

Update on the Kansas Corporation Commission - Energy Division Recovery Act Programs

The Kansas Corporation Commission's Energy Division received two separate Recovery Act grants. The Energy Efficiency & Conservation Block Grant provided \$9,593,000, and the State Energy Program Grant provided \$38,284,000 for a total of \$47,876,000 in Recovery Act funds.

Energy Efficiency & Conservation Block Grant (EECBG)

The Energy Division distributed EECBG funds through four separate projects. More than 70 grants have been awarded under this program. All EECBG funds were required by the U.S. Department of Energy (DOE) to be directed to public organizations, at least 60% of which had to be local units of government). Funding for this program must be spent by October, 2012.

Renewable Energy Incentives Grant

The Energy Division awarded more than \$2 million in Renewable Energy grants to incentivize public organizations to install wind, solar, and geothermal projects. A total of 11 projects have been awarded. Included in these projects is a renewable energy demonstration project at the Kansas State Fair, which will not only provide electricity for the Administrative building, but will also serve as a visual reminder of the state's ability to lead the nation in renewable energy.

Public Projects Grant

The Energy Division awarded more than \$4 million in grants to local units of government to make energy efficiency upgrades in their facilities. Much like the Energy Division's successful Facility Conservation Improvement Program, these projects focus on much-needed improvements to the facility's infrastructure. These projects range from a \$13,000 HVAC and windows retrofit for a recreation center in Norton, to a \$300,000 lighting retrofit at Washburn University.

Energy Managers Grant

To focus on the value of energy expertise, the Energy Division awarded \$1,7 million in funds to 10 coalitions to hire Energy Managers. Coalitions are comprised of at least three local units of government that have agreed to share the services of an Energy Manager. The Energy Managers spent their first year cataloguing the energy use in the coalitions, and preparing plans to reduce energy costs in transportation, facility operation, and in the community. These coalitions are embracing the collaborative spirit, and saving money and energy as a result.

Take Charge! Challenge

This program, operated by the Climate and Energy Project (CEP) is a friendly competition among cities to see who can save the most energy per capita. This year's challenge was comprised of four regions, for a total of 16 cities. Each community was given \$25,000 to organize community events to help win the competition. Winners in each of the four regions will receive a \$100,000 grant for energy efficiency and renewable energy improvements in their communities.

State Energy Program (SEP)

The Energy Division also received the State Energy Program grant in the amount of \$38,284,000. These funds have a deadline to be spent by March 31, 2012.

Comprehensive Utility Rate Design Project

The Commission determined that it would be prudent to utilize a portion of the State Energy Program funding to launch a comprehensive and informal investigation into efficient rate design and education for consumers about the actual cost of the energy they utilize. The Commission contracted with Christensen Associates Energy Consulting (Christensen) to assist in this effort.

Christensen held a series of workshops to discuss each rate design option and the pros and cons associated with each in 2010 to provide the Commissioners and interested parties with tools to weigh the benefits of the rate design (reduced usage) against the potential costs (increased costs associated with meters if needed, potentially increased bills, etc.). Additionally, Christensen will provide information about minimizing effects on consumers through transitioning from one rate design to another.

As a part of this contract, Christensen has also provided a white paper on the impact of Electric Vehicles being added to the demand mix for electricity, and assisted the Commission in reviewing cost of service methodology of Kansas City Power & Light.

Final delivery of all reports is expected in November and December of this year. As this is an informal investigation, no formal Commission action is expected.

Efficiency Kansas

Efficiency Kansas was launched statewide on November 17th, 2009. The program offered the option to take out loans through a partner financial institution, or a partner utility. At that time, Midwest Energy was the only participating utility as they had been operating their How\$mart program, a pilot program approved by the Kansas Corporation Commission (KCC) prior to the development of Efficiency Kansas. Kansans that were not customers of Midwest Energy could participate in the program through a partner financial institution that would provide the loan, typically as a second mortgage.

Within the first six months of Efficiency Kansas, only 13 people had taken out loans. The availability of loans to customers was limited due to the Efficiency Kansas requirements, and banks required a second mortgage. These requirements, and a reluctance of customers to take on this debt, may have been due to the decline of the financial markets. Also, prior success by States with Revolving Loan Funds occurred

when market interest rates were much higher, allowing their low-interest loan to be a significant advantage to customers. Such a spread in interest rates did not exist when the Efficiency Kansas Revolving Loan Fund program was launched. Midwest Energy continued as the only partner utility, making the utility-based program available to about 50,000 Kansans until June of 2010.

One year into the operation of the program, the program was available to less than 100,000 customers until the addition of Kansas City BPU in November of 2010. The Department of Energy expressed concerns several times during 2010 about the slow pace that Efficiency Kansas was spending the money. The addition of KC BPU made the program available to customers of 18 utilities, representing about 150,000 customers. Nearly 70% of those customers were from Midwest Energy (32%) and Kansas City Board of Public Utilities (37%). By the end of 2010, Efficiency Kansas had made 137 loans for just over \$935,000 (or 1/10 of 1% penetration rate).

On January 31st, 2011, the Kansas Corporation Commission approved Westar Energy's request to participate in the Efficiency Kansas program. The delay in getting Westar on-board was due to the Commission's 240 day (required by statute) tariff approval process. Also, undecided policy issues such as decoupling increased the reluctance of utilities to participate. Westar's first loan was approved on February, 18th, and by the end of March, 2011, they had made 22 loans. The program as a whole had made just over 200 loans, for a total of \$1.39 million, with one year left in the Recovery Act Grant.

While the utility portion of Efficiency Kansas had been made available to more than 60% of the state's households, the conversion rate was disappointing; it was still lagging behind. It was clear that spending the remainder of the \$38 million was not guaranteed, and we began to further develop contingency plans to ensure the money was spent in Kansas. With 10 months left in the Recovery Act grant, the Efficiency Kansas had loaned out just over \$3 million in more than 18 months of operation.

During the 2011 Legislative session, members of the House Appropriations Committee reminded KCC Staff of the impending deadline to spend the funds, and directed that we approach the Kansas Board of Regents. In response to this, the KCC met with the Kansas Board of Regents, and \$6,875,000 was made available for projects at Universities in Kansas. Also, Department of Commerce had identified projects that needed funding. Both the Regents and Commerce projects were shovel-ready, leaving no speculation about whether the funds would be spent. These projects ensured the funds would be spent within the remaining months of the grant, and also helped the Universities address a growing list of deferred maintenance concerns. These projects are proceeding and we have enjoyed a good relationship with the Universities.

Working with the Department of Commerce, the KCC was able to identify another \$22 million in projects. After several weeks of developing these projects, the Commerce and University projects were submitted to the Department of Energy on June 17th. By the end of June, 2011, about \$6 million in ARRA funding had been officially spent of the more than \$38 million award.

Adding to concerns about spending money on time was the time it took for the Department of Energy to approve projects. The projects were officially submitted to the Department of Energy on June 17th, and

environmental approval for the first project wasn't received until August 22nd, more than two months later. Having anticipated this, we are confident that the funds will be spent within the allotted time.

Unfortunately, the timing of the Department of Energy's approval did not allow sufficient time to announce the movement of funds to auditors and customers. Consequently, about 150 customers were left with submitted applications, some of which were lagging in the submission process, that were unable to be funded (See Attachment 1). In cooperation with the Kansas Department of Commerce, \$1.5 million was made available to fund projects that had been submitted by the end of August.

Ultimately, because of the slow start of Efficiency Kansas, there was no way to ensure that the funds could be spent in their entirety without developing these alternative projects. While the grant period was a three-year period, the state's largest utility, Westar Energy, was only approved with little more than a year left. This is largely due to the 240-day regulatory process which was 8 months that customers were unable to take advantage of the program.

Additionally, the program relied upon the willingness of customers to get a second mortgage and have significant equity in their homes at a time when lending was tightening, and home values were dropping.

While additional shovel ready projects needed to be developed to ensure the funds remained in Kansas, the KCC remains committed to Efficiency Kansas. We have issued a Request for Proposals to seek a long-term funding solution to Efficiency Kansas, which closes October 19th. Across the country, states are taking similar approaches to fund revolving loan programs. This was an inevitable step whether the program spent \$3 million or \$30 million. Seeking a private-sector funding partner allows us to expand the private-sector involvement of this program, and, more importantly, provides a long-term solution limited only by the market, rather than a fixed-amount riddled with stipulations and deadlines. Additionally, a private-sector source of funding allows us to remove requirements such as Davis-Bacon, and reduce the amount of data that has to be collected that is currently only used for Department of Energy reporting.

The success of Efficiency Kansas has always been reliant on our private-sector partners. Auditors, contractors, utilities and banks have worked together to create an energy-efficiency market in Kansas. These groups support an alternative for long-term private-sector funding.

Attachment 1

Status of Efficiency Kansas Projects to be Funded

In cooperation with the Department of Commerce, \$1.5 million was made available to cover the loan requests that had been submitted to the Energy Division from the time of the announcement until the end of August, 2011.

This funding allowed the remaining 159 submitted projects to be fully funded. This funding will allow those customers that had been considering loans and followed through with the required bids and paperwork to move forward with their projects.

It is valuable to note that these projects were not all recent projects; many of these customers had their audits for some time before making the decision to move forward. Of the 159 projects:

- 28 had requested loans within 30 days of their audit being submitted to the Energy Division;
- 37 were requested between 31 and 60 days;
- 31 were requested between 61 and 90 days; and
- 63 loans were requested more than 90 days, 25 of those were more than 5 months old.

The average loan request of all of the 159 projects that will make up the \$1.5 million in additional funding was 90 days from the date their audit was originally submitted to the Energy Division for approval.

The Energy Division has submitted the request to reallocate these funds to the Department of Energy, and is currently awaiting approval of the grant revision. Immediately upon receiving approval, the Energy Division will notify auditors to verify that customers still desire to move forward. If so, the Energy Division will work with auditors and the partner lender or utility to ensure payments are made quickly, and customers can complete their projects in a timely manner. The Energy Division continues to work with the Department of Energy to ensure approval as quickly possible.



Energy Division ARRA Grant Budget

Efficiency Kansas Loan Program		\$6,462,402
\$100 Energy Audit Program		\$953,900
\$350 Audit Rebate		\$9,100
\$500 Thermal Envelope Rebate Program		\$285,000
Training Institution Incentives		\$200,000
Equipment for New Energy Auditors		\$248,055
Marketing the Revolving Loan Fund		\$500,000
Loan Fee Rebates to Lenders		\$19,750
Efficiency Kansas Database Development		\$120,000
Take Charge Challenge		\$212,262
Comprehensive Utility Rate Design		\$134,113
Building Operators Certification		\$1,700
Kansas Regents Projects		\$6,875,000
<i>University of Kansas</i>	\$1,500,000	
<i>Pittsburg State University</i>	\$975,000	
<i>KU Medical Center</i>	\$900,000	
<i>Emporia State University</i>	\$900,000	
<i>Kansas State University</i>	\$2,600,000	
Kansas Department of Commerce Biofuels Projects		\$20,500,000
<i>Biomass Supply Chain</i>	\$4,900,000	
<i>Biomethane Production</i>	\$15,600,000	
KCC Administrative Expenses		\$1,762,718
Grand Total		\$38,284,000

1500 SW Arrowhead Road
Topeka, KS 66604-4027



phone: 785-271-3100
fax: 785-271-3354
<http://kcc.ks.gov/>

Thomas E. Wright, Chairman
Ward Loyd, Commissioner

Corporation Commission

Sam Brownback, Governor

Date: April 13, 2011

To: Representative Marc Rhoades,
Chairman, House Appropriations Committee

From: Susan K. Duffy
Executive Director, Kansas Corporation Commission

RE: KCC American Recovery and Reinvestment Act (ARRA) Expenditures

Attached is additional information requested by the House Appropriations Committee concerning the KCC's proposed contingency plans for the redirection of the ARRA funds.

Particularly, the Committee expressed interest in the KCC working with the Board of Regents to determine if capital improvement projects existed at the campuses that would meet the Department of Energy (DOE) requirements for expenditure of ARRA funds. The KCC requested the Board of Regents solicit the institutions for project submissions and listed below are projects that meet the criteria.

Each campus has provided the KCC additional information including projected payback, calculations, and applicability to the energy efficiency criteria furnished by KCC. The campuses are aware of the federal deadlines and can complete the projects within the prescribed time. The KCC has included these projects in the ARRA Project Plan.

University Projects

Kansas University Medical Center

Applegate Energy Center Retrofits to Boiler Number #1

Installation of a stack economizer and nitrous-oxide burner assembly

Applegate Energy Center Replace Boiler and Air Handling Unit

Replace existing steam boiler with hot water and new air handling unit

LED Lighting Retrofits

Replace all low pressure sodium light fixtures for Bluff and Cambridge Garages and parking lot lights with LED light fixtures

KUMC Subtotal - \$900,000

Emporia State University

Boiler Burner & Controls Replacement

Retrofit 5 boilers with new high efficiency/low NOx output burner packages and controls

Academic Building Exterior Lighting & Controls

Replace 110 exterior high pressure sodium lights with LED fixtures

ESU Subtotal - \$900,000

Kansas State University

Campus Utility Meters Installation

Install 191 electric, gas and water meters to measure utility consumption in each building instead of one meter for entire campus

Waters Complex Window Replacement

Replace 800 original windows with higher performance window system

KSU Subtotal - \$2,600,000

Kansas University

Murphy Hall HVAC Improvements, Phase 2

Install 3 air handlers and controls, wall and ceiling modifications

Strong Hall Window Replacement

Replace windows with higher performance window system

KU Subtotal - \$1,500,000

Total campus projects \$5,900,000

Department of Commerce Initiatives

Further, the KCC has worked with the Department of Commerce to develop several projects that may meet the DOE requirements. The Department of Commerce is currently preparing project applications that will be submitted to the DOE for review and approval. At this time the KCC has redirected approximately \$10.8 million to fund these projects. If the Kansas Efficiency Revolving Loan program does not meet expenditure benchmarks (August 1, October 1, December 1) additional funds will be shifted to the Department of Commerce initiatives that have received DOE approval.

**Kansas Corporation Commission ARRA Projects
(April 2009 – April 2012)**

<u>Program</u>	<u>Budgeted Amount</u>
Kansas Energy Office Administrative Expenses	1,592,576
Take Charge Challenge - 16-city energy saving competition	212,262
Efficiency Kansas Residential/Small Business Revolving Loan Program	15,741,327
Efficiency Kansas \$500 Audit Rebate Promotion (ends 9/30/2011)	1,350,000
Efficiency Kansas \$500 Thermal Rebate Promotion (ends 12/31/2011)	284,000
Efficiency Kansas \$350 Rebates - Phase 1 - Completed	9,100
Efficiency Kansas \$250 Loan Fee Rebates Promotion to Banks (15 banks, over 100 locations)	58,500
Efficiency Kansas Energy Auditor Training Institutions & Scholarships	181,088
Efficiency Kansas New Auditor Business Initiative (Residential Audit Equipment)	248,055
Efficiency Kansas Advertising & Promotion	500,000
Kansas Housing Resources Corporation Multi-Family Housing Weatherization	1,000,000
Board of Regents Campus Energy Efficiency Projects (KU, KSU, ESU, KUMC)	5,900,000
Building Operator Certification for Municipal and Cooperative Utilities	85,000
Dynamic Pricing Study for Kansas Corporation Commission	320,000
Kansas Department of Commerce Renewable Energy Development Initiatives (4)	10,802,092
Total	38,284,000