



MICHIGAN CHAPTER

September 24, 2013

To: Representative Nesbitt and members of the
House Energy and Technology Committee

RE: Review of Public Act 295 of 2008

Opening Comment

On behalf of our 170,000 members and supporters in Michigan, the Sierra Club Supports PA 295 of 2008 and calls for expanding the Energy Optimization (EO) standard and removal of the spending cap to further continue the success of Energy Efficiency in Michigan.

Arguments in support of PA 295 - EO

Energy Efficiency is cheaper than any new electric generation. When combined with renewable energy, is the cheapest form of new electric generation.

According to the February 2013 MPSC Annual Report on the Implementation of the P.A. 295 Renewable Energy Standard and the Cost-Effectiveness of the Energy Standards, the weighted average prices of energy efficiency was \$20 per megawatt/hour, less than the cost of all new and existing generation. The report also noted that the combination of energy efficiency and the renewable energy standard is bringing the cost even further down, to an average weighted cost of \$46 per megawatt/hour, which is one-third less than the cost of electricity from a combined cycle natural gas plant

(http://www.michigan.gov/documents/mpsc/implementation_of_PA295_renewable_energy_411615_7.pdf).

The Program has Saved Ratepayers on their Bills

Michigan's Energy Optimization program is hugely successful and extremely cost-effective. Energy Efficiency provides the cheapest source of base load power. The energy optimization cost of conserved energy weighted average was determined to be \$20/MWh versus \$133/MWh as the levelized cost of a new conventional coal fired power facility, according to the February 2013 MPSC Annual Report on the Implementation of the P.A. 295 Renewable Energy Standard and the Cost-Effectiveness of the Energy Standards

(http://www.michigan.gov/documents/mpsc/implementation_of_PA295_renewable_energy_411615_7.pdf). The 2012 MPSC Report on the Implementation of the P.A. 295 Utility Energy Optimization Programs showed that for every \$1 spent on the program, customers save an average of \$3.55(http://www.michigan.gov/documents/mpsc/2012_EO_Report_404891_7.pdf). This means that energy efficiency is the cheapest way to economically assist Michigan's ratepayers. Efficiency further saves ratepayers by avoiding costs of new future generation by eliminating the need for it.



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EO is creating Jobs in Michigan

Energy efficiency creates thousands of Michigan jobs weatherizing buildings, upgrading appliances, and modernizing lighting and heating. Because energy efficiency services are provided by Michigan businesses, all of the economic activity generated by the energy efficiency programs stays in Michigan.

The Program has Worked – Michigan is Improving

A 2011 report published by the American Council for an Energy Efficient Economy shows that Michigan is one of the top 6 most improved states in the country, in regard to Energy Efficiency savings. The report points out that this vast improvement is due to the implementation PA 295 (<http://aceee.org/research-report/e115>).

The Program has Worked – Utilities are Making a Profit Too

The report 2012 MPSC Report on the Implementation of the P.A. 295 Utility Energy Optimization shows that the 2011 electric utilities achieved savings of 116% of the target and natural gas utilities achieved savings of 134% of the target. Utilities are rewarded for exceeding the targets.

Consumers got a \$5 million bonus for exceeding the EO standard in 2009 and DTE got a \$8.5 million bonus in 2011. Consumers Energy saved its customers \$38 million through energy efficiency last year, and stands to earn an \$8.5 million reward (http://www.mlive.com/business/jackson-lansing/index.ssf/2011/05/consumers_energy_customers_sav.html).

Consumers Energy reports that it's customers "have saved \$365 million since the programs began in 2009, with savings extending almost 10 years beyond the initial installation date of equipment. Electric program savings could power 142,000 Michigan homes for one year, and natural gas program savings could annually heat about 60,000 homes" (<http://phx.corporate-ir.net/phoenix.zhtml?c=101338&p=irol-newsArticle&ID=1835585&highlight=>).

Arguments for a more Expansive EO Standard

While the Energy Optimization program is extremely successful, the Michigan Legislature could make it even more valuable to the state by removing the spending cap which currently limits how much utilities can invest in this cheapest source of base load power. Keeping this cap makes no sense, especially when there are no limits on what utilities can spend on other, more expensive energy generation resources. Michigan's Energy Optimization standard should be increased from 1% to 2%.

Increase or Remove the EO Spending Cap

There are spending limits on how much each utility can collect and spend on Energy Efficiency. In 2011, the cap is set at 1.5% of a utility's total retail sales revenue and in 2012 and thereafter, the cap will become 2%. Both Consumers and DTE have met their goals and spending cap early. This means they can't invest in more EE, even though it's the cheapest form of new energy. We support increasing the spending cap on energy efficiency, or removing it completely.



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Michigan's Energy Efficiency Resource Standard (EERS) is the Weakest in the Midwest

The purpose of an EERS is to help ratepayers become more electric and natural gas efficient. An ACEEE analysis indicates Michigan's EERS is the weakest in the Midwest and will result in less energy savings. From ACEEE (<http://www.aceee.org/sector/state-policy>):

| | <u>Cumulative Electricity</u> | <u>Annual Resource Standard</u> | |
|-----------------|-------------------------------|---------------------------------|--------------------------|
| | <u>Savings/2020</u> | <u>Electricity</u> | <u>Memo: Natural Gas</u> |
| Illinois | 18.0% | 2.0% in 2015 | 1.5% 2019 |
| Minnesota | 16.5% | 1.5% in 2010 | 1.5% 2013 |
| Iowa | 16.1% | 1.5% in 2013 | 1.2% 2013 |
| Indiana | 13.8% | 2.0% in 2019 | |
| Wisconsin | 13.5% | 1.5% in 2014 | 1.0% 2013 |
| Ohio | 12.1% | 2.0% in 2019 | |
| Michigan | 10.6% | 1.0% in 2012 | .75% 2012 |

Coal Related Comments

Michigan has to diversify our electric generation portfolio

Michigan's economy may be at risk because of our over-reliance on coal to generate electricity. We have too many eggs in one basket. The price of coal delivered to Michigan utilities has soared. Coal makes up 58 percent of Michigan's energy mix; despite the fact the state has no coal reserves. Michigan consumers spend more than \$1.7 billion a year importing coal from other states. Consequently, we pay a higher price for delivered coal and for electricity than in most states. Investing in energy efficiency will help lessen our dependence on importing coal from other states, and thus will save us money.

There are many health and economic issues with coal

The total cost of coal generation must include the damage caused by coal mining, burning and ash. These externalities include damaged health, premature death, lost productivity and damage to our environment. A Harvard study estimated these costs are an additional 17.84¢/kWh (<http://onlinelibrary.wiley.com/doi/10.1111/j.1749-6632.2010.05890.x/full>). The Public Health Impacts of Old Coal-Fired Power Plants in Michigan report showed that just nine of Michigan's oldest and dirtiest coal plants cost Michiganders more than \$1.5 billion a year in health costs, including 660 premature deaths, 150 cardiovascular hospital admissions, 280 cases of chronic bronchitis, and 450 asthma emergency room visits (<http://environmentalcouncil.org/mecReports/PublicHealthImpactsOfOldCoal-FiredPowerPlantsInMichigan.pdf>). Investing in energy efficiency will help lessen our use of coal and thus will provide countless public health benefits.

Michigan has the highest electric rates in the Midwest, by far

Michigan has the highest average retail price of electricity in the Midwest at 10.45¢ per kilowatt-hour. This is far higher than in Ohio 8.79¢, Indiana 8.05¢, or Illinois 8.94¢. Table 5.6.A. May 2011 (http://www.eia.gov/cneaf/electricity/epm/epm_sum.html).



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According to a 2012 Summer Energy Appraisal by the Michigan Public Service Commission (MPSC), DTE consumers were the hardest hit by rising energy costs, with their monthly bills rising from \$67.81 to \$76.97 – a 13.5 percent increase over last year

(<http://www.dleg.state.mi.us/mpsc/reports/energy/13summer/index.htm>). The rate increase comes as a result of the increased cost of importing coal from other states. Investing in energy efficiency will help lessen our dependence on importing coal from other states, and thus will reduce electricity prices and make us more competitive with other states in the Midwest.

States Dependent on Coal Had the Highest Electricity Price Increases in Past 5 Years

The retail price of electricity in the US increased 22% over the past five years (from 8.1¢ in 2005 to 9.9¢ in 2010) (http://www.eia.gov/emeu/steo/pub/cf_query/index.cfm). However, two regions very dependent on coal saw their electric bills increase the most since 2005. East South Central (TN KY MS AL) saw their rates increase 34% (from 6.14¢ to 8.21¢) and East North Central (**Michigan** OH IN IL WI) had a 32% increase (from 6.87¢ to 9.09¢). Regions less dependent on coal experienced smaller than average electric price increases. For example, Pacific coast +17% and West South Central (TX AR LA OK) +3%. (http://www.eei.org/ourissues/ElectricityGeneration/FuelDiversity/Documents/diversity_map.pdf).

Investing in energy efficiency will help lessen our dependence on coal, and thus will reduce electricity prices in Michigan.

Concluding Comment

On behalf of our 170,000 members and supporters in Michigan, the Sierra Club Supports PA 295 of 2008 and Calls for a stronger EO standard and removal of the spending cap to further continue the success of Energy Efficiency in Michigan. This will help us move toward clean, affordable, homegrown renewable energy, energy efficiency, and move away from imported dirty coal.

Sincerely,

Anne Woiwode
State Director
Sierra Club Michigan Chapter