

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
: :
Proceeding to adopt a : **97-0122**
comprehensive electric energy :
plan for the State of Illinois. :

ORDER

By the Commission:

**I. PROCEDURAL HISTORY; PURPOSE OF PROCEEDING; SCOPE AND
FORMAT OF STATEWIDE PLAN**

A. Procedural History

On February 14, 1997 the Illinois Department of Natural Resources ("DNR" or "Department") filed a three volume document entitled the Illinois Statewide Electric Utility Plan. On March 12, 1997 the Commission entered an Order Initiating Proceeding to consider the plan submitted by DNR, and to consider evidence offered by other interested parties with respect to adoption of a statewide least cost energy plan for the electric utilities ("Statewide Plan" or "Plan"). As authority for the proceeding, the Commission cited Section 8-402 of the Public Utilities Act ("Act") and Section 440.210 of the Least-Cost Planning Rule, 83 Ill. Adm. Code Part 440 ("Rule" or "Part 440").

Pursuant to Section 8-402, parties to the proceeding include DNR, the Illinois Commerce Commission Staff ("Staff"), and each public utility subject to the provisions of Section 8-402. Petitions to Intervene were filed by the State's Attorney for Cook County, on behalf of the People of Cook County, Illinois ("Cook County"); Peoples Gas, Light, and Coke Company ("Peoples") and North Shore Gas Companies ("North Shore"); the Illinois Attorney General on behalf of the People of the State of Illinois; and members of the Illinois Industrial Energy Consumers ("IIEC"), consisting of the following named industries: Northwestern Steel & Wire Company, Granite City Steel Division of National Steel Company and Abbott Laboratories, Inc. An appearance was filed by the City of Chicago ("City"). All petitions for leave to intervene were granted.

Mt. Carmel Public Utility Co. ("Mt. Carmel") filed a motion requesting that Administrative Notice be taken of the Commission's Order entered April 5, 1989 in Docket No. 89-0013. That request to take administrative notice is granted.

Pursuant to due notice, prehearing conferences, status hearings or evidentiary hearings were held on various dates at the Commission's offices in Springfield, Illinois before a duly authorized Hearing Examiner. In addition, workshops were held on certain dates. At one or more hearings, appearances were entered by respective counsel for DNR, the Staff, Commonwealth Edison Company ("ComEd"), Central Illinois Public Service Company ("CIPS"), Central Illinois Light Company ("CILCO"), Union Electric Company ("UE"), MidAmerican Energy Company ("MidAmerican"), Illinois Power Company ("IP" or "Illinois Power"), Mt Carmel, Peoples, North Shore, the Illinois Attorney General, Cook County and the City of Chicago.

At the hearing on July 21, 1997, Joint Exhibit No. 1, which sets forth the Stipulations of all parties who appeared at that hearing (hereinafter "Stipulations"), including a suggested order, was entered into the record. No party objected to the Stipulations contained in Joint Exhibit 1, and no other issues were raised. The determinations made in the instant Order are consistent with the Stipulations, and are also supported by the evidentiary record in this proceeding. At the conclusion of the hearings, the record was marked "Heard and Taken."

B. Overview; Purpose of Proceeding

This matter is before the Commission pursuant to Section 8-402 of the Public Utilities Act. Section 8-402 states, in part, that:

The objective of the Section shall be to ensure the provision of adequate, efficient, reliable and environmentally safe energy services at the lowest possible cost to all Illinois energy consumers and users, and, in doing so, to utilize, to the fullest extent practicable, all economical means of conservation, nonconventional technologies relying on renewable energy resources, cogeneration and improvements in energy efficiency as the initial sources of new energy supply.

To meet this objective, the General Assembly established a bifurcated process initiated with DNR's preparation and recommendation of its Statewide Plan for the State of Illinois. The Statewide Plan establishes a general context for evaluation of the more particularized decisions of individual utilities as embodied in their subsequently filed utility plans. The relationship of the Statewide Plan to the individual utility plans is demonstrated by the statutory requirement that "[t]he plans adopted for each utility shall, to the fullest extent possible, be consistent with the Statewide Plan." (220 ILCS 5/8-402(f))

At issue in this proceeding, and the outcome of this Order, is Commission adoption of the fourth comprehensive electric utility plan, referred to herein as the "Statewide Plan." Individual utility plans will be the subject of future Commission proceedings.

As explained on page 3 of the Commission's Order of February 23, 1995, in Docket No. 94-0056, citing page 19 of the Commission's Order of March 31, 1992 in Docket 91-0050:

Section 8-402(b) of the Act states that "[t]he Department of Energy and Natural Resources shall be required to analyze, prepare and recommend a comprehensive utility energy plan for the State of Illinois consistent with the planning objectives and requirements described in this Section." It further requires that the Department "design and recommend programs as necessary to achieve the purposes of this Act and to implement the recommendations of its plan." This mandate is given further definition by the regulations governing the least-cost planning process, wherein the scope, nature, methodology and objective of the DNR Plan is detailed. See 83 Ill. Adm. Code Sections 440.300 and 440.400-.430.

As further explained on page 19 of the Order in 91-0050, the Commission is required to issue an order adopting a Statewide Plan at the conclusion of these hearings. In so doing, the Commission is to "select the plan, and components thereof, which will result in the greatest likelihood of providing adequate, efficient, reliable and environmentally safe energy services at the least-cost to consumers, and which utilizes, to the fullest extent practicable, all economical sources of conservation, renewable resources, cogeneration and improvements in energy efficiency as the primary sources of new energy supply." The Commission may modify DNR's Plan in accordance with the findings in its order. (Section 8-402(e) and (f) of the Act) The administrative Rule governing the least-cost planning process provides that "the purpose of the proceeding shall be to determine the adequacy and appropriateness of the Department's plan with respect to the requirements of the Act and the basis for adoption in Section 440.800, and to adopt a comprehensive electric energy plan for the State." (83 Ill. Adm. Code Section 440.210(a)) Section 440.800(b) requires that the Commission consider how the DNR Plan, as filed or as modified by the Commission, conforms with the following factors:

1. The plan identifies possible barriers to the delivery of energy services that are adequate, efficient, reliable, environmentally safe, and at the lowest cost to the consumers of individual utilities and to the state.
2. The plan identifies policies for ensuring the delivery of energy services that are adequate, efficient, reliable, environmentally safe, and at the lowest possible cost to the customers of individual utilities and to the state.
3. The plan has taken account of economical means of conservation, load management, nonconventional technologies relying on renewable resources, cogeneration, and improvements in energy efficiency as the initial sources of new supply.

4. The plan takes account of the effects of uncertainty on demand, supply, and potential policies.

C. Scope and Format of Plan to be Adopted: Policy Framework and Recommendations

As explained by the Commission on page 6 of its Order in Docket 89-0034, "A separate but nonetheless fundamental question is, whether in adopting a Statewide Plan, the Commission is necessarily adopting or modifying the three volumes comprising the DNR submission; or instead, a more concise statement of policies and programs which the detailed analysis is intended to support." The Commission added, "Clearly, resolution of this issue will significantly and fundamentally alter the scope of this inquiry." In the next paragraph, the Commission answered that question as follows:

While the Act does not define "plan," the Commission recognizes a distinction between the full-blown analysis performed and reported by DNR pursuant to Section 8-402(b) and the resulting policy and program recommendations which, as approved or modified by this Commission, form the actual Statewide Plan adopted pursuant to Section 8-402(f). This conclusion is based on the bifurcated nature of the least-cost planning process. Thus, for purposes of shaping a statewide plan, the primary portion of the DNR filing upon which the Commission should focus for determining the need for potential modification pursuant to Section 8-402(f) is the policy and recommendation component. Were we to construe the statute otherwise, we would render it virtually impossible for utilities to demonstrate, and for the Commission to conclude, that the utility plans are "to the fullest extent possible... consistent with the statewide plan." As to the considerable support documentation, discussions, literature reviews, modeling exercises, etc., contained in the DNR filing, the Commission's adjudicative function is to determine whether DNR has adequately fulfilled the requirements of 83 Ill. Adm. Code Sections 440.300 and 440.400-.430. (emphasis added)

In Dockets 89-0034, 91-0050 and 94-0066, the respective Comprehensive Electric Utility Energy Plans ("Plans") adopted by the Commission were attached as "Appendix A" to the Orders in those dockets. In each docket, the adopted Plan consisted of two parts. Part I is entitled "The Policy Framework." Part II consists of numbered "Recommendations."

II. POLICY FRAMEWORK

In the Plan adopted in Docket 89-0034, the Policy Framework was as follows:

1. The "Strategic Approach" and "Systems Perspective" identified in Chapter One and Section I of Chapter Three of Volume II of the DNR Plan.
2. The "Goals of the System" identified in Chapter Two of Volume II of the DNR Plan. In its next filing, the DNR shall consider alternative conceptual and methodological approaches for addressing the Goals of the System, specifically examining, although not limited to, issues concerning a) accounting for environmental impacts and costs, b) the reliability impacts of resource options, and c) measuring the impacts of utility plans from a variety of equity perspectives.
3. The identification of possible barriers to the delivery of energy services that are adequate, efficient, reliable, environmentally safe, and at the lowest cost to the customers of individual utilities and to the state, set forth on pages 9 and 10 of the initial testimony filed by Val R. Jensen.

In the Plan adopted in Docket 91-0050, Part I, "The Policy Framework," reads as follows:

1. The "Strategic Approach" and "Systems Perspective" identified and described in Chapter One, Part VI of Volume II of the Second Illinois Statewide Electric Utility Plan.
2. The "Goals of Least-Cost Planning" are those identified in Chapter Two of Volume II of the First Statewide Electric Utility Plan which were adopted by the Commission in its Order in Docket No. 89-0034, and are incorporated herein.

In the Plan adopted in Docket 94-0066, Part I, "The Policy Framework," reads as follows:

1. The "Strategic Approach" and "Systems Perspective" identified in and described in Chapter One and Section I of Chapter Three of Volume II of the First Illinois Statewide Electric Plan.
2. The "Goals of the System" identified in Chapter Two of Volume II of the First Illinois Statewide Electric Plan.

3. The identification of possible barriers to the delivery of energy services that are adequate, efficient, reliable, environmentally safe, and at the lowest cost to the customers of individual utilities and to the state. Forums which may be used in identifying possible barriers include, but are not limited to, the Regulatory Initiatives Task Force.

In the instant proceeding, the policy framework, as proposed in the Stipulations, consists of the following:

1. The “Strategic Approach” and “Systems Perspective” identified and described in Chapter One and Section I of Chapter Three of Volume II of the First Illinois Statewide Electric Utility Plan.
2. The “Goals of the System” identified in Chapter Two of Volume II of the First Illinois Statewide Electric Utility Plan. [The Goals are those set forth in Section 1-102 of the Public Utilities Act, “efficiency, reliability, environmental quality, and equity.”]
3. The identification of possible barriers to the delivery of energy services that are adequate, efficient, reliable, environmentally safe, and at the lowest cost to the customers of individual utilities and to the State.
4. The recognition that this plan exists in a period of great uncertainty in the electric utility industry. The range of potential outcomes of the restructuring debate in terms of scope, nature, timing and effect of change remains speculative. A review of the recommendations of this Plan should focus on promoting strategies that accommodate change at low cost.

Having reviewed the record, the Commission concludes that the Policy framework proposed by the parties in their Stipulations is appropriate, and should be approved, for purposes of comprising Part I, the Policy Framework, of the statewide plan to be adopted in this docket. The Commission finds that adoption of this framework is consistent with determinations made in the Orders in 89-0034, 91-0050 and 94-0066, and is supported by the record in this docket. As the parties have noted, paragraphs 1, 2 and 3 of the Policy Framework are essentially the same as those approved in Docket 94-0066, while paragraph 4 has been added in order to explicitly recognize that restructuring is a significant source of uncertainty which is difficult to predict.

III. NUMBERED RECOMMENDATIONS

A. Introduction

In Dockets 89-0034, 91-0050 and 94-0066, the Policy Framework was utilized to develop policy recommendations in the First, Second and Third Statewide Plans. In each of those proceedings, the process led to development of a comprehensive set of policy recommendations by the Department, all designed to address key barriers to delivery of least-cost resources. Issues raised by these recommendations were extensively debated in workshops and in hearings before the Commission, leading to the Commission's adoption of final policy recommendations applicable to the utility plans subsequently developed.

In the Plans approved in 89-0034, 91-0050 and 94-0066, Part II, entitled "Recommendations," consisted of numbered recommendations adopted by the Commission. In Docket 89-0034, the recommendations were identified as Recommendations I through XIII. In Docket 91-0050, these recommendations were identified as Recommendations One, Two, Five, Six, Seven, Eight, Nine, Ten(a), Ten (b), and Eleven through Twenty-Three. In Docket 94-0066, these recommendations were identified as One, Two, Three, Five, Six, Seven and Nine.

In the present proceeding, as with prior proceedings in 89-0034, 91-0050 and 94-0066, the Commission reviews the Department's proposed recommendations to determine whether to adopt, modify, or reject each recommendation in turn. In its Plan proposed in 97-0122, DNR evaluated each of the policy recommendations adopted in 94-0066 giving appropriate weight to each of the policy considerations. Based on that evaluation, DNR proposed re-adoption of Recommendations One, Two, Three, Six and Nine from the Statewide Plan adopted in Docket No. 94-0066. DNR concluded that Recommendations Five and Seven were no longer necessary and should not be readopted. DNR's proposals are supported by the testimony of DNR witnesses.

In this proceeding, it was noted that parties other than DNR did not necessarily agree with DNR's rationales for readopting certain recommendations approved in 94-0066. For purposes of resolving the issues, and avoiding unnecessary and time consuming litigation, the parties to the Stipulations agreed to the adoption of DNR's proposals.

B. Recommendation One

Recommendation One, as stated in the final Order adopted by the Commission in the Third Statewide Electric Plan, and as proposed in the instant docket, is as follows:

- (a) Screening Analysis. At the screening stage, DSM resource cost-effectiveness is to be determined by use of the societal perspective. At the screening stage, it is appropriate for a utility to exercise judgment in order to give further examination to DSM resources which may not pass the screening criteria. The PVRR test, also considered

the utility perspective, may be used in screening for the purpose of eliminating from further consideration any DSM resource that would not likely be chosen in an integration analysis. For this purpose, a DSM resource with a utility cost test benefit cost ratio less than 0.8 would be required to eliminate the resource from further consideration.

- (b) Integration Analysis. At integration all options, both demand-side and supply-side, should be analyzed using a utility cost test or PVRR test, and a utility cost test plus an accounting for environmental externalities.
- (c) Exercise of Judgement. Although each utility is required to determine cost-effectiveness from the perspective described above, it is appropriate for the utility to use judgement at the screening, integration, and plan levels in order to balance the statutory goals of least-cost planning as set forth in Section 1-102 and 8-402 of the Public Utilities Act.

Recommendation One was originally developed as the centerpiece of an analytical framework for demand-side management (“DSM”) resources, which the Commission adopted in the second Statewide Electric Plan. Various changes were made to the recommendation by the Commission during the Third Statewide Electric Plan, but the basic purpose of the recommendation remained the same: to establish the criteria by which utilities must determine the cost-effectiveness of DSM resources. The parties agree that the recommendation effectively pulls together various provisions related to analysis of DSM resources into one integrated policy. The recommendation is the result of several early planning dockets, in which considerable litigation ensued over the appropriate cost-effectiveness criteria to use for DSM resources.

Under this framework, the parties explain that utilities must first screen DSM resources using the societal perspective, and then integrate DSM programs which pass screening with supply-side resources using the utility perspective, defined as the utility cost test, or present value of revenue requirements (“PVRR”). An additional integration analysis must be conducted in which utilities rely on the PVRR test plus an accounting of environmental externalities. The parties further explain that at the utility’s discretion, it may also use the utility cost test at screening, but the utility cost test may only be used to screen out DSM resources where the resulting benefit-cost ratio is less than 0.8.

In its filing in this docket, DNR asserted that the circumstances and concerns that led to the original recommendations continue to exist and that the recommendation continues to reasonably and effectively achieve its intended purpose. During the course of this docket, the parties agreed to the adoption of this recommendation.

Having reviewed the record in this proceeding, the Commission concludes that proposed Recommendation One should be adopted. This recommendation provides a

reasonable means of identifying the criteria by which the cost-effectiveness of demand side resources is to be determined. Retention of Recommendation One is supported by the Stipulations of the parties and by the record, and is consistent with determinations made in prior dockets in which statewide plans were approved.

C. Recommendation Two

Recommendation Two, as approved in the final Order adopted by the Commission in the Third Statewide Electric Plan, and as proposed by DNR in the instant docket, reads as follows:

For each full-scale DSM program included in a utility's twenty-year least-cost plan, the utility must identify any program design aspects which could be expected to significantly influence participation in the program, and fully explain how it has designed the program to realize a level of participation consistent with the goals of Sections 1-102, 8-401, and 8-402 of the Public Utilities Act. A positive participant test benefit-cost ratio does not, by itself, constitute a sufficient explanation.

For the purpose of this recommendation, "program design" refers to planning assumptions related to DSM program design which are made for purposes of a utility's least-cost plan analysis. It is recognized that more detailed and definitive program design decisions may be made subsequent to plan approval, and that DSM programs which are proposed for implementation during the utility's three-year implementation plan period will generally be more fully developed than programs planned for subsequent years.

This recommendation also evolved out of the DSM analytical framework adopted by the Commission in the Second Statewide Plan. The parties state that the basis for the recommendation is that DSM programs which are cost-effective to society and the utility are not necessarily attractive to individual customers.

In its filing in the instant docket, DNR asserted that the circumstances and concerns that led to the original recommendations continue to exist and that the recommendation continues to reasonably and effectively achieve its intended purpose. During the course of this docket, the parties to the Stipulations agreed to the adoption of this recommendation.

Having reviewed the record, the Commission concludes that proposed Recommendation Two should be adopted. The Commission believes that information regarding program design aspects which are expected to significantly influence program participation continues to be useful in evaluating whether DSM programs are designed in a manner that is likely to capture the full economic potential of DSM resources. The proposed retention of Recommendation Two is supported by the parties' Stipulations, by the record in this case, and by the findings in 94-0066, and should be approved.

D. Recommendation Three

Recommendation Three, as adopted in the Order entered by the Commission in the Third Statewide Electric Plan proceeding, 94-0066, and as proposed in the instant docket, reads as follows:

Utilities may conduct a rate impact or nonparticipant screening analysis. Utilities should not be prohibited from eliminating DSM resources, at the screening stage, based on screening results which indicate the potential for negative rate impacts. However, the utility is only permitted to eliminate a program on this basis if the utility has clearly determined, as part of its screening analysis, that projected inter- or intraclass rate impacts associated with the program clearly outweigh the projected economic benefits to society and the utility from program implementation, and that projected rate impacts cannot reasonably be mitigated through the implementation of other cost-effective DSM programs directed to nonparticipants, modifications to the program, or rate design.

Recommendation Three also originated as part of the DSM analytical framework which the Commission adopted in the Second Statewide Plan. The parties explain that like Recommendation One, this recommendation arose out of disagreement among parties, in several early planning dockets, over the appropriate analytical protocol to use for DSM resources. The parties state that although the recommendation was modified by the Commission during the Third Statewide Plan, the basic purpose of this recommendation remains the same: to clarify how negative rate impacts which may be associated with some DSM resources are to be balanced with economic benefits associated with those programs. The parties further explain that specifically, before economical DSM programs are eliminated from a plan due to projected negative rate impacts, a utility must show that such rate impacts outweigh the overall societal and utility economic benefits, and that such rate impacts can not be reasonably mitigated.

In its filing in Docket 97-0122, DNR claimed that the circumstances and concerns that led to the original recommendations continue to exist and that the recommendation continues to reasonably and effectively achieve its intended purpose. During the litigation of this Docket, all parties hereto agreed to the retention of this recommendation.

The Commission agrees that Recommendation Three should be retained. This recommendation continues to strike an appropriate balance between pursuit of cost-effective DSM as an initial source of new supply, the consideration of non-participant rate impacts, and concerns for efficiency and flexibility in the planning process. The proposal to adopt Recommendation Three is supported by the record, the parties' Stipulations and by findings made in 94-0066, and should be approved.

E. Existing Recommendation Five

Recommendation Five, as approved in the final Order entered by the Commission in the Third Statewide Electric Plan proceeding, is as follows:

Cost-effective improvements in building energy and end use device efficiency should be vigorously promoted in Illinois. Specifically, each electric utility is encouraged to work with the Department of Energy and Natural Resources in cooperation with the Commission staff and other interested and affected parties for the purpose of investigation and, if appropriate, developing standards, systems, or methods for the following:

1. minimum energy efficiency standards for residential and commercial buildings in Illinois incorporating standards for commercial lighting and HVAC systems;
2. statewide equipment efficiency standards on products not covered by Federal standards;
3. a home energy rating system; and
4. a super-efficient appliance rating system.

The Department shall circulate to all parties actively participating in working through the issues related to items (1) to (4) above any specific proposals made by the Department on said system. This information shall include a description of the process used to develop the proposals, a listing of the parties actively participating in the process and a summary of the positions of the parties on final proposals.

The Commission encourages all parties to participate actively in working through the issues related to the development of such minimum standards, systems, or methods. Each electric utility is encouraged to provide to the Commission its comments and recommendations based on the process outlined above, including for informational purposes, a description of its position with respect to any proposals under consideration, within 90 days after the issuance of such proposals by the Department.

Recommendation Five was originally proposed during the Second Statewide plan to address several government efficiency initiatives which held potential as economical resources, primarily initiatives listed in the current recommendation. The purpose of this recommendation was to advocate a cooperative process for the investigation and, if appropriate, development of a variety of statewide efficiency initiatives. The work conducted by the Department and interested parties in conjunction with this recommendation was summarized in the Third Statewide Plan. Much of this work consisted of studying the feasibility of energy codes and standards for Illinois, conducted pursuant to the first two components of the recommendation. Subsequently, a public comment period was completed on the energy codes/standards study, final revisions were made to the study report, and a final report was prepared and distributed in mid-1994.

The parties state that despite study results which suggested that building energy codes, and certain equipment energy standards, would be cost-effective for the state, the broad base of support necessary for any associated legislative proposal to have a chance of passing was found to be lacking, notwithstanding considerable support from several parties. For this reason, the Department declined to offer any specific proposals under this recommendation, legislative or otherwise. The parties submit that the process initiated by this recommendation is now complete, and that there is no need to retain this recommendation for the fourth round of plans. Thus, DNR recommended that the recommendation be dropped. Based on the record in this proceeding, the Commission agrees that Recommendation Five should be eliminated.

F. Existing Recommendation Six (Proposed Recommendation Four)

Recommendation Six, as approved in the final Order adopted by the Commission in the Third Statewide Electric Plan, and as proposed in the current docket, reads as follows:

Each utility shall file, as part of its next least-cost plan, a demonstration that it will acquire the capability to deliver to the fullest extent practicable, all economical sources of demand-side management, and other resources identified in 83 Illinois Administrative Code Sec. 440.620(e), as initial and primary sources of new supply. Each utility's plan shall include the following:

1. analysis of the cost-effectiveness of potential DSM programs under the projected level of demand provided pursuant to 83 Illinois Administrative Code Sec. 440.500, and under the low and high levels of demand provided pursuant to 83 Illinois Administrative Code Sec. 440.510; at the utility's option, it may elect to analyze cost-effectiveness under additional high-growth scenarios;
2. a narrative and tabular summary of its DSM capability-building plan showing the specific DSM capability-building activities to be undertaken and the planned expenditure for each activity. These activities include data collection, marketing research, and design, implementation, and evaluation of each DSM pilot program; and
3. a timetable for implementation and evaluation of pilot programs that the utility plans to undertake. Pilots shall be used to determine the actual extent of economical energy and capacity saving, and to identify any program design refinements that may be useful to increase the expected net benefits, if any. Pilots shall be implemented and evaluated in sufficient time to preserve the full resource potential of the DSM programs estimated to be economical.

Recommendation Six evolved from the First Statewide Plan, and was designed to establish the general principle of utility DSM "capability-building." The parties explain that DSM capability-building generally refers to efforts by utilities to develop capability to deliver

cost-effective DSM resources in sufficient time to effectively defer new supply-side resources.

In its filing in this docket, 97-0122, DNR contends that the circumstances and concerns that led to the original recommendations continue to exist and that the recommendation continues to reasonably and effectively achieve its intended purpose. During the course of this proceeding, the parties to the Stipulations agreed to the re-adoption of this recommendation.

The Commission agrees that proposed Recommendation Four, which is the same as existing Recommendation Six, should be adopted. This recommendation continues to provide reasonable guidelines applicable to efforts by utilities to develop capability to deliver cost-effective DSM resources in sufficient time to effectively defer new supply-side resources. The proposal to adopt this recommendation is supported by the record, by the parties' Stipulations and by determinations made in the Order in 94-0066, and should be approved.

G. Existing Recommendation Seven

Recommendation Seven, as approved in the final order entered by the Commission in Docket 94-0066 is as follows:

In order to better ensure that utilities consider and incorporate in their least-cost plans all economical sources of cogeneration and renewable resources as sources of new supply to the fullest extent practicable, each utility shall complete an analysis of the potential for such cogeneration and renewable resources in its service territory. A utility shall be required to complete such an analysis sufficiently in advance of an identified resource need so as to preserve cogeneration and renewable energy as a potentially cost-effective resource option.

The analysis shall include the following:

1. the number and capacity of existing and potential cogeneration and renewable energy projects that are considered as utility resource candidates;
2. an analysis of the effect these products would have on the company's resource plan (i.e., cost-effectiveness of projects, effect on utility system reliability, and environmental effects);
3. discuss steps that will be taken to acquire power from economical cogeneration and renewable energy projects; and
4. examine potential barriers that exist in acquiring these resources.

The utility may move for issuance of a protective order pursuant to 83 Ill. Admin. Code Sec. 200.430 to protect any data, information or studies provided in compliance with this recommendation that it believes is of a confidential, proprietary or trade secret nature.

The above provisions notwithstanding, if there are determinations made in Docket 92-0145 regarding the applicability of the decision to the third round of electric energy plans, then such determinations shall be controlling.

Recommendation Seven evolved from the Second Statewide Electric Plan. It was designed to provide guidance to utilities in the analysis of cogeneration and renewable resources as utility resource options and required in Section 8-402 of the Public Utilities Act.

Since adoption of the last statewide plan, the Federal Energy Regulatory Commission (“FERC”) has issued its final order (FERC Order No. 888A) to implement the open access aspect of the Energy Policy Act of 1992. The parties state that Order 888A requires all utilities who own, operate or control transmission lines to file tariffs which offer others the same transmission service that they provide themselves under comparable terms and conditions. The parties further state that this provides all generators, independent producers and wholesalers with open access to the transmission grid in the same manner as it has been used by electric utilities. The parties assert that with open access to the transmission grid, there is less need for a recommendation calling for an analysis of the potential for cogeneration and renewable energy, since the open wholesale market provides better signals regarding cost-effectiveness than a study conducted as part of a least-cost planning filing. The parties add that if utilities make use of the wholesale market – both as a source of economical resources and as a basis for measuring cost-effectiveness – they will have considered all economical resources including cogeneration and renewable resources. Since these developments in the wholesale market encourage employment of efficient cogeneration and renewable resources, the Department and other parties no longer consider Recommendation Seven necessary, and recommend that it be dropped.

In view of these developments in the wholesale market to encourage employment of efficient cogeneration and renewable resources, the Commission agrees that the proposal to drop this recommendation is supported by the record. Accordingly, existing Recommendation Seven should be eliminated.

H. Existing Recommendation Nine (Proposed Recommendation Five)

Recommendation Nine, as adopted in the final Order entered by the Commission in the Third Statewide Electric Plan proceeding, 94-0066, is as follows:

This recommendation requires a demonstration by each utility of its ability to account for and, where practicable, reduce and/or mitigate uncertainty.

Each utility should identify uncertainty-related variables, factors, or relationships which may significantly affect the cost and/or composition of its least-cost plan. These uncertainties could include economic, regulatory, or political factors which affect projected levels of demand and/or the costs of resource acquisition.

Utilities should assess the risks posed by identified uncertainties. To the extent practicable, these assessments should be supported by quantitative analyses. The analytical techniques employed should be appropriate for the relevant uncertainty.

In preparing its least-cost plan, the utility shall determine which actions proposed for the implementation period introduce significant inflexibility into its plan. For each such action, a quantitative analysis shall be provided.

To the extent that the above quantitative analyses are impractical or unnecessary, the utility shall explain its use of judgment in assessing risks.

The intent of Recommendation Nine was to elicit comprehensive assessments of risks associated with uncertainty. This recommendation grew from consolidation of several uncertainty-related recommendations from the second round. Rather than specifying which uncertainties warranted attention, Recommendation Nine called for utilities to identify critical sources of uncertainty, analyze the associated risks, and fashion appropriate mitigation strategies, if necessary.

During the course of workshops in this docket, the parties agreed to retain this Recommendation, as modified by the addition of certain language in the third paragraph. The proposed Recommendation, as modified, reads as follows.

This recommendation requires a demonstration by each utility of its ability to account for and, where practicable, reduce and/or mitigate uncertainty.

Each utility should identify uncertainty-related variables, factors, or relationships which may significantly affect the cost and/or composition of its least-cost plan. These uncertainties could include economic, regulatory, or political factors which affect projected levels of demand and/or the costs of resource acquisition.

Utilities should assess the risks posed by identified uncertainties through analyses that take into account the potential for significant change. One uncertainty analysis must analyze the potential effects of restructuring of electric markets on utilities' Least-cost Plans. To the extent practicable, these assessments should be supported by quantitative analyses. The

analytical techniques employed should be appropriate for the relevant uncertainty.

In preparing its least-cost plan, the utility shall determine which actions proposed for the implementation period introduce significant inflexibility into its plan. For each such action, a quantitative analysis shall be provided.

To the extent that the above quantitative analyses are impractical or unnecessary, the utility shall explain its use of judgment in assessing risks.

DNR supports adoption of this recommendation as modified. The recommendation has been renumbered as Recommendation Five. DNR submits that the circumstances and concerns that led to the existing recommendation continue to exist and that the recommendation continues to reasonably and effectively achieve its intended purpose. During the course of this docket, the parties agreed to the adoption of this recommendation as modified.

The parties assert that explicit and systematic consideration of uncertainty in least-cost planning is as critical as ever, and that Recommendation Nine from Docket 94-0066 remains an appropriate vehicle for eliciting such uncertainty analyses. The parties add, however, that given the increasing likelihood of a fundamental restructuring of electric markets as argued in the recent ComEd least-cost plan docket 95-0338, and as set forth in the modified Policy Framework, a specific requirement to consider the uncertainty of market restructuring should be set forth in the Recommendation as an addition to the general uncertainty analysis requirements which the recommendation still covers.

The Commission agrees with the parties that proposed Recommendation Five, as modified, provides appropriate direction relative to the consideration of uncertainty in the least-cost planning process. The Commission concludes that the proposal to adopt this recommendation is supported by the record, and should be approved.

G. Summary of Recommendations

<u>Existing Recommendations</u>	<u>Recommendations Adopted</u>
One (Cost-effectiveness of DSM)	Adopted as Recommendation One
Two (DSM program design)	Adopted as Recommendation Two
Three (DSM rate impacts)	Adopted as Recommendation Three
Five (energy codes)	Eliminated
Six (DSM capability building)	Adopted as Recommendation Four

Seven (cogeneration and renewables)	Eliminated
Nine (uncertainty)	Adopted, as modified, as Recommendation Five

IV. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) the Commission has jurisdiction over all Illinois electric public utilities and of the subject matter of this proceeding by 83 Ill. Adm. Code Part 440 and Section 8-402 of the Public Utilities Act;
- (2) the facts stated and conclusions reached in the prefatory portion of this Order above are supported by the record and are hereby adopted as findings of fact and/or law in this proceeding;
- (3) the Comprehensive Electric Utility Energy Plan ("Plan") adopted herein shall consist of a Policy Framework and numbered Recommendations and is set forth in Appendix A hereto;
- (4) the Policy Framework found appropriate in Section II above should be part of the Plan adopted herein, and as such is set forth in Appendix A hereto;
- (5) the Recommendations found appropriate in Section III above should be part of the Plan adopted herein, and as such are set forth in Appendix A hereto; recommendations and proposals other than those set forth in Appendix A are not adopted in this docket, and are not part of the Plan approved herein;
- (6) the Plan adopted herein satisfies the criteria set forth in 83 Ill. Adm. Code Section 440.800(b) and will result in the greatest likelihood of achieving the objectives expressed in Section 8-402(a) of the Act;
- (7) all proposals or objections not heretofore specifically ruled upon should be deemed disposed of in a manner consistent with the ultimate conclusions reached herein.

IT IS THEREFORE ORDERED that the Policy Framework and Recommendations set forth in Appendix A hereto are hereby adopted as the Comprehensive Electric Utility Energy Plan in accordance with the Findings set out above.

IT IS FURTHER ORDERED that the Comprehensive Electric Utility Energy Plan adopted herein shall be the Plan for which compliance is required by utility specific energy plans pursuant to 83 Ill. Adm. Code 440.

IT IS FURTHER ORDERED that all proposals and objections not heretofore ruled upon are hereby deemed disposed of in a manner consistent with the ultimate determinations made herein.

IT IS FURTHER ORDERED that this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 5th day of November, 1997.

(SIGNED) DAN MILLER

Chairman

(S E A L)