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Governor of Michigan

Honorable Members of the Michigan Senate
Secretary of the Senate

Honorable Members of the Michigan House of Representatives
Clerk of the House of Representatives

The enclosed *2012 Report on the Implementation of PA 295 Utility Energy Optimization Programs* is submitted on behalf of the Michigan Public Service Commission (Commission) in accordance with Section 95(2)(e) of 2008 PA 295, MCL 460.1095(2)(e) (PA 295). The report details energy savings achievements, program highlights, and administrative improvements that have been implemented by the Commission and shows that the Energy Optimization (EO) programs have been a success. For example, in 2011, the operational year covered by the report, utilities achieved retail sales reductions of over one million megawatt hours (MWh) and 3.8 billion cubic feet of natural gas, with over \$700 million in lifecycle cost-of-service benefits to customers.

The 2012 report confirms that energy efficiency is truly the cheapest form of energy available to Michigan residents and businesses. Data provided to the Commission in EO provider annual reports indicate that EO resources were obtained at a statewide average levelized cost of \$20/MWh, significantly cheaper than supply side options such as new natural gas combined cycle generation at \$66/MWh, or new coal generation at \$111/MWh as provided for in the EIA 2012 Annual Energy Outlook.

Despite these successes, the Commission is aware of several concerns that have led some to question the continued effectiveness and viability of the EO program. We take any concerns about the feasibility of Commission-approved programs seriously, and have worked to address specific issues in the following ways:

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Are energy savings documented, so there is proof that EO programs work?

Documentation and verification of energy savings is critical to the success of EO programs and has occurred since the inception of those programs. The evaluation process for the EO programs for Michigan's largest utilities is rigorous and methodical and ensures that savings claims are confirmed. Only after installations are independently audited and verified are they credited with the savings detailed in the Michigan-specific Energy Measures Database (MEMD). The MEMD is audited and is annually reviewed by a statewide workgroup. This group prioritizes several measures each year to be selected for a detailed analysis at actual customer facilities, to verify and adjust accordingly the savings values reported in the database. We are confident that the energy savings reported are reflective of actual savings.

Is the EO program flexible for smaller utilities?

In 2012, the Commission took action approving comprehensive administrative flexibility for rural electric cooperatives and municipal utilities, including: allowing joint filing of program plans and annual reports, providing flexibility in budget allocations among customer classes, waiving certain evaluation requirements, and inclusion of innovative pilot programs.¹ These actions by the Commission significantly reduced administrative burdens on small providers, and will facilitate compliance with EO targets in years to come.

Should EO programs for natural gas be discontinued because the loads have been dropping for years, and have done so even without EO programs?

Natural gas efficiency programs are more important than ever for residential, commercial and industrial customers. It is true that in the past, high gas prices have induced customers to conserve energy and the relatively low prices related to burgeoning "non-conventional" natural gas supplies have moderated customer bills. Although the typical gas bill is lower than past years, its relative impact on customers may be more severe in light of the steep recession that began in late 2008. The Michigan gas efficiency programs are so successful that our largest utilities exceeded their gas savings targets by 25% for 2011 and several of the state's largest energy users, including Dow Corning, have opted to forgo a self-directed EO program in favor of utilizing the local gas utility program. As supply increases and use of natural gas expands in electric generation, transportation and industrial applications, it only makes sense to use this resource in a judicious fashion, helping to keep prices low and supply abundant.

¹ For more details on Commission Orders granting electric provider flexibility: see the electric coop order U-16678 at <http://efile.mpesc.state.mi.us/efile/docs/16678/0018.pdf>; the municipal order U-16688 at <http://efile.mpesc.state.mi.us/efile/docs/16688/0004.pdf>; and the Cherryland Electric order U-17067 at <http://efile.mpesc.state.mi.us/efile/docs/17067/0002.pdf>.

Are the administrative costs for Efficiency United programs excessive?

Efficiency United is a third-party administrator of EO programs that was started from scratch after passage of PA 295. While it is not unusual for administrative costs to be high in years when a program is first being implemented, the accounting method used by Efficiency United to document costs tended to be confusing and make those costs appear higher than they actually were. In fact, in 2012 the Commission reviewed the administrative costs for Efficiency United and found them similar to those achieved by the state's largest utilities. Administrative costs for Efficiency United are expected to continue to decline for 2013 as well. In addition, in 2013 the Commission will open the third-party administrator contract to a competitive bid process to ensure that customers of utilities enrolled in the program are getting the best value for their EO dollars.

The Commission continues to seek creative ways to improve the Energy Optimization program and we look forward to working with you to ensure the program's continued success in the coming years.

Very truly yours,

John D. Quackenbush, Chairman

Orijakor N. Isiogu, Commissioner

Greg R. White, Commissioner