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December 3, 2021

Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
3rd Floor
Lansing, MI 48917

Re: SEMCO Energy Gas Company
U-20883

Dear Ms. Felice:

Attached for filing please find SEMCO Energy Gas Company's Initial Brief regarding the above-referenced matter.

If you have any questions, please feel free to contact me.

Thank you.

Sincerely,

DYKEMA GOSSETT PLLC

John A. Janiszewski

109461.000056

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,)
regarding the regulatory reviews, revisions,)
determinations, and/or approvals necessary for SEMCO)
Energy, Inc. to fully comply with Public Act 295 of 2008,)
as amended by Public Act 342 of 2016.)

Case No. U-20883

SEMCO ENERGY GAS COMPANY'S INITIAL BRIEF

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I. INTRODUCTION

SEMCO Energy Gas Company (“SEMCO” or the “Company”) respectfully requests the Michigan Public Service Commission (“MPSC” or the “Commission”) to approve SEMCO’s Energy Waste Reduction (“EWR”) Plan for 2022-2023. The record demonstrates that SEMCO’s EWR Plan is reasonable and prudent and consistent with the requirements set forth in the “Clean, Renewable, and Efficient Energy Act” 2008 PA 295, MCL 460.1001, *et seq.* (“Act 295”), as amended by 2016 PA 342 (“Act 342”).¹ Michigan Public Service Commission Staff (“Staff”) found the Company’s 2022-2023 EWR Plan to be reasonable and prudent and recommends the Commission approve the EWR Plan as filed. (2 Tr. 66).

II. PROCEDURAL HISTORY

On July 1, 2021, SEMCO filed its application seeking a Commission order approving its 2022-2023 EWR Plan and related relief. The Company sponsored the Direct Testimony and Exhibits of the following three witnesses in support of its application: Vanessa L. Gostiaux, Rates Analyst for SEMCO (2 Tr. 17-22); Patrick L. Leahy, Manager of Energy Waste Reduction for SEMCO (2 Tr. 23-42); and George L. Phillips, Senior Consultant with Morgan Marketing Partners, LLC (2 Tr. 54-60).

On August 11, 2021, a prehearing conference was held before Administrative Law Judge Martin D. Snider (“ALJ”). The Michigan Public Service Commission Staff (“Staff”) participated in this case, and interventions were granted to Attorney General Dana Nessel (“Attorney General”) and the Citizens Utility Board of Michigan (“CUB”).

¹ Effective April 20, 2017, Act 295 was amended by Public Act 342 of 2016.

On October 15, 2021, Staff and Intervenor testimony was filed. Staff sponsored the Direct Testimony Fawzon B. Tiwana. (2 Tr. 62-66). The Attorney General and CUB jointly sponsored the Direct Testimony and Exhibits of Douglas B. Jester (2 Tr. 68-79). On November 5, 2021, the Company filed the Rebuttal Testimony and Exhibits of Patrick L. Leahy, Manager of Energy Waste Reduction for SEMCO. (2 Tr. 43-53).

The evidentiary hearing in this proceeding was held on November 15, 2021 for the purpose of binding-in testimony and the admission of exhibits. Pursuant to stipulation, the parties waived cross-examination of all witnesses.

III. JURISDICTION AND STANDARD OF REVIEW

Act 295 requires natural gas providers to file proposed Energy Optimization Plans (“EOPs”) with the Commission for review and approval. Section 71 of Act 295 requires that an EOP: (a) propose a set of EOPs that include offerings for each customer class; (b) specify necessary funding levels; (c) describe how EOP costs will be recovered; (d) ensure that, to the extent feasible, charges collected from a particular rate class are spent on EOPs for that rate class; (e) demonstrate that the proposed EOPs and funding are sufficient to ensure achievement of the applicable standards; (f) specify whether the number of decatherms of natural gas used in the calculation of incremental energy savings will be weather-normalized or based on the average number of decatherms of natural gas sold annually during the previous three years to retail customers in Michigan; (g) demonstrate that the EOPs will be cost-effective; (h) provide for the practical and effective administration of the proposed EOPs; and (i) include a process for obtaining an independent expert evaluation of the actual EOPs to verify the incremental energy savings from each EOP. MCL 460.1071.

On December 4, 2008, the Commission issued a “temporary order” in Case No. U-15800 implementing Section 71 of Act 295’s provisions (the “Temporary Order”). The Temporary Order requires that an EOP must: (1) propose a set of programs that will meet energy savings targets established by Act 295; (2) include offerings for each customer class, including low-income residential; (3) specify necessary funding levels; (4) propose cost recovery mechanisms that will allow recovery of EOP costs; (5) demonstrate that the offered EOP (except for low-income programs) will be cost-effective; and, (6) provide for the practical and effective administration of the proposed programs. The Temporary Order also authorized the deferment of EOP implementation costs.

In December 2016, then Governor Snyder signed Act 342 into law, which amended Act 295 in several significant ways. Of relevance to this case, Act 342 changed “Energy Optimization” to “Energy Waste Reduction” and codified the procedures for EWR Plans and amendments that generally mirror the processes that have been used since 2008. Act 342 also eliminated the cap on the percentage of total utility retail sales revenue that a natural gas provider may spend to comply with energy optimization performance standards as well as included an expanded financial incentive allowed for providers who exceed the EWR performance standards set forth in Act 342. On March 28, 2017, the Commission issued an Order in Case No. U-18231 reiterating Act 342’s requirement for the filing of biennial EWR Plans.

Public Act 295, as amended by Act 342, requires all providers of electric and gas service in the State of Michigan to establish EWR programs by filing EWR plans with the Commission. MCL 460.1071. EWR plans filed by rate-regulated providers are subject to Commission approval. MCL 460.1073. MCL 460.1071 and MCL 460.1073 provide the requirements of an EWR Plan premised on the goal of reducing the future costs of providing service to customers.

Furthermore, the Commission’s standard of review in plan cases is that “[k]nown costs must be reviewed for reasonableness and prudence; projections need only be a reasonable and prudent hypothesis of future events.” *In Re Consumers Power Co*, Opinion and Order, Case No. U-8286, p. 21 (December 17, 1986). Of course, “reasonableness and prudence” is not synonymous with perfection.²

In addition, the Michigan Supreme Court has opined that “[t]he proof required in an administrative proceeding . . . is the same as that required in a civil judicial proceeding: a preponderance of the evidence.”³ The preponderance of the evidence standard is generally defined as follows:

The greater weight of the evidence, not necessarily established by the greater number of witnesses testifying to a fact but by evidence that has the most convincing force; superior evidentiary weight that, though not sufficient to free the mind wholly from all reasonable doubt, is still sufficient to incline a fair and impartial mind to one side of the issue rather than the other. *Black’s Law Dictionary* 1301 (9th ed 2009).

Thus, although the Company bears the burden of proof in this EWR Plan case for demonstrating that its EWR Plan is reasonable and prudent and cost-effective, the applicable standard of proof is the “preponderance of the evidence” standard.

IV. OVERVIEW OF THE COMPANY’S 2022-2023 EWR PLAN

SEMCO’s EWR Plan describes how the Company will comply with Act 295, as amended by Act 342, through a cost-effective portfolio of EWR programs and pilot programs for each customer class. SEMCO’s EWR Plan and supporting testimony thoroughly explain how the Company and its contractual partners will administer the programs, specifies the funding necessary

² *Attorney General v Pub Serv Comm*, 161 Mich App 506, 517; 411 NW2d 469 (1987).

³ *See Aquilina v General Motors Corp*, 403 Mich 206, 210-211; 267 NW2d 923 (1978).

for the EWR Plan, how costs associated with the EWR Plan will be recovered, describes the process for obtaining an independent evaluation of the programs, and ensures that the funding is sufficient to achieve the standards set forth in Act 295, as amended by Act 342.

The Company's 2022-2023 EWR Plan is designed to continue to meet and exceed energy savings goals in a manner that serves as a model for the development and implementation of successful EWR programs and offerings in Michigan. SEMCO proposes to spend \$15,000,000 for the 2022 EWR Plan year and \$15,200,000 for the 2023 EWR Plan year. Exhibit A-6. The Company proposes to spend at least 12% of its EWR budget on Income Qualified programs, specifically \$1,800,000 for the 2022 EWR Plan year and \$1,824,000 for the 2023 EWR Plan year. (2 Tr. 39).

As described by Witness Leahy, SEMCO plans to re-contract with a number of previous EWR program implementers in 2022-2023, along with contracting with new implementers for residential and commercial pilots and evaluation services. (2 Tr. 26). SEMCO will re-contract with CLEAResult Great Lakes Consulting, LLC ("CLEAResult") to implement the majority of the Company's EWR programs. *Id.* SEMCO also plans to re-contract with the National Energy Foundation ("NEF") to implement the Think Energy! And Take Action residential education program and Blue Water Community Action Agency ("BWCA") to implement portions of the Company's income-qualified program. *Id.* For the 2022-2023 EWR Plan period, SEMCO will enter into a new contract with ICF Resources, LLC ("ICF") for purposes of implementing the majority of the Company's residential and commercial pilots. *Id.* For evaluation services, SEMCO plans to contract directly with DNV, formerly DNV-GL, which is a change from prior EWR years when the Company contracted with Michigan Community Action ("MCA") who subcontracted with DNV. (2 Tr. 26-27).

SEMCO worked closely with CLEAResult in the design and modeling of its 2022-2023 EWR Plan. (2 Tr. 27). SEMCO provided EWR program parameters, including areas of focus, and supplied the budget and energy savings breakdowns for each of the programs not implemented through CLEAResult. *Id.* CLEAResult then developed an implementation model for each EWR Plan year using historical and projected participation rate details, the 2021 Michigan Energy Measures Database (“MEMD”), and the EWR program parameters provided by the Company. *Id.*

Similar to previous EWR Plans, the Company plans to maintain a portfolio of EWR programs with offerings available to each customer class, including income-qualified customers. (2 Tr. 29). The portfolio will continue to include a mix of EWR programs designed to best drive customer engagement and energy savings. *Id.* SEMCO will provide three overarching EWR program portfolios: Residential, Commercial & Industrial (“C&I”), and Income Qualified. *Id.* The three portfolios are further divided into sub-programs, each offering a different delivery method to provide a diverse and sustainable EWR Plan. See Exhibit A-4.

1. Residential

The Residential portfolio will focus on residential home performance and will be primarily administered by CLEAResult.⁴ (2 Tr. 31). Residential home performance includes providing consumers residential customer rebates. *Id.* Trade Allies (“TAs”) of SEMCO are the primary marketer of rebates by promoting customer energy efficient decisions when purchasing HVAC equipment, insulation, windows, doors, etc. *Id.* SEMCO will also maintain an online presence and traditional marketing techniques to educate customers on the availability of rebates to encourage more energy efficient decisions. *Id.* No-cost Home Energy Assessments (“HEAs”)

⁴ Certain Residential Pilots will be implemented by ICF, and a portion of the Residential Education program will be implemented through NEF. *Supra*, p. 5; see also Exhibit A-4.

will also continue to be offered to customers as a starting point on their energy efficiency journey. *Id.* HEAs provide customers an opportunity to learn about their home’s energy consumption and to receive increased rebates if they complete any of the recommended energy suggestions. *Id.*

In addition to rebates, the Residential program includes the Manufactured Home Initiative (“MHI”), heating system tune-ups, and Home Energy Reports (“HER”). *Id.* at 31-32. SEMCO’s service territory has a large population of manufactured homes that are generally less energy efficient than traditional single-family homes. (2 Tr. 32). These weatherization services have proven successful in saving energy for a low cost, and are available to qualifying customers at no-cost. *Id.* A heating system tune-up optimizes existing heating systems to maximize efficiency. Customers may also upgrade their thermostat through this service. *Id.* The HERs program provides customers a personalized insight on their home’s energy usage by providing a report on how their usage compares to similar homes. *Id.* The HER program also helps engage customers on how they approach their energy usage. *Id.*

2. **Commercial and Industrial**

With the exception of select C&I pilots described by Witness Leahy, C&I programs will continue to be implemented by CLEAResult.⁵ (2 Tr. 33). C&I Prescriptive and Custom programming will be used to implement the core of SEMCO’s Commercial and Industrial programming. *Id.* C&I customers upgrading or installing standardized measurers with typical run times and intended uses will fall within the Prescriptive program, and will be eligible for rebates based on the extent of energy savings determined through the MEMD. *Id.*

⁵ For a detailed description of SEMCO’s EWR Pilots, please see (2 Tr. 34-36) and Exhibit A-4.

Alternatively, customers who adopt unique energy efficiency upgrades, process improvements, or whose use of standard energy efficiency equipment falls outside the parameters of the MEMD are incentivized under the C&I Custom Program. *Id.* The Custom program offering is tailored to the participant based on the individual energy savings for their project. *Id.* Customers that participate in the Custom Program are required to meet with a CLEAResult Energy Advisor during the planning phase of the project. CLEAResult's Energy Advisor and engineering team will assess the anticipated energy savings associated with the upgrade and reserve incentive funds for the project. *Id.* This assessment includes consultation with SEMCO's Evaluation, Measurement, and Verification ("EM&V") evaluator, DNV, before determining the value of their prospective savings. *Id.* The underlying project must then be implemented within a required timeframe, or the reserved funds will be released back into the available pot for other upcoming efficiency projects. *Id.* CLEAResult's Energy Advisor and engineering team confirm energy savings, working closely with TAs installing the measures as well as DNV, before determining the final savings and incentive values. (2 Tr. 32-33). Pre and post site visits are necessary to validate savings because each project under the Custom program umbrella is site specific. *Id.*

The Prescriptive and Custom program also offers energy advising and long-term planning services to customers through the design and implementation of EWR strategic plans. In 2022-2023, SEMCO is continuing to specifically focus on engaging small to medium-sized business customers. *Id.* To accomplish this, prescriptive rates are being increased and marketing strategies are being tailored to encourage customer participation. *Id.*

The Prescriptive and Custom program will include a Strategic Energy Management ("SEM") offering. SEM works deeply and holistically on organizational changes around energy. *Id.* The SEM process is intended to transform customers' approach to energy usage, training them

to identify and drive out energy waste and continually achieve energy performance improvements for the long-term. *Id.*

3. Income Qualified

Income-qualified programming will continue to be implemented through CLEAResult and BWCA. CLEAResult will serve as the primary income-qualified administrator and continue to offer the MHI, HEAs, Appliance Assistance Program, and heating system tune-ups, along with premium services like air sealing, insulation upgrades, and water and space heating equipment replacement. (2 Tr. 29-30). SEMCO will continue the health and safety measures to have carbon monoxide detectors installed after furnace tune-ups or new installations. CLEAResult will also be targeting enrollees of SEMCO's Monthly Assistance Program ("MAP") in marketing efforts to reach this population and support the move toward self-sufficiency. *Id.* SEMCO will also continue to work with multifamily housing communities, public housing commissions, and tribal governments as part of its income-qualified program. *Id.*

BWCA coordinates with other Community Action Agencies ("CAA") in SEMCO service area so that the programs can reach a broader spectrum of customers than just those serviced by BWCA in St. Clair County. *Id.* SEMCO will continue to rebate weatherization projects, along with offering the furnace replacement, and health & safety programs. *Id.* The rebates distributed to the weatherization program can be used to buy-down expenses allowing a site to meet the savings to investment obligations required of weatherization grantees. *Id.* When a buy-down is not necessary, rebates will still be available to help CAAs stretch their funding and reach more households. *Id.* SEMCO's EWR program will also continue to support a furnace replacement program through the CAAs to address households who have an emergent need for a heating system replacement and are not immediately eligible for the weatherization program. *Id.* The health and

safety program is available to CAAs participating in the weatherization or furnace replacement program, who need to perform additional repairs or work that is not covered by CAAs' health and safety funding. This program prevents walk-away situations due to a lack of funding. (2 Tr. 31).

In 2022-2023, SEMCO will be modifying certain features of its EWR programming. The Company will be placing a larger focus on small to medium sized business customers in the C&I program, offering them enhanced rebate levels to engage in participation. (2 Tr. 36-37). SEMCO will also be emphasizing EWR upgrades to multifamily properties, expanding beyond just direct installation measures and adding rebates for multifamily measures not previously offered. *Id.* The Company's 2022-2023 EWR portfolio will also continue the online marketplace, virtual HEAs and HERs, which were all introduced in the latter portion of 2020 and continuing into 2021. *Id.*

In regard to administration of SEMCO's EWR programs, the Company will provide general program management, plan design supervision, tracking and reporting oversight, marketing approval, and regulatory review for all aspects of its 2022-2023 EWR Plan. (2 Tr. 28). CLEAResult will provide the bulk of day-to-day implementation services, including training, application and incentive processing, incentive payments, tracking, verification, technical support, customer support, marketing for the majority of the Company's 2022-2023 EWR programs. (2 Tr. 28-29). NEF, BWCA, and ICF will also provide EWR program implementation services under the previously discussed contracts. (2 Tr. 29).

V. ARGUMENT

A. The Company's EWR Portfolio is Cost-Effective and Meets the Utility System Resource Cost Test Pursuant to MCL 460.1073.

SEMCO's EWR Plan is cost-effective and satisfies the USRCT⁶ pursuant to MCL 460.1073(2). The record demonstrates that SEMCO's portfolio of EWR programs, excluding the Income Qualified program, will be collectively cost-effective in accordance with Commission guidelines and the legislative requirements set forth in Act 295, as amended by Act 342. (2 Tr. 60). Witness Phillips analyzed the cost-effectiveness for SEMCO's EWR programs, finding an overall Gas Program USRCT score of 1.84. (2 Tr. 60). This means that the benefits equate to 184% of the program cost for the entire EWR portfolio. *Id.*

Witness Phillips determined the cost-effectiveness of the Company's EWR programs using the DSMore cost analysis tool⁷ to calculate and report cost-effectiveness under the USRCT. (2 Tr. 58). Inputs into the model include participation rates of each measure, incentives paid, energy savings of the measure, life of the measure, implementation costs, administrative costs, and incremental costs to the participant for the high-efficiency measure. (2 Tr. 59). Energy savings for each measure were determined using the MEMD with adjustments from third party independent evaluator, DNV. *Id.* The estimated number of installations were determined using the past experience of the program implementer and adjusting to achieve energy savings goals. *Id.*

⁶ The USRCT is generally defined as the ratio of the benefits derived from the EWR programs to the costs of the EWR programs, including incentives incurred by the utility. For the portfolio of EWR programs to be cost-effective, the USRCT ratio needs to be greater than one. (2 Tr. 58-59).

⁷ The DSMore tool is modeling software used in many states to determine program and portfolio cost-effectiveness. The DSMore tool takes gas hub prices and gas energy savings for the specific measures/technologies being used in the EWR program and correlates both to weather. (2 Tr. 58). The DSMore tool examines over 30 years of historic weather variability to establish full weather variances to appropriately model. This allows the model to capture low probability, but high consequence weather events and apply appropriate value to them. *Id.*

Program costs and incentives were determined using data from SEMCO and the program implementer. *Id.* Participation results multiplied by the energy savings over the life of the measure yields the lifetime energy savings. *Id.* DSMore also examines utility information, including utility rates, escalation rates, line loss, discount rates for the utility, society and the participant, and avoided costs. *Id.*

Exhibit A-7 shows the cost-effectiveness test results for the Company's portfolio of EWR programs for 2022-2023 in total, by Residential and C&I customer classes, and for each individual EWR program. In addition to the mandated USRCT results, several other cost-effectiveness test results are presented in Exhibit A-7, including the Total Resource Cost Test, Rate Impact Measure, and Participant Test. (2 Tr. 58-59).

SEMCO requests that the Commission determine that the EWR Plan portfolio meets the utility system resource cost test ("USRCT") and is reasonable and prudent as set forth in MCL 460.1073. The Commission should find that the Company's 2022-2023 EWR Plan and associated programs are cost-effective and pass the USRCT with a score of 1.84 in accordance with Commission guidelines and statutory requirements set forth in Act 295, as amended by Act 342.

B. The Commission Should Approve the Company's EWR Savings Targets, which Exceed the 0.75% Standard Set Forth in MCL 460.1077(3).

The Company requests that the Commission determine that the EWR programs and funding proposed in 2022-2023 are sufficient to ensure achievement of the 0.75% EWR savings target set forth in MCL 460.1077(3), which states, in pertinent part:

[A] natural gas provider's energy waste reduction program under this subpart shall achieve annual incremental energy savings each year equivalent to 0.75% of total annual retail natural gas sales in decatherms or equivalent MCFs in the preceding year.

The record demonstrates that SEMCO's proposed EWR programs and funding are sufficient to ensure achievement of the 0.75% savings target. Staff concluded that SEMCO's

proposed EWR spend levels for 2022-2023 are reasonable and consistent with spend levels in prior successful years. (2 Tr. 65). Staff confirmed that the Company's proposed targeted first year savings goal of 5,118,505 therms for 2022 and 4,960,099 therms for 2023 would exceed the statutory savings levels of 0.75% and meet the upper level 1% target to collect a full performance incentive. *Id.*

Consistent with SEMCO's commitment to EWR programming and to effectively account for unforeseen challenges associated with implementing the model and securing EWR savings, the Company opted to deliberately over-model EWR Plan targeted savings levels to exceed the 0.75% savings target, totaling 1.20% in 2022 and 1.26% in 2023. Exhibit A-6; see also (2 Tr. 49-50). SEMCO's approach to over-modeling energy savings has proven appropriate in light of the recently released 2022 MEMD, which contains increases to baselines that will result in savings reductions relative to the figures the Company used to model projected energy savings in its EWR Plan for 2022-2023.⁸

Thus, although SEMCO remains committed to exceeding the EWR savings targets during the 2022-2023 EWR Plan years, it must be understood that several factors were considered when developing the proposed savings targets of 1.20% and 1.26%, including prospective changes stemming from the 2022 MEMD that have proven to be applicable. These factors strongly weigh in favor of not utilizing the Company's historical success of surpassing energy savings targets and approach to over-modeling as misguided justifications for increasing thresholds for earning a financial incentive, as proposed by Attorney General Witness Jester. (2 Tr. 77-79). As further

⁸ The 2022 MEMD can be accessed through the MPSC's website: https://www.michigan.gov/mpsc/0,9535,7-395-93309_94801_94808_94811---,00.html (last accessed December 3, 2021).

discussed below in Argument Section E, the Company has a strong track record of overachieving energy savings and does not need higher financial incentive mechanism (“FIM”) thresholds to incentivize performance. (2 Tr. 47); see also Exhibit A-8. In effect, adoption of Witness Jester’s recommendations would unfairly penalize the Company for its historical success and prudent management of EWR programming without further incentivizing performance. The Company’s proposed savings targets are reasonable and effectively address several relevant factors that Witness Jester’s recommendations fail to consider.

In sum, the record in this case supports a Commission finding that the Company’s EWR programs and funding proposed in 2022-2023 are sufficient to ensure achievement of the 0.75% EWR savings target set forth in MCL 460.1077(3). Staff and the Company support approval of the Company’s EWR savings targets as being reasonable and consistent with prior successes.

C. The Commission Should Approve the Company’s Proposed Spending Levels, Including for Income Qualified Programs.

SEMCO proposes to spend \$15,000,000 for the 2022 EWR Plan year and \$15,200,000 for the 2023 EWR Plan year. Exhibit A-6. SEMCO proposes to increase spending on Income Qualified programs to at least 12% of its EWR budget , which equates to \$1,800,000 for the 2022 EWR Plan year and \$1,824,00 for the 2023 EWR Plan year. (2 Tr. 39). Recovery of the Company’s Income Qualified program budget will be allocated across all customer classes. Staff testified that the Company’s proposed level of spend for Income Qualified programs is reasonable and prudent, noting that SEMCO actively participates in the EWR Low Income Collaborative and has been a model for development and implementation of successful Income Qualified programs and offerings. (2 Tr. 66).

SEMCO plans to continue employing the new low-income EWR surcharge rate established in the amended 2020-2021 EWR Plan in Case No. U-20431 with certain modifications. (2 Tr. 39-

40). The purpose of the low-income EWR surcharge rate is to lower the financial burden of its eligible income qualified customers, ensuring that eligible customers pay only for programs that benefit them and only their share of such programs. (2 Tr. 40). Prior to the establishment of the low-income surcharge rate, all income qualified customers paid the same as residential customers, including both a share of the Income Qualified program costs as well as the full cost of residential programs and other administrative support costs. *Id.*

SEMCO proposes to modify the low-income EWR surcharge rate in this case. The existing low-income surcharge rate only includes a portion of Income Qualified program costs. *Id.* All other costs previously allocated to all residential customers, including income qualified customers were removed. *Id.* The low-income EWR surcharge rate was established so that these income eligible customers would have a reduced surcharge and only pay for programs in which they benefit. Since income qualified customers participate or benefit directly from residential pilot and education programs, SEMCO proposes that the low-income rate be modified to include cost-recovery for portions of these programs as well. *Id.*

SEMCO also proposes to modify the low-income surcharge by including a portion of administration and evaluation costs to the surcharge as well. (2 Tr. 41). Income Qualified programs require substantial effort to administer. *Id.* A portion of administration and evaluation costs are therefore included in the overall Income Qualified budget detailed in Exhibit A-6 and used by Witness Gostiaux in her calculation of the low-income surcharge.

As concluded by Staff, the Company's proposed spending levels for EWR programming, including for income-qualified programs, are reasonable and prudent. Therefore, the Commission should approve the proposed spending levels as filed.

D. The Commission Should Continue to Afford the Company with Additional EWR Budget Flexibility for 2022-2023.

In the past several Commission orders in SEMCO's EWR Plan cases, including most recently in Case No. U-20431, approval was granted for additional EWR budget flexibility. (2 Tr. 41). SEMCO requests continuance of that added flexibility for the 2022-2023 EWR Plan years. *Id.* As approved in prior EWR cases, the Company seeks to continue the additional flexibility of up to 5% in spending between Residential and C&I programs and up to 20% between sub-programs within each portfolio to accommodate unforeseen program uptake and other implementation issues. *Id.* Under these approvals, the Company may reallocate expenditures budgeted for core EWR programming within one customer class to core programming in another customer class when necessary and the change is reasonable. *Id.* Notably, even with these changes, substantial cost savings still apply to income eligible customers. (2 Tr. 42). As set forth in Witness Gostiaux's Exhibit A-1, the proposed residential surcharge rate in 2022 is \$0.3581/dekatherm, while the proposed low-income surcharge rate is \$0.0909/dekatherm, which represents a decrease of over 74%. *Id.*

E. The Commission Should Approve the Company's Proposed Financial Incentive Mechanism.

SEMCO requests approval of the FIM methodology set forth in Exhibit A-5 for purposes of calculating the financial incentive for EWR Plan years 2022 and 2023. (2 Tr. 38). Any financial incentive will be awarded based on the Company's achievement of its energy savings targets and income-qualified spend. *Id.* As evidenced by the SEMCO's continuous track record of overachievement and earning Tier 3 financial incentives under the existing FIM methodology, the Company's actual historical performance unequivocally supports the fact that the existing FIM

methodology effectively incentivizes the Company to overachieve. (2 Tr. 47); see also Exhibit A-8.

As part of the Company's commitment to its most vulnerable customers, SEMCO proposes to increase its Income Qualified program spend requirement necessary to secure the maximum financial incentive. *Id.* As outlined in Exhibit A-5, for EWR Plan years 2022 and 2023, SEMCO has increased its income qualified spend requirement from 10% to 12% of the total EWR budget in order to reach the uppermost financial incentive. (2 Tr. 39). Staff views the Company's approach to income-qualified customers as robust and a model for the development and implementation of successful programs and offerings. (2 Tr. 66).

Staff found the Company's proposed FIM methodology and incentive structure to be reasonable and prudent. (2 Tr. 66). Staff pointed out that the existing approach to the FIM methodology, which SEMCO proposes to maintain in Exhibit A-5, has historically been used by SEMCO and other utilities in Michigan that are eligible to collect a financial incentive for EWR Plan performance. *Id.*

SEMCO's FIM methodology and incentive structure in Exhibit A-5 are consistent with Commission precedent and the EWR statutory scheme. Section 75 of Act 295, as amended by Act 342, provides guidance on financial incentives utilities may be eligible to earn based on the level of first year energy savings achieved. MCL 460.1075(1). Section 75 states that "[a]n energy waste reduction plan of a provider whose rates are regulated by the commission may authorize a commensurate financial incentive for the provider for exceeding the energy waste reduction standard. Payment of any financial incentive authorized in the energy waste reduction plan is subject to the approval of the commission." *Id.*

Also part of the energy legislative package signed by then Governor Snyder in addition to Act 342 was 2016 PA 341 through which Section 6a(13) provides the Commission the latitude and discretion to approve alternate FIM methodologies for natural gas utilities to ensure that investments in EWR are not disfavored when compared to utility supply-side investments. MCL 460.6a(13) reads, in pertinent part:

The commission may approve an alternative methodology for a . . . financial incentive authorized under Section 75 of the Clean and Renewable Energy and Energy Waste Reduction Act, 2008 PA 295, MCL 460.1075 . . . if the commission determines that the resulting aggregate revenues from those mechanisms would not result in a reasonable and cost-effective method to ensure that investments in energy waste reduction, demand-side programs, peak load reduction, and other waste reduction measures are not disfavored when compared to a utility's supply-side investments.

As permitted by MCL 460.6a(13) and Act 295, as amended by Act 342, the Commission has elected to approve the FIM methodology proposed in Exhibit A-5 in both gas and electric EWR plans, including all of SEMCO's EWR Plan and Reconciliation cases since 2018.

The Company has operated its EWR programs using the same FIM methodology proposed in Exhibit A-5 since 2018. (2 Tr. 47). SEMCO proposes to continue utilizing the FIM methodology that Staff originally formulated and instructed the Company to adopt in Case No. U-18270. See Exhibit A-9. The FIM methodology and incentive structure set forth in Exhibit A-5 have been repeatedly approved by the Commission in SEMCO Case Nos. U-18270, U-20037, U-20370, U-20431, U-20710, and U-20873. This same methodology has been uniformly adopted by several other Michigan utilities, both electric and gas, in calculating their EWR financial incentive.⁹

⁹ The Commission has approved this same FIM methodology and incentive structure in virtually all Commission orders in EWR proceedings, including fully contested Cases Nos. U-20367 and U-20374.

Based on the foregoing, the Commission should approve the Company's proposed FIM methodology and incentive structure set forth in Exhibit A-5, which is consistent with the EWR statutory scheme and has a proven track record of successfully incentivizing the Company's performance.

REQUEST FOR RELIEF

Based on the foregoing, SEMCO Energy Gas Company respectfully requests the Michigan Public Service Commission issue an order that:

1. Determines SEMCO's EWR Plan portfolio meets the Utility System Resource Cost Test and is reasonable and prudent as set forth in MCL 460.1073.
2. Determines SEMCO's EWR portfolio of programs and funding are sufficient to ensure the achievement of applicable EWR standards as set forth in MCL 460.1077.
3. Approves SEMCO's proposed financial incentive mechanism construct that will provide an annual incentive based on energy savings performance as allowed under MCL 460.1075.
4. Finds that SEMCO's EWR Plan fulfills all of the statutory requirements of 2008 PA 295, as amended by 2016 PA 342, and approve the EWR surcharge, as filed, to recover the costs of the EWR Plan.
5. Affords the Company with additional EWR budget flexibility for 2022-2023.
6. Grants SEMCO such other and additional relief as the Commission may deem appropriate and proper.

Respectfully submitted,

DYKEMA GOSSETT PLLC

Date: December 3, 2021

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion,)
regarding the regulatory reviews, revisions,)
determinations, and/or approvals necessary for) Case No. U-20883
SEMCO Energy, Inc., to fully comply with Public Act 295)
of 2008, as amended by Public Act 342 of 2016.)
_____)

PROOF OF SERVICE

Rebecca LaLonde, an employee of Dykema Gossett PLLC, being first duly sworn, deposes and says that on the 3rd day of December 2021, she served SEMCO Energy Gas Company's Initial Brief on the following parties via email at the addresses below:

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