

ENERGY WASTE REDUCTION PLANS

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Senate Bill (S-3) as passed by the Senate

Sponsor: Sen. Sam Singh

House Committee: Energy, Communications, and Technology

Senate Committee: Energy and Environment

Complete to 11-2-23

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 273 would amend the Clean and Renewable Energy and Energy Waste Reduction Act. The bill would add or amend provisions related to energy waste reduction plans, efficient electrification measures, low-income energy waste reduction programs, alternative compliance trainings, and workforce diversity.

Energy waste reduction plans

Since December 31, 2021, electric providers whose rates are *not* regulated by the Michigan Public Service Commission (MPSC) have not been required to implement energy waste reduction programs for their customers. The bill would provide that these providers must adopt an energy waste reduction plan in 2025 and every four years after 2025. Generally speaking, these plans would be filed with and reviewed and approved or rejected by the provider's governing body.

The bill would also require that, pursuant to a filing schedule established by the MPSC, an electric provider or electric and natural gas provider subject to MPSC rate regulation must file a plan in 2025 and, after 2025, must file a plan not more than six months after receiving a final order but (unless otherwise authorized by the MPSC) not more than 16 months after filing an integrated resource plan as provided under section 6t of 1939 PA 3, known as the MPSC enabling act.¹

A natural gas provider subject to MPSC rate regulation would have to file a plan by 2025, and every four years thereafter, pursuant to a filing schedule established by the MPSC.

Efficient electrification measures plans

Under the bill, beginning January 1, 2025, electricity providers would have to file the waste reduction plan required under the act as part of a customer energy optimization plan, which could also include an ***efficient electrification measures plan***. These provisions would not prohibit an electric utility from offering transportation electrification programs as approved by the MPSC.

Efficient electrification measures plan would mean a plan to offer and promote ***efficient electrification measures***.

¹ <http://legislature.mi.gov/doc.aspx?mcl-460-6t> Senate Bill 502 would amend this section:
<http://legislature.mi.gov/doc.aspx?2023-SB-0502>

Efficient electrification measure would mean an electric appliance or equipment installed in an existing building to electrify, in whole or part, space heating, water heating, cooling, drying, cooking, industrial processes, or another building or industrial end use that would otherwise be served by combustion of fossil fuel on the premises and that meets best-practice standards for cost-effective energy efficiency as determined by the MPSC. The term would include any of the following:

- A cold-climate air-source heat pump.
- An electric clothes dryer.
- A ground-source heat pump.
- High-efficiency electric cooking equipment.
- A heat pump or high-efficiency electric water heater.

Efficient electrification measures under a plan would either have to provide health and safety benefits to occupants of the premises or satisfy all of the following:

- Reduce total energy consumption at the premises.²
- Reduce greenhouse gas emissions due to energy use over the life of the electrification measure.
- For residential and commercial customers interconnected at secondary voltage, provide annual average energy cost savings.

An efficient electrification measures program could not have the effect of increasing electric rates for customers that do not participate in the program.

An electric provider could recover the costs of an efficient electrification measures program.

Financial incentive

The act allows an energy waste reduction plan of a provider subject to MPSC rate regulation to authorize a commensurate financial incentive for the provider for exceeding the energy waste reduction standard, with payment subject to MPSC approval.

The bill would allow payment of a financial incentive to be based on performance metrics, if agreed to by a provider, in addition to the savings metrics described below. The performance metrics could include metrics for delivering low-income programs.

Currently, the total amount of a financial incentive for an electric provider that achieves annual incremental savings of greater than 1.5% of its total annual retail electricity sales (in megawatt hours) in the preceding year or a natural gas provider that achieves annual incremental savings of greater than 1% of its total annual retail natural gas sales (in decatherms) in the preceding year cannot exceed the lesser of the following amounts:

- 30% of the net present value of life-cycle cost reductions experienced by the provider's customers as a result of implementation, during the year for which the financial incentive is paid, of the energy waste reduction plan.
- 20% of the provider's actual energy waste reduction program expenditures for the year.

² This would be the amount by which the reduction in consumption of fossil fuels as a result of electrification exceeds the increase of electricity consumption resulting from the displacement of fossil fuel consumption as a result of electrification.

Under the bill, the total amount of a financial incentive for an electric provider that achieves the following amount of annual incremental savings, expressed as a percentage of its total annual retail electricity sales (in megawatt hours) in the preceding year, with an average savings life of at least eight years, could not exceed the following:

- For savings of greater than 2.17% of sales, an incentive of the lesser of the following:
 - 35% of customer *life cycle cost reductions*.
 - 25% of the provider's actual energy waste reduction program expenditures for the year.
- For savings of greater than 2% but not greater than 2.17% of sales, an incentive of the lesser of the following:
 - 32.5% of customer life cycle cost reductions.
 - 22.5% of the provider's actual energy waste reduction program expenditures for the year.
- For savings of greater than 1.83% but not greater than 2% of sales, an incentive of the lesser of the following:
 - 30% of customer life cycle cost reductions.
 - 20% of the provider's actual energy waste reduction program expenditures for the year.
- For savings of greater than 1.66% but not greater than 1.83% of sales, an incentive of the lesser of the following:
 - 27.5% of customer life cycle cost reductions.
 - 17.5% of the provider's actual energy waste reduction program expenditures for the year.
- For savings of greater than 1.5% but not greater than 1.66% of sales, an incentive of the lesser of the following:
 - 25% of customer life cycle cost reductions.
 - 15% of the provider's actual energy waste reduction program expenditures for the year.

Life cycle cost reductions would mean the net present value of life cycle cost reductions experienced by the provider's customers as a result of implementation, during the year for which the financial incentive is paid, of the energy waste reduction plan.

The total amount of the financial incentive for a natural gas provider that achieves the following amount of annual incremental savings expressed as a percentage of its total annual retail natural gas sales (in decatherms) in the preceding year, with an average savings life of at least 10 years, could not exceed the following:

- For savings of greater than 1.25% of sales, an incentive of the lesser of the following:
 - 32.5% of customer life cycle cost reductions.
 - 22.5% of the provider's actual energy waste reduction program expenditures for the year.
- For savings of greater than 1% but not greater than 1.25% of sales, an incentive of the lesser of the following:
 - 30% of customer life cycle cost reductions.
 - 20% of the provider's actual energy waste reduction program expenditures for the year.

- For savings of greater than 0.875% but not greater than 1% of sales, an incentive of the lesser of the following:
 - 15% of customer life cycle cost reductions.
 - 10% of the provider's actual energy waste reduction program expenditures for the year.

A natural gas provider that spends at least 67% of its total energy waste reduction budget on *measures that reduce space heating loads* would be eligible for an additional incentive of 2.5% of the provider's actual energy waste reduction program expenditures for the year.

Measures that reduce space heating loads would mean improvements to any of the following:

- Building envelopes, such as air sealing, insulation, or efficient windows and doors.
- Heating distribution systems and heating system controls.
- Ventilation systems.

Incremental energy savings

The act currently requires that an electric provider's energy waste reduction programs must collectively achieve incremental energy savings each year through 2021 equivalent to 1.0% of total annual retail electricity sales in megawatt hours in the preceding year. A natural gas provider's energy waste reduction program must 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.

Under the bill, each year beginning with 2026, subject to section 97 of the act,³ an electric provider's energy waste reduction programs would have to collectively achieve incremental energy savings equivalent to 1.5% of total retail electricity sales in megawatt hours in the preceding year, with an average life of at least eight years for energy waste reduction measures.

The bill says that, as a goal, an electric provider's energy waste reduction programs under this subpart should collectively achieve incremental energy savings equivalent to 2% of total retail electricity sales in megawatt hours in the preceding year, with an average life of at least eight years for energy waste reduction measures, and that this goal should be included in the electric provider's integrated resource plan modeling scenarios under section 6t.

An electric provider subject to MPSC rate regulation could not include electrification measures in the calculation of its energy waste reduction savings for purposes of meeting the energy waste reduction standard or for determining eligibility for the above financial incentives. If an electric provider subject to MPSC rate regulation implements an efficient electrification measures plan, any reduction in energy consumption at a customer's premises from the conversion of fossil fuel use to electric equipment would qualify as incremental energy savings for the above provisions, with that reduction calculated as the amount by which the reduction in consumption of fossil fuels as a result of electrification exceeds the increase of electricity consumption resulting from the displacement of fossil fuel consumption as a result of electrification.

³ <http://legislature.mi.gov/doc.aspx?mcl-460-1097>

If an electric provider has a program to promote the installation of qualifying cold-climate air-source heat pumps or qualifying ground-source heat pumps and includes incentives to improve building envelope energy efficiency for participating homes, the electric provider could count the savings from the building envelope efficiency improvements toward each year's annual savings requirement, regardless of the original heating fuel source, subject to all of the following:

- Savings from building envelope efficiency improvements for preexisting propane heating would have to be credited to electricity savings at a conversion rate of 27 kilowatt hours per gallon of propane saved.
- Savings from building envelope efficiency improvements for preexisting oil heating would have to be credited to electricity savings at a conversion rate of 40 kilowatt hours per gallon of fuel oil saved.
- Savings for building envelope efficiency improvements for preexisting natural gas heating shall be credited to electricity savings at a conversion rate of 29 kilowatt hours per therm of gas saved.

A natural gas provider could claim natural gas savings resulting from investments in qualifying efficient electrification measures, or investments in building envelope efficiency improvements made as part of projects involving qualifying efficient electrification measures, if the savings are not also counted toward an electric utility's savings goals. When a natural gas provider and an electric provider are both involved in a qualifying efficient electrification measures project, including a project that involves both building envelope efficiency and qualifying efficient electrification measures, the providers would have to work together to reach an agreement on how savings claims will be allocated between them. The MPSC could adopt standards or default provisions for the allocation of savings claims between providers that apply if the providers are unable to reach an agreement.

Subject to section 97 of the act, a natural gas provider's energy waste reduction program would have to achieve the following:

- Each year through 2025, incremental energy savings equivalent to 0.75% of total retail natural gas sales (in decatherms or equivalent MCFs) in the preceding year.
- Each year beginning with 2026, incremental energy savings equivalent to 0.875% of total retail natural gas sales (in decatherms or equivalent MCFs) in the preceding year with an average savings life of at least 10 years.

Low-income energy waste reduction programs

The bill would require electric providers and natural gas providers to offer low-income energy waste reduction programs to assist *low-income residential customers* in both single-family and multifamily households.

Low-income residential customer would mean a customer that meets any of the following requirements:

- The customer's household income does not exceed 250% of the federal poverty line, as published by the U.S. Department of Health and Human Services under its authority to revise the poverty line under 42 USC 9902.
- The customer's household income does not exceed 80% of the adjusted median income as determined by the U.S. Department of Housing and Urban Development.

- The customer is enrolled in a federal, state, or local program with similar income eligibility requirements, including an emergency relief or food assistance program or Medicaid.

A program would have to be designed and funded with the goal that low-income residential customers achieve levels of energy waste reduction similar to or greater than those of other residential customers. Programs would have to include investments in health and safety measures appropriate and necessary to address conditions that impede energy waste reduction measures being implemented for low-income residential customers. Providers would have to work to deliver and coordinate low-income energy waste reduction programs and other offerings that serve and maximize the benefits to low-income residential customers. Energy savings would be attributed to health and safety measure spending at the average energy waste reduction program savings level and in proportion to the amount of health and safety measure spending relative to overall energy waste reduction program spending.

A provider's annual expenditures to implement the low-income energy waste reduction programs and measures would have to be at least the following percentage of its total energy waste reduction program spending:

- For an electric provider, 25%.
- For a natural gas provider, 35%.

If a provider's expenditures on the bill's effective date are below the above level, the provider would have to increase expenditures annually to equal or exceed this level by January 1, 2029.

Providers would have to minimize barriers to participation in low-income energy waste reduction programs and reduce overly burdensome verification processes. To that end, any of the following would constitute eligible income verification:

- Proof of participation in other low-income qualified programs.
- Location in a low-income census tract.
- Other methods to be determined by the MPSC.

Workforce and contractor development

To the extent practicable, a provider that serves more than 50,000 customers would have to invest in hiring and developing a diverse energy waste reduction workforce and contractors capable of delivering energy waste reduction measures such as building envelopes, heat pumps, health and safety measures, and other advanced efficiency and related measures.

Workforce and contractor development efforts would have to focus on hiring and developing, for work in energy waste reduction and related careers, workers in or from low-income and environmental justice communities and workers formerly employed in transition-impacted industries such as fossil fuel energy workers who have employment tied to generation, transportation, and refinement, internal combustion engine vehicle workers, workers in the supply chain for internal combustion engines vehicles, and workers in the building and trades as well as any other affected workers. The development efforts would have to follow generally recognized best practices.

Each provider would have to annually report on its workforce and contractor development efforts to the MPSC.

Alternative compliance payments

Currently, the provisions of the act dealing with energy waste reduction do not apply to a provider that each year pays at least 2.0% of total utility sales revenues for the second year preceding, including electricity or natural gas commodity costs, to an independent energy waste reduction program administrator selected by the MPSC. (This is called an alternative compliance payment.)

Under the bill, the provisions of the act dealing with energy waste reduction (which would include all of the bill's provisions described above) would not apply to a provider that each makes an alternative compliance payment in an amount determined, and to an independent energy waste reduction program administrator selected by, the MPSC.

The bill would require the MPSC to initiate a proceeding by July 1, 2024, to adopt a framework energy waste reduction program to be utilized by the independent energy waste reduction program administrator in administering a program on behalf of a provider, and to determine the appropriate amount of alternative compliance payments for effective administration of energy waste reduction programs consistent with that framework. The proceeding would have to be conducted as a contested case in accordance with the Administrative Procedures Act. The framework energy waste reduction program and the appropriate amount of alternative compliance payments could be periodically revised by the MPSC after a contested case proceeding.

The MPSC would have to require the energy waste reduction program administrator to submit reports on behalf of each provider that makes an alternative compliance payment to the MPSC in compliance with section 97 of the act.

Repealer

The bill would repeal section 6x of the MPSC enabling act,⁴ which requires the MPSC to authorize a shared savings mechanism for an electric utility to the extent the utility has not otherwise capitalized the costs of energy waste reduction programs, conservation, demand reduction, and other waste reduction measures. The bill would remove references to the repealed section and the shared savings mechanism.

MCL 460.1005 et seq.

FISCAL IMPACT:

Senate Bill 273 would have an indeterminate, though likely neutral, fiscal impact on the Michigan Public Service Commission and could create additional costs for municipally owned electric utilities.

The MPSC would have additional responsibilities under the bill, including a requirement to adopt a framework energy waste reduction program. While the MPSC may experience minor cost increases related to its responsibilities, existing resources would likely sufficiently absorb the new requirements. In the event that additional resources were required, the MPSC is financed primarily by public utility assessments levied on the utilities, so any additional incurred costs would likely be factored into the assessment and sufficiently mitigated.

⁴ <http://legislature.mi.gov/doc.aspx?mcl-460-6x>

Municipally owned electric utilities would experience costs (potentially significant, though a precise magnitude is currently unknown) to offer a low-income energy waste reduction program, if they do not currently offer such a program. The costs that would likely be incurred by municipally owned electric utilities are currently indeterminate, as they would depend on the situation of the particular utility.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.