Legislative Analysis

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ENERGY EFFICIENT MICHIGAN ACT

House Bill 4583
Sponsor: Rep. Frank Accavitti, Jr.
Committee: Energy and Technology

Revised Summary
Complete to 8-21-07

A PRELIMINARY SUMMARY OF HOUSE BILL 4583 AS INTRODUCED 4-5-07

The bill would create the "Energy Efficient Michigan Act" to do the following:

Legislative findings. The bill would contain legislative findings concerning the benefits of cost-effective energy efficiency. (Summarized below.)

Definitions. The bill would define terms such as "cost-effective," "energy conservation," "energy efficiency," "external costs," "large customer," "load management," "societal cost," and "total resource cost test." (Summarized below.)

Energy efficiency investments by utilities. The Public Service Commission (PSC) would be required to ensure that electric and natural gas utilities include cost-effective investments in energy efficiency in their portfolios.

Energy savings goals. Electric and natural gas utilities would have to achieve the following annual incremental savings from energy efficiency programs:

- By 2008, the equivalent of 0.3% of total annual electricity and natural gas sales.
- By 2009, the equivalent of 0.5% of total annual electricity and natural gas sales.
- By 2010 and beyond, the equivalent of 0.75% of total annual electricity and natural gas sales.

PSC rulemaking. The PSC would be required to adopt procedural rules (within three months of the effective date of the bill) for the development and submission of utility energy efficiency plans.

Utility energy efficiency plans. Utilities would have to file an energy efficiency plan with the PSC within three months after the PSC adopts its rules, and every two years thereafter. The PSC would have to approve, reject, or modify an energy efficiency plan within 120 days of its receipt. Each plan would be required to:

- Demonstrate that program activities and funding are consistent with the required energy savings goals.
- Propose programs that would support new building and appliance standards.
- Present a set of energy efficiency programs that includes offerings for each consumer class.

- Demonstrate the cost-effectiveness of the utility's energy efficiency investments, using the "total resource cost test" (as described later).

Cost recovery by surcharges on utility customers' bills. The PSC would allow utilities to recover the reasonable costs of investments in energy efficiency programs through a surcharge payable by every customer of the utility. The surcharge could not exceed 1.5% of a customer's bill (the lower of 1.5% or $75,000 per year for large customers). Only programs implemented after the effective date of the bill would be eligible for cost recovery in this manner.

Rate-making incentives. In addition, the PSC could implement rate-making strategies for utilities that would provide "reasonable economic incentives to encourage excellent performance in the acquisition of energy efficiency resources through energy efficiency programs for customers."

Implementation of energy efficiency programs. Electric and natural gas utility companies and the PSC would split implementation of the energy efficiency programs (75% utilities/25% PSC):

- Utility company programs (75%). Utilities would administer incentive programs, and would be required to do so in a "market-neutral, nondiscriminatory manner," but could not offer underlying competitive services. Utility companies would have to provide incentives sufficient for retail electric and natural gas providers and competitive energy service providers to acquire additional cost-effective energy efficiency through approaches such as market-based standard offer programs. Utilities would have discretion to develop their own plans in accordance with the policy and planning guidance in the bill.

- PSC programs (25%). The PSC would "focus on targeted, market-transformation, and educational programs" to educate and provide incentives to customers to help achieve energy efficiency goals.

Legislative findings

The following is a summary of the bill's legislative findings:

- Energy efficiency is an essential, cost-effective resource to ensure that Michigan's energy future is affordable and reliable.
- Energy efficiency is currently underutilized in Michigan.
- Utility investment in energy efficiency, combined with energy efficiency codes and standards, could increase the state's energy security, protect consumers from price volatility, preserve natural resources, and improve the environment.
- Investment in energy efficiency by regulated utilities could provide economic benefits to Michigan.
- Allowing public utilities to recover their reasonable and prudent efficiency program expenses is in the public interest.

- Investments in energy efficiency and implementation of energy efficiency programs for economically disadvantaged citizens of Michigan, in conjunction with low income weatherization programs, would reduce utility costs on low income customers.
- Utility investments in energy efficiency, combined with the adoption of efficiency codes and standards, could help reduce greenhouse gas emissions, regulated air emissions, water consumption, and natural resource depletion, as well as help avoid or delay the need for more expensive generation, transmission, and distribution infrastructure.

Definitions

Definitions contained in the bill include:

"Cost-effective" would mean that a program meets the "**total resource cost test,**" as defined in the bill.

"Energy conservation" would mean any reduction in electric power or natural gas consumption resulting from either: (1) increased energy efficiency in the production, transmission, distribution, or customer end-use applications of electricity and natural gas; or (2) increased customer knowledge concerning the societal impacts of consumption.

"Energy efficiency" would mean "measures, including energy conservation measures, or programs that target consumer behavior, equipment, or devices that result in a decrease in consumption of electricity and natural gas without reducing the amount or quality of energy services."

"External costs" would mean "costs imposed on society, but which are not directly borne by the producer in production and delivery activities. Due to imperfections in, or the absence of, markets, the producer's production and pricing decisions do not account for these costs."

"Large customer" would mean "a utility customer at a single, contiguous field, location, or facility, regardless of the number of meters at that field, location, or facility, with electricity consumption greater than 7,000-megawatt hours per year or natural gas use greater than 360,000 decatherms per year."

"Load management" would mean "measures or programs that target equipment or devices that result in decreased peak electricity demand or shift demand from peak to off-peak periods."

"Societal cost" would consist of "all costs to the utility plus all external costs which are imposed on society." (Note definition of "**external costs**" above.)

"Total resource cost test" would mean a standard that is met "if, for an investment in energy efficiency or load management, on a life-cycle basis the avoided supply-side

monetary costs are greater than the monetary costs of the demand-side programs borne by both the utility and the participants." To meet the standard, the program would also have to do all of the following:

- Explicitly manage the consequences of uncertainty and risk associated with a utility's market characteristics and supply alternatives.
- Integrate the demand- and supply-side resources that represent the least cost to society over the long term.
- Explicitly weigh a broad range of resource attributes in the evaluation of alternative resources.
- Be reasonably understandable to interested persons, including members of the general public and the Public Service Commission.
- Involve stakeholders and nonutility expertise in utility resource planning.
- Result from a planning process within the utility that facilitates communication and coordination among relevant entities dealing with utility finances, demand forecasts, and demand- and supply-side resource evaluations.
- Continually monitor and develop data on the cost effectiveness and actual productivity of conservation programs.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.