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POSITION STATEMENT ON SCOPE OF ELECTRIC ENERGY EFFICIENCY PROGRAMS
April 2013

Since the issuance of the Commission's December 9, 2009 Order in Cause No. 42693 (commonly referred to as the "Phase II Order"), Indiana's industrial customers have been subject to mandatory inclusion within electric utility Demand Side Management ("DSM") programs. As a result, Indiana's industrial customers have been obligated to pay additional fees, in the form of trackers, to the state's electric utilities to fund DSM programs, lost margin recovery, and, in some cases, "shareholder incentives".

It has consistently been, and remains, INDIEC's position that large manufacturing customers should not be mandated to participate in or fund such electric utility DSM programs, and that Indiana should instead encourage manufacturers to continue their existing self-implemented energy efficiency efforts. To date, the Commission has not been open to the possibility of an "opt-out". While INDIEC remains committed to pursuing an opt-out, until such time as an opt-out becomes a reality, a focus should be placed on developing DSM programs that address the unique characteristics and needs of industrial manufacturers as energy consumers.

In formulating DSM programs that are truly responsive to the character and needs of Indiana's industrial customers, special consideration must be given to economic realities. Indiana's manufacturers compete in national and international marketplaces. In order to compete effectively, they continually look for ways to lower costs, including lowering energy costs through cost-effective energy efficiency investments. These market forces and new technology drive investment decisions regarding energy efficiency measures independent of, and in some instances in ways that are at odds with, Commission mandated savings goals.

Consideration must also be given to the differences between industrial customers and other utility customers. Industrial customers are capable of identifying and implementing their own cost-effective energy efficiency options. Moreover, unlike smaller customers, industrial customers are sophisticated consumers of energy, with complex operations and energy needs radically different from residential, and commercial customers. Large industrial energy investments must be specifically tailored to meet the needs of those operations on an individualized basis. For large industrial manufacturers, the decision-making process regarding energy efficiency investments takes into account a variety of factors such as business and operational necessity, budget cycles, the return on investment, and coordination of long lead times. In addition, industrial customers use a variety of energy within their production processes such as natural gas, electricity, and steam. Energy savings may be obtained in any of these categories through investments in process improvements without a necessary reduction in kWh usage. These factors render a "one size fits all" DSM program for large industrial customers measured solely, or even primarily, on reduced kWh use, inefficient and unresponsive to, and unrepresentative of, the unique nature of such customers.

Due consideration to the rising cost of energy is also appropriate. The State has already lost ground in competitive energy prices in comparison to other Midwestern states. As utility run DSM programs strive to meet the Commission mandated savings goals, the scope and cost of such programs will increase as well. Greater DSM costs, recovered through trackers, combined with other trackers and rate increases will cause the price of energy within Indiana to increase, making the State less attractive for potential employers, and making the problem of job retention more difficult. In addition to the growing program costs, lost margin recovery and payment of shareholder incentives tends to erode the value of installing more energy efficient equipment or taking other steps to increase energy efficiency by offsetting the reduced energy costs associated with such measures.

Indiana should encourage energy efficiency, however, the focus should be on how to achieve that goal in the least-cost manner. Encouraging voluntary, customer directed and funded options is the most cost-effective way to achieve energy efficiency investment, because these programs cost less than utility-sponsored efforts due to the absence of administrative costs and incentives. To the extent that Industrial customers remain a part of the utility directed DSM programs, promoting programs which emphasize greater freedom in order to accommodate the unique character of the industrial sector is necessary. Further, in order to be an economically attractive option, energy efficiency investments must allow customers an opportunity see the benefits of participation in DSM programs, rather than seeing potential benefits eroded by increasing costs. .

As presently structured, utility sponsored energy efficiency programs are problematic in the industrial sector for many reasons, including:

- Manufacturing processes are sophisticated and unique. Successful energy efficiency projects have to be designed by personnel familiar with the manufacturing process, and must be flexible enough in their rules and application to accommodate the specialized needs of Industrial consumers. Utilities are not the most appropriate entity to provide, or dictate, such design.
- Energy savings should be examined on a combined basis for larger customers (i.e. gas, electricity, steam, wastewater). A focus only in reducing electric usage alone may not result in the greatest efficiency if it increases other sources of energy.
- Self-directed programs naturally cost less than utility-sponsored programs because utilities have administrative costs, measurement costs, and frequently seek incentives and/or lost revenues.
- The provision of energy efficiency services is not a monopoly. Unregulated energy service companies (ESCOs) already provide service to large consumers of energy. The Department of Energy also provides a variety of programs for large consumers such as the Save Energy Now and Energy Star programs.
- Many manufacturers have already implemented energy efficiency projects and programs using their own resources and capital. To the extent others have not invested in the same efficiencies, requiring manufacturers to pay to bring non-efficient parties up to speed is an improper subsidy.

For these reasons, manufacturers who already have energy efficiency programs should be exempt from mandatory participation or funding of other programs. Indiana should encourage these companies to continue their own programs. At a minimum, new programs should be structured in such a way as to promote flexibility for industrial participants and to ensure that customers “realize” savings achieved through installation of energy efficiency improvements rather than having those cost savings erased through lost margin recovery and utility shareholder incentives.