

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 17, 2018

3:54 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Lyman Hoffman
Senator Bert Stedman

MEMBERS ABSENT

Senator Anna MacKinnon
Senator Berta Gardner

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 374(L&C)
"An Act relating to on-bill financing by a utility for certain energy efficiency and conservation improvements."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 374

SHORT TITLE: ON-BILL FINANCING OF ENERGY IMPROVEMENTS

SPONSOR(S): REPRESENTATIVE(S) WOOL

02/21/18	(H)	READ THE FIRST TIME - REFERRALS
02/21/18	(H)	ENE, L&C
03/01/18	(H)	ENE AT 10:15 AM CAPITOL 17
03/01/18	(H)	Heard & Held
03/01/18	(H)	MINUTE(ENE)
03/08/18	(H)	ENE AT 10:15 AM CAPITOL 17
03/08/18	(H)	Moved CSHB 374(ENE) Out of Committee
03/08/18	(H)	MINUTE(ENE)
03/09/18	(H)	ENE RPT CS(ENE) 2DP 1NR 2AM
03/09/18	(H)	DP: CLAMAN, WOOL
03/09/18	(H)	NR: JOHNSON
03/09/18	(H)	AM: JOHNSTON, RAUSCHER
03/16/18	(H)	L&C AT 3:15 PM BARNES 124
03/16/18	(H)	Heard & Held
03/16/18	(H)	MINUTE(L&C)

03/26/18 (H) L&C AT 3:15 PM BARNES 124
 03/26/18 (H) Heard & Held
 03/26/18 (H) MINUTE(L&C)
 03/31/18 (H) L&C AT 1:00 PM BARNES 124
 03/31/18 (H) Moved CSHB 374(L&C) Out of Committee
 03/31/18 (H) MINUTE(L&C)
 04/02/18 (H) L&C RPT CS(L&C) NT 4DP
 04/02/18 (H) DP: WOOL, JOSEPHSON, EDGMON, KITO
 04/09/18 (H) TRANSMITTED TO (S)
 04/09/18 (H) VERSION: CSHB 374(L&C)
 04/10/18 (S) READ THE FIRST TIME - REFERRALS
 04/10/18 (S) CRA
 04/11/18 (S) CRA WAIVED PUBLIC HEARING NOTICE, RULE
 23
 04/12/18 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
 04/12/18 (S) -- MEETING CANCELED --

WITNESS REGISTER

REPRESENTATIVE WOOL

Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Sponsor of HB 374.

ROB EARL, staff to Representative Wool
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: Provided a sectional analysis for HB 374.

STUART COHEN

Alaska Interfaith Power and Light
 Juneau, Alaska

POSITION STATEMENT: Supported HB 374.

CAROLINE F. MALSEED, Priest
 Saint Brendan's Episcopal Church
 Juneau, Alaska

POSITION STATEMENT: Supported HB 374.

GENE THERRIAULT

Alaska Industrial Development and Export Authority (AIDEA)
 Anchorage, Alaska

POSITION STATEMENT: Supported HB 374.

DUFF MITCHELL, Managing Director
 Juneau District Heating Hydropower, Inc.
 Juneau, Alaska

POSITION STATEMENT: Supported HB 374.

ACTION NARRATIVE

[3:54:23 PM](#)

CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:54 p.m. Present at the call to order were Senators Stedman, Hoffman, and Chair Bishop.

HB 374-ON-BILL FINANCING OF ENERGY IMPROVEMENTS

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CHAIR BISHOP announced consideration of HB 374. [CSHB 374(L&C), version 30-LS1333\E, was before the committee.]

REPRESENTATIVE WOOL, sponsor of HB 374, Alaska State Legislature, Juneau, Alaska, said HB 374 is similar to the Commercial Property Assessed Clean Energy Act (C-PACE) legislation adopted last year to help finance commercial property energy efficiency. HB 374 is primarily for residential properties. It would allow a utility to voluntarily create an on-bill financing program to help customers finance energy improvements. The on-bill financing program would allow a utility customer to borrow money for an energy improvement and then repay it through their utility bill.

He explained that the utility could finance the program itself or borrow the money from a bank at no cost to the state. It could cover the cost of the program by charging a slightly higher interest rate on the loans to customers than it is paying to the bank. The improvement must utilize renewable energy or include switching to a more efficient device or a fuel that does not increase green house gas emissions.

REPRESENTATIVE WOOL said HB 374 will be particularly useful as the Interior Energy Project in Fairbanks expands its reach and a large number of Fairbanks residents choose to convert from oil to natural gas. A lot of people were surveyed and want to convert but it costs too much to do all at once.

Examples of energy improvements could be adding solar panels, a new water heater, converting from oil to gas, or using district heat or steam. An individual utility can choose which types of improvements they want to use and can also choose not to do a program if they don't want to. It's entirely voluntary.

REPRESENTATIVE WOOL added that HB 374 provides an optional tool for utilities and their customers to lower energy costs and increase air quality, especially in Fairbanks.

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ROB EARL, staff to Representative Wool, Alaska State Legislature, Juneau, Alaska, provided a sectional analysis for HB 374 as follows:

Sec. 42.05.750 On-bill financing of energy efficiency improvements: authorization and eligibility.

(a) Allows a utility to enter into an on-bill financing agreement with a customer to finance energy conservation systems. The agreement provides for the utility to cover costs through a meter conservation charge on the customer's utility bill.

(b) Building must be occupied and not under initial construction to be eligible.

(c) The interest rate on the loan to finance the energy improvement must be fixed.

(d) Balance of loan may be paid in full without penalty at any time.

(e) Nothing in this section requires a utility to enter into an agreement with a specific customer or for a specific device or system.

Sec. 42.05.751 Meter conservation charge.

(a) A meter conservation charge may be used to recover actual costs, including administrative costs, and repayment of costs performed by a third party.

(b) To recover costs under an on-bill financing agreement, a utility may assess a meter conservation charge on the customer who initially entered into the on-bill financing agreement; or a subsequent purchaser of the property.

(c) A meter conservation charge must be shown as a separate item on a customer's bill.

(d) A utility may treat failure to pay a meter conservation charge the same as failure to pay the utility or gas account and may disconnect service in response to non-payment. A utility may not remove an energy improvement system in response to non-payment.

(e) Money collected by a utility as a meter conservation charge may not be taxed as revenue.

(f) The billing and collection of a meter conservation charge does not subject a utility to the laws that regulate financial institutions.

Sec. 42.05.752 Notice of on-bill financing agreement and meter conservation charge.

(a) A utility that enters into an on-bill financing agreement must file notice of the agreement, intended to give a subsequent purchaser notice that the building is subject to a meter conservation charge.

(b) A utility must file notice when an on-bill financing agreement is paid in full.

Sec. 42.05.753 Transferability of on-bill financing balances to subsequent purchasers. A utility that enters into an on-bill financing agreement may recover costs from a subsequent purchaser.

Sec. 42.05.754 Rental Property.

(a) A utility may recover costs under an on-bill financing agreement by accessing a meter conservation charge for a rental property only if the landlord is responsible for the entire utility bill, including the meter conservation charge.

Sec. 42.05.755 Third parties; contracting and liability.

(a) A utility may contract with a third party for financing the costs of an energy conservation system.

(b) If a third party installs, operates or maintains the energy conservation system, the utility is not liable for these functions and may not provide a warranty of fitness on the system.

(c) When a utility contracts with a third party to perform administrative or financing functions: (1) & (2) The third party is not liable for the energy conservation system and may not provide a warranty of fitness on the system.

(d) The provisions in (b) and (c) above may not be construed to impair the rights of a utility customer against any parties involved in the purchase or installation of an energy conservation system.

Sec. 42.05.756. Definitions.

(1) "energy conservation system" includes a fuel-switching system that does not increase greenhouse gas emissions and is either more efficient or results in lower fuel expenses.

(2) "meter conservation charge" means a charge placed on a customer's utility bill by which the utility recovers all costs related to the utility having entered into an on-bill financing agreement with the customer.

(3) "on-bill financing agreement" means an agreement entered into under AS 42.05.750.

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SENATOR BISHOP asked him to expand on the language "the building must be occupied and not under initial construction to be eligible" under AS 42.05.750.

MR. EARL answered basically any building that is not under initial construction is eligible; it could be a church, a non-profit, or a private residence.

CHAIR BISHOP asked what if the building is an owner-build residence and the floor isn't down yet, but that is when it is easiest to put the boiler in. Would they want those people to be eligible for a loan?

MR. EARL replied that this measure is designed more for energy conversions. Initial installation of a system wouldn't be eligible.

CHAIR BISHOP referenced AS 42.05.755 third parties and asked Senator Hoffman if Bethel has regulated utilities.

SENATOR HOFFMAN replied they are city-owned. He asked the sponsor where a utility gets its money to lend.

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MR. EARL answered under this bill a utility could use its own money but more likely they would get it from a financial institution or possibly a municipality. For example, if someone in Fairbanks wants to install solar panels on their home: in order for that to be possible, Golden Valley Electric would have had to start an on-bill financing agreement. Secondly, they would have had to include solar panels as an eligible project. Then the individual could enter into this agreement and borrow \$5,000 for 10 years from the utility. The utility would most

likely borrow a lump sum from a local financial institution, say \$3 million, and then they would charge a slightly higher interest rate to the customer than they were charged by the bank in order to pay for the program. A \$5000 improvement for 10 years would add about \$48 a month to a customer's utility bill.

SENATOR HOFFMAN said the net result would be a lower cost to the customer but in the long run the utility would earn less money. If that's the case, what incentive does the utility have to do this?

MR. EARL replied for one thing, if the utility is close to having to build another generation plant, this could obviate that need. It could also lead to lower rates for customers.

SENATOR HOFFMAN said he could see that happening in a cooperative, but not for a municipal or private utility.

REPRESENTATIVE WOOL added that rural utilities especially have a certain fixed cost and if they are selling less electricity they would basically have to sell it for more to recover those fixed costs. A cooperative doesn't have the same profit incentive and may want to lower the rate. If a rural utility found this program was financially disadvantageous, they would choose not to do it. However, there may be a generation problem or peak load issues. So, they may want people to produce power during certain times of the day; this financing could be used for a storage device if someone wants to produce electricity and store it and use it during peak hours. It may not be for every utility, and especially a smaller rural utility. It's totally voluntary.

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CHAIR BISHOP finding nor further questions, opened public testimony.

STUART COHEN, Alaska Interfaith Power and Light, Juneau, Alaska, supported HB 374. He said one of the tasks they have undertaken is to implement a program that replaces inefficient electric and oil heating systems with air source heat pumps. They are trying to bring more customers to the electric company.

A heat pump is sort of like an air conditioner that can also heat. It is two-thirds times more efficient than electric baseboard or oil heat. They are so efficient that they reduce people's heating bills by 40-70 percent and they generate enough savings to pay for themselves in 4-6 years. The technology is

ideal for Southeast Alaska, the Southcentral Coast, and the Aleutians. It would cost \$4100 to install a simple model in a 1500 square foot Juneau home.

MR. COHEN said their team modeled the potential impact of heat pumps on Juneau's economy and modeled 8,900 residential structures out of a total of 10,236 private buildings and based the model on conversations with local heating contractors, home owners, and a group called Efficiency Main, a state agency that helps its citizens save money through energy efficiency. They found that if Juneau converted all 8900 homes, mobile homes, and condos the energy savings would be nearly \$10 million year. Adding apartments and commercial and government buildings would save another \$20-30 million. The same model applies to Sitka that has an underutilized hydro project, Ketchikan, Kodiak, and many other communities. Incidentally, since Juneau and the communities he named are powered by hydro electric or wind energy, it also zeros out a large part of their carbon footprint.

His research revealed that a reliable secure financing system is critical. That is what this bill addresses. If you have a low income, it's hard to come up with \$4000 in savings to install a heat pump. Likewise, for a church or business with limited funds that is not sure how long they will be in a building. "This wonderful bill addresses that."

Enabling third-party financing and putting it on the utility bill and making it transferable reduces the risk for both the borrower and the lender. The program is flexible enough to help people all over the state. He concluded saying it costs nothing, it compels nothing, and it constricts nothing. It empowers Alaskans to make practical money-saving improvements to their homes, their businesses, or their church as they see fit.

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CAROLINE F. MALSEED, Priest, Saint Brendan's Episcopal Church, Juneau, Alaska, supported HB 374. She is also a member of Alaska Interfaith Power and Light. She is on the standing committee of the diocese and works with people throughout the diocese and is aware of issues that face other communities as well as Juneau.

MS. MALSEED said she supports this bill for two reasons. The first is that Alaska is a very expensive place to live. A number of people in her community have left Alaska in the last few years because they can't afford to stay here. The option in HB

374 might make Alaska a little bit more affordable for some folks who don't want to leave.

The other point she wanted to make is that religious congregations around the state tend to be small; hers has 70 people. It is one of the largest episcopal churches in the state. Most congregations tend to have really old buildings. In her denomination the cost of heat makes up the majority of the budget. Many churches don't have clergy on site for that reason.

MS. MALSEED said the religious congregations provide a lot of services to their communities such as meeting spaces, social assistance and emotional support, and not for just their people but all the people in their communities. This bill would free up some of the denominational budgets to offer more services to the communities, to enable the congregations to care better for their buildings and to avoid replacement, to improve the quality of life of being in that building.

CHAIR BISHOP thanked her for her comments and said she is 100 percent accurate. He mentioned that last week the President of the United States signed an executive order asking faith-based organizations to do more for underprivileged people.

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GENE THERRIAULT, Alaska Industrial Development and Export Authority (AIDEA), Anchorage, Alaska, supported HB 374. He had been tracking potential federal sources of funding through the U.S. Department of Agriculture's (USDA) Rural Utility Services Office and found the funds he was tracking had been reauthorized. One of them is the Rural Energy Savings Program; the regulations cover a repayment mechanism through charges added to an electric bill for the property. It is an appropriate risk mitigation feature for the lending. The State of South Carolina was one of the first states to qualify for a competitive grant through that program and the legislation before them was patterned after it.

Another source of funding is the Energy Efficiency and Conservation Loan Program that is also offered by USDA. One of the things that is hard-wired into the regulations for that particular loan program is fuel switching. And that is one of the things this bill incorporates. Switching from fuel oil to natural gas in Fairbanks is specifically mentioned or electric heat to a ground source heat pump, which is switching to a source of energy that has a lower emission, one of the things a federal source of money is looking for.

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The USDA has a couple of new programs: the High Energy Cost Grant Program is one. It specifically talks about renewable energy and expanding assistance for use of natural gas. HB 374 specifically lists Alaska Native Corporations and cooperatives as eligible entities.

Finally, an electric infrastructure loan and loan guarantee program is another source of federal funds for the energy systems themselves to expand the reach of their systems. Depending on how the program that gets put together, both the PACE legislation and this legislation allows for utilities to put mechanisms in place that are very attractive and will actually help their applications score well as they apply for federal funds.

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SENATOR STEDMAN said it looks like this bill is targeted to incentivize Fairbanks to build out to natural gas, which he doesn't oppose.

MR. THERRIAULT responded that the conversion rate is a concern, and as the price of oil has come down the delta between the delivered price of natural gas and fuel oil has gotten smaller. and right now the price of natural gas per BTU is lower than fuel oil. But a complete home conversion could cost \$10,000 to \$12,000, and the ability to stretch that out over a long period of time and perhaps access low interest capital, and have the obligation transfer if you sell your home are all things that will help incent people to decide to use this tool not just in Fairbanks, but across the state.

CHAIR BISHOP remarked if Alaska gets a gas line, it has five take-off points for expansion of gas along the route.

MR. THERRIAULT said Senator Hoffman asked about whether the utility would utilize this option if it actually ended up in lowering sales of electricity, and having worked at AEA, he knows some communities are blessed with a hydro source, but as the community expands, they get to the point where hooking up a couple more houses necessitates firing up the diesel plant. But the cost of running that diesel plant doesn't flow just to the last customer who hooked up, it gets spread across the whole community. So, using a tool like this enables a community to save by spreading the hydro energy to more customers.

SENATOR STEDMAN said in his region, he has noticed conversions from oil, which decreases oil consumption, which in turn increases the oil price. It's quite the ongoing discussion at City Hall and around the larger commercial buildings around town when they talk about electrical conversion of their boilers and the impact it has on other fuel users.

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DUFF MITCHELL, Managing Director, Juneau District Heating Hydropower, Inc., Juneau, Alaska, supported HB 374. One point that hasn't been brought up is that the State of Alaska's 2010 energy policy says the state's energy should be 50 percent renewable by 2025 on a 15-percent energy efficiency per capita basis from 2010 to 2020. This bill doesn't cost the state anything and it helps multiple regions. He said a lot of people would like to have energy efficiency and save money; they would like to take that extra \$50 month and spend it on food or basketball camp, but they can't come up with that first \$5,000 to do that energy efficiency.

SENATOR STEDMAN added that so many homes in Sitka converted to heat pumps that it also dropped their electric consumption. So, as the city incentivized heat pumps, the utility lost sales.

MR. MITCHELL responded that economies are not easy and market forces work, claiming there will always be losers and winners. The Sitka utility should have been targeting the oil-fired Toyo stoves and boilers and moving those to air source heat pumps and then they would have grown the pie instead of making the pie more efficient. He said in Juneau he has seen 5 percent growth of electric in the last year even though it has had normal heating degree days. It has seen an "explosion" of air source heat pumps, electric vehicles, and marijuana growing operations.

CHAIR BISHOP thanked him, and finding no further comments, closed public testimony and held HB 374 in committee.

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CHAIR BISHOP adjourned the Senate Community and Regional Affairs meeting at 4:30 p.m.