NJCEP Financing Program

TRC Pilot Proposal for a Multi-family Financing Program

Overview – Need for a financing pilot

As set forth in the draft 2010 Energy Master Plan (EMP), the Board is exploring various mechanisms to increase the revenues generated by and through New Jersey's Clean Energy Program (NJCEP) in order to keep the same Clean Energy funding levels over time but decrease the annual amount paid through the societal benefits charges (SBC). The SBC is a non-bypassable charge that is paid by all electric and natural gas customers regardless of where or how they purchase their electricity or gas. Currently, in addition to the Clean Energy fund for NJCEP, the SBC funds several programs including nuclear plant decommissioning, gas plant site remediation and universal services. As set forth in the draft EMP this reduction in the annual Clean Energy SBC funds will, in turn, assist in reducing the cost of electricity and natural gas in New Jersey.

Some mechanisms for increasing the revenues generated by the NJCEP in order to maintain the Clean Energy funding level over time but reduce the annual SBC are: financing programs such as a revolving loan fund; energy efficiency portfolio standards (EEPS) and EEPS certificates; and PJM capacity credits. The EEPS and EE certificates would be similar to the current renewable energy portfolio standard (RPS) and the renewable energy (RE) certificates (REC) that are traded in the market for RPS compliance and assist in financing the development of RE projects. The RPS revenues are not managed or maintained by the State of New Jersey but provide revenues in the RE market. The transition to solar REC financing allowed the state to reduce rebates but increase financial incentives.

In addition to the EMP goal to transition to increase other revenues sources into the Clean Energy program, the NJCEP administrative structure is also in transition. This pilot will assist in providing NJCEP with data to inform the EMP goal of maintaining the Clean Energy funding level while decreasing the annual SBC rate component, as well as inform the Board on the transition of the NJCEP administrative structure. The key aspects to evaluate in this or any expanded NJCEP pilot is the uptake rate of the financing incentives by NJCEP customer and how these financing programs can best be administered.

This NJCEP financing pilot may be expanded to additional financing pilots in other NJCEP areas including Pay for Performance program, Combine Heat and Power/Fuel Cell Program in partnership with the gas utilities, Direct Install and Home Performance with Energy Star. While both Pay for Performance and HPwES already have financing components with current incentives this new mechanism may be a more efficient method for expanding those existing financing programs because of the unique aspects of this mechanism as described below. Staff would seek your additional comments on any additional expanded pilots before recommending any change in programs to the Board. Your comments on this proposal will assist staff in their recommendations to the Board for this new multi-family financing.

Multi-Family Financing Pilot – Overview

TRC is proposing to add a new financing program to New Jersey's Clean Energy Program which will offer competitive rate financing to owners of multi-family buildings. The proposed pilot is consistent with the objectives set forth in the draft Energy Master Plan and the recently issued Request for Information (RFI) issued by Treasury for the administration and management of the NJCEP.

The proposed Multi-family Financing Program MFFP will provide multi-family building owners in New Jersey with access to capital at competitive borrowing rates to perform energy efficiency upgrades in their facilities. The financing option will be in addition to program incentives currently available through the Pay for Performance Program (P4P). The proposed program structure is modeled after the New York State Energy Research Development Authority's (NYSERDA's) Green Job/Green New York Multi-family Building Energy Efficiency Financing Program, which is coupled with its Multi-family Performance Program. The financial institutions in New York that participate in NYSERDA's program have a large overlap with financial institutions in New Jersey that would likely also participate in New Jersey's program.

Background

Currently, multi-family customers in New Jersey can perform comprehensive energy efficiency upgrades through two NJCEP offerings: the Pay for Performance Program (P4P) for larger facilities (four or more stories) and the Home Performance with Energy Star Program (HPwES) for smaller buildings.

Pay for Performance

The Pay for Performance program is offered through the C&I portion of the NJCEP and is available to any commercial or industrial customer with a peak demand greater than 100 kW[1]. The program is delivered through a network of P4P partners which consists of qualified engineering firms and ESCO's that perform comprehensive energy efficiency upgrades. The partners identify energy conservation measures (ECMs) through an energy audit, and then model these improvements in DOE-2 compliant energy simulation programs such as eQuest or Trace 700 to estimate project savings. The project scope is refined to select cost effective measures which achieve a 10% IRR or greater, which the partner then uses to develop an Energy Reduction Plan (ERP), which is the basis for calculating program incentives. The NJCEP C&I Market Manager performs a thorough review of the ERP and the ASHRAE-compliant building energy simulation model for accuracy and compliance with program rules and guidelines.

[1] The 100 kW peak demand requirement is waived for affordable (low-income, subsidized, HUD) multi-family housing.

NYSERDA's Green Jobs / Green New York Multi-family Building Energy Efficiency Financing Program

NYSERDA's MF financing offering utilizes banks and other lenders in New York to provide loans to multi-family building owners which are used to offset the un-incentivized portion of a project participating in the Multi-family Performance Program (MPP)[2]. A customer participating in MPP will seek out a partner to perform an energy audit and model ECM's in a simulation program, compiling the results in an Energy Reduction Plan. Once the ERP is approved by the program manager, the building owner has the option to seek out lenders willing to provide a loan for the building upgrades. The program manager will provide the customer with a "Pre-Approval for Energy Efficiency Measures" form, which outlines the eligible program measures, along with their costs and SIR (savings-to-investment Ratio) based on the approved ERP; this document is then used by the customer to discuss project details with lending institutions and negotiate terms. Upon agreement of loan terms, the customer and lender will sign a participation agreement which is then reviewed and approved by the program manager. After the loan closes, NYSERDA will pay the lender 50% of the total loan cost, at 0% interest, which greatly offsets the financial risk taken on by the lender. As the customer repays the loan over time, the lender repays NYSERDA's Master Loan Servicer who provides monthly payments to NYSERDA's account and develops monthly reports.

NJCEP Proposed Multi-family Pay for Performance Financing Program

NJCEP incentives are currently split between the Residential EE programs and the C&I EE programs depending on the building type (multi story building verse individual garden apartment buildings) and/or whether the units are master or individually metered. An important component of the proposed MFFP is to include all multi-family buildings under the proposed MFFP regardless of building type or metering arrangement. The existing Pay for Performance Program will remain unchanged for all other customer types. By specifically targeting the multi-family sector, this program will be able to streamline its processes due to the lack of variation between projects and building types. Furthermore, a more qualified and industry specific network of partners with unique multi-family experience can be developed to provide additional benefits to customers. The program will be directly marketed to multi-family building owners across the State which will encourage increased participation as MFP4P will provide a solution specifically designed for multi-family buildings and owners.

Revision of Eligibility Requirements

Several factors are considered when determining whether a project should fall under Pay for Performance or the Home Performance with Energy Star Program. These factors include the number of stories, type of construction (new or retrofit), and the existence of a centralized heating plant. To simplify this determination, increase the number of building owners who would be eligible for financing, and more closely mirror NYSERDA's programs, the new eligibility requirements for the proposed MFFP

[2] Customers who discontinue participation in MPP after receiving an Energy Reduction Plan may also be eligible for financing for any improvements expressed in the ERP.

program would use the number of units in a given multi-family building to determine whether a project falls into MFFP or HPwES. Specifically, any facility with 5 or more units would fall under MFF4, which is currently the threshold for eligibility in NYSERDA's MPP program.[3]

The proposed MFFP Program will supplement the P4P program to help multi -family building owner's access capital to finance energy saving projects which will cover the non-incentivized portion of the project's cost. Since many multi-family customers lack the up-front capital to implement these large efficiency projects, this financing will provide a solution which allows customers to participate in these programs and achieve significant operating cost savings, which in turn will be used to pay back the lender.

Program Design

The proposed MFF4is designed after NYSERDA's Green Job/Green New York Multi-family Building Energy Efficiency Financing Program which includes the following provisions:

- Upon receiving an approved Energy Reduction Plan through MFFP a building owner who wishes to seek out a loan to help pay for an efficiency project will request a "Pre-approval for Energy Efficiency Measures" form from the Market Manager, which will be based on the results of the ERP, presenting eligible measures, costs, lifetimes, and SIR.
- The building owner can then seek out any qualified lender in the state willing to finance the project to negotiate loan terms. Upon agreement of terms, a participation agreement is signed and submitted to the Market Manager for review and approval, along with the pre-approval form and a preliminary loan summary.
- Upon close of the loan, the NJCEP will pay 50% of the loan cost to the lender at 0% interest, which greatly reduces the risk incurred by the lender and will incentivize lender participation in the program. As the loan is paid back by the customer over time, the lender will provide monthly payments to the NJCEP to pay off the 50% portion of its loan.
- The review of loan terms, program reporting, recording keeping, and payment coordination between the lender and the NJCEP will be the responsibility of a Master Loan Servicer or the Market Manager.

Lending and Payment Structure

The loan agreement between the lender and the customer will fall under the MFFP guidelines, which will be dictated by the "Participation Agreement" and the "Pre-Approval for Energy Efficiency Measures" form.

- The value of the loan cannot exceed the cost of the non-incentivized portion of the EE measures listed on the pre-approval form.

[3] In addition, buildings may contain nonresidential-related commercial space if that space does not consist of more than 50% of the gross heated square footage of the entire project.

- The maximum length of the loan term will be determined by the weighted average of the measure lifetimes included on this preapproval form.
- The participant and the lender will have 180 days upon approval to execute the loan and inform the NJCEP.
- The Master Loan Servicer (or the Market Manager) will provide final approval and authorize payment of 50% of the loan value to the lender.

Lenders

This program will provide an excellent opportunity for lenders in New Jersey to take on low-risk loans and promote energy saving projects for multi-family customers. Lenders will not have to be pre-approved to participate; instead, eligible lenders will be defined by:

(1) a credit union insured by the New Jersey State Credit Union League, a Community Development Financial Institution, or any commercial bank, trust company, savings bank, savings and loan association, foreign bank credit union, or other financial institution authorized by Federal or State law to operate in the State of New Jersey which completes the Lender Participation Agreement, attached herein, with the NJ OCE;

(2) a leasing subsidiary of a bank holding company or a leasing company owned by an eligible Lender.

Attachments

Appendix A - Proposed Multi-family Financing Program Flow Chart

Appendix A – Multi-family Financing Program Flow Chart