



# OLR RESEARCH REPORT

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## REPLACEMENT HEATING EQUIPMENT PROGRAMS

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You asked for a description of programs that could help homeowners replace old, inefficient oil heating equipment. You were particularly interested in programs that are open to people served by municipal electric utilities.

### SUMMARY

The Connecticut Housing Investment Fund (CHIF) currently operates one such program, which is open to all residents of the state, regardless of what fuel they currently use for heating and whether they are served by an electric company or a municipal electric utility.

PA 11-80 requires the Department of Energy and Environmental Protection (DEEP) to establish two programs, one to provide financial incentives for energy efficient heating equipment and one to provide financing for such equipment. These programs are being developed, but it appears that people served by municipal electric utilities will not be eligible for them unless they are also served by gas companies. PA 11-80 also allows all municipalities to create another program that could help their resident replace their heating equipment, although federal actions have impeded the development of such programs at this time.

Finally, the law requires the Clean Energy Finance and Investment Authority (CEFIA) to establish a loan guarantee program that could be used to help homeowners in all municipalities to replace their heating equipment. While bonding has been authorized for this program, the bonds have not been issued to date and the program is not running at this time.

## **CHIF PROGRAM**

CHIF administers the Energy Conservation Loan Program that provides financing at below market rates to single family property owners to buy and install cost-saving energy conservation improvements. There is also a similar program for owners of multi-family housing.

Owners of one- to four-unit homes can borrow up to \$25,000. The loans can be used for replacement heating equipment using any type of fuel and other energy efficiency investments. The program is available in all parts of the state, including those served by municipal electric utilities. The maximum income a household can have and participate in the program varies by area and by household size. In your area, the limits for a 1-, 2-, and 3-person household are \$113,260, \$129,440, and \$145,620 respectively (there are higher limits for larger households).

The program is small, issuing about 300 loans per year. Further information is available at <http://www.chif.org/page/energy-conservation-loan-program>.

## **DEEP PROGRAMS**

### ***Financial Incentives Program***

The act requires DEEP to establish a program providing financial incentives to “eligible entities” that install energy efficient heating oil burners, boilers, and furnaces, and natural gas boilers and furnaces. The entities include (1) any residential, commercial, institutional, or industrial customer of an electric or natural gas company, who employs or installs an eligible savings technology; (2) an energy service company that DEEP certifies as a Connecticut electric efficiency partner (a program that involves electric companies but not municipal electric utilities); or (3) an installer certified by CEFIA.

The financial incentives must provide banks and other financial institutions with loan loss protection or grants to lower borrowing costs. If DEEP considers it necessary, the financial assistance can include grants to a financial institution to (1) lower borrowing costs for program participants and (2) allow for a 10-year loan.

The financial incentive package must ensure that the applicant's annual loan payment is no more than the projected annual energy savings less \$100. DEEP must arrange with an electric or gas company to provide for payment of any loan made as financial assistance through the loan recipient's monthly electric company or gas company bill, as applicable.

Loan applicants must (1) contract with Connecticut-based licensed contractors, installers, or tradesmen; (2) provide evidence of the cost of purchase and installation of the eligible technology; and (3) periodically provide evidence of the operation and functionality of the technology to ensure that it is operating as intended during the term of the loan.

### ***Financing Program***

PA 11-80 requires DEEP to establish a program to allow residential customers to finance the installation of energy efficient heating oil or natural gas burners, boilers, and furnaces to replace (1) existing inefficient equipment or (2) electric heating systems. The new equipment must replace boilers and furnaces that are at least seven years old with an efficiency rating of not more than 75%. Replacement fuel oil furnaces and burners must have an efficiency rating of at least 86%. Replacement natural gas boilers must have an annual fuel utilization efficiency rating of at least 90% and a gas furnace must have an annual fuel utilization efficiency rating of at least 95%. To participate in the program, a customer must first have a home energy audit. The cost of the audit can be financed under the program.

A customer who participates in the program must repay the financing as part of his or her monthly gas or electric bill or by other means. The program may be funded by the residential financing program supported by the Connecticut Energy Efficiency Fund or the Clean Energy Fund.

### ***People Served by Municipal Electric Utilities***

The two DEEP programs are available to people served by municipal electric utilities who (1) use oil for heating but natural gas for other purposes such as cooking (approximately 15% of gas company customers fall into this category) and install a replacement oil system or (2) convert

an oil system to natural gas. The programs are also available to people who currently have gas or electric heating provided by a gas or electric company.

It appears that the programs are not open to people served by municipal electric utilities who are not served by gas companies. The financial incentives provision requires DEEP to arrange that the loan be paid on the borrower's electric company or gas company bill. The financing provision allows participants to pay the loans on the gas or electric company bills. In both cases, this would not be possible if a person is served by a municipal electric utility and is not served by a gas company. While electric and gas company customers are "eligible entities" for purposes of the financing program, it appears that municipal utility customers are not. However, the act is not explicit on this point.

## **MUNICIPAL PROGRAM**

PA 11-80 allows any municipality to establish a loan program for financing sustainable energy improvements to qualifying real property located in the municipality. These are commonly called Property Assessed Clean Energy (PACE) programs. The municipality must issue a public notice and provide an opportunity for public comment before implementing the program. The program can cover all or part of the municipality.

Under the act, the energy improvements include any renovation or retrofitting of qualifying real property to reduce energy consumption. Qualifying real property are single- or multi-family residential dwellings or other buildings that a municipality determines can benefit from energy improvements. The property owner must agree to participate in the program, which includes signing a contractual assessment.

Notwithstanding other limits or conditions on municipal bond issues, any municipality that establishes a loan program may issue bonds to (1) offer loans to the owners of eligible property in the municipality to finance energy improvements, (2) conduct related energy audits, and (3) verify the installation of any improvements. The bonds and financing must be backed by special contractual assessments on the benefitted property. The municipality can supplement the bonds with other legally available funds at its discretion.

If a qualified property owner requests a loan, the municipality must:

1. require an energy audit on the property before approving a loan;

2. enter into a loan agreement with the owner in a principal amount sufficient to pay the costs of energy improvements and any associated costs the municipality determines will benefit the qualifying property;
3. impose requirements to ensure that the loan is consistent with the program's purpose; and
4. impose requirements and conditions on the loan to ensure timely repayment, including placing a lien on the benefitted property.

Any loan made under the program must be repaid over a term that does not exceed the calculated payback period for the improvements (the time in which the energy cost savings equals the cost of the improvements). The municipality must set a fixed interest rate when each loan is made and the loan cannot have a prepayment penalty.

Loans under the program, interest, and any penalties are a lien against the property. The lien must be levied and collected in the same way as property taxes, including, in a default or delinquency, with respect to any penalties and remedies and lien priorities. However, the lien does not have priority over existing mortgages.

As discussed in OLR Report 2012-R-0027, the federal government has taken steps that impair the implementation of such programs with regard to residential customers. We are not aware of any municipalities in Connecticut that have developed such programs.

## **CEFIA PROGRAM**

PA 10-179 established the Green Connecticut Loan Guaranty Fund Program and required the Connecticut Health and Educational Facilities Authority to administer it. PA 11-80 transferred this responsibility to CEFIA.

CEFIA must use the money in the fund to guarantee loans by participating lending institutions to eligible participants for energy conservation projects. The eligible participants are individuals, nonprofit organizations, and businesses employing up to 50 full-time employees.

Eligible participants can borrow money from a participating lending institution for any energy conservation project for which CEFIA provides guaranties. In connection with a guaranty, (1) the borrower must enter into any loan or other agreement and make such covenants, representations, and indemnities as the lending institution deems

necessary or appropriate and (2) the lending institution must enter into a guaranty agreement with CEFIA under which CEFIA agrees to provide a first loss guaranty of an agreed percentage of the original principal amount of loans for eligible projects.

CEFIA must identify types of projects eligible for the program. These can include buying and installing replacement furnaces and boilers, among other things. CEFIA must establish priorities for financing eligible projects based on need and quality.

While bonding has been authorized for this program, the bonds have not been issued to date and the program is not running at this time.

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