



Legislative Fiscal Bureau

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August 4, 2009

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Administration: Governor's Section 13.10 Requests for the Use of Federal Economic Stimulus Funding for Energy Star Rebates -- Agenda Item XXIII

REQUEST

The Governor has submitted a request dated July 22, 2009, for the approval of the use of federal stimulus funding for Energy Star Rebates. The Governor has asked for approval of \$5,600,000 in 2009-10 under the FED-continuing federal aid appropriation [s. 20.505(1)(mb) of the statutes].

BACKGROUND

The Department of Administration (DOA) indicates that the Office of Energy Independence (OEI) will receive \$5.6 million for the expansion of the Energy Star Rebate program. The current Energy Star Rebate program is operated through Focus on Energy, which is the statutorily established program in which the Public Service Commission (PSC) oversees energy efficiency and renewable resource programs that are administered by the private sector. The current Energy Star rebate program is administered by the Wisconsin Energy Conservation Corporation (WECC).

Current funding for energy efficiency and renewable resource activities is provided through a statutory requirement that each of the state's investor-owned utilities spend an amount equal to 1.2% of their annual operating revenues on such programs. The PSC may require utilities to expend additional amounts, if approved by the Joint Committee on Finance. Retail electric cooperatives and municipal utilities are not required to participate in the energy efficiency and renewable resource programs. Instead, they are required to create commitment to community programs with the goal of achieving environmentally sound and adequate energy supplies at a reasonable cost. However, retail electric cooperatives and municipal utilities may participate in the statewide energy efficiency and renewable resource programs, as an alternative to commitment to community

programs.

ANALYSIS

On July 14, 2009, the U.S. Department of Energy (DOE) issued a funding opportunity announcement in which states were invited to apply for federal economic stimulus formula grants for rebates on energy efficient appliances. The initial application is due August 15, 2009, and a full application is due on October 15, 2009. The initial application is a statement of each state's intent to participate, which initiates an award of 10% of the state's allotment. States will receive the remaining 90% upon completion of the full application. The amount provided to each state is based on state population. Under the DOE formula, Wisconsin would receive \$5.4 million, or \$200,000 less than the authority requested by DOA (\$5.6 million). The Commission indicates that the \$5.6 million request was based on an earlier federal estimate of Wisconsin's proportion of the Energy Star grants. This analysis, therefore, assumes that the request is for increased expenditure authority of \$5.4 million rather than \$5.6 million.

According to the funding opportunity announcement, awards could be used for the full cost of the rebates and up to 50% of the administrative costs. The rebates are to begin in Fall, 2009. All funding must be used by February, 2012. The rebate program plan must include a budget outlining disbursement of consumer rebates by product type and the administrative costs. The application should also specify the rebate amount, the way in which the rebates will be processed, and whether product replacement or recycling would be included in the program. Administrative costs include design of program, fund disbursement, outreach, and monitoring. Based on the federal announcement, 10% to 25% of the total program costs should be administrative.

The federal DOE recommends the following products for rebates: (a) boilers; (b) central air conditioners; (c) clothes washers; (d) dishwashers; (e) freezers; (f) oil and gas furnaces; (g) air source and geothermal heat pumps; (h) refrigerators; (i) room air conditioners; and (j) water heaters. The DOE further recommends that the rebate program should be focused on residential appliances that provide the greatest savings potential.

Under the current Focus on Energy program, rebates are available for energy efficient products as follows: (a) \$150 for gas furnaces; (b) \$400 for gas boilers; (c) \$100 for air conditioners that are installed with qualifying furnaces; (d) \$50 to \$100 for water heaters; and (e) up to \$25% of the cost of solar water heaters.

The Office of Energy Independence and PSC are in the process of creating a plan to submit to DOE related to the July 14, 2009, announcement. It is unknown, at this time, the type of products or the rebate amount that may be offered under this proposal. It is also unknown how much of the funding would be used for administrative purposes by either the OEI or PSC. The Commission states that the rebates would likely be offered on a statewide basis and that the rebates would be on a first-come, first-serve basis. The Commission would likely continue the rebates until funding was near exhausted, at which time it would establish an end date for the rebates. At this time, it is also unknown whether this program would be administratively tied to current Energy Star Rebates offered through Focus on Energy. The Commission points out that there could be administrative

savings in marketing and outreach costs if current administrators could be used.

Given that the initial applications are not due until August 15, 2009, and full applications until October 15, 2009, the Committee could consider approving \$540,000 at this time, which would allow the Commission to expend the 10% that would be awarded with the initial application. The Department and the Commission could request additional expenditure authority once the full request has been developed (late September to early October) which would allow the Committee to review the rebate program to determine whether appropriate amounts would be spent on various administrative functions and whether appropriate appliances would be targeted. Alternatively, the Committee could approve the full amount and allow OEI and PSC to determine the use of the federal funds, which would still be limited by federal guidelines.

The State Budget Office indicates that the appropriation authority was requested under DOA because OEI would be responsible for submitting the federal application. It is likely that OEI and PSC will have some administrative costs relating to staff resources dedicated to filing the application, vendor oversight, data collection, and submitting updates to the federal government about the use of federal stimulus funds.

It is not known at this time how these administrative duties will be divided between the agencies and the amount of funding that will be allocated to those duties. However, it is likely that PSC would make payments either directly or through a vendor for the actual rebates. It could also be argued that since a majority of the expenditures would likely be made through PSC, funding should be approved under the Commission's FED-continuing federal funds appropriation [s. 20.155(1)(m) of the statutes] rather than the Department of Administration's federal aid appropriation.

Finally, as noted above, Wisconsin has not, to date, submitted a request to DOE, and the state has not yet received federal funding. Therefore, the request before the Committee may be reviewed as premature. The Committee could, therefore, deny the request at this time.

ALTERNATIVES

1. Approve \$5,400,000 FED in 2009-10 of federal economic stimulus funds for Energy Star Rebates under the Department of Administration's FED-continuing federal aids appropriation [s. 20.505(1)(mb) of the statutes].

2. Approve \$540,000 FED in 2009-10 of federal economic stimulus funds for Energy Star Rebates under the Department of Administration's FED-continuing federal aids appropriation [s. 20.505(1)(mb) of the statutes].

3. Modify Alternatives 1 or 2 to specify that funding would be approved under the Public Service Commission federal funds appropriation [s. 20.155(1)(m) of the statutes].

4. Deny the request.

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