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The enclosed biennial report, *Report on the Low-Income and Energy Efficiency Fund*, is presented on behalf of the Michigan Public Service Commission in accordance with Section 10d(6) of 2000 PA 141, MCL 460.10d(6). This report will be available on the MPSC website.

Since June, 2001, \$44,153,417 in monthly deposits have been placed in the Fund. Of that, grants totaling \$27,402,771 have been awarded for Low-Income Energy Assistance programs. A request for pre-proposals has been issued for Michigan Energy Efficiency Grants, pre-proposals have been reviewed, and a request for full proposals for up to \$12 million in grant awards has been issued. A request for proposals for Low-Income Energy Efficiency Grants for awards of up to \$5 million has also been issued.

In administering the fund, the Commission has employed the competitive bid process in accordance with Department of Management and Budget and Department of Consumer and Industry Services guidelines. This process thus far has produced strong proposals from a variety of organizations offering creative ways to "provide shut-off and other protection for low-income customers and to promote energy efficiency by all customer classes." (MCL460.10d(6)) The Commission recommends continued use of this process.

Sincerely,

Dorothy Wideman  
Executive Secretary

**REPORT  
ON  
THE LOW-INCOME AND ENERGY EFFICIENCY FUND**

Michigan Public Service Commission  
Department of Consumer and Industry Services  
June 1, 2002

# **Low-Income and Energy Efficiency Fund Report of the Effectiveness of the Fund June 1, 2002**

## **Introduction**

The Customer Choice and Electricity Reliability Act of 2000, 2000 PA 141 (Act), requires a portion of the cost savings from the issuance of securitization bonds to be used for the Low-Income and Energy Efficiency Fund (Fund). The Act directs the Public Service Commission (Commission) to administer the Fund and to report to the Governor and the Legislature every two years regarding the effectiveness of the Fund. This is the first report presented in response to this requirement.

Among other provisions, the Act authorizes the Commission to allow an electric utility to use securitization financing when certain conditions are met. Section 10d(6), MCL46010d(6) 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.

The Detroit Energy Company (Detroit Edison) is the only electric utility whose securitization savings exceed the amount necessary to fund the rate reduction required in the Act, and therefore is the only company contributing to the Fund.

The Department of Consumer and Industry Services' (CIS) appropriations bill for 2001-2002, Public Act 119 of 2001, signed by the Governor on September 28, 2001, authorizes the current year's appropriations of \$60 million for the Fund and requires the Commission to report by June 1, 2002, on the distribution of the funds. The \$60 million appropriation reflects an estimate of the annual revenues that could accrue to the Fund. However, the actual total amount has been much lower. Funds accrue on a monthly basis; the first deposit to the Fund was made in June 2001. As of May 6, 2002, the Department of Consumer and Industry Services had received \$44,153,417 from Detroit Edison.

## **Development of the Process**

On October 2, 2001, the Commission issued an Order and Notice of Hearing in Case No. U-13129, to receive public comments on a process for administering the Fund. On October 11, 2001, the Commission conducted a public hearing at which 19 persons made presentations. The Commission also received comments from 69 interested persons and organizations offering recommendations on how the Fund should be administered and the types of projects that should be considered for grants.

Following a review of the written and oral comments, the Commission issued an Opinion and Order on November 20, 2001, setting a procedural framework to administer the Fund. Based upon the Act, 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 usage 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% of the grant monies awarded would be allocated to providing low-income energy assistance and low-income energy efficiency programs (categories 1 and 2) and 25% would be allocated to the development of energy efficiency programs to benefit all customer classes (category 3). 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 it would rely on 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.

As of October 31, 2001, the Fund had accrued \$20,253,170. The Commission determined that since the heating season was underway, the first priority for the Fund should be the provision of energy assistance to low-income customers. The November 20, 2001 Order stated that the Request for Proposals (RFP) for low-income energy assistance would be issued on an accelerated track; RFPs for low-income energy efficiency and energy efficiency projects benefiting all customer classes would be issued later in spring 2002 as additional funds became available.

## **Administration and Distribution of Funds**

### **Low-Income Energy Assistance Grants**

Staff issued a draft RFP for Low-Income Energy Assistance projects on December 11, 2001. Comments were received, reviewed, and, where appropriate, were incorporated in the RFP issued on December 21, 2001. It stated grant awards totaling up to \$15 million were available, with the Commission reserving the option to supplement the grant amount as additional funds were accrued and need for additional funding was demonstrated. Proposals were due on January 16, 2002; the Commission received ten proposals from nine organizations requesting over \$40 million in grants. The proposals were reviewed with a focus on the organizations' previous experience providing low-income energy assistance, proposed household eligibility standards, outreach plans, quality control, and the proposed use of the funds. The Commission also sought to award grants to organizations that would

serve the entire state, while assuring appropriate coverage in the highly populated urban areas. Attachment A contains a list of the organizations submitting proposals and the grant amount requested. On February 21, 2002, the Commission issued its Opinion and Order in Case No. U-13129 awarding grants to the following organizations:

- The Family Independence Agency (FIA) - \$12 million to provide supplemental payments to households receiving the Home Heating Credit and \$3 million to expand the State Emergency Fund to provide additional energy bill payment assistance through Community Action Agencies.
- The Michigan Community Action Agency Association – up to \$3,110,000 to provide a 2:1 match for funds raised locally through the Walk for Warmth.
- The Salvation Army - \$3 million to serve households statewide ineligible for assistance from FIA or for whom such assistance is insufficient or not available.
- The Heat and Warmth Fund (THAW) - \$2 million for the THAW Safety Net Program in 60 existing sites in southern Michigan.
- Newaygo County Community Services - \$45,675 to assist households in Newaygo County ineligible for assistance from FIA or for whom such assistance is insufficient.
- Wayne Metropolitan Community Action Agency - \$212,987 to provide assistance to households in out-Wayne County facing shut-off of energy services.
- Leslie Outreach - \$34,109 to provide assistance to households in the Leslie, Stockbridge, and Dansville school districts.

The Commission also determined that there was sufficient need to distribute additional funds immediately rather than later in the heating season. Therefore, it awarded an additional \$4 million to FIA to meet energy assistance-related special needs and other energy assistance priorities. The total amount of grants awarded for Low-Income Energy Assistance Grants was \$27.4 million.

### **Michigan Energy Efficiency Grants**

During the October 2001 public hearing and comment period, participating organizations expressed interest in obtaining grants for a wide variety of energy efficiency programs. Due to the high level of interest in a wide variety of programs anticipated to exceed the \$12 million allocated for this portion of the Fund, the Commission decided to implement a two-phased process for selecting grantees modeled after a process employed by the United States Department of Energy (DOE) in awarding similar types of grants. The first step is a request for short pre-proposals providing a summary of each proposed project. These pre-proposals are reviewed and screened as to whether they are more likely or less likely to compare favorably to the selection criteria. The second step is the issuance of an RFP, submission of full proposals, evaluation of the proposals, and selection of grantees. This process reduces the time and resources spent by applicants in developing a full proposal that may not fulfill the Commission's objectives for the grants or for which there may not be sufficient funding. Only applicants submitting pre-proposals, whether or not the pre-proposals were "more likely" or "less likely" to compare favorably to the selection criteria, are eligible to submit full proposals.

The Commission issued a Request for Pre-Proposals (RFP-P) on March 8, 2002, inviting submission of pre-proposals for projects to develop or improve the quality or application of energy efficient technologies and to create and/or expand the market for such technologies. The RFP-P stated that preference would be given to projects that have a positive impact on the energy efficiency and economy of Michigan. Pre-proposals were due in the Commission offices on March 25, 2002. Sixty-nine organizations submitted 110 pre-proposals requesting over \$125 million in funding. Commission Staff reviewed the pre-proposals with Staff from the CIS Energy Office and DOE. Twelve pre-proposals requesting over \$20 million were determined to be “more likely to compare favorably to the selection criteria.” The full Request for Proposals for up to \$12 million in grants was issued on May 16, 2002; proposals must be filed with the Commission by June 14, 2002.

### **Low-Income Energy Efficiency Grants**

The final RFP issued by the Commission this program year seeks proposals to provide conservation and energy efficiency measures targeted toward reducing the usage and bills of low-income customers. This RFP was issued on May 31, 2002; proposals are due on June 28, 2002. Grant awards totaling \$5 million are available to public, private, and non-profit organizations. Preference will be given to organizations with experience providing these types of programs, an existing administrative structure capable of handling additional distribution activities, and the ability to handle provision of services statewide.

### **Evaluation**

The Commission is requiring grantees to provide data on program accomplishments and problems encountered in completing grant requirements. The Commission will use this information to determine if the grantees accomplished the objectives stated in their proposals and resulting grant agreements and to assess if and how the distribution of funds should be modified in the coming years. The Commission’s ability to monitor distribution of funds and make necessary modifications may be jeopardized if the legislature “carves out” portions of the Fund for specified groups or purposes, as has been proposed in various budget bills.

### **Conclusion**

During the first year of the program, the Commission received legislative authorization to disburse the funds near the end of September 2001. The Commission believed it necessary to receive public input as to how the Fund should be administered prior to issuing the first RFPs. Therefore, by the time the RFP was issued for low-income energy assistance projects, the heating season was underway. Since funds are accrued on a monthly basis, before RFPs for the low-income energy efficiency and energy efficiency programs benefiting all customer classes could be issued, there had to be an accrual of

monies in the Fund sufficient to cover the grants. The delay experienced during the start-up of the program during Fall 2001 should not recur now that the process has been established. However, the ability to issue RFPs and award grants will continue to be a staggered process dependent in part on the availability of the funds and the extent to which specific groups or purposes for the Fund are designated in budget bills.

Attachment B contains the most recent CIS financial statement regarding the accrual and disbursement of the Fund. To date, \$44,153,417 has been contributed to the Fund. Low-Income Energy Assistance grants have been approved for \$27,401,771. The Commission plans to award \$12 million in Michigan Energy Efficiency Grants and \$5 million for Low-Income Energy Efficiency Grants. Once these grants are awarded, and assuming continued authorization, deposits made to the Fund during the summer of 2002 will be used to fund the Low-Income Energy Assistance grants in the fall. As additional funds accrue, the second round of RFPs for the Low-Income Energy Efficiency Grants and Michigan Energy Efficiency Grants will be issued.

ATTACHMENT A

LOW-INCOME ENERGY ASSISTANCE GRANTS  
SUMMARY OF PROPOSALS

## Low-Income Energy Assistance Grants Summary of Proposals

ORGANIZATION	AMOUNT REQUESTED	AMOUNT AWARDED
<b>Family Independence Agency – Home Heating Credit and Special Needs</b>	\$12,000,000	\$16,000,000
<b>Family Independence Agency – State Emergency Fund</b>	\$3,000,000	\$3,000,000
<b>Salvation Army</b>	\$14,374,318	\$3,000,000
<b>Michigan Community Action Agency Association</b>	\$3,110,000	\$3,110,000
<b>Newaygo County Community Services</b>	\$45, 675	\$45, 675
<b>Wayne Metropolitan Community Action Agency</b>	\$212,987	\$212,987
<b>Leslie Outreach</b>	\$34,109	\$34,109
<b>The Heat and Warmth Fund</b>	\$6,000,000	\$2,000,000
<b>Grand Rapids Urban League</b>	\$50,000	0
<b>Downriver Community Conference</b>	\$1,500,000	0

ATTACHMENT B

LOW-INCOME AND ENERGY EFFICIENCY GRANTS  
FISCAL YEAR 2002

**Low-Income and Energy Efficiency Fund Grants  
Fiscal Year 2002  
As of 5/01/02**

<b>PAYMENTS:</b>	<b>ADPICS Mail Code</b>	<b>Amount Approved</b>	<b>Amount Disbursed</b>	<b>Balance</b>	<b>S/D # 631</b>
<b>Grantee</b>					
Michigan Community Action Agency Association	002	3,110,000.00	1,632,789.70	1,477,210.30	W2017804
Salvation Army	010	3,000,000.00	3,000,000.00	0.00	W2016878
Heat and Warmth Fund	001	2,000,000.00	2,000,000.00	0.00	W2015674
Newaygo County Community Services	007	45,675.00	45,675.00	0.00	W2015671
Wayne Metropolitan Community Action Agency	002	212,987.00	212,987.00	0.00	W2017058
Leslie Outreach, Inc.	001	34,109.00	34,109.00	0.00	W2015668
Family Independence Agency (FIA):					
Supplemental Home Heating Credits		12,000,000.00			
State Emergency Fund		3,000,000.00			
Energy Assistance Special Needs and Priorities		4,000,000.00			
Total FIA		19,000,000.00	3,167,000.00	15,833,000.00	GQ001883
Total Grants Authorized//Paid/Balance		27,402,771.00	10,092,560.70	17,310,210.30	

<b>RECEIPTS:</b>	<b>Date Rcvd</b>	<b>Amount</b>	<b>Total Receipts</b>	<b>S/D #</b>
	3/6/2002	27,400,000.00	27,400,000.00	GA004566
	4/4/2002	13,329,738.00	40,729,738.00	GA004635
	5/6/2002	3,423,679.00	44,153,417.00	GA004722

Total Authorization, PA 119 of 2001, Sec. 106	60,000,000.00
Total Amount of Grants Obligated to Date	(27,402,771.00)
<b>Unobligated Authorization Balance</b>	<b>32,597,229.00</b>
Revenue Collected to Date	44,153,417.00
Revenue Disbursed to Date	(10,092,560.70)
Revenue Obligated but not Disbursed to Date	(17,310,210.30)
<b>Revenue Available to fund Additional Grants</b>	<b>16,750,646.00</b>