Earth Markets
Save Money — Save the Planet!
One Community at a Time

CONTACT INFORMATION:
Kerry E. O'Neill
President
Earth Markets, LLC
kerry@earthmarkets.com
(203) 258-2550

Public Comments of Kerry E. O'Neill, President of Earth Markets, LLC
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Earth Markets is a Connecticut-based social venture that develops residential energy efficiency and clean energy programs that combine community-based social marketing strategies with environmental markets and finance such as affordable loans and the Class III RPS.

Raised House Bill No. 5465 "An Act Concerning the Development of Green Jobs"

Good afternoon and thank you for the opportunity to address the Energy & Technology Committee. My name is Kerry O'Neill, President of Earth Markets and I am speaking in **support of Raised Bill No. 5465 "An Act Concerning the Development of Green Jobs," especially the provision that enables municipalities to implement Property Assessed Clean Energy – or PACE – financing and the expansion of the Class III RPS targets.**

First, I would like to commend the Committee members for taking such strong leadership on policies that will lead to the creation of jobs in Connecticut that support our transition to a clean energy economy. **And in particular, it is exciting to see policies that encourage private sector investment** in this transition, since the public sector on its own cannot finance a clean energy economy.

Financial innovation is accelerating across the country – and Connecticut is behind in its ability to compete for federal funding opportunities.

As a designer of residential programs, we have researched best practices across the county, actively tracking the **accelerating pace of innovation around financing strategies** that reduce or eliminate the vexing first-cost barrier for consumers with affordable and convenient loan options. We have also closely tracked the **federal competitive solicitations and the increasingly high bar they are setting for the leverage of federal funds.**

- The Department of Energy (DOE) Competitive Block Grant program focused on building retrofits (closed on December 15th, 2009 and awardees announced on March 15th, 2010) had a "suggested" **leverage ratio of 5:1 on federal funds requested**.
- The DOE recently put out an intent notice of an upcoming funding opportunity for state energy offices called "Strengthening Building Retrofit Markets" that has asks states to "aspire" to a **10:1 leverage ratio**. *(See Appendix 1 for excerpts.)* This indicates to us that a substantial number of competitive block grant applications came in at over 5:1 leverage.

- In both programs, the DOE highlights the innovative financing strategies that can be used to achieve this type of leverage, and in both programs they highlight PACE, along with other strategies such as revolving loan funds.

It is critical that Connecticut enact PACE enabling legislation for its municipalities and for the state to begin to build its portfolio of funding strategies to support residential and commercial energy efficiency and renewable energy upgrades AND to effectively compete for federal dollars.

PACE is an opt-in program that addresses 2 critical issues in clean energy financing: up-front costs and long-term contracting. Up-front costs are reduced or eliminated by allowing the property owner to pay for energy efficiency or renewable energy upgrades through funds provided by a bond issuance. Long-term contracting is supported by allowing the repayment of the cost of the upgrades through an assessment on the property bill, which allows for a longer repayment period – up to 20 years – and allows the repayments to stay with the property should the owner sell. Sixteen states have already enabled PACE and we are one of 18 states considering enabling legislation.

Earth Markets offers the following considerations for strengthening the proposed legislation. These suggestions are based on the relatively small size of our state and our municipalities:

1. Identify an **organizing entity to administer PACE programs** for participating municipalities across the state.

2. Allow this entity to act as the **financial aggregator of PACE loans for bonding** – lowering transaction costs and providing for a large enough issuance to attract investors (typically in the $25MM range).

3. Have this entity provide **technical assistance and program design/management** for participating municipalities so you don't end up with 169 different flavors of PACE in the state.

4. Provide the entity with **funding for credit enhancements for the PACE bond issuance, technical assistance, and program design.**

Note that New York, Colorado, Maryland and California are all moving towards some form of a state level model for facilitating the implementation of municipal PACE programs.

(See p. 5-6 for an example of what a statewide entity might look like in Connecticut that administered both PACE programs for municipalities as well as a statewide revolving loan fund for energy efficiency and clean energy improvements. It is this type of structure that would allow the state to aggressively leverage private capital and support clean energy investments at scale, maximizing job creation and consumer and state economic, energy and environmental benefits.)

Make Class III RPS a tool to help residential customers.

Earth Markets strongly support the increasing the targets for the Class III RPS over time from 4% this year to 20% by 2020. However, we are concerned with the provision that calls for an annual review of the targets and the ability to scale back the RPS based on a negative impact on rates. While we are very sensitive to the high cost of electricity in our state, we want to **ensure that other benefits of the RPS are considered too, including the economy-wide benefits of the retail electric savings that come from meeting increased targets, reduced dependence on imported**

energy, environmental benefits from reduced energy use, and the job creation that comes from increased investment in energy efficiency.

Additionally, Earth Markets offers these additional considerations for improving the Class III RPS and ensuring it is a tool to help residential customers become more energy efficient:

- Establish a cap of 25 percent on the amount of the Class III RPS market demand that the Conservation & Load Management Fund can meet. This will attract *additional* investment by the private sector in energy conservation and efficiency.
- Specify that 40% of the annual Class III RPS demand be met by residential projects (or a number proportional to the residential load).
- Direct the DPUC to give preference to efficiency projects benefiting low-income housing or customers receiving fuel assistance.
- Acknowledge the role of behavior-based strategies for energy conservation and efficiency; and the use of large scale data analyses of utility bill information for M&V.

I thank you for your time today and the opportunity to address the members of this committee.

APPENDIX 1

Department of Energy
Notice of Intent to Issue Funding Opportunity Announcement
Selected Excerpts from Interest Area 1: Strengthening Building Retrofit Markets

https://e-center.doe.gov/doebiz.nsf/UNID/8C64E6FEA873F5DA852576C000584823/$file/Final+Notice+of+Intent+2-4-10.pdf

Note: DOE requested comments by March 1, 2010 and expects to formally issue this announcement in the March/April 2010 timeframe.

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DOE is seeking a major increase in market penetration of existing whole-building retrofit activities and/or the establishment of a strong retrofit market in areas with little or no activity. It is expected that applicants shall develop a comprehensive approach to addressing the **market barriers limiting whole-building retrofits** and strive **to retrofit at least 2 percent of the buildings of a defined market annually by 2013**. Examples of programs and/or strategies that could be included as key elements of a comprehensive approach are:

- Building performance benchmarking and disclosure
- Home Performance with ENERGY STAR
- Innovative Financing for building retrofits
    - Property Assessed Clean Energy (PACE)
    - Utility On-Bill Financing
    - Energy Savings Performance Contracts
    - Creation of secondary markets for revolving loans, loan default pool, credit enhancement, etc.
- Statewide and/or regional* aggregation of disaggregated retrofit markets
- Innovative Organizational Structures such as an Energy Efficiency Utility, Power Authority, etc.

* "Regional" in this context means that a number of states can partner to serve a specific area such as a singular metropolitan area. For example: Indiana, Ohio, and Kentucky could partner to serve the Cincinnati metropolitan area.

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DOE anticipates that this program will require the development of a state-specific, sustainable, programmatic/strategic plan(s) that outlines the key challenges to the building retrofit market in a defined market and how those challenges will be overcome through programs and activities in partnership with different organizations. DOE anticipates that these plans will contain:

a. Buildings Retrofitted in 2012, 2013, 2014, and 2015
b. Site and Source Energy Saved for each year above
c. Individuals Trained and Certified for each year above
d. Funds Leveraged - States should aspire to reach leveraging goals of 10:1. This could be done in a variety of ways including: PACE programs, loan loss reserves, energy saving performance contracts, revolving loans, etc. Leveraged funds would include in-kind resources.
e. Market Actor Integration – Description of how, to what extent and in what timeframe appropriate stakeholders will be engaged in the overall effort to retrofit buildings. Examples of Market Actors include: Energy Service Companies (ESCOs), contractors, real estate professionals, financial institutions, retailers, manufacturers, program sponsors, auditors, trade organizations, educational institutions, government agencies, utilities, etc.
f. Market Definition – Where building retrofit efforts will be concentrated, and how that area is selected

Connecticut Sustainable Energy [Authority/Fund/Utility]

Program Management

Manage program marketing & operations

Financing

Provide capital to fund building retrofits

Program Management

- Energy efficiency and renewable energy upgrades
- Residential, Small Business & Non-Profits
- Establish program requirements, minimum standards
- "Investment-grade" measurement & verification
- Coordinate with workforce development initiatives

Financing

Capital

Private and/or public capital

Credit Enhancements

Loan loss reserves, guarantees, etc.

Multiple financing delivery models and structures:

Property Assessed Clean Energy

Revolving Loan Fund

Unsecured & secured consumer lending, on-bill repayment

Purpose:

- Establish public-private partnerships to leverage investments and aggressively seek grants
- Enable a flexible portfolio approach to financing
  - Multiple models for providing loan programs that address specific target markets
  - Comprehensive Upgrades – supporting retrofits that encompass energy efficiency, conservation and renewables

Notes on Connecticut Sustainable Energy [Authority/Fund/Utility]

Structure

- Could be a new not-for-profit – possibly administered by a third party (VT and OR take this approach)
- Or could put it in an existing quasi-public entity for them to administer as outlined through a third party (e.g. CCEF has successfully implemented a solar lease program and the Communities program)

Source(s) of Funds

- Ratepayer energy funds, new mill charge, RGGI auction revenue, forward capacity market revenue, renewable energy credits, state pension fund investments

Use(s) of Funds

- Strategies to secure private sector investments and provide competitive loan rates
  - e.g. credit enhancements (loan loss reserve fund, loan guarantees, etc.) and interest rate buy-down
- Direct lending through a revolving loan fund
- Program development, administration and PACE technical assistance to municipalities

Third Party Administration

- For program administration and various financing delivery models including structuring of revolving loan fund, raising capital, lending
  - Especially critical if the decision is to house this in existing entity/agency (little in-state expertise with consumer lending other than CCEF solar lease program, which is 3rd party administered)
  - CHFA and CDA have lending programs for housing and commercial entities; CEEF provides commercial loans; CCEF has partnered with CDA to become a designated lender under DOE loan guarantee program

Role in Property Assessed Clean Energy (PACE)

- Program management: provide municipalities with technical assistance for program design/implementation
- Financing: serve as aggregator for bonding (can't have 169 municipalities doing this on their own)

Bonding authority

- Either need new entity, or a third party finance administrator issues bonds (through own capabilities?), or a partnership is established with existing entity in state with bonding authority (e.g. CHFA, CDA). Types of bond issuance might include aggregation of PACE loans from multiple municipalities; unsecured or secured loans from revolving loan fund.