

(B) training of personnel conducting energy efficiency ratings;

(C) data collection and reporting;

(D) quality control; and

(E) monitoring and evaluation;

(3) encourage consistency with, and support for, the uniform plan for Federal energy efficient mortgages, including that developed under section 946 of the Cranston-Gonzalez National Affordable Housing Act (42 U.S.C. 12712 note) and pursuant to sections 105 and 106 of the Energy Policy Act of 1992;

(4) provide that rating systems take into account local climate conditions and construction practices, solar energy collected on-site, and the benefits of peak load shifting construction practices, and not discriminate among fuel types; and

(5) establish procedures to ensure that residential buildings can receive an energy efficiency rating at the time of sale and that such rating is communicated to potential buyers.

Section 105 of the Energy Policy Act of 1992 amends section 104 of the Cranston-Gonzalez National Affordable Housing Act, 42 U.S.C. 12704, by defining an "energy efficient mortgage" as a mortgage that provides financing incentives for the purchase of energy efficient homes, or that provides financing incentives to make energy efficiency improvements in existing homes by incorporating the cost of such improvements in the mortgage.

The Department is developing the guidelines through notice and comment rulemaking because section 271 specifically requires that they be developed "by rule." Nevertheless, compliance with the final guidelines is strictly voluntary.

B. General Purpose

The principal purpose of a home energy rating system is to calculate a descriptive rating of the energy performance of a residential building. An accurate home energy rating system will give the lending industry the confidence it needs to underwrite energy efficient mortgages, offer financing mechanisms, and provide the real estate and appraisal industries with a basis for valuing energy efficiency in the home sale and resale markets. It is anticipated that by providing an accurate technical basis for projecting energy savings from installations of energy efficiency measures, the guidelines, when finalized, will play a critical role in establishing a market-based system to encourage homeowners to improve the energy efficiency of new, reconstructed or existing housing.

Reliable and consistent energy analysis systems are prerequisites for financing residential energy efficiency through the mortgage process with energy efficient mortgages or energy

efficient loans. Variation in current local and statewide home energy rating programs impedes the implementation of energy efficient mortgage programs because the Federal mortgage agencies and lenders are uncertain as to the reliability of the ratings.

As of 1993, a number of states had developed their own unique home energy rating programs. The National Association of State Energy Officials (NASEO) stated that 14 states have statewide or city-wide, scaled home energy rating programs for new and existing homes. Thirty-three states had utility-run home energy rating certification programs for new homes in at least some areas of the state. In some areas both state and utility rating programs were in use.

Today's proposed rule responds to the need of mortgage lending institutions for a reliable technical basis upon which to underwrite energy efficient mortgages. Providing this solid footing for mortgage underwriting will encourage lenders to issue a variety of energy-related financial products which in turn will help stimulate the market for energy efficient housing measures.

Along with access to attractive financing, homeowners could be encouraged to make investments in energy efficiency if they are valued in the real estate market. Currently, appraisals are based on comparables that do not necessarily value energy efficiency measures. A reliable home energy rating gives appraisers a sound basis for recognizing energy efficient measures that have been installed.

Uniformity across different home energy rating systems could benefit consumers and the housing industry by making energy ratings a standard part of the real estate process. As ratings become widely utilized, consistency among systems will promote proper market valuation of improvements. Expanded use of home energy rating systems could stimulate increased use of energy efficiency and renewable energy technologies by making energy efficiency a quantitative, visible, and recognized attribute as homes are designed, built, bought, and remodeled.

C. Guideline Development

The Department's Office of Building Technologies contracted with the Home Energy Rating Systems Council (HERS Council) in 1993 for the development of a Technical Report to be used as a basis for the guidelines proposed today. The Department acted in response to the provisions set forth in the Act to develop voluntary guidelines in consultation with the Secretary of Housing and Urban Development, the

Secretary of Veterans Affairs, representatives of existing home energy rating programs, and other appropriate persons."

The HERS Council is a not-for-profit, corporation with a nineteen-member board representing various stakeholders in the matter of home energy ratings. The HERS Council's membership includes builders, mortgage lenders, HERS providers, consumer groups, State energy offices, utilities, real estate agents and appraisers, and product manufacturers.

The HERS Council formed a Technical Committee comprised of representatives from electric and gas utilities and utility trade associations, home energy rating providers, software developers, builders, state organizations, product manufacturers, and the heating, ventilation and air-conditioning industry. The Department also provided resources from the National Renewable Energy Laboratory to give technical support to the HERS Council during their work on the Technical Report.

The Department, working through the HERS Council, attempted to reach all possible stakeholders to obtain comments during the development of these proposed guidelines. Representatives from the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Veterans Affairs (VA) attended HERS Council and Technical Committee meetings to remain apprised of the material being developed and the Department has consulted with both HUD and VA on the contents of these proposed guidelines.

Many of the larger and more active rating organizations participated in this effort, but the Department is aware that there are some home energy rating organizations not participating in the HERS Council. Therefore, the Technical Report created by the HERS Council, via a consensus process, may not reflect all opinions on the content of these guidelines. The proposed guidelines allow for delayed compliance as described below. The Department invites all interested parties to provide the Department with their views regarding the proposed guidelines in comments responding to this notice and at the public hearing.

D. Rating Method Development

The proposed guidelines provide for a single method of rating homes that is consistent with the statutory requirement in section 271 of the Act to encourage uniformity with regard to systems for rating the annual energy efficiency of residential buildings. The HERS Council and the Technical