PRELIMINARY DRAFT LETTER TO PUC FROM PENNSYLVANIA UTILITY MULTIFAMILY RETROFIT STAKEHOLDERS
DRAFTED BY NATIONAL HOUSING TRUST

To: Secretary Rosemary Chiavetta, Pennsylvania Public Utility Commission

Cc: Chairman's Office
Vice Chairman's Office
Commissioners' Office
Jan Freeman, Executive Director
Karen Oill Moury, Director of Regulatory Operations
Bohdan R. Pankiw, Chief Counsel
Robert F. Young, Deputy Chief Counsel
Paul T. Diskin, Director, Technical Utility Services
Darren D. Gill, Deputy Director, Technical Utility Services

Re: Joint Recommendations for Improved Targeting of Energy Efficiency improvements in Multifamily Affordable Properties for Phase II of Pennsylvania's Act 129 Energy Efficiency and Conservation Program

Energy efficiency upgrades in multifamily rental housing are a cost-effective means to reduce carbon emissions and energy consumption, lower operating expenses, maintain affordability, and create healthier, more comfortable living environments for moderate- and low-income families. Despite these multiple benefits, many residential energy efficiency utility programs focus their limited funding dollars on weatherization and upgrades to single-family houses. Commercial programs typically target office buildings and businesses with a strong focus on lighting and air-conditioning upgrades and system improvements.

There are more than 90,000 affordable multifamily apartments throughout the state of Pennsylvania. These apartments are financed through various federal and state housing programs and are home to families and elderly individuals with incomes less than 60% of the area median income. Owners of these properties have a contractual obligation to maintain the property as affordable (<u>See attached map for additional data about these properties).</u>

This proposal is an addition to existing energy efficiency programs for residents. Energy efficiency improvements in these buildings will supplement the benefits which are provided directly to low-income ratepayers (which should continue) and otherwise benefit low- and moderate-income residents through reduced utility costs and increased affordable housing opportunities. In properties where owners pay the utility bill, energy efficiency improvements will lower operating costs, reducing the need for owners to raise rents and helping to ensure that affordable properties remain as community assets. All Pennsylvania taxpayers will benefit through reduced demand on the state's energy system and increased economic output.

The undersigned organizations urge the Public Utility Commission to consider how best to meet the energy efficiency needs of residents of multifamily affordable homes as planning for Phase II of Pennsylvania's Act 129 Energy Efficiency and Conservation Program (EE&C) begins. In particular, we recommend that Phase II of Act 129 address the following:

Phase II of Pennsylvania's Act 129 EE&C programs should include increased emphasis on the importance of implementing energy efficiency upgrades in multifamily affordable homes.

There is an increasing need to focus energy efficiency improvements in older, multifamily buildings. 80% of Pennsylvania's multifamily affordable homes were built 20 years ago or earlier. The vast majority of this housing stock has not received any weatherization services. Implementing energy efficiency programs for multifamily buildings will allow the utilities to reach an underserved market and achieve significant new energy savings.

There has been increasing synergy and alignment between the energy efficiency goals of utilities and the energy efficiency needs of older, multifamily buildings.

Several states including New Jersey, Maryland, and Massachusetts[1] have recently implemented multifamily-specific energy efficiency programs using ratepayer funding to ensure that low-income utility customers benefit. These programs include: dedicated funding and meaningful goals for energy efficiency improvements in multifamily affordable housing and sufficient means to ensure that the renters benefit from the improvements by requiring an extension of affordability by the owner in exchange for participation in the programs.

Assist owners of multifamily affordable housing in accessing resources for energy efficiency upgrades by creating a "one-stop shop".

Owners of multifamily properties often must apply separately to a utility's residential and commercial programs, as a building could have a mix of master meters (requiring participation in the commercial utility program) and individual tenant meters (requiring participation in the residential utility program). Further, an electric utility's program might address lighting and appliances, but may do nothing to address inefficient heating plant or the building envelope. A gas utility's program would not, by definition, address lighting and plug loads, thus forcing the owner to apply to two separate companies to address the whole building. As a result of these and other barriers, most owners of affordable multifamily housing find it extremely difficult to access utility energy efficiency programs.

If utilities revised their programs so that multifamily owners could achieve true *one-stop shopping* and obtain services that address the full range of efficiency needs, more multifamily buildings would be weatherized and low income ratepayers would secure additional energy savings.

[1] See for example PSE&G's Residential Multifamily Housing Program in New Jersey, the Low-Income Multifamily Retrofit Energy Program in Massachusetts, and the Multifamily Energy Efficiency and Housing Affordability program in Maryland.

One means of such "one stop shopping" is illustrated in Massachusetts where a successful re-design of the utility programs for affordable multifamily housing was launched called the Low-Income Multifamily Retrofit Energy Program (LIMFREP). More than $20 million is administered by electric and gas utilities in collaboration with the MA Dept. of Housing and Community Development, public housing authorities, community development corporations, non-profit owners, tenant organizations, and community action program agencies. Eligible buildings include existing low-income multifamily buildings (5 or more units) owned by public housing authorities or non-profits. Priority is given to high energy use buildings and buildings undergoing rehabilitation (<u>See attached one pager for more information about this program</u>.)

Identify workable financing mechanisms for utilities and owners of multifamily affordable housing.

Multifamily affordable housing owners are unlikely to have access to significant upfront capital to make energy efficiency upgrades. Energy efficiency programs that limit the need for upfront capital from the owner are more likely to succeed in this sector. This challenge can be addressed in a number of ways including, but not limited to:

- The Pennsylvania Housing Finance Agency (PHFA) and Community Development Financial Institutions can make bridge loans to owners of multifamily affordable housing to cover the cost of energy efficiency upgrades. These loans would be repaid by utility rebates and other incentives. This approach would require utilities to provide documentation that the incentives will be available if the owners install the energy efficiency measures.

- The utilities could work directly with lending institutions to leverage low interest financing for energy efficiency measures in multifamily affordable housing. One idea is for the utility companies to provide a "grant" to a Community Development Financial Institution which would, in turn, guarantee certain energy consumption reductions to the utility. Similarly, the utility could provide a grant to PHFA which could use the funding for incremental reductions in energy consumption by low income households.

Leverage additional energy savings through non-mechanical measures, administrative efficiencies, and other approaches.

Targeting resources most effectively is necessary to maximize energy savings from the multifamily affordable housing stock. 80% of Pennsylvania's multifamily affordable homes were built 20 years ago or earlier.[2] The vast majority of this housing stock has not received any weatherization services. Realizing the potential energy savings in this sector requires a new level of investment.

One cost-effective approach to achieve additional energy savings is investing in non-mechanical building shell measures such as air sealing and insulation. This is common practice in multifamily utility incentive

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[2] According to National Housing Trust's analysis of HUD's low income multifamily database.

programs in other states, including New Jersey, Maryland, and Massachusetts, and is necessary for achieving long-term energy savings. In Maryland, air sealing and insulation of a 118-unit multifamily building saved nearly 700,000 kWh and had an S.I.R. of 4.9 (See data below).

Concord Apartments in Cecil County, MD- Energy Efficiency Improvements and Savings

Costs of MEEHA Eligible Items

ECM	Energy Conservation Measure Descripton	kWh saved	therms saved	Avg Useful Life	Estimated Cost of ECM	Estimated Annual Savings	Simple Payback	S.I.R.	DOE CER
1	Air Sealing and Insulation Attics	685,169	0	20	$80,850	$23,133	3.5	4.9	96.6
2	Duct Sealing	697,754	0	20	$82,261	$67,518	1.2	14.0	96.7
3	Apt Weatherization	493,602	0	20	$55,440	$58,245	1.0	17.9	101.5
5	Progammable Thermostats	55,932	0	10	$19,800	$6,600	3.0	2.8	32.2
6	Common Area Lighting	177,737	0	10	$30,145	$20,973	1.4	5.9	67.2
7	Apt Bulb Replacement Program	84,746	0	9	$3,000	$10,000	0.3	25.5	321.9
A1	Incremental Insulation R38 to R49	6,711	0	20	$5,500	$3,762	1.5	11.6	13.9
A4	Apt Lgt Fixture A, B, C	147,622	0	10	$20,466	$17,720	1.2	7.4	82.2
A6	Showerhead Replacement	0	4,233	10	$7,920	$4,870	1.6	5.2	56.0
A7	Ladybug Shower Reducer	0	3,387	10	$5,940	$3,896	1.5	5.6	59.7
	All Measures =	2,349,274	7,620	13.90	$311,322	$216,717	1.6	10.1	88.6

Reducing program administrative costs will also result in more benefit dollars being invested in energy saving measures and additional reductions in energy use for Pennsylvania ratepayers. In other states, utilities and public utility commissions have realized significant administrative efficiencies by partnering with the state housing finance agency.

PHFA has extensive experience in multifamily financing and construction. PHFA can leverage its skills and relationships to help the utilities effectively serve the multifamily affordable housing sector. PHFA's contributions, as part of a partnership with the utilities, would include:

- Helping the utilities connect with owners of the properties in PHFA's portfolio which, by definition, quality for the 60% of median income test referenced above. PHFA has multiple contacts with multifamily owners, including its annual inspections of these properties, and/or its already existing financing on affordable multifamily housing;
- Experience administering weatherization services in multifamily housing as a subgrantee of the Weatherization Assistance Program;
- Assistance in marketing and outreach to a pipeline of multifamily new construction and rehabilitation projects;
- Help leverage other financial resources from existing programs;
- Financial underwriting and loan processing expertise;
- Construction review and administration; and
- Affordable housing expertise and knowledge.

Utilities and public utility commissions in states such as New Jersey and Maryland are partnering with their respective state housing finance agencies to administer multifamily energy efficient improvement programs with great success.

By way of example, New Jersey's largest utility, PSE&G, has implemented an innovative multifamily housing energy retrofit program in partnership with the New Jersey Housing and Mortgage Finance Agency (NJHMFA). PSE&G's Residential Multifamily Housing Program provides upfront interest-free financing and grant incentives to cover the cost of eligible energy efficiency improvements. In 2009, PSE&G developed the multifamily retrofit program with an initial investment of $19 million. The program quickly became fully subscribed. In December 2011, PSE&G proposed investing another $20 million in the program to address the backlog of applicants on the waiting list. The expansion was subsequently approved by the New Jersey Public Utility Commission. An additional 7,000 apartments are expected to receive upgrades as a result of the increased investment. In part because of the partnership with NJHMFA, program administrative costs have remained fairly low at approximately 12% of the program budget. (See, e.g., attached paper describing PSE&G's collaboration with NJHMFA).

Utilize the existing mandates of Act 129 to achieve these goals.

One means of setting aside funding for multifamily properties may be through the 10% government/non-profit carve out required by 66 Pa. C.S. § 2806.1(b)(1)(i)(B). It is essential that this mandate continue to incentivize the governmental and non-profit sectors to seek weatherization opportunities. In our view, PHFA, community development and non-profit institutions owning and/or administering multi-family housing serving low or moderate income households should be targeted for receipt of these energy reduction benefits which are presently required to be provided. Furthermore, the Commission should provide clear guidance insuring that properties with long term affordability restrictions qualify under the carve out regardless of ownership status, i.e., whether the owner is nonprofit or for-profit is irrelevant as long as the property has long term use restrictions dedicated for affordable housing.

We appreciate the opportunity to comment on Act 129 EE&C programs.

We look forward to continuing to work with the Commission to improve EE&C programs in order to directly benefit residents of affordable rental housing in Pennsylvania.

Sincerely,

National Housing Trust
Pennsylvania Housing Finance Agency
Pennsylvania Utility Law Project