State Notes

TOPICS OF LEGISLATIVE INTEREST

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Low Income and Energy Efficiency Fund
By Maria Tyszkiewicz, Fiscal Analyst

In 2002, as a result of electric utility restructuring legislation, a Low Income and Energy Efficiency Fund (LIEEF) was created to provide assistance for low-income customers and to promote energy efficiency by all types of utility customers. The Customer Choice and Electricity Reliability Act of 2000, or Public Act 141, authorized the creation of this Fund, which is administered by the Michigan Public Service Commission (PSC). The Fund provides grants to various organizations and the Family Independence Agency to help provide utility shutoff protection and other energy-related financial assistance for low-income customers and to promote energy efficiency.

The revenue in the LIEEF comes from the savings that were realized as a result of allowing the regulated utilities to securitize what were considered "reasonable and prudent costs" with the approval of the PSC. Reasonable costs were determined to be those costs that were incurred by the regulated utilities under the regulated market that would be viewed as unrecoverable under a market-based system. Examples of these costs include investments in nuclear plants and changes in the tax code that would affect employee costs. The only utilities that met the requirements for securitization were the two regulated investor-owned utilities in Michigan, Detroit Edison and Consumers Energy. Prior to restructuring, these utilities accounted for approximately 90% of electricity sales and provided energy to approximately 88% of the State's electric customers.

The reasonable costs for these two utilities were identified and approved through a PSC order that authorized the utilities to securitize through the sale of bonds. The order determined the securitization amount for Detroit Edison at $1.8 billion and for Consumers Energy at $468 million. The ratepayers for the two utilities then would pay off these bonds as part of their rates. The interest rate on the bonds was lower than the rate of the original financing for these costs, thereby providing savings to the utilities. The statute further provided that the level of savings would be used to provide for a 5% rate reduction for both the residential and the industrial and commercial customers. Following these reductions, if additional savings existed, then the balance, up to 2% of the electric utility's commercial and industrial revenue, would be deposited into the LIEEF for six years or through 2006. The level of savings that was available from the Detroit Edison transaction was sufficient to meet both rate reductions and a deposit into the Fund. However, the level of savings resulting from the Consumers Energy transaction was much lower and never met the first two rate reductions necessary to require a deposit into the Fund.

The language in the statute requires that the LIEEF be used: "to provide shut-off and other protection for low-income customers and to promote energy efficiency by all customer classes". In November 2001 the PSC, through an order, established the procedures for which the Fund would operate, which included establishing three categories of grants that would be funded. The three categories are: energy assistance for low-income customers; conservation and energy efficiency measures targeted toward reducing the energy use of low-income customers; and the development of energy efficiency programs that benefit all customer classes. The funding then would be divided further with 75% for proposals under the first two categories and 25% for grants under the third category. A final goal of the order was to establish an endowment fund to assist low-income customers for the years following 2006. Since the creation of this Fund, there have been seven rounds of awards.

Table 1 shows the amount dispersed and the grant recipients. To date, Detroit Edison has remitted to the LIEEF $129 million, of which $104.4 has been awarded. Of this amount, $57 million has been allocated to the Family Independence Agency to provide supplemental payments to households receiving the Home Heating Credit ($24 million), for the expansion of the State Emergency Fund ($29 million), and for energy assistance special needs ($4 million). Of the seven grant rounds, only one round, at $12.2 million, was provided as grants for the purpose of developing or improving energy efficiency technologies. The remaining $92.2 million has been allocated to provide low-income energy assistance and for low-income energy efficiency projects. Of that amount, 62% was awarded for low-income energy assistance provided by the Family Independence Agency.

Table 1

Low-Income Energy Efficient Fund Grant Disbursements

Grant Recipient	Low-Income Energy Assistance	Energy Efficiency Technologies	Low-Income Energy Efficiency	Total
Family Independence Agency	$57,000,000			$57,000,000
Michigan Community Action Agency Association (MCAAA)	6,110,000		4,200,000	10,310,000
The Salvation Army	9,000,000			9,000,000
The Heat and Warmth Fund (THAW)	6,500,000		1,000,000	7,500,000
Newaygo County Community Services	545,675			545,675
Wayne Metropolitan Community Action Agency	212,987			212,987
Leslie Outreach, Inc.	34,109			34,109
Michigan Economic Development Corporation		4,200,000		4,200,000
Grand Valley State University		3,000,000		3,000,000
Bay de Noc Community College – Michigan Technical Education Center		2,000,000		2,000,000
Ford Motor Company		1,300,000		1,300,000
Sordal Incorporated		584,448		584,448
DTE Energy Technologies, Inc.		395,000		395,000
EnSave Energy Performance, Inc.		385,805		385,805
Intellicon		275,000		275,000
STM Power, Inc.		53,200		53,200

Low-Income Energy Efficient Fund Grant Disbursements				
Grant Recipient	**Low-Income Energy Assistance**	**Energy Efficiency Technologies**	**Low-Income Energy Efficiency**	**Total**
Community Economic Development Association of Michigan (CEDAM)			855,840	855,840
Consumers Energy Company			351,500	351,500
Metro Neighborhood Housing and Community Development			2,487,500	2,487,500
Nova Development Group of Detroit			2,006,146	2,006,146
The United Way Community Services/Nonprofit Facilities Center			1,115,000	1,115,000
Washtenaw Affordable Housing Corporation			26,000	26,000
Habitat for Humanity of Michigan			327,200	327,200
Urban Options, Inc.			244,490	244,490
WARM Training Center			209,000	209,000
TOTAL	**$79,402,771**	**$12,193,453**	**$12,822,676**	**$104,418,900**

Source: Michigan Public Service Commission

In February of this year, Detroit Edison applied to the PSC for rate relief. The Commission issued an interim order allowing an increase in rates for the utility. The increase was requested by the utility to assist in recovering some costs that have been associated with the transition to a market-based system. These costs were allowed to be recovered, but as a result of the rate increase, any savings that were being generated through securitization were eliminated. This order consequently eliminated the original funding source for LIEEF two years earlier than the statutory timeline had required. As a result, the PSC order instituted an additional surcharge on the ratepayers of Detroit Edison that will generate a similar amount of revenue for the Fund, estimated at $40 million per year. A final order from the Commission on this rate change is expected to be issued some time in October.

Following this rate change, the Senate included language in the Fiscal Year 2004-05 appropriations bill for the Department of Labor and Economic Growth (House Bill 5521), that would require the balance in the LIEEF, after the statutory obligation is made to the Community Action Agencies, to be distributed only in the Detroit Edison service territory. This would change the structure of the program from a statewide grant program to a more regional grant program, with only between $3 million and $5 million eligible to be distributed outside of the Detroit Edison service territory. The increase from $3 million to $5 million would be possible only if the Legislature does not enact a statewide low-income energy efficiency program funded by all regulated energy providers, which would include natural gas companies. Since this language was not included in the House-passed version of the bill, it will continue to be discussed in conference committee.