

**Testimony of James A. Ault,
Michigan Electric and Gas Association**

**House Energy Policy Committee
HB 4297 (Energy Optimization)**

April 29, 2015

Dear Committee Members:

We have provided more detailed information to your offices concerning the utilities in the Michigan Electric and Gas Association (“MEGA”), listed below. Members regulated by the Michigan Public Service Commission (“MPSC”) are currently subject to the energy optimization (“EO”) requirements of the Clean, Renewable and Efficient Energy Act, Part 2 – Subpart B of 2008 PA 295 (“Act 295”); MCL 460.1071-460.1097. Accordingly, the members file periodic EO plans and reports with the MPSC required by law. The members are meeting or usually exceeding the annual electric and gas standards as reported by the MPSC.

Status of the EO Legal Requirements

Act 295, Section 97 requires the MPSC to make a report to the legislature by September 30, 2015 with more detailed analysis of energy savings, review of possible additional cost-effective programs and recommended legislation. If the MPSC determines that a particular provider’s program is not cost effective, in this September report, the provider’s program is suspended after 180 days and the provider shifts to maintaining the previous level of savings. Otherwise programs can continue subject to this potential for suspension if no longer cost effective. MCL 460.1097. The savings annual targets each year would remain at current levels with new incremental savings at the target level required each year.

MEGA Member EO Programs

Initially, all MEGA electric and gas providers subject to Act 295 elected to implement their EO programs through the state program administrator selected by the MPSC under Act 295, Section 91. Although such providers are exempt from statutory targets, the state administrator, Efficiency United, is contractually bound to achieve the same targeted savings. For the years starting with 2014, Indiana Michigan Power Co (I&M) and SEMCO Energy Gas Co (SEMCo) have been authorized to implement their own programs and qualify for a performance incentive mechanism not available to the Efficiency United participants. Efficiency United also administers programs for one cooperative and several municipal electric providers.

The MPSC annual reports show that for the years after the implementation year of 2009, MEGA providers, with only a few exceptions, met or exceeded the targets required by law and incorporated in the Efficiency United contract. The only exceptions were I&M (96% of target in 2011), MGU (75% in 2011) and UPPCo (94% in 2010). Annual spending and surcharges are included in the MPSC annual

Alpena Power Company
Aurora Gas Company
Citizens Gas Fuel Company

Indiana Michigan Power Company
Michigan Gas Utilities
SEMCO Energy Gas Company

Upper Peninsula Power Company
We Energies
Wisconsin Public Service Corporation
Xcel Energy

reports – for the Efficiency United participants in 2013 (last year reported). Here is a table showing total savings and residential surcharges in 2013:

<u>Company</u>	<u>Total 2013 EO Spending (2% of 2011 sales revenue)</u>	<u>Average Monthly R Surcharge</u>
Alpena Power – electric	\$456,435	\$1.82
I&M Power – electric	\$4,517,294	\$0.55
NSP (Xcel) – electric	\$203,557	\$1.63
UPPCo – electric	\$1,834,617	\$2.67
We Energies – electric	\$883,440	\$1.77
WPS – electric	\$409,687	\$1.37
MGU – gas	\$3,471,335	\$1.51
SEMCo – gas	\$7,363,011	\$0.92
WPS – gas	\$98,743	\$0.13
NSP (Xcel) – gas	\$112,867	\$0.14
	\$19,350,986	

Position on Repeal Proposal – HB 4297

HB 4297 proposes complete repeal of Act 295’s EO program. Generally speaking, MEGA supports cost effective energy efficiency programs that fit the circumstances of its individual utility members. Therefore, MEGA can support repeal of the EO mandate program provided that the repeal does not prohibit future use of energy efficiency under the regulatory system, where appropriate.

MEGA believes that prior to the passage of Act 295, the MPSC had the authority under its ratemaking powers to consider and approve utility EO-type programs on an individual utility case-by-case basis. In addressing repeal of the Act 295 program we ask that the legislature consider these comments:

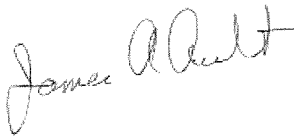
- The MPSC and/or MDEQ, and utilities, may require the ability to develop energy efficiency and conservation programs as part of Michigan’s compliance with the Environmental Protection Agency’s Clean Power Program.
- Energy efficiency and conservation programs should be permissible elements in addressing capacity needs for electric utilities, through integrated resource planning (“IRP”) and certificate of need (“CON”) processes.
- In an electric utility’s IRP process, the adoption of energy efficiency requirements should include reasonable measures to compensate the utility for lost fixed cost revenue attributable to the success of the program in reducing overall sales levels. Such measures assure a level playing field for demand and supply side options. The MPSC’s authority in this area was found lacking in a 2012 appeals court decision based on the statutory changes in Act 295 – the Court believed these measures were intentionally limited to natural gas providers.
- The new IRP/CON procedures are not intended for natural gas utilities. The law should clarify that the MPSC has authority to consider EO programs proposed for gas utilities, including appropriate cost recovery and incentives for good performance. Clarification is appropriate to avoid judicial interpretation of EO mandate repeal as indicative that the MPSC lacks any authority in this area.

- If some form of EO mandate continues, the law should allow flexibility for the smaller utilities, including investor-owned, municipals and cooperatives. Programs should be subject to variance among these providers taking into account existing rate levels (affordability), need or lack of need for capacity and practicality of program offerings for the number and type of utility customers.

Thank you for the effort to understand these complex energy issues. We appreciate the opportunity to provide comments and welcome any questions you may have for our association or individual members.

Very truly yours,

MICHIGAN ELECTRIC AND GAS ASSOCIATION

A handwritten signature in cursive script that reads "James A. Ault".

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