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Testimony on Behalf of the Midwest Energy Efficiency Alliance
Michigan House Energy Policy Committee
November 4, 2015

Chairman Aric Nesbitt and Members of the House Energy Policy Committee:

The Midwest Energy Efficiency Alliance (MEEA) seeks to submit this written testimony related to HB 4297 and HB 4298.¹

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 September 16, 2015 Representative Nesbitt introduced two bills, HB 4297 and HB 4298. HB 4297 proposes to amend PA 295(2008) in order to, in part, 1) sunset the existing Energy Optimization (EO) standard mandate (2019) and 2) transition IRP process with EO as the EO is phased out. HB 4298 proposes to amend PA 3(1939) in order to, in part, establish an integrated resource planning (IRP) process.

MEEA recommends retention of the EO standard as a baseline investment in energy efficiency, and consideration of incorporating the standard into an IRP framework to generate additional cost-effective energy savings. Without the EO standard, the framework proposed in HB 4298 will rely solely on voluntary efforts, which will result in fewer cost-effective benefits to 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. Maintaining the current EO standard is itself an investment in Michigan's burgeoning energy efficiency industry. The success of HB 4298's integrated planning mechanisms depends on the existing mandated standard.

¹ HB 4297 refers to Substitute for House Bill No. 4297 (H-1) Draft 2 (2015) and HB 4298 refers to Substitute for House Bill No. 4298 (H-3) (2015) as of 4pm (est) on November 3, 2015.

Energy Optimization (EO) Standard

HB 4297 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 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 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 lowest cost 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.

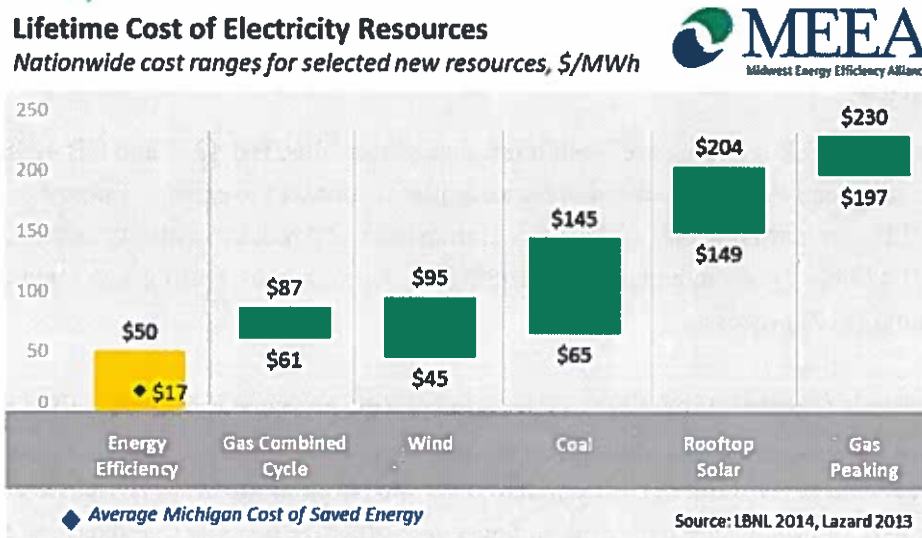


Figure 1: Lifetime Cost of Electricity Resources

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). Moreover, MI utilities have exceeded electric (1%) and natural gas (0.75%) targets every year. With increased energy 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.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. There are additional economic benefits recognized by the Michigan Public Service

Commission (MPSC) - those are not reflected in the benefit-cost analysis, but still beneficial to residents and businesses. They include 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 – monies invested in Michigan. 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.

Electricity Savings

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

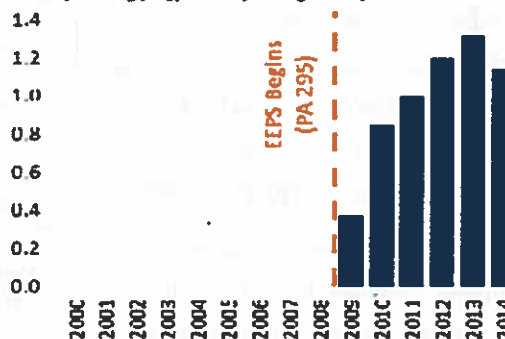


Figure 2: Electricity Savings in Michigan

² 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.

³ Michigan Public Service Commission. *2015 Report on Energy Optimization Programs and Cost-effectiveness of PA 295 Standards*. September 30, 2015. Web. https://www.michigan.gov/mpsc/0,4639,7-159-52495_53472-292333--,00.html.

⁴ Ibid.

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 – contractors, installers, manufacturers, program implementers and evaluators, among others. These savings targets create the predictability and certainty companies in the energy efficiency

industry need to continue to invest in Michigan, hire employees 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.⁵

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.⁶ 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.⁷ Following Indiana’s repeal of their energy efficiency standard, Johnson Controls

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

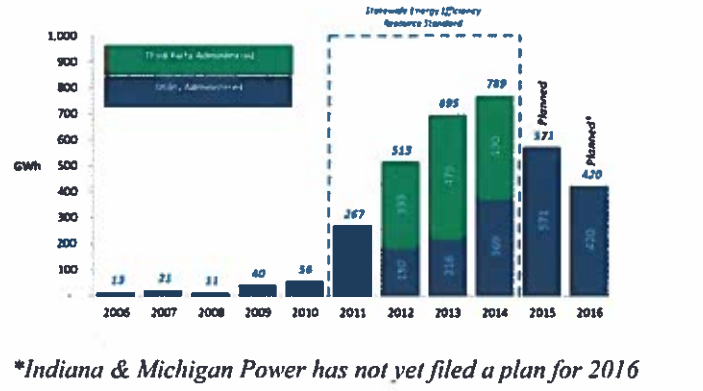


Figure 3: Indiana Savings Reductions Post-repeal of Energy Efficiency Standard

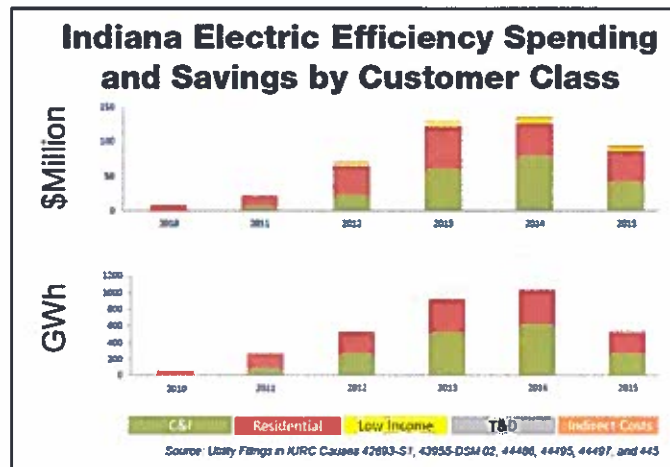


Figure 4: Electricity Spending and Savings in Indiana

⁵ Consumers Energy. *Residential Trade Ally Program: Made in Michigan*. www.consumersenergytradedally.com/mim
⁶ 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
⁷ Indiana Statewide Core Program Evaluation Team. *2014 Energizing Indiana Evaluation Report*. P.161. May 2015.



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expects to lose half of the 2,257 jobs created under the standard.⁸ 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.

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 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

HB 4298 proposes an integrated resource planning process. In doing so, this bill would require the MPSC to, in part, “assess the potential for increase in energy efficiency in this state, based on what is technologically and economically feasible and what is reasonably achievable.”⁹ The bill requires the utilities to include in each plan “projected energy efficiency program savings under any energy efficiency program requirements and the projected costs for that program,”¹⁰ as well as an analysis of the availability and program costs associated with other “energy efficiency programs”.¹¹ MEEA commends the inclusion of energy efficiency, but the role of energy efficiency can be much stronger.

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. Minnesota

⁸ 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/>.

⁹ Substitute for House Bill No. 4298 (H-3) (2015), p.22, lines 19-21.

¹⁰ Ibid, at p.326, lines 12-14.

¹¹ Ibid, at p.26, lines 19 and 23.

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.¹²

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.

Energy Efficiency in Midwest States

Saved electricity as percent of total retail electricity sales, 2013

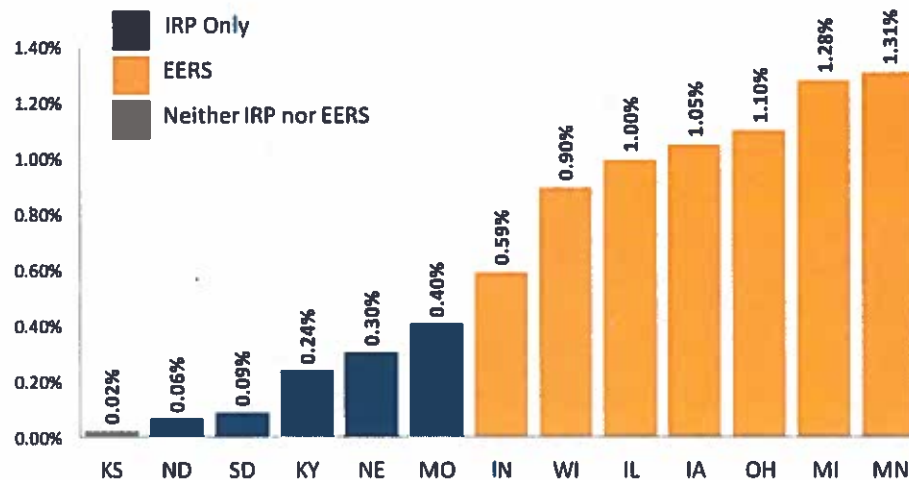


Figure 5: Midwest Comparison of Saved Electricity as Percent of Total Retail Electricity Sales.

*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.

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.¹³ 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

¹² 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.

¹³ 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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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.”¹⁴

In Massachusetts, energy needs must be met through efficiency first, before seeking new generation.

*Section 21. (a) To mitigate capacity and energy costs for all customers, the department shall ensure that, subject to subsection (c) of section 19, electric and natural gas resource needs shall first be met through all available energy efficiency and demand reduction resources that are cost effective or less expensive than supply. The cost of supply shall be determined by the department with consideration of the average cost of generation to all customer classes over the previous 24 months.*¹⁵

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.

Incentives

Incentives linked to energy efficiency performance could be incorporated into HB 4297 and/or HB 4298. 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.¹⁶ 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.¹⁷ 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.¹⁸ In Minnesota the PUC has the authority to share the net savings from energy efficiency programs between ratepayers and the utility undertaking the program. Utilities are

¹⁴ Ibid. At P.29.

¹⁵ <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter25/Section21>.

¹⁶ ACEEE. “Incentivizing utility-led Efficiency Programs: Performance Incentives.” Web. <http://aceee.org/sector/state-policy/toolkit/utility-programs/performance-incentives>.

¹⁷ Ibid.

¹⁸ Ibid.



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awarded with a set percentage of net savings from successful programs, with the award increasing as savings increase.

Accordingly, the Committee might look to other state approaches to performance incentives linked directly to energy efficiency program outcomes, particularly energy savings.

Definitions

There are numerous terms in HB 4298's amendatory language that must be defined in order to remove ambiguity and to be implemented as intended. On page 22, "reasonably achievable" should be defined with measurable, reliable criteria. On page 29, please define "reasonable discovery" and "reasonable and prudent". On page 30, please define the terms "reasonable compliance", as it relates to all applicable state and federal environmental regulations, laws and rules, and "reasonable progress", as it relates to increasing energy efficiency. Defining these terms will ensure that the utilities, the Commission, the public and all other interested parties know exactly what the Commission expects with regard to the IRP process.

Additionally, HB 4297 removes a number of EO-related definitions beginning in PA 295(5)(e). Given that HB 4297 retains the EO standard during the first two years of HB 4298's newly imposed IRP process in PA 295(77)(2), the Energy Optimization definitions remain both relevant and critical to the understanding and implementation of the IRPs under an existing EO standard. Additionally, going forward, these definitions will play an important role in Michigan's approach to Clean Power Plan compliance.

Michigan Public Service Commission's Role

Under the proposed bills, the MPSC would be tasked with administering and reviewing the integrated resource plans. As proposed in HB 4298, the MPSC's review of the utility's submitted IRPs is limited to approval, modification and denial. Modification is not defined, particularly with regard to the nature of the modification. Please incorporate an explanation of how the MPSC can modify the plans, such as through comments or line-item strike-through/underline format. As proposed, if modified, the utility can either 1) accept the modifications or 2) reject them and submit a new plan. However, the proposed amendments do not speak to whether or not (or to what extent) the utility must incorporate the previous modifications in the new plan. Additionally, the re-submittal timeline is one-half the duration of time provided the Commission for the original submittal (90 days compared to 135). Please insert language clarifying the role and nature of the modifications as they concern subsequent resubmittals, including whether they are binding. Moreover, please clarify the resubmittal's baseline content compared to the original submittal given the reduced review time for the Commission (and all other interested parties).



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Conclusion

States across the country have pursued numerous approaches to drive energy savings, but none substitute for an energy efficiency standard. Integrated resource planning may complement, but not replace an energy efficiency standard. 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 2025,¹⁹ 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.

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.

¹⁹ 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

