



**House
Legislative
Analysis
Section**

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RESIDENTIAL ENERGY CONSERVATION

House Bill 4134 as passed by the House
Second Analysis (8-13-87)

RECEIVED

Sponsor: Rep. Thomas L. Hickner
Committee: Public Utilities

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Mich. State Law Library

THE APPARENT PROBLEM:

Public Act 211 of 1978 authorized the Public Service Commission (PSC) to approve energy conservation programs for residential consumers of gas and electric utilities. Initially, the programs consisted of interest-free loans for ceiling insulation and for some furnace retrofit devices (vent dampers or flue restrictors), as well as an Insulation Outreach Program for low income customers. An amendment to the law in 1984 added weatherstripping and caulking to the list of conservation devices, and shifted all of the costs of the program to residential utility rates, instead of spreading it over the general rate base. The act originally was to expire on June, 5, 1983, but the legislature twice extended the sunset date. However, the latest statutory expiration date was not extended in 1986, and as of December, 1986, utilities could no longer accept applications for zero-interest residential energy conservation loans.

The act has proven successful, with over 66,000 loans having been made to residential customers under the zero interest program. Many people believe that the sunset date should be extended once again and that the act should include high efficiency heating and cooling equipment among the energy conservations devices eligible for financing under the program.

THE CONTENT OF THE BILL:

The bill would amend Public Act 211 of 1978 to extend the sunset date five years (to June 30, 1992), include high efficiency heating and cooling equipment among the energy conservation measures explicitly listed as eligible for financing under the act, and require that the costs of energy conservation loan programs be included in general utility rates rather than be restricted to residential utility rates only. The bill also would make a number of changes regarding contractors covered by the act and would add fines for violations.

Public Act 211 of 1978 originally allowed the costs of conservation loan programs to be included in general utility rates, but a 1984 amendment (Public Act 378) restricted these costs to residential utility rates only. The bill would strike this restriction and instead require that the costs ("of money, bad debt, administrative costs, and the cost of residential energy audits associated with an energy conservation program") be included in general utility rates.

Under present law, customers wishing to participate in residential energy conservation programs must choose contractors from a list provided by the utility company. The bill would eliminate the utilities' lists, allowing customers to choose contractors that met the act's other requirements.

In addition, the bill would prohibit utility companies from (a) recommending specific contractors; (b) setting prices for conservation measures included in approved programs; and (c) imposing any additional requirements on a contractor other than those necessary to protect the utility from liability suits and to ensure that the contractor meets the requirements specified by the PSC rules.

Finally, the bill would make those who violated the act liable to fines of not less than \$1,000 nor more than \$10,000, which, when collected, would go to the state general fund, and it would add a "grandparent" clause allowing customers who bought conservation devices costing at least \$100 between January 1, 1987, and the effective date of the bill to get energy conservation loans from the utility companies for these devices.

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FISCAL IMPLICATIONS:

Specific fiscal information was not available. However, the Department of Commerce estimates that over \$173 million in energy savings will be realized over the lifetimes of the measures installed as a result of the programs between 1981 and 1986, and the net economic benefit to the state (in 1986 dollars) of program installations made as of the end of last year will exceed \$113 million. Extension of the current loan programs for another five years should result in an additional net benefit to the state of at least \$85 million, and the addition of new measures (such as heating and cooling equipment) would be expected to increase the net benefits of the program. (5-19-87)

ARGUMENTS:

For:

The cost effectiveness of the loan programs has been amply demonstrated and the sunset date of the act should be extended. Extending the act's sunset date to 1991 would allow the PSC to continue to authorize a sensible, cost-effective energy conservation program which benefits multiple populations in the state.

Response: A business trade group has challenged the cost benefit analysis of the Michigan Residential Conservation Services Program offered by the Department of Commerce, arguing that the department's method of calculating the economic benefits of these programs to Michigan's economy is flawed because the analysis is based on subjective assumptions regarding economic input and output multipliers for dollars spent in different economic areas. The trade group believes that the department overstates the economic benefits to Michigan's economy of money spent on conservation and ignores the total benefits of money spent on the production of primary metals, automobiles, and other industrial products.

For:

The bill would add high efficiency heating and cooling equipment to the list of conservation devices that could be financed through existing energy conservation programs. Although the act already allows energy conservation programs to provide for some energy conservation devices, services, and materials, the current programs offered by the major utilities are quite limited. The bill would encourage the utilities to expand their programs to include high efficiency furnaces and air conditioners. Some

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furnaces now on the market claim efficiency rates of up to 95 percent, as compared to most currently installed furnaces with efficiency rates of 50 to 65 percent, so energy savings could be considerable. However, the cost of high efficiency furnaces is prohibitive to many people, and the inclusion of these devices in the zero-interest loan program would make the purchase much more feasible for the average residential utility customer.

For:

The zero-interest program (ZIP) has created jobs and benefited small businesses in Michigan. According to one estimate, 570 direct jobs and over 1,400 jobs in total (including energy auditors and inspectors) have been created because of implementation of the act. Expanding the number of conservation devices eligible for the loan program to include high efficiency heating and cooling devices will create additional jobs and benefit additional businesses and the state economy as a whole.

For:

The residential energy conservation loan program curtails the energy dollar drain from the state and helps retain energy dollars in Michigan, thus benefiting the state economy as a whole. Michigan businesses and residents spent nearly \$18 billion on energy in 1982 alone, and \$8.9 billion of that money left the state to pay for imported energy resources. Since Michigan imports over 80 percent of the energy it consumes, energy conservation is vital in cutting energy costs and reducing the export of energy dollars. Extending the sunset date of the program and adding new conservation measures will only benefit all concerned.

For:

Since the utility companies themselves and business and industry benefit indirectly from residential energy savings programs, the costs of the conservation loan program should be spread among all classes of ratepayers, not just residential customers.

Although the residential customers benefit most directly from the residential energy conservation program, conservation programs work to the long range benefit of businesses, industry, and the utilities by reducing the chances of a severe energy shortage that could shut down plants. Energy Administration projections of future natural gas supplies and use suggest that shortages may occur within the next 20 years unless the rate at which new supplies are found exceeds increases in demand. Conservation is the least expensive means by which to avert a natural gas shortage. As the economy continues to grow and production increases, industrial demand for natural gas will increase. It is less expensive to reduce the demand for natural gas in the residential sector than in the industrial sector, because many industrial processes require natural gas as a fuel but are not susceptible to fuel switching or conservation. Even where conversion to alternative fuels is possible, wholesale conversion would require amounts of investment capital for retrofits and compensatory pollution control equipment that are not readily available.

Thus, successful residential energy conservation programs indirectly benefit all Michigan residents, businesses, and industries. Charging the costs of the program only to residential ratepayers increases the costs to those customers, may result in a decrease in the number of loans available (in an effort to keep costs down), and is unfair. All those who benefit from the program, whether directly or indirectly, should share in the cost of the program.

Against:

Energy prices should reflect the cost of service only.

Industrial and commercial ratepayers paid about half of the annual \$2.5 million cost of the program for its first few years, yet the program was — and remains — available only to residential ratepayers. Michigan's utility rates are already uncompetitively high, partly because of the continued addition of non-energy costs such as this subsidy program to industrial and commercial rates. Making all ratepayers pay for a program that benefits only one group directly is both unfair and bad economic policy.

Response: The program increases overall natural gas availability to the entire Michigan delivery system. As it increases natural gas supplies to the industrial sector because of savings from residential customers, utilities are able to delay the delivery of the higher-priced natural gas into the system. Thus, to that extent, all customers, including industrials, benefit from the residential conservation program, since extra natural gas "supply" from natural gas conservation is much cheaper than newly contracted supplies. Since all ratepayers benefit from this program, the costs of the program should be borne by all.

Against:

The program should be removed from the administrative control of the utilities, which have an economic disincentive to implement the most effective conservation plan. As one contractors' group pointed out, the 1984 amendment to the act gave the authorization to the utilities to expand into other areas of conservation, but they did not. In fact, the list of allowable conservation devices in present law is permissive, rather than restrictive. That is, present law already would permit high efficiency heating and cooling devices — and any number of other energy conserving "devices, services, and materials". However, not one utility company has expanded its program to include any conservation measure not specifically listed in statute, even though the law does not prohibit other measures. To leave the energy conservation program under the administrative control of the utility companies seems like leaving the proverbial fox to guard the proverbial chicken coop.

Against:

While the addition of high efficiency heating and cooling devices to the list of conservation devices is a step in the right direction, the bill does not go far enough. Other energy conservation devices (such as, for example, the relatively new, highly energy efficient "low emissivity" windows) should be added to the list of eligible devices, which currently is too restricted. In fact, program participants should be able to purchase a variety of the measures indicated in their residential energy audits to reduce their energy consumption. The potential economic benefits to the individual and to the state of an innovative and greatly expanded residential energy conservation program surely mandate such a change.

Response: Since, as noted above, the existing list of allowable residential energy conservation measures is permissive rather than restrictive, the law does not need to be changed.

Against:

The program should be abolished altogether, since it permits utility companies to compete unfairly with private commercial lending institutions. Although banks must make a profit in order to survive, utilities can price loans below the actual cost of money and then have utility customers pay for the expense. Utility companies are supposed to provide energy services, not financing for conservation measures.

Response: The program is important because it provides financing for energy conservation that is otherwise not available through existing commercial markets. The energy conservation loan program has enabled low and moderate

income homeowners and tenants to obtain loans in amounts smaller than are normally available and at lower cost than loans available through commercial lending institutions. Commercial lenders usually require a minimum loan of \$1,400 at an average interest rate of above 14 percent. The working poor do not have sufficient disposable income to buy energy conservation measures through typical commercial market mechanisms, and they do not qualify for various forms of welfare assistance which would provide energy conservation measures. A random sample survey conducted by the Energy Administration revealed that few people, moreover, regardless of income, would pursue energy conservation loans at commercial rates, while a majority of residents would apply for low or zero interest energy conservation loans.

POSITIONS:

The Department of Commerce supports the bill. (8-13-87)

Consumers Power Company supported the original bill and continues to support the bill's intent, but does not support the bill in its present form. (8-13-87)

The Michigan Heating, Ventilating and Air Conditioning Contractors Association does not oppose the bill. (8-13-87)

The Association of Businesses Advocating Tariff Equity (ABATE) opposes the bill. (8-13-87)