VEIC Study Review Synthesis
Chapter 10 - Energy Finance Programs
July 5, 2012

Summary of Chapter Intent

a. Financing is a critical tool to enable individuals, businesses and government to undertake energy efficiency and sustainable energy investment due to the capital requirements involved. Given the scale of the required investment, assuring that such financing is readily available on reasonable terms is one of the critical energy policy priorities. Additionally, customer incentive/ rebate programs should be directed towards maximizing the leverage they can provide in facilitating such financing, with the goal of ultimately supporting market transformation.

b. New Hampshire continues to face challenges in creating an adequately capitalized and sustainable financing model serving all market sectors. Some of the concerns include the currently disaggregated approach to finance programs, the lack of an established EE/SE capital market, informational gaps and lack of awareness, and the small scale and consequent higher cost of current efforts. A related concern is that federal ARRA funds that have supported various EE and SE programs are coming to an end.

c. The VEIC Study provided a wealth of information and suggestions for New Hampshire to consider in addressing these challenges including a review of best practices from other states. Among the key factors influencing success, the study recommends that financing:

   - Have a solid link to audits;
   - Be sustainable and adequate to meet goals;
   - Achieve significant participation;
   - Attract third party investors;
   - Reflect a highly coordinated approach.

Chapter Teams Findings

The Study Team thoroughly reviewed the VEIC report and recommendations in the context of the Study Team assessment tool, seeking to identify the most significant areas for potential action and to highlight the recommendations that provide the best opportunity for high positive impacts in the near to medium term. Based on this review the Study Team developed a high-level approach in defining a path forward designed to build the financial infrastructure needed to support energy efficiency and sustainable energy goals for the state. Once the overall direction is established, then many of the specific individual recommendations in the VEIC Report will be directly relevant and should be reviewed in the context of continued implementation.

Top Priorities for Early Action.

While the VEIC study strongly advocated for a single, statewide financing entity to achieve maximum efficiency and scale, the Study Team was not unanimous in supporting this concept, both because of practical and political difficulties as well as a concern that such a solution could disrupt rather than build on current initiatives. The Team did agree that key features of the detailed VEIC recommendations should be adopted by the state of New Hampshire in the context of two distinct financing tracks: Coordination with CORE Utility programs, and PACE.

Financing Track 1: Coordination of Existing Loan Programs

The Team recommends that the various existing loan programs evolve over time towards a consolidated, coordinated implementation approach operated in conjunction with and in support of the utility CORE programs.

Among the short term goals would be improved consistency in loan programs, and a narrowing down of the number of loan models being used. Loan programs should leverage CORE program infrastructure and customer contact for loan qualification, audits, verification, origination and servicing to the extent feasible. Marketing of loan offerings to customers should be coordinated with CORE programs to increase customer awareness of energy efficiency as well as the number and value of loans being served at the lowest cost. Among the complications to be addressed are the varying requirements of different funding sources - notably, federally funded programs have limitations and requirements that can increase costs and compliance requirements.

Two key goals going forward would be to stimulate increasing levels of demand for energy efficiency loan products and to identify significant new sources of funding from commercial sources that can be added to the loan pool – these issues should be identified as longer term priorities for the cooperating entities and for the state.

Improving the coordination, efficiency, scale and success of financing in conjunction with and in support of the utility CORE programs is seen as the single most important step the state of New Hampshire can take at this time to better leverage existing resources and to promote market transformation for energy efficiency financing while maximizing the value of ratepayer dollars.

The Team believes this recommendation can be implemented by cooperation and agreement among the various parties. Consent from federal funding sources and approval of the Commission pursuant to its oversight of the CORE programs will likely be required. The Study Team believes this initiative would provide positive value in increasing cost effective energy efficiency at a relatively low cost and would, over time, support the expansion of loan activity funded by commercial financial entities.

Financing Track 2: Property Assessed Clean Energy (PACE) Program Implementation

The Study Team agrees that PACE offers the prospects of leveraging capital resources for energy efficiency and sustainable energy on a very large scale and at a relatively low cost under a very stable, collaborative, community-based model. While the momentum for PACE slowed substantially as a result of the Federal Housing Authority (FHA position on security issues (so-called "involuntary subordination") with residential PACE loans, the Study Team believes the PACE model, for both residential and commercial loans, will be a viable model for long term financing of energy efficiency and sustainable energy investments. One key criterion for success in New Hampshire is coordination. Since many smaller communities in New Hampshire will not be able to develop and administer PACE programs efficiently, a statewide coordination function needs to be developed. This statewide coordination could serve to bring together the key participants in a fully functioning PACE system including municipalities, financing entities, and energy business enterprises and provide key implementation functions to participating entities potentially including:

- Loan origination, servicing, collection and record-keeping
- Assuring accurate property tax records
- Marketing and public awareness of the PACE Program and its operation

Based on recent successes with PACE models involving public/private collaboration and in providing financing for non-residential projects, and in anticipation of a resolution of the FHA position, the Team recommends that the EESE Board prioritize this effort, and support an effort to define a statewide coordinating framework and to determine the administrative or legislative actions needed to enable a successful PACE program to emerge in New Hampshire.

Area for Further Consideration in the Medium and Long Term:

Among the areas identified by VEIC and worthy of additional consideration, the Study Team identifies the following VEIC recommendations:

- While the Study Team was not unanimous in supporting the VEIC recommendation for a single, statewide financing entity, this is an option that may be appropriate for further study. (Chapter 10 recommendations 1, 2 and 9)
- Improve coordination and standardization of audit procedures and requirements imposed on commercial loan applicants. (Chapter 10 recommendation 3).
- Tailor financial product offers, marketing and requirements to sectors in order to increase effectiveness and broaden interest. (Chapter 10 recommendations 4 and 7).
- Explore options for significantly increased the capital funding available and deployed to energy efficiency (Chapter 10 recommendations 5 and 10). ……..
- Explore opportunities to take advantage of qualified energy conservation bonds to bring significant private capital into the mix of energy efficiency capital funding sources (Chapter 10, part of recommendation 10.5).
- Better utilize performance contracting (Chapter 10 recommendation 13). Performance contracting provides a mechanism for bringing energy service providers into the financing mix for efficiency and renewable projects and may offer advantages in supporting market transformation goals. The Study Team notes that the state has taken a positive step forward with the passage of SB252 increasing the possible term for energy performance contracts to 20 years.

Background:

The following background information was provided in the VEIC report on pages 10-2 and following. The Study Review Team notes that these many of these programs have continued to operate in the period subsequent to the writing of the VEIC report and the data in the table has not been updated. The evolution of these programs has included expansion of the Better Buildings program to include an additional deployment strategy, direct funding of utility CORE loan programs that was not in place at the time of the VEIC Report. Also, the Study Team notes that HB 1490, the deployment of future RGGI funds has been amended. Previous RGGI grants have been a significant funding source for financing programs as noted below. Under the new law, some RGGI funds will be directed back to ratepayers, with the remainder deployed for energy efficiency under the CORE utility programs regulated by the Commission. Among the different loan programs listed below, the loan models being utilized include:

- Interest rate buy-down for capital funding from banks (with banks undertaking loan origination and servicing
- Loan loss reserve provisions providing banks with a measure of capital security
- Direct funding of loans at low or zero interest
- Combinations of grants and loans
- Co-funding of loans from banks

(VEIC Report page 10-2): The most successful energy efficiency and sustainable energy approaches integrate finance directly into the program offerings, and use energy audits, education, and outreach to attract participants to the financing. In this regard, financing is just one tool (albeit crucial) in a well-designed and implemented energy program. Without an established or growing marketplace for energy efficiency measures that can sustain an adequate level of demand, the best-designed and implemented finance programs will be ineffective.

Table 10.1. Financing and Finance Related Programs in New Hampshire: Overview
<NOTE: This Table is reprinted from the VEIC report and does not reflect any updates or additional corrections.>

State Programs	Dollar Volume to Date	Total Budget[1]	Source	Year of Program Inception	Year of Program Expiration	Sector
Better Buildings	$32,770	$10M	ARRA	2011	2013	Commercial & Residential
Enterprise Energy Fund	$4.7M	$6.6M	ARRA	2010	None	Commercial
Municipal Energy Reduction Fund	$1.3M	$1.5M	RGGI	2010	None	Municipal
Business Energy Conservation Loan	$3.9M	$4M	RGGI	2009	None	Commercial
Giving Power Back (RMANH)[3]	$1.3M	$3.3M	RGGI	2009	2013	Commercial
Pay for Performance[3]	$0	$5M	RGGI	2011	2012	Commercial
Total	**$11.2M**	**$30.4M**				
Utility Programs	**Dollar Volume to Date**	**Total Budget**	**Source**	**Year of Program Inception**	**Year of Program Expiration**	**Sector**
NHEC Residential EE Loan	$68,000	$200,000	RGGI	2010	None	Residential
NHEC SmartSTART	$730,000	$1M	NHEC	2002	None	Commercial
National Grid Residential Loan	$3,000	$3,000	RGGI	2010	None	Residential
National Grid Business	$300,000	Annually	SBC	2002	None	Commercial

Loan		Set				
National Grid Municipal Loan	$0	$300,000	RGGI	2010	None	Municipal
PSNH EE Loan	$380,000	$500,000	RGGI	2010	None	Residential
PSNH SmartSTART	$5.2M	$2M	SBC	2004	None	Municipal
PSNH Energy Rewards[3]	$3.2M	Annually Set	SBC	2004	None	Commercial
Unitil Residential Loan	$140,000	$300,000	RGGI	2010	None	Residential
Unitil Municipal Loan	$0	$430,000	RGGI	2010	None	Municipal
Total	**$10M**	**$4.7M**[2]				
Private Funding	**Dollar Volume to Date ($M)**	**Total Budget ($M)**	**Source**	**Year of Program Inception**	**Year of Program Expiration**	**Sector**
People's United Bank	$1.8M	No cap	Private	2006	None	Commercial
Total	**$1.8M**					

Grand Totals	***Dollars Committed***	***Total Budget***
Finance & Finance Related	***$23M***	***$35.5M***[2]
Finance Only Grand Totals[4]	***$18.5M***	***$26.7M***

1 – Total budgets for Better Buildings and Enterprise Energy Fund include administration costs
2 – Figure uses 2010 Annual funding amounts for People's United: $420k; Nat. Grid Business Loan: $50k; PSNH Energy Rewards: $508k
3 – Programs are funding based (grant/rebate incentive) but linked to finance programs
4 – Excludes Giving Power Back, Pay for Performance, and PSNH Energy Rewards

The current programs in New Hampshire face a variety of challenges and opportunities, common to those being faced in energy programs across much of the nation:

- Disaggregated program approach.
- Lack of established or well-functioning market.
- Programs are relatively new and have had only a short time frame for fund disbursement.
- Future funding uncertainty.
- Capital levels are not adequate or sustainable.
- The majority of current programs are not maximizing opportunities for leveraging financial capital from lending institutions.
- Finance programs and financial institutions struggle to assess risk premiums appropriately.
- Competing terms hinder program uptake and may be resulting in a "wait and see" delay.
- There are conflicting requirements for audit processes in commercial and residential sectors.
- Current residential finance programs are too small to provide financing for an optimal number of households.
- Residential programs are financing low-hanging fruit - There could be large savings that are not being captured because homeowners may be implementing only one or two measures…

- Marketing and outreach could be expanded - There appears to be limited information, education, and outreach about the multitude of financing programs.