



# michigan league of conservation voters

Date: August 18, 2015

To: Members of the Senate Energy and Technology Committee

From: Lisa Wozniak, Executive Director for the Michigan League of Conservation Voters

Re: Testimony in Opposition to Senate Bill 438

The Michigan League of Conservation Voters (LCV) is the non-partisan, political voice for Michigan's land, air, and water. **On behalf of our statewide membership and our Board of Directors, Michigan LCV expresses our opposition to Senate Bill 438, as drafted.** SB 438 would repeal Michigan's highly successful renewable energy standard, establish an inaccurate and harmful definition of "clean energy," and phase out Michigan's cost-effective energy efficiency standard for electric utilities. Further, SB 438 establishes a prohibitive rate pay structure for net metering that would greatly extend the payback timeline and strongly discourage homeowners from installing rooftop solar or other on-site renewable generation. On the positive side, SB 438 contains provisions that open up on-bill financing, allow for electric utility decoupling, and raise the cap on distributed generation.

Thanks largely to Michigan's mandated clean energy standards, our state has seen incredible growth and investment in our renewable energy and energy efficiency economy with significant progress made toward saving rate payers money and transitioning away from expensive and dirty coal-fired energy. If enacted, SB 438 would reverse Michigan's successful clean energy policies and stunt the progress we have made on renewable energy and energy efficiency to date. For this reason, Michigan LCV urges you to oppose SB 438 as currently written.

Below please find recommendations for specific changes that the Senate Energy and Technology Committee Members should make to improve SB 438.

### Expand Michigan's Renewable Portfolio Standard

Since PA 295 went into effect, Michigan's transition to clean, renewable sources of energy has been incredibly successful. Michigan's current renewable energy standard is driving down the high cost of electricity in our state and generating significant investment. According to the Michigan Public Service Commission (MPSC), Michigan's renewable energy standard has brought in close to \$3 billion dollars of investment to Michigan, which has resulted in more than 8,000 jobs.<sup>1</sup> The MPSC noted that the cost of energy generated by renewable sources continues to decline and is now significantly cheaper than new coal-fired generation.

The MPSC estimates that the levelized cost of coal is \$133/MWh. In contrast, the MPSC

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estimates that the cost of wind is \$76.55/MWh.<sup>ii</sup> Additionally, a recent bid for solar with the Lansing Board of Water and Light came in at just \$45/MWh, which is lower even than new natural gas combined cycle generation at \$60/MWh.<sup>iii</sup>

Setting achievable, required goals on a clear timeline through Michigan's renewable energy standard is a proven policy that is spurring real growth in Michigan's renewable industry. Matt Wagner, a spokesman for DTE, concluded that Michigan's renewable energy standard is what drove the utility to make larger investments in the renewable sector. "Would we be doing it if there wasn't a mandate? I think DTE would be doing some amount of wind energy, but probably not at this scale," Wagner said. "But obviously, a mandate of 10 percent, that sets a pretty high bar that we had to meet. I would say...that it's the 10 percent renewable goal that drove these wind turbines..."<sup>iv</sup>

Additionally, every unit of coal that is replaced by wind and solar leaves Michigan with cleaner air and water. By continuing to transition away from coal, we can reduce harmful air pollution and better safeguard lakes, rivers and streams. Just wind energy alone in Michigan has already helped avoid 1.5 million metric tons of carbon dioxide emissions, or enough to take more than 260,000 cars off the road.<sup>v</sup> By spurring renewable energy, our renewable energy standard has also reduced other harmful air pollutants, including sulfur dioxide, nitrous oxides, and mercury.

SB 438 would slam the brakes on our clean energy sector by repealing Michigan's renewable energy standard. Without a required standard, Michigan's clean energy businesses would no longer have the certainty needed to invest in new technologies and hire new workers. Moreover, Michigan is already falling behind other states- nearly 30 other states have stronger renewable energy or energy efficiency goals than Michigan. Other Midwestern states like Minnesota and Illinois are reaching for clean energy goals of 35 and even 40 percent.

Michiganders strongly support increasing our renewable energy standard. A recent poll found a staggering 84 percent of Michigan voters are in favor of increasing our state's renewable energy standard to 20 percent by 2022.<sup>vi</sup> That same poll found that if it were up to Michigan voters, they would set renewable energy standards at 62 percent.

***Senate Bill 438 should be amended to increase Michigan's renewable energy standard.*** The facts show that not doing so would clearly be a missed opportunity for Michigan.

#### *Maintain and Expand Michigan's Electric and Natural Gas Energy Efficiency Standards*

Since the enactment of Michigan's current energy optimization standards, energy efficiency has proven to be a cost-effective measure that decreases customer rates and reduces energy waste. The Michigan Public Service Commission (MPSC) estimates that customers save close to \$4 for every \$1 invested in energy efficiency.<sup>vii</sup> Michigan's energy efficiency industry is a driving force in our economy and employs more than 46,000 Michiganders and contributes \$2.3 billion to our economy.<sup>viii</sup> Additionally, the levelized cost of energy efficiency resources currently stands at \$20/MWh, which is significantly cheaper than supply side options such as coal at \$133/MWh or new natural gas combined cycle generation at \$60/MWh.<sup>ix</sup>

Senate bill 438 would phase out Michigan's highly successful energy optimization standard for electric utilities, completely eliminating the program by 2019. The current energy efficiency targets for both electric and natural gas utilities have saved Michigan customers nearly a billion dollars on energy bills to date.<sup>x</sup> The cumulative reduction in energy use through energy efficiency avoids the need to build new generation plants and infrastructure and therefore saves all ratepayers, regardless of their direct participation in energy efficiency programs, money on their bills. By phasing out the 1 percent standard for electric utilities, this legislation would turn back the progress we have made in reducing energy waste and saving Michiganders money on their utility bills.

***SB 438 should be amended to increase our energy optimization standard for electric and natural gas utilities.*** Increasing Michigan's energy efficiency standard beyond 1 percent and our natural gas efficiency standard beyond 0.75 percent are common-sense steps to build on the benefits that have accrued to both consumers and businesses.

*Eliminate Inaccurate Definition of Clean Energy Resource*

Under Public Act (PA) 295 of 2008, Michigan currently defines a renewable energy resource as energy that is derived from sources such as solar power, waterpower, or wind power, and is naturally replenished over a human timeframe. This definition is based on science and explicitly excludes fossil fuels such as petroleum, natural gas, and coal. The intent of the authors of PA 295 was to help Michigan transition to clean, renewable sources of energy by promoting supply side generation that releases zero or minimal toxic materials.

SB 438 would move Michigan away from the current science-based definition of renewable energy and towards a harmful and inaccurate definition for a clean energy resource. SB 438 defines a clean energy resource as electric generation technology that does not violate any state or federal air emissions regulations. Under this definition, the most polluting power sources such as coal and waste incineration would be considered "clean energy." Like PA 295 energy policy that charts a path forward for Michigan should seek to foster truly zero emissions sources like wind and solar, not encourage expensive and dirty energy sources by calling them clean. Additionally, by enacting this clean energy resource definition, SB 438 would only ensure we are meeting bare minimum compliance with federal environmental regulation. That bare minimum compliance would do little to maximize the benefits of renewable energy for Michigan and ensure it represents a growing portion of our state's generation portfolio.

Guided by state crafted renewable energy and energy efficiency goals, Michigan has made great strides lowering electric bills, creating jobs, and reducing air pollution. Going forward, we should not look to Washington D.C. to establish our energy and environmental policy.

***SB 438 should be amended to delete the definition of clean energy resource and continue to retain the definition of renewable energy resource that our state legislature crafted in PA 295.***

*Avoid Reliance on Integrated Resource Plan without Mandated Standards*

Michigan LCV supports a robust integrated resource planning (IRP) process that effectively engages stakeholders in energy decision-making. However, an IRP should be

seen as a complement to strong renewable energy and energy optimization standards, not as a substitute.

IRPs have proven unable to produce the growth rates in renewable energy and energy efficiency we have seen through mandated standards. Indiana requires that utilities file IRPs.<sup>xi</sup> In 2011, the Indiana Legislature established a voluntary clean energy portfolio standard. The end result of an IRP without a mandated renewable standard is that Indiana has fallen far behind other Midwest states in renewable energy investment. To date, less than 5 percent of Indiana's net electricity generation comes from renewable sources.<sup>xii</sup> Additionally, the American Council for an Energy Efficient Economy (ACEEE) conducted a study comparing the efficiency savings achieved through an IRP in comparison to an energy efficiency standard. There was no statistical difference in spending on efficiency or savings between states that had no IRP and states with an IRP. States with energy efficiency standards, on the other hand, saw more than three times the amount of spending and savings from efficiency than states with no mandated standards.<sup>xiii</sup>

In a recent Op-Ed in the Detroit News, House Energy Committee Chairman Nesbitt pointed out correctly that "certainty is crucial for producing affordable, stable electric rates."<sup>xiv</sup> Here he was referring to utility market regulation, but certainty is equally important for continued growth in the renewable energy and energy efficiency industry. Our renewable energy and energy efficiency standards, unlike a stand-alone IRP process, effectively establish concrete market certainty through clear goals and timelines. This clarity and certainty allows utilities and industry to plan for the future and to see a clear path to recovering upfront capital investments in renewable and energy efficient infrastructure.

***State energy policy should not replace successful renewable energy and energy efficiency standards with an integrated resource planning process.*** Planning is critical, but as we have seen in other states, it does not serve the same purpose nor provide the same level of certainty as mandated standards.

#### *Ensure Fair Rates of Compensation for Net Metering Participants*

Under Michigan's current net energy metering program, solar owners are allowed to consume onsite what they can of the electricity their systems produce and send back any excess electricity to the grid. Solar owners are then paid the retail rate for the electricity they provide back to the grid. Consumers and DTE credit net metering program participants between \$0.12-\$0.13/kWh for the electricity the solar owners supply to the grid.<sup>xv</sup>

Under this system Michigan has seen a steady growth rooftop solar. The recently released report on net metering from the MPSC demonstrated a 25 percent increase in net metering participation between 2013 and 2014. There were 1,840 net-metered distributed generation owners and 1,947 installations in the state at the end of 2014, representing 14,210 kW. However, even with this steady growth Michigan has barely begun to scratch the surface of our solar potential. While the 25 percent increase is promising, in total net metering represents only 0.015% of Michigan's total retail electric sales.<sup>xvi</sup>

Michigan LCV supports the provisions within SB 438 that would raise the generation cap placed on net metering. The bill would, at the same time, establish an extremely prohibitive

cost recovery and rate pay structure for on-site renewable energy owners thus negating any growth that could have been realized through increasing the cap. Under SB 438 on-site renewable energy generators would be forced to buy all of their electricity from the utility and sell back any energy generated from their on-site systems to the grid at the wholesale rate. Under the wholesale rate the payback period for rooftop solar would take double the approximately 10 years it now takes making the upfront capitol investment a much less attractive option homeowners. Supporters of this rate structure claim that it will ensure rooftop solar customers are "paying their fair share of the electric system costs for the grid." However, the wholesale rate pricing fails to compensate customers for the additional benefits rooftop solar provides the grid and utilities, including less demand for new generation capacity, decreased environmental compliance costs, and increased grid resiliency.

***SB 438 should be amended to ensure fair rates of compensation for Michigan homeowners who have invested in on-site renewable energy generation.***

Michigan has a huge opportunity now to build on the success we have seen in our renewable energy and energy efficiency sectors. Our manufacturing strength, talent and know-how, combined with our renewable energy and energy efficiency standards, have made us a regional leader in clean energy.<sup>xvii</sup> Energy efficiency and renewable energy have already generated cost savings in Michigan, while at the same time, reducing pollution of the air we breathe and water we drink. These are winning industries that will lead Michigan in the right direction. Several studies have shown that Michigan now has the capacity to increase our renewable energy and energy efficiency standards. Michigan LCV believes that now is the time to act. **We urge the Michigan Legislature to pass legislation that will increase our renewable energy and energy efficiency standards.**

We appreciate your consideration and look forward to opportunities to work together to craft a clean, affordable, and reliable energy future for Michigan.

Sincerely,



Lisa Wozniak  
Executive Director, Michigan LCV

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<sup>i</sup> Michigan Public Service Commission, Report on the Implementation of the P.A. 295 Renewable Energy Standard and Cost-Effectiveness of the Energy Standard, February 2015

<sup>ii</sup> Michigan Public Service Commission, Report on the Implementation of the P.A. 295 Renewable Energy Standard and Cost-Effectiveness of the Energy Standard, February 2015

<sup>iii</sup> U.S. Energy Information Administration, Annual Energy Outlook 2014

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- <sup>iv</sup> Huron Daily Tribune, DTE Takes Wind Tour to Answer Questions,  
[http://www.michigansthumb.com/news/article\\_671ed2e2-efd-11e4-b2f8-ebe0b8f953c2.html](http://www.michigansthumb.com/news/article_671ed2e2-efd-11e4-b2f8-ebe0b8f953c2.html)
- <sup>v</sup> American Wind Energy Association,  
<http://www.awea.org/MediaCenter/pressrelease.aspx?ItemNumber=7122>
- <sup>vi</sup> Public Opinion Strategies, Michigan Voters' Views of Energy, March 2015.
- <sup>vii</sup> Michigan Public Service Commission, 2014 Report on the Implementation of P.A. 295 Utility Energy Optimization Programs, November 2014
- <sup>viii</sup> Michigan Energy Innovation Business Council and 2013 Michigan Workforce Agency Energy Cluster Analysis
- <sup>ix</sup> U.S. Energy Information Administration, Annual Energy Outlook 2014
- <sup>x</sup> Michigan Public Service Commission, Report on the Implementation of P.A. 295 Utility Energy Optimization Programs, November 26, 2014
- <sup>xi</sup> Indiana Utility Regulatory Commission, Integrated Resource Plans,  
<http://www.in.gov/iurc/2630.htm>
- <sup>xii</sup> U.S. Energy Information Administration, Indiana State Profile,  
<http://www.eia.gov/state/analysis.cfm?sid=IN>
- <sup>xiii</sup> American Council for an Energy Efficient Economy, IRP vs. EERS,  
<http://aceee.org/blog/2014/12/irp-vs-eers-there%E2%80%99s-one-clear-winner->
- <sup>xiv</sup> Detroit News, Rep. Nesbitt: Energy for the 21<sup>st</sup> Century,  
<http://www.detroitnews.com/story/opinion/2015/05/04/nesbitt-st-century-energy-policy/26720043/>
- <sup>xv</sup> Michigan Public Service Commission, Solar Working Group- Staff Report, June 30, 2014
- <sup>xvi</sup> Michigan Public Service Commission, Net Metering and Solar Program Report for Calendar Year 2014, August 2015.
- <sup>xvii</sup> Michigan Public Service Commission, Report on the Implementation of the P.A. 295 Renewable Energy Standard and Cost-Effectiveness of the Energy Standard, February 2015