

Energy-Efficiency Matrix of Strawman Proposals

1-Aug-06

Issues	Shepherd Advisors	Industrial Customers	Regulated Utilities	Electric Co-ops	Efficiency Advocates	State Energy Office	Ferris State University
Legislation	Legislation needed for a focused statewide EE program, an upgrade of residential and commercial building codes and an upgrade of appliance standards.	Carefully consider whether an EE program mandated by the state is currently needed or whether market forces will provide enough incentive.	EE part of comprehensive energy bill that includes capacity need, renewable energy, demand response and load management. Appliance efficiency standards needed to avoid having manufacturers use Michigan as a dumping ground for low efficiency appliances (Edison)	Should include all regulated and non-regulated utilities. A statewide EE program should include Co-ops and Municipal utilities on a voluntary basis.	First choice for EE legislation, second choice MPSC do what it can to encourage full participation. Binding EE savings targets or funding through a EE system benefits charge requires legislation. Legislation regarding building codes and equipment efficiency standards not covered by federal standards is complimentary to EE program. For traditional rate case funding of EE, legislation to clarify the authority of the MPSC to require and approve EE programs would be certainly helpful.	Legislation required	Michigan has high potential for energy and demand savings to ward off new power generation. Michigan is one of worst states regarding commercial building standards. Current code refers to 1999 efficiency standards. Combination of EE program and updated building guidelines can generate new jobs in Michigan. Critical need for a Michigan Energy Resource Center.
Administration	Third Party administration of a statewide EE program, similar to the Vermont model, is recommended. A non-profit Michigan Energy Efficiency Corporation is formed and would enter into performance contracts with the State. Potential program providers would be made to compete against each other for the opportunity to implement the program.		Two options: (1) Legislate that a third party, non-profit organization be established as the overall administrator of a statewide EE program. Managed by a board represented by IOUs, Municipals, and Co-ops, MPSC and Advocacy groups. (2) MPSC provides program oversight including monitoring compliance	Utilities manage EE programs.	Either EE program administration by utilities or by a third party is acceptable with appropriate MPSC oversight and opportunity for public comment. MPSC selects through a competitive bidding process one or more non-profit organizations to administer. Program administration broken into residential, commercial, and industrial sectors. Avoid duplication with the efforts of the Energy Office.	Most programs administered by a statewide non-profit EE organization, with exception of load management programs where utilities are best choice.	
Utility Participation			Mandatory participation for all LDC's including Co-ops and Municipals.	Michigan EE program include Co-ops and Municipal utilities on a voluntary basis.	If Michigan passes legislation, all regulated utilities should be required to participate; in addition co-ops and municipal utilities above a certain size should be required to participate. If through regulatory means, the MPSC should strongly encourage full participation.	Municipal utilities could voluntarily buy into a statewide program and make EE programs available to their customers.	
Funding Mechanism	Creation of a Michigan Energy Conservation Fund. Financing of the fund is multi-sourced: the 21st Century Jobs Fund, a non-bypassable public benefits charge, private institutions, and private and corporate donations. The MEEC requests draw downs of the account to fund specific programs and projects. Fund supports commercial and industrial projects providing for energy use reductions of at least 1,500 million kWh per year.		Funding via a system benefits charge, volumetrically based, no more than 1% of annual electric utility revenues (Consumers Energy). Program funding via a non-bypassable surcharge with annual demand less than xxxkW. Appropriate funding level yet to be determined (Edison).	Utilities recovery of promotion and implementation costs through rates and/or fixed charges. Statewide educational and marketing effort will be paid for by an identifiable surcharge on customer bills.	Either a binding savings target of at least .8% per year, or a 1 mil/kWh EE program charge yielding approximately \$100 million per year, or an EE program savings target of 50% of projected electric growth. As is the practice in states that establish their EE commitment in terms of funding levels, those levels would be translated into energy savings objectives. The goal is to achieve actual savings, not simply to spend money.	A non-bypassable surcharge on all utility bills of 1.0 mills/kWh would provide about \$100 million per year for efficiency programs.	
Oversight	The EE program is given specific energy savings objectives; program costs are driven toward those objectives. If EE program providers meet objectives, the corporation receives financial and contractual bonuses. Failure to meet targets results in a re-bidding of the contract to operate the program.		The all-in cost of conserved energy must be lower than available supply options. To avoid increased administrative costs, programs should provide benefits that are self evident. Education and information cannot pass cost/benefit tests independently and therefore should be viewed holistically with associated EE measures. Cost/benefit tests should be based on longer term techniques such as life-cycle costs. Program measurement should rely on stipulated savings, or have demonstrated clear benefits in programs offered in other states (do not require costly/time consuming evaluation).	The MPSC will design a simple reporting system that will give the MPSC the data it needs to report annually on the relative effectiveness of all EE programs offered by Michigan utilities. The MPSC and individual utilities will evaluate areas of potential EE savings in the state, rate areas by kWh savings, calculate EE potential, and identify areas of most-to-least promise in terms of cost effectiveness. Educational and marketing efforts, if undertaken, will be limited in scope and length of operation, will be proportional to estimated benefits, and reviewed annually with the MPSC issuing a cost/benefit analysis.	Periodic independent evaluation of EE programs by professional program evaluators overseen by the MPSC and/or collaborative group of stakeholders on behalf of the MPSC.	The MPSC would contract with different organizations than the EE program administrator to conduct program evaluation and financial management functions. Program services targeted at the most cost effective services. The costs of EE programs should be compared to the costs of traditional generation sources, but the environmental and economic benefits of EE should also be considered. Program evaluation is critical to determine what is working and what is cost effective. Such studies enable fine tuning and maximization of energy savings.	

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Pay as You Save				The MPSC will approve, on a voluntary basis, a Pay as You Save (PAYS) or similar system that allows customers to buy proven EE products.			
Customer Participation	All rate classes included. The primary focus of the EE program lies with commercial and industrial customers.	Large energy customers should have the opportunity to opt out of a statewide EE program. An example, the Indiana Commission excluded PSI Energy customers with demand greater than 500KW.	EE program funding via a non-bypassable surcharge for all customers who take electric service in the State and have an annual electric demand less than xx KW. Large customer opt-out contingent upon customer investment of an equivalent amount of money in their own customized energy efficiency measures (Consumers Energy).		Large customer should not be able to opt out. To address large customer interests, customers above a certain size (e.g. 1mW) and who submit qualifying proposals for EE projects in their own facilities will receive up to every dollar paid into the fund.	EE program services need to be available for all customer classes so that they can receive direct economic benefits. At a minimum, consumer education and technical assistance and one or more financial incentive programs available to each customer class, i.e. residential, commercial and industrial. All customer classes should pay for EE program services.	
Revenue Decoupling	Under a performance based EE program, providers are focused on EE and not conflicted in the reasonable pursuit of maximal energy savings.	No revenue decoupling trackers should be allowed by the MPSC. Trackers kill incentives for utilities to become efficient. Decoupling warrants utility rate of returns near rate of long-term treasury bonds.	Rate decoupling remains an open issue requiring additional study (Edison). The inherent disincentive for utilities to promote EE programs will be removed and utilities will be sheltered from prudence risk (Consumers Energy).	The MPSC will allow utilities to decouple rates from fixed charges to minimize the impact of reduced consumption on revenue	Under traditional regulation, utilities typically profit from higher unit sales and don't like to take steps to reduce sales. Preferred approach to deal with issue of lost revenues is a full revenue decoupling mechanism. Legislation recommended that would encourage the MPSC to consider and implement such an approach.	Since the statewide EE provider is focused on a core mission of delivering EE programs, utilities (whose focus is energy sales) would not be asked to reduce energy sales by having to promote EE to customers.	
Rate Recovery and Funding Distribution	All customers should be eligible to receive benefits, on a proportional basis if necessary.	EE program costs should be allocated by rate class, recommend against an equal per unit charge applied to all customers.	Funding distributed proportional to the level of surcharges collected from each customer class (Consumers Energy). Funding distribution takes into account the overall rate impact & cross-class subsidies (Edison).	The utilities should recover cost of promotion and implementation through rates and/or fixed charges and the cost will be paid for by an identifiable kWh surcharge on customer bills.	EE program spending for different rate classes should be roughly proportional to the amount of funding provided by each rate class. EE program charges should be rolled into utility tariffs and not be separately stated.		
Issues related to a statewide program scope			Management and administrative efficiency, as well as trade allies participation can best be gained through statewide programs (Consumers). Each LDC should be responsible for program development, implementation, management of programs within their own service territory. LDC branding rights should be retained within respective service			Statewide scope allows for uniform programs thus making it easier to communicate program information. Eligibility can be uniform statewide avoiding criticisms of unfair treatment. Economies of scale can be achieved.	
EE Program Elements & Characteristics	The primary strategy of the MECC would be to design, implement and finance commercial and industrial EE projects in Michigan. Financing and technical support is provided directly to commercial and industrial customers, and to qualified EE vendors and Energy Service Companies. MECC's financial incentives would be rebates, low-interest loans, and loan guarantees.		LDC's should develop pricing options to promote and incentivize customer behavior aligned with EE programs. EE program should promote load management and rate development as detailed in Demand Response Strawman Provision for cost recovery of customer education and demand response pilot program development, implementation and evaluation included in non-bypassable surcharge (Edison).	EE programs should promote the use of products that are better in terms of energy consumption and environmental impact, which may compete with other fuels. This will help replace the loss of revenue from declining sales induced by an EE program and reduce demand/cost of natural gas and propane. Load management efforts can be considered as EE programs and should be encouraged.	An immediate restarting of Michigan utility EE programs, with a secure funding mechanism and specific targeted reductions to assure that EE will be fully integrated as a utility system resource. Since, EE programs can save electricity at half the cost of building, fueling and operating a new power plant, EE should be Michigan's top priority electric resource.		
Economic Development Issues					Every \$ invested in EE programs would save \$2 to \$3 in long-term utility system costs for Michigan ratepayers. EE programs emphasizing local labor, contractors, retailers, and suppliers, produce substantial local economic benefits. Aggressive funding of EE programs key part to meeting energy needs in Michigan by holding down energy costs and improving the Michigan economy.	EE is the most flexible and cost effective resource available to meet future electric needs. EE reduces customer costs, reduces air pollution, reduces the dollar drain out of our state, increases the diversity of our energy resources, and reduces the risk of future climate change/environmental public policies or fossil fuel costs.	The creation of an EE Center will fill the need for equipping the Michigan new energy workforce with the knowledge needed for EE assessment, design, implementation and equipment validation. New workforce needs are for EE assessors, installers, technicians, system designers, inspectors and energy saving device manufacturing. The EE Center can do applied research to validate the claims from new manufacturing firms created to supply new technology to the public. EE assessments could be used for validation purposes of tax rebate improvements, new products and validation of savings created through various programs.