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OLR BACKGROUNDER: ENERGY EFFICIENCY FINANCING

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SUMMARY

This report describes three programs to finance energy efficiency improvements. Two of the programs, one administered by utilities and the other by the Connecticut Clean Energy Finance and Investment Authority (CEFIA), allow customers to finance such improvements on the customer's utility bill. The utility-administered program finances replacement heating equipment; the CEFIA-administered program can be used for a wider range of efficiency improvements and renewable energy systems. In contrast, the Commercial Property Assessment for Clean Energy (C-PACE) program, finances energy efficiency and renewable energy improvements using a special assessment on the property.

ON-BILL FINANCING

Utility Program

Law. PA 13-247 required electric and gas companies to develop, by September 1, 2013, a three-year furnace and boiler replacement loan program. It required the Department of Energy and Environmental Protection, in consultation with the Energy Conservation Management Board (ECMB), to approve or modify the program. It required the companies to 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 Energy Star 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 the Public Utilities Regulatory Authority (PURA).

Implementation. The program, which began operating in February 2014, is open to residential customers of Connecticut Light and Power or United Illuminating. The customer must own the property. Applicants must be current for the last 6 consecutive months of their electric bills; there are no other credit qualifications. The loans can be used for energy efficient gas, oil, and propane heating equipment and heat pumps. Up to 90% of the heating system equipment and installation may be financed, depending on projected energy savings with the lowest down payment required for the most efficient systems. The loans have a 2.99% annual percentage rate and terms of three to ten years.

The utilities chose AFC First Financial Corporation will provide the financing. The firm, a licensed Connecticut lender, has specialized in providing energy financing to Connecticut homeowners through the CT Solar Lease program with CEFIA, among other programs. Further information about the program is available at http://www.ctenergyloan.com/.

CEFIA program

Law. PA 13-298 requires ECMB and CEFIA, in consultation with the electric and gas companies, to establish a program by April 1, 2014 to finance residential energy efficiency and renewable energy measures using private capital. The loans must be repaid on the electric or gas bills of participating customers.

The act requires that the program:

1. establish a process for determining which measures qualify for it;
2. prioritize measures based on their cost-effectiveness;
3. reduce peak electricity demand;
4. help participating customers obtain incentives, other cost savings, and financing for the measures, including gas heating equipment that is

Energy Star rated as well as oil and propane equipment that is at least 84% efficient;

5. identify knowledgeable contractors to install the measures and ensure that they are installed successfully;
6. finance the measures so that the repayment term does not exceed the improvement's average expected life; and
7. provide that the repayment, added to the customer's utility bill after installation, is no more than the original utility bill.

Under the program, if the customer does not repay his or her loan, his or her utility service can be shut off. This provision does not apply if the customer has a pending complaint, investigation, hearing, or appeal challenging the accuracy, terms, or related issues regarding the loan. The loan repayment is treated like a utility bill for purposes of the laws that limit when and under what circumstances a utility can terminate service. In addition, the program must:

1. establish program guidelines to address the ramifications of on-bill repayment and the risks of service disconnections for low-income and other hardship customers;
2. require that billing and collection services be available whether or not the energy or fuel the utility delivers is the customer's primary energy source; and
3. require that the repayment obligation must be assigned to subsequent property owners once ECMB and CEFIA develop guidelines regarding timely notice to the new owner, but the obligation does not apply when a tenant or receiver of rents becomes liable for utility bills under existing laws.

These three guidelines are subject to PURA review and approval. The review, an uncontested proceeding, must begin when the guidelines are filed with PURA and is considered complete no more than 90 days after the filing.

Repayments for improvements connected with heating must be counted as heating expenses for (1) the Connecticut Energy Assistance Program and (2) utility programs that match customer payments in reducing the customer's arrearage.

Implementation. CEFIA will administer the program and is in the process of implementing it. It has chosen Concord Loan Servicing as the master servicer for the program. The firm will (1) send bill instructions to the utilities, (2) collect loan repayments from them and distribute the funds to the capital providers, and (3) collect data on the program’s effectiveness.

CEFIA anticipates that the first phase of its program will go into operation in November 2014. In this phase, (1) non-payment of the loans will not result in the shut off of utility service and (2) the unpaid amount of a loan will not automatically be transferred to a new owner if the property is sold. CEFIA is developing a second phase of the program that may include these provisions. The second phase could also include additional loan products and capital providers. CEFIA anticipates that its board will vote on this phase in August 2014 and that, if approved, the second phase will begin in mid-2015.

C-PACE

The law requires CEFIA to establish a C-PACE program for qualifying commercial property (including multifamily buildings with five or more units) within municipalities that choose to participate in the program. C-PACE allows building owners to finance qualifying energy efficiency and renewable energy improvements through placing a voluntary assessment on their property tax bill. PA 13-116 adds (1) district heating and cooling and (2) solar thermal or geothermal system projects, to the types of energy improvements that may be financed under the program.

Property owners pay for the improvements over time through this additional charge on their property tax bill and the repayment obligation transfers automatically to the next owner if the property is sold. Similar to a sewer tax assessment, capital provided under the C-PACE program is secured by a lien on the property. This arrangement spreads the cost of energy improvements, such as energy efficient boilers, upgraded insulation, new windows, or solar installations, over the expected life of the measure.

For municipalities to opt in to C-PACE, their legislative body must sign an agreement with CEFIA, under which the municipality agrees to assess, collect, remit, and assign benefit assessments to CEFIA in return for energy improvements for benefited property owners within the municipality and for reimbursement of costs the municipality incurs in performing its duties. To date, 75 municipalities have opted in to the program (see Table 1).

Table 1: Municipalities That Have Opted in to C-PACE

Ansonia	Granby	Seymour
Avon	Greenwich	Simsbury
Beacon Falls	Groton	Southbury
Berlin	Hartford	Southington
Bethel	Killingworth	Sprague
Bloomfield	Manchester	Stafford
Branford	Mansfield	Stamford
Bridgeport	Meriden	Stonington
Brookfield	Middletown	Stratford
Canaan	Milford	Suffield
Canton	Montville	Tolland
Chester	New Britain	Torrington
Clinton	New Haven	Trumbull
Coventry	New London	Vernon
Danbury	New Milford	Waterbury
Durham	Newtown	Waterford
East Granby	North Branford	West Hartford
East Haddam	North Canaan	West Haven
East Hampton	Norwalk	Westbrook
East Hartford	Norwich	Westport
East Windsor	Old Saybrook	Wilton
Enfield	Plainville	Windham
Fairfield	Portland	Windsor
Farmington	Putnam	Windsor Locks
Glastonbury	Rocky Hill	Wethersfield

Further information about C-PACE is available at http://www.c-pace.com/site/page/view/about.

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