

REPORT ON
THE LOW-INCOME AND ENERGY EFFICIENCY FUND

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The Low-Income and Energy Efficiency Fund Report

Current Year Activities

The Department of Labor & Economic Growth appropriation's bill for 2006-2007 was signed on August 16, 2006 as Public Act 345 of 2006 and authorized \$60 million for the Low-Income and Energy Efficiency Fund (LIEEF). Section 335 of Article 12 of the act requires the Michigan Public Service Commission (Commission) to report by June 1, 2007 on the disbursement of funds. The \$60 million appropriation reflected the estimate of the annual revenue that would accrue to the fund. Due to an increase in the annual amount going into the fund, on April 16, 2007, a supplemental appropriation bill was submitted consolidating two prior supplemental appropriation bills that were submitted on February 27, 2007 and on March 15, 2007. This combined request was for \$22 million and will provide funding for the Department of Human Services for energy crisis assistance programs serving low-income citizens.

The Commission currently has three grants still active under the last Energy Efficiency for all Classes (technology) grants, Round 10, approved under a Commission Order originally issued on June 30, 2005. The three Grantees are Grand Valley State University with remaining funds of approximately 800 thousand dollars, Michigan State University with remaining funding of approximately \$1.6 million, and Northwestern Michigan College with remaining funds of approximately 300 thousand dollars. No new Energy Efficiency for all Classes (technology) grants have been authorized since 2005.

To date, the Commission has issued two Orders for the current fiscal year making grants from the LIEEF totaling \$58 million. They were:

Fiscal Year 2007 (Round 16)

On October 24, 2006, the Commission approved 10 grants totaling \$45 million for low-income energy assistance to the following organizations:

- Capital Area Community Services -- \$100,000 for low-income direct energy assistance;
- City of Livonia Housing Commission -- \$18,000 for low-income direct energy assistance;
- Department of Human Services (DHS) -- \$31 million total: \$28 million for the State Emergency Relief and Energy Direct program to prevent threatened shutoff of energy services and \$3 million for the Arrearage Payment program;
- Downriver Community Conference -- \$500,000 for energy assistance to low-income households in the Monroe and southern Wayne County areas;
- Lighthouse Emergency Services -- \$250,000 to assist clients in the Pontiac and Oakland County areas who are ineligible for assistance from the Department of Human Services or for whom such assistance is insufficient or would not be provided in time to avert an emergency;
- Michigan Community Action Agency Association -- \$2,332,000 for low income direct energy assistance;
- Newaygo County Community Services -- \$1 million to assist clients in a 10 county area ineligible for the DHS State Emergency Relief Program, or for whom such assistance is insufficient or would not be available in time to avert an emergency;
- Salvation Army -- \$4.8 million to serve households statewide which are ineligible for assistance from the Department of Human Services or for whom such assistance is insufficient or not available;
- Society of St. Vincent de Paul of Detroit -- \$200,000 for low-income direct energy assistance;
- The Heat and Warmth Fund -- \$4.8 million for the THAW LI/EE program.

Fiscal Year 2007 (Round 17)

On December 12, 2006, the Commission approved eight grants totaling up to \$13 million for low-income energy efficiency projects to the following organizations:

- Bay de Noc Community College/Michigan Technical Education Center -- \$700,000 for purchase and distribution of energy savings kits to low-income rural households in Michigan;
- Department of Human Services -- \$9 million in total for statewide distribution to low-income households for energy efficiency upgrades, with up to 20% of the grants available for energy education;
- Habitat for Humanity -- \$279,000 for energy efficiency upgrades to low-income homes in Michigan, scheduled for construction in 2007;
- Newaygo County Community Services -- \$450,000 for weatherization of low-income homes in the Mid-Michigan area;
- Nova Development Group of Detroit, L.L.C. -- \$1,450,000 for energy efficiency upgrades, and installations for low-income multi-family dwellings throughout Michigan;
- United Way Community Services/Nonprofit Facilities Center -- \$500,000 for matching grants to non-profit facilities for energy efficiency upgrades, energy efficiency audits, and energy efficiency/weatherization education;
- Urban Options, Incorporated -- \$421,000 for weatherization of low-income clients' homes, with a focus on heating systems, energy kits, and energy education throughout Michigan;
- Warm Training Center -- \$200,000 for energy education for customers who receive energy assistance.

Background of the Fund

The Customer Choice and Electricity Reliability Act of 2000, Public Act 141, authorized the creation of the LIEEF, administered by the Commission via grants to qualifying organizations. The purpose of the fund is to provide shut-off and other protection for low-income customers and to promote energy efficiency by all customer classes. The fund's original source of funding was utilities' securitization savings that exceeded the amount needed to achieve a 5% electric rate reduction for residential and business customers. MCL 460.10d(7) 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.

During the period described in Section 10d(7), The Detroit Edison Company was the only electric utility to realize excess savings from securitization that met the statutory threshold for making contributions to the fund out of its excess savings. (Detroit Edison obtained authorization to issue \$1.8 billion in securitization bonds on November 2, 2000 in Case No. U-12478. Consumers Energy Company, the only other utility to seek securitization authorization, issued less than \$0.5 billion in bonds pursuant to Case No. U-12505.) As of May 5, 2005, Detroit Edison had remitted \$168,709,968 in total to the Low-Income and Energy Efficiency Fund.

On February 20, 2004, the Commission in its Order in Case No. U-13808 granting interim rate relief, rolled securitization savings into base rates for Detroit Edison's electric customers and continued funding of the LIEEF as part of the utility's cost of service. The mechanism was set to generate \$39,858,000 annually. The Commission in its final Order in Case No. U-13808 issued on November 23, 2004, reaffirmed the \$39.8 million of annual funding. Detroit Edison's remittance, which occurs on a monthly basis, is \$39.8 million annually. On December 22, 2005, the Commission in its Order in Case No. U-14347 authorized Consumers Energy to fund \$26,536,000 for the LIEEF from its electric customers. Currently Consumers Energy's remittance totals \$26.536 million annually. On November 21, 2006, the Commission in its Order in Case No. U-14547 authorized Consumers Energy to fund

\$17,427,000 annually, for the LIEEF from its natural gas customers. Total annual revenue to the LIEEF is:

Detroit Edison Electric	\$39,858,000
Consumers Energy Electric	\$26,536,000
Consumers Energy Gas	<u>\$17,427,000</u>
Total Annual Revenue	\$83,821,000

Procedural Framework

On November 20, 2001, the Commission issued an Order setting the procedural framework to administer the Fund. Based on P.A. 141 of 2000, the Commission stated it expected the annual disbursement 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.

Evaluation

The Commission requires grantees to provide data on program accomplishments and problems encountered in completing grant requirements. This information is used to determine if the grantees accomplished the objectives stated in their proposals and resulting grant agreements. This information is also used to assess if and how the distribution of funds should be modified in the future. Information to date indicates that the performance level of these grants meets or exceeds expectations for the LIEEF. These results will continue to improve in the future as staff works closely with the grant recipients to increase its understanding of the level of detail required in the Interim and Bi-monthly Reports submitted to the Commission.

The Michigan Public Service Commission staff continues to conduct financial audits of grants awarded in 2006-2007 to enhance the Commission's oversight of the LIEEF grant program. Also, there are ongoing discussions between staff and grantees on potential changes to several grant administration policies.

Past Grant Awards

To date, the Commission has issued Orders approving 17 rounds of grants from the Low-Income and Energy Efficiency Fund totaling \$295,418,899. Low-Income Assistance Grants accounted for a total of nine rounds in which the Commission approved 58 grants totaling \$226,400,000, or 76.6% of total LIEEF dollars expended to date. Low-Income Energy Efficiency Grants accounted for a total of six rounds and encompassed 48 grants totaling \$50,822,675, or 17.2% of the total LIEEF dollars expended. Finally the Energy Efficiency for all Classes (technology) Grants accounted for two rounds, or 20 grants for a total of \$18,200,000 or 6.2% of the total expended.

Fiscal Year	Round	Grants
2002	1	\$27.4 million to provide low-income energy assistance.
2002	2	\$12.2 million to develop or improve energy efficiency technologies.
2002	3	\$5 million for low-income energy efficiency projects.
2003	4	\$20 million to provide low-income energy assistance.
2003	5	\$20 million to provide low-income energy assistance.
2004	6	\$9.8 million for low-income energy efficiency projects.
2004	7	\$13 million to provide low-income energy assistance.
2005	8	\$20 million to provide low-income energy assistance.
2005	9	\$8 million for low-income energy efficiency projects.
2005	10	\$6 million to develop or improve energy efficiency technologies.
2005	11	\$15 million for low-income energy assistance.
2005	12	\$5 million to provide for low-income energy efficiency projects.
2006	13	\$41 million to provide for low-income energy assistance.
2006	14	\$10 million to provide for low-income energy efficiency projects.
2006	15	\$25 million to provide for low-income energy assistance.
2007	16	\$45 million to provide for low-income energy assistance.
2007	17	\$13 million to provide for low-income energy efficiency projects.

Additional information on these grants is available at the Michigan Public Service Commission
web-site: <http://www.michigan.gov/mpsc>.