MEEA
Midwest Energy Efficiency Alliance

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Testimony on Behalf of the Midwest Energy Efficiency Alliance

Michigan Senate Energy and Technology Committee

April 28, 2016

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 (S-2) and SB 438 (S-2).

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

MEEA respectfully asks the Senate Energy and Technology Committee to retain some measure comparable to the existing electric energy efficiency standard, as a required target for energy savings or load reduction, in the proposed integrated resource planning (IRP) process. The retention of the natural gas energy optimization standard at 0.75% savings annually will continue Michigan's successful and cost-effective programs forward. In contrast, without an electric EO standard, SB 437's proposed IRP framework will rely solely on voluntary efforts, which have been proven to result in fewer cost-effective savings benefits to ratepayers and fewer economic and job creation benefits to the state.

IRP processes that do not include savings targets have resulted in greatly reduced energy savings. For example, 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 meant lower energy savings and a loss of jobs and related economic development for Indiana. Other states that have relied upon an IRP process alone, in other words without a required savings target, have seen much lower savings benefits (KS/ND/SD/NE/KY/MO). By contrast, states like Minnesota have achieved increased energy savings with the combination of required savings targets and a robust IRP process and statewide shared savings incentives. If greater flexibility is warranted, setting utility specific targets, that reflect each utility's individual circumstances, can achieve substantial energy savings. For example, Iowa sets an annual energy savings target for each rate regulated electric and gas utility, every five years

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following an assessment of energy usage and potential savings, resulting in energy savings of 1.17% of total retail electricity sales (2104).

Including targeted savings requirements into the Senate's preferred IRP model would maintain the current investment in Michigan's burgeoning energy efficiency industry. While MEEA is supportive of SB 437's IRP framework, including the supply-side and demand-side evaluation of energy waste reduction savings, these mechanisms should rely on the required savings targets to achieve cost-effective, successful energy savings in-lieu of new generation.

Michigan's Commitment to Clean Energy

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 low-cost and reliable ways. It is because of these needs, that the Energy Optimization standard (PA 295) has had a profoundly positive impact on the state. Over the past eight years, including during the passage of PA 295 and the years that followed, Michigan has consistently been a leader in the American Council for an Energy Efficient Economy's (ACEEE) State Scorecard results (year and rank out of 51) – 2008 - #38; 2009 - #34; 2010 - #27; 2011 - #17; 2012 - **#12**; 2013 - **#12**; 2014 - **#12**; 2015 - **#14**. In part, the national recognition is the result of 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.

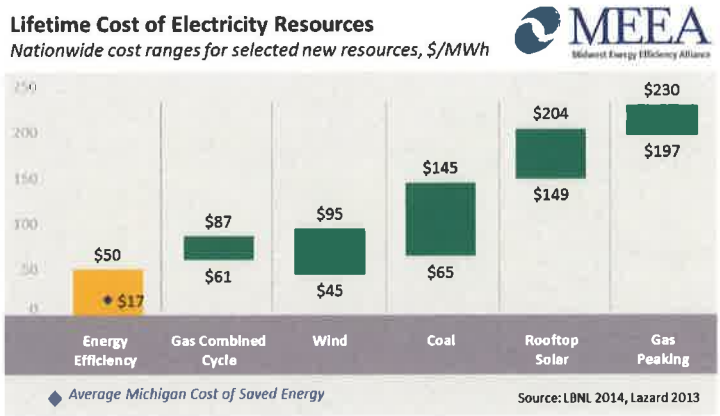

Figure 1: Lifetime Cost of Electricity Resources

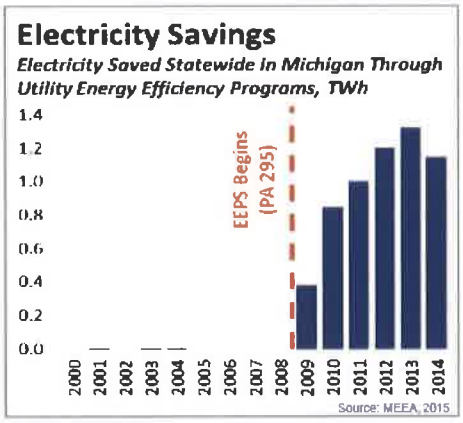

Figure 2: Electricity Savings in Michigan

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 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

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Michigan Public Service Commission.[1] The citizens of Michigan are staunch supporters of energy efficiency investments. 90% of voters across the state, of all demographics, want to expand energy efficiency programs and 64% of voters view policies that increase energy efficiency as policies that create jobs and reduce energy costs over time.[2]

In 2014, for every $1 spent on energy efficiency in Michigan, residents and businesses reaped $4.38 in benefits.[3] 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 consumption, and increased production from participating businesses.[4] 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.

An entire industry has developed in Michigan around the efficiency investments and the associated annual savings targets – program implementers, evaluators, contractors, and manufacturers, among others. Responding to the US Energy and Employment Report survey of employers, the energy efficiency sector predicted hiring rates of 14 percent in 2016, or almost 260,000 new hires.[5] Michigan should continue to expand investment in energy efficiency to attract these jobs. As it stands, Michigan employs 47,870 energy efficiency industry workers, which accounts for 54% of Michigan's clean energy workforce.[6] The 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 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.[7]

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[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 Voters' Views of Energy, Public Opinion Strategies, Christian Coalition of Michigan. March 2015.
[3] Michigan Public Service Commission. *2015 Report on the Energy Optimization Programs and Cost-effectiveness of PA 295 Standards*. September 30, 2015. Web. http://www.michigan.gov/documents/mpsc/2015_Energy_Optimization_Report_501548_7.pdf
[4] Ibid.
[5] United States Energy and Employment Report (USEER). March 24, 2016.
[6] 2016 Clean Jobs Midwest – Michigan, Clean Energy Trust. April 2016. Web. http://www.cleanjobsmidwest.com/story/michigan
[7] Consumers Energy. *Residential Trade Ally Program: Made in Michigan*. www.consumersenergytradeally.com/mim

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Without IRP analysis requirements tied to energy efficiency as a supply-side and demand-side resource on the same level generation, repealing the electric standard could bring an immediate and significant detrimental impact. 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.[8] 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.[9] Following Indiana's repeal of their energy efficiency standard, Johnson Controls expects to lose half of the 2,257 jobs created under the standard.[10] 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.

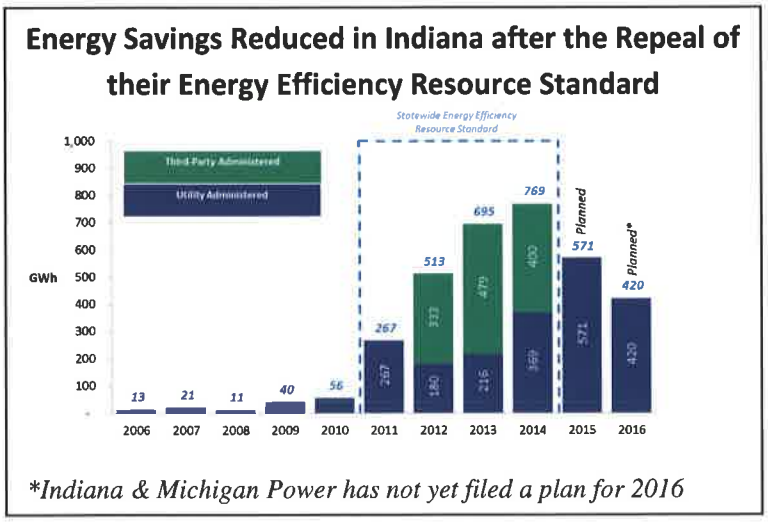

Figure 3: Indiana Savings Reductions Post-repeal of Energy Efficiency Standard

The stakes are high in Michigan as the existing 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 existing 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 existing standard which allows for consistent availability of such programs. Current energy efficiency programs deliver both the expertise necessary to make those investments and incentives that result in reduced payback periods for private investments.

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 4.

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[8] 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.

[9] Indiana Statewide Core Program Evaluation Team. *2014 Energizing Indiana Evaluation Report.* P.161. May 2015.

[10] 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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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 typically not valued in the same way supply-side generation resources are by utilities within the current regulatory structure.

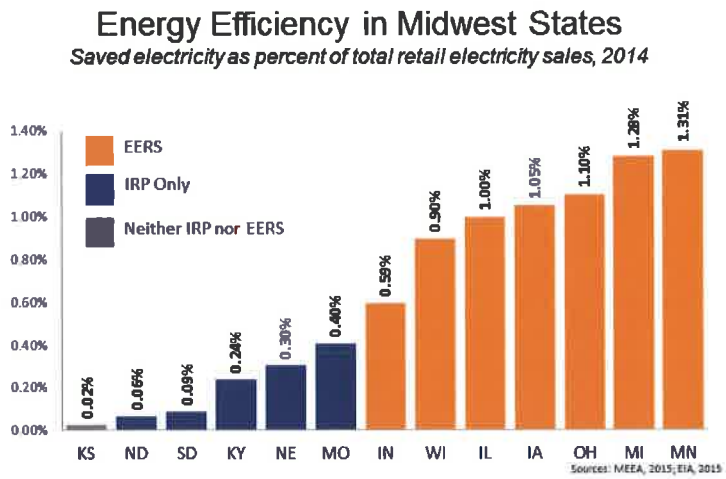

Figure 4: Midwest Comparison of Saved Electricity as Percent of Total Retail Electricity Sales.

*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 savings for 2015.

Pursuing an integrated resource planning process should not come at the expense of the energy savings targets that can be incorporated into a utility's IRP 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.[11] As shown in Figure 4, Minnesota, which has both a robust IRP process as well as a 1.5% Conservation Improvement Program (EERS), leads the Midwest when it comes to savings. Michigan is close to Minnesota, but following the proposed full repeal of the standard without adding targeted savings requirements to the IRP, there could be a significant drop-off in cost-effective energy savings as demonstrated in Indiana.

Arizona developed an IRP process and revised its rules to require that the resource plans include energy efficiency to meet Commission-specified percentages.[12] In Arizona, the 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

[11] 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.

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

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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."[13] We believe that Michigan can maintain and exceed current savings by retaining savings targets and incorporating them within the load reduction assessment of the IRP process.

Energy Waste Reduction

SB 438 replaces "Energy Optimization" with "Energy Waste Reduction", while also changing the definition. Section 3(F)(ii) amends the existing definition of the term "Energy Waste Reduction", in part, as follows: "load management, to the extent that the load management reduces ~~overall energy usage.~~**PROVIDER COSTS.**" Under the proposed definition, "Energy Waste Reduction" is broadly defined as load management to the extent that it reduces provider costs, rather than merely overall energy usage. The existing definition more closely follows the spirit of the term "Energy Waste Reduction", as it directly relates to the reduction of energy usage. As amended, the term could include any load management measure reducing any number of unrelated provider costs. Therefore, MEEA respectfully requests that the definition not be amended in order to keep the clear focus of what is now called "Energy Waste Reduction" on energy usage.

Conclusion

MEEA is supportive of the Michigan Senate's desire to explore policy and regulatory reform, but encourages you to build upon, not eliminate, the existing standard. 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. 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,[14] the targeted energy savings should be recognized as an existing, proven foundation upon which to build. Given that the proposed legislation recognizes the value of mandated efficiency standards on the gas utility side, we hope you will recognize that required savings targets provide a single, predictable framework for achieving electric savings as

[13] Ibid. At P.29.
[14] 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

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demonstrated over the past seven years. MEEA is happy to provide any additional information, as requested, and wants to serve as a resource for the Committee. Thank you.

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.