

# Village of Paw Paw

Larry Nielsen, Village Manager

111 East Michigan Avenue, PO Box 179; Paw Paw, MI 49079

Phone: 269-657-3148 // Fax: 269-657-7544

Website: <http://www.pawpaw.net> // Email: [l.nielsen@pawpaw.net](mailto:l.nielsen@pawpaw.net)

## MEMO

**TO: Village Council**  
**FROM: Larry Nielsen, Village Manager**  
**RE: Electric Surcharges due to Public Act 295 Mandates**  
**Date: July 13, 2009**

---

Last fall Michigan enacted the "Clean Renewable and Efficient Energy Act," a new state energy law that requires all electric and natural gas utilities to implement energy efficiency and renewable energy programs. The Michigan Public Services Commission (MPSC), which regulates rates and services of private energy providers, was given authority for the implementation of PA 295 by municipal providers as well.

This law applies to the Village of Paw Paw even though Paw Paw buys its electrical power from Indiana Michigan Power, a division of American Electric Power (IMP/AEP). Paw Paw buys its power at a wholesale rate and then sells it to you. This keeps our rates slightly lower than that of neighboring customers who buy directly from Midwest Energy Cooperative, IMP/AEP or others.

The MPSC calculates customers will save overall because the need to build new electrical power plants has been reduced or delayed. The MPSC argues the savings come from the new construction and financing costs required for new power plants will not be passed onto the customers. To implement these programs, however, PA 295 allows electrical energy providers to assess a surcharge on each customer's bill. The MPSC made sure the surcharges they allow are lower than the savings.

*"The cheapest energy is the energy we never use," said MPSC Chairman Orijakor Isiogu. "Customers will see an energy optimization [charge] on their bills. What will the customers get for this? Studies show that for every dollar spent on optimization, there will be \$3 in savings."*

Energy Optimization (EO), the first of the new programs under the energy efficiency standard, is designed to reduce electricity use in Michigan in order to delay the need for constructing new electric generating facilities and thereby protect consumers from incurring the costs of such construction. Each utility must achieve a set of savings on retail sales each year through 2015.

The Village of Paw Paw is one of 29 municipal electrical power providers that are working through the Michigan Public Power Agency (MPPA) to provide coordinated programs that would improve our customers' electrical efficiency. All 29 municipal electric providers, through MPPA, are contracting with Franklin Energy Services, LLC to implement programs designed to meet required energy efficiencies.

Efforts that each will undertake include:

Residential Efficient Lighting Program	2009
Residential Refrigerator/Freezer Turn-in & Recycling Program	2009 (JACO Environmental)
Residential High-Efficiency Appliances and Electronics Program	2010
Residential High-Efficiency HVAC Equipment	2010
Residential Water Heater Savings Kits	2010
Residential Multi-Family In-Unit Efficiency	2010
Commercial/Industrial Prescriptive Incentive Program	2009
Commercial/Industrial Custom Incentive Program	2009

As a part of the new state law, we will place a new line item charge on your bill beginning with the August 2009 bill. All revenue from this line item will be used to cover the costs run these new state-mandated programs.

The MPSC expects those customers who choose to participate in one of these EO programs to be able to reduce their consumption and save enough on their electric bill to more than cover the charges the MPSC allows us to collect to pay for these programs.

**The new line item on your August bill will read:**

MICHIGAN PUBLIC ACT 295 MANDATES,  
ELECTRIC ENERGY OPTIMIZATION SURCHARGE.

This surcharge is per kilowatt-hour (kWh) for residential customers. It will be based on your kilowatt-hour usage as measured by your meter. Paw Paw's surcharge to implement these mandates will be \$0.001199 per kWh. For a customer who uses 1,000 kWh per month, the cost will be \$1.20 (*rounded up to the next full cent from \$1.199*). In comparison, a 1,000 kWh customers of private providers will see larger EO surcharges: Midwest Energy customers will be charged \$1.30 per month and Consumers Energy customers will be charged \$1.42 per month.

For industrial and commercial customers, the charge is monthly per meter. Paw Paw's monthly surcharge to cover costs associated with the mandated EO is also lower than PA 295 and the MPSC allows. Our monthly surcharges and comparisons follow:

<u>Comparable Customer Grouping</u>	<u>Village of Paw Paw</u>	<u>Allowed by MPSC</u>	<u>Midwest Energy Coop</u>
Commercial Customers	\$ 11.20	\$ 16.58	\$31.39
Industrial/Large Users	\$ 100.00	\$ 187.50	\$196.03
Streetlights (per streetlight)	\$ 0.25	\$ 0.60	
Un-metered (per meter)	\$ 0.50	\$ 0.60	

Both are subject to Michigan sale tax.

By working together through MPPA and Franklin Energy, we are able to provide EO programs at a lower cost. The MPSC expects those customers who choose to participate in one of these EO programs to be able to reduce their consumption and save enough on their electric bill to more than cover the charges the MPSC allows us to collect to pay for these programs.

Those who may wish to view all Village of Paw Paw documents with the MPSC may do so online to <http://efile.mpsc.state.mi.us/efile/> and when there enter docket # U-15876.

The second part of the new state law deals with renewable energy standards, and requires at least 10 percent of our energy to come from renewable energy sources by 2015. Since our power supplier, IMP/AEP, has been involved with renewable energy generation for a number of years, we are confident that we will meet this standard. Again, PA 295 and the administering agency, the MPSC, allow electric and natural gas providers to collect a monthly surcharge from customers. These surcharges will begin to be collected in September 2009.

## **Explanations of Your Bill**

**Service Charge** - A fixed monthly amount (\$10 for residential) that incorporates some of the costs associated with having electricity available 24 hours a day, seven days a week.

**Energy Rate per KWH** - The cost of generating and transmitting the power you used for that billing period based on the rates we established with our power supplier (IMP/AEP). Paw Paw does not generate its own electricity; we negotiate a wholesale rate and then resell it at a retail rate to you. Most of this charge is not kept by the Village but is paid to IMP/AEP. The amount that is kept covers the cost of maintaining and replacing the electric equipment, transformers, lines and poles within the Village of Paw Paw. This charge is based on your monthly kilowatt-hour usage as measured by your meter.

**Purchased Power Rate Adjustment** - This represents the difference between what we budgeted for power supply and what we actually pay to our supplier (IMP/AEP). A number of factors can affect what we ultimately pay, including changes in fuel costs, and the market prices of electricity. When IMP/AEP cannot generate enough electricity to meet demand requirements they have to purchase power from other companies across the country. At other times, they sell excess electricity to other companies in the US. This rate can easily change from month to month. All money generated in this line item is paid to the power supplier.

**Michigan Public Act 295 Mandates, Electric Energy optimization Surcharge** - Effective August 2009, your bill will include a new line and related charge to reflect Michigan's new mandate for energy efficiency. The charge is based on your monthly kilowatt-hour usage as measured by your meter, and funds collected are used to offer education, programs and services related to energy efficiency.