

To: State of Michigan

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Q6. How does Michigan compare to other states / provinces / countries with respect to energy efficiency standards? Are the standards correlated with the cost of energy or excess generating capacity in such jurisdictions? How does Michigan's efficiency standard compare given our cost of energy and generating capacity?

There are several recent summaries of state policies on energy efficiency that are instructive on this question. For example, the American Council for and Energy Efficient Economy (ACEEE) published a policy brief in September 2012 comparing the provisions of 24 state policies. <http://aceee.org/files/pdf/policy-brief/state-eers-summary-0912.pdf> The Federal Energy Regulatory Commission (FERC) its summary of state energy efficiency portfolio standard policies, which can be found here: <http://www.ferc.gov/market-oversight/othr-mkts/renew/othr-rnw-eers.pdf>. Finally, the Lawrence Berkeley National Lab published a study in January 2013 which both summarized current policies and projected utility energy efficiency investment and savings over the next decade.¹

While there are important differences between the policies that make direct comparisons difficult, the Michigan standard, which requires utilities to achieve an annual target of 1% of annual sales in 2012 and beyond, is modest by comparison to many other states. For example, Ohio, Indiana and Illinois² have annual targets ramping up to 2% of sales, while Iowa and Minnesota both have annual targets ramping up to 1.5% of sales. By comparison, and as further described in our answer to question 10, Massachusetts is working to achieve a 2.4% annual standard by 2012 and Vermont is working to meet a cumulative 6.6% reduction target over three years.

Inherently, state policies generally take into consideration the cost of providing electricity or gas for the utility that is subject to the standard. Each utility must analyze each proposed program to ensure that the cost of the program is less than the avoided costs that would otherwise be incurred to generate, transmit and distribute power if the program did not exist, and utility regulators in most if not all states, and certainly in Michigan, may only approve a utility energy efficiency plan if the portfolio as a whole provides savings at a lower cost than the costs that

¹ Galen L. Barbose, Charles A. Goldman, Ian M. Hoffman, Megan Billingsley, *The Future of Utility Customer-Funded Energy Efficiency Programs in the United States: Projected Spending and Savings to 2025*, January 2013.

² While Illinois has rate impact caps that have posed a barrier to achieving this level of annual savings, the state has also allowed expansion of energy efficiency programs through the procurement process conducted annually by the Illinois Power Agency.

would be incurred to generate, transmit and distribute and equivalent amount of power. That assessment requires analysis of the other available resources.

In other words, rather than adjusting the level of the targets to account for any differences in power costs an availability in each state, the policies generally entrust regulators with ensuring that only cost-effective efficiency plans are approved and implemented. The fact that the availability of cost-effective efficiency resources are rarely cited as reasons for not achieving an annual target (as opposed to arbitrary budget caps which are more frequently the cause of such a failure) is strong evidence that the 1-2% targets are not so high as to have exhausted the potential for cost-effective energy savings taking into consideration the particular avoided costs for each utility. Indeed, as discussed in more detail in the answer to Question 10 below, studies of baseline efficiency levels suggest that Michigan has more “low hanging fruit” available than other states which are already capturing 2% savings per year.