

**STATE ENERGY PROGRAM NOTICE 06-1**  
**EFFECTIVE DATE:** January 6, 2006

**SUBJECT: PROGRAM YEAR 2006 STATE ENERGY PROGRAM FORMULA GRANT GUIDANCE**

**PURPOSE**

To establish grant guidance and management information for the State Energy Program formula grants for program year (PY) 2006.

**SCOPE**

The provisions of this guidance apply to States, Territories and the District of Columbia (hereinafter “States”) applying for formula grant financial assistance under the Department of Energy’s (DOE’s) State Energy Program (SEP). Much of the information in this guidance is summarized from the volumes of the Code of Federal Regulations (CFR) applicable to SEP, namely 10 CFR part 420 (covering the State Energy Program) and 10 CFR part 600 (the DOE Financial Assistance Rule). The CFR can be accessed at:

<http://www.gpoaccess.gov/cfr/index.html>

These regulations are the official sources for program requirements.

DOE will select a number of States to pilot test the application process through the [Grants.gov](#) system in PY 2006. These pilot States will follow the application process contained within Funding Opportunity Announcement No. DE-PS26-06NT42769 in the [Grants.gov](#) system.

**NEW ITEMS IN THIS GUIDANCE**

- Application due date (Section 2.2 Submitting Applications to DOE)
- New Narrative Information Worksheet (“WinSAGA” Section 2.2 Submitting Applications to DOE)
- Change in application forms requirements (Section 2.1B, Forms and Assurances, and Section 4, Reporting)

## PROGRAM PRIORITIES IN PY 2006

### Carryover Funds

Budgetary accountability will continue to be a program emphasis, with particular attention on reducing large amounts of carryover.

States carrying forward 25 percent or more of the prior year's Federal formula allocation plus any prior year carryover funds will need to address the situation in their PY 2006 State Plan. Regional Offices (RO's) will continue to monitor compliance with those carryover plans. DOE Headquarters (HQ) will work with the RO's to help ensure that those balances are reduced in a timely manner.

### Update of the SEP Strategic Plan for the 21<sup>st</sup> Century

Many things have changed with regard to energy since the SEP Strategic Plan for the 21<sup>st</sup> Century, (SEP Strategic Plan) was published in 2000. Oil prices have fluctuated significantly, the reliability of the electricity grid has been tested, and energy supply security and emergency planning have been recognized as a major issue for both the Federal government and the States. Building on Key Goal 1 in the SEP Strategic Plan, DOE and EPA are working together to help States realize the air quality benefits of energy efficiency and renewable energy technologies and to use those technologies in State Implementation and Enforcement Plans under the Clean Air Act.

In view of these changes, a working group of States, supported by DOE, is beginning to update the SEP Strategic Plan in FY 2006. The revised Strategic Plan will establish clear policy directions for the future and set short and long-term measurable goals and objectives for the program. Further information on this effort will be available soon.

DOE continues to support the goals of the original SEP Strategic Plan and encourages States to design and/or reinforce State plan activities that address the three key goals:

1. Maximize energy, environmental and economic benefits through increased collaboration at the Federal, State and community level.
2. Increase market acceptance of energy efficiency and renewable energy technologies, practices, and products.
3. Use innovative approaches to reach market segments and meet policy goals not typically addressed by market-based solutions.

Detailed information on recommended optional activities that would particularly address each of these goals can be found in the SEP Strategic Plan Implementation Plan, at:  
[http://www.eere.energy.gov/state\\_energy\\_program/strategicImplementation.cfm](http://www.eere.energy.gov/state_energy_program/strategicImplementation.cfm)

## SEP Metrics

In June, 2005, Oak Ridge National Laboratory (ORNL) published a second report estimating energy and cost savings for the SEP, An Evaluation of State Energy Program Accomplishments: 2002 Program Year. The report was based on information from 55 States and Territories that provided detailed data on SEP program activities in 17 major categories. The report concluded that SEP program activities carried out by the States in PY 2002 saved 47.6 trillion source BTUs, which is equivalent to the average amount of energy used for all non-transportation applications in more than 290,000 households over the course of an entire year. Each \$1 of SEP formula grant funding was associated with 1.03 million source BTUs in annual energy savings and annual cost savings of \$7.22 at 2002 energy prices. At 2005 energy prices, the cost savings would total over \$21 for every \$1 of SEP funding. Copies of the report are available on ORNL's website at:

[http://weatherization.ornl.gov/pdf/ORNLC-CON-492 percent20FINAL.pdf](http://weatherization.ornl.gov/pdf/ORNLC-CON-492%20percent20FINAL.pdf)

Prior to completion of this second report, an independent group of energy program evaluators reviewed ORNL's methodology and study design and found them to be reasonable and well founded.

The reviewers made a number of recommendations for refining the methodology in the future; ORNL was able to follow up on many of the recommendations for the June, 2005 report. During FY 2006, ORNL will continue to respond to the reviewers' recommendations and will publish a report on the results of their efforts by end of the fiscal year.

## LEGISLATION

SEP is authorized under PL 94-385, PL 94-163, PL 95-619, PL 94-580, PL 101-440, PL 102-486, and PL 109-58. All grant awards made under this program must comply with applicable legislation.

The Energy Policy Act of 2005, PL 109-58, Title I, Subtitle B, Section 123, makes two revisions to the legislation governing SEP. The first amends the provisions regarding State Plans by adding a new subsection, as follows:

“(g) The Secretary shall, at least once every 3 years, invite the Governor of each State to review and, if necessary, revise the energy conservation plan of such State submitted under subsection (b) or (e) [*the annual State Plan*]. Such reviews should consider the energy conservation plans of other States within the region, and identify opportunities and actions carried out in pursuit of common energy conservation goals.”

DOE plans to issue such an invitation to the State Governors in FY 2007. The term "region" will be defined as the area covered by each of the current DOE Regional Offices.

The second revision amends the provisions regarding the energy efficiency goals established by the States. The new legislation reads as follows:

"Each State energy conservation plan with respect to which assistance is made available under this part on or after the date of enactment of the Energy Policy Act of 2005 shall contain a goal, consisting of an improvement of 25 percent or more in the efficiency of use of energy in the State concerned in calendar year 2012 as compared to calendar year 1990, and may contain interim goals."

This 25 percent goal should be addressed in the State Plans submitted by each State in 2006. (The information should be included in Item 5 of the Master File section in WinSAGA; see Section 3.0 below)

## **REGULATIONS**

SEP is governed by program regulations (10 CFR part 420) published in the Federal Register on July 8, 1996, and amended in the Federal Registers dated May 14, 1997, August 24, 1999, and May 1, 2000, and the DOE Financial Assistance Rules (10 CFR part 600). DOE will soon publish a Notice of Proposed Rulemaking which amends 10 CFR 420 to incorporate the provisions of the Energy Policy Act of 2005, as described above.

## **1.0 FUNDING**

### 1.1 General Funding

PY 2006 funding for SEP, requiring DOE approval for expenditure, can come from three sources: (1) Federally appropriated funds; (2) Warner, EXXON and similar petroleum violation escrow funds; and (3) Stripper Well and other oil overcharge funds (including Texaco) which are subject to Stripper settlement rules.

### 1.2 Formula Allocations

PY 2006 allocations for SEP consist of \$34,640,000 in Federal funds to be appropriated in FY 2006. The SEP rule [section 420.11(b)(4)(ii)] requires that the most recent available data be used in the population and energy consumption portions of the formula for allocating funds above the \$25.5 million base amount. Attachment 1 provides the SEP State formula allocations for PY 2006. The population data used to calculate these allocations is based on the July 1, 2004 population estimates issued by the U.S. Census Bureau.

(See section 420.11 for the allocation process.)

### 1.3 Match

States must contribute (in cash, in kind, or both) an amount no less than 20 percent of their total Federal formula award.

(See section 420.12 regarding match.)

### 1.4 Petroleum Violation Escrow (PVE) Activities Funded Under SEP

Depending on the authority of PVE funding, new and modified PVE-funded SEP initiatives must be approved in writing, prior to implementation, by the appropriate Regional Office. Stripper Well activities require review by DOE Headquarters.

## **2.0 APPLICATIONS FOR SEP GRANTS**

### 2.1 Application Package

The application package for SEP grants consists of the State Plan, a number of required forms, and certain Certifications and Assurances.

#### **2.1A State Plan**

The State Plan is the heart of the application package. It is divided into two sections, the Master File and the Annual File. The Master File describes the overall energy goals that the State intends to achieve. The Master File need to be updated only when there are changes to the information. The Annual File section of the State Plan describes each program activity for which the State requests financial assistance for a given year, including budget information and milestones for each activity, and the intended scope and goals to be attained either qualitatively or quantitatively.

For detailed information on preparing State Plans see Section 3 below.

#### **2.1B Forms and Assurances**

Required application forms are listed below:

- Standard Form 424, Application for Federal Assistance
- Standard Form 424 A, Budget Information – Non-Construction Programs (in lieu of DOE F 4600.4, Federal Assistance Budget Information)

Form GO-PF20(a), the Budget Explanation Form, is no longer required. It will, however, be maintained in WinSAGA as an optional form for States wishing to use it. States must provide budget justification for the costs proposed in each Object Class category/Cost Classification category (e.g., identify key persons and personnel categories and the estimated costs for each person or category; provide a list of equipment and cost of each item, identify proposed subaward/consultant work and costs of each subaward/consultant; describe the purpose of

proposed travel, number of travelers and travel days; list categories of supplies and amount for each category; and provide any other information desired to support the requested budget). States should also provide the name of their cognizant/oversight agency, if applicable, and the name and phone number of the individual responsible for negotiating the State's indirect cost rates. Also provide an explanation of the source and nature of the required 20 percent cost share.

In preparation for the transition to [Grants.gov](#), and in response to PL 106-107, the Paperwork Reduction Act, SEP's application and reporting forms have been revised to simplify and streamline those processes.

All applicants should have current Certifications and Assurances on file with the National Energy Technology Laboratory (NETL). If not, the following forms must be submitted with the application:

- DOE 1600.5, US DOE Assurance of Compliance
- FA-Certs, Certifications Regarding Lobbying; Debarment; Suspension and Other Responsibility Matters, and Drug-Free Workplace Requirements
- SF-LLL, Disclosure of Lobbying Activities, if applicable

All documents referenced in Section 2.1B are available on the DOE Energy Efficiency and Renewable Energy (EERE) Project Management Center (PMC) website at <https://www.eere-pmc.energy.gov/forms.asp>.

## 2.2 Submitting Applications to DOE

*Application Due Date:* DOE's Regional Offices are scheduled for consolidation by June 30, 2006. Therefore, it will be necessary to fast track the FY 2006 SEP formula grant application and award process. All 2006 SEP grants, including those whose fiscal year starts on October 1, 2006, must be awarded by June 1, 2006. The Regional Offices will establish the specific submission date for the States in their region. The effective dates of award, July 1, 2006 or October 1, 2006, will remain the same, as will the associated budget periods.

*Requests for Extension:* If a State determines that it cannot meet the application submission date for the SEP formula grant, a written request from the Governor must be submitted to the appropriate Regional Office no later than 15 days prior to the application due date. The request should specify the time period needed and the reasons for the delay. An extension will be granted if reasonable justification is provided.

(See section 420.13(c).)

*Application Method:* With the exception of the States that will be selected for the pilot, it has been decided that States will not use Grants.gov to apply for their 2006 SEP grants. **Therefore, with the exception of the pilot States, all States should submit PY 2006 applications, as in prior years, through WinSAGA or by hard copy and a diskette or CD.**

Grants.gov is a newly developed common website for all customers of Federal grants, which will enable them to electronically find opportunities, apply for and manage grants. DOE and the other federal agencies are making progress with the design and implementation of the system. When fully operational, Grants.gov will improve the quality, coordination, effectiveness and efficiency of operations for grant makers and grant recipients.

DOE will select a number of States to pilot test submission of applications through Grants.gov during 2006. Specific instructions for applications submitted by these States can be found in Funding Opportunity Notice No. DE-PS26-06NT42769 on the Grants.gov website. The Grants.gov system will be fully implemented for the 2007 grant cycle. DOE is developing an interface between WinSAGA and Grants.gov to ease the transition to the new system.

**DOE has made a number of changes to the Annual File portion of WinSAGA to conform to the streamlined application forms.** The new SEP narrative structure, using markets and topics, is a significant change. The new format consolidates SEP activities under major market areas, and provides States with an opportunity to consolidate activities and reduce reporting requirements, without sacrificing the quality of the information reported regarding the results of the program. A copy of the revised Narrative Information Worksheet is attached for reference.

**The most significant changes** users will see in the Annual file portion of WinSAGA in 2006 are:

1. When a new annual file is created in WinSAGA, if the user chooses the option to copy the annual file from the previous year, the new SEP narratives will be created at the market level (last years SEP functions will be mapped to the new SEP markets). This will require the State to select all of the new SEP topics that will apply to that market activity. Definitions of the markets and topic areas can be found on the SEP website at the following address:  
[http://www.eere.energy.gov/state\\_energy\\_program/topic\\_definitions.cfm](http://www.eere.energy.gov/state_energy_program/topic_definitions.cfm)

In addition, a crosswalk from the former Function categories to the new Market areas is attached for reference.

2. When copying PY 2005 activities to the new format, if a State has multiple activities in PY 2005 that map to the same SEP market areas, WinSAGA will provide the ability for users to identify which milestones and descriptions to copy into the new format.

After the information has been copied, as always, users should modify the information for the new program year.

3. The new SEP narrative format no longer has a field similar to the Activity Title. In WinSAGA, in areas where activity titles have been displayed to allow a user to select a specific SEP activity from a dropdown list, the dropdown list will now display the SEP markets. (For any system operations questions regarding the new SEP narrative format, please contact the servicing DOE Regional Office)

States should provide a narrative outlining any amendments to activities carried over from the previous year's plan, plus all new program activities. For States using WinSAGA, this information should be included in the "Summary of Changes from Last Plan" section of the Application's Check List Page. For those States submitting paper copies, include this information in the application's cover letter.

States not applying via WinSAGA or [Grants.gov](#) should check with their DOE Regional Office regarding the format and forms to be used in their applications.

(See section 420.13 for application requirements.)

## **3.0 STATE PLAN**

The State Plan consists of an Annual File, covering the activities the State intends to undertake during the year of the grant, which must be updated each year to reflect the current year's activities, and the Master File, covering items that generally do not change from year to year, which would need to be updated only when a change occurs.

### 3.1 Master File

The Master File should include, wherever practicable, an explanation of how implementing the plan will conserve energy, how the State will measure progress toward attaining the goal, how the program activities represent a strategy to achieve these goals; an explanation of how the plan satisfies the minimum criteria for the required (mandatory) activities; and a plan for State monitoring that describes how the State conducts the administrative and programmatic oversight for programs implemented by other agencies within the State, contractors employed by the State, or subrecipients of financial assistance from the State. If a State has completed certain mandatory activities, this may also be indicated in the Master File. **A description of how the State will achieve the new energy efficiency goal of 25 percent by 2012 should be included here.**

### 3.2 Annual File

The Annual File section of the State Plan describes each market area and program activity for which the State requests financial assistance for a given year, including budget information and

milestones for each activity, and the intended scope and goals to be attained either qualitatively or quantitatively. The SEP Narrative Information Worksheets described in Section 2.2 above capture this information.

(See section 420.13 for more specific requirements on State Plans.)

### 3.3 State Plan Activity Codes

States should identify program activities under the new market areas and topics categories developed in preparation for Grants.gov. Use of the markets and topics categories assists DOE in tracking grant-funded activities and gathering information on SEP regionally and nationwide. DOE is often required to provide analyses, justifications and recommendations based on the information provided by the States. The use of these categories, which are included in the Narrative Information Worksheet, also assists in developing performance metrics for each activity. Definitions of the markets and topic areas can be found on the SEP website at the following address: [http://www.eere.energy.gov/state\\_energy\\_program/topic\\_definitions.cfm](http://www.eere.energy.gov/state_energy_program/topic_definitions.cfm)

### 3.4 Mandatory Requirements

The following activities and details on compliance are required in each State Plan:

- (a) establish mandatory lighting efficiency standards for public buildings;
- (b) promote carpools, vanpools; and public transportation;
- (c) incorporate energy efficiency criteria into procurement procedures;
- (d) implement mandatory thermal efficiency standards for new and renovated buildings, or in States that have delegated such matters to political subdivisions, adopt model codes for local governments to mandate such measures;
- (e) permit right turns at red traffic lights and left turns from a one-way street onto a one-way street at a red light after stopping; and
- (f) ensure effective coordination among various local, State and Federal energy efficiency, renewable energy and alternative transportation fuel programs within the State.

(See section 420.15 for more specific requirements on mandatory activities.)

### 3.5 Optional Program Activities

States may wish to consider the following program areas for inclusion in their State Plans:

- Programs of public education to promote energy conservation.
- Programs to increase transportation energy efficiency, including programs to accelerate the use of alternative transportation fuels and hybrid vehicles for State government fleets, taxis, mass transit, and privately owned vehicles.
- Programs that encourage the introduction of energy saving technologies in the industry, buildings, transportation and utility sectors and encourage State and industry partnerships that develop and demonstrate advances in energy efficiency and clean technologies.

- Programs for financing energy efficiency and renewable energy capital investments, projects and programs, which may include loan programs and performance contracting programs for leveraging additional public and private sector funds, and programs which allow rebates, grants, or other incentives for the purchase and installation of eligible energy efficiency and renewable energy measures in public or nonprofit buildings owned and operated by a State, a political subdivision of a State or an agency or instrumentality of a State, or an organization exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986, including public and private non-profit schools and hospitals, and local government buildings.
- Programs for encouraging and for carrying out energy audits with respect to buildings and industrial facilities (including industrial processes) within the State.
- Programs to promote the adoption of integrated energy plans which provide for periodic evaluation of a State's energy needs, available energy resources (including greater energy efficiency) and energy costs; and utilization of adequate and reliable energy supplies, including greater energy efficiency, that meet applicable safety, environmental, and policy requirements at the lowest cost.
- Programs to promote energy efficiency in residential housing, such as programs for development and promotion of energy efficiency rating systems for newly constructed housing and existing housing so that consumers can compare the energy efficiency of different housing; and programs for the adoption of incentives for builders, utilities, and mortgage lenders to build, service, or finance energy efficient housing.
- Programs to identify unfair or deceptive acts or practices which relate to the implementation of energy efficient and renewable resource energy measures and to educate consumers concerning such acts or practices.
- Programs to modify patterns of energy consumption so as to reduce peak demands for energy and improve the efficiency of energy supply systems, including electricity supply systems.
- Programs to promote energy efficiency as an integral part of economic development and environmental planning conducted by State, local, or other governmental entities or by energy utilities.
- Programs to provide training and education to building designers and contractors to promote building energy efficiency.
- Programs for the development of building retrofit standards and regulations.
- Programs to provide support for feasibility studies for the utilization of renewable energy and energy efficiency resource technologies.
- Programs to encourage the use of renewable energy technologies.
- Programs that partner with other State agencies to leverage additional funds, such as public benefits funds and State and local investments in Clear Air Act compliance.

- Collaborative programs for energy efficiency and renewable energy technologies that link a State's energy and environmental objectives. In order to meet the State air quality priorities, these programs could leverage air quality funding to invest in air quality measures such as energy efficiency and renewable energy technologies.

(See section 420.17 for more specific requirements on optional activities.)

### 3.6 State Energy Emergency Plans

In conjunction with the SEP State Plan, States are required to file, for information only, an energy emergency plan detailing implementation strategies for dealing with energy emergencies. DOE encourages States to make sure their plans are up to date, given today's environment, and especially in view of recent natural disasters. For States that desire to update their plan, model guidelines have been developed for incorporating energy efficiency and renewable energy technologies into a State's energy emergency plan. The Regional Offices can provide copies of those guidelines.

### 3.7 Expenditures Prohibitions and Limitations

**Prohibitions:** States are prohibited from using SEP financial assistance:

- for construction, such as construction of mass transit systems and exclusive bus lanes, or for the construction or repair of buildings or structures;
- to purchase land, a building or structure or any interest therein;
- to subsidize fares for public transportation;
- to subsidize utility rate demonstrations or State tax credits for energy conservation or renewable energy measures; or
- to conduct or purchase equipment to conduct research, development or demonstration of energy efficiency or renewable energy techniques and technologies not commercially available.

**Limitations:** No more than 20 percent of the financial assistance awarded to the State for this program shall be used to purchase office supplies, library materials, or other equipment whose purchase is not otherwise prohibited.

Demonstrations of commercially-available energy efficiency or renewable energy techniques and technologies are permitted and are not subject to the construction prohibition or the 20 percent on equipment, and direct purchase limitations.

A State may use regular or revolving loan mechanisms to fund SEP services which are consistent with the SEP rule and which are included in the approved State plan. Loan repayments and interest on loan funds may be used only for activities which are consistent with the rule and are included in the State's approved plan.

A State may use funds for the purchase and installation of equipment and materials for energy efficiency measures and renewable energy measures, subject to the following:

- such use must be included in State's approved plan (and if PVE funds are used, the use must be consistent with any judicial or administrative terms and conditions imposed upon State use of such funds).
- such use is limited to no more than 50 percent of all funds allocated by the State to SEP in any given year, regardless of source, except that this limitation shall not include regular and revolving loan programs funded with PVE funds. States may request a waiver of the 50 percent limit from DOE for good cause. For regular and revolving loan funds, loan documents shall ensure repayment of principal and interest within a reasonable period of time, and shall not include provisions for loan forgiveness

Funds may be used to supplement and no funds may be used to supplant weatherization activities under the Weatherization Assistance Program for Low-Income Persons.

(See section 420.18 for more detailed expenditure prohibitions and limitations.)

#### **4.0 REPORTING**

Following award of an SEP grant, the States are required to submit the following two reports for the SEP Formula Grants to their Regional Office semi-annually, unless otherwise specified by the Regional Office:

- Financial Status Report, Standard Form 269
- Program Status Report

The Federal Cash Transactions Report, SF 272 is no longer required. (It will, however, be maintained in WinSAGA as an optional form.)

**The Regional Offices have the discretion to require States to submit any or all of these reports on a quarterly basis.**

The Standard Forms are available at the DOE EERE PMC website at  
<https://www.eere-pmc.energy.gov/forms.asp>

The Program Status Report form is also contained in WinSAGA. DOE strongly encourages States to submit the Program Status Report electronically through WinSAGA.

For all aspects of the SEP formula grant application and reporting process, States are encouraged to consult with their DOE Regional Office if they have questions or need additional information, copies of forms, and the like.

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Attachments: FY 2006 State Formula Allocations  
WinSAGA Crosswalk  
SEP Narrative Information Worksheet