

ACT

Alliance for a Clean Texas

Energy Efficiency:

Expand the funding and purpose of the Texas LoanSTAR Program

The State of Texas has created a unique loan program to offer free energy audits to local governments and school districts as well as help state buildings save money. At the same time, while many municipal utilities such as the City of Austin have very advanced energy efficiency programs, most municipal utilities and electric cooperatives do very little in terms of providing incentives or programs to promote energy efficiency and on-site renewables. They are not covered, for example, by the mandates imposed upon areas of the state served by investor-owned utilities. Texas should explore expanding its energy audit and loan program for its public entities and create a new bond loan program for large-scale energy efficiency and renewable projects that serve electricity needs of cooperatives and municipal utilities.

The LoanSTAR¹ program is designed to "Save Taxes And Resources" (STAR) by monitoring energy use and recommending energy-saving retrofits in public buildings. In 1988, the Texas Governor's Energy Office (now known as the State Energy Conservation Office) received approval to establish a statewide retrofit demonstration program using oil overcharge funds. The LoanSTAR program is designed to demonstrate commercially available, energy efficient, retrofit technologies and techniques. State agencies, such as schools and public buildings, may apply for loans to make recommended retrofits. SECO also offers these entities free preliminary energy audits. Originally, participants had to repay the loans in four years or less based on estimated energy savings. In 2001 the payback period was extended to 10 years and water conservation was added as another category that could be funded. In most cases, repayment is made from savings generated by the cost-effective retrofit measures. State agencies are also authorized to repay these loans from general revenue funds budgeted for utilities. Once the loans are repaid, the savings are available for the agencies.

As of November 2007, LoanSTAR has funded 191 loans totaling over \$240 million dollars. Beneficiaries of LoanSTAR retrofits have included buildings at UT-Austin, Texas A & M, the University of Texas at Arlington, the Fort Worth and Victoria Independent School Districts, the Ward Memorial Hospital in Monahans, the University of Texas-Pan American and the Texas State Technical College in Harlingen. State-owned buildings at the Texas Capitol Complex, in Houston, Midland, and Nacogdoches have also been retrofitted.

¹ Information provided by State Energy Conservation Office (<http://www.seco.cpa.state.tx.us/lr.htm>) and Energy Systems Laboratory, A & M, http://www-esl.tamu.edu/loanstar/about_LoanSTAR.html.

As a result of these loans, the LoanSTAR Program has achieved total cumulative energy savings of over \$212 million dollars, which results in direct savings to Texas Taxpayers.

The program is so successful that there is currently a waiting list. In addition, the fact that the program now accepts performance contracting with a third party means there is a growing pool of interested contractors. The total pool of money available is only \$98.6 million dollars. The pool should be tripled to approximately \$300 million to allow more loans to retrofit state and other public buildings to lower energy use. In addition, all publicly-owned buildings of a certain size should have a required SECO energy audit to determine if it would be cost-effective for them to apply for a Texas LoanSTAR loan.

HB 3693 requires that an electric cooperative and municipally-owned utility of a certain size consider adopting and implementing energy efficiency programs that reduce the cooperative's annual growth in demand in a manner consistent with the standards established for other utilities within the state, even though there is obviously no equivalent funding source. The new law also requires that those same electric cooperatives and municipalities report to the State Energy Conservation Office (SECO) not later than September 1, 2009 the combined effects of its energy efficiency activities.

Additionally, certain nonprofit cooperative corporations are permitted to use certain monies to provide energy efficiency assistance, if the funds are delivered to an energy efficiency assistance fund that is designed to assist members in reducing their energy consumption and electricity bills. However, the total amount of this fund cannot exceed \$2 million.

HB 3693 made clear the legislature's desire for municipalities and electric cooperatives – which serve over 3 million members in Texas – to do more on energy efficiency. It is unlikely, however, that without further direction most electric cooperatives and municipalities will match IOU requirements to meet 20 percent of their growth in demand by 2009 through energy efficiency.

Texas should begin a program similar to the LoanSTAR program for major energy efficiency and demand response – including on-site renewable projects – in areas served by electric cooperatives and municipalities. The projects could be tied to municipal and other energy reduction projects required to be reported under HB 3693. Texas should consider allowing Electric Cooperatives and City-owned utilities to gain access to part of the Texas LoanSTAR program to then provide rebates and loans to their clients for energy efficiency and on-site renewables. Texas could also consider adding non-profit entities like churches to those organizations able to seek loans from the LoanSTAR. ACT

Some cities – such as San Francisco – have enacted city-wide energy efficiency and renewable projects through city-wide bonds and there is no reason for Texas not to explore a similar effort aimed in particular at investing in efficiency and renewables at electric cooperatives. San Francisco issued \$100 million in bonds, and the State of Texas could certainly do as much or more, either through Texas LoanSTAR or separate bonds.

Recommendation: Increase the Texas LOANStar program from \$100 to \$300 million, require energy audits of all large publicly-owned buildings and initiate a state-funded loan program for electric cooperatives and municipality-owned utilities to meet energy efficiency, renewable energy and demand management goals, either as part of the LOANStar program or as a separate program.

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For further information on energy efficiency, please see www.actexas.org/issues/energy-efficiency