



MEEA
Midwest Energy Efficiency Alliance

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Testimony on Behalf of the Midwest Energy Efficiency Alliance

Michigan Senate Energy and Technology Committee

August 11, 2015

Chairman Mike Nofs and Members of the Senate Energy and Technology Committee:

The Midwest Energy Efficiency Alliance (MEEA) seeks to submit this written testimony related to SB 437 and SB 438.

These comments reflect the views of the Midwest Energy Efficiency Alliance – a Regional Energy Efficiency Organization as designated by the U.S. Department of Energy – and not the organization’s members or individual entities represented on our board of directors.

MEEA is a non-profit membership organization based in Chicago, Illinois and founded in 2000. MEEA covers thirteen states in the Midwest and our members include investor-owned, cooperative, and municipal utilities; energy efficiency service and technology providers; manufacturers; state energy office representatives; and, academic, advocacy and research organizations. With more than 150 members, including 23 members in Michigan, we work to advance energy efficiency policies and facilitate energy efficiency program creation and delivery.

Executive Summary

On July 1, 2015 Senator Nofs and Senator Proos introduced SB 437 and SB 438, respectively. SB 437 proposes to amend PA 3(1939) in order to, in part, 1) establish utility sales/revenue decoupling for both gas and electric utilities; 2) establish an integrated resource planning (IRP) process and 3) study the potential to impose performance-based regulation (or incentive regulation). SB 438 proposes to amend PA 295(2008) in order to, in part, 1) sunset the existing Energy Optimization (EO) standard mandate (2018), 2) eliminate the existing renewable portfolio standard (RPS), 3) redefine numerous terms, including “clean energy resource” and “Energy Waste Reduction Improvement,” and 4) provide a framework for on-bill financing.

MEEA respectfully asks the Senate Energy and Technology Committee to retain the EO standard, and consider incorporating the standard into an IRP and performance-based regulatory framework. Without the EO standard, the framework proposed in SB 437 will rely solely on voluntary efforts, which will result in fewer cost-effective benefits to consumers/ratepayers. Following Indiana’s repeal of its energy efficiency standard in 2014, investment in energy efficiency programs in Indiana declined substantially and the overall cost-effectiveness of energy efficiency programs was reduced, which means lower energy savings and a loss of jobs and related economic development.



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Maintaining the current EO standard is itself an investment in Michigan’s burgeoning energy efficiency industry. While MEEA supports SB 437’s inclusion of decoupling, integrated resource planning and the performance-based regulation study, the success of these mechanisms depends on the existing mandated standard. MEEA also supports SB 438’s on-bill financing program.

Energy Optimization (EO) Standard

SB 438 includes a sunset provision for the existing mandatory Energy Optimization (EO) standard. MEEA recommends maintenance of the current EO standard as it ensures a consistent structure to support cost-effective energy efficiency programs and best positions Michigan to develop low cost compliance programs to meet the final proposed Clean Power Plan rule.

Michigan is an energy-intensive state. Accordingly, it is important to Michigan’s economy that the legislature ensures Michigan’s energy needs are met in a low-cost and reliable ways. It is because of these needs, that the EO standard of P.A. 295 has had a profoundly positive impact on the state. The EO standard drives the delivery of cost-effective programs that allow Michigan residents and businesses to take advantage of the state’s cheapest energy resource – energy efficiency.

At \$17 per megawatt hour, energy efficiency is nearly four times cheaper than new natural gas and coal fired power plants and two times cheaper than wind generation, as seen in Figure 1.

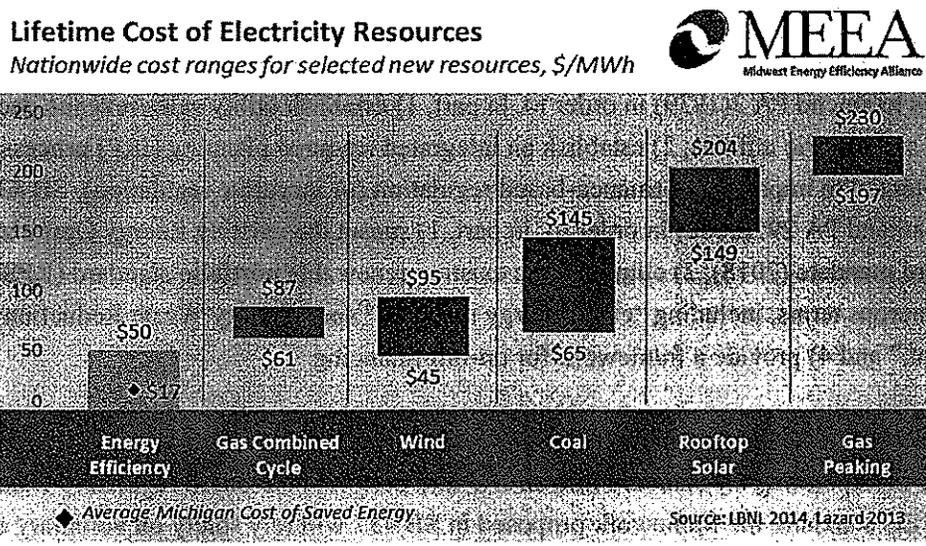


Figure 1: Lifetime Cost of Electricity Resources

The ramp-up of ratepayer funded energy efficiency programs since the EO standard went into effect has been dramatic – annual electricity savings have tripled since 2009 (see Figure 2). With increased



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savings, come significant benefits for every customer class as all energy efficiency programs delivered by utilities in Michigan passed rigorous benefit-costs tests and were approved by the Michigan Public Service Commission.¹

In 2013, for every \$1 spent on energy efficiency in Michigan, residents and businesses reaped \$3.75 in benefits.² The calculated benefits include energy- and capacity-related avoided costs such as the cost of building new generation, transmission, and distribution facilities. Additional economic benefits are recognized by the Michigan Public Service Commission, but not reflected in the benefit-cost analysis, including: increased demand for efficient equipment and services from local businesses, increased spending within the economy due to utility bill savings from reduced energy

Electricity Savings

Electricity Saved Statewide in Michigan Through Utility Energy Efficiency Programs, TWh

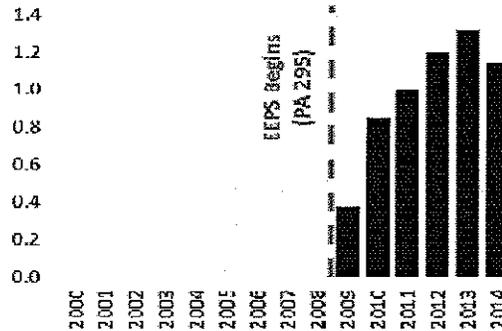


Figure 2: Electricity Savings in Michigan

consumption, and increased production from participating businesses.³ All of these benefits are highly localized and remain in-state. The aforementioned return on investment for energy efficiency programs is derived from independent third-party evaluation of utility energy efficiency programs and is a result of a highly analytical and scrutinized process.

The economic reach of programs driven by the EO standard is deep. An entire industry has developed in Michigan around the EO standard and the associated annual savings targets – program implementers, evaluators, contractors, and manufacturers, among others. These savings targets create the predictability and certainty companies in the energy efficiency industry need to continue to invest in Michigan and attract new investment. Moreover, utility energy efficiency programs resulting from the EO standard support *Made in Michigan*, a program that facilitates the use of state-manufactured products. Every dollar spent on final sales of manufactured products supports \$1.40 in output from other economic sectors and Michigan’s 575,000 manufacturing jobs.⁴

¹ 2014 savings are planned savings as determined by utilities’ filings with the Michigan Public Service Commission. The fact that the savings appear lower than 2013 reflects the fact that 2009 – 2013 numbers reflect actual savings and utilities have consistently exceeded their savings targets.

² Michigan Public Service Commission. *2014 Report on the Implementation of P.A. 295 Utility Energy Optimization Programs*. November 26, 2014. Web. http://michigan.gov/documents/mpsc/2014_eo_report_475141_7.pdf
2014 figures not yet available.

³ Ibid.

⁴ Consumers Energy. *Residential Trade Ally Program: Made in Michigan*. www.consumersenergytradeally.com/mim



If the EO standard is repealed, the impact will be immediate and significant. In 2014, Indiana repealed its statewide energy efficiency standard. Since that change, total utility energy efficiency budgets decreased by 30% while total energy savings decreased by 47%. These reductions led to an overall lowering of the cost-effectiveness of the energy efficiency program delivery for customers.⁵ Additionally, a recent independent report by GoodCents estimated that Energizing Indiana

saved about 11 million megawatt hours, resulting in significant cost savings, and created approximately 18,679 jobs.⁶ Following Indiana's repeal of their energy efficiency standard, Johnson Controls expects to lose half of the 2,257 jobs created under the standard.⁷ Assuming the repeal similarly impacts other major Indiana companies, a 50% reduction in jobs created under the standard would result in the elimination of over 9,000 jobs.

Energy Savings Reduced in Indiana after the Repeal of their Energy Efficiency Resource Standard

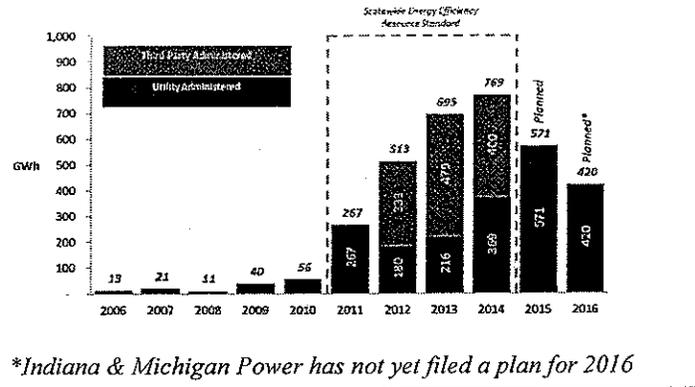


Figure 3: Indiana Savings Reductions Post-repeal of Energy Efficiency Standard

Indiana Electric Efficiency Spending and Savings by Customer Class

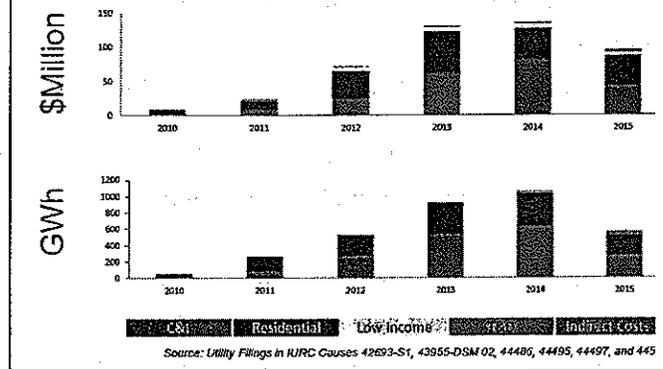


Figure 4: Electricity Spending and Savings in Indiana

⁵ Midwest Energy Efficiency Alliance. *Energy Efficiency in Indiana after Repealing the Statewide Standard*. April 24, 2015. http://www.mwalliance.org/sites/default/files/uploads/advokit/MEEA_2015_Advokit_Energy-Efficiency-Indiana-After-Repealing-Statewide-Standard_April2015.pdf.

⁶ Indiana Statewide Core Program Evaluation Team. *2014 Energizing Indiana Evaluation Report*. P.161. May 2015.

⁷ Lydersen, Kari. "Who's behind the effort to kill Indiana's efficiency law?" March 17, 2014. Web. <http://midwestenergynews.com/2014/03/17/whos-behind-the-effort-to-kill-indianas-efficiency-law/>.



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The stakes are high in Michigan as the EO standard has not only served as sound energy policy, but also as a proven economic development policy. Beyond the jobs within the energy efficiency industry, programs stemming from the EO standard have empowered businesses to invest in energy improvements that lower operating costs and improve their bottom line. Such investments would not be possible without a standard driving the availability of cost-effective programs and the assurance of the EO standard which allows for consistent availability of such programs. EO programs deliver both the expertise necessary to make those investments and incentives that result in reduced payback periods for private investments.

Energy efficiency resource standards (EERS) drive energy savings in the Midwest. Many of the states that have an EERS also require some form of long-term planning by their utilities. However, those states that rely solely on integrated resource planning (IRP) achieve significantly lower levels of energy savings, as seen in Figure 3. Therefore, we think retention of the EO standard is the best course for Michigan in sustaining and increasing cost-effective programs that will lead to continued economic growth.

Integrated Resource Planning

Pursuing an integrated resource planning process should not come at the expense of the current Energy Optimization standard. Michigan's EO standard can be incorporated into a utility's integrated resource planning process as a minimum amount of load reduction from demand-side management measures. It can be an input to the utility's modeling of supply and demand resources. Incorporating an existing EERS into an IRP process has been done successfully in a number of states. Within the Midwest, Minnesota incorporates their existing energy efficiency standard, which calls for electric savings of 1.5%, as an input to each utility's integrated resource plan. Through the IRP process, the Minnesota Public Utilities Commission then determines whether more energy efficiency can be achieved.⁸

Within a traditional integrated resource planning process, energy efficiency savings are not guaranteed to occur, even though energy efficiency is the lowest cost resource. It is important to remember that integrated resource planning is a utility-driven process and energy efficiency is not valued in the same way supply-side generation resources are by utilities within the current regulatory structure.

⁸ Minnesota Public Utilities Commission, Docket No. E-015/RP-13-53. *In the Matter of Minnesota Power's 2013-2027 Integrated Resource Plan, Order Approving Resource Plan, Required Filings, and Setting Date for Next Resource Plan*. Issue Date: November 12, 2013.



Electric Savings from Energy Efficiency in Midwest States, 2014
Gigawatt-hours (GWh) saved from utility energy efficiency programs

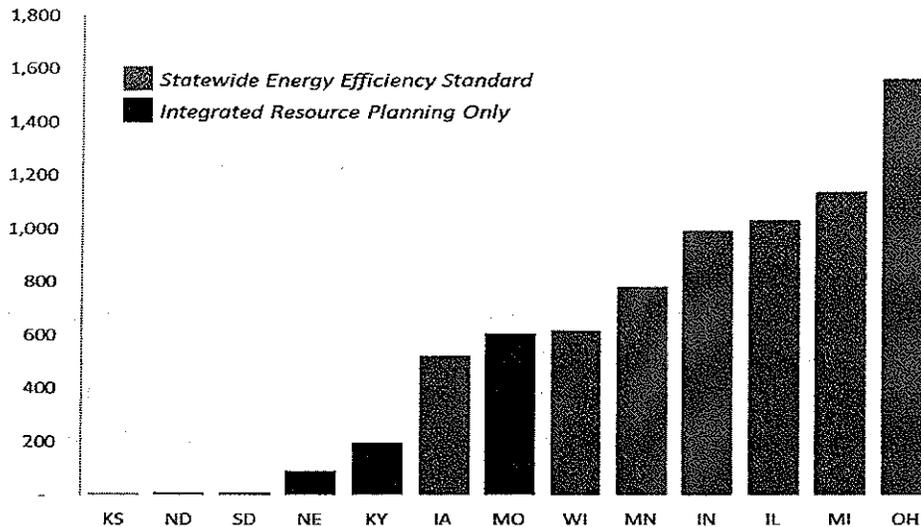


Figure 5: Midwest Comparison of Savings Driven by Energy Efficiency Resource Standards and Integrated Resource Planning.

*As of December 31, 2014, Indiana repealed its energy efficiency resource standard and Ohio's standard is "frozen." Both states are expecting a significant decrease in energy

Most recently, Arizona has developed an IRP process that revised their rules to require that the resource plans include energy efficiency to meet Commission-specified percentages.⁹ In Arizona, their Commission (ACC) has been given both constitutional and statutory authority to regulate electric utilities and undertake rulemaking, including establishment of the IRP process. Accordingly, utility practices are governed by administrative code. Arizona has implemented a robust, open rulemaking process to ensure stakeholders are able to offer input regarding rule revisions and draft documents. According to Regulatory Assistance Project (RAP), in its IRP, Arizona Public Service (APS) "has calculated the number of mWh of energy savings needed to be compliant with Commission standards, and has imported these targets into the IRP as a load decrement over the planning horizon."¹⁰ We believe that Michigan can maintain and exceed current savings by retaining the EO standard and incorporating the targets within the load reduction assessment of the IRP process.

⁹ Biewald, Bruce and Rachel Wilson. *Best Practices in Electric Utility Integrated Resource Planning: Examples of State Regulations and Recent utility Plans*. RAP. June 2013.

¹⁰ Ibid. At P.29.



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Decoupling

SB 437's proposed gas and electric decoupling provision should serve to advance energy efficiency by tempering the utilities' throughput incentive. However, the proposed language does not incorporate important criteria critical to implementation. MEEA recommends a structure would provide more detail to the Commission's criteria for approval of a submitted decoupling mechanism, to go beyond prudence and reasonableness and include language on the goals or intent of a decoupling mechanism. As an example, the point of decoupling should be made clear, including 1) that the Commission will apply rate adjustments to ensure that utilities collect no more and no less than is necessary to run the business and provide a fair return to investors; 2) that any excess revenue gets credited back to customers; and 3) that any shortfalls will be recovered from customers through rates designed during the subsequent rate case.

Relatedly, incentives linked to energy efficiency performance should be incorporated into SB 437 and/or SB 438. Performance incentives serve to incentivize utility investment in energy efficiency, with provision for return on investment for efficiency programs. Additionally, incentives can be accelerated to provide for a marginal increase in profit per expenditure on energy efficiency programs. According to the American Council on an Energy Efficient Economy (ACEEE), performance target incentives provide utilities with a reward for meeting savings targets, or alternatively a penalty for failure to meet such targets. For example, Rhode Island established an incentive mechanism for Narragansett Electric in 2005 providing 1) five performance-based metrics for specific program achievements and 2) kWh savings targets by sector.¹¹ Utilities receive incentive award amounts for achieving threshold, full target and stretch goals. Alternatively, according to ACEEE, shared savings incentives provide utilities a portion of the net benefits. For example, the Minnesota PUC has the authority to share the net savings from energy efficiency programs between ratepayers and the utility undertaking the program. Utilities are awarded with a set percentage of net savings from successful programs, with the award increasing as savings increase.

MEEA recommends that the proposed decoupling language be strengthened with additional criteria and a clear link to energy efficiency. Additionally, the Committee might look to other state approaches to performance incentives linked directly to energy efficiency program outcomes.

¹¹ ACEEE. "Incentivizing utility-led Efficiency Programs: Performance Incentives." Web. <http://aceee.org/sector/state-policy/toolkit/utility-programs/performance-incentives>



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Clean Energy Resource

SB 438 creates a newly defined term – “Clean Energy Resource.” Under the proposed wording, a “Clean Energy Resource” includes any electric generation technology that meets all current state and federal air emissions regulations or is considered “carbon neutral” as defined by the U.S. Environmental Protection Agency. As proposed, this definition is a broad term that includes seemingly all sources of lawful energy generation. SB 438 proposes to retain the definition of energy efficiency, as a demand-side tactic. The proposed “Clean Energy Resource” definition should include energy efficiency, as a supply-side resource that is part of the overall clean energy portfolio.

Conclusion

States across the country have pursued numerous approaches to drive energy savings, but none substitute for an energy efficiency standard. Integrated resource planning, decoupling, and financial incentives (via performance-based regulation) may complement, but not replace an energy efficiency standard. In the Midwest, Wisconsin, Ohio and Minnesota enacted or are pending adoption of decoupling for electric utilities. Each of these states put this policy into effect while their energy efficiency resource standards were already in place. As noted above, these are the same states that have experienced substantial energy savings in comparison to those states without an EERS. An EERS – a proven effective public policy – consistently delivers cost effective energy efficiency which benefits all consumers and reduces energy costs for all rate classes.

Michigan’s Energy Optimization standard has produced continued economic benefits for customers throughout the state. This policy delivers electric savings in a highly cost-effective manner and the utilities have exceeded their goals every year. In order to meet at least 15% of Michigan’s energy needs through energy efficiency by 2025,¹² the EO standard should be recognized as an existing, proven foundation upon which to build. It provides a single, predictable framework for achieving both gas and electric savings. MEEA is supportive of the legislature’s desire to explore policy and regulatory reform, but encourages you to build upon, not eliminate, the existing standard. MEEA is happy to provide any additional information, as requested, and wants to serve as a resource for the Committee. Thank you.

¹² Governor Rick Snyder, *A Special Message from Gov. Rick Snyder Ensuring Affordable, Reliable, and Environmentally Protective Energy for Michigan’s Future*, March 13, 2015, http://www.michigan.gov/documents/150313_Energy_Message_FINAL_484033_7.pdf