Ohio Senate Energy and Natural Resources Committee
Written Testimony of Daniel Sawmiller
Ohio Energy Policy Director, Natural Resources Defense Council
Opponent on Substitute House Bill 114
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Chairman Balderson, Vice Chair Jordan, Ranking Member O'Brien, and members of the Ohio Senate Energy and Natural Resources Committee, thank you for the opportunity to submit testimony in opposition to Substitute House Bill 114. My name is Dan Sawmiller, and I'm the Ohio Energy Policy Director for the Natural Resources Defense Council, a national environmental organization that has worked in Ohio's energy space for more than a decade.

NRDC began working in Ohio in 2008, just as the state's electric distribution utilities were first starting to plan energy efficiency programs to meet the then-newly-enacted clean energy standards which are the subject of today's debate. Since that time, we have been a regular intervenor in the energy efficiency cases before the Public Utilities Commission of Ohio, and an active participant in collaborative meetings with the investor-owned utilities, helping to improve the design and implementation of their programs, track their progress, and ensure that all Ohioans have access to cost-effective opportunities to control their energy costs.

While NRDC is supportive of efforts in Sub HB 114 to address the unworkable siting laws for wind-powered electric generating facilities in the state, I have confined my testimony to our concerns with the provisions of the substitute bill that impact the state's energy efficiency standard.

Ohio's energy efficiency programs provide incentives to Ohio's homes and businesses to reduce the amount of energy they would otherwise consume under normal circumstances. This is accomplished through rebate programs, technical support and other forms of support needed to help consumers make cost-effective investments that save them money on their energy bills. In addition to the direct savings that electricity customers enjoy from these programs, lowering energy consumption provides system wide cost benefits that accrue to all Ohioans, whether they have directly participated in the programs offered by the utility or not. Efficiency programs provide benefits to all customers in several ways: 1) by reducing the need for the purchase of new power plant capacity, 2) by reducing the need for new poles and wires, 3) by lowering market clearing prices for the remaining energy and capacity that customers must purchase, and 4) by reducing credit and collection costs.

It is important to note that current law requires all utility-offered programs to prove their cost-effectiveness prior to implementation. This means that utilities are already required to demonstrate that the programs offered save more money for customers than they cost to implement. Since the inception of the programs, each of Ohio's electric distribution utilities have filed annual status reports with the Public Utilities Commission of Ohio which document the amount of energy saved in a given year and over time. In reviewing these annual reports each year, we find that Ohio's electricity customers have enjoyed more than $2.5 billion in ***net*** economic benefits to date based on the conservative Total Resource Cost test which excludes a lot of other customer benefits including gas savings, water savings, increased comfort, etc. Ohio's distribution utilities and their customers also benefit from the reduced risk of being exposed to fuel price volatility and the cost of compliance with environmental safeguards required at the federal level.

Ohio is far from capturing all the benefits energy efficiency can provide to the state's electricity customers. By way of example, AEP's current efficiency portfolio projects that it will cut energy use by 1.3% in each year from 2017-2020, exceeding the statutory requirement of 1% by a substantial margin. According to AEP, this will result in approximately $400 million in reduced energy costs.[1] FirstEnergy's current portfolio predicts similar savings for its customers as well.

Problems with Substitute House Bill 114

If Ohio wants to continue to capture these benefits for customers, it is critical that the integrity of the energy efficiency standard be preserved for all customer classes. While Sub HB 114 removes provisions that made the efficiency and renewable standards voluntary, it still would lead to energy being unnecessarily wasted in Ohio homes and businesses, resulting in higher energy bills across the state. The substitute bill does this through three primary changes to current law:

First, the bill expands a provision that allows the largest industrial customers to exempt themselves from the programs under certain circumstances. According to the substitute bill, small and medium sized commercial customers would be able to opt out of the programs, despite the fact that they will still benefit from other customers' efficiency investments, as explained previously. Beginning in 2020, these customers could begin to remove themselves from the programs. This amounts to about half of Ohio's overall energy load being removed from the savings potential, depriving the rest of Ohioans of the potential energy and dollar savings that would have otherwise been captured. This will inevitably lead to higher electric bills for Ohio's homes and businesses and lost economic benefits.

In 2014, SB 310 allowed the largest-of-the-large industrial customers (called "primary voltage" customers) to opt out of paying the energy efficiency rider. That large customer opt-out went into effect on Jan 1, 2017, and we don't yet know its full impact and how many customers will ultimately take the option. This substitute bill would prematurely expand that existing opt-out to all customers in the "mercantile" customer class (i.e., customers that use at least 700,000 kWh per year, and "national accounts" such as Donato's, Walgreens, etc.)—a much larger

[1] This is the estimated net economic benefits – energy bill savings minus both all utility program costs and the portion of efficiency measure costs borne by program participants – under the Total Resource Cost (TRC) test. It should be noted that the TRC test, particularly as it is commonly applied in Ohio, is very conservative in that it accounts for all efficiency costs but only a portion of efficiency benefits. The net benefits under the Utility Cost Test (UCT), which compares just the utility's efficiency program costs to just the benefits to the utility system, are considerably larger. In AEP's case, they are twice as large – on the order of $800 million.

category that encompasses most small, medium and large manufacturing facilities in Ohio, as well as many commercial customers. *This would essentially be a "freeze" on Ohio's commercial and industrial efficiency programs.*

The C&I sectors have some of the most cost-effective energy savings potential of any customer class. In our experience, even the largest and most sophisticated of industrial customers, for example, do not capture all of this potential. This is usually because they limit their investments to projects that have very short paybacks – typically one to three years. In contrast, no utility would limit its investment in the supply of electricity to those that pay off within just one to three years; their planning cycles are often decades long. Utility-run efficiency programs help bridge this divide by providing financial incentives to buy down the cost of efficiency investments for business customers. They can also provide specialized technical expertise, which can be just as important in helping C&I customers identify and pursue cost-effective savings.

And, as previously noted, investments made by C&I customers in efficiency not only reduce those specific customers' energy bills, they also provide *significant system-wide benefits* that drive down rates for residential and small commercial customers. Allowing the lion's share of the industrial (and likely commercial) class to opt out means that utilities will have to scale back their industrial efficiency programs, depriving not just those customers, but *all Ohioans*, of valuable cost savings. At the same time, customers that qualify for the "mercantile" opt-out will be benefiting from energy savings produced by residential and small business customers, which is inequitable.

There's also a question of why we need to expand the opt-out when existing law already permits mercantile customers to "self-direct" their energy efficiency projects. This provision has given mercantile customers flexibility for nearly 8 years and appears to be working well (ORC 4928.66 (A)(1)(c)). Mercantile customers can opt out of participating in the efficiency rider as long as they provide some basic information on energy efficiency projects they're doing on their own. The process is simple – they fill out a form at the Public Utilities Commission, and it gets automatically approved within 60 days. This existing process is already being used by hundreds of industrial and commercial customers and can fill the gap for any mercantile customers seeking added flexibility.

Second, Sub HB 114 would result in a significant reduction in the total amount of savings the utilities would have to acquire over the next several years, by both ending the programs early and reducing the annual progress benchmarks. Starting in 2021, Ohio's utilities would be required to achieve 1.5 percent energy savings annually, down from the current level of 2 percent. This is then compounded by ending the standards early in 2026 with no requirements for ongoing program activity.

Third, Sub HB 114 would increase the utilities' ability to earn what is called "shared savings" (an incentive payment originally designed to encourage the utility to drive as much energy and dollar savings as possible each year) which would now turn into an easy profit for the utility companies, estimated to be in excess of $500 million paid by customers. By allowing banked savings to be allocated to the company's incentive mechanism, Ohio's businesses and consumers would still pay, but receive much less benefit as the utility would no longer need to drive new cost savings with their programs.

It is conservatively estimated that the first two of these provisions **will cost Ohio's electricity customers $1.6 billion in lost economic benefit**, but could easily be much worse upon implementation, if passed into law. When combined with the relaxed criteria for earning a shared savings incentive payment, customers stand to lose more than **$2 billion** from the adoption of this bill.

In closing, NRDC continues to believe that retaining the existing standards, and ensuring that the programs are not jeopardized by an expanded opt-out, is critical to ensure Ohio realizes the promise of energy efficiency. These three aspects of the substitute bill would only leave Ohio behind its neighbors as other Midwest states continue to expand their efficiency program options. We encourage the state to join the rest of the region as it moves forward in building out its clean energy infrastructure.

Thank you again for the opportunity to provide this testimony.