



Legislative Fiscal Bureau

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September 29, 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 I

REQUEST

The Governor has resubmitted a request dated September 23, 2009, for the approval of the use of federal stimulus funding for Energy Star Rebates. The Governor has asked for approval of \$4,860,000 in 2009-10 under the FED-continuing federal aid appropriation [s. 20.505(1)(mb) of the statutes].

BACKGROUND

On July 22, 2009, the Department of Administration (DOA) through the Office of Energy Independence (OEI) had initially requested expenditure authority of \$5.6 million for the expansion of the Energy Star Rebate program. Based on updated information, the Committee was informed that the state was eligible for up to \$5.4 million, 10% of which would be available upon submission of an initial application (an intent to apply for energy efficient appliance rebates) that was due on August 15th, and the remaining 90% upon completion of a full application which is due on October 15th. On August 4th, the Committee approved expenditure authority of \$540,000 FED, which coincided with the 10% the state would receive upon stating its intent to apply for funding. The delay in the remaining funding allowed OEI and the Public Service Commission (PSC) an opportunity to determine the scope of the rebate program.

The current Energy Star Rebate program is operated through Focus on Energy, a statutorily established program under which 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). While Focus on Energy administered programs are limited to public utilities, and municipal utilities and retail electric

cooperatives that opt into the Focus on Energy programs (municipal utilities and retail electric cooperatives may choose to run their own energy efficiency and renewable resource programs), these rebates would be available for all Wisconsin residents.

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 was due August 15, 2009, and a full application is due on October 15, 2009. The initial application was a statement of each state's intent to participate, which initiated an award of 10% of the state's allotment. The Office of Energy Independence filed the initial application on August 13, and the state received notice of fund availability for the initial 10% on September 2, 2009. States are eligible to receive the remaining 90% upon completion of the full application, which is anticipated to be completed by the end of September. The amount provided to each state is based on state population. Under the DOE formula, Wisconsin would receive a total of \$5.4 million.

According to the funding opportunity announcement, awards could be used for the full cost of the appliance 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 Governor's request states that a total of \$429,700 would be used for administration, including \$32,400 FED for OEI and \$397,300 for Focus on Energy. This would be matched by an equal amount of administrative funds or in-kind services from Focus on Energy funds. The remaining \$4,970,300 of federal stimulus funds would be used for rebates.

	<u>Department of Energy</u>	<u>State Match</u>	<u>Total</u>
Administration			
Office of Energy Independence	\$32,400	\$32,400	\$64,800
Focus on Energy Vendors	397,300	397,300	794,600
Customer Rebates	<u>4,970,300</u>	<u>0</u>	<u>4,970,300</u>
Total	\$5,400,000	\$429,700	\$5,829,700

The Office has yet to determine the amount that would be provided to likely vendors Hoffman York (marketing) or WECC (administration), even though the current Office's budget indicates that the total would be \$794,600 (all funds). Since total administrative costs have not yet been determined and in order to ensure that the customer rebates are maximized, the Committee may wish to cap the total administrative amounts at \$859,400 (\$64,800 for OEI and \$794,600 for Focus on Energy vendors).

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 Commission's application proposal, all energy efficient product categories recommended by the federal government would be eligible for some amount of rebate. In addition, PSC is requesting authority for dehumidifiers as well as a broader array of solar water heaters. The Commission notes in its draft request the dehumidifiers are more common in Wisconsin and that energy efficient replacements could result in 90 KWh of savings per year.

The Commission has also requested that rather than meeting Solar Rating and Certification Corporation (SRCC) Operating Guidelines (OG) 300 for solar water heaters, that the system would meet the current Focus on Energy requirements for solar water heater systems (including installation) and one of the following: (a) SRCC OG-300 certification; or (b) the manufacturer, distributor, or installer must provide documentation to Focus on Energy staff that the system is in-process to receiving SRCC OG-300 certification.

The following table shows the products that would be eligible for rebates under the ARRA grant program as well as the products that are currently eligible under the Focus on Energy state program.

Proposed Appliance Rebates and Appliance Specifications

<u>Product</u>	<u>Base Specification</u>	<u>ARRA Incentive</u>	<u>Focus on Energy Incentive*</u>
Natural Gas (NG) and Liquefied Petroleum (LP) Boiler	NG, 90%, modulating burner & outdoor reset control	\$200	\$400(NG only)
Oil Boiler	85% non-modulating	200	N/A
Central Air Conditioner, Air Source & Ground Source Heat Pumps	Seasonal Energy Efficiency Ratio 15	75	N/A
Clothes Washer	Energy Star at Consortium of Energy Efficiency (CEE) Tier 3	100	N/A
Dishwasher	Energy Star at CEE Tier 2	25	N/A
Furnace -- NG/LP	NG/LP, 90%, Multi-Stage & Electronically Commuted Motor	200	150
Furnace -- Oil	85%	200	N/A
Refrigerator	Energy Star	75	N/A
Freezer	Energy Star	50	N/A
Room Air Conditioners	Energy Star	50	N/A
Dehumidifiers	Energy Star	50	N/A
<u>Water Heaters</u>			
Indirect	With ARRA qualified NG, LP, or oil boiler	150	200 (NG only)
Gas Condensing	NG/LP, Thermal Efficiency 90%	150	150 (NG only)
Electric Heat Pump		50	N/A
Gas Storage	NG/LP, .64 with power vent	150	50 (NG only)
Gas Tankless	NG/LP, .80 with power vent	150	100 (NG only)
Solar Hot Water (electric back up)	Collectors SRCC certified (or in-process), along & meets other Focus installation requirements	2,000	25% up to \$2500
Solar Hot Water (gas back up)	Collectors SRCC certified (or in-process), & meets other Focus installation requirements	2,000	25% up to \$2500

The Commission has chosen to recommend rebates for all of the federally-recommended products, stating that this method would make a greater number of individuals eligible for some type of federal stimulus funds. In addition, a greater array of retailers could receive benefits from increased customer purchases.

Another alternative would have been to target specific products that could have the effect of encouraging the purchase of energy efficient models. These targets could be based on highest returns on: (a) investment (which appliances have the highest energy savings per dollar spent); or (b) on greatest increase on market share (which products would see the greatest upswing in market share if a rebate was offered. These two targeted approaches would likely target different products but are both reflective of the goal of federal stimulus funds (encouraging reduced use of energy and increased consumer spending).

It could be argued that a program targeted at the current Focus on Energy rebate items (energy efficient furnaces and water heaters) could result in a higher energy savings per rebate dollar spent. Alternatively, the PSC and OEI proposal would allow for greater consumer choice and would still provide incentives for products that have greater efficiency gains such as water heaters and furnaces.

The Commission would primarily use mail-in rebates to determine rebate recipients. Customers would receive rebate forms directly from retailers or on-line and would be required to include a copy of the receipt. There would be no income limitations. Federal requirements limit the program to residential customers. Individuals would have 30 days from purchase in which to make a rebate request. For solar hot water heaters, customers would have to apply before installation to ensure that equipment meets program requirements and would then have 60 days to install the equipment in order to obtain the rebate. Air conditioner, refrigerator, freezer, and dehumidifier rebates (products with refrigerants) would be subject to proof of recycling the old system.

The Commission states that the rebates would be offered on a statewide basis and that the rebates would be on a first-come, first-serve basis. The Commission would continue the rebates until funding appears to be within 60 days of exhaustion at which time the resale agents would be informed that the program would end in 30 days (giving individuals another 30 days after the sale to request the rebate).

Since the Committee has already provided authority to expend \$540,000, the Committee could consider approving the remaining \$4,860,000 at this time, which would allow the OEI and PSC to expend the federal ARRA funding for energy star rebates.

ALTERNATIVES

1. Approve \$4,860,000 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 \$4,860,000 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]. Specify that rebates be provided only for energy efficient NG and LP Furnaces, NG Boilers, and water heaters.

3. In addition to Alternatives 1 or 2, specify that not more than \$859,400 of all federal ARRA and matching funds for the Energy Star Rebate program may be used for administrative costs (all non-rebate expenses).

4. Deny the request.

Prepared by: Darin Renner