contractors as of 12/19/12**

<b>Contractor Participation Status</b>	<b>Number</b>
Approved	289
Approved Probationary	15
Declined	23
Pending	2
Terminated	2
Withdrawn	11
<b>Grand Total</b>	<b>342</b>

## EVALUATION APPROACH

This section describes the evaluation team’s planning assumptions, the research objectives, and their corresponding tasks.

### Planning Assumptions

The evaluation team developed this evaluation plan with the following assumptions.

- We will be able to survey OBF applicants and contractors.
- Program data will be complete and require relatively little processing on the part of the evaluators.
- Retailers are reluctant to provide sales data and will not likely share this information with the evaluation; however we do assume retailers and other stakeholders will be responsive to our interview requests.
- Utilities will ensure coordination between OBF and other concurrent evaluations.
- We will receive further guidance from the Commission regarding its expectations for OBF and the evaluation.
- The Ameren portfolio evaluation includes an HVAC program participant survey, to be conducted in program year five (PY5; June 2012 – May 2013) and again in PY7 (June 2014 – May 2015) or PY8 (2015 – 2016). No HVAC participant surveys are planned for PY6 (June 2013 – May 2014). Thus, the OBF evaluation team will exclude any OBF applicants included in the HVAC program evaluation surveys from the OBF program evaluation surveys.

### Research Objectives and Tasks

Table 7 summarizes the research objectives and their corresponding evaluation tasks. Some analyses will be conducted toward the conclusion of the evaluation, such as cost-effectiveness and loan performance, while others will be conducted at the beginning (stakeholder interviews) or on a recurring basis (customer surveys).

**Table 7. Research Objectives and Corresponding Tasks**

Research Objective	Information Review	Cost-Effectiveness	Stakeholder Interviews	Customer Surveys	Contractor Research
<b>Required by the Act</b>					
Evaluate overall operations	✓		✓	✓	✓
Assess eligibility criteria	✓		✓		
Assess measures financed	✓	✓	✓		
Determine if payment obligation should attach to meter			✓	✓	
Solicit feedback from participants and stakeholders			✓	✓	✓
<b>Requirements from the ICC</b>					
Assess costs and benefits	✓	✓	✓		
<b>Identified during kick-off meeting</b>					

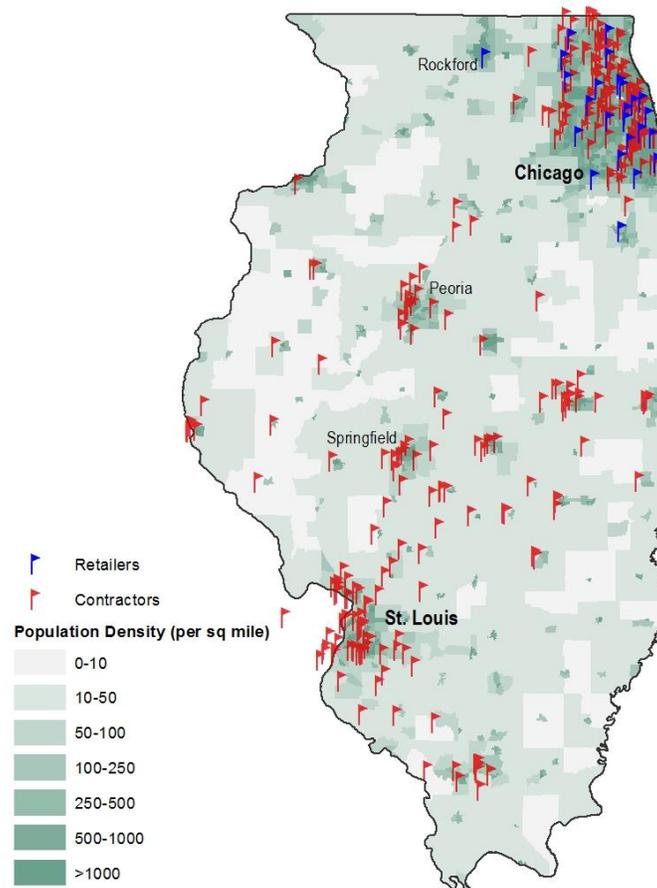
Research Objective	Information Review	Cost-Effectiveness	Stakeholder Interviews	Customer Surveys	Contractor Research
Assess attrition and reasons for attrition	✓		✓	✓	✓
Assess additional participation attributable to OBF				✓	
Analyze loan performance	✓		✓		
Expansion of OBF to small commercial sector	✓		✓		

## Information Review

The evaluation team will review all program documentation, process flows, policies and guidelines, and databases to obtain a full understanding of how OBF works with each of the Utilities. We will also review marketing collateral, Website content, and applications in order to understand the information provided to potential participants and to get a sense for the steps involved in the application and loan qualification process. Because we expect OBF will be similarly operated for all Utilities, we will focus on identifying any key implementation differences to help us identify whether or how these differences might be affecting outcomes.

## Utility and AFC Database Review

The evaluation team will review the loan applicant and contractor tracking databases from AFC and/or the Utilities, to conduct analysis at the utility or state level. For example, we will compare the contractor network (Figure 4) against population density.

**Figure 4. Approved Contractor/Retailer Geographic Distribution\***

The database review will involve several other tasks, including the task of measuring attrition at each step in the application process (Figure 2), and identifying reasons for that attrition.

We also plan to review the measures financed, how they were qualified (based on cost neutrality or as part of an approved energy-efficiency plan), and what percentage of incentive program participants used OBF to pay for their measures. This review will require data from the incentive programs that include OBF-eligible measures.

Financial analysis is critical for any financing program. We will compare approved and declined loan applications across a variety of criteria, including FICO score, loan amount, loan tenor, measure type(s), and percentage of project cost financed. We will also examine whether the loan approval rate would have been different had underwriting been based on customers' utility credit history rather than AFC's criteria. Cadmus will work with the Utilities and ICC Staff to refine the proposed Utility credit history criteria below:

- No disconnect notice in the year prior to the OBF application date
- No more than one late payment charge in the year prior to the OBF application date

Cadmus proposes to analyze loan participant repayment patterns based on customer FICO score and utility credit history, using the following bill payment status categories: current, delinquent

(late but not yet referred to collection), in default (Utility attempting to collect on loan), bad debt recovered, loan paid off on schedule, and loan paid off early. The full analysis will be conducted in the final year of the evaluation; we will work with the Utilities and AFC early on to ensure the necessary data are collected.

## Small Commercial Customers

The Act specifies that small commercial customers may be included in OBF, with small commercial customers defined as those who consume less than 15,000 kWh or 5,000 therms per year. However, these small commercial customers, as defined by the Act, do not have their own rate class at the Utilities.

We will investigate each Utility's interest in expanding to the small commercial sector, identify barriers to expansion, and potential for uptake. This will require an assessment of the number of small commercial customers that meet the above criteria at each Utility, and what fraction of the rate class they represent, potential uptake for OBF based on current levels of energy-efficiency program participation and average project costs, and measures that may work well with OBF. Although primary research (e.g., focus groups or surveys) of the Illinois small commercial customer sector would be informative for this task, it would require additional funds beyond the currently contracted amount. We will review any documentation from previous evaluations that identify upfront costs as a barrier for this market sector.

## Cost-Effectiveness Analysis

The ICC Staff indicated in its initial comments for Docket No. 11-0689 that cost-effectiveness of OBF for each Utility is a necessary element of the evaluation. For OBF, cost-effectiveness can refer to specific measure eligibility requirements, as per the Act, or it can refer to the overall costs and benefits of the mechanism. For this reason, the evaluation team prefers to describe participant costs and benefits at the measure level using "cost neutral," reserving the term cost-effectiveness for the overall mechanism. The cost-effectiveness analysis will be forward-looking, focusing on incremental costs and benefits associated with offering OBF.

The evaluation team will work with the Utilities, ICC Staff, and other stakeholders to resolve the following issues during the evaluation period.

- Which cost-effectiveness test should be used?
- Should OBF cost-effectiveness be assessed on its own or combined with the portfolio? Although OBF was filed outside the energy-efficiency plans, most of the measures eligible for OBF are also eligible for incentives from programs in the Utilities' energy-efficiency portfolios.
- How should OBF's incremental benefits be defined?
- How should savings be attributed between the OBF and incentive programs? Does this kind of attribution need to be done at all?

We will work with the stakeholders to reach an agreement on the most appropriate method. Our budget supports:

- Two meeting with ICC Staff, Utilities, and stakeholders to finalize the cost-effectiveness approach. Cadmus will present a proposed approach consistent with the decision in the Final Order for feedback.
- One cost-effectiveness test (e.g. TRC) conducted at the Utility level one-time in 2014. Cadmus will provide a data collection checklist and form for the Utilities to complete.
- Two calculations will be performed, one assessing cost-effectiveness at current participation levels and another to determine program scale necessary to achieve cost-effectiveness.
- One round of review of cost-effectiveness model inputs and outputs.

Additional meetings or efforts beyond this will require an increase in the budget.

## Interviews

Over the course of the evaluation, the evaluation team will conduct a limited number of interviews with key stakeholders. Key contact and stakeholder interviews will focus primarily on the expected role of OBF in Illinois' energy-efficiency portfolio, stakeholder expectations for the Utility programs and for the evaluation, the "lien-at-the-meter" approach, and impressions of how OBF is being implemented to date. We will develop one interview guide; questions unique to a particular stakeholder will be marked as such in the guide.

We will speak to the following stakeholders (their specific questions are also provided below):

- Citizens Utility Board (CUB) – CUB is listed as an intervenor on the docket; we plan to ask about CUB's expectations regarding OBF and the circumstances around OBF's origination, including rationale for OBF's need.
- ICC Staff – We will consult the ICC staff regarding what they would like to know about the effects of the measures financed, and information needed to determine if OBF should be discontinued, continued with modification(s), or continued without modification.
- Attorney General – The Attorney General is a public interest advocate. We will ask about concerns regarding consumer lending through this program and expected benefits from OBF.
- Environmental Law and Policy Center

We will hold a second round of interviews with representatives from each of the Utilities and AFC before concluding our evaluation. Potential discussion topics include:

- Expansion of OBF to other sectors
- Customer Utility credit history criteria
- Implementer and vendor services
- Marketing approaches

- Program uptake
- Customer repayment of loans
- Challenges experienced to date and lessons learned

## Customer Research

The evaluation team will survey both OBF participants and partial participants. Participants are Utility customers who received a loan for a qualified energy-efficiency improvement. Partial participants are those who applied but either did not qualify for a loan or were approved but withdrew from the program.

For both participants and partial participants, we will need to determine if two waves of phone surveys or quarterly email surveys are more appropriate. The cost of developing and programming phone and email surveys are similar, but costs for additional data collection are lower for email surveys. However, using email to replace phone surveys can result in unrepresentative populations unless certain precautions are in place.

The evaluation team will take several steps to determine the best approach for the OBF participant survey. First, we will review the program database to investigate whether or not the presence of an email address in program records reflects demographic or systematic differences such as age of applicant or income. If the presence of email addresses appears random (there are no systematic or known differences between the two groups) we will program a participant email survey to be launched in waves. If we cannot verify that the presence of email addresses is random we will program a survey for fielding in by phone and email—offering the phone survey to those without email addresses and the email survey to those with email. If we find no difference in the response patterns or demographics of the two groups, we will continue with email only and launch the email survey in subsequent survey waves.

The specific number of survey waves will be determined by the mode chosen. If we find that we cannot eliminate phone surveys we will conduct two waves of participant surveys. If we are able to conclude that email surveys are a methodologically valid approach we will be able to conduct surveys quarterly with a sample of participants from each program. The evaluation team will analyze the results of each survey wave and provide summary findings via the semi-annual memo prior to the final report.

## Participants

Participants will be sampled from the records of all participating Utilities and will include borrowers who completed a variety of projects, from whole-house heating and cooling systems to appliances. Borrowers financing only appliances may be fundamentally different from borrowers who made more extensive improvements; thus, we will stratify the participant surveys so that 90/10 confidence and precision is reached for both the appliance-only population and those who financed more comprehensive measures. We will reach this level of confidence and precision over all the survey waves in total, not in each wave. Sixty-eight completes are required to reach 90/10 per strata, so the evaluation team will complete the surveys with at least that number over the course of the project.

Participant surveys will include questions about:

- Participant experience with the financing option, including how and where they heard about the opportunity, their experience with the on-bill payment process, the extent to which payments have met their expectations and how the loan approval process worked for them, contractor and project satisfaction, and suggestions for improvement
- Participant activities related to efficiency before or since obtaining their loan, including other planned, imminent, or recent home energy-efficiency improvements
- Participant decision making, including awareness of other options for financing their project (we are aware that some contractors offer competitive project financing), how long they had considered their project, and what spurred them to take action, the influence of the loan, and their ability to take action if the loan was not available (free-ridership)
- Attractiveness of the “lien-at-the-meter” approach. This is a complicated concept to communicate in a survey. We will consider asking indirect questions, such as preference for a transferrable financing arrangement, concerns about moving before recouping the project’s payback, and concerns about selling or purchasing a property with a transferrable obligation. These questions will only apply to permanently installed measures such as HVAC systems or water heaters.

## Partial Participants

Partial participants are another important population for the process evaluation surveys. They include any Utility customers who applied for a loan but were denied, or those who were approved but withdrew. We anticipate completing partial participant surveys on a similar schedule as participants and will complete a minimum of two waves. We will attempt to reach 90/10 confidence/precision for the group of customers who were denied a loan, and also for the group who were approved but withdrew from the program.

Partial participant surveys will include questions about:

- Experience with the financing option: how and where they heard about it, their experience with the paperwork and, most importantly, what they did subsequent to dropping out (or being declined), reasons for dropping out (if withdrawn), ability to address reasons for being declined during the pre-approval stage, suggestions for improvement
- Any energy-efficiency improvements completed after dropping out of OBF, and how they paid for those improvements (including rebates)
- Whether a “lien-at-the-meter” type of product would have been more attractive (to those who withdrew from the program). See the earlier discussion under the participant survey section for more details.

## Vendor Research

OBF requires loan borrowers to work with approved contractors and retailers. We will conduct one round of research, by phone, with contractors and retailers at the midpoint of the evaluation.

### Contractors

We will survey program-approved contractors and ask questions about:

- Customer and contractors' interests in OBF
- Size of firm
- How they offer OBF to customers, and which customers they offer OBF to
- Customer application assistance
- Payment process and time to receive payment (for those with loan funded projects)
- Disputes and how they were resolved
- For contractors with more than three projects, we will ask if they have noticed a difference between projects paid for with OBF and non-OBF projects.
- For contractors working with more than one Utility, we will ask them about key differences between their experience working with each Utility
- Contractor financing products (We understand some contractors, who may or may not be program approved, are offering 0% financing for up to 72 months.)
- Suggestions for improvement

We will strive to get 90/10 confidence precision at the statewide level.

### Retailers

Currently, ComEd has two approved OBF retailers for appliance measures. We will interview a key contact person from Sears and Abt Electronics regarding their experience with OBF, corporate and local decision making resulting in OBF participation as a trade ally, promptness of payment, OBF marketing, competing financing products, and their interactions with AFC. We will also ask whether they have noticed any influence on sales from OBF or other benefits.

# PROGRAM DATA COLLECTION, COMMUNICATIONS, AND DELIVERABLES

## Program Data Collection Plan

This section identifies the data that are currently collected by the program, the data required for each evaluation task, and protocols for data requests and security.

The evaluation team assumes program data will be relatively complete and require minimal processing on the part of the evaluators. Should we need to do extensive manual processing of the data, we will need to either reduce the scope of work or obtain additional budget.

### Current Data Collected

Both AFC and the Utilities track their own marketing efforts in support of OBF. Each entity also collects its own unique set of information.

#### AFC

AFC collects information from processing each loan application (including funded loans and reasons that customers were declined or withdrew from OBF), tracks monthly payments from the Utilities to AFC, and tracks contractor applications and projects.

#### Utilities

The Utilities track customer loan payments, defaults, disconnections, and bad debt recovery. They track their payments to AFC and other OBF budget items. They also determine what measures are eligible, and approve contractors.

The Utilities also track their portfolio program participation and measures installed separately.

### Data Required

In general, most of the data requested below will have to be provided only once or twice, unless otherwise noted. Table 8 summarizes the data required and timing. It may require a few conversations to clarify what data should be collected, what data are available, and how it will be provided. The evaluator will notify the appropriate parties when the data are needed.

**Table 8. Summary of Data Needs and Timing**

Data	Timing	Frequency	Responsible Party
Marketing Materials	Upon development of new materials	As needed	Utilities/AFC
OBF Program Costs	Prior to cost-effectiveness analysis	Once	Utilities
Eligible Measure Data	Prior to cost-effectiveness analysis	Once	Utilities
Vendor Data	Prior to vendor interviews	Once or twice	AFC and Utilities
Customer Survey Sample Frame	Prior to each round of customer surveys	Quarterly	AFC
Stakeholder Contact Information	Prior to stakeholder interviews	As needed	IEA/Utilities
Applicant Financial Information	Mid 2014	Once	AFC
Customer Payment Performance	Mid 2014	Once at account level	Utilities

Data	Timing	Frequency	Responsible Party
Cost-effectiveness assumptions	Prior to cost-effectiveness analysis	Once	Utilities
Small Commercial Customer Data	Late 2013	Once	Utilities

**General Program Materials**

Program materials include any guiding documents, such as the program services agreements (PSA) between AFC and each Utility, budgets, marketing materials (such as brochures or bill inserts), and a copy of a sample bill with the OBF line item.

The evaluation team has received copies of all the PSAs from AFC, sample bills and budgets from ComEd and Ameren, brochures from Ameren and ComEd, and other items. We will require an updated OBF budget from each Utility towards the end of the evaluation period for the cost-effectiveness analysis.

If there are significant changes to OBF marketing materials, we will request a copy of those new materials as soon as they have been distributed.

**Measure Data**

For OBF measures that are qualified by meeting customer cost-neutrality requirements, we request copies of all supporting analysis, including how costs and savings were derived.

For OBF measures that are also eligible for rebates, the Utilities should complete Table 9 for each measure.

**Table 9. Measure Level Data Needs**

Program Year	Total Number of Unique Customers Participating	Total Quantity of Measures Installed	Total Gross Savings (kWh, kW, therms)	Total Net Savings	Number of Unique Customers Participating Using OBF	Quantity of Measures Installed Using OBF	Gross Savings (OBF only projects)
PY3							
PY4							
PY5							
PY6							

The word “total,” as used in the table above, refers to values in a given program year for both OBF and non-OBF projects. The total gross savings and net savings provided should be consistent with impact evaluation results. OBF funded project information should be provided as a subset of the overall participation and savings.

**Vendor Data**

AFC’s contractor and loan database together contain much of the data needed for the contractor surveys and analysis. We will request this information prior to fielding the surveys. The loan database contains the number and type of projects completed by each contractor, while the contractor application database contains contact information and approval status. Some additional information we would like, if available, is a contact name at each firm, types of

services offered, and an indication as to whether the contractor is in good standing or has been involved in a dispute.

The Utilities should provide the evaluation team with a list of contractors known to provide 0% financing so we may compare it against the approved contractor list.

The Utilities or AFC should also provide contact names and information for any participating retailers and facilitate an introduction to the evaluation team.

**Customer Research Information**

The evaluation team will use AFC’s application database to create the sample frame for our customer surveys. Table 10 summarizes the minimum required information from all applicants, including those declined or withdrawn.

**Table 10. Customer Research Data\***

Name(s)	Final Decision	Measure(s)	Loan Tenor
Phone/	Application Status	Contractor	Loan Funded Date
E-mail(s)	Utility	Application Source	Loan Amount
City/State/Zip	How Heard	Project Cost	Reason for rejection or withdrawal
Customer Service Inquiries			

\*Where applicable

We do not need account numbers or FICO scores to complete the customer research surveys. We will require this information two weeks prior to conducting any customer research surveys, which we may conduct quarterly or less frequently.

**Stakeholder Contact Information**

The IEA or the Utilities should provide the evaluation team with contact names and information for CUB, the ICC, and the Attorney General, and facilitate contact between the evaluator and these organizations.

**Financial Information and Loan Performance**

Customers’ financial information, such as FICO and debt-to-income (DTI) ratios, are considered sensitive, and access to this information will be restricted within the evaluation team. A unique loan identification number will be assigned that can be used to match AFC and Utility data for each customer. Customer name is not essential for this analysis. We will also consider other approaches to ensure anonymity and resolve this with further discussions with AFC and the Utilities.

AFC should provide the information in Table 11 for all loan applicants.

**Table 11. AFC Application Information**

Unique ID linked to Utility Data or Account Number	Application Status (Pending, approved, funded, declined, withdrawn)	Measure(s)	Loan Amount
How Heard	Contractor	Measure Efficiency Rating	Loan Payment

If application was not originally filled out correctly or incomplete	Utility	Measure Manufacturer and Model	Interest
Zip Code	Debt to Income Ratio	Measure Size/Capacity (if applicable)	Principal
Installed Project Cost	FICO/Co-FICO	Loan Funded Date	Loan Tenor
Reason for rejection or withdrawal			

The Utilities should provide the information in Table 12 for each customer who has or had an OBF loan. This detailed information is only needed one time to minimize IT costs to the Utilities. If the data are not available or would take significant resources to obtain, we will work with the Utilities to suggest an alternative approach.

**Table 12. Utility Account Performance Information**

Post Loan History Information	Pre Loan History Information*
Unique ID linked to AFC Data or Account Number	Length of time customer has had an active account with Utility when they applied for OBF**
Utility Account Status: 1. Loan and Energy Payments Current 2. Delinquent (late but yet referred to collection) 3. In Default (Utility attempting to collect on loan) 4. Bad debt recovered 5. OBF Loan Paid Off on Schedule 6. OBF Loan Paid Off Early	Number of times customer has had a late payment charge in the year before applying for OBF
Number of times customer was delinquent and then became current Number of times customer was in default and then became current	Number of times customer has received disconnect notice in the year before applying for OBF
For accounts that are delinquent: How many days late, amount delinquent (OBF portion only)	At the time customer applied for OBF, did they have a deposit on their account to establish/re-establish credit? (Yes/No)
Accounts in default: Number of times Utility has attempted to collect, number of disconnect notices sent; if customer was disconnected	
For accounts with deficiencies recovered from ratepayers: amount of loss recovered through ratepayers; summary of attempts to collect; if customer was disconnected	
For accounts paid off early: Number of payments made prior to early pay off, Number of payments expected	

\* Criteria for pre-loan credit history may change based on discussions with the Utilities and other stakeholders

\*\*ComEd classifies customer account duration as either less than six months or greater than six months. Other Utilities may have different systems for classifying customer accounts.

In addition, we request aggregated aging reports for all active OBF residential accounts and all active non-OBF residential accounts. This information should be provided in a format similar to that shown in Table 13. If readily available, this data should be provided quarterly, otherwise once towards the end of the evaluation period is sufficient.

**Table 13. Aggregate Residential Customer Aging Data**

Days	Number of Active OBF Accounts	Number of Active Non-OBF Accounts	Amount Outstanding of Active OBF Accounts	Amount Outstanding of Active Non-OBF Accounts
0-30				
31-60				
61-90				
91-120				
121+				

### Cost-Effectiveness

The evaluation team's data requirements will vary depending on the agreed-upon cost-effectiveness approach and may include:

- Avoided costs
- Discount rate
- Retail rates
- Program Administration Costs

As indicated in the Cost-Effectiveness Analysis section, the evaluation team will provide a data collection checklist and form to the Utilities to provide the needed information. We may also request copies of existing cost-effectiveness analyses inputs and outputs.

### Small Commercial Customer Data

We will need the Utilities to provide an estimate of the number of nonresidential customers under 15,000 kWh or 5,000 therms per year, the rate class these customers fall under, overall size of the rate class, and cost and participation information on common energy-efficiency retrofits for this sector.

### Data Requests and Security

The evaluation team will submit data requests in the form of e-mails or short memos directly to the appropriate party, copying the IEA.

For data requests involving personally identifiable information (PII),<sup>12</sup> we will remind the party providing the data to use a secure FTP site to transfer the data to Cadmus.<sup>13</sup> Cadmus will generate a unique FTP login for each individual who will provide PII data. Non-PII data can be transmitted via e-mail with the understanding that the contents are not for circulation outside the project team.

<sup>12</sup> PII means any individual's first name (or first initial) and last name in combination with one or more of the following data elements: financial account number, date of birth, government issued id number, password, bank account or card information, unique biometric data, unique electronic identification number, and other elements specified in exhibit B with each utility.

<sup>13</sup> Each Utility has executed a PII agreement with Cadmus

Cadmus will store electronic files containing PII on a secure server with access limited to approved project team members at Cadmus. Research Into Action will not host any data with PII on its system.

Upon request and subject to existing law regarding the protection of customer information, Cadmus will make data used in the evaluation of the OBF program available to ICC Staff for review. We will provide Staff members with a unique FTP login to access the data upon receiving a request. Requests to provide the data to ICC Staff more frequently than semiannually will require additional budget to support.

## Communications

Cadmus will provide general updates to and request feedback from the IEA and the Utilities, either during regularly scheduled check-in calls or by e-mail. We will adjust the frequency as needed, with more frequent communications during periods of high evaluation activity. At minimum, we will provide an update once per month.

We understand the need for transparency in the process and will provide ICC Staff and other stakeholders to the docket with regular updates on our progress, approximately once a month via the mailing list. We believe this is the best compromise between keeping all stakeholders informed and minimizing the impact to our limited evaluation budget. More frequent communication will increase the overall evaluation budget, which may in turn have a negative impact on OBF's overall cost-effectiveness.

Utilities will facilitate filing evaluator documents.

## Deliverables

### Evaluation Plan

The draft evaluation plan constituted the first deliverable for the evaluation. The Utilities filed the draft plan with the ICC for the evaluator on December 21, 2012. The Utilities kept the evaluator informed of key dates during the formal comment and response period, and filed the final evaluation plan on June 14, 2013.

### Interview and Survey Guides

We will submit draft interview guides for stakeholders and retailers to the IEA, Utilities, and ICC Staff for feedback. Contractor and customer survey guides must be as consistent as possible across all Utilities, so we will ask the Utilities, IEA, and ICC Staff to make a determination on how to address inconsistencies, if any. We have budgeted for one round of review.

### Interim Feedback Memos

The evaluator will provide interim results semiannually in the form of a memo describing completed evaluation tasks, interim findings, preliminary recommendations, and anticipated next steps. The evaluator will attend a call to present and discuss the interim findings with the Utilities, IEA, ICC Staff, and other stakeholders.

**Final Evaluation Report**

The final report will be one document containing sections addressing each utility's differences and unique considerations, as requested in the evaluator RFP. Detailed information by task will be included in an appendix.

**Limited Follow Up Support**

The evaluation team will provide continuing support services to review the evaluation report and its findings and recommendations. This support includes a final presentation and in-person attendance at a workshop convened by the ICC. Additional services may be negotiated at a later date or as a part of a separate contract.

# EVALUATION TIMELINE AND BUDGET

Table 14 summarizes the anticipated milestones for the evaluation, as well as the target dates.

**Table 14. Evaluation Timeline**

	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15					
Project KO Meeting	█																																									
Draft Evaluation Plan Filed			█																																							
Stakeholder Interview Guides				█						█	█											█																				
Stakeholder Interviews					█	█	█				█	█	█										█	█																		
ALJ Report to Commission								█																█	█																	
Revised Evaluation Plan Addressing Comments									█																																	
Customer Survey Guides											█	█																														
Customer Surveys													█	█										█	█																	
Interim Results Memo #1															█																											
Vendor Research Guides																█	█																									
Vendor Research																	█	█	█																							
Database Analysis																										█	█	█														
Cost-Effectiveness														█																												
Interim Results Memo #2																						█																				
Interim Results Memo #3																											█															
Draft Final Report																																										
Final Report																																										
Follow-Up Services																																										
Deliverable	█																																									
Work	█																																									

Table 15 shows the evaluation budget allocation. Note that direct costs will be shared between the two evaluation firms.

**Table 15. Evaluation Budget Allocation**

Title	Name	Hourly Rate	Management	Evaluation Plan	Database Analysis	Cost Effectiveness	Interviews	Customer Research	Vendor Research	Follow Up	Total Hours	Total
<b>Cadmus Labor</b>												
Division Vice President	Sami Khawaja	\$250		2		10					12	\$3,000
Vice President	Linda Dethman	\$242		2				4	4		10	\$2,420
Principal	Carol Mulholland	\$235	14	16	16	10	8	8	4	14	90	\$21,150
Senior Associate	Pat McGuckin	\$189		20	30		20	2	10	2	84	\$15,876
Senior Associate	Jane Colby	\$189		4								
Senior Associate	Aaron Jennegis	\$189		2	12	20					34	\$6,426
Associate	Cynthia Kan	\$162	116	78	26	12	12	20	18		282	\$45,684
Senior Analyst	Allison Aisplin	\$142		20	64		30	20	20	30	184	\$26,128
Analyst	TBD	\$128	30	2		36		2			70	\$8,960
Editor	TBD	\$80		10	10	10	10	10	10	10	70	\$5,600
<b>Cadmus Labor Subtotal</b>			<b>\$25,922</b>	<b>\$26,190</b>	<b>\$25,798</b>	<b>\$15,982</b>	<b>\$12,664</b>	<b>\$10,362</b>	<b>\$10,354</b>	<b>\$8,728</b>	<b>836</b>	<b>\$135,244</b>
<b>Subcontractor Labor (Research Into Action)</b>												
President	Jane Peters	\$200		2						4	6	\$1,200
Project Director	Dulane Moran	\$145	6	58	4	10	20	20	20	8	146	\$21,170
Senior Analyst	TBD	\$130			24			36	26		86	\$11,180
Project Analyst	TBD	\$115						60	40		100	\$11,500
Admin	TBD	\$60	6								6	\$360
<b>Subcontractors Subtotal</b>			<b>\$1,230</b>	<b>\$8,810</b>	<b>\$3,700</b>	<b>\$1,450</b>	<b>\$2,900</b>	<b>\$14,480</b>	<b>\$10,880</b>	<b>\$1,960</b>	<b>344</b>	<b>\$45,410</b>
<b>Other Direct Costs (Shared)</b>		<b>Unit Cost</b>									<b>Total Units</b>	
Travel		\$820		3						2	5	\$4,100
Survey Completes		\$45						272	68		340	\$15,300
<b>ODC Subtotal</b>			<b>\$0</b>	<b>\$2,460</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$12,240</b>	<b>\$3,060</b>	<b>\$1,640</b>	<b>345</b>	<b>\$19,400</b>
<b>TOTAL</b>			<b>\$27,152</b>	<b>\$37,460</b>	<b>\$29,498</b>	<b>\$17,432</b>	<b>\$15,564</b>	<b>\$37,082</b>	<b>\$24,294</b>	<b>\$12,328</b>	<b>1180</b>	<b>\$200,054</b>