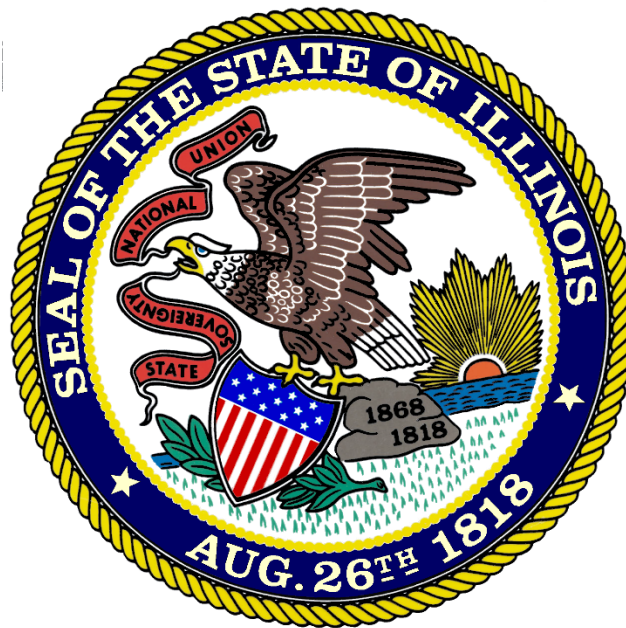


Illinois Commerce Commission

Supplier Diversity and Community Affairs

2021 Annual Report



STATE OF ILLINOIS



ILLINOIS COMMERCE COMMISSION

January 20, 2022

The Honorable Governor J. B. Pritzker

The Honorable Members of the Illinois General Assembly

The Honorable Members of the Illinois Commerce Commission

Please find enclosed the ICC's Office of Supplier Diversity and Community Affairs' annual report. Although Section 5-117 of the Illinois Public Utilities Act does not require an annual report, the Commission submits this annual report to showcase specific accomplishments in promoting diversity and inclusivity in regulated entities' supply chains.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeanine V. Robinson".

Jeanine V. Robinson
Director, Office of Diversity and Community Affairs

2021 Utility Supplier Diversity Reports

I. Introduction

In Illinois, the largest investor-owned utilities are required to report their supplier diversity outreach and inclusion efforts on an annual basis to the Illinois Commerce Commission (ICC). Six years ago, the ICC began holding policy sessions to report and amplify supplier diversity efforts by public utilities. Every year has seen a positive gain, reflecting both a clear and continuous commitment to communities of color and a desire to reflect the diversity of the state. As Illinois reaps the benefits from increased diversity, equity, and inclusion, important unfinished work remains. Statistical data demonstrates that during the previous six years, utilities' spending with minority-, women-, and veteran-owned businesses grew from an average of 15% to over 1/3 of all procurement spending. Specifically, annual diverse spending by Illinois' six largest investor-owned utilities has increased to over \$2.3 billion, with some utilities even reporting nearly 50% share for diverse supplier spending. This includes Minority Business Enterprises (MBE), Women Business Enterprises (WBE), Veteran Business Enterprises (VBE), and Small Business Enterprises (SBE). In order for the State's competitive market economy to work as intended, the General Assembly wisely noted that minority-owned and women-owned businesses must have equal opportunity to participate.

Utility Diverse Supplier Spend

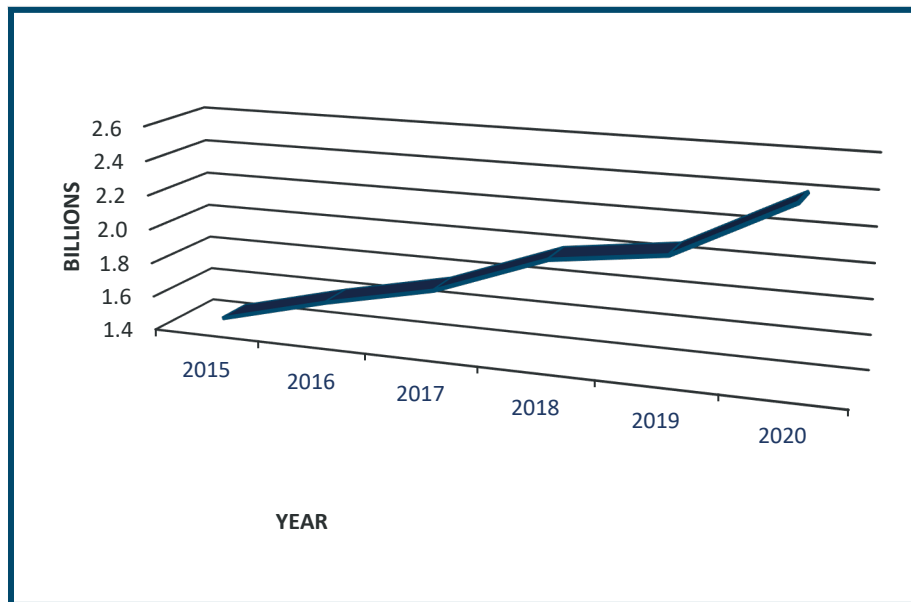


Figure 1 Dollars spent Includes MBE, WBE, VBE and SBE spending

In 2017, Illinois became the first state to mandate suppliers of wind and solar energy report on their efforts to diversify their supply chains. Injecting diversity procurement goals into the renewable generation space is increasingly important as additional renewable supply is mandated by recent state legislation.

The goal of the ICC's Office of Diversity & Community Affairs is to understand the challenges, and concerns, of utility companies, organizations, and businesses regarding implementing, increasing, and

improving supplier diversity. Through collaboration with the utilities, not-for-profits, and government agencies, the ICC has helped build relationships to increase the pool of diverse suppliers from which utility companies can draw. Various organizations including, but not limited to, The Illinois Business Enterprise Program (BEP), Women Business Development Center (WBDC), Hispanic American Construction Industry Association (HACIA), Chicago Minority Supplier Development Council (CMSDC), various chambers of commerce, and the Illinois Utility Business Diversity Council (IUBDC) continue to act as strong resources for diverse suppliers.

On a national level, the Office of Diversity & Community Affairs communicates with public utility commissions (PUCs) in the few other states that have implemented supplier diversity programs for their regulated utilities. This allows the ICC to exchange ideas and share best practices as we collectively seek to level the playing field for diverse businesses in our respective states.

Illinois remains one of few states where the legislature has recognized the importance of supplier diversity through statutory reporting requirements. Nonetheless, the Commission will continue to build relationships with other organizations throughout Illinois and the nation to increase opportunities for diverse suppliers headquartered in Illinois. We look forward to continuing to address the challenges and opportunities regarding improved supplier diversity and inclusion efforts.

II. Background

In 2014, the General Assembly passed Section 5-117 of the Public Utilities Act (220 ILCS 5/5-117) (“Supplier Diversity Statute”), which created annual reporting requirements regarding investor-owned utilities’ supplier diversity outreach and inclusion to the Illinois Commerce Commission (ICC). The Supplier Diversity Statute created the Office of Diversity and Community Affairs within the ICC to address the annual reporting and policy session requirements of the statute.

Illinois’ public policy, as stated in the Supplier Diversity Statute, is to collaboratively work with regulated utilities that serve Illinois residents, in a non-antagonistic manner, to improve their supplier diversity. The Supplier Diversity Statute specifically identifies four categories of diverse suppliers: minority-owned (MBE), women-owned (WBE), veteran-owned (VBE), and small business enterprises (SBE). The statute further focuses on requiring utilities to provide points of contact for MBEs, WBEs, and VBEs. Although the statute requires all electric, gas and water utilities with at least 100,000 customers to report, the ICC encourages all utilities regardless of size to improve their efforts to diversify their suppliers.¹

This summary report is based upon the annual reports submitted over the past six years by the six public utilities with the largest number of customers in Illinois (the Big 6)²: Ameren Illinois, Aqua³ Illinois, Commonwealth Edison (ComEd), Illinois American Water, Northern Illinois Gas Company d/b/a Nicor Gas Company (Nicor), Peoples Gas Light and Coke Company /North Shore Gas Company (collectively “Peoples Gas/North Shore)

¹ To view a list of regulated entities that filed annual reports, covering activities conducted in calendar year 2019, in 2020, please visit <https://www.icc.illinois.gov/home/diversity-and-community-affairs>.

² Ameren, Illinois American Water, ComEd, Nicor, and Peoples/North Shore have over 100,000 customers and are therefore subject to the reporting requirements in 220 ILCS 5/5-117.

³ Aqua began voluntarily submitting their data in 2019, which is why they reflect 2 years of data

III. Data Analysis and Discussion

Since the implementation of the Supplier Diversity Statute, the spending trend of the Big 6 Illinois regulated utilities has steadily increased their supplier diversity spending (Figure 1). Six years later, their diverse spending is collectively over \$2.3 billion and includes MBEs, WBEs, VBEs, and SBEs.

Total Diversity Spend (MBE, WBE, VBE) vs. Total Spend

Beginning in 2020, the ICC's Office of Diversity & Community Affairs began visualizing the spend data provided by the Big 6 public utilities. This visualization provides the Commission with various trend lines regarding spending and resource allocation, as well as information regarding opportunities for further growth. Per the data provided within the 2021 reports, we observed the following trends.

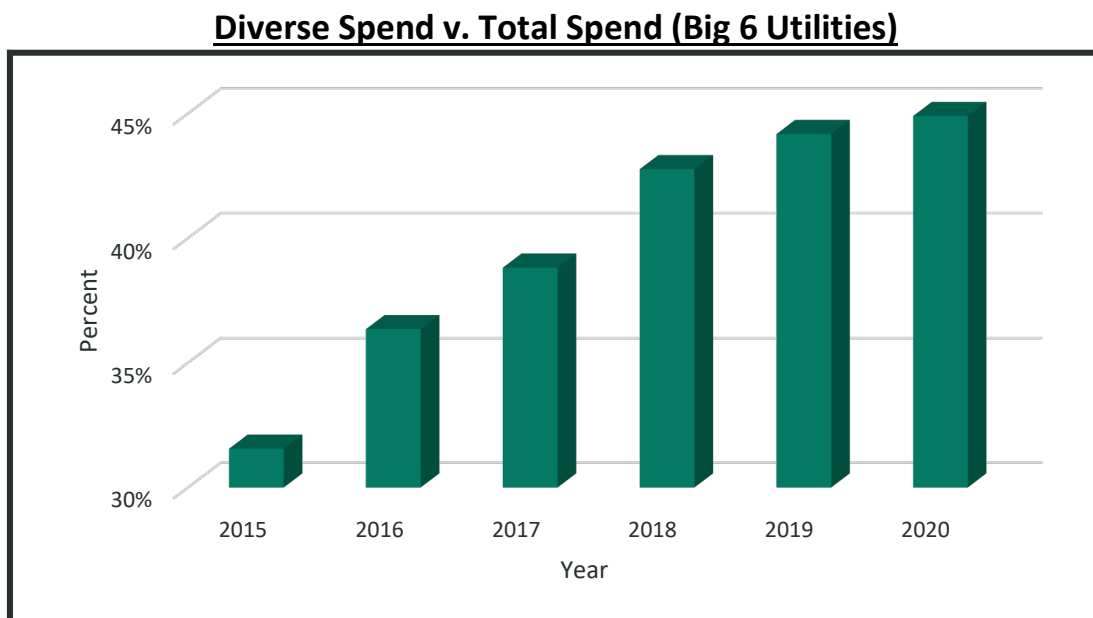


Figure 2 Diverse Spending as a percentage of total Spend

At the end of calendar year 2020, the Big 6's diversity spending averaged over 40% of their total procurement dollars (Figure 2). Reporting includes Tier 1 suppliers, or direct prime contractors to the utilities, and Tier 2 suppliers, or subcontractors of Tier 1 suppliers.⁴ The Big 6 utilities reported implementation of several practices to achieve their own targeted goals for supplier diversity. Strategies employed include requiring bidders to include information about Tier 2 suppliers and direct outreach to non-profits to amplify bid opportunities to diverse suppliers. Several utilities identified performance metrics that are measured quarterly to track progress of their goals. Additionally, the utilities participate in the Illinois Utilities Business Diversity Council (IUBDC), a forum for best practice sharing and information exchange among Illinois' utilities with a focus on advancing the growth and utilization of diverse

⁴ To prevent double counting when a supplier qualifies under multiple categories of diverse suppliers, the Big 6 utility companies reported that their certification priority is MBE, WBE, VBE, and lastly SBE. For example, if a supplier qualified as an MBE *and* WBE, the amount of their contract would be counted under the MBE certifications.

businesses in the State of Illinois. The IUBDC provides education, information, and technical assistance as an active resource for utility stakeholders.

Opportunities exist for improvement in high spending categories with low supplier diversity participation, such as Fleet Service, Information Technology Outsourcing and Software Maintenance. Moreover, we have seen opportunities for growth within a category that may have high levels of diverse spending overall but low WBE and VBE spending. Legal and other professional services have seen relative improvement over the past six years.

In evaluating these opportunities for improvement, one of the struggles identified by the Big 6 has been the phenomenon of successful diverse suppliers merging with, or being acquired by, non-diverse owners. Another challenge in analyzing and visualizing company data by category is the often paucity of data for total spending within a category. In order to identify opportunities by category, reporting must include totals for each category. The ICC is working with all reporting entities to identify opportunities by category and including totals for each of the categories.

To address these struggles, several utility companies created mentorship programs to build a pipeline of diverse suppliers. Here, a utility may assist a diverse supplier gain skills and experience whilst participating as a group of suppliers working on a project. Importantly, and by way of example, Illinois American Water converted 30% of their Tier 2 suppliers to Tier 1 suppliers in 2019. Building a pipeline of diverse suppliers that traverse in maturity, from mentorship to Tier 2 to Tier 1, provides a steady stream of work to diverse suppliers. Another strategy employed by utility companies includes identifying a project exclusively for diverse suppliers. This allows diverse suppliers to compete knowing a sizeable project exists.

Similarly, winning Tier 1 suppliers may ask failed bidders to work as Tier 2 suppliers on the project. Utilities also encourage Tier 2 suppliers to bid directly as Tier 1 suppliers. Another opportunity for smaller diverse suppliers is for utilities to unbundle a large project into smaller projects. Most diverse suppliers are smaller than their non-diverse counterparts. For example, if a pipeline project requires ten crews to work simultaneously, then a supplier with only five crews will not qualify to bid. Breaking the project into 3 separate bids would increase the number of suppliers that are capable of performing the work.

Big 6 Diverse Spending by Certification

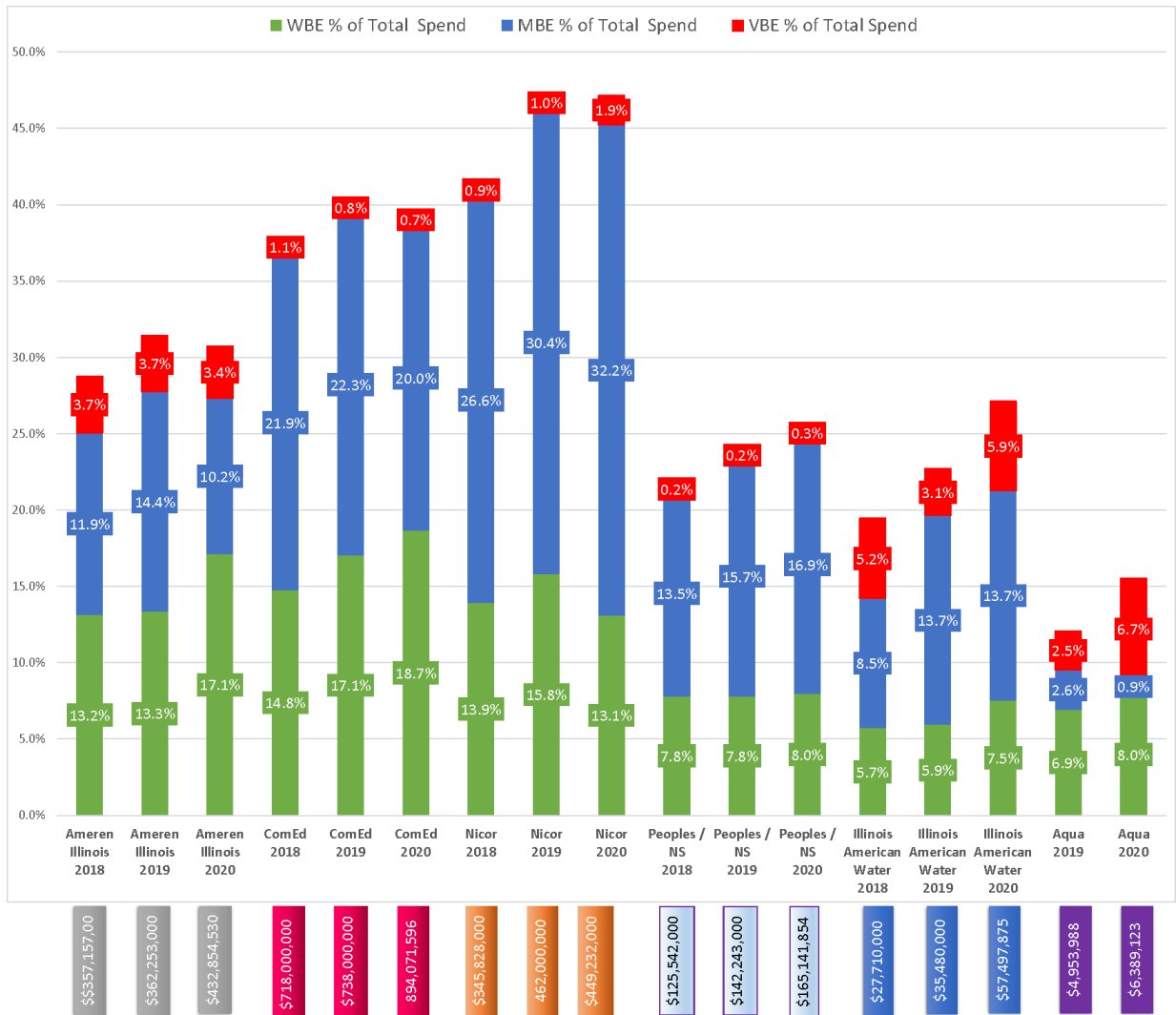


Figure 3

As Figure 3 above indicates, diverse spending continues to increase, with Nicor Gas procuring more than 45% of its total spending via diverse suppliers for the 2nd consecutive year.

Illinois Total Diverse Spending vs. Total Spending

While the utility companies maintain goals to increase supplier diversity broadly, the ICC is interested in Illinois-based suppliers. For 2019 data, the ICC began requesting diverse spending data for Illinois-headquartered businesses compared to total diverse spending. Additionally, the ICC sought data involving the number of Illinois-based suppliers.

Figure 4 below reflects the percentage of Illinois diverse spending compared with total spending. This chart allows the ICC to recognize growth opportunities for the Big 6 to further increase procurement with Illinois-based businesses. Per the annual diverse spending reports reflecting 2020 activity, the

Illinois diverse spending for MBE, WBE, and VBEs for the Big 6 currently ranges from 12% to 29%. Two companies, ComEd and Illinois American Water, increased their Illinois-based diverse spending. People’s Gas/North Shore has remained steady between 16% to 18% over the past few years.

Figure 4 below also reflects slight decreases in diverse spending by two utility companies. These decreases reflect various factors, such as loss of certification and project completion. The Big 6 utilities also expressed challenges with finding qualified vendors based in Illinois. The ICC is committed to assisting with resources to increase supplier diversity with Illinois businesses.

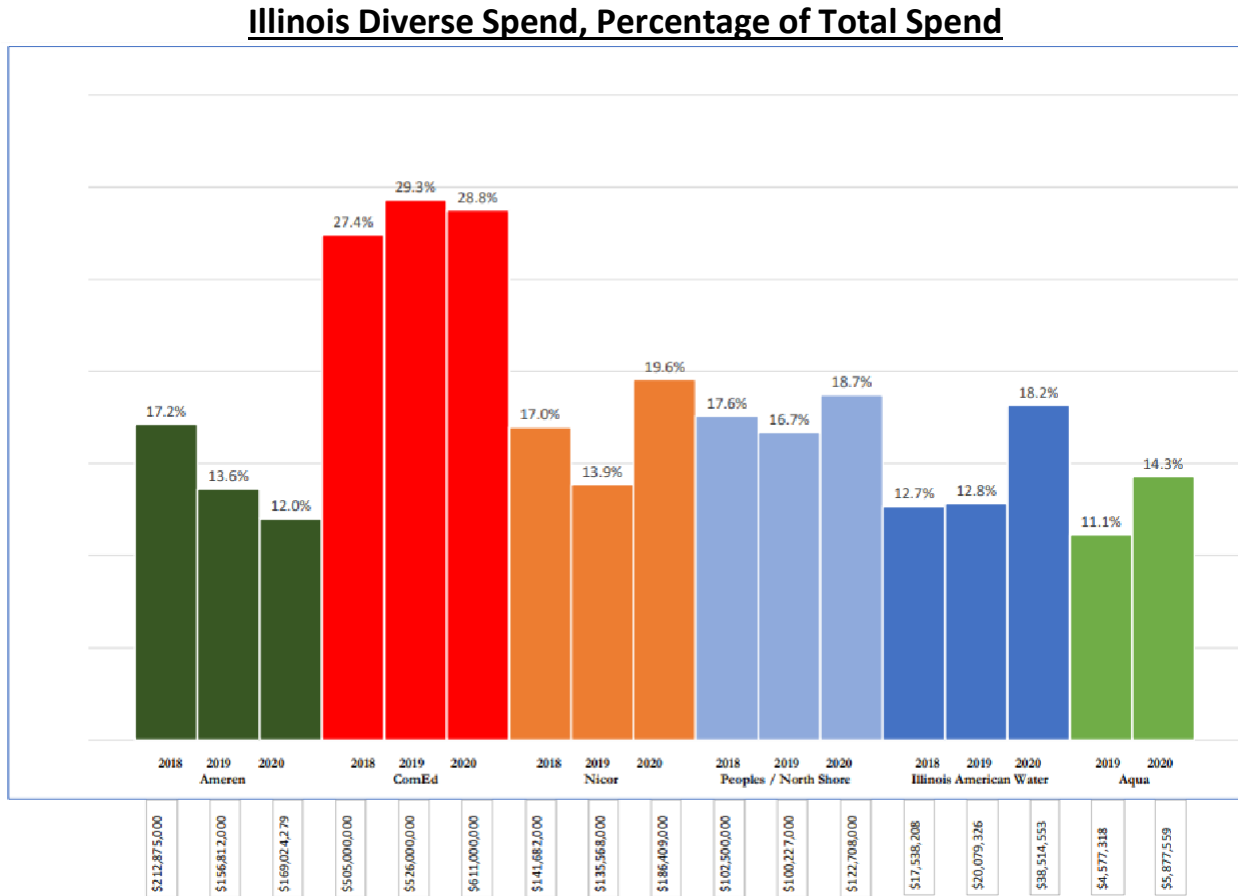


Figure 4

Diverse Suppliers

The number of diverse suppliers in each of the Big 6 utilities continues to increase every year. The 2021 Annual Report notates the number of diverse suppliers with which each utility contracts and the number that are located in Illinois. A little more than half of ComEd, Nicor, and Aqua’s diverse suppliers in 2020 were headquartered in Illinois. Illinois American Water reassessed existing contracts with non-diverse partners and redirected projects to new diverse firms. As a result, this contributed to doubling their spend with new diverse suppliers. Over 70% of People’s Gas and over 40% of Nicor’s total diverse spending in 2020 was with Illinois-based suppliers.

Professional Services Diversity Spending

Professional services are defined as knowledge-based organizations that provide highly specialized services across many industries. These businesses generally require professional licensure and/or degrees in the arts or sciences. Professional services categories include legal services, financial services, human resources, information technology services, engineering, and technical services, communications / marketing, and management consulting.

Though there is a uniform definition for the professional services categories, there are still different elements that differentiate interpretation. As a result, there is a challenge to make an accurate comparison. The Commission stated its desires to increase diverse spending in legal and financial services; these categories, however, are often the responsibility of the parent company and not the subsidiary utility. With this limitation, the Big 6 utilities still look to implement programs and build relationships to increase the diversity in these categories.

Utility Scale Renewable Energy Suppliers

Effective June 1, 2017, Section 5-117 of the Public Utilities Act was amended to include suppliers of renewable energy. Accordingly, 2018 was the first year in which renewable energy suppliers were required to submit supplier diversity reports. The ICC's Office of Diversity & Community Affairs focuses on utility-scale renewable energy suppliers that generated at least 1 megawatt-hour (MWh) of renewable energy that flowed in the reporting calendar year. Accordingly, the list does not include distributed renewables (typically referred to as "distributed solar" or "distributed wind" or "distributed energy resources" or "DERs").

The ICC obtained information regarding the renewable energy credits (RECs) from the PJM Interconnection for utility-scale renewable generation situated in ComEd, and from the Midcontinent Independent System Operator (MISO) for utility-scale renewable generation situated in Ameren, thereby creating independent third-party verification.

The ICC has initiated outreach efforts to the renewable energy industry to create a system of reporting to ensure compliance with the Supplier Diversity Statute and accomplish the goals of the Commission. 2019 was the first year in which many of the renewable energy companies were informed of their annual reporting requirement. Regarding the reports submitted for 2020 activity, there was a 20% increase in reports received. Given the Office's outreach efforts, continued increased compliance is anticipated in the coming year.

Challenges for the Big 6 Utility Companies

During the Office's meetings with the Big 6 utilities, various challenges and concerns regarding acquiring and maintaining diverse suppliers were discussed. These include finding and maintaining a pool of diverse suppliers with the experience needed for specific projects. In addition, a diverse supplier may be able to engage in one project but, due to limited access to capital, unable to bid on multiple or larger projects. Challenges faced by diverse suppliers may cause the Big 6 utilities to consider unbundling some of their projects. Another challenge is geographic distribution, meaning

qualified diverse suppliers may not exist to serve specific geographic areas in which a project is sited. Also, as mentioned earlier, diverse suppliers may lose certification, thereby reducing the spending on, and number of, diverse suppliers.

IV. Closing

The ICC has led a robust supplier diversity effort for the past six years. Recognizing the collaborative efforts that have resulted in a consistent increase of diverse spending since 2014, the ICC will continue to initiate, seek, and build relationships with other agencies and organizations, throughout Illinois in order to increase the pool of diverse suppliers from which utilities may draw. By building these relationships and seeking collaboration, additional diverse businesses become aware of available bid opportunities, and the ICC can assist in addressing challenges and concerns.

The ICC continues to explore ways to improve our service to diverse suppliers in Illinois. In particular, the ICC has improved its supplier diversity website to improve user experience and facilitate connections between suppliers, state certification agencies, and utility liaisons such as the IUBDC. To improve future data analysis of diverse supplier spend, the ICC is in the process of standardizing the appendix for all future reporting. Moreover, the ICC has engaged in outreach efforts to Alternative Retail Electric and Gas Suppliers (ARES/ARGS) that have expressed concerns and desire clarity regarding their obligations under the Supplier Diversity Statute.

The best way to demonstrate our commitment is to lead by example. We look forward to continuing to address the challenges and opportunities regarding the improvement of supplier diversity. As one of few states where legislative bodies have recognized the importance of supplier diversity through a statutory reporting requirement, we remain excited to lead the effort to increase opportunities for diverse suppliers headquartered in Illinois.

V. Acronyms

ARES	Alternative Retail Electric Supplier
ARGS	Alternative Retail Gas Supplier
BEP	Business Enterprise Program
CMS	Illinois Department of Central Management Services
CMSDC	Chicago Minority Supplier Development Council
DER	Distributed Energy Resource
HACIA	Hispanic American Construction Industry Association
ICC	Illinois Commerce Commission
IUBDC	Illinois Utility Business Diversity Council
MBE	Minority-Owned Enterprise
PUA	Public Utility Act
MISO	Midcontinent Independent System Operator
MWh	Megawatt-hour
PJM	PJM Interconnection
REC	Renewable Energy Credits
SBE	Small Business Enterprise
Tier 1 Supplier	Direct contractors of the utilities / energy supplier
Tier 2 Supplier	Subcontractors of Tier 1 suppliers
VBE	Veteran-Owned Enterprise
WBDC	Women's Business Development Center
WBE	Women-Owned Enterprise