

TESTIMONY FOR THE
KANSAS SENATE UTILITIES COMMITTEE

by

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INFORMATION TO SUPPORT EFFECTIVE ENERGY EFFICIENCY POLICY IN KANSAS

Chairman Olson and Members of the Kansas Senate Utilities Committee,

Thank-you for the opportunity to provide testimony to this committee. I am Dr. Martin Kushler, a Senior Fellow with the American Council for an Energy Efficient Economy (ACEEE). ACEEE is a non-partisan national non-profit organization, founded in 1980, and devoted to research and policy development in the area of energy efficiency. We welcome you to visit our web site <http://aceee.org/> to explore the great amount of information available there.

I am pleased to have this opportunity to share with you some of our key findings from over a decade of research on the effectiveness of state policies for achieving successful utility energy efficiency programs.

By way of background, ACEEE has what is arguably the most comprehensive dataset in the nation on state policies regarding utility energy efficiency programming, and on the spending and savings results of those programs. Every year we gather comprehensive data from every state on pertinent state policies and utility energy efficiency spending and savings, for use in our annual State Scorecard report <http://aceee.org/research-report/u1707>. I personally have worked in the field of utility energy efficiency policies and programs for over 30 years, including 10 years as the Director of the Utilities Program at ACEEE, and 10 years prior to that as the Supervisor of Program Evaluation at the utility regulatory commission in Michigan (the Michigan Public Service Commission). The information I will share in this testimony is based on all of the above work.

[As an attachment to this narrative testimony, I have included a set of powerpoint slides to illustrate various points.]

Key Point #1: Energy Efficiency is cheaper than new energy supply

To begin, I would like to briefly address the underlying question of why utilities should engage in providing energy efficiency programs for their customers. Quite simply, saving a unit of energy through an energy efficiency program is cheaper than the cost (capital, fuel, transmission and distribution) of procuring additional units of energy (see slides 6, 7, 35 and 36). Energy efficiency is now virtually universally regarded in the regulatory community as a utility system “resource”, akin to supply resources that can be used to meet customer demand for energy services. In addition, many states have recognized and value the numerous corollary benefits of energy efficiency, including: local employment; comfort, health and safety improvements for customers; reduced environmental emissions; improved

efficiency and competitiveness of local businesses; reduced dollar drain from the state for imported fuel (I notice that Kansas imports virtually all of the coal it burns from outside of the state); and help for customers in reducing the burden of utility bills.

Cost-effective energy efficiency programs can and should be a part of any utility's resource portfolio. In that regard, we would point to the National Standard Practice Manual <https://nationalefficiencyscreening.org/national-standard-practice-manual/>

as an important framework for helping states to assess the cost-effectiveness of energy efficiency programs.

Assuming a state would like to achieve successful utility energy efficiency programs, the nation has a wealth of experience in how best to make that happen. The rest of my testimony will be directed to the lessons learned from that experience.

Key Point #2: Utilities tend to be reluctant about energy efficiency programs, because they inherently do not want their customers to use less energy. Under traditional regulation, utility profits tend to increase when customers use more of their energy, and profits decline when they use less. Thus, even though energy efficiency would be the cheapest resource to use to meet system needs, utilities are disinclined to pursue that resource (see slides 10 and 31-34). Hence the need for strong state policies to require and incentivize utilities to provide effective energy efficiency programs for their customers.

Key Point #3: Strong state policies are necessary to achieve effective utility energy efficiency programs. One policy in particular has proven to be by far the most effective policy.

There are four primary policies that have been commonly considered by states for achieving utility energy efficiency programs. These are:

1. Requiring utilities to conduct *Integrated Resource Planning* (IRP) to analyze energy efficiency as a resource
2. Implementing "*revenue decoupling*" to address the concern utilities have about lost sales from energy efficiency
3. Allowing the utility to earn *performance incentives* for providing energy efficiency programs
4. Enacting an *Energy Efficiency Resource Standard* (EERS) setting specific energy savings targets for utilities

By virtue of our extensive databases, ACEEE has been able to comprehensively assess the relative effectiveness of each of these policies, in terms of both utility energy efficiency spending and savings. These findings are presented in attached slides 12 and 14. To briefly summarize, the 26 states with an EERS policy had average energy efficiency achievements over 3 times greater than the 24 states that did not. In contrast, none of the other 3 policies alone produce a significant difference between states had had those policies vs. states that did not. (Note that these analyses are done using metrics

that eliminate the effect of the size of the states and utilities involved. The key savings variable is *energy savings as a percentage of total energy sales*, and the spending variable is *energy efficiency program spending as a percentage of total utility revenues.*)

To elaborate a bit, we do believe that those other three policies are also helpful they are just not sufficient. In particular, policies like decoupling and utility performance incentives can be useful in encouraging utilities to go along with enacting an EERS policy (rather than provide political opposition and/or legal challenges); and once in place, can help them more vigorously pursue any existing EERS targets. Indeed, the very best performing states were the group with an EERS *plus* performance incentives and decoupling (see slide 16).

Kansas' current status on utility energy efficiency policies and performance is unfortunately very low.

In ACEEE's most recent State Scorecard <http://aceee.org/research-report/u1707>, Kansas was ranked 48th among states (see slides 18 and 19). Kansas does not have an EERS, and Kansas apparently does not have either decoupling or utility performance incentives in place (although I believe they may be allowed under existing statute). Actual utility energy efficiency program spending and savings were very low in that most recent analysis.

Michigan provides an interesting comparative example of what could be possible for Kansas.

(See slides 20-23.)

In 2008, Michigan utilities had provided essentially no energy efficiency programs for a decade. Michigan ranked 34th in ACEEE's scorecard. In late 2008 Michigan passed PA 295, which set a strong EERS (rising after 3 years to 1% savings per year for electric utilities and 0.75% for natural gas utilities) and established a strong utility performance incentive. This was done under a split legislature in terms of party control. The programs have proven very popular, and in 2016, under total GOP control of the legislature and the governorship, Michigan enacted PA 342, which further strengthened the EERS. PA 342 created enhanced incentives to achieve savings of 1.25% and 1.5% annual savings for electric utilities (0.875% and 1.0% for natural gas), and eliminated the prior spending cap on energy efficiency programs.

Overall, Michigan's EERS policy has been extremely successful. Both the electric and natural gas utilities have exceeded the EERS savings targets every year, with electric utilities actually saving between 1.2% and 1.4% in recent years (and gas utilities saving between 0.9% and 1.0% per year). Utilities are now investing over \$250 million a year in energy efficiency programs, and these programs have been found to be saving \$4.35 in utility system costs for customers for every dollar spent on the programs. (See slide C). In the ACEEE state rankings, Michigan has risen from its low ranking of 34th a decade ago to number 11 in the nation in the most recent Scorecard.

Conclusion: ACEEE recommends that states pursue a comprehensive package of policies for utility energy efficiency, including a strong EERS, utility performance incentives for meeting or exceeding EERS targets, and true symmetrical revenue decoupling .

(See slides 25-28.)

ACEEE would be pleased to assist Kansas in developing and implementing a successful policy for utility energy efficiency programs.

Thank-you for the opportunity to offer testimony to this committee. I would be happy to answer any follow-up questions that members of the committee may have.

Sincerely,

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