Energy Efficiency Institute

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March 1, 2006 via Electronic Mail

Executive Secretary
Michigan Public Service Commission
P.O. Box 302221
6545 Mercantile Way; Suite 7
Lansing MI 48911-5990

RE: Statement of Energy Efficiency Institute, Inc. in Case No. U-13808
Detroit Edison's Third Report to the Commission on the Status of the "Pay As You Save®" (PAYS®) Collaborative

Dear Ms. Kunkle:

Attached please find the comments of the Energy Efficiency Institute, Inc. to be filed in the above proceeding. If possible, please post this PDF file along with other comments on the appropriate page in the Commission's electronic case filing system and distribute it in the appropriate manner to the Commission.

Thank you in advance for your attention to this matter.

Sincerely,

Harlan Lachman, President

Encl.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of The DETROIT EDISON COMPANY to increase rates, amend its Rate schedules governing the distribution and supply of electric energy, implement Power Supply Cost Recovery plans, factors and reconciliations in its rate schedules for jurisdictional sales of electricity and for miscellaneous accounting authority and regulatory asset recovery.	)	Case No. U-13808

STATEMENT OF ENERGY EFFICIENCY INSTITUTE, INC.

SUPPORT FOR EDISION PAYS® PILOT

The Energy Efficiency Institute (EEI), the creator of the PAYS® approach, wants to commend the Detroit Edison Company (Edison) and the members of the PAYS® Collaborative who assisted it for its Third Report to the Commission on the Status of the "Pay As You Save®" (PAYS®) Collaborative. Edison has developed an innovative pilot that meets all of the requirements of the PAYS® approach that we outlined in our December 13, 2005 presentation to MPSC staff (available at www.paysamerica.org).

Edison has requested Michigan Public Service Commission (MPSC) "…*approval to proceed with the development of the PAYS® pilot program*…" (p. 5). Edison has also requested that the MPSC determine the permissibility of *"…(1) requiring the payment obligation to be tied to the service location and not the customer; and (2) using the utility bill to present the PAYS® pilot program charge to the customer, with the expectation that the utility will follow its normal procedures, including disconnection, in the event of non-payment of the charge.*" (p. 5)

Edison's pilot as proposed will test whether it is possible to implement the PAYS® tariff at no cost to non-participants. Although EEI believes that non-participants should help to pay for setting up the PAYS® infrastructure, as we explain later in this letter, we also believe that the Edison pilot will provide valuable information in Michigan and throughout the country. Therefore, in spite of some reservations, we recommend that the MPSC order approve Edison's request to proceed with its pilot as designed and clarify that PAYS® tariffs are permissible in Michigan.

REQUESTED MPSC CLARIFICATIONS

This will be a precedent setting order. Therefore, we also request that the MPSC include the following three clarifications in its order in this case in order to avoid misconceptions about the nature of PAYS® and the MPSC's requirements for a PAYS® tariff:

A.) Edison has MPSC permission to recover from all customers the start-up costs described in 1.6 in Attachment B, should Edison be unable to obtain the requisite funding from other sources and should Edison choose to do so.

Edison's pilot is "*designed to be self-funded and not have costs allocated to non-participating customers*." (p. 3) Clarification "A" will enable Edison to proceed with its pilot if it is unable to obtain the requisite start-up funds from other sources without having to expend the cost or time to seek additional MPSC approval.

While Edison's pilot will test whether it is possible to have participants pay all costs associated with a pilot, there are three reasons for allocating start-up costs to all customers:

1) All customers, whether or not they are participants, benefit from some customers installing cost-effective energy saving measures. The installation of these measures improves the

environment, the economy, system reliability and security, and, based on the law of supply and demand, lowers all customers' energy costs.

While PAYS® is a market-based system in which customers who use the PAYS® tariff pay for the installed measures, EEI believes that since non-participants also benefit, they should pay some of the costs. From the beginning of the development of the PAYS® system, EEI envisioned that non-participants would contribute to the cost of infrastructure development, such as the start-up costs for this pilot described in 1.6 in Attachment B of Edison's report.

2) Apportioning start-up costs among participants in a pilot is inequitable. With a market-based system like PAYS®, we cannot know how many customers will take part in the pilot. Hence any fee designed to recover start-up costs from participants will be at best a guess. Participants will be charged either too little or too much.

   Moreover, Edison is implementing this limited pilot to test if the PAYS® tariff is something that it might want to make available to all customers. If all start-up costs are recovered from participants in Edison's PAYS® pilot, every customer who uses the PAYS® tariff after the pilot will be getting a free ride. The pilot participants will have already paid for the start-up costs for infrastructure that post-pilot customers will use at no cost.

3.) Finally, adding a fee to cover start-up costs to pilot measure costs will result in cost-effective measures failing to qualify as PAYS® products. The more fees that are added to the PAYS® customer charges, the fewer measures that will pass the PAYS® screening test. Hence, adding start-up costs to pilot participants' PAYS® charges will prevent pilot participants from installing cost effective measures that would benefit them, their utility and non-participants.

<u>B.) Edison has MPSC permission to recover PAYS related bad debt, should there be any, from all customers, rather than treat bad debt as suggested in 2.10 in Attachment B, should Edison choose to do so.</u>

Edison's pilot is targeted to MUSH customers (Municipal, University, School and Hospital facilities). Since these customers infrequently (if ever) relocate and since they have among the highest payment rates among all utility customers, it is likely that its pilot will have little or no PAYS®-associated bad debt. Public Service Company of New Hampshire (PSNH) experienced zero bad debt in its PAYS® pilot targeted to these customers.

It is possible that a potential capital provider may be willing to supply capital for Edison's pilot limited to these types of customers without charging too high a risk premium, even though the capital provider may be at risk for a utility's inability to collect PAYS® charges. This will be one of the many questions that Edison's pilot will answer.

However, as Edison moves forward with its pilot design, it may find that even for these customers, a capital provider may require a risk premium that is too high (e.g., greater than 1% of the cost of the measures), preventing many cost effective measures from qualifying for the PAYS® tariff. More importantly, other utilities may assume that this is a MPSC requirement for a PAYS® tariff for all customer classes.

EEI has been investigating obtaining capital commitments for PAYS® for more than seven years. While it may or may not be possible to obtain affordable capital for MUSH customers without the utility guaranteeing bad debt, EEI knows that for other types of customers (e.g., residential, small commercial, and industrial customers), without such a guarantee there will be little or no capital and hence few PAYS® purchases.

Moreover, allowing a utility to recover PAYS®-related bad debt from all customers as requested in clarification "B", thereby ensuring capital providers will make funds available to pay the up-front costs of PAYS® qualified measures, will result in lower utility and customer costs:

1. Offering the PAYS® tariff will result in many customers purchasing cost effective efficiency measures they otherwise would not buy.
2. These PAYS®-qualified measures will lower these customers' usage and their utility's demand, which, in keeping with the basic principles of supply and demand, will lower system costs and make bills more affordable for all customers.
3. If bills are more affordable for all customers, fewer customers will have trouble paying their bills and the utility's overall bad debt will be reduced from the levels it would experience in the absence of the PAYS® tariff availability.
4. Moreover, bad debt associated with all purchasers of PAYS® qualified measures will be reduced:
    a. Customers who have been paying their bills and who purchase efficiency measures using the PAYS® tariff will have lower bills than they would have had without the PAYS® purchase, thereby reducing the number of these customers who might have trouble paying their bills.
    b. Customers who have previously had trouble paying bills will also have lower bills (even with PAYS® charges) than they otherwise would have, hence the current amount of bad debt from these customers will be reduced.
5. There is little likelihood of bad debt related to measure failure. If a PAYS®-qualified measure fails, warranties will cover the cost of repair required to maintain the payment obligation at the location. If for any reason the contractor does not honor the warranty, bonding or an irrevocable letter of credit will ensure that the warranty is honored. Even if warranty provisions are insufficient to cover repair costs required to

maintain the payment obligation, the PAYS® Certification Agent will have a contractual right to effect repairs and, by extending the term of the payments, collect all repair costs from those getting the savings.

In the New Hampshire PAYS® pilots, customers who purchased PAYS® products and incurred the associated PAYS® tariff obligations had payment rates significantly better than the average rate for their customer class. As mentioned above, PSNH's pilot served MUSH customers and had no PAYS®-related bad debt, clearly as low or lower than the rate for all other utilities' MUSH customers.

New Hampshire Electric Cooperative's PAYS® pilot served all customers including residential and small commercial customers. Its PAYS® related bad debt was less than eight hundredths of one percent – a lower rate than the bad debt for any utility company in the country.

Allowing utilities to recover PAYS® related bad debt from all customers will not only lower the cost of capital, thereby increasing the number of PAYS®-qualified measures all customers can purchase, it will directly lower all customers' costs.

C.) Edison has MPSC permission to offer the PAYS® tariff to all customers, not only full service customers, should Edison choose to do so.

All customers pay equally for Edison's distribution costs (assuming they have the same usage). All customers, both full-service and choice customers, have paid for Edison's personnel, facilities, billing and information systems, etc. We understand Edison's desire to use the PAYS® tariff as a customer retention mechanism, and EEI does not oppose their doing so. However, the MPSC should make clear that since all customers pay for the infrastructure that the PAYS® tariff uses, the Commission does not require the full service requirement as a basis for eligibility for access to the PAYS® tariff. Hence, clarification "C" should be part of the MPSC's order in this case.

CONCLUSION

The PAYS® approach is still new. Pilots such as the one proposed by Edison are important to learn what PAYS® can and cannot be expected to accomplish. But the MPSC's order should make clear that Edison's proposal is not the only way a utility can offer the PAYS® tariff to its customers. EEI strongly urges the MPSC to approve Edison's pilot with the three clarifications recommended above.

EEI realizes that the issues discussed in this letter are new and perhaps require explanation. We are available to the Commission and its staff to clarify any of the points we have made.

Thank you for your consideration.

Respectfully submitted,

Harlan Lachman; President
eeivt.com