



Energy Efficient Investment in a Troubled Economy

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ISSUE

There is a long history, dating back to the Carter Administration at least, of efforts to spur investment in energy efficiency, and it has proven to be a stubborn problem. The structure of real estate investments and the financial system discourages efforts to leverage savings from energy efficiency gains to make further energy savings investments or reinvest the savings in more housing. Owner and mortgage underwriter uncertainty over the amount of time required for payback is another obstacle.

PANEL FINDINGS



Figure 1. Desert Palms Mobile Home Park in Lancaster, CA was a project under the California Solar Initiative Multi-Family Affordable Solar Housing (MASH) Rebate Program. Photo credit: ZeroNet Energy Solutions

Jeanne Clinton, of the California Public Utilities Commission, noted that the contractors, electricians, plumbers, and painters who are in the position to influence homeowners' purchasing decisions are not sufficiently knowledgeable or motivated about energy efficiency technologies and their installation and financing. This makes it difficult to take advantage of the natural trigger points that could spur such investments when equipment is being replaced and new renovations done.

The California Public Utilities Commission has approved a total of \$1 billion a year to fund energy conservation efforts, including, for the

first time, financing mechanisms. From 2010-2012 it authorized \$70 million toward utility-originated financing mechanisms for energy efficiency improvements. However, due to state banking regulations that prohibit these from being offered in the consumer sector and proscriptions that prevent utilities from charging interest, there are significant limits on the prospects for scaling these up for residential properties.

Clinton estimated that there is a potential demand for well over \$20 billion in solar energy and energy efficiency in California alone over the next 10 years; indeed, she calculates the potential to be some \$50 billion in investments, sufficient to interest Wall Street, she noted. While the solar industry is doing a good job at promoting itself, energy efficiency providers lack a comprehensive set of delivery packages and financing tools to achieve large-scale investments.

Tony Salazar, of McCormack Baron and Salazar, noted that energy efficiency yields the greatest return on investment when it is included in original construction. While property investors can generate revenue from energy savings, there are no instruments to leverage that, and the contractual relationships with funding partners do not permit such savings to be spent on anything else; they must stay with the partners.

Underwriting requirements put undue restrictions on borrowers. For example, Scott Henderson, of the Clinton Climate Initiative, reported that it had secured a \$5 million loan fund for energy efficiency retrofits for owners of low-cost multi-family units. But the Clinton Initiative could not meet bank demands for loan loss reserves and personal guarantees, preventing the money from being lent, and forcing the Initiative to shift to commercial properties.

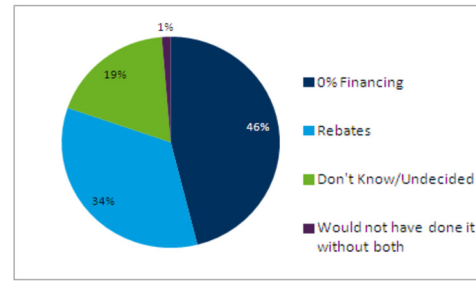


Figure 2. Homeowners showed a strong preference for zero percent financing over rebates. Source: California Public Utilities Commission

RECOMMENDATIONS

There is a need to move away from the old model of issuing energy efficiency rebates (for buying energy efficient products) towards legislative mandates (such as a “public goods” surcharge on electric bills) to fund energy efficiency programs and to using private capital markets to leverage investments.

The California Solar Initiative’s Multifamily Affordable Solar Housing (MASH) Program, established in 2008, has provided more than \$28 million in solar incentives on qualifying affordable housing multi-family dwellings, with \$45 million reserved for pending projects.

The business model of the energy conservation industry needs to be changed to take advantage of opportunities to build the market.

Mortgage programs should allow cash from a refinancing to be applied to the cost of revenue-neutral energy conservation retrofit improvements.

PARTICIPANTS

Presenters

Jeanne Clinton, California Public Utilities Commission
 Scott Henderson, Clinton Climate Initiative
 Tony Salazar, McCormack Baron and Salazar

Moderator

Catherine Wolfram, Haas School of Business and Energy Institute

This is a Policy Note from the fourth panel in the first conference, “Energy Efficiency in the Residential Sector: Practice, Policy, Prospects,” in the Sustainable Cities series held in 2011-2012 at UC Berkeley, organized by John Quigley and Larry Rosenthal, along with Michelle Wilde Anderson, Karen Chapple, and Cecilia Estolano. It was hosted by Berkeley Law, the College of Environmental Design, the Institute of Urban and Regional Development, the University of California Transportation Center, and the Berkeley Program on Housing and Urban Policy.

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