



Michigan's Clean, Renewable, and Efficient Energy Act

Energy Regulatory
Partnership Program
Abuja, Nigeria
August 3-7, 2009

P.A. 295: History

- PA 295 was signed into law by Governor Granholm on October 6, 2008.
- After energy program funding all but disappeared in Michigan in the 1990's...



Why pass PA 295 now?

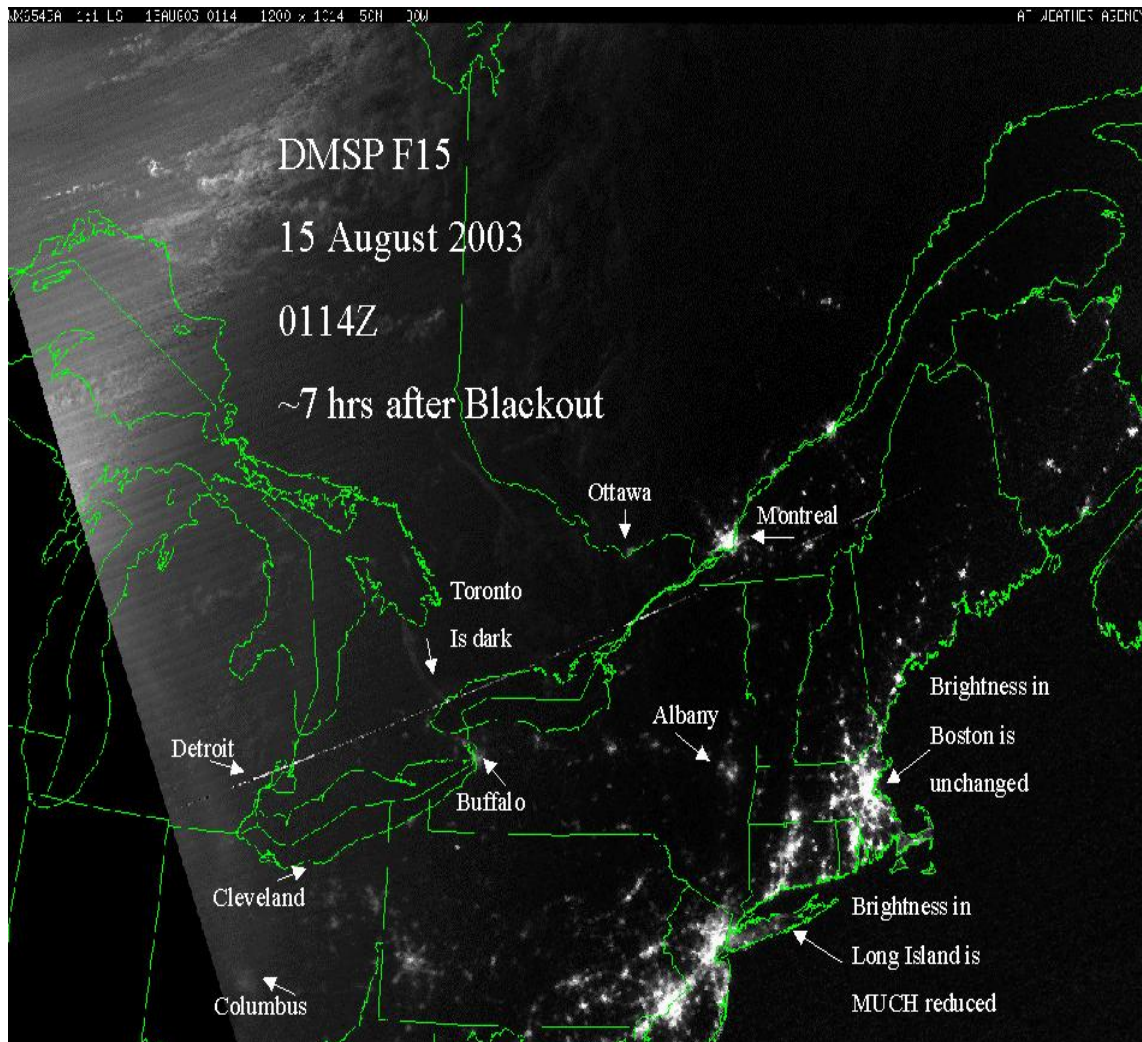
P.A. 295: Motivating Factors

■ Pressure points:

- ✓ 1980's: construction of nuclear plants with high cost overruns increased price of electricity.

- ✓ 1990 – 2000's: natural gas prices increase
 - No longer reserved for “higher uses”,
 - “Clean”, but not a renewable energy source,
 - Bankruptcy of new gas powered electric plants,
 - A significant supply disruption...

P.A. 295: Motivating Factors



Blackout of August 2003

Wake up call:

- grid reliability
- wholesale power prices

Satellite photo courtesy of National Oceanic and Atmospheric Administration
<http://www.ngdc.noaa.gov/dmsp/>

P.A. 295: Motivating Factors

- **Michigan's Response:**
 - Capacity Need Forum (2005): need for new generating resources
 - Reliability concerns
 - Likelihood of capacity shortages
 - Cost risk of buying energy from the wholesale market
 - 21st Century Energy Plan (2007):
 - Renewable energy portfolio
 - Energy Efficiency measures
 - Traditional generation using the cleanest technology
 - Job creation

P.A. 295: The Act

- PA 295 supports many of the ideas generated by these reports:
 - Meet future energy needs through a combination of generation from renewable energy sources and energy efficiency efforts,
 - Diversification of power sources through adoption of emerging technologies,
 - Job creation and growth through design, construction and operation of renewable energy and energy efficiency sectors.

P.A. 295: Process

- PA 295 required the MPSC issue a temporary order within 60 days.
 - U-15800 issued December 4, 2008.
 - Contained formats and reporting requirements for Renewable Energy and Energy Optimization (Energy Efficiency) plans.

P.A. 295: Process

- Processing time for an Order was half of the normal time (90 days vs. 9 months).
 - First time through this process, no established evaluation protocol for reviewing plans.
 - Contested case proceedings compressed into shortened timeframe.
 - Interveners (consumer and environmental groups) felt they had limited input due to fast deadline.

P.A. 295: Process

- Required filings from ALL gas/electric providers
 - Investor-owned retail rate-regulated electric utilities (IOUs - 9)
 - Retail rate-regulated rural electric cooperatives (Co-ops - 10)
 - Retail rate-regulated natural gas providers (Energy efficiency filings only - 6)
 - Alternative electric suppliers (AES – Renewable Energy filings only - 26) *
 - Municipally-owned electric utilities (Munis - 41)**
- 92 filings, due at the Commission between 90 - 120 days after Commission Order U-15800 issued.
- Provided for 25 new Commission employees.

*previously unregulated by the Commission

**licensed by the Commission, otherwise not regulated

P.A. 295: RPS Filings

- Renewable Portfolio Standard (RPS) plans were filed by all electricity providers.
 - 10% RPS by 2015, with interim steps for 2012-13-14; two big utilities can own only 50% of new renewables.
 - Michigan needs 6% additional renewable energy, assuming Michigan already has about 4% renewable.

P.A. 295: EO Filings

- 2008 PA 295 required electric and gas utilities to provide energy optimization (EO) programs to help all customer types to save energy.
- MPSC processed 63 utility EO plans, representing investor-owned utilities, electric cooperatives and municipal utilities.
- EO programs provide efficiency offerings to all retail customer classes.
- Utilities are rolling out programs now, usually commercial and industrial first. (Local government facilities are almost always classified as commercial.)

P.A. 295: EO Filings

- Over the next 3 years, \$407 million in ratepayer funding will be available to fund energy optimization programs in Michigan, plus all Michigan utilities have agreed to coordinate EO Programs with *Michigan Saves* financing.
- It's estimated that for every \$1 spent on energy optimization programming, customers will realize \$3 in avoided energy costs.
- Over the next 3 years, energy optimization savings will amount to \$1.2 billion.
- Approximately \$71 million is set aside for low income residential programs, in addition to MPSC LIEE Fund.

P.A. 295: EO Filings

- Though there are 63 different plans, they are all very similar in the kinds of incentives offered to customers.
 - 10 municipalities jointly designed a common program.
 - 30 municipalities adopted a common template for the design of their EO programs.
 - 11 utilities have elected the state-selected administrator to run their program.
 - All electric cooperatives except one jointly designed a common EO program.

P.A. 295: EO Filings - Residential

- Residential EO programs are generally offering incentives (rebates or buy-downs) for:
 - Efficient Lighting (CFLs and Energy Star fixtures)
 - Energy Star Appliances
 - HVAC and water heater upgrades
 - Home energy audits & weatherization (comprehensive: insulation, CFLs, thermostats, windows, duct sealing, appliances, etc.)
 - Multi-family building upgrades
 - Appliance recycling (e.g. refrigerators)
 - New construction (Energy Star Homes)
- Also includes educational & some pilot programs

P.A. 295: EO Filings – C&I

- Commercial and industrial EO programs:
 - Prescriptive programs
 - Rebates for common upgrades to lighting, controls, HVAC, chillers, water heating, motors, freezers, ovens, food-prep equipment, clothes washers, ice machines, pipe wrap, etc.
 - Custom programs
 - \$/kWh saved or \$/MCF saved for energy saving improvements to manufacturing processes or facilities not covered under prescriptive programs.
 - Detroit Edison & MichCon and Consumers are both offering \$0.08/kWh and \$4/MCF (subject to terms).

P.A. 295: EO Filings – C&I

- Commercial & Industrial EO programs may also include:
 - RFP programs
 - A limited-time program to targeted customers solicited by the utility for larger, bundled projects that may include both prescriptive and custom measures.
 - New Construction
 - Incentives to go above and beyond code compliance
 - Pilot programs
- EO programs do not include: fuel switching, on-site generation, peak shifting, or non-capital expenditures.

P.A. 295: E0 Filings – Low-Income

- Low-Income provisions:
 - PA 295 required surcharges collected from a customer class be spent on energy efficiency measures for that class.
 - Exception: low-income residential customers.
 - Approximately 10% of surcharges collected from all classes will be directed to low-income programs.
 - Providers could choose to implement their own energy efficiency programs or use the state selected Michigan Energy Optimization Plan Administrator

P.A. 295: EO Filings - Low-Income

- *Michigan Saves* System -- a revolutionary means for customers to buy energy efficiency and on-site renewable energy with no money down and monthly payments on utility bills
 - Market-based... no theoretical limit to total investment
 - Off balance sheet financing
 - Obligation to pay only as long as customer is saving
 - Vendors must warranty equipment for duration of payback period
 - \$8.1 million grant to Public Sector Consultants (Lansing)
 - About \$6 million to serve as a guarantee fund for the financing
 - Pilot projects to begin before the end of 2009

P.A. 295: Challenges

- Decoupling
 - Providers were pro decoupling: a sales decoupling mechanism breaks the connection between consumption and utility earnings.
 - Interveners believed the providers plans were overreaching and should not be adopted.
 - Commission Staff believed decoupling is an issue to be resolved in a rate case and should only allow for lost sales due to the energy efficiency plan.
 - Outcome: In process.

P.A. 295: Challenges

- Financial incentives
 - Provider plans included up to 15% of program expenditures for reaching energy efficiency goals & collecting incentives as the program operates.
 - Interveners: incentive schedule too aggressive, disagreed with collecting incentives until after verification of results.
 - Commission Staff also held providers incentive programs were too generous, allowing for ample rewards for minimal savings over target and wanted savings verified prior to incentive payments.
 - Outcome: In process. Commission directed Staff to come up with alternative plan.

P.A. 295: Challenges

■ Uncollectibles

- Providers believed uncollectible customer surcharges should be considered in adjusting future surcharge amounts.
 - Interveners: should collect for program costs, not for assumed customer failures to pay.
 - Commission staff contented uncollectible revenues are properly addressed as part of a rate case – separate from energy efficiency issues.
 - Outcome: In process.

P.A. 295: Stakeholder Concerns

- Shortened process left interveners dissatisfied with opportunity for input.
- Final Commission Orders in the two largest cases directed Staff to convene a collaborative.
- Non-binding input from stakeholders: environmentalists, low-income & consumer advocates, equipment manufacturers and installers.

P.A. 295: EO Collaborative

- First collaborative meeting: September 1, 2009.
- Issues to be discussed include:
 - Appliance and CFL recycling
 - Pilot Projects
 - Energy Audits
 - Market Assessment
 - Economic Development & Job Creation
 - Michigan Saves Integration with EO Programs
 - Weatherization
 - Neighborhood Sweep

P.A. 295: Partnerships

- Money is flowing into energy programs from Federal, State and private sources.
- Coordination and Communication are key.
- Outreach efforts to coordinate and educate are being formalized:
 - Government, utilities, low-income community organizations, universities, vendors, energy installers and equipment manufacturers.
 - Trying to avoid duplication and working at cross purposes.
 - Discovering new tools, methods and relationships.

P.A. 295: Resources

- 2008 PA 295: <http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0295.pdf>
- Temporary Commission Order:
<http://efile.mpsc.state.mi.us/efile/viewcase.php?casenum=15800&submit.x=22&submit.y=10>
- PA 295 Cases: http://www.michigan.gov/mpsc/0,1607,7-159-52495_53472_53479-214394--,00.html#ious
- Collaborative website:
http://www.michigan.gov/mpsc/0,1607,7-159-52495_53750---,00.html