OLR RESEARCH REPORT

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INCENTIVES TO CONVERT TO NATURAL GAS

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You asked for a description of existing and proposed incentives for people to convert to natural gas from other fuels.

SUMMARY

While there currently are no incentives specifically for converting to natural gas from other fuels, there are incentives for buying energy efficient heating equipment. Such equipment is eligible for federal income tax credits and rebates. The tax credits apply to equipment bought in 2013. There are also low-interest loan programs that can be used for such equipment. In addition, Energy Star® rated residential gas furnaces and boilers are exempt from the state sales tax.

Legislation passed this session (PA 13-247 and PA 13-298) requires the establishment of programs to help customers finance replacement heating equipment. These programs could be used to finance gas heating equipment that replaces oil equipment; they also could be used by customers who do not switch fuels.

PA 13-298 also changes how gas system expansions are financed, which potentially will make it less expensive for some customers to switch from oil to gas. It also requires the gas companies to develop a gas system expansion plan. Under this plan, the companies have proposed several incentives for new gas customers.

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EXISTING INCENTIVES

Federal Income Tax Credits

Taxpayers who purchase qualifying residential energy-efficient equipment in 2013 may be eligible for a federal income tax credit. The credit is subject to a cap of:

1. $150 for furnaces or boilers with an annual fuel utilization rate of 95 or greater and
2. $300 for water heaters with an energy factor of at least 0.82 or a thermal efficiency of at least 90%.

Credits are also available for other types of energy efficient heating and cooling equipment. The total amount of the credits is capped at $500. Further information about the credits is available at http://www.irs.gov/pub/irs-pdf/f5695.pdf.

Rebates

Energy efficient furnaces and boilers are eligible for rebates of up to $700 and $750, respectively, from the utility-administered energy efficiency fund. Energy-efficient gas tankless water heaters are eligible for rebates of up to $200. Further information about these rebates is available at http://energizect.com/residents/solutions/rebates-financing.

Some equipment manufacturers also provide rebates. In some cases, Southern Connecticut Gas and Connecticut Natural Gas match these rebates using shareholder funds.

Low Interest Loans

The Residential Energy Efficiency Financing Program provides low-interest loans for a variety of improvements, including Energy Star® rated heating and cooling systems and high-efficiency water heating equipment. The fixed rate, unsecured loans have terms of up to 12 years. The program is open to residential electric company customers who own and occupy one- to four-unit dwellings. United Illuminating customers pay back the loan on their electric bill; Connecticut Light and Power customers can pay the loan on their bill or to the Connecticut Housing Investment Fund (CHIF), a non-profit organization. Further information about this program is available at http://energizect.com/residents/programs/Residential-Energy-Efficiency-Financing-Program.

The Energy Conservation Loan and the Multifamily Energy Conservation Loan programs provide low-interest loans to single family and multi-family residential property owners to buy and install cost-saving energy conservation improvements, including efficient gas heating equipment. The interest rate is based on: (1) the borrower's average income over the past two years, (2) family size, (3) the location of the property, and (4) the type of improvement. CHIF administers the programs with funding from the Department of Economic and Community Development. Further information about the programs is available at http://www.chif.org/page/energy-conservation-loan-program.

Costs of Gas System Expansions

When a gas company seeks to expand its distribution system, the projected distribution revenues from the added customers over a specified period are compared to the cost of the expansion. If the expansion will pay for itself in this period, all gas ratepayers pay for it in rates. If it does not, the new customers must pay a charge called a contribution in aid of construction (CIAC) to cover the shortfall.

PA 13-298 increases the amount of time that an expansion has to pay for itself from the added distribution revenue from 15 years (Yankee Gas) or 20 years (Connecticut Natural Gas and Southern Connecticut Gas) to 25 years for all three companies. It also requires the Public Utilities Regulatory Authority (PURA) to account for revenues that would be collected from new customers who signal that they intend to switch to gas over a period of at least three years in the area to be served by new distribution lines. These changes do not directly provide incentives for customers switching to gas. But they reduce the cost of switching by decreasing the likelihood that a customer would be required to pay a CIAC and reducing the amount of any CIAC charge.

INCENTIVES UNDER DEVELOPMENT

Utility Furnace Replacement Program

PA 13-247 requires electric and gas companies to develop, by September 1, 2013, a three-year furnace replacement loan program. The Department of Energy and Environmental Protection (DEEP), in consultation with the Energy Conservation Management Board (ECMB), must approve or modify the program. The companies must hire an administrator to provide financing for improvement projects by property owners, loan servicing, and program administration.

The program is open to all residential property owners, regardless of how they heat their buildings. Participants must pay at least 10% of the cost of the replacement furnaces, which must be rated. Program participants can receive loans for up to $15,000 at up to 3% interest rates, set by the administrator. The maximum loan term is 10 years or the amount of time it takes for the replacement furnace to pay for itself from energy savings, plus two years.

Participants must repay the loan on their electric or gas bill. If the property is sold, the unpaid loans must be transferred to the new owner, who may participate in the program, unless the seller and buyer agree that the loan will not be transferred. The third-party administrator can take legal actions to secure the loans, including attaching liens to participating properties.

The initial cost of the financing, the administrator's costs, and the cost of any defaults must be funded by the systems benefits charge on electric bills. The electric companies must recover their administrative and capital carrying costs through this charge or another electric rate component, as approved by PURA.

CEFIA Furnace Replacement Program

PA 13-298 requires the ECMB and the Connecticut Energy Finance and Investment Authority (CEFIA) to establish a program to finance residential energy efficiency and renewable energy measures using private capital, with loans repaid on the electric or gas bills of participating customers. The efficiency measures include replacement heating equipment. To be eligible, gas heating equipment must be Energy Star® rated and oil and propane equipment must be at least 84% efficient.

The program must, among other things:

1. help participating customers obtain incentives, other cost savings, and financing for the measures;

2. identify knowledgeable contractors to install the measures and ensure that they are installed successfully;

3. finance the measures so that the repayment term does not exceed the improvement's average expected life; and

4. provide that the repayment, added to the customer's utility bill after installation, is no more than the original utility bill.

Fuel Switching Pilot Program

PA 13-298 also requires DEEP, CEFIA, and ECMB to establish a pilot program in at least four municipalities to:

1. ensure that potential customers targeted for conversion to gas are given incentives to install efficient equipment and improve the efficiency of building envelopes (e.g., windows) at the time of conversion,

2. ensure that customers who cannot cost-effectively convert to gas are given incentives to install efficient equipment and improve the efficiency of the building envelope, and

3. provide access to low-cost financing for gas conversion or efficiency upgrades.

While the act itself does not provide funding for the incentives, it requires the agencies to work in coordination with the electric and gas companies. The program ends on December 31, 2014.

PROPOSED INCENTIVES

PA 13-298 requires the gas companies to jointly submit a natural gas expansion plan to DEEP and PURA. The plan must include steps to expand the gas network and increase cost-effective customer conversions. It must be designed to provide gas service to customers currently on and off distribution mains. The plan is subject to review by DEEP and approval by PURA.

The submitted plan seeks to add approximately 280,000 new heating customers to the gas distribution systems within the next 10 years. It focuses on potential gas company customers located less than 150 feet from an existing main as well as existing customers who do not use gas for heating. Among other things, the plan proposes:

1. eliminating CIAC charges for all potential customers that are located 150 feet or less from an existing main and

2. providing enhanced rebates and financing to low-use prospects interested in converting to natural gas.

Yankee Gas Services proposes providing a credit for new customers of up to $250. The plan also proposes rate tariffs specifically for new customers of for all three companies to help minimize the impact of the expansion on existing customers.

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