

CLIMATEWIRE -- MON., JULY 6, 2009 -- [Read the full edition](#)

1. **ACCOUNTING**: The Big Four will be among the big winners if U.S. adopts climate law

NEW YORK -- Having helped companies explore the labyrinth of greenhouse gas regulation in Europe, the Big Four auditing and accounting firms are now moving quickly to build climate and carbon shops in the United States. Their goal is to stake claim to a business that could one day rival tax compliance and financial disclosure in size and scope.

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**FINANCE**: States and cities helping buyers pay for energy-saving improvements *(Monday, July 6, 2009)*

Annie Jia, E&E reporter

When it comes to buildings, saving energy can cost a lot -- at least up front. Cisco DeVries learned that principle firsthand when he considered putting solar panels on his house.

"I had the same problem a lot of people had," said DeVries, former chief of staff to the mayor of Berkeley, Calif., "which was, it's really expensive and I had to write a really large check."

So DeVries invented a solution, inspired by how the city funded underground power lines. It was a financing method that eliminates capital costs for property owners. Instead, the local government fronts the cost.

The problem has been that many energy retrofit projects pay off in the long run from lower energy bills, but they require homeowners to part with thousands of dollars up front. That's an issue if they don't have the money, or don't plan on staying long enough to see the savings pay off.

Under the new mechanism, a city or county gives money to building owners for energy retrofits and the owners repay the government with a fee or an addition to their property taxes. If the owner moves, the fee stays with the property -- not with the person -- eliminating another large barrier: the fear that owners may not recover their costs.

The concept has spread to a dozen cities nationwide, and a form of it is tucked away in the climate and energy bill put forward by Reps. Henry Waxman (D-Calif.) and Edward Markey (D-Calif.) that recently passed the House. Many hail it as the coming method for cutting energy use in buildings, which make up 40 percent of the nation's energy consumption.

"It seems like it has the potential, with perhaps a few slight modifications, to be the giant solution for retrofitting our nation's buildings with energy efficiency and renewables," said Jeffrey Tannenbaum, president of the private hedge fund company Fir Tree Partners and a leading advocate for the new investment mechanism.

## **Easing steep up-front costs**

Capital costs are considered one of the largest barriers to building energy retrofit projects. If adopted on a large scale, the new mechanism would open the door for millions of qualified home and business owners who otherwise could not afford such projects up front to cut a large chunk out of their energy usage.

Currently, 14 states have passed or are considering enabling legislation, which would let special municipal districts do such financing. Recently, California started looking into adopting the program on a state level.

Four days before the Waxman-Markey bill passed in the House, a group of supporters of the scheme, including Tannenbaum -- with support from key House members -- succeeded in inserting a provision into the bill that would allow the federal government to back bonds issued by local governments to support energy retrofit projects.

"In theory, it could reduce the interest rate by multiple points," DeVries said. "But it totally depends on what the federal government does with it." While the provision enables such funding, it does not guarantee it.

## **Cities have done the pioneering**

Under some programs, like that of Babylon, N.Y., annual energy savings can more than offset the additional payments, says Dorian Dale, director of energy and sustainability for the Long Island town.

Babylon's program started at about the same time as Berkeley's, in fall 2008. The eureka moment came when the Long Island town was retrofitting its government office buildings and officials realized their savings would trump their monthly loan payments.

"What they're basically saying is, there's no money out of pocket for you," Dale said.

So the town set up a program for residents, with the town paying. Babylon's plan is slightly different from Berkeley's -- for example, the Babylon program focuses first on energy efficiency measures, such as sealing up leaks in the walls and replacing inefficient water heaters.

Experts call energy efficiency improvements "low-hanging fruit" because they provide energy savings at relatively low cost. "You want to make your home as energy efficient as possible before you ever put solar on the roof," said Timothy Burroughs, climate action coordinator for Berkeley.

Berkeley's program, on the other hand, focuses on solar photovoltaics. But Burroughs said that's only for logistical reasons -- because pre-existing standards for solar contractors allowed the program to get started faster, for testing in the pilot stage.

## **Bringing the savings home**

In Babylon, Dale says, homeowners expect to save an average of \$900 a year, or about 25 percent, on their energy bills after the retrofits. They will pay less than that annually for 8 years on average.

One hundred fifty projects have been funded in Babylon since last fall, and 80 are complete, he said. In contrast, during a three-year incentive program under the local utility company, which subsidized homeowners on 10 percent of retrofit costs, 114 homes were retrofitted across all of Long Island.

In Boulder, Colo., 360 houses are slated for retrofits under a similar program, and in Sonoma County, California, 184 houses are to be retrofitted, according to the program offices. These two programs are among the furthest along, DeVries said.

DeVries started a company, Renewable Funding, that now runs Berkeley's program and advises others. He said the spread in the past year has been "viral."

State and federal incentives for home energy projects have been in place for several years. But "they don't cover the cost," said Sasha Mackler, research director at the National Commission on Energy Policy.

## **Money at low risk and low cost**

Tannenbaum, the private investment firm manager, said the new financing mechanism is golden because it is attractive to building owners, cities, investors and the federal government.

If a building goes into foreclosure, money owed to the city is the first to be paid back, under a national lien system. Because retrofit payments are tacked onto the property tax, then upon default, there is virtually no risk that the city would not receive its investments back, Dale said.

That translates into low risk for buyers of the bonds -- Property Assessed Clean Energy Bonds -- that cities issue to finance these programs, Tannenbaum said. "It's tax lien-oriented financing that dramatically improves the economics beyond anything we've really seen to date for energy retrofits," he said.

Dale, of Babylon, would like to see the federal government provide funding and credit support, but he thinks municipalities are ultimately best suited for conducting the programs.

Kenneth Green, a resident scholar at the American Enterprise Institute, said the scheme would be better than tax credits -- the most common current form of government incentives for home energy projects -- because the homeowners who are benefiting from the investment, rather than taxpayers, are paying for it.

But he said that every time the government issues bonds, there are economic losses from decreased investment elsewhere. "If [the government] is not charging market rates, it's simply undercutting the market economy," he said.

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