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**Testimony on Behalf of the Midwest Energy Efficiency Alliance
Ohio Senate Energy and Natural Resources Committee
June 20, 2018**

Dear Chairman Balderson, Vice Chair Jordan and Members of the Ohio Senate Energy and Natural Resources Committee:

The Midwest Energy Efficiency Alliance (MEEA) seeks to submit this written testimony related to the substitute version of HB 114.

MEEA is a regional non-profit membership organization which serves as the Midwest's key proponent and resource for energy efficiency policy. MEEA covers thirteen states in the Midwest and our 160+ members include investor-owned, cooperative and municipal utilities; energy efficiency service and technology providers; manufacturers; state and local government representatives; and, academic, advocacy and research organizations. MEEA serves as a bipartisan resource to policymakers and our organization does not lobby or intervene. A leader in raising and sustaining the level of energy efficiency in the Midwest, MEEA fosters market penetration of existing energy-efficient technologies and promotes new technologies, products and policy and program best practices. As the trusted source on energy efficiency in the Midwest, MEEA educates and advises a diverse set of stakeholders on new and meaningful ways to pursue an energy efficient agenda that's both achievable and cost-effective.

Executive Summary

In January, MEEA testified before the Committee supporting the legislature's desire to explore policy and regulatory reform, but encouraged you to build upon and not weaken Ohio's Energy Efficiency Resource Standard (EERS) as it was passed in SB 221 in 2008. We wish to offer views on the Senate's substitute language, although many provisions related to energy efficiency from HB 114 remain unchanged in the substitute.

The Senate version adjusts annual energy efficiency savings to 1.5% compared to the 1% freeze in the House version (current law has a 2% benchmark); however, both versions have the net effect of reducing the energy efficiency standard to 17.2% from 22.2% by 2026.

Ohio need only look to her neighbor Indiana to see the importance of maintaining an EERS. Following Indiana's repeal of its energy efficiency standard in 2014, investment in energy efficiency programs in Indiana declined substantially and the overall cost-effectiveness of energy efficiency programs was reduced, which means lower energy savings and a loss of jobs and related economic development. The damage has been exacerbated by the simultaneous creation of an industrial opt-out provision, which allows industrial companies to opt-out of paying into the utility energy efficiency programs.

We wish to again emphasize the negative impact that increasing the large commercial and industrial customers' ability to opt-out of energy efficiency programs. When more energy users participate in energy efficiency programs, more energy is saved at a lower cost. All consumers benefit from energy efficiency regardless of whether or not they pay into energy efficiency programming. The substitute provides reporting requirements to the PUCO for those customers that opt-out. However, research indicates self-direct and opt-out programs do not result in measurable energy savings.¹ Energy efficiency capital investments compete with other investments to improve productivity, and a company is likely to invest in core business functions before investing in energy efficiency.

Energy Efficiency Resource Standards

An EERS – a proven effective public policy – consistently delivers cost effective energy efficiency which benefits all consumers (residents and businesses) and reduces energy costs for all rate classes. In the years immediately following the passage of SB 221, annual electricity savings increased twelve-fold since enactment in 2008. The chart below shows the minimal energy efficiency savings in the years preceding SB 221. From 2009-2014, Ohio utilities collectively exceeded the savings targets by an average of more than 50% above the target.

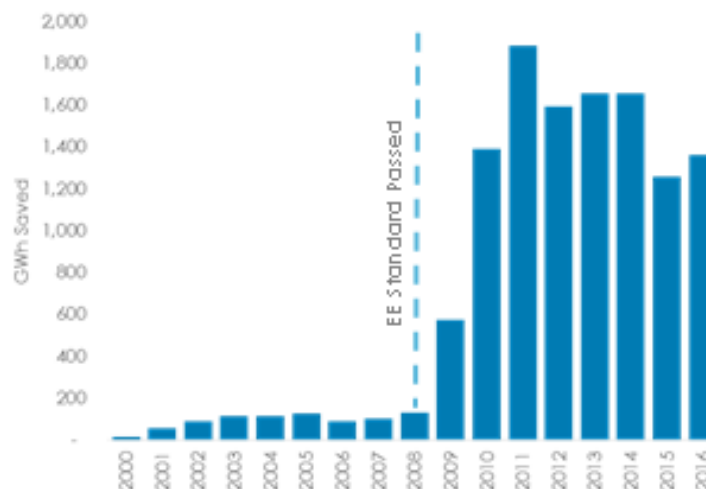


Figure 1: Electricity Savings in Ohio through Utility Efficiency Programs

Ohio's utility-run energy efficiency programs have been very cost-effective. In 2015, for every \$1 spent on energy efficiency programs in Ohio, residents and businesses reaped \$1.90 in benefits. This return on investment for energy efficiency programs is derived from an independent third-party evaluation of utility energy efficiency programs and is a result of a highly analytical and scrutinized process.

¹ American Council for an Energy Efficient Economy. *Follow the Leaders: Improving Large Customer Self-Direct Programs*. October 25, 2011. <http://aceee.org/research-report/ie112>

Under the substitute HB 114, the efficiency savings targets would remain at 1% until 2020, and 1.5% from 2021 through 2026. This would in effect prolong the 2015-2016 freeze on the state's EERS that was created by SB 310 in 2014 for an additional two years, and overall reduce the EERS to 17.2% from 22.2% by 2026, a full year sooner than current law. Furthermore, penalties for noncompliance with the EERS targets would only be levied for the years 2016, 2019, 2022, 2025 and 2027, making the standard voluntary for years 2017-2018, 2020-2021, 2023-2024 and 2026. Watering down Ohio's EERS by both lowering the savings targets and making noncompliance subject to penalties only for certain years, weakens the standard's ability to drive significant energy savings and cost-effective efficiency program offerings consistently year over year. Lastly, it has the potential to create uncertainty for utilities and their customers as well as the local businesses that do that work.

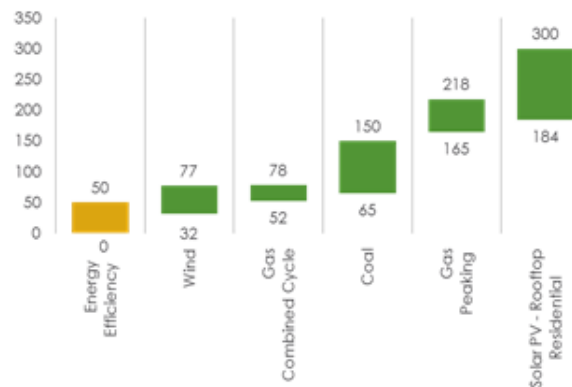


Figure 2: Lifetime cost ranges of new energy resources, 2015

Utility Investment in Energy Efficiency Has Positive Economic Impacts

The economic reach of programs driven by the EERS is widespread. These savings targets create the predictability and certainty companies in the energy efficiency industry need to continue to invest in Ohio and attract new investment. The 2014 Ohio programs alone are estimated to create more than 14,000 jobs, increase statewide income by over \$1.2 billion, add nearly \$1.9 billion of economic value and generate almost \$3.3 billion in sales between 2014 and 2038.² In addition to the impacts from program year expenditures, efficiency investments continue to generate positive net economic benefits for as long as energy savings continue. For businesses, energy efficiency keeps energy costs under control, protects against price volatility and frees up capital for other investments.

Ohio is an energy-intensive state. Accordingly, Ohio utilities benefit from reduced fuel and power purchases, transmission and distribution costs, emission allowance costs and supply capacity requirements. It is important to the state's economy that the legislature ensures Ohio's energy needs are met in low-cost and reliable ways. At an average of \$14 per megawatt hour, energy efficiency is three times cheaper than new natural gas and coal fired power plants and two times cheaper than wind generation, as seen in Figure 2. It is because of Ohio's high energy needs that the EERS has had a positive impact on the state. The EERS drives the delivery of cost-effective programs that allow Ohio's residents and businesses to take advantage of the state's cheapest energy resource: energy efficiency.

² The Cadmus Group, Inc. *The Economic Impacts of Energy Efficiency Investments in Ohio*. October 2016.

If Ohio's EERS is weakened, the economic impact will be immediate and significant. In 2014, Indiana repealed its statewide energy efficiency standard. Since that change, electric utility planned energy efficiency budgets decreased by 9% for 2014- 2017, while planned electric savings decreased by 37%. These reductions led to an overall lowering of the cost-effectiveness of the energy efficiency program delivery for customers.³ Additionally, a 2015 independent report by GoodCents estimated that Energizing Indiana saved about 11 million megawatt hours, resulting in significant cost savings and created approximately 18,679 jobs.⁴ Following Indiana's repeal of their energy efficiency standard, Johnson Controls expected to lose half of their 2,257 jobs created under the standard.⁵ Assuming the repeal similarly impacts other major Indiana companies, a 50% reduction in jobs created under the standard would result in the elimination of over 9,000 jobs.

Importance of Customer Participation

HB 114 expands the large industrial opt-out found in SB 310 from "primary voltage" customers to include any customer of an electric distribution utility, irrespective of size or voltage level. The economic impacts of any energy efficiency portfolio depend partly on the total level of investment and energy savings, and partly on the mix of programs. When more energy users participate in energy efficiency programs, more energy is saved at a lower cost and thus the strongest energy efficiency portfolios have a diverse program mix and participation from the residential, commercial and industrial sectors.

All consumers benefit from energy efficiency regardless of whether or not they pay into energy efficiency programming. The benefits of efficiency include capacity related avoided costs such as the cost of building new generation, transmission and distribution facilities. Allowing customers to opt-out of paying into these programs, while continuing to benefit from them, unduly burdens the remaining ratepayers. According to a research paper conducted by the American Council for an Energy Efficient Economy, a midrange scenario that assumes 35% of total Ohio customers opt-out over the next 10 years, would result in an increase of approximately \$1.85 billion to utility system costs.⁶ The majority of this increase would be collected from all customers in Ohio through higher electricity rates.

Conclusion

The stakes are high in Ohio as the EERS has not only served as sound energy policy, but also as a proven economic driver. A robust EERS stimulates job creation within the energy efficiency industry. The EERS has empowered businesses to invest in energy improvements that lower operating costs and improve their bottom lines. Such investments would not be possible without a standard driving the availability of cost-

³ Midwest Energy Efficiency Alliance. *Energy Efficiency in Indiana after Repealing the Statewide Standard*. April 24, 2015. http://www.mwalliance.org/sites/default/files/uploads/advokit/MEEA_2015_Advokit_Energy-Efficiency-Indiana-After-Repealing-Statewide-Standard_April2015.pdf.

⁴ Indiana Statewide Core Program Evaluation Team. *2014 Energizing Indiana Evaluation Report*. P.161. May 2015.

⁵ Lydersen, Kari. "Who's behind the effort to kill Indiana's efficiency law?" March 17, 2014. <http://midwestenergynews.com/2014/03/17/whos-behind-the-effort-to-kill-indianas-efficiency-law/>.

⁶ American Council for an Energy Efficient Economy. *Large Customer Opt-Out: An Ohio Example*. JUNE 6, 2017. <http://aceee.org/research-report/u1706>

effective programs and the assurance of the EERS which allows for consistent availability of such programs. These investments lead to energy savings and positive financial benefits for all ratepayers. Therefore, we believe the retention of Ohio's energy efficiency policy, including keeping industrial customers as part of the program, is the best course for the state in sustaining and increasing cost-effective programs that will lead to continued economic growth for Ohio.

These comments reflect the views of the Midwest Energy Efficiency Alliance – a Regional Energy Efficiency Organization as designated by the U.S. Department of Energy – and not the organization's members or individual entities represented on our board of directors.