February 26, 2015

Dear Governor Snyder, Senator Nofs, and Representative Nesbitt,

We, the undersigned representatives of Michigan's energy efficiency industry, thank you for your leadership to date in working to eliminate energy waste in Michigan. In developing the framework for Michigan's energy future, we offer the following recommendations:

1. Maintain Energy Optimization as a Core Component of Michigan's Energy Policy

We strongly encourage you to maintain the current Energy Optimization (EO) framework as a clear and distinct policy mechanism. Data on Michigan's current PA 295 Energy Optimization program is straightforward and compelling. In 2013, the most recent assessment by the Michigan Public Service Commission (MPSC), Michigan's energy optimization programs saved ratepayers $3.75 for every dollar spent. The MPSC estimated that the current EO program will save ratepayers $2.5 billion between 2011 and 2015, and the Michigan Energy Efficiency Contractors Association estimated that every $1 invested in commercial and industrial energy efficiency spurred more than $21 in project-related activity, infusing more than $1.2 billion into Michigan's economy. The Michigan Conservative Energy Forum concluded that simply maintaining the current goals would contribute $8.1 billion to the State's economy between now and 2025, while supporting 60,000 job years and contributing $2.8 billion in employment compensation. The 2013 Michigan Workforce Agency Energy Cluster Analysis showed that 46,000 of the 84,000 jobs (55%) in Michigan's energy sector were derived from energy efficiency operations. The majority of the jobs revolve around construction-related activities that improve energy efficiency of buildings, many of which are driven by the utility energy optimization programs.

The current program has no sunset, meaning absent efforts to eliminate these goals, Michigan ratepayers will continue to reap the rewards of the program for years to come. Importantly, as cost-effectiveness is built into the statutory requirements of the program, all investments made under the program are required by law to produce a positive return on investment. And while Michigan's energy optimization program has been in effect for six years, many other states across the country continue to see cost-effective investments with programs that have been around for much longer, suggesting that there is still a substantial amount of "fruit" left on the tree. Specific studies of energy efficiency potential conducted for the MPSC have confirmed that conclusion.

Furthermore, based on experience from dozens of other states, the most recent analysis conducted by the American Council for an Energy Efficient Economy (ACEEE), subsequent to its June 2014 paper on Integrated Resource Planning, suggests an integrated resource plan alone, without explicit energy efficiency goals, would be far less effective in reducing energy waste than maintaining or expanding the current Energy Optimization statutory goals. Indeed, ACEEE found that of the many different approaches – including integrated resource planning – deployed to boost energy efficiency in a state, the only data-proven mechanism to reduce energy waste was the existence of an energy efficiency standard for utilities (such as Michigan's current Energy Optimization approach).

For these reasons, we strongly encourage you to maintain the Energy Optimization savings goal approach as a distinct element of Michigan's energy policy framework. This will be essential for pursuing the goal of eliminating energy waste, and will be an important complement to whatever 'clean energy standard' is developed for electric generation options.

2. Expand the Energy Optimization Goal to Better Reflect All Achievable, Cost-effective Energy Savings

While the current energy optimization goals for electric and natural gas utilities are scheduled to remain at 1.0% and 0.75% savings per year, respectively, there is a strong economic case for expanding the goals to include all achievable, cost-effective reductions in energy waste. The 2013 *Michigan Electric and Natural Gas Energy Efficiency Potential Study - Final Report* appended to the *Readying Michigan to Make Good Energy Decisions: Energy Efficiency* report, authored by MPSC Chair John Quackenbush and former state energy office director Steve Bakkal, found that the State could cost-effectively increase its Energy Optimization goals for electric utilities from 1.0 percent per year to between 1.5-1.6 percent per year, even accounting for administrative constraints, cost caps, and the need to ramp up the program over time.

In analyzing the economic opportunities of expanding the current goal, the Michigan Conservative Energy Forum found that increasing the goal to 1.5 percent per year would yield a total of $22 billion in economic impact over the next ten years - $14 billion more than the business as usual projections under the 1.0% goal. Increasing the goal would also result in an additional 100,000 job years and $5 billion in additional employment compensation.

If anything, these figures represent conservative estimates of the opportunity to scale energy efficiency in Michigan; indeed, the same 2013 Energy Efficiency Potential Study concludes that utilities could cost-effectively achieve energy efficiency savings of more than 30 percent through 2023 - more than three times the current energy optimization goal.

Expanding the current electric Energy Optimization goal to at least 1.5 percent per year provides a cost-effective means of reducing energy waste while scaling up economic opportunities for the state. We encourage an increase in our Energy Optimization goal of at least that amount.

3. Remove Statutory Constraints Limiting Michigan Utilities' Ability to Fully Implement Energy Efficiency Measures

PA 295 includes two distinct measures that limit the ability of Michigan utilities to fully implement cost-effective energy efficiency measures that save ratepayers money. The first is ambiguity as to whether utilities are authorized to spend more than 2.0 percent of retail sales on energy efficiency measures. On its face, the statute authorizes utilities to spend more than 2.0 percent of total retail sales so long as these additional expenditures are: 1) specifically approved by the MPSC; 2) reasonable and prudent; and, 3) meet the utility system resource cost test on a life cycle basis. However, additional language in the statute seems to set a firm cap on utility energy optimization expenditures; to date no utility has sought permission to go above the 2.0 percent of retail sales level. Resolving this statutory ambiguity and removing the arbitrary 2.0 percent expenditure cap would help ensure full implementation of cost-effective energy efficiency improvements in Michigan.

In addition, the Michigan Court of Appeals 2012 decision in *ABATE v. MPSC* identified a lack of jurisdiction of the MPSC to authorize "decoupling" mechanisms for electric utilities, although the MPSC does have authority to order decoupling for natural gas utilities. Providing the MPSC with parallel authority to approve decoupling for electric utilities would remove existing disincentives to improve utility energy efficiency programs and ensure the effectiveness of our energy optimization goals.

Municipalities, ratepayers, and consumers also need sensible protections against unexpected shifts for implementing previously assured energy efficiency improvements. Since much of Michigan's energy efficiency industry relies on cost savings, this helps ensure affordability and reliability for all stakeholders - industry and consumers alike - ultimately leading to environmentally sound energy improvements.

4. Expand the Use and Utilization of Finance Offerings to Boost Energy Efficiency Improvements

The Michigan Legislature took an important step toward expanding financing for energy efficiency improvements during the last session in passing HB 5397 (now PA 408 of 2014), which allows local governments that own municipal electric utilities the option of offering "on-bill financing" for energy efficiency upgrades and other energy improvements.

The enactment of PA 408 adds to other energy efficiency finance offerings in the State, including the successful Michigan Saves program that offers low-interest loans for energy efficiency projects and the Property Assessed Clean Energy (PACE) financing available for commercial and industrial energy projects.

Even with these programs, substantial room for improvement remains. On-bill financing, for example, is currently only offered to customers of participating municipal utilities; allowing cooperative and investor owned utilities the option of providing this type of financing to their customers could enhance the energy efficiency market and improve overall impact considerably. Some states, including Illinois, New York and California, have gone a step further in requiring utilities to offer financing options to their customers and a number of states are pioneering new financing programs in partnership with private-sector financial institutions.

In conclusion, we applaud Governor Snyder and the Michigan Legislature for your interest in and leadership in eliminating energy waste in Michigan. Maintaining a specific focus on efficiency, expanding our Energy Optimization goals, eliminating statutory restrictions that limit the effectiveness of current programs, and expanding the availability of capital for energy efficiency improvements all represent a proven way forward, and would help assure a reliable and clean electric supply for Michigan at the lowest possible cost.

Sincerely,

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