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HOUSE ENERGY AND NATURAL RESOURCES COMMITTEE
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Chairman Vitale, Ranking Member Denson and Committee Members, my name is Robert Kelter and I am testifying today on behalf of the Environmental Law and Policy Center (ELPC). We are a Midwest environmental advocacy organization that has participated in developing energy efficiency and renewable resource policies, as well as in the cases before state commissions to implement those policies, in Ohio, Michigan, Iowa, Wisconsin, Minnesota and Illinois. We focus on protecting the environment, but also emphasize protecting consumer interests in the process.

I have testified numerous times before the Ohio legislature and litigated many cases before the Public Utilities Commission of Ohio, including several energy efficiency cases. Before coming to ELPC, I spent twelve years working for the state consumer advocate's office in Illinois, and have significant experience on ratemaking and issues related to competition. ELPC supports keeping both the energy efficiency and renewable energy standards in place for all customers, including mercantile customers and opposes bailing out the nuclear plants. That being said, my testimony today focuses on the benefits of energy efficiency, and explaining why eliminating the standards after 2020 and making efficiency optional for the utilities conflicts with the stated goals of saving consumers money and supporting clean air resources. Even with the modifications from last week, this bill will reduce utility investment in energy efficiency and raise customers' bills. It also conflicts with the Speaker's stated goal of producing cleaner air.

Before I get into specifics about the bill, I want to say something about mandates. No one likes mandates these days, and ELPC gets that. But by the very nature of this business, and the fact that utilities are monopolies, they have a mandate to keep the lights on and do it at the lowest cost possible. That has been the mandate since we created utilities and gave them monopolies over one hundred years ago. That same mandate puts the distribution utilities in a good position to run robust energy efficiency programs for customers, since they serve all the customers in their territory regardless of where those customers buy electricity. Hence, I really hope we can avoid what I call the mandate trap – that by calling energy efficiency a mandate, we attach a negative connotation. The mandate is keeping the lights on; the utility can do it by buying generation or efficiency and efficiency costs less than generation. The mechanics work a little differently in a deregulated state, but the value of energy efficiency is the same: it saves customers money – period.

Investments in cost-effective efficiency replace more expensive generation and reduce customer bills

If you look at the PUCO's webpage for electricity shopping, or on your bill, you can see a "price to compare" for the price of electricity generation from Ohio utilities. Currently, that's on average about 5 cents per kWh. AEP's 2018 efficiency programs, by contrast, provided residential energy savings at an average levelized cost of just 1.6 cents per kWh. Participants in programs save by reducing the amount of electricity they purchase, but non-participants also

benefit, because utilities are buying less electricity overall and buying less electricity when prices are at their highest on the hottest days of summer. Lower demand means lower prices for everyone.

Given this backdrop, last week's amendments to House Bill 6 do not fix the problems with the efficiency aspects of the bill. First, instead of eliminating the efficiency programs altogether, the new version eliminates the standards but allows the utilities to run programs should they choose to do so. The problem is that this gives the utilities discretion to achieve less savings than they would in order to achieve the standards, and as we have explained because efficiency is cheaper than generation, less efficiency means higher customer bills. It also means that the Commission has less oversight of the programs and less ability to protect consumers, because if ELPC or other intervenors challenge the programs for not being designed to produce optimal, savings the utilities can just choose to not run them at all. Two expert organizations that have analyzed levels of energy savings in states with or without energy efficiency standards have found that an EERS setting minimum efficiency targets does produce more cost-effective energy savings for customers than leaving the choice to utilities.¹

We also note that reductions in the programs will translate into fewer savings for non-participants. According to a recent analysis by the PUCO Staff, all customers benefit from the price suppression effects of efficiency as Ohio's efficiency programs drive down prices by 5.7%. In addition to efficiency driving prices down by 5.7%, it also means that utilities buy less of the most expensive power (known as peak) that they have to purchase on the hottest days of summer when generators run expensive plants that sit idle 95% of the time. Everyone benefits from efficiency and everyone should pay a small share of the costs.

That being said though, we don't want to invest in all the energy efficiency we can - we want to do it to the point where it's cheaper than investing in generation. And in its wisdom, the legislature set targets where utilities only have to meet the target if efficiency is cost-effective, which means it costs less than the generation it replaces. Hence, the legislature made sure customers will save on their bills.

To illustrate this point, if you assume a utility's customers need 100 units of generations to serve the service territory, and the utility gets 7% of that from energy efficiency, then it will buy 7 units of efficiency and only 93 units of generation. The law requires energy must be "cost effective," Ohio Admin. Code 4901:1-39-04(B), and by definition "cost effective" means the efficiency must cost less than the electricity it replaces. If the utility cannot meet the standard at a lower price than generation, the Commission will waive the requirement and the utility will produce only the amount of efficiency that costs customers less than generation. In fact, AEP's most recent available report on its 2017 energy efficiency programs indicated that customer energy savings came at an overall cost of 3.6 cents per kilowatt hour – compared to a generation

¹ American Council for an Energy-Efficient Economy (ACEEE), "IRP vs. EERS: There's one clear winner among state energy efficiency policies," <https://aceee.org/blog/2014/12/irp-vs-eers-there%E2%80%99s-one-clear-winner-> (blog post, Dec. 16, 2014); ACEEE, Policies Matter: Creating a Foundation for an Energy-Efficient Utility of the Future at 13 (June 2015), available at <https://aceee.org/sites/default/files/policies-matter.pdf>; Midwest Energy Efficiency Alliance, EERS VS. IRP: Why States Should Not Eliminate Their Energy Efficiency Resource Standards (2015), https://aceee.org/sites/default/files/pdf/conferences/eer/2015/Nick_Dreher_Session2C_EER15_9.21.15.pdf.

price of 5.9 cents per kilowatt hour for an AEP residential customer in the same timeframe. Hence, any reduction in the current efficiency standards means that customers will pay more for their electricity. Analysis from the Midwest Energy Efficiency Alliance shows that for every \$1.00 Ohio utilities have spent on the programs, customers have saved \$2.65.

It is also important to understand that energy efficiency measures, such as energy efficient furnaces, produce savings beyond the year that the customer makes that investment. To illustrate, if a utility discounts an energy efficient furnace that lasts for 20 years, the furnace generates savings every year for 20 years. Those savings add up to a lot over time. When FirstEnergy filed its most recent 2017-2019 Energy Efficiency Plan, it stated that the Efficiency Programs cost \$323 million, but would generate \$988 million dollars of customer savings over the course of the plan. In its filing for its 2017-2019 plan, AEP calculated the long term (lifetime) savings and projected costs of \$284 million that would save customers \$2.2 billion over the life of the measures customers invest in as part of the program. These are not the cost/savings analysis of environmentalists – they are the estimates of the utilities. Most Ohio customers have been able to access these savings directly, with the annual utility reports showing that their programs have supported the deployment of millions of efficiency measures in each year since 2008.

Utilities estimate that more than enough savings remain to maintain the current standards for the foreseeable future

One issue people have raised is that the low hanging fruit from efficiency is gone and that utilities will not be able to meet future goals. While it is true that many customers have already invested in energy efficient lighting, many still have not, even business customers that can save energy very cost-effectively with new efficient lighting options not addressed by federal efficiency standards. Moreover, we have barely begun to tap the potential for savings from heating and cooling. Very few customers have weatherized homes or business, and there is unlimited potential in these areas. Again, the utilities have produced their own analysis on these issues, and I will use FirstEnergy's own energy efficiency potential study to illustrate. FirstEnergy's most recent 2016 market potential study, based on an independent analysis by an outside firm, states, "The total maximum technical potential was estimated to be approximately 37.5% of current kWh consumption." FirstEnergy Market Potential Study at p.8. Most importantly, the study shows that almost all of that potential – 35.9% – is economically achievable, and even under conservative assumptions regarding achievable potential FirstEnergy would be able to cost-effectively meet Ohio's existing cumulative energy savings benchmarks through 2027. *Id.* at 101, 11, 14, 17.

Commercial Customers do not take advantage of their efficiency opportunities

The substitute bill includes a provision allowing all mercantile customers to opt out of efficiency programs. It's worth noting that this would be a major expansion of the existing opt-out, which currently applies only to customers that use 45 million kwh or more of electricity a year or connect directly to high voltage transmission lines. Ohio's definition of mercantile customers would go far beyond that limited set of major electricity users. A mercantile customer opt-out would be open to any business that uses just 700,000 kWh per year or has more than one

account – which would include small customers like pizza shops, convenience stores, and even churches. These mercantile customers can represent more than a third of the total load of a utility like FirstEnergy, but it is far from clear that all or even most of these thousands of customers are implementing efficiency measures on their own. Moreover, the requirements for the streamlined opt out require little real commitment on behalf of the commercial customers. Thus, there's no requirement to submit a real efficiency plan outlining specific actions the customer plans to take, and requiring approval by the PUCO.

Interestingly, the potential study shows that the technical potential for residential customers is only 30.9% compared to 40.6% for commercial customers, and 40.6% for industrial customers. *Id.* at 99. We have heard some commercial and industrial customers testify that they shouldn't have to pay for energy efficiency because they already invest in efficiency measures. They often say they do this because they have to in order to stay competitive, but the facts simply don't bear this out for a number of reasons. First, businesses are under pressure to produce quarterly profits and hesitate to make investments with pay back periods over one year. Second, most energy managers focus on purchasing the cheapest electricity on the market, and not on improving efficiency. Third, commercial and industrial customers are consumers, and just like residential customers, they like the discounts and rebates that the utility programs offer. Finally, on this issue it's important to point out that in addition to the many programs that Ohio utilities offer their commercial and industrial customers, their program implementers will come out to any customer's business and customize a program to offer individualized discounts and rebates. This is just the kind of useful but more time-intensive program that utilities may simply drop if they can't be sure a critical mass of business customers will stay in the programs on a consistent basis.

Conclusion

I want to close with a few salient points here. No utility has testified in this process that energy efficiency programs do not benefit both individual customers and society as a whole. No one has ever actually explained how reducing efficiency will lower bills when you consider both the costs and the benefits. The drafters of this bill state its purpose is to, "facilitate and encourage electricity production and use from clean air resources...and improve air quality in this state." Hence, it just does not make sense to reduce the cheapest and most reliable way to make that happen – helping customers use less. Everyone is entitled to their opinion on many aspects of this bill, but by no analysis can reach the conclusion that reducing efficiency results in lower bills or cleaner air. We really hope we can stop discussing efficiency as a mandate and evaluate it on its merits. Thank you for your attention to this important issue.