State of New Jersey
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KIM GUADAGNO
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STEFANIE A. BRAND
Director

September 14, 2011

Via Overnight Delivery and Electronic Mail
Honorable Kristi Izzo, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

Re: In the Matter of Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012 Clean Energy Programs: 2011 Programs and Budgets: Compliance Filings Proposed Multi-family Financing Program Pilot BPU Docket Nos. EO07030203 and EO10110865

Dear Secretary Izzo:

Enclosed please find an original and ten copies of comments submitted on behalf of the New Jersey Division of Rate Counsel in connection with the above-captioned matters. Copies of the comments are being provided to all parties by electronic mail and hard copies will be provided upon request to our office.

We are enclosing one additional copy of the comments. Please stamp and date the extra copy as "filed" and return it in our self-addressed stamped envelope.

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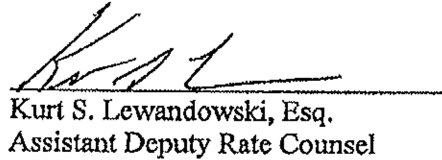
Thank you for your consideration and assistance.

Respectfully submitted,

STEFANIE A. BRAND
Director, Division of Rate Counsel

By: 

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In the Matter of Comprehensive Energy Efficiency and Renewable Energy Resource Analysis for 2009-2012 Clean Energy Programs: 2011 Programs and Budgets: Compliance Filings Proposed Multi-family Financing Program Pilot BPU Docket Nos. EO07030203 and EO10110865

Comments of the New Jersey Division of Rate Counsel

September 14, 2011

The Division of Rate Counsel ("Rate Counsel") would like to thank the Board of Public Utilities ("BPU" or "Board") for the opportunity to present our comments on the proposal to use 2011 Clean Energy Program ("CEP") funds for a Multi-family Financing Program pilot ("MFFP pilot"). The proposal was submitted to stakeholders for comment by the Applied Energy Group ("AEP") on behalf of the Office of Clean Energy ("OCE") in a notice issued August 29, 2011 (the "August 29 Notice"). Additional issues were raised by the OCE in an email dated August 31, 2011 ("August 31 e-mail").

Multi-Family Financing Program Pilot Proposal

The MFFP pilot proposal would provide owners of certain multi-family buildings in New Jersey with access to capital to perform energy efficiency ("EE") upgrades in their facilities. As noted in the proposal, the program structure is modeled after the New York State Energy Research Development Authority ("NYSERDA") Green Job/Green New York Multi-family Building Energy Efficiency Financing Program and associated Multi-family Performance Program. The proposed MFFP is an add-on financing component to the existing CEP Pay for Performance ("P4P") program to provide additional funding to support the customer portion of the project cost. MFFP Energy Reduction Plans ("ERPs") would be subject to the same

requirements as other P4P ERPs. This is preferable to the NYSERDA program structure, in that unlike the NYSERDA program the MFFP would require demonstration of actual energy savings in order to release the final portion of the P4P incentive.

1. Level of Financial Incentive and Sustainability of the Revolving Loan Fund

The OCE's MFFP proposal has similarities to PSE&G's multi-family program, which offers a seven-year buy-down of the project's simple payback years (to a two-year minimum payback) and zero percent on-bill financing for remaining project costs. Both the proposed CEP pilot and existing PSE&G program target multi-family buildings, and both would offer zero percent interest loans. In contrast to the proposed MFFP, PSE&G's multi-family program has generally targeted the affordable housing multi-family sector. The affordable housing sector has its own set of hurdles (e.g., greater difficulty accessing capital) and opportunities (e.g., potential for efficiency measures to reduce ratepayer support for low income energy assistance) in addition to other issues faced by multi-family energy efficiency projects. Participants in a program that targets a wider population, such as the MFFP, may have greater ability to access capital and to pay greater than zero interest rates. Other than by reference to NYSERDA's program, the OCE has not presented any basis for the zero percent interest rate.

The sustainability of the revolving loan fund is clearly a goal of the draft 2011 Energy Master Plan (See draft EMP, June 2011, pp. 113-114). The OCE has not presented arguments about the specific hurdles facing the target population that necessitate the development of the MFFP. Such a discussion could illuminate ways to make a more sustainable fund and minimize bad debt while still addressing the obstacles faced by multi-family building owners. For

example, the program could charge a small amount of interest—e.g., enough to cover inflation—to help ensure the long term sustainability of the MFFP loan fund.

In addition to the requirement that the value of the loan cannot exceed the cost of the non-incentivised portion of the pre-approved EE measures, the OCE should set a ceiling on the loan amount. For example, NYSERDA's multi-family program set a ceiling on the total amount of the loan at $5,000 per apartment and $500,000 per project.[1] Massachusetts' new construction loan program for businesses also set loan ceilings of $100,000 with terms up to 7 years.[2]

2. Scale of the MFFP

In its proposal, the OCE did not provide a basis for the size of the MFFP budget. By separate email dated September 2, 2011, Mike Ambrosio of AEP, the CEP Coordinator, indicated that the proposed MFFP budget of $10 million could fund up to approximately 40 projects based on the average project cost and incentive levels of multi-family projects currently in the P4P program. This email indicated that there are currently 44 approved multi-family applications in P4P, 28 of which have approved ERPs, and that there appears to be market demand for a multi-family financing program based on input from several multi-family building owners. The 44 multi-family projects with approved P4P applications would be eligible for financing; however, it is not clear whether additional incentives are necessary since these projects already had approved applications. The OCE should demonstrate how many current and future projects will require financing and justify the total budget.

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[1] See NYSERDA. Multifamily Performance Portfolio fact sheet at http://getenergysmart.org/Files/Multifamily/res-mpp-fact.pdf.
[2] See Mass Save. Mass Save Financing for Businesses at http://www.masssave.com/.

3. Evaluation Process

It is appropriate that the MFFP is proposed as a pilot, because the OCE has limited experience with several aspects of the program. Based on a review of the Database of State Incentives for Renewables and Efficiency, it appears that the OCE's proposed financial structure for multi-family buildings is a relatively new type of funding structure in other States as well.[3] NYSERDA is also just launching its multi-family financing program. Given that this program design is new to the OCE, Rate Counsel strongly recommends that the CEP have a formal process to evaluate the need for and the magnitude of financing per project and for the program as a whole after one year. The MFFP pilot proposal should be modified based on the results of this evaluation.

4. Expanding Revolving Loan Mechanism Beyond MFFP

The August 31 e-mail suggested expanding this financing mechanism to support Combined Heat and Power ("CHP"), Direct Install, other Pay for Performance sectors, wind, biomass, or solar resource development and solicited comments on the expansion of its pilot proposal to these areas. Rate Counsel submits that until the OCE gains experience with this pilot program, it should be cautious about expanding this financing mechanism to other EE and renewable energy programs.

5. Disposition of Ratepayer Funds

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[3] Maryland's DHCD - Be SMART Multi-Family Efficiency Loan Program is similar but targets affordable housing and sets loan terms and interest rates on a project-by-project basis. See North Carolina State University and the U.S. Department of Energy, Database of State Incentives for Renewables and Efficiency: Maryland Incentives/Policies for Energy Efficiency at http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=MD76F&re=0&ee=1.

Per the December 22, 2010 Board Order setting forth the 2011 CEP budget (Dkt. Nos EO07030203 and EO10110865), $30 million was set aside for a new grant/loan program, for which the OCE was supposedly developing a competitive solicitation. This solicitation was never released. By email on September 2, 2011, AEP indicated that Board Staff had originally intended to issue an RFP for a grant-loan program but that, based on discussions at EE Committee meetings and discussions with TRC and others, Board Staff is now recommending the proposed MFFP as an alternative to the solicitation originally envisioned. In the meantime, $10 million in ratepayer funds have gone unused for three-quarters of the year.

In addition, there have been no proposals to date for use of the remaining $20 million in this budget category. Rate Counsel has been informed that Board Staff is in the process of coordinating with the utilities, Market Managers and others to develop additional proposals for the use of this funding, and that Board Staff does not anticipate the release of an RFP related to the additional funds at this point in time. Because of these delays, the remaining $20 million is unlikely to be tapped this year, no less provide any benefits to ratepayers. Rate Counsel urges the OCE to expedite the development of a proposal or solicitation to use these funds, or promptly return them to ratepayers.

Conclusion and Recommendations

Rate Counsel does not object to the proposed MFFP pilot. However, Rate Counsel's support is conditioned upon the following:

1. The OCE should demonstrate the need for this pilot.

2. Program evaluation and cost benefit analysis should be conducted at the end of the pilot period. Before the pilot is launched as a full-scale program, energy savings and detailed costs estimates should be provided.

3. The OCE should consider ways to make a more sustainable revolving loan fund and minimize bad debt while still addressing the obstacles faced by multi-family building owners.

4. The OCE should provide ceilings on loan amounts depending on the size of projects (similar to those adopted by NYSERDA's multi-family program)

In addition, Rate Counsel urges the OCE to expedite the development of a proposal or solicitation to use the remaining $20 million in competitive solicitation/loan grant funds or, in the alternative, return the unused funds to ratepayers.

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609-392-1000 • Fax 609-396-4231 • www.njua.com

VIA ELECTRONIC MAIL
(publiccomments@njcleanenergy.com)

September 13, 2011

Ms. Kristi Izzo, Secretary
New Jersey Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

RE: Request for Comments regarding the August 29, 2011 TRC Pilot Proposal for a Multi-Family Financing Program

Dear Secretary Izzo:

On behalf of the electric and gas utility company members of the New Jersey Utilities Association (NJUA): Atlantic City Electric, Elizabethtown Gas Company, Jersey Central Power & Light, Public Service Electric and Gas, New Jersey Natural Gas Company, South Jersey Gas and Rockland Electric, please find below comments on the above-captioned matter.

We have reviewed the TRC Pilot Proposal for a Multi-Family Financing Program circulated electronically by Office of Clean Energy ("OCE") on August 29, 2011. NJUA commends the Office of Clean Energy for exploring additional program options to make investing in energy efficiency more attractive or even feasible for specific customer segments along with the effort to coordinate with State energy policy goals as articulated in the recently released Draft Energy Master Plan (Draft EMP). We are concerned, however, that there is not sufficient information accompanying this specific proposal to reach any conclusions or even make sound assumptions regarding whether this approach would be cost-effective. Additionally, we believe that any decision on a major programming change for New Jersey's Clean Energy Program (NJCEP) should be made in conjunction with all other elements of New Jersey's efforts to promote energy efficiency. Taking into consideration both other financing alternatives that may be identified and the overall direction any NJCEP transition may take should result in a stronger long term program solution. A few more specific thoughts follow:

- NJUA recognizes the importance of transitioning to cost effective solutions for securing energy efficiency. Significant input on that process has been provided to the State through comments on the Draft Energy Master Plan, the pending reports to be provided by the Energy Master Plan Working Groups, and responses to the Request for Information on Management of New Jersey's Clean Energy Program. In light of the State's current process to review all of those

submissions and the information they will presumably contain, as well as the fact that more comprehensive guidance may be established through the issuance of a final Energy Master Plan, it appears premature to forge ahead with dramatically different programming structures in the absence of this information at this time.

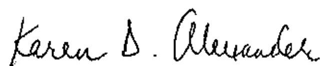
- The proposal provides a general overview of the proposed program design but does not provide sufficient information on the modeling for participants, program costs, expected energy savings, program controls, lender oversight, etc. to allow stakeholders to effectively consider the merits of this new approach.

- In addition to having concerns that there is a lack of sufficient information on cost-effectiveness and alternatives, as well as the need to make any changes in a coordinated and comprehensive manner, NJUA strongly believes that it would not be appropriate to expand this potential pilot for other NJCEP areas at this time.

- Although we strongly urge the Board to delay any activity in this area to allow other more pressing decisions regarding the future of the NJCEP program structure to properly be made first, to the extent a multi-family pilot is launched, it should allow sufficient time to accumulate practical, real world input before consideration of whether to continue, modify or expand program applicability to other customer groups or NJCEP programs.

On behalf of our energy utility member companies, we appreciate the opportunity to provide comments on this Proposal. Please do not hesitate to contact me if you need additional information or have any questions.

Respectfully submitted,



Karen D. Alexander
President and Chief Executive Officer

c: Michael Winka, BPU
Michael Ambrosio, AEG
Mona Mosser, BPU
oce@bpu.state.nj.us

September 15, 2011

Ms. Linda Wetzel
Director, Marketing & Communications
Applied Energy Group, Inc.
317 George Street, Suite 305
New Brunswick, NJ 08901

RE: Stakeholder Comments – Draft Multi-Family Financing Pilot Proposal by TRC

Ms. Wetzel:

On behalf of the New Jersey Apartment Association (NJAA), I am writing to applaud the Board's decision to take a fresh look at the Clean Energy Program and consider innovative approaches to incentivize conservation in multi-family housing. The NJAA has engaged with Board members, Board professional staff, and program coordinators on multi-family energy policy issues for many years and we are encouraged by the renewed attention focused on this important part of New Jersey's housing stock.

One-third of New Jersey's working families, young couples and seniors call apartment living "home." Of the **over 1 million rental units** in the Garden State, **approximately 250,000 of those are located in larger, professionally managed properties of 5 units or more.** Remarkably, and a direct reflection of our growth patterns in the 1950s and 1960s, fully one-half of all the apartment homes in New Jersey are concentrated in just 32 communities. The NJAA is the largest advocacy organization for professional multi-family owners, managers, builders and developers in the state. Our members own and manage over 180,000 apartment units.

Multi-family housing providers have made considerable investments over the years to improve the energy efficiency of their communities and to reduce energy consumption where economically and technologically possible.

Energy costs are one of the top uncontrollable expenses professional rental housing providers face. Efforts to increase energy efficiency (and lower utility bills) makes good business sense, promotes conservation, makes an apartment community more marketable – especially in these challenging economic times – and, to put it quite simply, conservation when possible is the right thing to do.

As housing providers, two of the three pieces of the energy consumption puzzle are beyond our control:

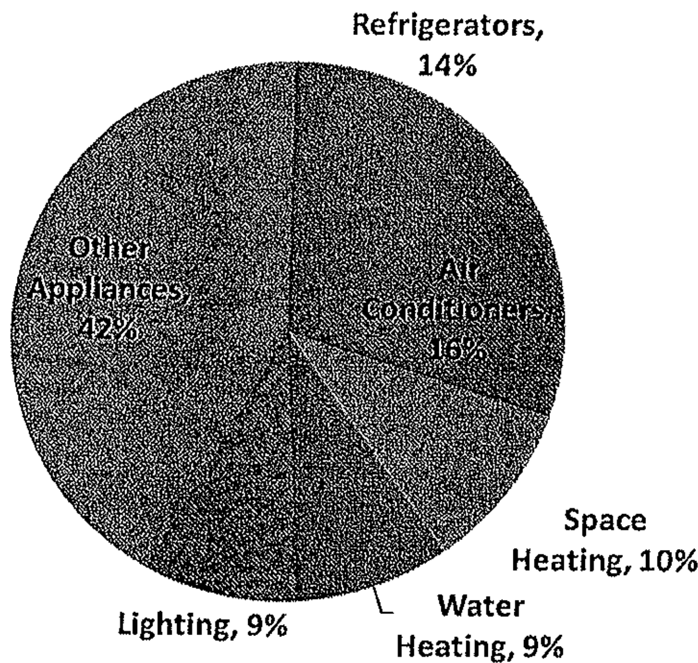
⇒ <u>We cannot control the **cost** of energy</u> – that is in primarily in the hands of the Board, and

⇒ <u>We cannot control the **consumption** of the energy</u> – that is in the hands of our residents.

Our members can, and do, through significant financial investments in new equipment and system upgrades, install high-efficiency equipment to empower our residents to conserve, yet the ultimate decision

to lower the thermostat in the winter (as opposed to opening a window), or turn off the air conditioning during a hot summer day while a resident is away at work, is left to each resident.

For reference, the US Energy Information Agency apportions residential electricity consumption end-use in this way:



Appliances in a furnished apartment typically include a refrigerator, HVAC unit, water heater and lighting. Interesting, **the largest since factor** ("other appliances" – 42%), is **attributed to a resident's own, personal electric appliances**, such as televisions, DVD players, computer equipment, coffee/espresso machines, toaster ovens, and radio/stereos.

Pay for Performance (P4P)

The NJAA has several members who utilize this program and we hope that more will come to learn the benefits of P4P. Two key issues which have arisen in discussions with our members, which we would like to share:

⇒ Under the current program, the 100 kW peak demand threshold is waived for government subsidized/income-restricted affordable housing projects, but not for privately financed multi-family. While waiving this requirement acts as a powerful incentive for subsidized rental housing operators to participate, it handicaps non-subsidized rental housing providers by creating an additional barrier to admission. It is our understanding that this 100 kW threshold is a step-down from a number that was even higher in recent years, but still believe it may be too high for many deserving projects. **We would ask that the Board consider leveling the playing field and waive this threshold for all multi-family properties looking to participate in P4P.**

⇒ Under the current program, a significant representative sample of bills must be obtained by property owners from their residents in directly-metered buildings. Many residents do not wish to share copies of their utility bills with property owners, regardless of the potential energy savings which could be achieved through equipment upgrades. This hesitancy to share utility bills by residents makes property owner participation in P4P exceedingly difficult – and often times impossible. **We would ask the Board to reducing the number of samples required for submission, or allow property owners flexibility to utilize the building's own consumption – like central heating/cooling, hot water, common areas, etc. – where the property owner pays directly, as a baseline.**

Again, the NJAA is pleased to submit these initial comments on the draft Multi-Family Financing Pilot and offer our continued support, expertise, and resources to Board, Board professional staff, and program coordinators in collaborative efforts to advance energy efficiency and conservation in multi-family housing.

Sincerely,

Conor G. Fennessy
Vice President – Government Affairs

September 13, 2011
TO: NJ Office of Clean Energy, NJ Clean Energy Program, NJ Economic Development Authority, NJ Board of Public Utilities
FR: John G. Puma – Senior Director Energy Management – Kamson Corporation
JPUMA@Kamsoncorp.com – 201-227-2288
RE: Comments Regarding NJCEP Multi-Family Financing Program – (Response in red)
publiccomments@njcleanenergy.com

These comments are intended to describe the practical aspects from the perspective of a Market Rate Multi-Family housing owner and manager of numerous properties with nearly 10,000 units here in NJ. We are also active participants in NY through NYSERDA managing several thousand more units. We are also certified partners with NJCEP and NYSERDA.

We are well versed in performing EE retrofits and have spent an inordinate amount of time seeking financing for these worthwhile projects.

We intimately understand the process of designing, qualifying and executing EE projects and clearly understand the difficulties of financing in this harsh credit market and understand the shortcomings of many financial programs both existing and proposed.

DRAFT

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. Multi-family Garden Style Apartments in most instances are not necessarily 4 stories or taller.

Point of clarification - HPwES is not exactly for smaller buildings – Multi-family EE programs are driven by who owns/pays for the meter and/or the type of heating plant (central plant or unit by unit) – HPwES while it accommodates smaller buildings – because of meter ownership rules includes properties that are massive – by way of example - we manage Fox Meadow in Maple Shade, NJ that has 1,492 individual units and resident meters plus a large number of house meters – not exactly a small property.

Moreover this property is a substantial worthwhile EE capital investment for us. This proposed finance program can not accommodate this property notwithstanding the fact that we could reduce our energy consumption by up to 50%. The cost of the retrofit is in excess of the finance limits proposed.

In realistic terms – meters and their ownership should have little to do with these programs other than using them to measure the efficacy of the implemented energy conservation measures; with one exception if the resident is paying for all of the utilities HPwES is appropriate in certain instances

We have been able to engineer and retrofit our properties to reduce our energy consumption in certain instances by almost 50% - sometimes more – but on average no less that 33%. The costs of these retrofits can be quite large on a unit by unit basis – typically between $3,000 and $6,000 per unit independent of the NJCEP programs. The incentives we earn in either program (and we are grateful thank you) are necessary to offset these huge costs.

The contrast in the programs from a monetary incentive standpoint are quite dissimilar oftentimes causing us to not retrofit certain inefficient properties because of the payback period, the huge capital investment and all this is based on who owns the meter. Structurally because of the monetary differences in the incentive programs – P4P vs. HPwES - it can be a disincentive.

There should be one program and one set of reasonable incentives to offset these huge costs.

The benefit to supporting these retrofits is quite substantial in terms of reducing energy consumption, creating commerce, tax revenues and jobs.

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].

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

It is absolutely inequitable to have 2 sets of rules for multi-family housing in financing and EE retrofits relative to, "Affordable vs. Market Rate." Developers and owners of affordable, low income, subsidized and HUD housing have virtually the same balance sheets and income statements as do Market Rate housing owners.

There is a fallacy that these, "Affordable," real estate developers and owners need additional support and are and as such have been treated as a special class in all instances - almost suggesting that they are performing charity or are disadvantaged - they are not. They as we are- are smart business people intent on creating as high of a return on capital as any other business – and Affordable do through the subsidies they garner of course Market rate housing get no subsidies or special treatment.

While these businesses sell or rent their properties/units at below market rate – the subsidies they obtain from the various federal and state sources bring them to parity with market rate housing in virtually every financial aspect. They make as much and perhaps more than Market Rate properties yet are treated as a higher class in this arena. The BPU in all fairness should create a level playing field in all aspects for multi-family housing programs both in EE and finance.

Market Rate properties should not be treated as a subordinate class of housing in any terms with respect to these programs.

There should be one set of rules for all multi-family housing (Regardless if the properties are Market Rate or Affordable) in all programs requirements, incentives and financing at all times.

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.

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

[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.

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.

Here Here – there should be only one program for finance and energy efficiency. As an owner we are going to commit to a substantial capital investment notwithstanding these variables and we should not be penalized because of size of the property or meters as the cost of the retrofit is the same while the incentives are variable because of the programs.

The multi-family financing and the incentives should be the same independent of the arbitrary, "Type," of the physical structure, meter ownership, whether classified as affordable or market rate. It should be a transparent program for ALL multi-family housing without consideration of any of these variables.

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 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]

NYSERDA's program while functional and welcome is seriously short sighted as it relates to replenishing the pool of available funds to loan. The term revolving loan fund infers taking borrowers monthly loan payments and putting them back in the pool to be loaned again. On its face this is highly appropriate.

Subsidizing the cost of capital by charging 0% for up to half of the loan is certainly welcome to the borrower. Reducing the risk/exposure to the banks by buying down the loan by up to 50% or $500,000 is certainly something that most financial institutions would embrace to incent them to make loans – but the direct subsidy buy downs is, however, an imprudent use of capital and accelerates the exhaustion of funds.

This method needs to evolve in a positive way and others would suggest that there are better ways to use this limited capital.

An example of a more prudent use of capital is to <u>guarantee $500,000 as opposed to directly injecting $500,000 in to the loan</u>. In this case to the bank they have the same safety net and on the originators expense side is to buy insurance in the event of a default on that portion – this insurance used to be called credit-default-swaps. The cost to guarantee is roughly 3% or 4% of that total. So if you have $10M in available funds right now that's good for only 20 loans. We have over 50 properties in NJ alone. This approach is short sighted. The loan guarantee approach could stretch that $10M twenty fold or more.

As stated earlier the revolving loan mechanics of the program on its face makes sense but give a limited supply of origination capital – these funds will be exhausted rapidly as the rate of loan payments being made by borrowers can not keep pace to create new funds to subsidize the banks enough to make new loans.

<u>In essence feeding the banks with direct cash only accelerates the demise of the loan fund program unless of course there is some other mechanism to replenish the coffers.</u>

While having finance is welcome to borrowers this is a short sighted technique. It will have a short life span as opposed to having a dynamic program that replenishes itself and continues to make funds available for these worthy investments that heretofore banks would not finance because of issues of collateral.

I propose 2 possible solutions to this problem:

The first possible solution was discussed above – <u>The Loan Guarantee as opposed to direct subsidy to the bank.</u>

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[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.

Second, the long term solution is an Energy Efficiency Bond Fund –perhaps $100M. We as borrowers have no problem paying roughly 6% for capital in today's market. Purchasers/Investors of the bond fund (should be available in small denominations $1,000/$5,000 – would earn 3% - far greater than any bank interest and the State/Underwriter/Processor would earn the other 3%. Of course this could emulate a revolving loan fund using monthly loan payments to replenish the fund. Most conservative investors would be thrilled to earn 3% in today's market safely.

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.

- 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

The banks are resistant to doing these loans because of issues of collateral, first mortgages, corporate structures, varying syndicates of investors, the underlying financial health of the property, rent rolls, occupancy rates – so the phrase "Owner seeks lender" is a fruitless endeavor even with leveraging existing relationships with banks. This is a unique and difficult type of financing.

The reality of doing these deals dictates that the funding process needs to start long before a market manager approves an ERP. Member banks and loan officers need to be available to borrowers well in advance of ERP's. Credit criteria, issues of collateral, financial statements of properties and shareholders, personal guarantees and other banking requirements take a great deal of time.

<u>The "Post 2008 bank crisis environment" created excessive requirements of banks in order for anyone to obtain any line of credit let alone non-collateralized – this process is not something you do after the fact (ERP) but before it.</u>

If you were to wait for an ERP to be approved to start the process it might be months before any EE retrofit work is started. To suggest that it might take 180 days to get funding from the date of the approved ERP will prove problematic.

Practically speaking we deal with a calendar for the heating season and prefer to change heating plants out during off-season.

Moreover there should not be negotiating terms with various lenders as this will add an enormous amount of work and time in obtaining the loans. We do not want to shop loans as the due diligence is quite a bit of work. The loans should be packaged at a standardized term 3, 5 or 7 years at a fixed cost of capital. One bank should not have a better deal than another.

All banks in the program should agree to a standard loan package for borrowers along with standardized applications and due diligence requirements. Again, negotiating loans after an approved ERP will take a very long time and one bank should not have a better deal than any other to the borrower when they are subsidized out of their risk by NJCEP's participation.

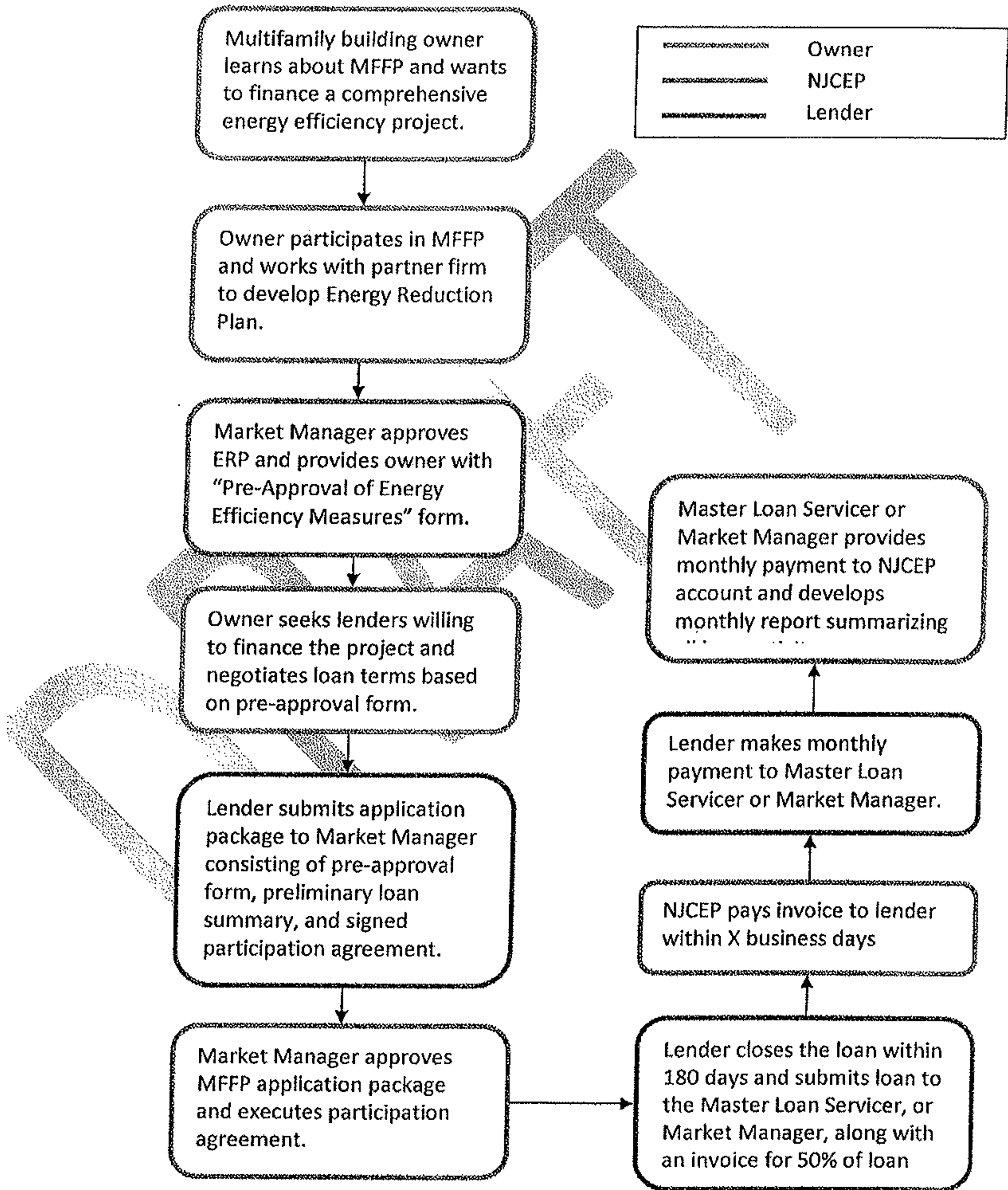
Market Managers should have little to do with the financing other than stating what the approved incentives can be and the scope of work. More appropriately a financial specialist well versed in this bank/loan process should move these applications through the system for funding and not necessarily a market manager well versed in other specialties.

The Loan should be ready to go within a month of an approved ERP. The bank should have pre-approved the borrower for a line of credit in a range and the ERP should finalize the amount.

In summary – Multi-Family EE projects should be almost exclusively in the P4P program as there good incentives and a cash flow to pay down the loan. In the case of the residents paying for electric and gas – HPwES and its prescriptive nature is more appropriate in piecemeal replacements of equipment. Since the resident is the recipient of reduced utility bills there is no cashflow to owner pay down the loans. The benefit is that the most energy efficient equipment would be used because of the offset from the rebate.

DRAFT

Appendix A – Multi-family Financing Program Flow Chart



Linda Wetzel

From: budfahey@comcast.net
Sent: Wednesday, September 14, 2011 2:09 PM
To: publiccomments@njcleanenergy.com
Subject: BPU Multi-family Financing Pilot

To Whom It May Concern,

This is an idea that I highly recommend be pursued!!!!!!

One of the major objections for Multifamily Owner Operator / Property Management companies, in adopting comprehensive energy efficiency measures is the availability of funds or capital.

In good economic times these comprehensive efficiency measures are a challenge.

However given the current banking conditions it is even more of a challenge for these property companies to implement energy saving measures.

Having this reservoir of capital available should bring additional Property Owners / Management Companies into the Energy Efficiency Market.

Francis (Bud) Fahey

President

Optimal Energy Inc.

Linda Wetzel

From: Lance Miller <LMiller@omni-env.com>
Sent: Wednesday, September 07, 2011 2:00 PM
To: publiccomments@njcleanenergy.com
Subject: Multi-Family Financing Program

The proposed pilot fills a void in the implementation of energy efficiency improvements that have been recognized for several years. Helping to overcome barriers to the implementation of these improvements, especially in these difficult economic times, should be encouraged.

However, the Overview section of the proposal is misleading. I do not see how the implementation of this type of program will reduce future Clean Energy SBC's. As the proposal states, the pilot is in addition to the currently available incentives. Assuming these incentives will continue in future programs the SBC will be needed to pay for them. The initial cost for the pilot, needed to pay 50% of the loan, will need to come from the Clean Energy Fund, which means that other programs will need to be reduced to generate the funds to be used in the pilot. So in effect what is happening is that the amount of incentives being provided to EE measures is being reduced. Yes, the loan amount will be repaid and reinvested in new projects, but it should be clear that this will not reduce the amount of funds needed for the SBC unless the amount of incentives is being reduced. That is not to say this isn't a good program. It will allow some projects that probably would not have been implemented to be completed. However, it is likely that others implementing EE measures will want this same benefit (reduced borrowing costs) which will result in more funds being needed to pay the initial loans. The only way that the Clean Energy SBC could remain constant would be to lower the amount available for incentives. These facts should be included in the Overview so that everyone understands what the implications of the pilot will be if it is continued and expanded.

Another critique of the Overview is the reference to the EMP. While the material presented is accurate, using the EMP as the basis for the pilot raises a number of issues. What is the purpose of this pilot relative to the overall EE objectives of the EMP, how will it assist in meeting defined objectives, and what are its desired results. It is impossible to answer these questions because the EMP does not provide explicit direction for what the EE programs are to accomplish. Thus, it is impossible to determine whether this program will be effective in producing the desired results of the EMP because the EMP has failed to define what is the intended result of the EE program. Without this critical information, the development of new EE programs or revisions to the administrative structure of the Clean Energy Program is premature. Therefore, the Overview should be revised to reflect that this is a pilot to test an approach that has proven successful in NY and will help overcome a barrier to the implementation of EE measures in this sector. That is a worthwhile effort without trying to tie this to an overly vague EMP.

Lance Miller

Linda Wetzel

From: Flynn, Don <dflynn@nexant.com>
Sent: Wednesday, September 14, 2011 10:47 AM
To: publiccomments@njcleanenergy.com
Cc: Linda Wetzel; Gogte, Salil

Subject: RE: Request for comments - Multi-family Financing Pilot

Nexant provides the following in response to the August 29, 2011 solicitation for public comments relating to the proposed Multi-family Financing Pilot (Pilot).

A. General Comments

1. We question the benefit to the NJCEP and customers of having the Market Manager involved in the financing process to the degree proposed. A simpler and less costly process would be to have the Market Manager continue to perform its current Pay for Performance role, and have a network of willing Lenders to process loans. Lenders should be responsible for servicing their own loans. We recommend the proposed roles of the Market Manager be more completely vetted so as to shift more of the process pertaining to financing onto Lenders. The Market Manager should only be engaged in financing tasks when there in clear value added benefit to NJCEP.

2. We recommend Owner repayment be added to the Appendix A flowchart.

3. The proposed apparent agent role of the Market Manager, which may be viewed as a party engaged in the loan approval process, may require Federal, State and/or other regulatory approval.

4. A more detailed program description, including specific program implementation details should be developed and circulated for public comments prior to submitting a final proposal to the Board. Input and review comments should be obtained from financial institutions prior to submittal to the Board.

B. Specific Comments
Paragraph references are provided in [brackets] where comments relate to specific proposal sections.

1. *"The Board is exploring various mechanisms... but decrease the annual amount paid through societal benefits charges".* [proposal, pg. 1, paragraph 1]
"This pilot will assist in... decreasing the annual SBC rate component". [proposal, pg. 1, paragraph 3]
"The financing option will be in addition to program incentives currently available through P4P". [proposal, pg. 2, paragraph 2]
Comment: The proposed Pilot falls short of satisfying the 2010 Energy Master Plan (EMP) objective of providing a mechanism to maintain NJCEP funding levels over time, but decrease the annual amount paid through the societal benefits charges (SBCs). In fact, the Pilot will result in the opposite effect, by <u>increasing</u> the total amounts required from SBCs in order to achieve the same level of project throughput and energy savings. Pay for Performance program incentive and administrative cost levels remain unchanged with the Pilot. Additionally, NJCEP will incur two new costs under the Pilot: 1) fees to the Market Manager and/or Master Loan Servicer in connection with administering financing tasks, and 2) debt service on NJCEP's share of loans. Since the proposed financing pilot introduces new costs without lowering current costs, the Pilot will increase NJCEP's total program costs and, therefore, not satisfy the EMP's objective.

2. *"This pilot will... inform the Board on the transition of the NJCEP administrative structure".* [proposal, pg. 1, paragraph 3]
   "The key aspects to evaluate... how these financing programs can best be administered". [proposal, pg. 1, paragraph 3]
   Comment: The proposal does not indicate a connection between the Pilot and the transition. In addition, the NJCEP administrative structure is not altered as part of the proposed Pilot. Therefore, the Pilot will not inform the Board on the transition of the NJCEP administrative structure. In addition, since the Pilot will not test alternative administrative approaches, it will not be possible to comparatively evaluate or draw conclusions as to how financing programs can best be administered.

3. *"By specifically targeting the multi-family sector... lack of variation between projects and building types".* [proposal, pg. 3, paragraph 2]
   Comment: It is unclear as to how targeting one sector, to result in a "lack of variation between projects and building types", will enable the financing program to streamline its processes. Instead, it seems the task sequence and related durations depicted in the flow chart in Appendix A of the Proposal will be the same regardless of sector, or whether projects from multiple sectors are processed through the financing program.

4. *"Furthermore, a more qualified and industry specific network of partners... additional benefits to customers".* [proposal, pg. 3, paragraph 2]
   Comment: The proposal does not identify the entity types which will be included in the network. In our experience, it is doubtful whether trade allies such as contractors, engineers and equipment vendors exist who are focused on the multi-family sector or can necessarily be "more qualified" in the sector. Furthermore, it seems questionable that such a network can be developed to "provide additional benefits to customers" or what those additional benefits might be.

Respectfully submitted,

Don Flynn, MBA, CEM ■ Regional Programs Manager, Demand Management
Nexant, Inc. ■ 44 South Broadway, FL 4 ■ White Plains, NY, 10601
C| 860.301.2975 ■ O| 914.609.0308 ■ E | dflynn@nexant.com

From: ee-bounces@njcleanenergy.com [mailto:ee-bounces@njcleanenergy.com] **On Behalf Of** Linda Wetzel
Sent: Monday, August 29, 2011 6:55 PM
To: ee@njcleanenergy.com; renewables@njcleanenergy.com
Subject: Request for comments - Multi-family Financing Pilot

TRC is proposing to add a new Multi-family Financing Pilot program to its portfolio of C&I EE programs. The OCE is requesting comments on the proposed pilot prior to submitting it to the Board for consideration.

The OCE is proposing that $10 million of the $30 million included in the Board approved budget for a Competitive Grant-Loan Solicitation be set aside for the proposed pilot. Staff is developing additional financing programs to utilize the remaining funding in this budget category that will also be circulated for comment.

Please provide any comments on the proposed Multi-family Financing Pilot to the following address by September 14, 2011:

publiccomments@njcleanenergy.com

From: Neal Zislin [mailto:nzislin@renuenergy.com]
Sent: Monday, September 12, 2011 9:53 AM
To: publiccomments@njcleanenergy.com
Subject: Multi-Family Financing Program - Comments

NJ Clean Energy Staff:

Offering a low-interest financing channel for owners of multi-family apartment buildings to encourage investments that contribute to increased energy efficiency is a laudable and constructive energy conservation policy. I recognize that the description of the pilot program to make financing available to multi-family apartment building owners represents an overview capsule of the program. However, the details underlying the financing program are extremely important to ascertain the soundness and degree of fiscal responsibility supporting the program. In particular, one needs to understand how the program will be administered and the financial risks to the Clean Energy Program.

- What borrower-specific criteria (e.g. credit rating) qualifies a multi-family apartment building owner to receive financing under the MFFP?
- Is the energy efficiency loan collateralized with assets owned by the MF building owner?
- How are the payments made by the MF building owner to be distributed between that portion of the loan provided by the Clean Energy Program and that supplied by the lending institution?
- Who has senior status with respect to loan repayment; Clean Energy Program or the lending institution?
- Who incurs the risk that the energy savings modeled by the program are insufficient to repay the loan plus interest?
- Who incurs the risk if the MF building owner declares bankruptcy?
- What payback period is the savings/loan ratio of 10% IRR targeting?

These questions are a sample of details that need to be thoughtfully studied with solutions proposed before this program can be thoroughly evaluated. Thank you.

Regards,

Neal Zislin
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