

To: State of Michigan

From: Rebecca Stanfield, Senior Energy Policy Advocate, NRDC Midwest Program

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Q2. What studies, data, or reports should be reviewed or prepared to appropriately measure if the current energy efficiency programs are cost effective?

Section 73(2) of PA 295 requires that each utility's portfolio of programs be cost-effective as determined by application of the utility system resource cost test (USRCT) which compares the total cost to the utility of administering and delivering the programs, to the total generation, transmission and distribution costs avoided by the programs. This test looks at cost-effectiveness from the perspective of the utility system, and therefore does not take into consideration the value of environmental improvement, the value of the added comfort or convenience to the customer, any macro-economic benefits (e.g. job growth) or any societal benefits created by the programs. ***Even omitting consideration of these critical energy efficiency benefits***, however, the programs have created substantially more benefits than costs.

For detailed explanations on how cost-effectiveness has been measured in the case of each utility portfolio, the best source is the utility filings themselves, which are cited below. In most cases, the MPSC reports have summarized data from these detailed utility filings. It is worth noting that program cost effectiveness is assessed both at the planning stages by the utilities, and during program evaluation, by independent evaluators. The Michigan utility portfolios have been very cost effective, as demonstrated in the following reports and filings:

- In MPSC docket number U-16737, Detroit Edison estimates that its 2011 programs created benefits that were 5.47 times the total costs of delivering the programs. See Testimony of Witness V. M. Campbell, and Exhibit A-5 to that testimony for a detailed breakdown of program cost-effectiveness. That year, Detroit Edison achieved savings totaling 1.3% of their projected sales, dramatically exceeding the statutory target for that program year. Moreover, they did so at 6% below budget.
- In Consumers Energy's annual report on its 2011 programs, it reports that its overall USRCT score was 2.2 for gas programs and 1.6 for electricity programs. This means that for gas programs the benefits were more than double the costs, and for electric programs the benefits were 60% greater than the costs. (U-15805, Submitted May 31, 2012).
- The Michigan PSC aggregated the savings results from all of the state's electric and gas utilities and found that for every dollar spent by the utilities, consumers will save an estimated \$3.55. The total lifecycle savings for all utility measures installed will be an estimated \$709 million.¹

¹ 2012 Report on the Implementation of P.A. 295 Utility Energy Optimization Programs, Michigan Public Service Commission Dept. of Licensing and Regulatory Affairs, November 30, 2012.

- Again, these estimates omit critical components of the benefits side of the equation, including reliability and environmental benefits. Including these benefits, would increase the value of the annual savings to more than \$1 billion per year.