Long Cold Winter

Michigan Pays Dearly for Failed Energy Policy of the 1990s

By Dave Dempsey

Question: What's illogical, environmentally unsound, and sends nearly $20 billion of Michigan's wealth out of state annually?

Answer: An energy policy designed in the 1990s by the administration of former Governor John Engler that ignores electric and natural gas efficiency; relies on polluting fuels that contribute to global warming, increase premature death among the elderly, and foul fish with toxic mercury; and costs hundreds of millions of dollars per year more than necessary.

And it all could have been avoided had successful Michigan energy efficiency programs begun in the early part of the 1990s been allowed to continue and grow.

Instead, in the wake of a new energy price spike triggered by hurricanes in the Gulf of Mexico and declining world oil reserves, Michigan faces a winter made harder by its failure to learn from the past and plan for the future.

Describing recent consumer interest in energy efficiency as skyrocketing would be "an understatement," says Aileen Gow, director of Urban Options in East Lansing. "People are calling and logging onto our Web site more and more. They want to know what they should do first – what they should do right away to help lower the bills."

3 Dumb Things Michigan Did That Worsened its Energy Policy

Mid-1990s: Responding to complaints from electric utilities, the Michigan Public Service Commission scrapped a requirement that Michigan's two largest investor-owned utilities spend more than $80 million per year on efficiency programs.

1996: After Michigan's Construction Code Commission adopted the requirements of the national Model Energy Code for the energy efficient design of new residences, homebuilders persuaded the state legislature to repeal the decision, arguing that it would drive up housing costs (while acknowledging it would lower electric bills in the new homes). That made Michigan one of the few states not to adopt the national code. A modest upgrade in the residential code proposed by the Granholm Administration is now on hold pending a court challenge by the Michigan Association of Homebuilders.

2000-Present: As part of Michigan's legislative decision to provide customer "choice" of electricity providers in the state, environmental groups won a major concession with the establishment of a Low-Income Assistance and Energy Efficiency Fund, to which DTE Energy contributed $87 million as of 2003. But the state Public Service Commission has used only a small portion of the funds – approximately 15% – for grants to improve energy efficiency for all classes of customers.

Dismal Reality

"We were one of the first states to have an energy efficiency program. Now even states that did historically less than Michigan are starting to move ahead," says Marty Kushler of Williamston, director of the utilities program for the American Council for an Energy-Efficient Economy (ACEEE). A former employee of the Michigan Public Service Commission (PSC), Kushler has a vivid institutional memory of how Michigan pioneered successful utility energy efficiency programs – and then threw them in the wastebasket because of resistance from the utilities themselves.

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According to the Energy Information Administration (EIA), a record-keeping arm of the U.S. Department of Energy, Michigan's electricity supply relies chiefly on coal and nuclear generation. In 2002, coal generated 56.6%

of the state's electricity with nuclear generation contributing another 26.4%. Renewable sources of energy – even as liberally defined by the EIA – amounted to only 2.1% of the state's electricity generation, and that was down slightly from 1997.

The coal Michigan burned in 2002 resulted in 355,000 tons of sulfur dioxide pollution, 154,000 tons of nitrogen oxide emissions, and a whopping 79,781,000 tons of emissions of carbon dioxide, the primary greenhouse gas. And a lot of it wasn't necessary.

The Great Experiment

About a dozen years before, the Michigan PSC had launched one of the nation's most progressive energy efficiency programs for electric utilities. Emphasizing reduction of customer electricity demand (also known as demand-side management, or DSM), the PSC initiative experimented with business and residential incentives for customers of then-Detroit Edison and Consumers Power Company.

Large industrial electricity users received technical assistance and financial incentives for energy efficiency improvements that would reduce their costs of operation, while individual customers benefited from rebates and other cost savings for the purchase of energy efficient light bulbs and appliances and other programs.

The results were impressive. Edison's 1994-1995 DSM programs reduced electricity at a cost of 1.5 cents per kilowatt-hour saved and reduced carbon dioxide emissions alone by approximately 1.3 million tons.

But utilities weren't happy with the programs, because under current regulation they profit more from higher electricity sales than from lower electricity use when people conserve. In 1996, under pressure from the utilities and former Governor Engler, the PSC terminated the major DSM programs.

Paying the Price

The near-elimination of efficiency programs has cost the state dearly. The state imports 100% of the coal it burns and 100% of the uranium that stokes nuclear plants. It also imports 96% of its oil and petroleum products and over 75% of its natural gas. In total, the cost of these imported energy fuels is nearly $20 billion a year. Energy efficiency helps reduce that dollar drain by keeping in Michigan some of the money used to purchase and import these fuels.

Why Is Efficiency Good for Michigan?

It Lowers Energy Bills: It reduces the monthly electric and natural gas bills that Michigan businesses and residents pay. It reduces the amount of money Michigan exports to buy coal, natural gas, and uranium.

It's Cheaper than Building New Coal-Fired Power Plants: While electricity generated by a new coal-fired power plant costs approximately 6 cents per kilowatt hour, well-designed efficiency programs can reduce electric use for a cost of less than 3 cents per kilowatt hour saved.

It Reduces Pollution: Each kilowatt-hour of electricity conserved through energy efficiency reduces pollution emissions by 2 pounds of carbon dioxide. Since a typical house uses between 500 and 1000 kilowatt hours of electricity per month, a 10% electricity savings would reduce a minimum of 100 pounds of CO_2 emissions monthly. It also avoids the generation of high-level radioactive waste from nuclear power plants that can remain lethal for 500,000 years, and for which no permanent U.S. repository has been opened.

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Surrounding states are now getting a jump on Michigan in energy efficiency. Efficiency programs in both Minnesota and Wisconsin are considered exemplary by ACEEE, says Kushler, and even Ohio and Indiana, not noted for their conservation leadership, have recently launched utility programs to reduce energy consumption growth rates.

Ohio Consumers' Counsel Janine Migden Ostrander, described by the *Cleveland Plain Dealer* as a "go-to-the-mat representative for the people of Ohio," in November negotiated with the state's FirstEnergy to win a program that will include rebates for customers who buy energy-efficient appliances.

"I would characterize Michigan as certainly behind Wisconsin, a national leader," says David Gard, a program specialist at the Michigan Environmental Council (MEC).

Wisconsin is spending revenues from a statewide surcharge on electric bills to support energy efficiency programs under a 1999 law, according to Janet Brandt, head of the state's nonprofit Wisconsin Energy Conservation Corporation (WECC). The Wisconsin program pays for technical assistance, energy audits, cash incentives and marketing support for energy efficiency.

Speaking at a Michigan conference last fall, Brandt said the WECC had contributed to an annual electricity demand reduction of 123 megawatt hours, saving the state's businesses and citizens about $87 million annually. Over 10 years, Brandt said, the programs would increase gross state product by about $934 million.

Taking Control

The Granholm Administration has shown some signs of reversing the

Engler-era disregard for energy efficiency. Governor Jennifer Granholm's appointed PSC chairperson, J. Peter Lark, responding to the autumn's energy price hikes, authored a commission order in October 2005 calling for a staff review of energy efficiency options for the state. The deadline for the report is January 17, 2006, and Lark has promised public hearings on the findings.

In a statement, Lark said, "A thorough review of energy efficiency programs in Michigan and elsewhere will help us implement practical, cost-effective and achievable suggestions to reduce energy demand. Improving energy efficiency for Michigan's homes and businesses can only help bolster the overall economic climate in the state."

"It's time for some leadership," Kushler says. "The table is set for the state to do something big."

Meanwhile, says Aileen Gow of Urban Options, consumers can take a part of their energy destiny into their own hands (see 'Home Energy-Efficiency Tips' sidebar). Checking residential basement windows and pipe entries for energy leaks, caulking windows or buying new windows with the Energy Star rating, replacing wasteful antiquated dehumidifiers and installing weather stripping on doors are relatively easy ways to lower bills fast, she says.

"One of the easiest things you can do is to change light bulbs," she says. A compact fluorescent bulb saves 75% of the energy used by a standard incandescent bulb, Gow observes.

What would she like Michigan to do to help consumers in their struggle with rising energy costs? "I'd like to see Michigan replicate Wisconsin's approach to energy efficiency," Gow says. "They're doing great work. We can learn from them."

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