New Approaches for Improving Energy Efficiency in Indian Country

John Elliott, Native American Renewable Energy Education Project John Busch, Lawrence Berkeley National Laboratory Jack Davey, Rosebud Sioux Tribe Utility Commission

ABSTRACT

This paper presents an overview of opportunities and barriers associated with two new approaches for improving the energy efficiency of buildings in American Indian communities. The first approach arises from a recent shift in federal Indian housing policy marked by the implementation in 1998 of the Native American Housing Assistance Self-Determination Act. This legislation has eliminated most federal Indian housing programs and replaced them with an annual block grant. This has provided flexibility and new authority for tribal housing entities to effectively sponsor energy-efficiency activities. The second approach relies on a performance contracting mechanism in which energy service companies provide up-front capital for energy-efficiency improvements, and negotiate a contract to be paid from the energy cost savings that result from the project. While this approach is limited typically to situations in which relatively large projects are possible, it has attracted interest in American Indian communities that often lack sources of capital. Both approaches are illustrated using activities on the Rosebud Sioux reservation, located in south-central South Dakota, as a case study.

Introduction

The Rosebud Sioux have been active in pursuing several energy-efficiency initiatives over the last few years. In mid-1998, the tribe's housing authority acquired money to set up a weatherization program through the Weatherization Assistance Program (WAP) sponsored by the Department of Energy (DOE). That same year, they were the first tribe to become a DOE Rebuild America partner. Rebuild America helps communities to develop and implement energy-efficiency action plans. With assistance from Rebuild America, the Rosebud Sioux Tribe Utility Commission began to cultivate interest in energy efficiency among tribal members by sponsoring a two-day energy audit training workshop in early 1999. These activities have attracted the interest of off-reservation sources of capital, including one utility wanting to support energy-related activities and an ESCO interested in pursuing a commercial and residential energy-efficiency project.

The mix of energy-efficiency activities at Rosebud suggests two distinct approaches for improving building energy efficiency. One involves integrating energy-efficiency efforts into the housing bureaucracy that has traditionally administered federal Indian housing funds. This first approach has recently become more compelling with the passage of the Native American Housing Assistance Self-Determination Act (NAHASDA). Federal Indian housing programs that have been in place for more than 35 years have been discontinued and replaced by an annual block grant. Tribes are now free to direct their own housing programs within the confines of federal law and regulations and to determine how money is spent. The second approach involves arranging for the delivery of energy-efficiency activities through an energy service company (ESCO) using a performance contract. In this approach, the ESCO provides up-front capital to install energy-efficiency measures and is paid out of the energy cost savings that result from the project. This paper assesses the potential for each approach — by discussing opportunities and barriers associated with each. This assessment draws on the experience of the Rosebud Sioux tribe with an emphasis on issues and factors that may be generally applicable to other American Indian communities.

The discussion is organized around four themes: (1) financial resources, (2) sovereignty, (3) institutions, and (4) distribution of benefits. The first theme concerns the magnitude of available funds, as well as their availability and consistency, in order to determine whether the approach is able to mobilize sufficient resources to produce viable improvements in energy efficiency. The second theme addresses ways in which the approach may influence the ability of the tribe to direct its own affairs, and the effect that tribal autonomy may have on the success of the approach to improve energy efficiency. The third theme concerns institutional factors associated with each approach that may influence the likelihood that planned energy-efficiency activities are actually carried through. The final theme involves the distribution of benefits that may result from successful projects under each approach.

Housing Policy Approach

The housing policy approach arises out of the complete reorganization of federal Indian housing policy legislated through NAHASDA. The legislation took effect October 1, 1997, and began implementation during the summer of 1998. NAHASDA resulted in sweeping changes to Indian housing programs, funding mechanisms, and the organizational structure of housing administration.

Since the early 1960s, roughly 85 percent of all federal Indian housing funds were used to implement just a few key housing programs. These programs included two for new housing development, one to provide an operating subsidy for the management of housing units, and two others to fund renovation of existing housing units. With NAHASDA, all of these programs were terminated and replaced by a single block grant. Federally-recognized tribes are now free to develop and implement their own housing programs, so long as the programs are described in an annual plan and meet several general requirements established by the Department of Housing and Urban Development (HUD).

With the consolidation of funding streams into a single block grant, funding levels for each tribe have become more predictable. Funding for previous federal housing programs was disbursed through a mix of competitive grants and regular allocations based on standard formulas. As an example, all of the housing development funds and all of the money available for housing renovation to smaller tribes (those operating less than 250 housing units) had been available only by competitive grant. This means that tribes could not count on a continuous funding stream for many of their core housing activities. Under NAHASDA, the annual block grant is based on a formula allocation that remains fairly consistent from year to year. While congressional appropriations impact the amount of money available each year, NAHASDA has resulted in a more certain funding stream and planning environment for many tribes.

The programmatic and funding changes are accompanied by a new organizational structure for administering federal Indian housing funds. Prior to NAHASDA, all federal Indian housing programs were administered through Indian Housing Authorities (IHAs). IHAs were established according to the requirements of the federal government to be

independent of tribal governments. Thus, while tribal governments elected a board of commissioners to direct each IHA, they had no formal authority over IHA activities. Under NAHASDA, federally-recognized tribes are free to form their own housing organization to administer the block grant, which is called a tribally-designated housing entity (TDHE). There are no federal restrictions on the structure of the TDHE or the political authority that tribes exercise over housing activities.

The housing policy approach involves integrating energy efficiency into the activities of the TDHE and allocating a portion of housing funds to encourage improvements in energy efficiency. Because the beneficiaries of federal Indian housing funds are generally limited to low-income persons, energy-efficiency improvements sponsored using this approach would typically be limited to residential projects. Eligible energy-efficiency activities could include efforts to retrofit energy-efficiency measures in existing homes or to incorporate them into new construction. An assessment of the housing policy approach follows, organized around the themes introduced above.

Financial Resources

The NAHASDA block grant represents a relatively large source of federal funding for American Indian communities. At a national level, funding for NAHASDA has brought an overall increase in federal support of Indian housing. The first funding appropriation of \$600 million for NAHASDA in 1998 was more than 25 percent greater than the previous year's funding for all of the federal housing development, operating subsidy, and housing renovation programs that it replaced (Kruzak 1998). A similar increase in funding was evident at Rosebud. There, the housing authority began the year in 1997 with \$3.7 million in housing allocations for operating subsidies and renovation and \$2.7 million left over in a housing development fund that was awarded by HUD two years earlier. Their first annual NAHASDA block grant at \$6.6 million was slightly higher than its previous budget (RHA 1998).

The funding for the NAHASDA block grant also dwarfs federal funds that are made available specifically to lower energy bills for low-income households. One source of federal energy assistance is through the WAP, which provides expertise and funds to establish low-income weatherization programs. The other is through the Low Income Home Energy Assistance Program (LIHEAP) that primarily provides direct energy subsidies, but also allows a portion of its funding to support weatherization. One analysis of funding levels for WAP and LIHEAP has estimated that at most \$2.7 million is made available to American Indian communities that live on or near tribal land through both programs as of 1998 (Elliott 1998). This amount, which is much higher than the funding actually used by tribal communities, is less than 0.5% of the total NAHASDA block grant for 1998. Again, a similar picture is evident at Rosebud, where the total LIHEAP and WAP funding available for weatherization in 1998 was less than \$100,000, corresponding to less than 0.02% of their total NAHASDA block grant.

Funding levels under NAHASDA are also reasonably consistent. While congressional appropriations for NAHASDA may change, funding since the start of the program has remained strong. Annual appropriations have continued to increase from \$600 million in 1998 and 1999 to \$620 million in 2000. A total of \$650 million has been proposed for 2001. This consistency can provide a base of funds on which to establish the infrastructure necessary for the tribe to deliver energy-efficiency services. Block grant monies can also

provide a base to which other federal sources of money related to energy, including WAP and LIHEAP, can be added. At Rosebud, the tribal housing entity was required to commit — matching funds in order to receive a weatherization grant from the WAP to ensure that the program would have sufficient operating funds. Thus, having a predictable source of housing funds allowed the Rosebud housing entity to acquire additional federal energy assistance.

While NAHASDA funding levels appear healthy with respect to previous federal funding levels and other federal energy assistance, it is important to keep in mind that most sources agree that federal housing funds fall far short of satisfying the need for decent, affordable housing in American Indian communities. For some tribes, including Rosebud, the increase in funding for housing activities has coincided with an increase in the population of tribal members that are formally recognized to receive housing. This is because the federal housing programs that were replaced by NAHASDA were designed to build and maintain a stock of subsidized housing for tribal members. Therefore, housing funds could not be used to assist other tribal members that did not live in the subsidized housing units. Now, federal funds may be used to support any housing need for tribal households that meet low-income criteria.¹ This has created great demands on NAHASDA funds. If NAHASDA funds are to be used to promote energy efficiency, there will likely be pressure to show that funds can be spent cost-effectively and that they will provide tangible benefits to tribal members. Use of existing programs such as the WAP can provide organizational and technical resources to guide initial expenditures and create political support for the use of block grant money to improve energy efficiency.

Sovereignty

The reorganization of federal housing programs has the potential to enhance sovereignty and improve the delivery of housing and energy-efficiency services. Prior to NAHASDA, tribal housing bureaucracies were in many ways preoccupied with navigating the rules of each federal housing program and spending funds, rather than assessing the actual needs of their communities and seeking ways to address those needs. Now housing decisions go directly through the tribal governments. The tribes themselves are tasked with developing effective housing programs and have greater accountability with regard to how those programs perform. NAHASDA therefore provides greater control over resources and a tighter link between decision-making and its consequences.

This shift is evident in the Rosebud Sioux tribe's organizational response to NAHASDA. The Rosebud tribal council has created a non-profit organization called the *Sicangu Wicoti Awanykape* (SWA) Corporation to be its TDHE. The goal of the SWA Corporation is to "develop and support self-sustaining, desirable, affordable residential housing and communities on or near the Rosebud Sioux Reservation" (RST 1999). SWA Corporation has planned regular "housing forums" in an effort to "keep channels of communication between SWA Corporation staff and community leaders open regarding their respective settlement pattern and housing concerns, carefully monitor this dialogue, and concisely summarize and periodically amend the policies that emerge from this dialogue" (RST 1999). These plans mark a change in the spirit of the housing entity that shows potential for effective housing efforts.

¹ Exceptions exist to use a small portion of funds to assist moderate-income households.

In its housing plan, the tribe has also shown a commitment to make new housing more compatible with local customs and traditions. The SWA Corporation is exploring housing development policies and practices that strengthen traditional Lakota extended traditional family groupings (called *tiyospaye*). The *tiyospaye* settlement patterns have gradually been eroded through housing policies that did not take into account traditional affinities in the organization of communities. The SWA Corporation is also planning to provide log cabins for some elderly tribal members that have expressed a desire to show their respect for timber and live closer to the earth. For other tribal members, The SWA Corporation plans to partner with an organization called the Native American Housing Design Program to provide more culturally appropriate homes, in response to complaints from many tribal members. These developments signify a shift in tribal sovereignty and suggest that the SWA Corporation has potential to legitimately represent and respond to the housing needs of the Rosebud Sioux tribe. If enhanced tribal sovereignty can create a more effective housing organization, TDHEs may be an effective sponsor of energy-efficiency activities.

Greater authority does not, however, ensure that tribal governments or TDHEs will be effective. At Rosebud, a large portion of the tribal council turns over during elections held every two years, which contributes to ineffective lame duck councils and limits institutional progress. At neighboring Pine Ridge and Crow Creek reservations, the activities of the tribal governments were seriously hindered amid political and financial scandals during the spring of 2000 (Melmer 2000; Monastyrskim 2000). These events show that, in many cases, tribal governments are struggling to maintain legitimacy and operate effectively. Therefore, a move to place housing and energy-efficiency activities more squarely in the hands of the tribal government may not prove productive.

Institutions

The housing policy approach provides several advantages from an institutional perspective. First, it builds on existing institutional resources. Second, it allows tribes to consolidate and integrate existing housing programs to make better use of these resources.

Most tribes have been operating IHAs for years, and have therefore amassed the experience and skills necessary to create a new and effective TDHE. Thus, while NAHASDA has completely restructured federal Indian housing programs, it builds on existing institutions and human resources. At Rosebud, the SWA Corporation has been operating under the policies of the previous Rosebud Housing Authority for much of the last year. This has provided a starting point from which they have been developing a charter and set of policies to guide the operation of the new housing entity.

Much of the potential for improving effectiveness arises from the opportunity to consolidate and integrate housing efforts. At Rosebud, tribal programs related to housing had been extremely fragmented. For example, within the Rosebud Housing Authority, housing development was isolated from housing maintenance since each effort was funded through a separate federal program. In addition, a small housing development and maintenance program was operated independently of the housing entity with funding from the Bureau of Indian Affairs. Other efforts to renovate housing, funded through competitive Indian Community Development Block Grants offered by HUD, were administered through the main tribal offices in isolation from the maintenance department of the housing authority. The new SWA Corporation brings together eight previously separate administrative

operations related to housing development, housing renovation, and energy assistance that were previously located in separate tribal offices (RST 1999). The SWA Corporation is also in the process of developing a new Tribal Housing Center that will serve as a single clearinghouse for all housing inquiries at Rosebud. This integration, made possible through the passage of NAHASDA, has great potential to reduce duplication and improve the effectiveness of the Rosebud's housing activities.

The integration of housing activities is bringing incentives for improving energy efficiency in line with opportunities to do so. At Rosebud, the housing entity typically provides direct subsidies to energy bills for tribal households. In 1997, the Rosebud housing entity spent over \$800,000 to subsidize energy bills, and thereafter spent \$450,000 each year to reduce utility bills for tribal members (RHA 1998; RST 1999). With operations related to housing construction, maintenance and energy assistance combined into one entity, there will be a greater incentive to allocate money used to subsidize bills towards energy-efficiency activities that will reduce household energy bills over the long term. This could occur through greater attention to energy efficiency in new housing construction or through preventative housing maintenance. The SWA Corporation is planning to begin a program to perform regular tune-ups of HVAC systems in order to lower operating costs and reduce replacement costs (RST 1999).

The principal institutional barrier to the success of the housing policy approach is that energy-efficiency activities become integrated into a large housing bureaucracy that may or may not be effective at identifying goals and achieving them. At Rosebud, the housing authority was able to easily acquire WAP funding for weatherization; however, it did not make the institutional changes necessary to initiate a weatherization program and never used the approximately \$50,000 in available funding. There is also no guarantee that the TDHE will place a value on energy efficiency despite the greater opportunity and incentives made possible by NAHASDA. Bureaucracy imposed by the agency that administers funding can also significantly hinder tribal activities.

Distribution of Benefits

If American Indian communities make use of NAHASDA funding to improve energy efficiency, benefits will result in the form of lower energy bills and greater employment. NAHASDA funding must, according to HUD requirements, be used primarily to support services for low-income households. Accordingly, energy-efficiency efforts sponsored by the TDHE would likely be used to reduce energy costs for low-income households. There is no requirement that tribal members be used to provide labor for housing activities; however, most tribal housing entities have mechanisms in place to hire tribal laborers and extend a hiring preference to tribal entities for work that is put out to bid. At Rosebud, tribal members are routinely hired for housing rehabilitation work, such as installing insulation. NAHASDA also requires certain minimum wage rates for laborers and other contractors employed using block grant funds. While this requirement increases costs for some housing entities, it does ensure that TDHE activities produce well-paying employment opportunities.

Housing Policy Approach Summary

Overall, the housing policy approach offers significant opportunities to integrate energy-efficiency activities into the housing operations of TDHEs. NAHASDA provides a substantial and predictable source of funding that can be used for a wide range of housing development, maintenance, and energy-efficiency activities. While NAHASDA builds on existing institutions, tribes are being given greater autonomy to design and implement housing programs. This is creating new opportunities to consolidate existing housing activities and new incentives for tribes to invest in energy efficiency. If tribes successfully pursue energy-efficiency activities through their TDHEs, benefits will likely go primarily to low-income tribal households. The most significant barrier to improving energy efficiency under the housing policy approach is that it places energy-efficiency initiatives within a large housing bureaucracy. In some cases, TDHEs that are now under the direct control of tribal governments may become embroiled in tribal politics and fail to prove effective. In all cases, competition for NAHASDA funding will be fierce, and without strong advocacy backed up by compelling demonstration of benefits, energy efficiency may not be given a high priority with respect to other pressing housing needs.

Performance Contracting Approach

At the same time that the Rosebud housing entity was involved in acquiring funding to operate a weatherization program, another tribal organization, the Rosebud Sioux Tribe Utility Commission (RSTUC), was pursuing other activities to improve energy efficiency. The RSTUC works on issues related to telecommunications and energy supply on the reservation with the long-term goal of establishing a tribal utility at Rosebud. In early 1998, the RSTUC signed on as a DOE Rebuild American partner and began developing an energyefficiency action plan to retrofit buildings and homes across the reservation. While the RSTUC supported the effort to establish a weatherization program through the housing entity, it was not predisposed to working directly with the housing authority. The housing authority had not yet been restructured under NAHASDA, and it had typically operated its programs independently of other tribal organizations. Therefore, the RSTUC focused its efforts elsewhere, mostly on working with Rebuild America to identify opportunities for energy-efficiency savings through building energy audits, to provide education on energy auditing, and to develop partnerships with other private sector interests to help support energy-efficiency activities.

The main emphasis of the RSTUC Rebuild America effort during much of 1998 was to pursue funding from a major utility that was invited to Rosebud through contacts at DOE. The initial hope was that this utility would support the creation of a tribal energy auditing enterprise that could identify opportunities for savings at Rosebud and other neighboring reservations. After many meetings between the RSTUC and the utility, and despite continuing efforts, the funding has not materialized.

Without funding for energy auditing, performance contracting arose as the preferred approach to improving energy efficiency at Rosebud. An ESCO was contacted through the Rebuild America network to explore the possibility of conducting a performance-contracting project on the reservation. After some opportunities for savings at Rosebud had been identified, the idea was that an ESCO would provide up-front capital for energy-efficiency improvements and expertise to conduct investment-grade audits. Other auditing activities supported by Rebuild America were increasingly motivated by the hope that documentation — of savings potential could stimulate interest, both at Rosebud and among ESCOs, in pursuing a performance contracting project.

Performance contracting is typically used as a mechanism for financing performancebased projects to retrofit equipment in commercial, industrial, and government buildings. Performance-based projects tie the ESCO's payment to the cost of energy that is saved, and therefore involve measurement and verification of the savings that result from the project. While performance contracting has typically been used in non-residential settings, a small portion of the performance contracting market is active in the residential sector.²

In the context of American Indian communities, the performance contracting approach would begin with a walk-through assessment of candidate buildings by an ESCO to determine whether a project is feasible. The ESCO's decision to pursue a project would depend on the magnitude of the cost savings associated with the project and an assessment of the project risk – that is, the certainty that the project could be successfully completed and savings verified. Assuming an ESCO were willing to take on the project, the performance contracting approach would then involve the negotiation of a contract between a tribal entity and the ESCO. This contract would define the process through which the project scope would be developed and payments would be made to the ESCO over a period of seven to ten years. The potential for improving energy efficiency in American Indian communities through the performance contracting approach is discussed below, organized around the same general themes used previously: financial resources, sovereignty, institutions, and distribution of benefits.

Financial Resources

ESCOs install between \$700 million and \$1 billion worth of energy-efficient equipment each year (Lefevre 1997, ii). Much of this activity is conducted through performance contracting; however no performance contracting, to the knowledge of the authors, is taking place on American Indian lands. In terms of providing a financial resource for energy efficiency in Indian Country, the performance contracting approach differs from the housing policy approach in that funding is typically focused around individual retrofit projects, rather than on continuing efforts. Since performance contracting is a market-based activity, the question of whether the performance contracting approach has the potential to provide a significant source of funding for energy-efficiency improvements in American Indian communities depends on the extent to which tribal projects exist that are attractive to ESCOs.

Since ESCOs are paid out of energy costs savings, they would typically seek out projects in which the magnitude of savings justify the transaction costs required to finance and install energy-efficiency measures. It is not certain whether projects of this size exist in many American Indian communities. At Rosebud, there seem to be few opportunities for savings of significant magnitude to support performance contracts, although Rosebud is large

² A survey of 49 ESCOs active in California conducted by the California Energy Commission indicated that residential projects resulted in 2% of current sales (CEC 1999, 7).

compared to most other reservations.³ According to data provided by the RSTUC, there is a critical mass of building stock at Rosebud in need of energy-efficiency upgrades including:—

- A 90,000 square-foot hospital with an annual electricity bill of approximately \$200,000
- A 20,000 square-foot casino and restaurant with an annual electricity bill of approximately \$85,000
- A 60-room hotel with an annual electricity bill of approximately \$30,000
- Approximately 20 university buildings with an annual electricity bill of approximately \$50,000
- The Rosebud TDHE and other tribal office buildings with an annual electricity bill of approximately \$200,000
- Approximately 3,800 housing units of which 1,100 are operated through tribal housing programs (RST 1999)

Although there is potential for significant savings at Rosebud, it is unlikely that most of these facilities could be packaged into a single performance contract. The hospital, which is the building with the single largest energy consumption on the reservation, is operated by the Indian Health Service, and would therefore fall outside of the contracting authority of the tribe. If the tribe wanted to include both non-residential and residential projects into a single contract, it is not certain whether a suitable and interested ESCO could be found, given the small number of residential ESCOs in the market.

Beyond project size, ESCOs would typically assess the transaction costs associated with developing a project and the risk or uncertainty related to the expected savings. Since ESCOs are generally unfamiliar with tribal communities, transaction costs related to working with tribal entities could be significant and risks, both real and perceived, must be addressed. As an example, vandalism and housing occupancy changes are common in the housing stock managed by Rosebud's TDHE. These two factors could materially change the estimated savings from the residential portion of a project. The contracting organization would need to manage these risks over the contract terms and may need to pay a premium in the form of extra insurance to shield the ESCO's risk in order to close a deal.

Some opportunities do exist that could lower barriers to participation in tribal projects by ESCOs. One opportunity involves super energy savings performance contracts (Super ESPCs) that are developed through the Federal Energy Management Program (FEMP). These are blanket performance contracts that are negotiated for individual federal agencies or for federal facilities within a geographical region. Once a Super ESPC is in place, a contract involving a specific project can be negotiated with an ESCO without having to begin the contracting process from scratch. The Indian Health Service (IHS) has negotiated a Super ESPC contract for facilities in Oklahoma, and a proposal for a Super ESPC for the Aberdeen area of the IHS, which includes Rosebud, is now being reviewed by FEMP (Voss 2000). While no tribal projects have yet been initiated through the Super ESPC contracting program, it could facilitate relationships between tribal communities and ESCOs and lower transaction costs. A second opportunity involves finding additional sources of funds to finance performance contracts. Rosebud has been approached jointly by Capital Consultants and

 $^{^{3}}$ The 1990 US Census lists the Rosebud reservation as the sixth largest Indian reservation by population.

Sister Cities International, a non-profit organization, with \$25 million in capital earmarked specifically to finance performance contracts between ESCOs and local or tribal — governments. To date no projects have been supported through this fund although discussions have begun with Rosebud. Such funding could significantly reduce project risks for an ESCO and help facilitate a performance contract.

Sovereignty

By pursuing the performance contracting approach, a tribal organization has chosen to not develop and install a project internally. While this may reduce tribal autonomy, the performance contracting approach exercises tribal sovereignty through the contracting process. Despite the fact that this process is often time-consuming and difficult, it does provide an opportunity for the terms of the project to be defined and the rights of the contracting parties to be protected. Thus, the performance contracting approach has little substantive effect on tribal sovereignty, but does provide opportunities to ensure that autonomy is not compromised.

Institutions

Generally speaking, performance contracting is a new institutional arrangement for American Indian communities. In order to negotiate a performance contract, a tribal organization may require considerable technical and legal expertise and be willing to make a considerable time commitment well before the success, or even feasibility, of a project is certain. With no guarantee of success, many tribal organizations may be reluctant to begin the process. At Rosebud, little progress has been made in pursuing a performance contract because there has been no tribal organization able to commit the resources to identify potential ESCO partners and work through the contracting process. Therefore, while the performance contracting approach can be seen as essentially outsourcing the development and installation of an energy-efficiency project, it does require significant institutional resources on behalf of the tribe. Even after a contract is signed, the contracting tribal organization is responsible for providing the ESCO access to project sites, making energy use data available, and safeguarding the operation of equipment installed under the project.

Distribution of Benefits

As discussed in the housing policy approach, benefits from an energy-efficiency project will result in the form of lower energy bills and greater employment. Because performance contracts are more likely to take place in non-residential buildings, the benefit of lower energy bills will likely accrue to tribal organizations or tribal governments rather than to individual tribal members. Unlike the housing policy approach, there are no mechanisms in place to ensure that employment opportunities created by the energyefficiency project are available to tribal members. While a provision for hiring local labor may be included in the contract, ESCOs may be reluctant to rely on local labor to a great extent in order to limit their risk.

Performance Contracting Approach Summary

The performance contracting approach offers significant opportunities for American Indian communities in that it provides a mechanism for financing, developing and installing energy-efficiency projects. Yet, performance contracting is a market-based activity, and projects on tribal land must compete with other business opportunities facing ESCOs. While some opportunities exist that can help facilitate performance contracting in Indian Country, the small size of most tribal projects and additional factors that increase transaction costs and project risks may limit performance contracting to a minor mechanism for improving energy efficiency in American Indian communities. In cases where performance contracts are used successfully to improve energy efficiency, project benefits are more likely to accrue to the tribal entities that pay for energy bills in larger facilities, rather than to individual tribal members.

Conclusions

Both the housing policy and performance contracting approaches present significant opportunities for improving energy efficiency in American Indian communities. However, neither approach is assured of easy success, nor are they exclusive of one another. The housing policy approach relies on existing institutions and funding sources and offers great potential to integrate energy efficiency into the construction and maintenance of new housing. While there may be bureaucratic hurtles associated with the approach, there is little down-side risk to identifying cost-effective opportunities for energy efficiency and allocating funds through the TDHE to exploit them. As effective institutions are developed that gain expertise in energy issues, tribes may want to tackle larger retrofit projects that require significant capital outlay. In this case, the performance contracting approach offers an opportunity to make significant improvements in energy efficiency.

The challenge for tribes is to find the combination of policies and approaches that best meet the needs and goals of the community. The two approaches described in this paper offer the potential to serve immediate needs for greater autonomy and control over energy expenditures. In the longer term, education and training are crucial for sound decision making and for seizing new opportunities to usher in a sustainable energy future.

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