Funding

Funding mechanisms for energy efficiency, conservation and renewable energy improvements vary widely and creative new funding opportunities are continually being developed.

Funding opportunities run the gamut from government grants and loan guarantees to property-assessed financing and power purchase agreements. Given the wide range of funding options, choosing the best funding mechanism for any given project is important.

Performance Contracting Program

Performance contracting provides a mechanism for making energy conscious upgrades to buildings with no initial cost to the owner. Improvements are financed and then paid for with the resulting energy savings. Businesses that develop, install and arrange financing for these types of projects are known as energy service companies. Energy service companies act as project developers for a wide range of tasks and assume the risks associated with the project. Their services fees are bundled into the project cost and are repaid through the savings generated by the project.

Power Purchase Agreements

A power purchase agreement is a contract between an electricity generator and a power purchaser. The power purchaser agrees to pay a set rate for electricity for the life of the contract, which then enables the power generator to secure financing for construction of power generating capacity.

Through power purchase agreements, businesses, schools and governments can finance non-utility-owned electricity generating facilities that tap renewable resources and reduce greenhouse gas emissions.

Government Tax Incentives

American Recovery and Reinvestment Act of 2009 ("Recovery Act") amended or added numerous energy tax incentives available to government. Many of these incentives were previously modified by Emergency Economic Stabilization Act in 2008. The majority of the incentives were originally passed into law under the Energy Policy Act of 2005 (EPACT).

The Recovery Act amends several provisions of the U.S. Tax Code, expanding or providing new renewable energy incentives for businesses, utilities, and governments who produce or utilize renewable energy. These incentives generally take the form of tax credits for the production of electricity from, and facilities that utilize wind, refined coal, geothermal, biomass, solar, and combined heat and power systems.

Clean Renewable Energy Bonds (CREBs)

CREBs may be used by primarily public sector entities to finance renewable energy projects. CREBs are issued, theoretically, with a 0% interest rate. The borrower only pays back the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest. CREBs differ from traditional tax-exempt bonds because CREB tax credits are treated as taxable income for the bondholder.

CREB tax credits may be taken each year the bondholder has a tax liability, as long as the credit amount does not exceed the limits established by the EPACT. The U.S. Department of the Treasury lists the treasury rates for prior CREB allocations, or "old" CREBs, as well as rates for new CREBs and other qualified tax credit bonds.

The list of qualifying technologies is generally the same as that used for the federal renewable energy Production Tax Credit. Electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments or any political subdivision thereof), and by certain lenders are eligible to issue CREBs.

The Recovery Act authorized an additional $1.6 billion of Clean Renewable Energy Bonds (CREBs), which help facilitate the finance of renewable facilities. This sum raises the previously capped $800 million ceiling on CREB issuances, and raises the maximum allowable issuance to $2.4 Billion.

Qualified Energy Conservation Bonds (QECBs)

QECBs may be used by state, local, and tribal governments to finance certain types of energy projects. QECBs are qualified tax credit bonds, and in this respect are similar to new CREBs. The Recovery Act increases the amount of funds available to issue qualified energy conservation bonds from the one-time national limit of $800 million to $3.2 billion.

The definition of "qualified energy conservation projects" is fairly broad and contains elements relating to energy efficiency capital expenditures in public buildings; renewable energy production; various research and development applications; mass commuting facilities that reduce energy consumption; several types of energy related demonstration projects; and public energy efficiency education campaigns. Renewable energy facilities that are eligible for CREBs are also eligible for QECBs.

The advantage of QECBs is that they are theoretically issued with a 0% interest rate. The borrower pays back only the principal of the bond, and the bondholder receives federal tax credits in lieu of the traditional bond interest. The tax credit may be taken quarterly to offset the tax liability of the bondholder.

In contrast to CREBs, QECBs are not subject to a U.S. Department of Treasury application and approval process. Bond volume is instead allocated to each state based on the state's percentage of the U.S. population as of July 1, 2008. Each state is then required to allocate a portion of its allocation to "large local governments" within the state based on the local government's percentage of the state's population. Large local governments are defined as municipalities and counties with populations of 100,000 or more. Large local governments may reallocate their designated portion back to the state if they choose to do so.

Loans

The State of Montana provides loans to individuals, small businesses, local government agencies, units of the university system, and nonprofit organizations to install alternative energy systems that generate energy for their own use.

Personal Tax Credits

Commercial and net metering alternative energy investments of $5,000 or more are eligible for a tax credit of up to 35% against individual tax on income generated by the investment. Residential taxpayers who install an energy system using a recognized non-fossil form of energy on their home are eligible for a tax credit equal to the amount of the cost and installation of the system. A resident taxpayer of Montana who installs a geothermal heating or cooling system can claim a tax credit based on the installation costs of the system, up to $1,500.

Public Benefit Funds

The Montana Universal System Benefits Program supports cost effective energy conservation, and weatherization and energy assistance to low-income customers. The Montana Universal System Benefits Program supports renewable-energy projects and applications and research and development programs related to energy conservation and renewable.

Renewable Portfolio Standards

Public utilities and competitive electricity suppliers are required to obtain a percentage of their retail electricity sales from eligible renewable resources according to the following schedule: 5% in 2008; 10% in 2010; 15% in 2015.

Closing Notes

Major issues and challenges could potentially affect ECP strategies; however, implementing action items now will help better prepare for the future. Challenges and issues may include:

- Increasing utility costs
- Reduced dollars available for facility projects and programs
- As facility systems age, operational costs increase
- Rapid changes in technology and growth in Big Horn County population will create greater demands on Big Horn County facilities, leading to increased energy usage and costs, increased maintenance costs and increased need for equipment upgrades

Presented within the Big Horn County ECT are methods and practices that can greatly assist Big Horn County in planning for its future in energy efficiency practices. It is important that all Big Horn County staff, directors, managers and administrators actively support and prepare themselves for changes in conditions within facilities, as well as prepare for behavioral modifications required for program success.