

REPORT ON THE LOW-INCOME AND ENERGY EFFICIENCY FUND FISCAL YEAR 2010

**Orjiakor N. Isiogu, Chairman
Monica Martinez, Commissioner
Greg R. White, Commissioner**

MICHIGAN PUBLIC SERVICE COMMISSION
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The Low-Income and Energy Efficiency Fund

Introduction

The Michigan Public Service Commission respectfully submits this report to the appropriate legislative subcommittees, the state budget office, and the appropriate fiscal agencies pursuant to Sec. 361(2) of Public Act 130 of 2009. This report details the distribution of funds appropriated to the Low-Income and Energy Efficiency Fund for fiscal year 2010.

The purpose of the Low-Income and Energy Efficiency Fund (LIEEF) administered by the Michigan Public Service Commission (MPSC or Commission) in the Department of Energy, Labor & Economic Growth (DELEG) is to provide shut-off and other protection for low-income customers and promote energy efficiency by all customer classes.

Initial Framework

The Customer Choice and Electricity Reliability Act of 2000 (2000 PA 141 [Act 141]), authorized the creation of a Low-Income and Energy Efficiency Fund administered by the Michigan Public Service Commission via grants to qualifying organizations. The purpose of the LIEEF is to provide shut-off and other protection for low-income customers and promote energy efficiency by all customer classes.

Initially, the LIEEF was funded through securitization savings that exceeded the amount needed to achieve a five percent electric rate reduction for residential and business customers. Section 10d(6), MCL46010d(6) of Act 141 specifies the use of a portion of the savings:

If securitization savings exceed the amount needed to achieve a 5% rate reduction for all customers, then, for a period of 6 years, 100% of the excess savings, up to 2% of the electric utility's commercial and industrial revenues, shall be allocated to the Low-Income and Energy Efficiency Fund administered by the Commission. The Commission shall establish standards for the use of the Fund to provide shut-off and other protection for low-income customers and to promote energy efficiency by all customer classes.

At inception, the Detroit Edison Company was the only electric utility whose securitization savings exceeded the amount necessary to fund the rate reduction required in Act 141 and was the only company contributing to the LIEEF. On September 28, 2001, Governor John Engler signed the Department of Consumer and Industry Services appropriations bill for 2001-2002 (Public Act 119 of 2001), which authorized \$60 million for the LIEEF and required that the Commission report by June 1, 2002, on the distribution of funds. The \$60 million appropriation reflected an estimate of the annual revenues that could accrue to the LIEEF. Actual remittance, which occurred monthly, totaled approximately \$3.6 million per month or about \$44-46 million annually.

In a November 20, 2001 order, the Commission set the procedural framework to administer the LIEEF. Based on Act 141, the Commission stated it expected the annual disbursement for each of the six program years to fall into three broad categories:

- 1) Energy assistance for low-income customers;
- 2) Conservation and energy efficiency measures targeted toward reducing the energy use and energy bills of low-income customers; and
- 3) The development of energy efficiency programs that benefit all customer classes.

The Commission determined that approximately 75 percent of the grant monies awarded would be allocated to providing low-income energy assistance and low-income energy efficiency programs and approximately 25 percent would be allocated to the development of energy efficiency programs to benefit all customer classes. The Commission also stated it intended to set aside a portion of the proceeds to create an endowment to finance programs that assist low-income customers and support energy efficiency projects beyond the six-year existence of the Fund. The Commission stated that it would follow the procedures established by the Department of Management and Budget and the Department of Consumer and Industry Services in issuing requests for proposals, making disbursements, and managing the grants.

Subsequent Orders

On February 20, 2004, the Commission issued an order in Case No. U-13808 granting interim rate relief, rolling securitization savings into base rates for Detroit Edison's electric customers and continuing funding of the LIEEF as part of the utility's cost of service. The funding mechanism for the LIEEF was affirmed in the Commission's final order issued on November 23, 2004, which authorized Detroit Edison to provide approximately \$39.9 million annually to the LIEEF.

On December 22, 2005, the Commission issued an order in Case No. U-14347 authorizing Consumers Energy to provide approximately \$26.5 million annually to the LIEEF from its electric customers. On November 21, 2006, the Commission issued an order in Case No. U-14547 authorizing Consumers Energy to provide approximately \$17.4 million annually to the LIEEF from its natural gas customers.

On January 13, 2009, the Commission issued an order amending the LIEEF's procedural framework set forth in Attachment A of its order dated November 20, 2001, to allow up to 10 percent of the monies in the LIEEF to be used directly for funding contractual services that are related to low-income assistance, energy efficiency, energy technology, and the objectives of Public Act 295 of 2008, including renewable energy, energy optimization, and distributed generation projects.

On June 3, 2010, the Commission issued an order in Case No. U-15985 authorizing Michigan Consolidated Gas Company (MichCon) to provide \$5,069,000 annually to the LIEEF from its customers.

Sources of Funding

During 2010, the LIEEF was given an increase in yearly revenue through a Commission order issued in Case No. U-15985 on June 3, 2010, which authorized MichCon to provide \$5,069,000 annually to LIEEF from its customers. At the time of this report, the LIEEF's total annual revenue is approximately \$88,890,000. This figure is derived from contributions from the following sources:

The Detroit Edison Company (electric)	\$ 39,858,000
Consumers Energy Company (electric)	\$ 26,536,000
Consumers Energy Company (gas)	\$ 17,427,000
Michigan Consolidated Gas Company (gas)	\$ 5,069,000

The legislature grants the Commission spending authority from the fund through its yearly budget appropriation.

Evaluation

The Commission requires selected applicants to provide programmatic and financial data for all grants and contracts awarded through the Low-Income and Energy Efficiency Fund. This information is used to determine if the selected applicant accomplished the objectives stated in the proposal, conformed to the provisions of the grant agreement or contract, and disbursed the funds as outlined and approved by Commission staff. The information collected is also used to assess if and how the distribution of funds from the LIEEF should be modified in the future. To enhance the Commission's oversight of the LIEEF grant program, staff continues to conduct financial and process audits of awarded grants.

Fiscal Year 2010

The Department of Energy, Labor & Economic Growth appropriations bill for fiscal year 2010 was approved by Governor Jennifer M. Granholm on October 29, 2009, as Public Act 130 of 2009 (PA 130). PA 130 appropriated \$90 million for disbursement from the Low-Income and Energy Efficiency Fund for the period October 1, 2009 to September 30, 2010.

During fiscal year 2010, the Commission awarded 29 new grants totaling \$87,086,370 and three contracts totaling \$1,874,553. The Commission also awarded an additional \$100,000 to Public Sector Consultants for use in its 2009 Michigan Energy Efficiency Grant to create a statewide, innovative energy efficiency and distributed renewable energy financing system called *Michigan SAVES*.

The following chart provides a summary of the awards and allocations made during fiscal year 2010:

2010 AWARDS & ALLOCATIONS	AMOUNT	% OF TOTAL	# AWARDED
GRANTS			
Low-Income Energy Assistance	56,000,000	62.9%	9
Low-Income Energy Efficiency	15,900,000	17.9%	6
Michigan Energy Efficiency	15,186,370	17.1%	14
GRANTS SUBTOTAL	\$87,086,370	97.9%	29
OTHER ALLOCATIONS			
Additional <i>Michigan SAVES</i> Award	100,000	0.1%	N/A
Legislative Allocations	0	0.0%	0
Contracts	1,874,553	2.0%	3
OTHER ALLOCATIONS SUBTOTAL	\$1,974,553	2.1%	3
TOTAL	\$89,060,923	100.0%	32

The Commission awards grants by soliciting proposals through a competitive bid process. Proposals are reviewed, scored, and awarded based on criteria set forth in a Request for Proposal (RFP). During fiscal year 2010, the Commission received 84 proposals from organizations requesting grant funding from the LIEEF. The following sections provide a detailed summary of LIEEF projects, awards, and allocations.

Low-Income Energy Assistance Grants

The purpose of the Low-Income Energy Assistance (LIEA) grant program is to provide energy assistance to low-income customers confronted with energy shut-off and maintain or

develop preventative programs to reduce the number of customers experiencing energy shut-off. Grants may be used to serve additional clients under existing eligibility guidelines, increase the amount of assistance available to eligible households, or revise existing eligibility guidelines to serve clients otherwise unable to obtain assistance through current programs. Eligible organizations include non-profit and public organizations,¹ and grants typically last less than one year.

The Commission received 10 proposals from organizations requesting funding for this program. On September 15, 2009, the Commission issued an order awarding \$55 million in Low-Income Energy Assistance grants to nine organizations. On March 18, 2010, the Commission issued an amendatory order to award an additional \$1 million in Low-Income Energy Assistance grants to the organizations awarded grants on September 15, 2009. The additional \$1 million was allocated based on the proportion of the \$55 million each organization received on September 15, 2009. The following chart outlines the LIEA awards for fiscal year 2010:

ORGANIZATION		ORIGINAL AWARD	ADDITIONAL AWARD	TOTAL
1	Department of Human Services	35,000,000	636,400	35,636,400
2	Downriver Community Conference	900,000	16,400	916,400
3	Inter-Tribal Council of Michigan, Inc.	150,000	2,700	152,700
4	Lighthouse Emergency Services	300,000	5,500	305,500
5	Michigan Community Action Agency Association	4,150,000	75,500	4,225,500
6	Newaygo County Community Services	3,000,000	54,500	3,054,500
7	Society of St. Vincent de Paul	500,000	9,100	509,100
8	The Heat and Warmth Fund (THAW)	5,000,000	90,900	5,090,900
9	The Salvation Army	6,000,000	109,000	6,109,000
		\$55,000,000	\$1,000,000	\$56,000,000

Low-Income Energy Efficiency Grants

The purpose of the Low-Income Energy Efficiency (LIEE) grant program is to improve energy efficiency and reduce energy consumption of Michigan low-income residents. Organizations will work to implement energy efficiency projects that can include all of the following components: weatherization, energy education, and replacement of furnaces, water heaters, and other appliances. Appliance replacement programs must demonstrate participation in appropriate recycling programs for replaced appliances. Projects should complement existing programs by allowing low-income household eligibility up to 250 percent of the federal poverty level. A portion of grant funds may be used for house repairs to improve energy efficiency by repairing roofs, windows, and doors.

¹ Public organizations include governmental agencies and educational institutions.

The Commission received ten proposals from organizations requesting funding for this program. On September 15, 2009, the Commission issued an order awarding \$14 million in Low-Income Energy Efficiency grants to the following five organizations:

ORGANIZATION		AWARD
1	Department of Human Services	10,361,522
2	Newaygo County Community Services	859,211
3	United Way for Southeastern Michigan	1,000,000
4	Urban Options, Inc.	917,894
5	WARM Training Center, Inc.	861,373
		\$14,000,000

Low-Income Energy Affordability Demonstration Projects (LIEADP)

The Commission solicited proposals from nonprofit, public, or private organizations to conduct one or more pilot demonstration projects addressing energy affordability within Michigan's low-income residential customer class. Projects will include a combination of energy efficiency services with a portion that addresses innovative bill payment tariff/rate options. The demonstration projects will test new and innovative approaches to ensure that low-income households can continue to receive safe, reliable electric and natural gas services. Projects will take a two phase approach. Phase I will include a pilot demonstration project to be launched by November 2010. Upon successful completion of Phase I and approval by the Commission and State Administrative Board, the grantee may be eligible to receive Phase II funding up to \$5 million to continue the project.

The Commission received six proposals from organizations requesting funding for this project. On June 24, 2010, the Commission issued an order awarding a \$1.9 million Low-Income Energy Efficiency grant to Michigan Community Action Agency Association (MCAAA) for Phase I of the LIEADP project.

Michigan Energy Efficiency Grants

The purpose of the Michigan Energy Efficiency (MIEE) grant program is to develop or improve the quality or application of energy efficient technologies in all customer classes. Preference is given to projects that have a significant impact on both the energy efficiency and economy of Michigan. The primary intent of the Michigan Energy Efficiency Grant program is to benefit Michigan residents, businesses, educational institutions, and/or government agencies through the development and marketing of advanced energy efficient technologies. The Commission awarded fourteen MIEE grants totaling \$15,186,370. RFPs were issued to solicit proposals for four unique projects as discussed below.

Compact Fluorescent Lamps (CFL)

The CFL program will improve energy efficiency, strengthen the economy of Michigan, and promote environmental conservation through the promotion and increased use of ENERGY STAR CFLs. Projects included plans for educating Michigan residents on the proper disposal and recycling of spent CFLs, developing and establishing new CFL recycling locations, and/or contributing to the efforts of existing CFL recycling locations.

The Commission received 10 proposals from organizations requesting funding for this program. On September 15, 2009, the Commission issued an order awarding \$1 million in CFL grants to the following seven organizations:

ORGANIZATION		AWARD
1	Charter Township of Delta	122,788
2	Michigan Community Action Agency Association (MCAAA)	337,489
3	Michigan GREEN	100,000
4	Newaygo County Community Services	110,495
5	Superior Watershed Partnership	179,228
6	Urban Options, Inc.	100,000
7	West Michigan Environmental Action Council	50,000
		\$1,000,000

Renewables for Local Governments

The Renewables for Local Governments grants will fund projects to design and coordinate a means to facilitate the successful installation and operation of small-scale, on-site energy systems using renewable energy sources and manage energy efficiency upgrades at multiple Michigan local government facilities. The selected grantees will use grant funds to provide local governments with the opportunity to offset traditional fossil fuel use with renewable energy system generation and savings realized through energy efficiency measures. The recipients of these two year grants are expected to achieve widespread familiarity with such installations, thus helping Michigan citizens understand the value and importance of making similar investments in all residential, commercial, and institutional facilities in the state.

The Commission received 36 proposals from organizations requesting funding for this program. On September 15, 2009, the Commission issued an order awarding \$8.5 million in Renewables for Local Governments grants to the following three organizations:

ORGANIZATION		AWARD
1	Clean Energy Coalition	4,400,000
2	Michigan Suburbs Alliance	3,000,000
3	Northwest Michigan Council of Governments	1,100,000
		\$8,500,000

Smart Grid Technology

The Smart Grid Technology grants are two-year initiatives that will fund innovative demonstration projects to implement advanced energy storage technology. In this context, energy storage refers specifically to the capability of storing electrical energy that has already been generated and controllably releasing it for use at another time. These projects, which emphasize energy storage performance, efficiency, and cost effectiveness, will help create and expand the market for such technologies in Michigan and throughout the nation.

The Commission received eight proposals from organizations requesting funding for this program. On September 15, 2009, the Commission issued an order awarding \$4 million in Smart Grid Technology grants to the following two organizations:

ORGANIZATION		AWARD
1	A123 Systems, Inc.	2,000,000
2	Ford Motor Company	2,000,000
		\$4,000,000

Offshore Wind Technology

The Offshore Wind Technology grants will fund projects to conduct testing and/or perform studies to explore the feasibility and advance the deployment of offshore wind technologies in Michigan and the Great Lakes over a three year period. Projects will be closely aligned with the recommendations and findings of the Great Lakes Wind Council (GLOW), and all project studies and test data will be available for public use at the end the grant term.

The Commission received six proposals from four organizations requesting funding for this program. On February 8, 2010, the Commission issued an order awarding \$1,686,370 in Offshore Wind Technology grants to the following two organizations:

ORGANIZATION		AWARD
1	Grand Valley State University – MAREC	1,336,370
2	Superior Watershed Partnership	350,000
		\$1,686,370

Contracts

The Commission may use up to 10 percent of the monies in the Low-Income & Energy Efficiency Fund to directly fund contractual services that are related to low-income assistance, energy efficiency, energy technology, and the objectives of 2008 PA 295, including renewable energy, energy optimization, and distributed generation projects.

During fiscal year 2010, the Commission entered into contracts with three organizations to provide services as outlined in the following sections.

LIEEF Evaluator

The Commission retained the services of Public Policy Associates, Inc. for \$177,916 to review projects, compile data, and deliver final reports documenting results achieved for all completed grant projects awarded during fiscal years 2007, 2008, and 2009. The evaluation will review programs funded by the LIEEF and assess the nature and extent of the impact these programs have had on low income households, energy conservation, environmental conservation, the implementation and use of energy efficiency and renewable energy technologies, and the economy of the state. The Commission will use the results of the evaluation to strategically manage the administration of the fund, increase program efficiency, and maximize the impact of disbursements from the LIEEF.

Baseline Energy Study

The Commission entered into contract with The Cadmus Group for \$496,637 to conduct a baseline energy study that will attain accurate and up-to-date information on the energy efficiency status of residential and commercial buildings in the Upper Peninsula and rural and out-of-state regions of the Lower Peninsula that are not part of the Consumers Energy and Detroit Edison/MichCon territories. The data collected as a part of this project will complete a statewide study and bring together all data in one energy efficiency baseline report that will be accessible statewide and used by state agencies, utilities, non-profit agencies, counties, cities, and townships when implementing energy efficiency and energy conservation programs.

Michigan's Energy Efficiency Social Network

The Commission contracted with Neighborhood America, Inc. (doing business as INgage Networks) for \$1,200,000 to develop social networking software and social production service in support of establishing *Michigan's Energy Efficiency Network*. *Michigan's Energy Efficiency Network* will be a sustainable communications model through which local government officials and staff, public and private sector energy efficiency practitioners, and interested citizens will

communicate and collaborate to share experiences, establish policies and best practices, provide technical and administrative support, and enable regional cooperation in community-based energy efficiency and renewable energy programs in Michigan.

Historical Information

Awards & Allocations

Since the LIEEF's inception in 2001, the Commission has issued orders awarding 219 grants from the Low-Income and Energy Efficiency Fund totaling \$550,285,771. Additionally, \$25 million has been specially allocated by the Legislature, and three contracts have been awarded for \$1,874,553. In total, \$577,160,324 has been encumbered for distribution from the Low-Income and Energy Efficiency Fund.

AWARDS & ALLOCATIONS	AMOUNT	%	# AWARDED
GRANTS			
Low-Income Energy Assistance	394,402,771	68.3%	85
Low-Income Energy Efficiency	90,222,675	15.6%	66
Michigan Energy Efficiency	65,660,325	11.4%	68
GRANTS SUBTOTAL	\$550,285,771	95.3%	219
OTHER ALLOCATIONS			
Legislative Allocations	25,000,000	4.4%	2
Contracts	1,874,553	0.3%	3
OTHER ALLOCATIONS SUBTOTAL	\$26,874,553	4.7%	5
TOTAL	\$577,160,324	100%	224

Additional Information

Additional information about the Low-Income and Energy Efficiency Fund is available at the Michigan Public Service Commission's website: www.michigan.gov/mpsc.