SB 58: Bad for Ohio Manufacturers

Fact Sheet

Background and Operational Issues

- Energy efficiency is a low-cost strategy for constraining manufacturers' electricity costs and helping to mitigate price volatility in a competitive marketplace where electricity prices are set by auction rather than through regulation.

- Twenty-seven states have fully funded policies in place that establish specific energy savings targets that utilities or non-utility program administrators must meet through customer energy efficiency programs.

- Ohio's Energy Efficiency Resource Standards were established in 2008.
    - Require each utility to reduce demand by 22.5% by 2025 by deploying energy efficiency projects
    - Require each utility to achieve annual incremental benchmarks for reductions to ensure progress toward cumulative goal
    - Savings to be realized by utilities and customers working together to implement energy efficiency strategies

- With input from stakeholders, utilities develop energy efficiency plans every three years, which must be approved by the Public Utilities Commission of Ohio (PUCO). Customers then propose projects under the utilities' approved programs, which the utilities can accept or reject.

Program Financing & Utility Compensation

- Costs associated with approved programs are established through the PUCO hearing process and collected from customers by utilities through a rider on customers' bills.

- Mercantile customers may be exempted from the rider by participating in PUCO's "self-direct" program. Customers participating in the self-direct program must complete energy efficiency programs and contribute them to the utility.

- Mercantile customers also have an option though the PUCO self-direct program to receive cash rebates for their energy efficiency investments in lieu of an exemption from the rider.

- Utilities are permitted to recover all energy efficiency program costs. They also can receive "Shared Savings" incentives, or profits, if they meet and/or exceed the annual benchmarks. Profits range from 5% to 13%, depending on the level of performance above the benchmark. There is a cap on the amount of profit most utilities may receive.

Energy Efficiency, Capacity Auctions & Price Suppression

- Capacity is part of a customer's electricity generation rate (along with the cost of the energy itself) and is associated with the cost a utility incurs to have enough power to meet demand during peak times.

- All customers pay for capacity through a Peak Load Contribution built into their fixed rate or billed separately through a capacity rider.

- The value of capacity is determined through a series of forward capacity auctions conducted by a Regional Transmission Organization (RTO), which coordinates power generation and transmission with a region and is responsible for grid operations and electric reliability. In Ohio, the RTO is PJM Interconnection.

- Auctions are conducted several years in advance. High capacity prices signal the need to build new power plants; low capacity prices discourage the building of new power plants.

- Energy efficiency functions as a generation asset and can be bid into regional capacity auctions to help suppress wholesale electricity costs. It is treated like any other generation source – traditional generation (coal, gas, diesel, nuclear), renewable generation (hydro, solar, wind, fuel cell), and demand response.

- Under current law, utilities are permitted to bid their approved energy efficiency resources into PJM's regional capacity auctions. Energy efficiency bid into capacity auctions reduces the risk of unexpected capacity constraint and suppresses capacity prices. The price suppression benefits are enjoyed by all customers whether they participate in energy efficiency projects or not.

Results to Date

- Third-party studies show that Ohio's current Energy Efficiency Standards are working as intended. Utilities are achieving the energy-reduction benchmarks and customers are thereby saving money. The direct and indirect financial benefits resulting from the standards and requirements outweigh the cost of the energy efficiency riders.

- Ohio manufacturers of all sizes, in all four electric utility service territories, are saving money due to the standards and requirements – whether they participate in energy efficiency programs or not.

Problems with SB 58

- SB 58 represents a radical overhaul of Ohio's energy efficiency policy, standards and requirements. If approved, SB 58 could wipe out $2.5 billion in projected savings from energy efficiency from 2014 through 2020 and drive up electricity costs for manufacturers for years to come.

- Major concerns about SB 58 include the following:
    - SB 58 undermines the intent of Ohio's Energy Efficiency Standards by enabling utilities to "count" new categories of efficiency that add no value for customers and produce no additional direct or indirect energy savings. This will make it easier for utilities to meet the energy-reduction targets without doing anything to reduce demand for power and achieve real energy savings.
    - SB 58 provides unprecedented, unjustifiable energy efficiency cost recovery for utilities – four to five times higher than Ohio's normal utility rates of recovery, and among the highest in the nation. Utilities will be guaranteed a 33% profit on net benefits regardless of whether they meet the energy efficiency standards or not.
    - SB 58 severely limits utilities' ability to bid energy efficiency into regional capacity auctions and thereby suppress wholesale prices for electricity (as is currently occurring), which will lead to higher wholesale prices for everyone.
    - SB 58 reduces important consumer protections and limits the ability of the PUCO and ratepayers to keep rates reasonable over time. By codifying into law many provisions that should be negotiated on a case-by-case basis through the PUCO hearing process and based on current circumstances, the bill limits the PUCO's discretionary authority, its ability to receive stakeholder input and its flexibility to adapt to changing circumstances.

- As with any five-year-old law, current law has room for improvement, but SB 58 is the wrong mechanism for achieving that objective.

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