



Public Interest Research Group in Michigan

March 7, 2006

Executive Secretary
Michigan Public Service Commission
PO Box 30221
6545 Mercantile Way, Suite 7
Lansing, MI 48911-5990

Re: Statement of PIRGIM in Case No. U-14667 Staff Report on Energy Efficiency Programs (January 31, 2006)

PIRGIM, the Public Interest Research Group in Michigan, is a non-profit, non-partisan, member-based organization founded in 1972 to represent the interests of Michiganders in government. We are a frequent intervenor in PSC cases and have worked on energy efficiency, renewable energy and protecting the interests of energy consumers in Michigan, in Washington, and across the country through our network of state PIRGs. The perspective that we come from on energy issues generally, and energy efficiency specifically, is that of the public interest, meaning what is best for Michigan's citizens.

I first want to thank the Commission for recognizing the immense need for energy efficiency programming and therefore ordering the issuance of this report. We agree strongly with the goals of using energy efficiency to drive down energy prices as well as enhance the state's economy and environment. We agree that a system is needed to bring back Michigan's energy efficiency programs. We believe that a stronger reliance on energy efficiency is needed before even considering building new coal-fired power plants, a decision that is costly in economic, environmental and public health terms. Michigan cannot afford to wait any longer to make a smart investment in energy efficiency. PIRGIM talks with over 100,000 average Michiganders per year and they are sending a clear message: It's time for an energy future that emphasizes clean energy, including energy efficiency and renewable energy. PIRGIM submitted over 1,000 citizen comments to the PSC to this affect just last week on the Capacity Needs Forum.

Michiganders are spending an increasing portion of their income to meet energy needs which means fewer dollars are staying in Michigan. Fortunately, there are tried and true policies that will produce results and have produced results in other states. Unfortunately, because of our short-sighted energy policies and lack of commitment to energy efficiency, Michigan is falling farther and farther behind, and becoming more and more dependent on imported, non-renewable energy sources. The staff report accurately describes this as a "perfect storm demonstrating the need for energy efficiency programs".

The PSC's Capacity Needs Forum sets the stage for this report by predicting that Michigan's electricity demand will continue to grow at 2%/year despite our flagging economy and stagnant population. However, PIRGIM's first point is that this is not a forgone conclusion and should not be accepted as inevitable: the myth of tying economic growth to increasing energy demand as well as the inevitability of energy growth must be busted as a first step to energy prosperity. The PSC's own research shows how energy efficiency is the cheapest solution to "meet" growing energy demand.

Our second point comes from the cover letter which states: "the Commission has authority over ratemaking, but that the decision to offer energy efficiency services is a management decision of the utility. Hence, we believe that there will be no need for new legislation if the utilities are willing to voluntarily offer energy efficiency

services to their customers.” This is a major and mistaken assumption. We do not believe that the utilities are “willing to voluntarily offer energy efficiency services” to any significant degree. If this was true, this report would likely not be needed, as we would have substantial energy efficiency programs. Therefore, PIRGIM recommends strong PSC action within existing guidelines in tandem with strong legislation that clarifies the PSC’s authority over energy efficiency. This is needed because the problem is not that demand for energy efficiency is lacking: The overwhelming response to the newly launched, but small-scale Saving Energy With Ease program shows the incredible need for residential energy efficiency programming. The problem is that utilities have no incentives to promote energy efficiency.

One place where the report misses the mark is in its history of energy efficiency programs. The implication in this history is that efficiency programs were not effective and were abandoned because of low prices. Unfortunately, this argument mistakes the cause for the effect. One major reason that the cost of energy was so low was that the efficiency programs were being successful. The huge price increases recently are in part the result of the relaxation of efficiency efforts. The misguided thinking in the staff report leads to the conclusion in Page 5 stating: “Utilities in Michigan indicated they want to provide service to their customers, including assisting their customers in using energy more efficiently, and are eager to do so provided they continue to meet their fiduciary responsibilities to their shareholders.” PIRGIM first questions the validity of this claim as it has not been borne out in reality over the past decade. The real issue is that the incentives of utilities and the incentives of customers and society’s interests are not aligned. The Staff report does not go far enough to realign the utility management and shareholder interests with customer and society's interests.

Therefore, our third main point is that what is truly needed is a decoupling of profits from sales. If the Commission and Legislature do not take action to make sure that the utility's least-cost plan is the utility's most profitable plan, then there will remain serious tension between three goals: customers’ narrow interests in receiving the lowest possible bills; broader social goals for the least pollution and most jobs; and the utility's “prime directive” to increase profit. Nipping around the edges of this problem does not work. Therefore, PIRGIM recommends a full decoupling program.

Fourth, PIRGIM recommends fully starting a comprehensive Public Benefits Fund of at least 1% of utility revenues. 20 other states with Public Benefits Funds have been extremely successful in saving energy. In just 12 of those states, the programs have thus far have saved over 2.8 million MWh per year. The median state PBF is \$160 million per year; with this minimal investment in Michigan (costing the average Michigan household less than \$20/year), Michigan would save hundreds of millions of dollars per year. Recent ACEEE research shows that just a 1% reduction in natural gas demand in the Midwest per year for the next 5 years would lead to a 13% decrease in natural gas prices, creating a net economic savings of \$745 million by 2010 along with 5,170 new jobs. Michigan cannot afford to wait for the next round of rate cases to get serious energy efficiency efforts underway. The PSC needs an emergency response effort to get energy efficiency programming up and running and the Legislature should follow suit with specific authorization. While the PSC clearly has not used the authority that it has, there is also a need for Legislation to clarify the right of the PSC to mandate energy efficiency. Further, the state could finance a "conservation utility" (like Vermont or Wisconsin), and that entity – whose sole purpose and motivation could be for maximum efficiency – could serve as a point of reference and comparison for utility programs. Since utilities cannot run programs as effectively and efficiently as a state conservation utility, they should not be allowed to charge customers for running inefficient, ineffective programs.

The bottom line is that Michigan needs to regain its former leadership role in utility energy efficiency programs, which have been largely scrapped due to deregulation and the strong lobbying might of the utility industry. Overall, energy efficiency is the smartest, cheapest, most job-intensive way to “create” new energy sources, costing less than half of what any potential new electricity generation or other new energy development costs. It is also far faster than new generation. There is an overwhelming social and economic good that goes along with aggressively pursuing energy efficiency, but this service is greatly underprovided by utilities, in part because of the strong disincentives. You have the opportunity and responsibility to make the serious

investments that will provide long-term energy security by maximizing investments in cost-effective energy efficiency. Michigan cannot afford to be an efficiency laggard any longer, and this Report – while a good start in many ways – does not go far enough in the four ways mentioned above. Thank you for your consideration, and PIRGIM looks forward to working with the MPSC to ensure that energy efficiency is once again given the attention that it deserves in Michigan.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Shriberg". The signature is written in a cursive style with a large, sweeping flourish at the end.

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