Joint Response from Consumers Energy, DTE Energy, and MEGA

Energy Efficiency Question 8: How has Michigan, and how have other jurisdictions, treated various customer classes in energy efficiency standards?

Executive Summary

1. Michigan follows a practice used in several states that allows a flexible allocation of spending on energy efficiency programs across different sectors. This approach allows for spending flexibility for each customer class depending on current market demand.

2. Several states include specific spending or savings targets for low-income customer classes, government, institutional, and non-profit sectors. For example, Massachusetts and Illinois have specific spending targets for low-income customers.

3. Michigan follows a practice used in several states such as Massachusetts, Wisconsin, Vermont, Minnesota and Ohio that allows large commercial and industrial customers to be eligible for “self-directed” energy efficiency activities separate from those offered to other customers. In these cases, self-direct customers opt-out of the state’s energy efficiency surcharge or are eligible to apply the surcharge to energy efficiency projects at their facilities. In Michigan, self-direct customers projects are overseen by utilities and they are expected to meet the statewide energy efficiency standards.

A number of jurisdictions create efficiency standards that have specific savings targets or spending targets for low-income customer classes, two of which include Massachusetts and Illinois. Likewise, energy efficiency standards sometimes contain unique targets for the government, institutional, and non-profit sectors. In addition, it is common in some states for large commercial and industrial customers to be eligible for “self-directed” energy efficiency activities. Finally, while states may not have formal sector allocations, program designers typically build portfolios mindful of sector equity. Thus, spending on energy efficiency programs is typically proportional to revenue from each sector.

The following list explains in greater detail how Michigan and several other jurisdictions treat different customer classes.

Michigan: As the energy savings target is based on revenue from all sectors, the MPSC gives the utilities flexibility to tailor the amount of effort given to each customer class, depending on the specific characteristics of the service territory.[1] Michigan has established five main customer classes: residential, commercial, industrial, low-income,

[1] http://www.legislature.mi.gov/documents/2007-2008/publicact/pdf/2008-PA-0295.pdf

and self-direct. The self-direct program was established specifically for non-residential customers who wish to run their own energy efficiency program. Self-direct customers are allowed to opt-out of the full Energy Optimization surcharge but must still pay for the associated costs with the low-income programs and the evaluation/review of the self-direct program.[2] Self-direct customers are expected to meet the state's energy savings targets based on their electricity purchases or natural gas usage in the previous year; if customers are unable to do this, they are required to repay Energy Optimization surcharge proportional to their shortfall.[3] Plans are reviewed and approved by the utility, which then reports aggregated yearly program data to the Michigan Public Service Commission.[4]

Wisconsin: Like the MPSC, the Wisconsin Public Service Commission offers its largest energy customers the opportunity to self-direct their cost recovery mechanism funds. Customers must submit a program plan for approval that meets cost-effectiveness standards and includes detailed measurement and verification plans. Approved customers implement their plans and submit quarterly reports. The amount of funding available is based on variable formula and is received upon completion of projects. The PSC may allocate any unused funds to other programs such as Focus on Energy.

Iowa: Iowa has no guidelines for allocation of costs or savings across customer classes which is similar to flexibility allowed in Michigan. However, there are no self-direct options for industrial customers.[5]

California: California has four main customer classes established: residential, commercial, industrial, and agricultural. As in Michigan, the California Public Utility Commission gives each utility the responsibility to segment their approach, so there are no sector-specific goals laid out in the EERS.[6]

Connecticut: Like Michigan, the Connecticut Energy Efficiency Board has not established any specific goals for sector allocation. As it stands today, 50% of energy efficiency budgets go to commercial and industrial programs, 39% to residential, and the remaining to Administration, Planning, and Education.[7]

[2] http://www.michigan.gov/mpsc/0,4639,7-159-52495_54478---,00.html
[3] http://www.aceee.org/sites/default/files/publications/researchreports/ie112.pdf
[4] http://www.michigan.gov/mpsc/0,4639,7-159-52495_54478---,00.html
[5] http://aceee.org/sector/state-policy/iowa. *See also* http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=IA12R&re=0&ee=0.
[6] http://www.cpuc.ca.gov/NR/rdonlyres/89718A1B-C3D5-4E30-9A82-74ED155D0485/0/EnergyEfficiencyEvaluationReport.pdf
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