

Energy Efficiency Question 12: Has Michigan and have other jurisdictions evaluated energy efficiency programs based upon first year savings and/or on lifecycle savings?

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### **Executive summary**

1. Most states consider both first-year savings and lifecycle savings to evaluate energy-efficiency programs. Annual energy-efficiency targets are typically based on first-year savings.
2. While some states are considering lifetime savings, we have found only one jurisdiction where savings targets are currently expressed in terms of lifetime savings.
3. Consumers Energy recommends that Michigan continue to use first-year savings as the primary component for achieving annual targets, but supports the recent MPSC order that provides a performance incentive to encourage the installation of measures that have longer measure life and therefore increased lifetime savings.

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### **1. Most states consider both first-year savings and lifecycle savings to evaluate energy-efficiency programs. Annual energy-efficiency targets, whether expressed as a savings threshold (MWh or MCF) or as a percent of savings, typically are based on first-year savings.**

As discussed in the response to Energy Efficiency Question 6, many states have established an Energy Efficiency Resource Standard (EERS). These standards can take many forms including: establishing a unit savings target (total MWh or MCF savings to be achieved); mandating savings as a percent of historical sales; or setting cumulative savings targets over several years. Though the basis for the savings targets vary by jurisdiction, compliance with an EERS is typically determined based on achievement of first year savings.

Additionally, some states require utilities to pursue all cost-effective and achievable savings. The process for this includes assessing economic and achievable potential. In this analysis, utilities and regulators consider lifetime savings to determine what proves cost-effective, but this typically is converted to an annual or cumulative first-year savings target.

### **2. While some states are considering lifetime savings, we have found only one jurisdiction where savings targets are currently expressed in terms of lifetime savings.**

Emphasis on first year savings may inadvertently disadvantage longer life measures. In particular, in states with spending caps and first year savings targets, there may be a disincentive to pursue long-life measures, which while still cost-effective, have a higher initial cost.

## Response from Consumers Energy

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Wisconsin shifted to setting goals based on lifetime savings in 2012. In its order dated January 13, 2012<sup>1</sup>, the Wisconsin Public Service Commission determined that the Program Administrator<sup>2</sup> contract goals should be “life cycle goals in order to reflect the true value of the savings.” The life cycle goals are based on annual savings targets established by the Commission.

In recent orders approving the energy optimization plans of DTE Energy<sup>3</sup> and Consumers Energy<sup>4</sup>, the Michigan Public Service Commission allows for a 10% savings adder for measures with a 10-year life or more. This adder recognizes the value of the long-life measures by providing additional credit toward the statutory first-year savings targets.

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<sup>1</sup> [http://psc.wi.gov/apps35/ERF\\_view/viewdoc.aspx?docid=158228](http://psc.wi.gov/apps35/ERF_view/viewdoc.aspx?docid=158228)

<sup>2</sup> Focus on Energy

<sup>3</sup> [http://www.dleg.state.mi.us/mpsc/orders/electric/2012/u-17049\\_12-20-2012.pdf](http://www.dleg.state.mi.us/mpsc/orders/electric/2012/u-17049_12-20-2012.pdf)

<sup>4</sup> [http://www.dleg.state.mi.us/mpsc/orders/electric/2013/u-17138\\_2-28-13.pdf](http://www.dleg.state.mi.us/mpsc/orders/electric/2013/u-17138_2-28-13.pdf)