

**Sierra Club Ohio Chapter Opposition to HB 6**

**Supplementary Comments of Ned Ford, Ohio Chapter Conservation Chair**

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These comments are hastily written observations about the Substitute HB 6 bill.

The bill prohibits “shared savings”. There are two types of shared savings in common use in Ohio today. The first one is “lost distribution revenues”. These are an important part of balancing the economic impacts for efficiency, but may not be necessary given the large customer charges which have become Ohio’s standard practice. It is unfortunate that we have this legislation imposing this change without an opportunity for dialogue with the utilities.

The second type of shared savings is the incentive. To oversimplify most Ohio efficiency programs are allowed, by agreements in settlements with the utilities and most of their major customers, up to 13% of verified net savings.

Both forms of shared savings are a specific function of verified net savings, meaning the utility recovers nothing if they do not produce savings and those savings are not verified by independent verification consultants hired according to existing law.

The incentives are an important part of allowing Ohio customer groups and/or the PUCO to fine tune the economic signal provided to the utility. These nominal 13% savings are recovered in net present value dollars in the year following verification, and the effect is that customers who pay the full incentive are actually only allowing the utility to keep 5 – 6% of the dollars which will be saved over the life of each measure.

Ironically, lawmakers and observers who see the scale of shared savings but are not aware of the scale of the savings are often under the impression that something bad is being perpetrated. This is precisely why the efficiency programs in Ohio from 1992 to 1995 were terminated after a cost of $140 million and savings of more than a half billion dollars. The cost recovery was reported, but the savings were not, so many observers thought recovery was excessive.

Ohio lawmakers in both houses are woefully uninformed about the verification processes which all of the Ohio efficiency utilities programs conduct. We are not going to correct that oversight in the context of Sub HB 6, but we do wish to footnote the fact that this is a critical component of understanding the great value that these efficiency programs provide.

Further, the only testimony which either House has received that would support any reduction in the efficiency programs comes from a specific group of industrial energy users who do not pay for the programs because of the opt-out provisions in existing law. Their objection is inexplicable if we do not consider their motives in preserving special subsidy contracts which these large industrial customers have, which take several hundred million dollars per year from other customers. All versions of HB 6 have preserved that ability to subsidize these customers, which is not a problem until those customers use that protection to attack benefits for other customers which do not affect them.

***If the Substitute bill were passed without this provision that prevents shared savings, even if the efficiency standard is reduced from present law, which would require the doubling of efficiency savings in 2021, it is likely that customers could reach settlements with the utilities to provide modest incentives that would reward all of Ohio with approximately doubling the savings. The harm is done by preventing incentives based on verified net savings, and would not result if shared savings for distribution lost revenues were prevented.***

As our previous testimony indicated, the existing programs save more than $6 for every dollar spent, and even if that were reduced to $4 or $5 because of the deeper effort, it would still be a huge economic benefit to all of Ohio. Several of the utilities have estimated that over 70% of their entire customer base has participated in the programs over a decade, and all customers benefit because the benefits of efficiency flow to stores everyone does business with, schools, hospitals, government buildings, and most of the large commercial and industrial energy users in this state.

Sierra Club does not support this bill in any case. We are confident that the best outcome for Ohio is no legislation, and to let the nuclear and OVEC plants function in the marketplace that every other resource functions in.

But we want to make a specific plea to remove the language which prevents recovery of incentives. PUCO should set basic minimum incentives and those incentives should be able to increase as the utility increases efforts to save its customers money. Customers should be able to negotiate larger incentives based on larger savings. That is the way to modernize Ohio’s energy infrastructure, and Ohio needs to do that in order to remain competitive in the national and global markets that are so important to us.

Ohio’s efficiency standard of 1% is in the middle of the range for U.S. states. Six states are well above 1.5% and five of those states have been close to 2% in some of the last five years. There are historical examples of states operating efficiency programs that achieve savings between 4 and 7% per year. While all of those examples resulted from fiscal emergencies (all but one in the wake of nuclear project failures of one sort or another) they were all hugely beneficial to the states in question.

Sierra Club reiterates that the two taxes created by HB 6 are deeply regressive, and in two ways. Both taxes place a much heavier burden on the commercial customer class than on residential or industrial customers when examined for per KWh cost. And both taxes cost a residential customer who uses $10 worth of electricity per month the same amount as a residential customer who uses $400 worth of electricity per month.

As indicated, these comments are written to call special attention to the harm done by eliminating the ability of customer groups and the PUCO to determine incentives that share the savings created by the utilities with the utilities. Basing an incentive on verified net savings is a powerful way to induce the utilities to attend to cost-effectiveness, and Ohio’s experience reinforces this conclusion solidly.

We reserve the right to make further comments.

While we appreciate the fact that the Substitute bill would be far less harmful than the House passed version, we see no reason to agree to any form of support for a bill which takes less than another bill when neither are needed.

Thank you for your attention.