

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
-vs- :
Commonwealth Edison Company, :
The Peoples Gas Light and Coke :
Company, North Shore Gas Company, :
Ameren Illinois Company d/b/a :
Ameren Illinois, and Northern Illinois Gas :
Company d/b/a Nicor Gas Company : **15-0403**
: :
Independent Evaluator’s Evaluation :
Report on the Electric and Gas :
On-Bill Financing Programs :
Required by Section 16-111.7 and :
19-140 of the Public Utilities Act :
:

By the Commission:

ORDER

I. Procedural History

On June 24, 2015, the Illinois Commerce Commission (the “Commission”) entered an Initiating Order in this docket in accordance with a Staff Report submitted to the Commission on June 5, 2015. The purpose of this proceeding is to consider comments on the “Illinois On-Bill Financing Program Evaluation,” dated June 1, 2015, and prepared by The Cadmus Group Inc. (“Cadmus Group”). The Cadmus Group report (“Evaluation Report” or “ER”) evaluates the on-bill financing program (“OBF Program”) in place at five electric and gas utilities as required by Sections 16-111.7 and 19-140 of the Public Utilities Act (the “Act”).

Respondents in this docket are Commonwealth Edison Company (“ComEd”), The Peoples Gas Light and Coke Company (“Peoples Gas”), North Shore Gas Company (“North Shore Gas”) collectively (“Peoples/North Shore”), Ameren Illinois Company d/b/a Ameren Illinois (“Ameren Illinois”), and Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas”) (collectively, the “Utilities”). Staff of the Commission (“Staff”) and the Illinois Attorney General’s Office (“AG”) appeared in this proceeding. The Citizens Utility Board (“CUB”) and Elevate Energy (“Elevate Energy” or “Elevate”) also intervened.

Initial comments on the ER were filed on October 6, 2015, by Elevate, and on October 15, 2015, by Staff, ComEd, North Shore Gas and Peoples Gas, Ameren Illinois, the AG, and CUB. On December 3, 2015, Reply Comments were filed by Staff, ComEd, Ameren Illinois, Nicor Gas, and CUB.

Pursuant to due notice as required by law and by the rules and regulations of the Commission, status hearings were held in this matter on August 6, 2015, and December 17, 2015, before a duly-authorized Administrative Law Judge (“ALJ”) at the Commission’s offices in Chicago, Illinois. All parties appeared through legal counsel.

On February 19, 2016, the Utilities, Commission Staff and Elevate Energy filed Draft Orders. The record was marked “Heard and Taken” on March 8, 2016. A proposed Order was filed on April 22, 2016. Briefs on Exceptions were filed by Staff, ComEd, Ameren, Nicor and CUB on May 6, 2016. Replies on Exceptions were filed by ComEd, Ameren, Nicor and Staff on May 13, 2016. All parties filing comments support the continuation of the OBF program as recommended in the Evaluation Report.

II. Statutory Authority

Section 16-111.7 of the Act requires electric utilities serving more than 100,000 customers as of January 1, 2009 to provide an OBF Program to assist customers in the purchase of energy efficiency measures by allowing for “no required initial upfront payment” and for customers to pay “the cost of those products and services over time on their utility bill.” 220 ILCS 5/16-111.7(a)-(b). Similar to Section 16-111.7, Section 19-140 of the Act requires gas utilities serving more than 100,000 customers as of January 1, 2009 to provide an OBF Program to assist customers in the purchase of energy efficiency measures by allowing for “no required initial upfront payment” and for customers to pay “the cost of those products and services over time on their utility bill.” 220 ILCS 5/19-140(a)-(b).

As they relate to the ER, Section 16-111.7(g) and Section 19-140(g) provide that an independent evaluation of an OBF program shall be conducted after 3 years of a program's operation and that a utility shall retain an independent evaluator to evaluate the effects of the measures installed under the program and the overall operation of the program, including, but not limited to, customer eligibility criteria and whether the payment obligation for permanent energy efficiency measures that will continue to provide benefits of energy savings should attach to the meter location. Also, as part of the evaluation process, the evaluator shall solicit feedback from participants and interested stakeholders and issue a report to the Commission on its findings no later than 4 years after the date on which the program commenced. In addition, the Commission shall issue a report to the Governor and General Assembly including a summary of the information described in this Section as well as its recommendations as to whether the program should be discontinued, continued with modification or modifications or continued without modification, provided that any recommended modifications shall only apply prospectively and to measures not yet installed or financed. 220 ILCS 5/16-111.7(g), 220 ILCS 5/19-140(g).

III. Factual Background

On July 10, 2009, the Governor signed Public Act 96-0033, which, among other things, added Sections 16-111.7 and 19-140 to the Act. Each of the Utilities submitted its proposed OBF Program to the Commission for approval in Docket Nos. 10-0090 (Peoples Gas and North Shore Gas), 10-0091 (ComEd), 10-0095 (Ameren Illinois) and 10-0096 (Nicor Gas). Following the approval of the OBF Programs, the Commission initiated a proceeding to determine the standard evaluation criteria and methodology of the OBF Programs. In that proceeding, Docket No. 11-0689, the Commission addressed evaluator selection and evaluation procedure, and issued an Order approving the Evaluation Plan of the Cadmus Group. The Commission also determined that the effective start date of the programs was June 2011, and the ER should be completed by June 2015, at which point the Commission would initiate a new docket to allow parties to comment on the ER. The ER was filed in Docket No. 11-0689 on June 1, 2015 and the Commission initiated this docket to allow interested parties to provide comments on the ER.

IV. Uncontested Issues

A. The On-Bill Financing Programs Should be Continued

As part of the Commission's report to the Governor and General Assembly, the Commission must recommend whether the OBF Programs should be continued with or without modification, or discontinued. The ER concludes that the unique benefits of the OBF Program model are attractive to consumers, and result in added savings for the Utilities. Accordingly, the ER recommends that the Utilities continue to offer the OBF Programs and to make them available to as many customers as possible.

1. All Parties

All parties filing comments in this proceeding support the continuation of the OBF Programs as recommended in the ER. Therefore, it is uncontested that the OBF Programs should be continued.

2. Commission Analysis and Conclusion

There is a general consensus that the OBF program has been successful and should continue. The Commission concurs with this recommendation and will include it in its report to the Governor and the General Assembly.

V. Contested Issues

The ER contains the Cadmus Group's analysis of several proposals for the Commission's consideration in determining whether to recommend modification of the OBF Programs in any respect. Party comments and Commission Analysis and Conclusions on the proposals are discussed below.

A. Program Design

1. Utility Position

The ER recommends that the Utilities determine the program purpose, target markets, and performance goals for the OBF Programs. As an initial matter, the purpose of the program—to allow utility customers to purchase energy efficiency measures with no required initial upfront payment and to pay the cost of those measures over time on their utility bill—is already clearly set forth in Section 16-111.7 and Section 19-140 of the Act. The current success of the OBF Programs reflected in the ER demonstrates that this purpose is being fulfilled.

In addition, Ameren Illinois states that implementing this recommendation would create an unnecessary expense and is a poor use of time and resources. As Ameren Illinois notes, the OBF Program was established by the legislature to further utility energy conservation through the energy efficiency plans, so it is only logical that the OBF Program be driven by the performance goals and targeted marketing of those programs. Ameren Illinois further notes that the establishment of separate target markets and performance goals for the OBF Program may create an unnecessary risk of conflicts between a utility OBF Program and a Commission-approved Energy Efficiency Plan.

Ameren Illinois argues that Staff's recommended statutory amendment for additional program evaluation is not necessary and should be rejected. The recommendation from the ER is utility focused and is clearly written to allow the utilities to optimize the program and customer participation in the program. The recommendation is that the "utilities should consider offering a pilot program with a limited number of loans offered based on bill payment history." ER, 93. The ER does not include a projection for future third party evaluations of the recommended pilot program but instead includes a projection for future, utility-led, program optimization in using language such as, "[u]tilities may want to consider limiting the loan size for this pilot, since the underwriting is based on the borrowers [sic] ability to make relatively small payments each month."

Ameren Illinois contends that the utilities are fully capable, using their operational expertise, of executing the ER's recommended consideration of offering limited pilot programs, should the Commission adopt it, without Staff's recommended statutory amendments. In fact, at this time, Ameren Illinois has initiated a pilot program - the Income Qualified Home Efficiency Program which targets both moderate and low income customers and provides for an alternative to credit score underwriting criteria and instead uses the bill payment history underwriting process. Ameren Illinois has begun to use information and insight gained from this pilot program to make process improvements to the OBF Program and vice versa.

No statutory amendment was required for Ameren Illinois to offer the pilot program and no third party evaluation has been nor will be necessary for Ameren Illinois to analyze the impact of the modified qualification criteria used in the pilot program to monitor repayment for different customer types or to begin to test whether bill pay history is an acceptable risk metric for default. Allowing utilities to consider offering such pilot

programs using a utility-led approach as anticipated by the ER is a reasonable approach to be adopted by the Commission. To require a new, third party evaluation mechanism by way of amendments to the OBF sections of the Illinois statutes could very well result in added inefficiencies and unnecessary costs for utility ratepayers. This recommendation is not necessary to effectuate the ER recommendation for utility offered OBF pilot programs. The Commission should not adopt Staff's recommendation regarding amending the OBF sections of the Illinois statutes to include opportunities for further evaluation.

Ameren Illinois notes that Staff requests that the Utilities and other interested parties, provide feedback on the feasibility of the cost recovery mechanism presented in Staff's comments, or suggest other appropriate mechanisms to recover costs for additional evaluations of OBF programs. Ameren Illinois argues that should the Commission decide to recommend an amendment to the OBF statute to provide for additional, future evaluations there is no need for any further amendment related to cost recovery. Currently, the Act expressly provides that the utilities may recover all prudently incurred costs associated with the OBF programs. See 220 ILCS 5/16-111.7(f); 220 ILCS 5/19-140(f). More specifically, under both Sections 16-111.7(f) and 19-140(f), Ameren Illinois shall be entitled to recover "all of the prudently incurred costs" of offering the Commission approved OBF program, including, but not limited to, "the costs for program evaluation." 220 ILCS 5/16-111.7(f); 220 ILCS 5/19-140(f). The Act already provides for electric and gas utilities to recover full costs associated with the cost of program evaluation. Therefore, in response to Staff's request, Ameren Illinois urges that the Commission need not address recovery of the costs associated with any future OBF evaluations.

2. Staff Position

Staff supports the overall recommendation of the ER to continue the programs with modifications.

Staff believes that potential program modifications fall into two broadly defined categories. There are modifications that may require legislative changes and there are modifications that can be enacted by an individual utility on its own initiative either with or without the approval of the Commission. Acting under the assumption that the Commission will recommend that the OBF programs should be continued with modification, Staff believes the Commission's Report to the Governor and General Assembly should focus on modifications that require legislative interventions.

Several intervenors concurred with the ER recommendation to conduct a pilot to study the effect of less stringent loan eligibility requirements. Staff contends that at present, there does not seem to be a mechanism for utilities to recover the costs of evaluating any such pilot or any explicit language within the gas or electric OBF statutes to allow the Commission the discretion to approve further evaluations. Staff recommends that the Commission Report recommend more discretion for the Commission to modify programs, to authorize further evaluations, and to act on the results of further program evaluations.

3. Commission Analysis and Conclusion

The Commission agrees that electric and gas utilities are entitled to recover full costs associated with the cost of program evaluation under Sections 5/16-111.7(f) and 5/19-140(f) of the Act. The Commission finds that the language of these Sections of the Act encompasses the reasonable and prudently incurred expenses for pilot programs. The Commission also concurs with the suggestion that the Commission's report should recommend that it be granted the discretion to modify programs and to authorize and act on further program evaluations.

In regard to the ER recommendations concerning program design, the Commission notes that the OBF Program was established to further utility energy conservation through energy efficiency plans. The Commission finds that the establishment of separate target markets and performance goals for the OBF Program, recommended by the ER, may create conflicts between a utility OBF Program and a Commission-approved Energy Efficiency Plan. The Commission therefore rejects this recommendation from the ER. However, the Commission will request in its report to the Governor and the Legislature that the Commission be empowered to require periodic reports and analysis by Utilities of relevant information on the nature and extent of their OBF programs as well as information about defaults and service disconnections arising from customer participation. Further, the Commission will recommend in its report that it retain the authority to initiate regulatory proceedings regarding OBF programs or activities.

B. Modified Customer Eligibility Criteria: Minimum Credit Score and Bill Payment History

1. Utility Position

The ER suggests that it may be possible to reduce the denial rate for the OBF Program by lowering the minimum credit score required for participation. The Utilities are in agreement that the Commission should decline to lower the credit score threshold for participation in the OBF Program. Nicor Gas, Peoples Gas, North Shore Gas, and ComEd note that reducing the minimum credit score imposes a risk of greater defaults, which would be passed on to other customers through their respective uncollectible riders. Nicor Gas also notes that reducing the minimum credit score could increase the risk that customers have vital utility services disconnected because of an inability to pay a bill that includes payments toward an OBF charge. Ameren Illinois emphasizes that there is no factual support or meaningful analysis to validate a reduction in the credit score threshold.

If the Commission were to consider lowering the credit score threshold, ComEd urges it to gather further information and data regarding the impacts of any reductions to the current threshold and carefully weigh the corresponding benefits and risks of such a change. Similarly, Nicor Gas notes that the ER only reflects the number of loans in default as of May 2014. The Utilities have had almost 2 years more experience with the OBF

Programs that should be taken into account before making any modifications to the eligibility criteria.

The ER also suggests that bill payment history might be considered as an alternative criterion for determining OBF eligibility. Certain Utilities note concerns about the reliability and feasibility of using bill payment history rather than a minimum credit score to determine eligibility for participation. Similar to reducing the credit score threshold, Nicor Gas, North Shore Gas and Peoples Gas note that abandoning the use of the credit score threshold may impose greater risks on customers due to the possibility of increased defaults. Nicor Gas further notes that reliance on bill payment history alone is not possible in instances of new customer applications, which will default to a credit score in order to gauge credit and repayment history.

ComEd notes that the ER does not provide any evidence to support the premise that bill payment history is an accurate predictor of default behavior in OBF Programs. ComEd states that it is unclear how bill payment history can serve as a reliable predictor of whether a customer will be able to pay an additional monthly charge and avoid utility disconnection. ComEd points out that also missing from the ER is any analysis of what would constitute an acceptable bill payment history, or the implementation and operating processes and related costs that would accompany the use of bill payment history.

If the Commission were to determine to use a pilot program to further explore the use of bill payment history as an alternative eligibility criteria for the OBF Programs, that exploration should be allowed to take place in stages depending upon each utility's operations. As ComEd suggests, it might first be appropriate to conduct an information technology study to understand the feasibility and costs of implementing such a pilot program. Nicor Gas and Peoples/North Shore urge that an appropriately tailored pilot program would be the prudent starting place if the Commission determined to gather more data regarding the feasibility of OBF loans based on bill payment history. Ameren Illinois notes that it has initiated a pilot program, the Income Qualified Home Efficiency Program, that uses the bill payment history underwriting process. In developing any pilot program, Peoples/North Shore suggest that each utility's unique service territory should be assessed, and parameters would need to be established, such as particular eligibility criteria, sample size, and timeframe. ComEd similarly notes that the Commission should establish a clear definition of bill payment history, including billing and data criteria, to minimize defaults.

Peoples and North Shore have concerns about both approaches. Lowering the minimum credit score by 20 to 40 points would, based on previous denial rate history, lower the rejection rate for OBF loans applicants to 42-45%, all other things equal. The Cadmus Group indicated that using bill payment history, instead of credit scoring as a means of screening applicants for OBF loans, would lower the rejection rate for OBF loans to 38%.

Peoples/North Shore point out that no corresponding changes to default rates were assessed. A reasonable assumption is that, all other things equal, if there was an easing

in credit criteria for successful applicants, there would be a rise in default rates with a corresponding increase in charge-off and bad debt borne by each utility's other customers. If the Commission chose to pursue either reducing the credit scores for purpose of screening OBF loan applications or using bill payment history as a means of screening OBF loan applicants, it would be prudent to start with a pilot program, as suggested by the Cadmus Group, to assess what effect reducing credit scores for OBF loan eligibility or using bill payment history as a screening criteria for OBF loan eligibility would have.

Ameren Illinois notes that the ER reached the conclusion that Customer eligibility criteria currently exclude about 50% of applicants and that these criteria could be altered to make more participants that are likely to be more in need of OBF eligible for the OBF program. The report goes on to recommend that the utilities should investigate repayment rates under a bill payment underwriting system.

At this time, Ameren Illinois has initiated such a pilot program, the Income Qualified Home Efficiency Program which targets both moderate and low income customers and provides for an alternative to credit score underwriting criteria and instead uses the bill payment history underwriting process. Therefore, Ameren Illinois has no objection to this recommendation.

2. CUB Position

The Cadmus Group found in its evaluation of the OBF program that the denial rate of program applicants was just under 50%. CUB argues the credit check threshold has been set too high. The Commission and utilities should make the eligibility standards less restrictive in order to lower the denial rate and help frustrated consumers access the program.

CUB notes that (as of May 2014) the program had very low default rates, under 0.16%. From an ease of implementation perspective, lowering the credit score threshold is preferable to instituting a bill payment history analysis for loan approval. The current threshold is a credit score of 640. The ER notes that reducing the credit score by "20 or even 40 points" would put Illinois OBF "within range of other energy efficiency financing programs across the country and such a change "could decrease the denial rate by up to nine percentage points." CUB thinks the parameters should be expanded even further, urging the Commission to reduce the credit score threshold from 60 to even 80 points below where it is today.

Although CUB has supported bill payment history as a proxy in the past, the least cost avenue of decreasing denial rates seems to be simply lowering credit score threshold. CUB contends that OBF loans are more likely to be paid back because the charges appear on a bill people need to pay in order to maintain access to an essential service. For this reason, CUB is comfortable recommending a 60 to 80 point reduction in the minimum allowable credit score to participate in OBF.

3. AG Position

The AG is concerned about transitioning to a bill payment history approach. Sections 16-111.7 and 19-140 of the Act specifically provide that “the electric utility shall retain a security interest in the measure or measures purchased under the program, and the utility retains its right to disconnect a participant that defaults on the payment of its utility bill.” 220 ILCS 5/16-111.7(c)(6); 5/19-140(c)(6).

The AG maintains that increasing participation could escalate the risk that participating customers have vital utility services disconnected because they are unable to pay utility bills that include payments for OBF-funded energy efficiency measures. Burdening customers, with a large additional payment each month could overwhelm the borrower. Altering eligibility requirements could affect a residential or small business customer’s ability to obtain essential utility service in the future. The AG asserts that any pilot program that alters eligibility requirements should be designed such that utility service disconnections are monitored and minimized.

4. Elevate Energy Position

Elevate Energy requests implementation of a utility bill payment history underwriting methodology as an alternative to the current minimum credit score for determining single family applicants’ eligibility to participate in the on-bill financing program. In support of its position, Elevate points to the ER, which states that utility bill payment history could lower denial by 12 percentage points, to a rate of 38 percent.

Elevate opines that an applicant’s track record of timely utility bill payments is a stronger predictor of their likelihood to repay the OBF loan than their credit score. It further argues that repayment of an OBF loan, because it is made by paying one’s utility bill, is distinct from making a separate payment to an entity like a credit card company; and that because utilities are an essential service those bills are a top priority for resource allocation, even when resources are scarce. According to Elevate, the bill payment methodology will result in expanded access of the program to customers whose low credit scores may exclude them not only from OBF, but from accessing other types of funding as well.

Elevate recites that the single family program had (as of May 2014) only experienced seven delinquencies totaling \$12,151, or 0.16 percent, of the total loan volume. This is a strong indicator that customers take their financial obligation seriously.

Consequently, Elevate supports the Cadmus Group’s recommendation that utilities track bill payment history of current OBF participants and implement a pilot program offering loans based on bill payment history. Elevate recommends that if a customer is not approved for financing as a result of a credit check, the lender should examine the customer’s utility bill payment history and determine whether to approve or deny the loan based on the additional information.

5. Commission Analysis and Conclusion

The Commission declines to take action to lower the credit score threshold for participation in the OBF Program at this time. As several of the Utilities have noted, reducing the minimum credit score imposes a risk of greater defaults, which would be passed on to other customers through their respective uncollectible riders. Moreover, reducing the minimum credit score could increase the risk that customers have vital utility services disconnected because of an inability to pay a bill that includes payments toward an OBF charge. Before lowering the credit score threshold the Commission would need data allowing it to evaluate the benefits and risks of such a change. The ER only reflects the number of loans in default as of May 2014. OBF Programs have had nearly two more years of experience that should be taken into account before making any modifications to the eligibility criteria.

Similarly, the Commission agrees with the Utilities and the AG that the ER does not provide any evidence to support the assertion that bill payment history is an accurate predictor of default behavior in OBF Programs. Moreover, missing from the ER is any analysis of what would constitute an acceptable bill payment history, or the implementation and operating processes and related costs that would accompany the use of bill payment history. The Commission declines to recommend in its report that bill payment history be used as an eligibility criterion in the absence of data demonstrating its efficacy. The Commission will be interested to learn of Ameren Illinois' experience in connection with its bill payment underwriting pilot program. The Commission is aware that the conclusions to be drawn from a single pilot program may not have statewide applicability because each Utility's service area is unique.

C. Rebidding the Loan Program

1. CUB Position

One of the unique benefits of an OBF program is the low interest rate. This means consumers that need to borrow money to make their homes more efficient do so at an interest rate that is not usurious. At the time of the ER, the interest rate for loans for owners in single family homes was 4.99%, the interest rate has subsequently been raised to 5.74%. This is a concerning development. The interest rate should be even lower than 4.99% and certainly lower than 5.74% because there is absolutely zero risk to the lender because of the way the OBF is structured. The Commission should contemplate rebidding the finance pool to another lender, as the increase in the interest rate is unacceptable for the single family program. At the very least, the Commission should place the interest rate issue on its radar as one to monitor. The multifamily interest rate has also risen, but CUB understands that this was at least partly done to compensate Community Investment Corporation ("CIC") for work they will be performing as part of the multifamily lending team. CIC's work is critical to the multifamily component of OBF and CUB does not take issue with the multifamily OBF interest rate rising slightly.

2. ComEd Position

ComEd notes that the Report states the interest rate is at the median rate for a selection of energy efficiency financing programs nationwide. ER at 41. ComEd understands CUB's goal is to offer the lowest interest rate to customers for the OBF program. ComEd does not object to pursuing a lower interest rate. ComEd notes that switching financial institutions (i.e., other than the current lender AFC First) is a time consuming and complicated endeavor. Accordingly, ComEd proposes that the current lender, AFC First, solicit funding sources based on the best terms available, including the interest rate.

3. Staff Position

Staff notes that the statutes expressly state that the loans are to be bid at the initiation of programs. 220 ILCS 5/19-140(c)(2); 220 ILCS 5/16-111.7(c)(2). There does not appear to be an explicit mechanism to rebid the programs at a later date. CUB's concern and remedy should be included in the Commission Report as an example to support a recommendation for greater Commission discretion in overseeing OBF programs.

4. Commission Analysis and Conclusion

The Commission finds that the interest rate charged consumers is a critical component of the OBF program that should be monitored. The Commission will include in its report a recommendation that it be granted the ability to monitor the interest rate and financing components of the OBF program.

D. Program Process for Multifamily Customers

1. Utility Position

Nicor Gas states that it is not clear that suggested improvements to program processes and increased outreach for multifamily customers will be worth the additional costs to customers. In light of the demonstrated success of the OBF Programs, as evidenced by Nicor Gas' increase in multifamily OBF participants since the Cadmus Group conducted the evaluation, any additional efforts to improve or refine the program process for multifamily OBF loans are not necessary. If any additional efforts were to be required, such as targeted mailings or outreach, Nicor Gas and ComEd submit that all additional costs associated with such efforts should be included in cost-effectiveness calculations for the OBF Programs.

2. Elevate Energy

The parameters for multifamily OBF loans were developed in 2014. Elevate understands the multifamily loan product and underwriting process for on-bill financing to be consistent with the typical approach to multifamily lending. Elevate states that, in its experience, there is strong interest among multifamily customers to utilize OBF, but it suggests that the coordination and outreach process requires additional refinement to

allow those customers to do so successfully. Elevate supports Cadmus Group's recommendations for:

- One-on-one support for potential customers attempting to navigate the application process;
- Staged distribution of funds to ease cash-flow burdens for contractors (under CIC's normal multifamily loan procedures with the multifamily OBF program, CIC already stages its distribution of funds); and
- Utilities and implementers to work together to improve the program process and provide additional support. (Elevate Initial Comments at 4).

Elevate notes that the Cadmus Group determined that "not all of the utilities are offering financing for all of the measures for which they provide rebates" was a potential difficulty related to eligible measures. Elevate agrees with the Cadmus Group that the expansion of eligible measures is important, and that more eligible measures better serve the customers and help the program increase utility savings.

3. CUB Position

The multifamily portion of the utility OBF programs is one CUB would like to see grow and flourish. The "on bill" repayment mechanism is a tool that could be very useful to multifamily buildings. However, OBF single family lending and multifamily lending are two different arenas entirely. The underwriting of a multifamily loan looks at building occupancy rates and cash flows, where as a single family loan does not involve much more than a credit check and determining whether the applicant is in fact the owner.

CUB endorses recommendations for the multifamily programs including targeted mailings, one-on-one support, and the staged distribution of funds. CUB opines that the recommendations are all going to be critical components of making the multifamily portion of Illinois OBF programs successful.

4. Commission Analysis and Conclusion

The Commission agrees that for any additional efforts to recruit multifamily participants the additional costs associated with such efforts such as targeted mailings or outreach should be included in cost-effectiveness calculations for the OBF Programs. The Commission finds that utilities are in the best position to determine the nature and extent to which multifamily programs are appropriate for their service territories. The Commission will include a recommendation in its report that it be given the power to review and modify such programs.

E. Program Implementation: Review of Early Repayment Option

1. Utility Position

Certain Utilities question the feasibility of implementing an incremental early payoff option for the OBF Programs. ComEd notes that utility billing systems are not the same as those used by financial institutions. ComEd also identifies that transactions associated with early payoffs could not be auto-maintained because a customer-utility interaction will always be needed to determine whether additional funds paid by the customer are intended to be paid toward utility services or toward the OBF loan. Nicor Gas agrees that feasibility must first be considered as even minimal changes to billing systems that would be required to accommodate an early repayment option would result in increased costs to be borne by customers, and these costs would increase commensurately with the increase in the number and complexity of required changes.

Ameren Illinois does not take issue with a comprehensive review of the investment needed to make an early payoff process possible. However, should this review lead to a determination that such offering is not justified by the cost of implementing it, Ameren Illinois urges the Commission to decline to incorporate this feature into the OBF Program. No other intervenors have commented on an early payoff process.

2. Commission Analysis and Conclusion

The Commission lacks sufficient data at this point to determine whether an early payment option is feasible. As noted by the Utilities, even minimal changes to billing systems that would be required to accommodate an early repayment option would result in increased costs to be borne by customers. These costs would increase commensurately with the increase in the number and complexity of required changes. The Commission will not recommend in its report that early payment options be included in OBF programs.

F. Cost-Effectiveness

1. Utility Position

ComEd, Ameren Illinois and Nicor Gas state that there is no need for the Commission's report to the Governor and General Assembly to adopt a particular methodology for determining the cost-effectiveness of the OBF Program. As an initial matter, ComEd and Nicor Gas point out that no other program evaluations or reports are required. Ameren Illinois and Nicor Gas note that neither the Utility Cost Test ("UCT") nor the Total Resource Cost ("TRC") test, both of which are discussed in the ER, is an appropriate measure of the cost-effectiveness of the OBF Program because the program is provided as a service to customers and not as a benefit to the utility. The UCT only considers the impact on the utility and, while the TRC test considers customer impact, it largely considers avoided costs for the utility. Additionally, Nicor Gas notes that application of either test could present an inaccurate depiction of the OBF Program's benefit to the customer because OBF is not a program by itself and is not a part of each

utility's portfolio. Ameren Illinois further points to the Commission's agreement in Docket No. 11-0689 that the OBF Program is not required to meet the statutorily-defined TRC test.

2. Staff Position

The ER recommends the incremental UCT be used to determine cost-effectiveness of OBF programs. Currently, the TRC Test is utilized to determine the cost-effectiveness of energy efficiency programs under Sections 8-103 and 8-104 of the Act. Staff recommends that the Commission Report provide the Governor and General Assembly with the results of both tests, along with descriptions of what is included in each test.

The UCT may be a better metric as it measures the cost to the utility to administer the program, including loan default costs, in comparison to the benefits that derive to the utility through reduced energy procurement costs. The TRC test, however, measures the benefits of energy savings to both the utility and the loan recipient and compares those benefits to the costs borne by both the loan recipient and the utility. In other words, the UCT excludes the incremental costs borne by the loan recipient to acquire an EE measure, but includes the incremental benefits. The TRC considers the incremental loan and measure costs borne by the loan recipient and compares those costs to the value of the energy savings received by the loan recipient. It should be noted that the TRC does not include all costs as the price of any loan defaults (which are included in the UCT) would be considered a transfer that does not affect the overall price of a measure.

Staff believes the Governor and General Assembly should be provided the opportunity to consider the cost-effectiveness implications of both tests and recommends inclusion of both results in the Commission Report. So long as the differences between these tests are provided to the Governor and General Assembly, their respective offices are provided all relevant information to make informed decisions.

3. Elevate Energy Position

Elevate suggests that it would support the adoption of an incremental cost test insomuch that applying a consistent methodology for determining cost effectiveness will assist the utilities in making educated decisions on what additional measures might be eligible under the program. Elevate argues that the goal should be to make the program as comprehensive as possible, by including as many measures as are feasible.

4. CUB Position

The measures financed in OBF are already cost effective because the measures come from and are part of Commission approved Energy Efficiency Portfolio Standard ("EEPS") Plans. There is no additional test required by the PUA for OBF programs. As ComEd noted, "[N]o other program evaluation and/or reports are required. Therefore, the Commission should not recommend the adoption of an incremental cost effectiveness test." ComEd Init. Comments at 2, Recommendation 6.

CUB agrees with ComEd that there is nothing in the statute which requires the Commission to include in the report findings on cost effectiveness under a UCT test. The General Assembly – the body now asking for information on the OBF program – did not ask for such information. The point of the OBF program is to allow those consumers who may not be able to afford energy efficiency measures outright- a means for doing so. If one steps back and looks at the big picture around cost effectiveness tests for financing programs, the question that springs to mind is, why would a consumer finance something they could afford to pay for outright? The financing costs included in a UCT test may well mean the OBF program fails a cost-effectiveness test. It ignores, however, the point of OBF programs to begin with and the logic behind why no cost effectiveness showing is required in the statute. The fact that the measures included for financing in the program are already cost effective should give the Commission assurance that the OBF program is functioning as it was intended. CUB recommends the Commission reject the Cadmus Group’s proposal for inclusion of the UCT Test.

5. Commission Analysis and Conclusion

The Commission finds that there is value in both of these tests and will recommend in its report that the Governor and General Assembly should be provided the opportunity to consider the cost-effectiveness implications of each of these tools of analysis.

G. Tied-to-Meter Loans

1. Utility Position

The Act expressly prohibits tied-to-the-meter loans in connection with the OBF Program: “Upon transfer of the property title for the premises at which the participant receives gas service from the utility or the participant's request to terminate service at such premises, the participant shall pay in full its gas utility bill, including all amounts due under the program[.]” 220 ILCS 5/16-111.7(c)(5); 220 ILCS 5/19-140(c)(5). As further provided for by the Act, the ER reviewed whether the OBF Program should be modified to allow the OBF loan to attach to the meter location. 220 ILCS 5/16-111.7(g); 220 ILCS 5/19-140(g). The ER concluded that tied-to-the-meter loans offer little benefit and the potential for delay, expense, and confusion and recommended that the OBF Program not be changed in this regard. Ameren Illinois, ComEd, and Nicor Gas agree that the Commission should refrain from modifying the OBF Program to allow for tied-to-the-meter loans. Additionally, Ameren Illinois and ComEd express concerns that there is no legal basis to allow for the shifting of financial burdens or obligations from a landlord to a tenant, a tenant to a landlord, or a tenant to another subsequent tenant.

2. CUB Position

CUB has always supported this concept and continues to believe that the tying of the loan to the meter could unlock the multifamily rental market to energy efficiency. Tenants have little to no incentive to improve their living space or building since they are renters; OBF which tied to the meter could change all that. Upgrades would stay with the

meter, and subsequent tenants would be responsible for the payments and enjoy the savings. The South Carolina Electric Cooperatives run a very successful OBF program called "Help My House" which ties the loan to the meter. CUB argues that the concept, while different, does exist and is being used by other OBF programs in the country.

3. Commission Analysis and Conclusion

The Commission agrees with the Utilities that that tied-to-the-meter loans offer the potential for delay, expense, and confusion. The Commission also agrees with Ameren Illinois and ComEd that there is no legal basis to allow for the shifting of financial burdens or obligations to customers who did not incur the OBF obligation. The Commission will not recommend tied-to-the-meter loans in its report.

H. Future Evaluations

1. Utility Position

Ameren Illinois and Nicor Gas disagree with Staff's recommendation to suggest a legislative amendment to allow for future evaluations of the OBF Programs. As Staff recognizes, the Act only references a single evaluation of the OBF Programs, which is the subject of the ER and this proceeding. 220 ILCS 5/16-111.7(g); 220 ILCS 5/19-140(g). Ameren Illinois notes that additional program evaluation is not necessary and the addition of a new third-party evaluation mechanism by way of statutory amendment could very well result in added inefficiencies and unnecessary costs for customers. Ameren Illinois points out that the more reasonable approach is to allow the Utilities to consider offering pilot programs using a utility-led approach that relies upon their operational expertise.

In response to Staff's request for feedback regarding the cost recovery associated with additional evaluations should the Commission decide to recommend them, Ameren Illinois and Nicor Gas state that there is no need for any statutory amendment related to cost recovery. The Act expressly provides that the Utilities may recover all prudently incurred costs associated with the OBF Programs, including, but not limited to, the costs for program evaluation. 220 ILCS 5/16-111.7(f); 220 ILCS 5/19-140(f). Thus, the Act already provides for full cost recovery associated with the cost of evaluating the OBF Program.

2. Staff Position

Staff contends that there does not appear to be authorization to conduct or pay for future evaluations, which would be essential to examine a pilot program.

The only reference to evaluations is to perform one evaluation that begins three years after the OBF programs begin and to have that evaluation submitted to the Commission within four years of program initiation. The ER being discussed in this docket complies with those subsections of the gas and electric OBF laws.

Staff believes there are additional reasons for evaluation beyond the determination of whether alternative loan eligibility criteria will increase participation without detrimental increases in default rates. There have been substantial legislative changes to the OBF statutes since the programs' inception, including the significant expansion of eligible measures and the inclusion of multifamily residences. In addition to the legislative changes, all utilities except Peoples and North Shore have petitioned and received approval from the Commission to expand their loan limits beyond the statutory minimums. (See generally, *Ameren Illinois Co.*, ICC Final Order Docket No. 14-0453 (Oct. 7, 2014); *Northern Illinois Gas Co.*, ICC Final Order Docket No. 14-0687 (Jan. 28, 2015); *Commonwealth Edison Co.*, ICC Final Order Docket No. 15-0368 (Aug. 25, 2015).)

During the period that the ER was conducted, most loans were only a few months into repayment. As a result, the ER does not provide much information regarding defaults over entire loan lifetimes. It may be the case that defaults will increase substantially as loans mature. At present, there is no mechanism to evaluate loan life default rates.

Additionally, program expansions increased OBF program participation late into the evaluation period and after the evaluation period ended. The ER does not provide any information as to the impact of such expansions on default rates or on program effectiveness in general.

Finally, because the ER was conducted at the onset of OBF implementation, OBF program administrators were, at the time of the evaluation, relatively inexperienced with program implementation. As exemplified by program expansions, program administrators are likely to modify or otherwise adjust their programs over time.

For these reasons, Staff recommends that the Commission propose amending the OBF sections of the Illinois statutes to include opportunities for further evaluation either at defined intervals or on Commission approval of motions of interested parties. For example, the Commission may recommend that every five years, the utilities may collect funds through their energy efficiency riders not to exceed 1% of Commission-authorized OBF limits, for the limited purpose of evaluating OBF programs.

3. CUB Position

Staff recommends that the Commission report include a suggestion for a legislative amendment to allow for periodic follow-up evaluations of the OBF program. While it may be true that the PUA only mandated one evaluation, there is no bar to the Commission ordering additional evaluations if necessary on its own authority to ensure the OBF program is continuing to provide customers a means to purchase cost-effective energy efficiency measures. 220 ILCS 5/16-111.7(a). CUB believes the Commission could conduct such an evaluation using data available to the utilities and the financial institution: number and amount of loans, repayment history, default rates, etc. Such an evaluation need not be statutorily mandated but could be addressed by the Commission at such time as it sees fit.

4. Commission Analysis and Conclusion

The Commission finds that the ER issued by the Cadmus Group satisfies the requirements of Section 16-111.7 and Section 19-140 of the Act for an independent evaluation of the OBF Program.

Some of the modifications to the OBF Program proposed by Staff and intervenors appear to have the potential to promote energy efficiency and may have benefits for utility customers. Accordingly, as provided for in the Act, the Commission directs Staff to prepare a report to the Governor and the General Assembly recommending continuation of the OBF Program with the modifications noted above.

The Commission agrees with Staff that the OBF sections of the Illinois statutes should be amended to include opportunities for further evaluation on Commission approval of motions of interested parties. The Commission will recommend in its report that the utilities be authorized to collect funds through their energy efficiency riders not to exceed 1% of Commission-authorized OBF limits, for the limited purpose of evaluating OBF programs.

VI. Findings and Ordering Paragraphs

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

- (1) Commonwealth Edison Company, The Peoples Gas Light and Coke Company, North Shore Gas Company, Ameren Illinois Company d/b/a Ameren Illinois, and Northern Illinois Gas Company d/b/a Nicor Gas Company are public utilities within the meaning of Section 3-105 of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties hereto and the subject matter of this proceeding;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by the evidence in the record and are hereby adopted as findings of fact;
- (4) the Illinois On-Bill Financing Program required by Section 16-111.7 and Section 19-140 of the Public Utilities Act should be continued; and
- (5) Staff of the Commission should prepare a report consistent with the findings herein to submit to the Governor and General Assembly as directed by Section 16-111.7 and Section 19-140 of the Public Utilities Act.

IT IS THEREFORE ORDERED that Staff of the Illinois Commerce Commission shall prepare a report consistent with the findings in this Order to submit to the Governor

and General Assembly as directed by Section 16-111.7 and Section 19-140 of the Public Utilities Act.

IT IS FURTHER ORDERED that all motions, petitions, objections, and other matters in this proceeding that remain unresolved are disposed of consistent with the conclusions herein.

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

By Order of the Commission this 1st day of June, 2016.

(SIGNED) BRIEN SHEAHAN

Chairman