
OLR Bill Analysis

HB 5337

AN ACT CONCERNING DISTRICT HEATING SYSTEM INCENTIVES.

SUMMARY

This bill changes the way incentive payments are calculated for certain district heating systems. It does so by ending an existing program and replacing it with a similar program implemented by the Department of Energy and Environmental Protection (DEEP).

Current law requires gas companies to give an incentive payment to district heating system end users who connect to the system for heating on March 1, 2016, or later. The gas companies must do this as part of the Conservation and Load Management (C&LM) plan, as approved by the Energy Efficiency Board and DEEP. Current law requires incentives under this program to be calculated based on a customer's projected natural gas demand reduction for the period they commit to using heating system services. This projected reduction must be based on the customer's weather-adjusted historical usage data from the previous three years. Current law prohibits incentive payments made to any end use customer under this program from exceeding incentive payments made for other, equivalent natural gas demand reductions through the C&LM plan.

The bill requires DEEP, in consultation with the Energy Efficiency Board, to develop and implement an incentive program by July 1, 2027, for end use customers connected to a district heating system. The bill ends incentives under the current program, described above, when DEEP implements its program or June 30, 2027, whichever is sooner.

Under the bill, incentives under DEEP's program must be calculated based on the projected lifetime reduction in natural gas consumption that is due to the district heat system. To make this calculation, DEEP must use cost-effectiveness methodologies that are consistent with laws

on the C&LM plan, the Connecticut Green Bank, and electric supplier consumer protections, as well as related regulations. Of these laws, only the C&LM statutes directly address cost benefit screening (see BACKGROUND).

The bill retains certain provisions that apply to the incentive under current law and applies them to DEEP's incentive under the bill. For both incentives, a district heating system owner or operator may charge end use customers a connection charge in an amount up to the incentive amount received by the customer. Funding for both incentives is provided through a fully reconciling conservation adjustment mechanism on gas customer bills for the gas company where the district heating system is located. For both incentives, this funding is capped at \$9 million in total for the programs and is in addition to revenues authorized to fund the C&LM plan generally (see BACKGROUND). Any revenue over \$2 million needed to fund the programs must be paid over a period of at least two years.

Under current law and the bill, a district heating system is a thermal loop natural gas demand reduction system designed to (1) capture at least 30 million British thermal units (BTUs) of waste heat and (2) distribute at least 75% of the waste heat to end users located in the system's service area.

EFFECTIVE DATE: October 1, 2026

BACKGROUND

C&LM Plan Requirements and Funding

By law, electric distribution companies, in coordination with gas companies, must submit a combined electric and gas C&LM plan to the Energy Efficiency Board and the DEEP commissioner for approval. The plan's purpose is to implement cost-effective energy conservation programs, demand management, and market transformation initiatives. The law requires programs included in the plan to be screened through cost-effectiveness testing that compares the value and payback period of program benefits for all energy savings to program costs to ensure programs are designed to obtain energy savings and system benefits

that exceed project costs. If a program fails the cost-benefit test, it generally must be changed or terminated.

By law, the C&LM plan is funded, in part, through a fully reconciling conservation adjustment mechanism for each gas company of up to 4.6 cents per hundred cubic feet (CGS § 16-245m).

COMMITTEE ACTION

Energy and Technology Committee

Joint Favorable

Yea 18 Nay 8 (03/17/2026)