

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
North Shore Gas Company	:	13-0611
Peoples Gas Light and Coke Company, The	:	
	:	
Reconciliation of revenues collected	:	
under Riders EOA with the actual costs	:	
associated with energy efficiency and	:	
on-bill financing programs.	:	

ORDER

By the Commission:

I. PROCEDURAL HISTORY

On November 6, 2013, the Illinois Commerce Commission initiated a proceeding to review North Shore Gas Company’s (“North Shore”) and The Peoples Gas Light and Coke Company’s (“Peoples Gas”) (North Shore and Peoples Gas together, the “Utilities”) reconciliation of revenues collected under each of their Riders EOA, which recover costs for their energy efficiency and on-bill financing programs.

The Order, quoting Section 8-104(e) of the Public Utilities Act (the “Act”), states, “[e]ach year the Commission shall initiate a review to reconcile any amounts collected with the actual costs and to determine the required adjustment to the annual tariff factor to match annual expenditures.” Regarding on-bill financing programs, Section 19-140(f) of the Act provides, “[a]ll prudently incurred costs under this Section shall be recovered from the residential and small commercial retail customer classes eligible to participate in the program through the automatic adjustment clause tariff established pursuant to Section 8-104 of this Act.”

Pursuant to notice, a status hearing convened on November 27, 2013. At the status hearing, the Administrative Law Judge directed the Utilities to file their direct testimony on December 18, 2013, and the Utilities did so. A further status hearing was held on August 12, 2014 where the rest of the evidentiary schedule was set. Commission Staff filed its direct testimony on October 28, 2014 and filed corrected direct testimony on November 12, 2014. The Utilities filed rebuttal testimony on December 2, 2014. On December 8, 2014, Staff filed its Pre-hearing memorandum. On December 9, the Utilities filed their prehearing memorandum. The Office of the Illinois Attorney General entered an appearance in this proceeding.

An evidentiary hearing convened on December 11, 2014. The sole purpose of that evidentiary hearing was to establish why there were no issues in this proceeding.

Admitted into the record, via affidavits, was the direct testimony and exhibits of the Utilities' witnesses Edward M. Korenchan, who is the Supervisor, Gas Regulatory Services at Integrys Business Support, LLC ("IBS"), a centralized service company for Integrys Energy Group, Inc. (NS-PGL Exs. 1.0, 1.1N, and 1.1P); Edward M. Carroll (NS-PGL Exs. 2.0, 2.1N, 2.1P, 2.2 and 2.3); the rebuttal testimony of Mr. Korenchan (NS-PGL Ex. 3.0); and the affidavits of Mr. Korenchan (NS-PGL Ex. 4.0). Also admitted was the Direct testimony and Rebuttal testimony of and Mr. Carroll, who is the Regional Vice-president of Illinois Operations at Franklin Energy Services, LLC (NS-PGL Ex. 5.0). Admitted into the record, by affidavit, were the corrected direct testimony, schedules and attachment of the Staff's witness Mike Ostrander, an Accountant in the Commission's Accounting Department in the Financial Analysis Division (ICC Staff Ex. 1.0(C), with Schedules 1.01P - 1.5P and 1.01N - 1.04N; and the affidavit of Mr. Ostrander (ICC Staff Ex. 2.0). On January 28, 2015, the Utilities filed an agreed-upon draft proposed order.

The Commission considers the whole of the record and the arguments presented.

II. ISSUES

A. The Utilities' Position

The Utilities' witness Mr. Korenchan sponsored the reconciliation statements and supported the calculations underlying the reconciliation adjustments. The Utilities' witness Mr. Carroll sponsored exhibits that detailed the costs and therm savings under the various energy efficiency programs offered in the reconciliation period, as well as related administrative costs. His testimony also set forth why the incurred costs were necessary.

North Shore's and Peoples Gas' Schedules of Rates for Gas Service each includes Rider EOA, Energy Efficiency and On-Bill Financing Adjustment. The Commission approved Rider EOA in Docket 10-0564. It became effective on June 20, 2011. Mr. Korenchan testified that, each year, Rider EOA calls for North Shore and Peoples Gas to file charges (called the "Effective Component") with the Commission. The Rider EOA Effective Component is a per-therm charge to recover the costs of the energy efficiency program and the On-Bill Financing ("OBF") program, which the Commission approved in Docket 10-0090.

The portions of the Effective Component associated with energy efficiency and On-Bill Financing are based upon the budgets included in the three-year plan ("Plan") filed with the Commission. Mr. Korenchan testified that Rider EOA is applicable to all Service Classifications; however, for energy efficiency, the Department of Commerce and Economic Development ("DCEO") identified certain large customers as "exempt" or "self-directing" per criteria set forth in Sec. 8-104(m) of the Act. Such customers are not subject to Rider EOA; they do not participate in the Utilities' energy efficiency programs or the On-Bill Financing program, which is directed to residential customers. NS-PGL Ex. 1.0 at 4.

For North Shore, there is a separate Effective Component for Service Classification No. 1, which includes amounts for Residential Energy Efficiency and On-Bill Financing programs; 2, which includes amounts for Residential Energy Efficiency, Commercial and Industrial Energy Efficiency, and On-Bill Financing programs; and combined 3, 4 and 6, which includes amounts for Commercial and Industrial Energy Efficiency programs. NS-PGL Ex. 1.0, 4.

For Peoples Gas, there is a separate Effective Component for Service Classification No. 1, which includes amounts for Residential Energy Efficiency and On-Bill Financing programs; 2, which includes amounts for Residential Energy Efficiency, Commercial and Industrial Energy Efficiency, and On-Bill Financing programs; and combined 4, 5, 7 and 8, which includes amounts for Commercial and Industrial Energy Efficiency programs. NS-PGL Ex. 1.0, 4-5.

Mr. Korenchan stated that Rider EOA requires each of the Utilities to file an annual reconciliation of amounts billed in the Previous Program Year to the actual costs and Reconciliation Adjustments ("RA") for any amounts over- or under-collected from customers per the reconciliation. Such Reconciliation Adjustments would apply to the nine-month reconciliation amortization period beginning September 1. The reconciliation period is Program Year 2 ("PY2"), which is June 1, 2012, through May 31, 2013. NS-PGL Ex. 1.0 at 5-6.

Mr. Korenchan noted that pursuant to the final order of June 18, 2013 in Docket 12-0511, North Shore's and Peoples Gas' rate cases, North Shore was directed to renumber its service classifications to be consistent with Peoples Gas. NS-PGL Ex. 1.0, 6. The PY2 reconciliation reflects those changes in service classifications.

He described the reconciliation statements in detail, including how amounts that the Utilities collect for DCEO's use for its programs are factored into the statements. NS-PGL Ex. 1.0 at 6-18. For North Shore, Mr. Korenchan showed \$906,140.04 as refundable to Service Classification No. 1 customers. The RA component is a \$0.0053 per therm refund. For Service Classification No. 2 customers, \$33,108.16 is recoverable for residential energy efficiency and On-Bill Financing programs and for combined Service Classification Nos. 2, 4, 5 and 7 customers, for commercial and industrial energy efficiency programs, \$806,844.27 is refundable. The RA component for Service Classification No. 2 customers is a \$0.0065 per therm refund. The RA component for Service Classification Nos. 4, 5, and 7 customers is a \$0.0069 per therm refund. NS-PGL Ex. 1.0, 11-12.

For Peoples Gas, Mr. Korenchan calculated \$2,916,609.30 as refundable to Service Classification No. 1 customers. The RA component for Service Classification No. 1 customers is a \$0.0043 per therm refund. \$1,965,669.55 is recoverable from S Service Classification No. 2 customers for residential energy efficiency and On-Bill Financing programs. \$997,888.74 is refundable to Service Classification Nos. 2, 4, 5, 7 and 8 customers for commercial and industrial programs. The RA component for Service Classification No. 2 customers is a \$0.0018 per therm charge. The RA component for Service Classification Nos. 4, 5, 7 and 8 customers is a \$0.0012 per therm refund. NS-PGL Ex. 1.0 at 17-18.

Mr. Carroll provided background about the Plan that the Utilities implemented, changes required of the various programs in PY 2 relative to changes occurring in Program Year 1 ("PY1") performance, a description of the programs in PY2, the types and amount of costs that the Utilities incurred, and showed that the incurred costs were, in general, consistent with the approved Plan. He also addressed some of the costs incurred under the On-Bill Financing program. Mr. Carroll described Plan changes that the Utilities presented to the Stakeholders Advisory Group ("SAG"). NS-PGL Exs. 2.0, 2.1N, 2.1P, 2.2, and 2.3. Mr. Carroll also stated that the Utilities participated actively in Stakeholders Advisory Group and in the Technical Resource Manual ("TRM") development process (NS-PGL Exs. 2.0 at 35-36)

Mr. Carroll averred that the overriding Plan objectives were to achieve the annual goals set by Section 8-104 in a cost-effective manner while providing programs to residential and commercial and industrial ("C&I") customers at approximately the same proportion as the revenues they contribute. The Utilities designed programs that allowed for partnering with Commonwealth Edison Company, streamlining administration and delivery while maximizing customer participation. NS-PGL Ex. 2.0 at 6-20, 22-29.

The North Shore Natural Gas Savings Program portfolio included the following residential programs: Residential Prescriptive Rebates, Residential Home Energy Reports, Multi-Family Direct Install, and Residential Whole-House Retrofit. The portfolio also included the following Commercial and Industrial programs: Commercial and Industrial Prescriptive Rebates, Commercial and Industrial Custom Rebates, Commercial and Industrial Retro-Commissioning, and Small Business Efficiency. NS-PGL Ex. 2.0 at 6. The Peoples Gas Natural Gas Savings Program portfolio included the same programs. NS-PGL Ex. 2.0 at 22. The Plan also specified the budgets for DCEO support; evaluation, measurement, and verification ("EM&V"); and the On-Bill Financing program. NS-PGL Ex. 2.0 at 21-22, 34-35.

Mr. Carroll described, for each utility and for each program the costs incurred, the resulting savings and the adjustments to those savings based on values from the TRM. He compared the costs and savings against the values included in the Plan that the Utilities filed with the Commission and explained differences between the Plan and the actual costs and therm savings. He testified as to the reasonableness of the PY2 incurred costs for each program in the portfolios. NS-PGL Ex. 2.0, 9-20, 23-35.

Mr. Carroll defined the categories of costs as:

- (1) Administrative costs pertaining to the portfolio oversight, management, and planning, including the time and expenses associated with Stakeholders Advisory Group meetings and the TRM. These costs also included the cost of coordination with DCEO's program and the On-Bill Financing program. For North Shore and Peoples Gas, administrative costs were about 2.7% and 2.5%, respectively, of the total PY2 costs.
- (2) Program management included program implementation, program reporting, customer assistance by energy experts, other call center operations, application processing and fulfillment, and building and maintaining trade ally partnerships.
- (3) Marketing activities, which are those associated with building awareness, outreach and education. They included brochures and other collateral materials needed for the

program such as application forms, development and placement of advertisements and campaigns, web creation and management, email newsletters, memberships, and subscriptions. For North Shore and Peoples Gas, marketing costs were about 2.4% and 2.6%, respectively, of total PY2 costs.

(4) Delivery incentives, which are the costs of labor and materials for direct install programs. They are the costs involved for programs such as the Single Family Direct Install program, Multi-Family Direct Install program, the direct install portion of the Small Business Energy Services program, and the Retro-Commissioning program service provider fees.

(5) Incentive Payments, which refers to rebates that are paid to customers to offset the costs of installed qualifying equipment. They also include the cost share portion of energy efficiency measures that are installed in the Small Business Energy Services program, whereby a customer pays a portion of the measures and the utility pays a portion of the measures.

(6) Evaluation, measurement, and verification (EM&V) costs, which are costs incurred for the impact and process evaluations by an independent third party provider. EM&V is a legal requirement. NS-PGL Ex. 2.0, 11, 25.

Mr. Carroll stated that he based therm savings on a calculated gross savings value adjusted with an estimated net-to-gross (“NTG”) ratio. NTG ratios were derived from historical data related to similar measures in similar markets. Original NTG ratios used by measure were included with Mr. Carroll’s testimony. The effective NTG values are listed in his testimony. NS-PGL Ex. 2.2. In his testimony and exhibits, he showed savings values based on the Plan and using the NTG ratios in the Plan filing. NS-PGL Ex. 2.1N, 2.1P. This allows a comparison to the Plan.

Regarding the On Bill Financing program, Mr. Carroll stated that, of the 75 applications that North Shore received, 30 loans were funded, 20 were withdrawn and 25 were declined. Of the 180 applications that Peoples Gas received, 42 loans were funded, 36 were withdrawn and 102 were declined. AFC, the administrator of the On Bill Financing program, reviews applications and decides to accept or reject them. NS-PGL Ex. 2.0 at 37. AFC’s reasons for rejecting applications included bankruptcy, low credit scores, and delinquency on current obligations. Mr. Carroll stated that no customers defaulted during the reconciliation period. *Id.*

B. Staff’s Position

Staff witness Mr. Ostrander reviewed the Utilities’ PY2 reconciliations. He presented several schedules with the results of his review, and those schedules are consistent with the format that is used for all Illinois utilities. ICC Staff Ex. 1.0(C), Schedules 1.01N – 1.04N, 1.01P – 1.05P.

Staff identified adjustments to correct expenses due to misclassifications between Service Classification No. 1 and Service Classification No. 2 for North Shore Gas in Schedules 1.01N and 1.02N. The adjustment for Service Classification No.1 is an additional collection of \$159,155. Staff Ex. 1.0(C), 5. The adjustment for Service Classification No. 2 is a refund or credit of \$159,155. Staff Ex. 1.0(C), 5. Staff recommended that those adjustments be reflected in Factor O and occur in North Shore’s

first filing following the date of the Order in this Docket. Staff proposed no adjustments to the North Shore's cumulative (over)/under recovery in Schedules 1.01-1.04N.

In his rebuttal testimony, the Utilities' witness Mr. Korenchan stated that he agreed with the adjustment of Staff for correction of the classification of expenses for North Shore Gas. NS-PGL Ex. 3.0, 1-2. He also agreed that that adjustment would occur in North Shore's first reconciliation adjustment filing following the Final Order in this docket. NS-PGL Ex. 3.0, 2.

III. COMMISSION ANALYSIS AND CONCLUSION

Upon consideration of the whole of the record and the arguments presented, the Commission finds Staff's adjustments reasonable as to North Shore and they are hereby adopted. The Commission adopts Staff witness Ostrander's Factor O-Ordered Adjustments: for North Shore, a collection of \$159,155 for Service Classification No. 1 and a \$159,155 refund for Service Classification No. 2. The adjustment shall occur in North Shore's first reconciliation adjustment filing following the Final Order in this docket. No adjustments to other North Shore's reconciliations are required. The Commission finds that no adjustments to Peoples Gas reconciliations are required.

IV. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) North Shore Gas Company is an Illinois corporation engaged in the distribution of natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) The Peoples Gas Light and Coke Company is an Illinois corporation engaged in the distribution of natural gas to the public in the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (3) the Commission has subject-matter jurisdiction and jurisdiction over North Shore Gas Company and The Peoples Gas Light and Coke Company;
- (4) the recitals of fact and the conclusions reached in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (5) North Shore Gas Company and The Peoples Gas Light and Coke Company each filed a reconciliation of Rider EOA costs and revenues for the June 1, 2012, through May 31, 2013 Program Period and reconciliation adjustments that went into effect for the nine-month period beginning September 1, 2013;
- (6) Staff proposed, and North Shore Gas Company agrees, that the following Factor O-Ordered Adjustments: an additional collection of \$159,155 for Service Classification No. 1; \$159,155 of refunds for Service Classification No. 2 should be made;
- (7) The Factor O adjustments required for North Shore Service Classification No. 1 and Service Classification No. 2 shall occur in North Shore Gas

Company's first reconciliation adjustment filing following the Final Order in this docket;

- (8) Staff and The Peoples Gas Light and Coke Company agree that no adjustments are required for Peoples Gas Rider EOA PY2 charges;
- (9) all motions, petitions, objections or other matters in this proceeding which remain undisposed of should be disposed of consistent with the conclusions herein.

IT IS THEREFORE ORDERED that North Shore Gas Company's and The Peoples Gas Light and Coke Company's reconciliation statements and the Reconciliation Adjustments are approved, as is shown in Appendix A (North Shore) and B (Peoples Gas) hereto.

IT IS FURTHER ORDERED that North Shore Gas Company and The Peoples Gas Light and Coke Company shall implement the following Factor O-Ordered Adjustments for North Shore: Staff's proposed collection of \$159,155 for Service Classification No. 1 and a proposed refund of \$159,155 for Service Classification No. 2.

IT IS FURTHER ORDERED that North Shore Gas Company and The Peoples Gas Light and Coke Company shall publish public notice of the Factor O adjustments in the manner prescribed by 83 Ill. Adm. Code 255.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 25th day of February, 2015.

(SIGNED) BRIEN SHEAHAN

Chairman