

**Draft of the Upper Peninsula Energy Task Force
Committee Recommendations
Part I – Propane Supply**

Department of Environment, Great Lakes, and Energy

March 20, 2020

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Gov. Whitmer forms U.P. Energy Task Force

On June 7, 2019, Governor Gretchen Whitmer issued Executive Order 2019-14, noting that Upper Peninsula residents were incurring some of the highest electricity rates in the nation. The Governor directed the U.P. Energy Task Force to consider all available information and make recommendations that ensure the U.P.'s energy needs are met in a manner that is reliable, affordable, and environmentally sound. Her goal was the development of policies that would lead to the implementation of real energy solutions to rein in high rates and provide relief to hardworking U.P. residents.

The charge to the Task Force from E.O. 2019-14 is as follows:

1. Assess the U.P.'s overall energy needs and how they are currently being met.
2. Formulate alternative solutions for meeting the U.P.'s energy needs, with a focus on security, reliability, affordability, and environmental soundness. This shall include, but is not limited to, alternative means to supply the energy sources currently used by U.P. residents, and alternatives to those energy sources.
3. Identify and evaluate potential changes that could occur to energy supply and distribution in the U.P.; the economic, environmental, and other impacts of such changes; and the alternatives for meeting the U.P.'s energy needs in response to such changes.

The Executive Order is attached as Appendix I.

A list of presentations and listening sessions is attached as Appendix II.

Part I of the report focuses on the short-term steps the state could take in reaction to a disruption of propane supply to Michigan customers. Part II of the report will evaluate the U.P.'s energy needs through a broader lens to ensure the U.P.'s energy needs long-term are met in a manner that is reliable, affordable, and environmentally sound.

Part One of a Two-Part Process

When Gov. Gretchen Whitmer established the U.P. Energy Task Force, she noted that residents of the Upper Peninsula “deserve an energy supply that is affordable, secure, and environmentally sound.” Gov. Whitmer asked the Task Force to come up with recommendations to meet those goals by first analyzing the use of propane in the U.P. and what a disruption of supply could mean to residents and businesses.

Michigan is near the top of the list of states in terms of overall propane consumption, but our residential use leads the nation. Altogether, 489 million gallons of propane are consumed annually in Michigan and more than three quarters of that is used by residential customers.

The Governor challenged the Task Force to formulate alternative solutions for meeting the U.P.’s energy needs, specifically what would happen if there was a disruption of propane supply and what mechanisms can be put in place to blunt the impact of an interruption in service.

This Task Force’s report, **Draft of the Upper Peninsula Energy Task Force Committee Recommendations: Part I – Propane Supply**, makes 14 recommendations for action by the Governor, Legislature, and state agencies to better track and anticipate supply and demand, minimize disruption impact, and provide a more cohesive plan for those who are disproportionately impacted by high energy costs in the U.P.

Our findings were shaped not only by the expertise of the Task Force members but also the comments of invested stakeholders who made presentations before us and the members of the public who attended our nine meetings throughout the U.P. or submitted comments online. We value that input and thank everyone who participated and offered valuable insight into the challenging U.P. energy space.

I would also like to thank the members of the Task Force for taking time out of their busy days – and being accessible all hours of the day and on weekends – to participate in this important venture.

We recognize that the state will play a limited role in reacting to a supply disruption due to the unregulated nature of propane markets. But we believe that our recommendations, if adopted, will move us in the right direction in a collaborative partnership with all stakeholders.

Our work isn’t finished. We will meet again next month to begin a deeper dive into the full energy landscape and how the pieces can fit together so all parts of the state can take advantage of the energy revolution that is taking shape. The Task Force’s next report is due in a year, but there is much work to be done as we closely examine the U.P.’s energy needs beyond propane.

Liesl Eichler Clark

Chairperson, U.P. Energy Task Force

Director, Michigan Department of Environment, Great Lakes, and Energy

U.P. Energy Task Force members

Name	Role/Title
Liesl Eichler Clark	Director, Department of Environment, Great Lakes, and Energy (UPETF Chairperson)
Mike Prusi	U.P. Resident (UPETF Vice Chairperson)
Tanya Paslawski	President, Michigan Electric and Gas Association of Lansing; Exec. Director of MISO States, Inc. (UPETF Secretary)
Kristopher Bowman	President, Bowman Gas Company
David Camps	Owner/Operator, Blue Terra Energy, LLC
Mike Furmanski	Electrical Superintendent, City of Escanaba
Tom Harrell	U.P. Resident
Jennifer Hill	Marquette City Commissioner, contractor with Citizens Utility Board of Michigan
Douglas Jester	Partner, 5 Lakes Energy
Aaron D. Johnson, P.E. ¹	Region Engineer, Michigan Department of Transportation - Superior Region
James Kochevar	General Manager, Cleveland Cliffs
Michael Larson	UP Operations Manager, Michigan Energy Options
Mike Nystrom	Executive VP/Secretary, Michigan Infrastructure & Transportation Assoc.
Anthony Retaskie	Exec. Director, UP Construction Council
Maj. General Paul Rogers	Adjutant General and Director, Department of Military and Veteran Affairs
Dan Scripps ²	Commissioner, Michigan Public Service Commission
Dr. Roman Sidortsov	Assistant Professor of Energy, Michigan Technological University
Chris Swartz	President, Keweenaw Bay Indian Community; tribal council member
Tonya Swenor	Program Manager, Superior Watershed Partnership

¹ Michigan Department of Transportation Director Paul Ajegba's designee

² Michigan Public Service Commissioner Sally Talberg's designee

Draft Report and Recommendations

Section I – Assess the U.P.’s overall energy needs and how they are currently being met

At the August 5, 2019, meeting of the Task Force, Dr. Richelle Winkler, Associate Professor of Sociology and Demography at Michigan Technological University in Houghton, gave a presentation on the demographics of the Upper Peninsula. Her presentation covered demographic trends which provided valuable background information and insight of changes to watch going forward when considering energy needs. The following is a summary of a few of the high points from her presentation which can be found on the U.P. Energy Task Force website along with all the other presentations to the Task Force.³

Approximately 300,000 people live in the Upper Peninsula in an estimated 130,000 households. Interestingly, between 1900 and today that number has been relatively stable, with a peak population of around 330,000 in the 1920s. The population has been steadily declining since around the year 2000 and is expected drop by an additional 13,000 by 2040. The region’s overall population is also aging with those 75 and older projected to double in the coming years.

In general, population is dropping in the more rural areas and rising slowly in the more urban areas. Only two of the U.P.’s 15 counties – Marquette and Houghton – saw population increases between 2000 and 2017. Most new housing starts are seasonal homes located in the same rural areas that are losing population.

Following the January 2019 Polar Vortex, Gov. Whitmer asked the Michigan Public Service Commission to perform a State Energy Assessment (SEA), the results of which were presented to the Task Force in July 2019.⁴ Part of the SEA addressed propane and noted that propane usage among customers in the U.P. counties ranged from at least 10 percent of the market to more than 25 percent. It noted approximately 23,000 U.P. households use propane with a total consumption of 22.8 million gallons annually, according to the federal Energy Information Administration and the U.S. Census Bureau’s American Community Survey.

Among the State Energy Assessment’s recommendations regarding propane was to create an annual retail propane survey to monitor market trends and continue to promote the use of pre-buy and lock-in price programs to reduce price volatility to customers. The report also notes about two-thirds of retailers surveyed had developed contingency plans since the 2013-14 propane supply disruption. It recommends building on those efforts to develop a formal contingency plan for supply and delivery of propane in the event of supply disruptions and further work with owners and operators of critical propane assets to ensure availability of propane and natural gas liquids for Michigan residents. Lastly, it noted a more accurate accounting of inflow and outflow of propane supply and storage would be beneficial and identify opportunities to boost market reliance by adding diversity of supply and additional infrastructure.

³ https://www.michigan.gov/egle/0,9429,7-135-3306_88771_93973-505034--,00.html

⁴ https://www.michigan.gov/documents/mpsc/2019-09-11_SEA_Final_Report_with_Appendices_665546_7.pdf

Nineteen utility companies, municipal electric entities, and cooperatives serve the region’s electric customers. About 18 percent of homes use propane for heat, about 58 percent use natural gas, 10 percent use wood, 9.5 percent use electricity, and the rest use other means or no means at all.

Percentage of households using Propane in each U.P. county

Upper Peninsula Counties	Households	Propane	Percentage
Alger County	3,094	811	26.2%
Baraga County	3,036	642	21.1%
Chippewa County	14,046	2,943	21.0%
Delta County	15,949	2,968	18.6%
Dickinson County	11,087	1,501	13.5%
Gogebic County	6,619	1,021	15.4%
Houghton County	13,340	1,899	14.2%
Iron County	5,327	1,339	25.1%
Keweenaw County	1,081	357	33.0%
Luce County	2,190	499	22.8%
Mackinac County	5,284	1,501	28.4%
Marquette County	26,203	3,361	12.8%
Menominee County	10,665	2,584	24.2%
Ontonagon County	2,876	794	27.6%
Schoolcraft County	3,351	853	25.5%
Michigan Statewide	3,909,509	323,130	8.3%
Total Upper Peninsula	124,148	23,073	18.6%
Total Lower Peninsula	3,785,361	300,057	7.9%

(Source: technical report, Appendix III)

An August 5, 2019, presentation to the Task Force by the Michigan Propane Gas Association showed Michigan is the largest user of propane in the United States. Every county has propane delivered to it by more than 150 different retail propane companies statewide. Michigan is first nationally in the amount of propane used for residential purposes at more than 367 million gallons annually, and second in total propane consumed at more than 489 million gallons annually. More than 9,700 Michigan farms use propane and 632,000 homes are served by propane (around 300,000 of those are second homes not included in the totals noted above). Michigan is also third in the number of propane-fueled vehicles, which use more than 30 million gallons annually. The number of school buses that use propane is 354 (of around 8,700 buses used to transport students in Michigan⁵).

⁵ <https://www.statista.com/statistics/196342/total-number-of-registered-buses-in-the-united-states-by-state/>

Section II – Formulate alternative solutions for meeting the U.P.’s energy needs

Introduction

The primary purpose of this report is to ensure the state has explored the various factors or situations that could cause a propane supply disruption for Michigan customers and to create a roadmap for actions the state could take to either avoid the disruption or to minimize the impact on residents.

The technical report which accompanies this report explores a few of the more likely ways that propane supplies into the state could be disrupted and explores how experts believe the market would react to those disruptions in order to get propane to Michigan customers. However, given limited time it is impossible to model for all the potential disruptions, especially when a combination of small and large factors occur simultaneously to create the disruption. In addition, it is difficult to model the market reaction between disruptions that are anticipated or ones in which warning signs appear prior to the actual disruption, although the technical report provides some insights in this area.

How markets react is also dependent on whether the disruption is perceived as temporary in nature versus permanent. For example, even though the Marcellus and Utica shale formation which runs from New York, through Pennsylvania and Ohio, into West Virginia has abundant quantities of propane product, limited infrastructure exists to transport the natural gas liquids found in that formation to Michigan or Sarnia. Current efforts focus on moving that product to the East Coast for export to foreign markets. If other supplies to Michigan were permanently disrupted, those efforts might be reevaluated.

Residents of the Upper Peninsula already pay above average rates to meet their energy needs. This report also outlines the framework of current assistance plans and outlines steps that could be explored to remove barriers to accessing those plans or redesign them in a manner to better meet the needs of U.P. residents.

Evaluating potential changes in energy supply and distribution

Storage Capacity

Michigan has the third largest propane storage capacity in the country behind only Kansas and Texas. Overall, it has more than 585 million gallons of storage, the vast majority of which is in underground facilities in the Lower Peninsula. Michigan has about 12 million gallons of above-ground storage capacity, around 1.5 million of which is located in the Upper Peninsula. Storage at residential homes across the state amounts to approximately 128 million gallons, with around nine million of that located in the Upper Peninsula.

Michigan’s substantial storage capacity for propane does buffer it from potential propane supply disruptions. Since the disruption that occurred in 2013-14, significant new storage capacity has also been added across the state. The state has on a regular basis engaged in marketing efforts to

encourage residents to fill their propane tanks during the summer and fall months when propane is commonly less expensive.

However, the storage capacity in the Lower Peninsula is considerably greater than that in the Upper Peninsula and exceeds the annual propane use of the Lower Peninsula's customers. In comparison, the Upper Peninsula's commercial storage represents only about six percent of that region's annual use. With more than nine million gallons of customer storage, and 1.5 million gallons of commercial storage in the Upper Peninsula, simply having all residential and commercial tanks filled at the beginning of the heating season would significantly increase the Upper Peninsula's reserve margins and buffer it against potential disruptions.

It is important to note the cost of propane could rise if wholesalers and retailers of propane change their current practices regarding filling tanks, and/or construct and use additional storage. Therefore, any evaluation of incentive programs must balance the reduced risk of future price increases associated with additional storage with the added costs that could be incurred and passed through to the ultimate customers.

Recommendation 1: The Legislature should explore creation of a customer storage incentive program designed to encourage propane retailers to work with their customers to maximize the amount of propane in customer storage at the beginning of and throughout the heating season.

Recommendation 2: The Legislature should explore a wholesalers and retailers storage incentive program to encourage wholesalers and retailers to create more propane storage capacity. In order to avoid creating a disadvantage for companies that made early investments in this area, the incentive could be designed to focus on the relationship between a company's annual sales and its storage capacity.

Recommendation 3: The Department of Technology, Management and Budget should explore whether the state could contract for propane in a manner that would create the equivalent of a strategic propane reserve to be used in case of a disruption.

Supply Infrastructure

Beyond added storage capacity, a number of presentations to the Task Force and public comments noted the value of improvements in rail infrastructure to make the propane supply more resilient during potential disruptions.

Until recently, only one wholesale propane provider operated facilities in the Upper Peninsula. Plains Midstream Canada operated the propane fractionator, which processed natural gas liquids taken from Line 5 into propane, in Rapid River. They also had one rail-based facility in Kincheloe. That facility was recently sold to NGL Supply Terminals (a U.S. subsidiary of NGL Supply, a Canadian company). Upon purchase of the facility, NGL announced in a press release its intention to invest \$1 million to upgrade the facility in 2020.

In addition, at least two propane retailers can receive propane via rail in Gulliver and Gladstone. To receive propane by rail, a location must be served by a rail line approved for hazardous substances and have offloading capabilities.⁶ The Upper Peninsula consumes approximately 34 million gallons of propane per year, about 78 percent of that for residential purposes. Of the amount used by residents, between 60-70 percent represents home heating and is therefore affected by seasonal weather variations. In an extremely cold winter, residential use can increase by about 20 percent.

When the flow of the Cochin Pipeline was reversed in 2014, Central Wisconsin focused on rail infrastructure and additional storage capacity to compensate for the loss of pipeline delivery of propane and natural gas liquids. Increasing Michigan's capacity to use rail for propane delivery could diversify the Upper Peninsula's propane supply sources.

Presenters offered the Task Force a variety of possible alternatives: Additional storage buildout at the existing terminal in Kincheloe, building out railroad lines to use existing storage capacity at the Rapid River fractionating facility, rail upgrades for potential delivery to new locations, or building new storage along existing U.P. rail infrastructure. The Freight Economic Development Program within the Michigan Department of Transportation assists new or expanding rail customers with up to 50 percent of the costs associated with rail infrastructure on their property, such as rail spurs. During normal operations, retailers are required to empty a rail car within 48 hours of arrival at their location. Additional days result in a surcharge being assessed to the retailers.

In terms of propane system resiliency, trucking and rail each have some challenges. Trucking is susceptible to bad weather, which could create bottlenecks especially during polar vortex events. An energy emergency declaration was used during the 2013-14 disruption focused on trucking regulations impacting fuel deliveries, extending the numbers of hours drivers are allowed to operate their vehicles when traveling extended distances to obtain product.

The technical report spends considerable time exploring how rail is currently utilized to supply propane throughout Michigan and the role it can play in the case of a supply disruption. Although extreme weather events can impact rail operation, it's not commonly to the extent trucking could be impacted. Unfortunately, as oil and gas production has increased in North America, using rail to transport product to refineries or end customers, so have rail accidents increased.

In general, Michigan benefits from the use of multiple modes of supply for propane. If any one of those supply methods is disrupted, the others take on added importance to avoid impacts on Michigan propane customers. It is important to remember that many of the supply-related steps that the state could take would require significant lead time to implement.

Recommendation 4: The Legislature should review the Freight Economic Development Program to determine if any program revisions are needed to encourage greater capacity for

⁶ https://www.michigan.gov/documents/mdot/MI_Rail_Map_553909_7.pdf

receiving propane delivery by rail and diversifying our supply infrastructure to protect Michigan consumers.

Recommendation 5: The Michigan Department of Transportation should review the ratings of Michigan rail lines provided by the rail carriers and, if necessary, make a recommendation to the Legislature about any needed rail line upgrades to facilitate propane distribution. In addition, MDOT should inventory spur lines located in the Upper Peninsula to determine if some of those could be used to park propane rail cars in the case of an energy emergency.

Monitoring of market conditions and early warning signs of potential disruptions

In the case of the 2013-14 propane shortage, warning signs were noted as early as the fall that potential supply and distribution problems could be developing. Those warning signs could include infrastructure planned outages (fractionators, pipeline, or rail), regional propane storage supplies, and weather trends. The MPSC, in its Statewide Energy Assessment, recommended an annual propane market survey to compliment other efforts to better track the propane industry and any changes that might lead to supply disruptions.

Recommendation 6: The MPSC should identify and monitor factors that can cause or contribute to a propane shortage or disruption that could potentially affect Michigan customers. In addition, we recommend the MPSC develop specific steps that would be taken by the state in response to warning signs they are monitoring. To the extent that identified significant factors are not required to be reported to a government agency, the MPSC should make recommendations to the Legislature or the appropriate agency of the nature of the information and the value of potentially requiring additional disclosure. In addition, if the MPSC has sufficient information but no authority to take necessary actions, it should make a recommendation to the Legislature regarding the need and value of additional authority.

Addressing the high cost of energy in the Upper Peninsula

Due to its rural nature and the fragmented nature of energy providers in the Upper Peninsula, energy costs are generally higher than statewide averages.

Despite overall improvement in employment and gains in median income, the economic recovery in Michigan has been uneven. Around 14 percent of Michigan households live below the poverty line (2017). However, another 29 percent, although employed, do not earn enough to afford basic household necessities. This situation is outlined in a study called the ALICE project.⁷ ALICE stands for Asset Limited, Income Constrained, Employed. Unfortunately, the number of families falling into this category is growing. The cost of providing for basic needs

⁷ <https://www.uwmich.org/alice>

increased by 27 percent between 2010 and 2017. When families who live with income below the poverty line are added into those in the ALICE category, Michigan's statewide average is 43 percent. In the Upper Peninsula that number is 48 percent, with six counties having more than one half of their residents with insufficient income to afford basic necessities.

Assistance Programs

Some of the programs discussed below are being reviewed with input from the impacted stakeholders. The final recommendations will outline those efforts and any outcomes that have been achieved to-date.

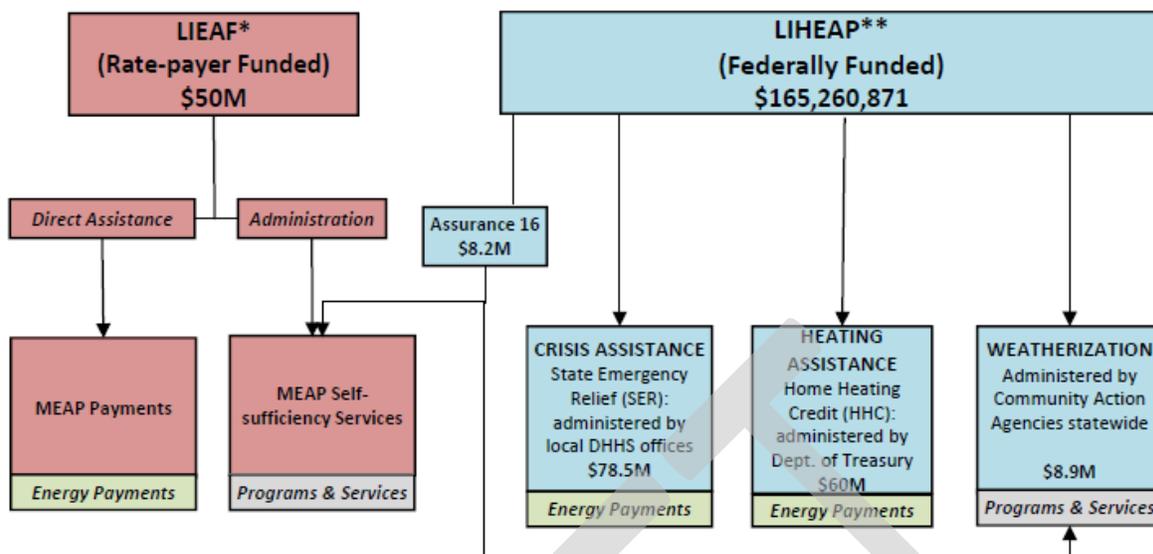
Federal Low-Income Home Energy Assistance Program (LIHEAP) funds are split between the Home Heating Credit, State Emergency Relief (bill payment assistance) and the Weatherization Assistance Program (WAP).

The Home Heating Credit is available to all eligible households. The Michigan Department of Treasury determines eligibility and makes the payments based on income, the number of dependents, and the heating costs for the home. Residents do not need to file a state income tax return to receive the Home Heating Credit.

State Emergency Relief (SER) payments is a crisis intervention program that provides services such as payment for heating fuel, electricity, and home repairs. Eligibility is based on demonstrating an immediate need, or declared need for a deliverable fuel such as fuel oil, or a verified need for energy related home repairs, as well as income and assets.

- Heating fuel has an annual maximum of \$350 to \$1200 depending on the fuel type. The maximum payment may change based on available funding.
- State energy-related home repairs have a \$1,500 lifetime limit per household.

The Michigan Energy Assistance Program (MEAP) is a statewide program that provides energy assistance and self-sufficiency services to eligible low-income households. Self-sufficiency services include assisting participants with the following: paying their energy bills on time; budgeting for and contributing to their ability to provide for energy expenses, which may include enrollment into an affordable payment plan; and using energy services to optimize on energy efficiency.



* Low Income Energy Assistance Fund

** Low Income Home Energy Assistance Program

Funding for programs is raised through a surcharge on electric bills called the Low-Income Energy Assistance Fund (LIEAF). Each year, utilities are required to tell the MPSC if they will participate in the program and assess the surcharge. An electric utility or cooperative can decline to participate in the program. In exchange for enrolling in the program and having their customers be eligible for assistance, the utility forfeits its right to shut off a customer’s electricity during the winter months. Three counties in Michigan have no providers participating in the program: Dickinson, Luce, and Chippewa. All three are in the Upper Peninsula.

Around 950,000 households were eligible for assistance in 2018 and slightly more than one half of them received assistance.

The SER program offers support when a family is considered to be in “crisis.” In the case of propane users, they are considered to be in a crisis if their propane tank is less than 25 percent full and they have insufficient funds to refill the tank. A propane customer eligible for assistance has their tank filled on an as-needed basis. That type of customer commonly pays more per gallon of propane than customers who pre-pay for their fuel or are on monthly payment plans. Ultimately, it costs the customer and the state more money to provide the assistance.

Recommendation 7: The Department of Health and Human Services (DHHS) should review assistance programs to determine if families in need could be identified in advance and their support crafted to allow them to participate in lower cost budget plans offered by propane retailers and have the state assist with payments, when necessary.

Recommendation 8: The Department of Technology, Management and Budget (DTMB) should work with the DHHS to determine if the state could contract for propane in such a way as to have a resident's tank filled on a state account and therefore potentially at a lower cost.

Michigan's Weatherization Assistance Program is a federally funded, low-income residential energy conservation program. The program provides free home energy conservation services to low-income homeowners and renters. These services reduce energy use and lower utility bills, thus creating more self-sufficient households. Services are typically administered by local Community Action Agencies and include:

- Wall insulation
- Attic insulation and ventilation
- Foundation insulation
- Air leakage reduction
- Smoke detectors
- Dryer venting

Many homes are ineligible for weatherization assistance due to related structural defects (such as the need for a new roof). The lack of funding available through WAP can make more than half the homes that apply for assistance ineligible for weatherization assistance in some communities. That can have an outsized impact on propane users as they pay about twice as much as natural gas customers to heat their homes.

Many assistance and weatherization programs are run by community action agencies that need to navigate a maze of federal, state, and utility program eligibility requirements that provide support for similar services.

Recommendation 9: The Legislature should increase funding for weatherization to help reduce long-term resources needed by low-income customers to pay utility bills.

Recommendation 10: The Legislature should engage the Michigan Propane Gas Association about the potential of levying a small surcharge on propane fuel to target a weatherization program focused on propane users in Michigan.

Recommendation 11: The Legislature should establish a fund designated to pay for basic home repairs needed to make a residence eligible for federal, state, and utility-sponsored weatherization assistance.

Recommendation 12: The MPSC should require one standard application for use by all regulated utilities for customers seeking weatherization and/or bill payment assistance and to the extent possible require utilities that serve the same location to harmonize their eligibility requirements.

State Contracting for Propane

The state currently contracts for propane through one single provider to serve state facilities across the state. The contract set forth a base price based on the closest supply hub and includes a defined mark up for transportation, profit, and related costs. Various presenters before the Task Force raised questions about whether the state contract could be structured to serve other purposes.

Recommendation 13: DTMB should explore whether it can revise the method by which it contracts for propane, to potentially go beyond just serving to supply state facilities, and provide other benefits associated with added storage capacity or serving low-income residents eligible for bill payment assistance as discussed in other portions of this report.

Consumer Protection

The sale of propane is an unregulated market. Some propane pricing information is available from the federal Energy Information Administration (EIA) (the raw data for which is collected by MPSC staff). However, it is based on averages that may not be representative of Michigan or capture the variety of pricing programs offered by different propane retailers.

The Task Force heard a presentation from an Assistant Attorney General outlining challenges under Michigan law in the propane area. The Michigan Consumer Protection Act only applies when one seller of a good or service charges a price that is grossly in excess of what other sellers are charging at the same time. This language significantly limits the application of Michigan's consumer protection law to a wholesaler who engages in price gouging, or to retailers if they act in concert or at least in a similar manner to a real or perceived shortage of propane.

Unlike Michigan, Wisconsin has consumer protection legislation that applies when an "emergency" has been declared and ensures that the prices charged to customers reflect the actual costs incurred by propane providers plus a reasonable and customary profit.

Recommendation 14: The Legislature should explore adopting fuel price gouging legislation, using the Wisconsin law as a potential model.