



**S E E A**

SOUTHEAST ENERGY EFFICIENCY ALLIANCE

**WEBINAR SERIES**

## INTRODUCTION TO INCLUSIVE FINANCING FOR ENERGY EFFICIENCY

Learning Circle Series



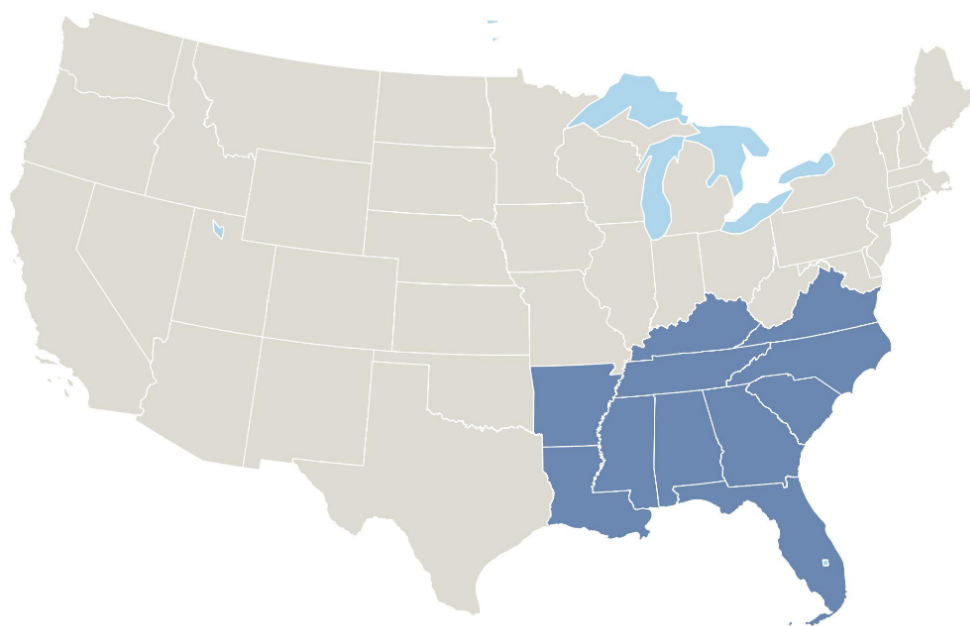
# SEEA Serves the Southeast

## Mission

The **Southeast Energy Efficiency Alliance (SEEA)** works to ensure people in the Southeast have the knowledge, resources, and opportunities to optimize energy use.

## Vision

Energy efficiency is a primary driver of a prosperous, healthy and sustainable Southeast.



## Work Areas:

**Built Environment**

**State, Local & Utility Policy**

**Energy Equity**

**Innovative Finance**



# SEEA's Leadership in the Southeast

- 2014 Arkansas Energy Office Statewide Financing Options Study
- 2014 North Carolina On-Bill Working Group
- 2015 SEEA webinar with CEO of Roanoke Electric
- 2015 SEEA conference in 2015: The Roanoke Center
- 2016 SEEA conference in 2016: Ouachita Electric
- 2017 SEEA Learning Circle for Inclusive Financing

Solutions that works for *anyone* – regardless of income, credit score, or renter status – are better for *everyone*.



*Learning Circle Series*

The "Clean Energy WORKS" logo is positioned in the bottom right corner. It features the words "Clean Energy" in a blue sans-serif font, with "WORKS" in a larger, bolder, blue sans-serif font directly beneath it. The text is set against a background of light gray, radiating lines that create a sunburst or starburst effect.

## As interest grows, you are in good company:

- Utility managers
- Consumer advocates
- Utility commission staff
- State energy offices
- Community-based organizers
- Solution providers

## Holmes Hummel, PhD Principal, Clean Energy Works

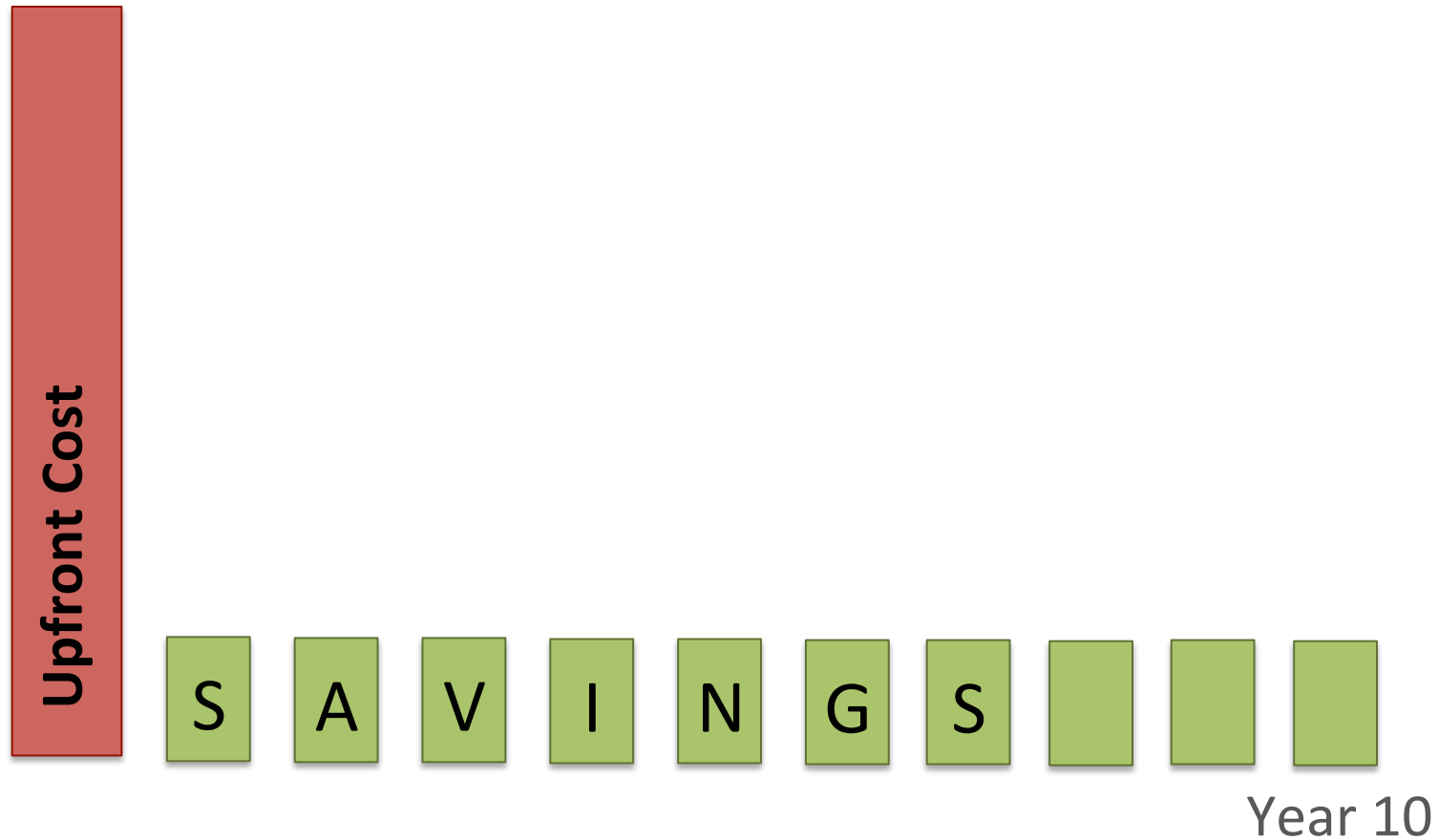


- ✓ Founded Clean Energy Works to mobilize more investment in the clean energy economy, open to all through inclusive financing
- ✓ Former Senior Policy Advisor in the Department of Energy's policy office (2009-2013)
- ✓ Winner of FiRe Award at the Bloomberg "Future of Energy Summit" for championing PAYS® as a high-impact innovation in finance
- ✓ Advisor to utilities on business plan development for investments in cost effective distributed energy solutions

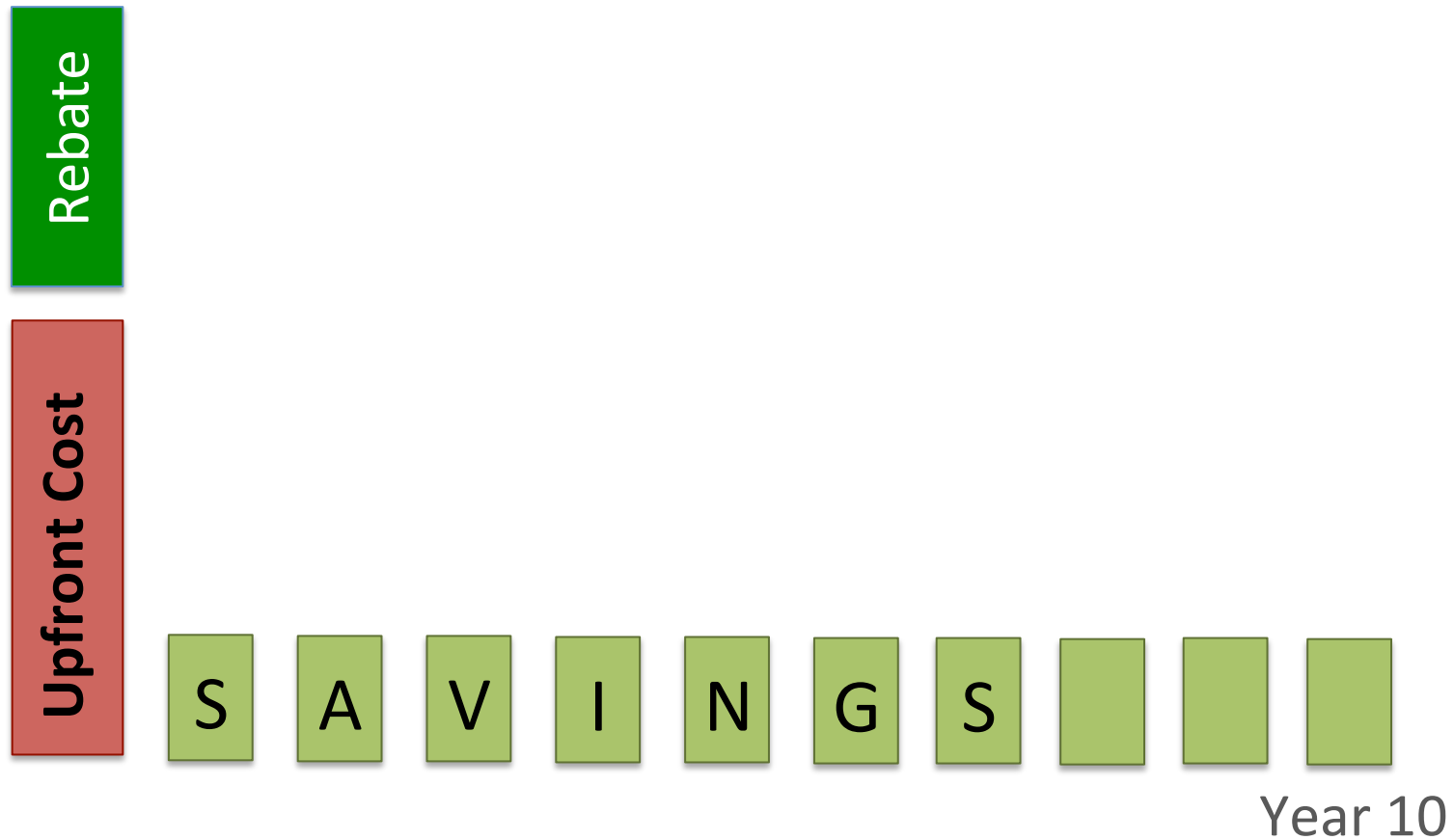
# Introduction to Inclusive Financing for Energy Efficiency

- Making the case for more inclusive solutions
- Overview of tariffed on-bill programs
- Comparison to other on-bill financing approaches
- Precedents in the field
- More opportunities to learn

# Addressing first-cost barriers:



# Addressing first-cost barriers:



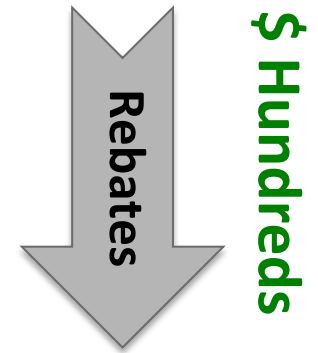


# Paying for cost effective efficiency upgrades

After all rebates and public funds are applied, customers face these options for the balance:

- ☐ Pay Cash
- ☐ Pay with Credit
- ☐ Decline the upgrades

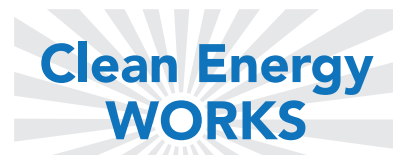
**Rate-payer or  
Public funds**



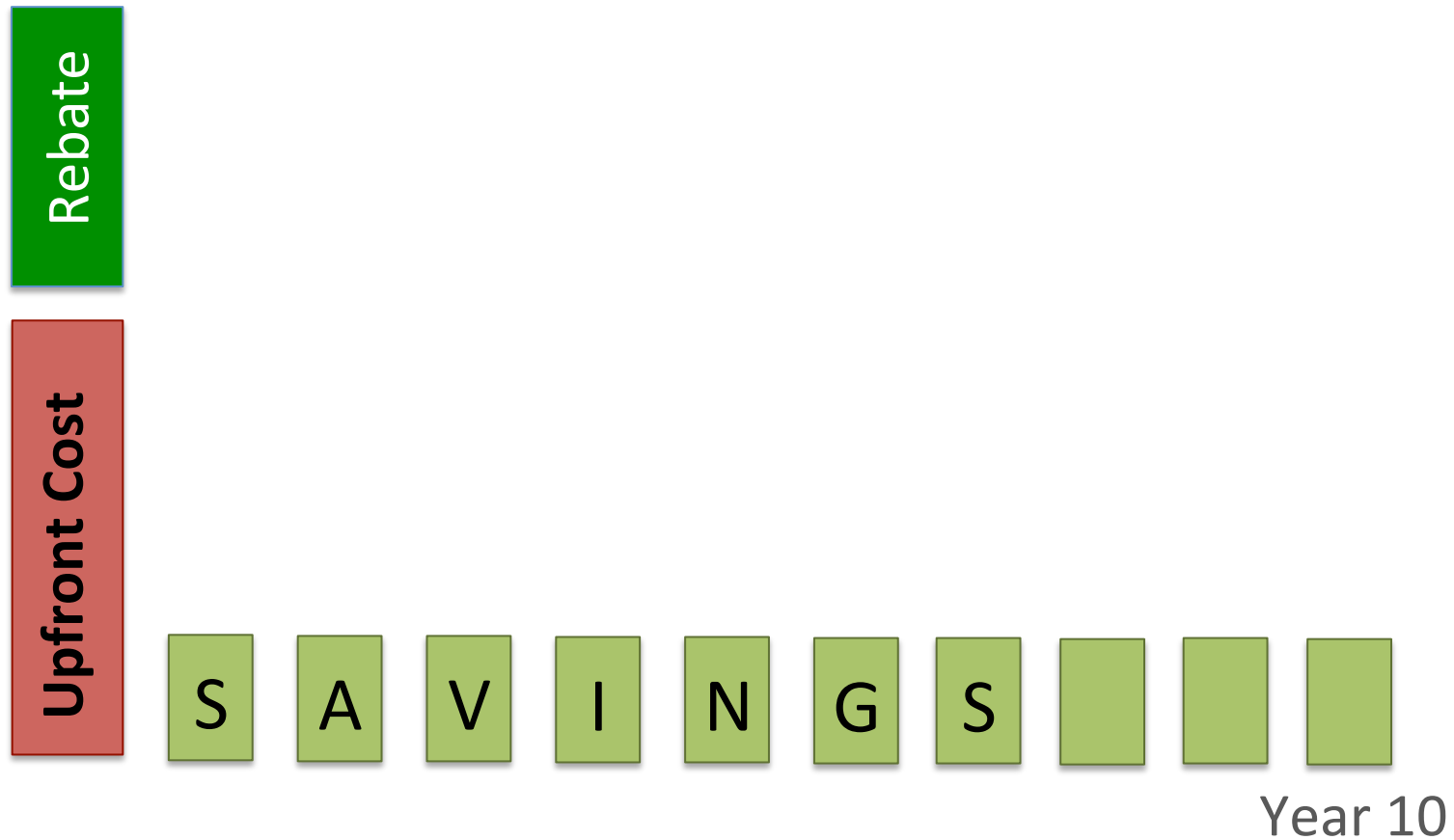
**Customers**

**\$ Thousands**

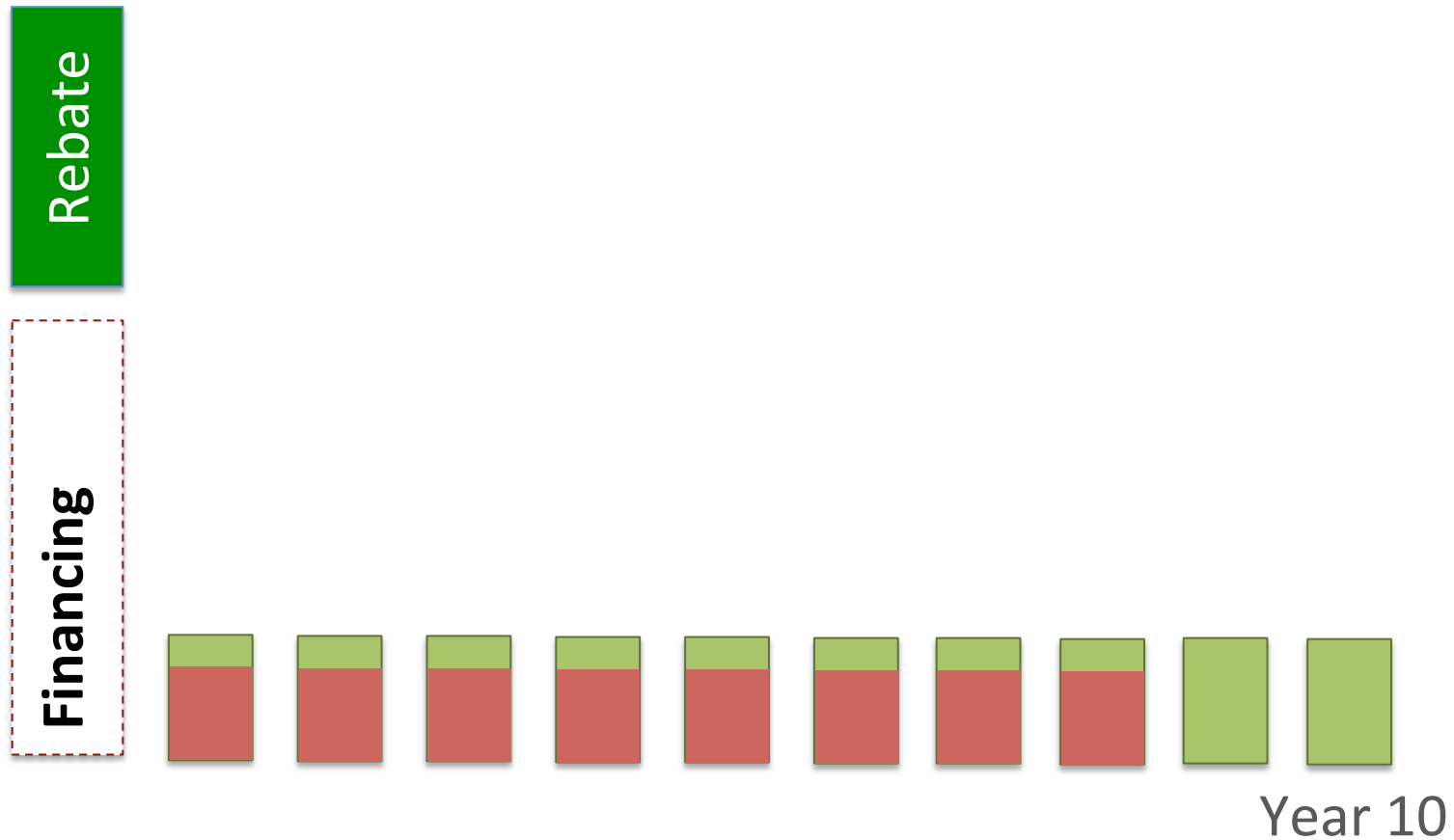
in upgrades  
per participant



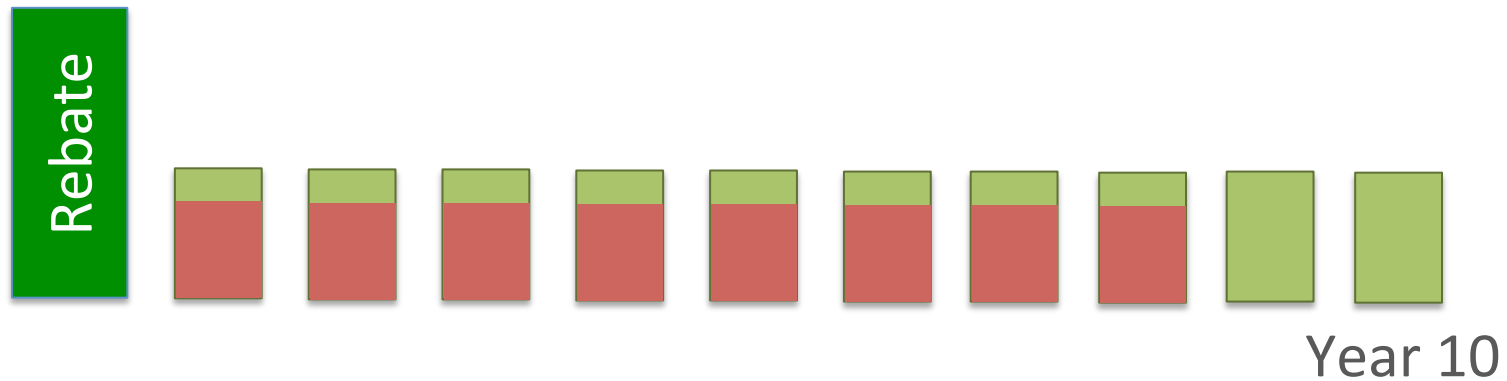
# Addressing first-cost barriers:



# Addressing first-cost barriers with funding and financing:



# Addressing first-cost barriers with funding and financing:





Common qualifying criteria for financing:

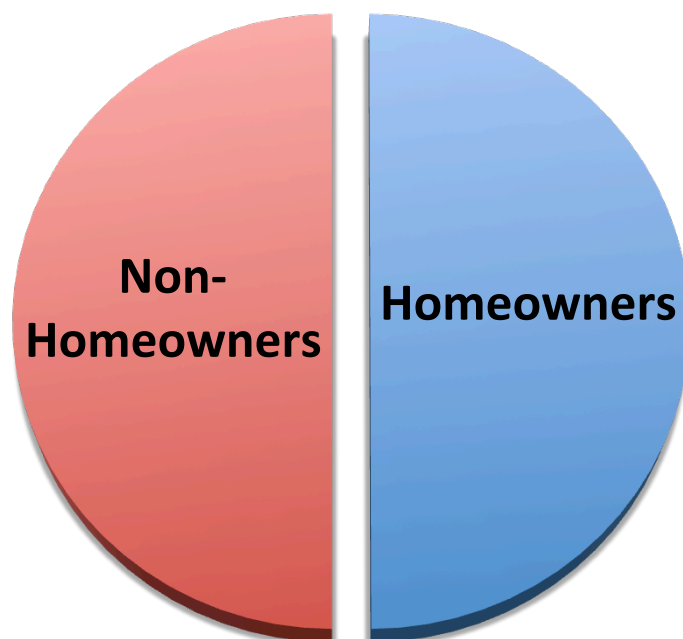
“Are you a homeowner?”

“Do you have a good credit score?”

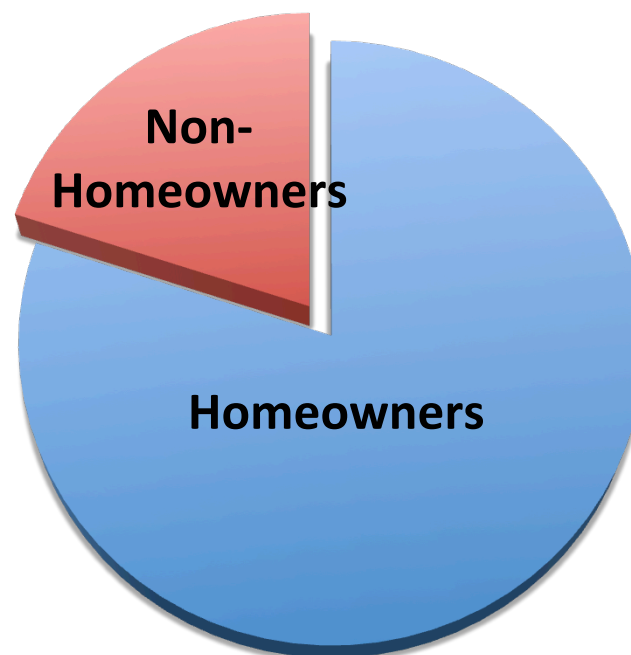
“Do you have solid income?”

# Barriers to Financing in the Clean Energy Economy: Example - Property Ownership

**Below Median Income**



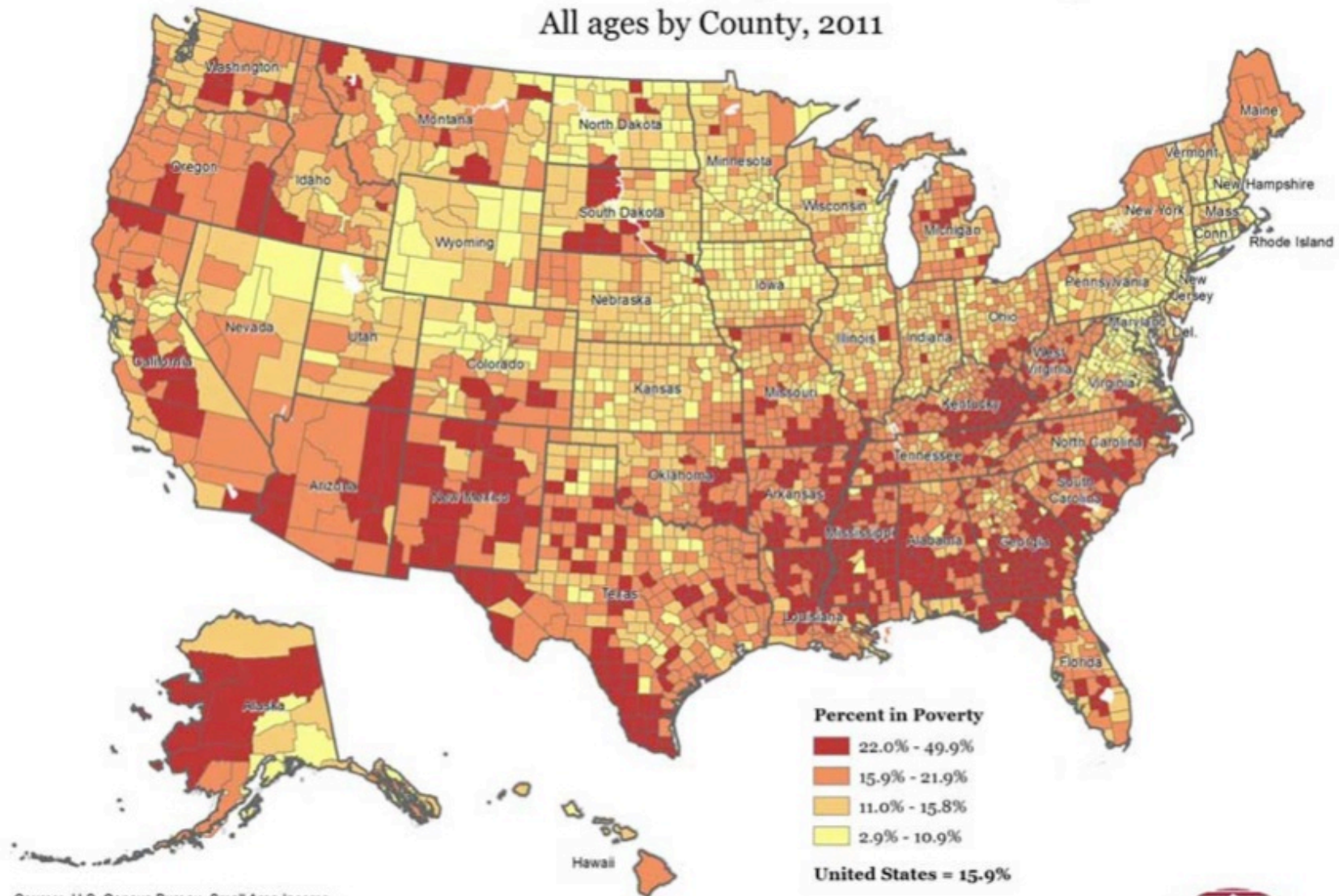
**Above Median Income**



More than **1/3** of all U.S. households are in homes they don't own.

# Estimated Percent of Population in Poverty

All ages by County, 2011



Source: U.S. Census Bureau, Small Area Income & Poverty Estimates (SAIPE), 2011.

Note: Alaska and Hawaii not shown to scale.

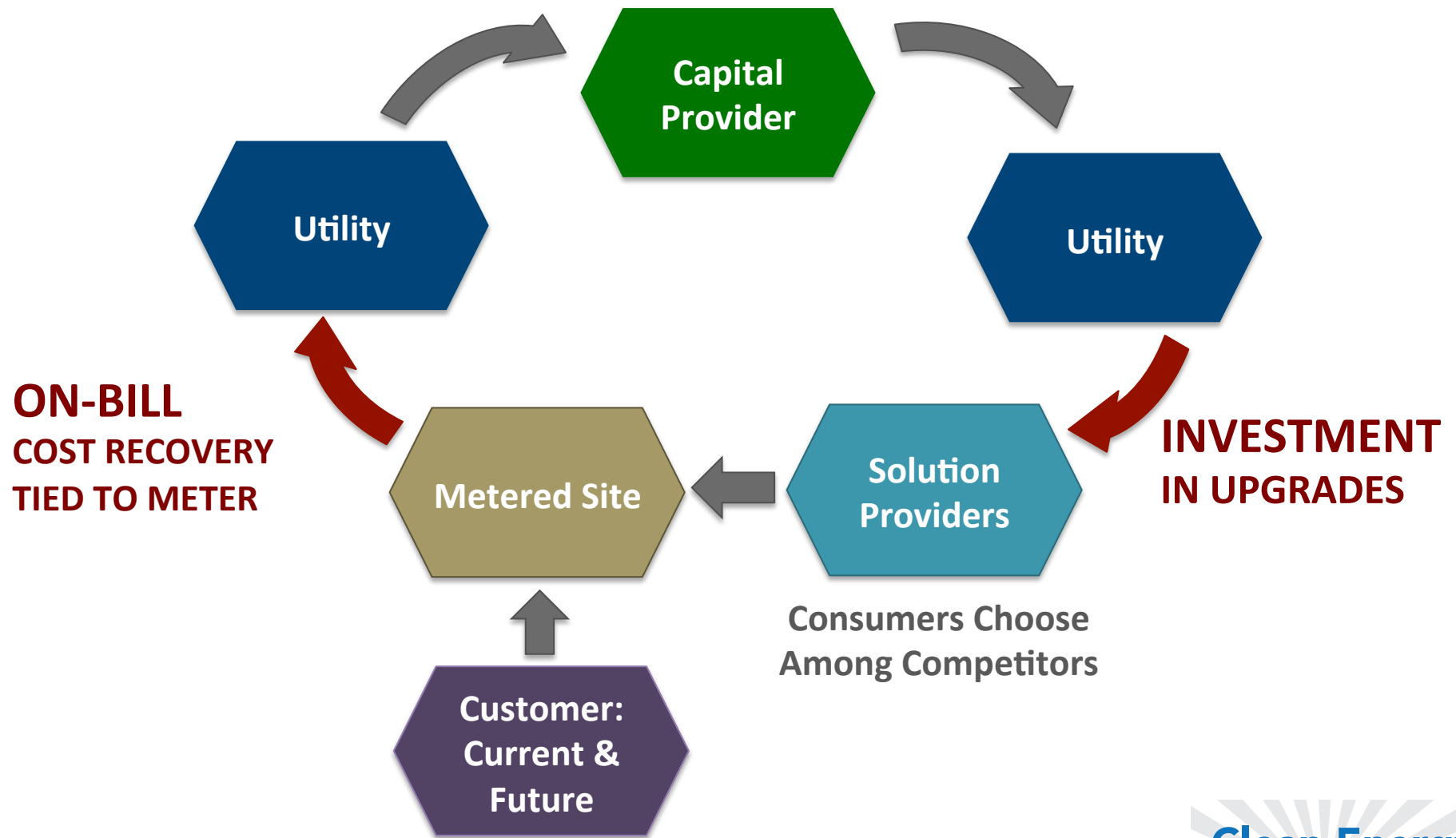


# Introduction to Inclusive Financing for Energy Efficiency

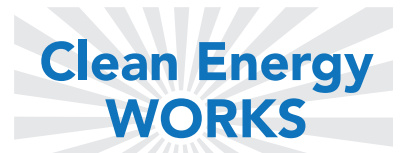
- Making the case for more inclusive solutions
- Overview of tariffed on-bill programs
- Comparison to other on-bill financing approaches
- Precedents in the field
- More opportunities to learn

# PAY As You SAVE<sup>®</sup> (PAYS<sup>®</sup>)

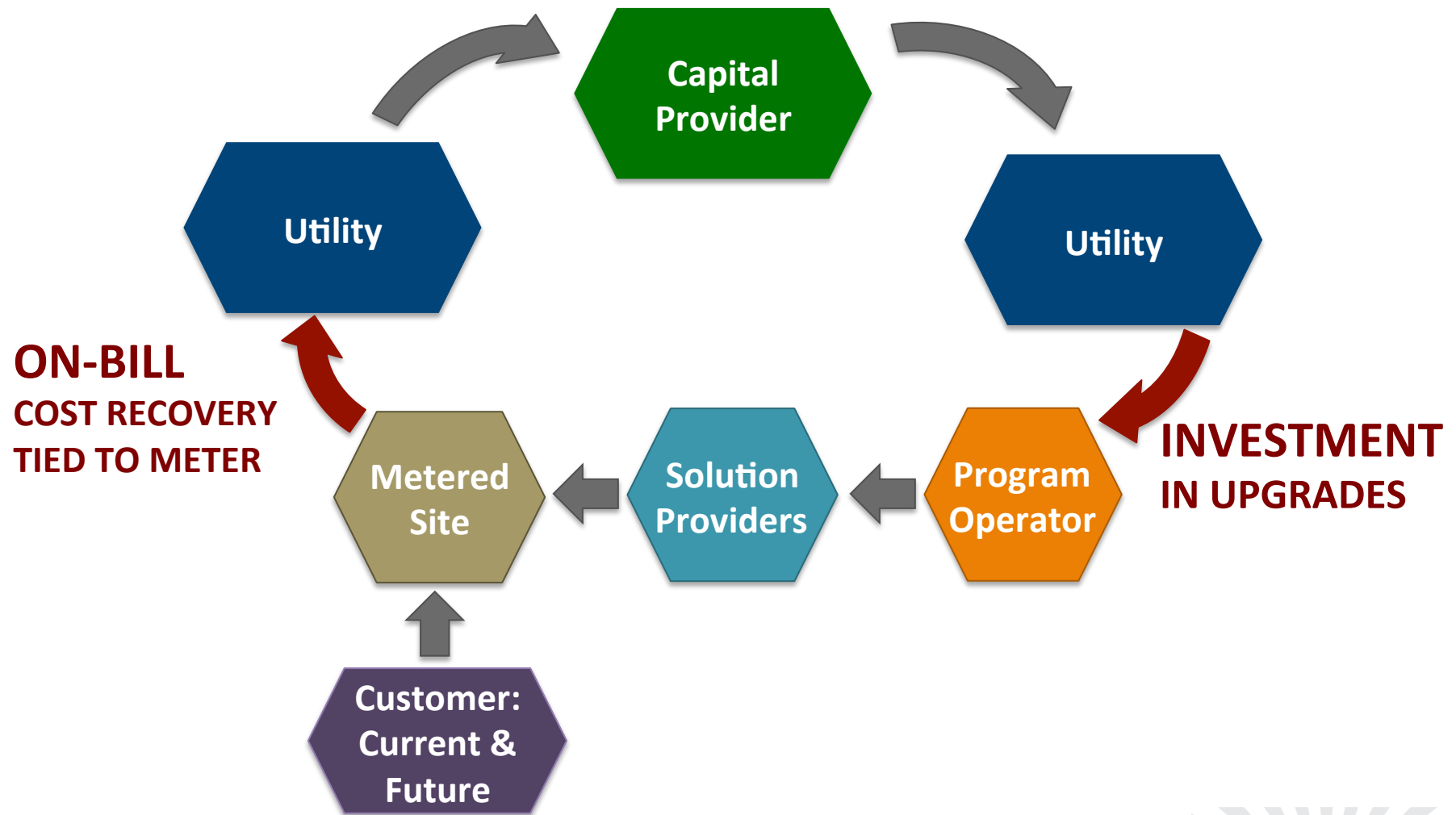
PAYS offers all utility customers the option to access cost effective energy upgrades using a proven investment and cost recovery model that benefits both the customer and utility.



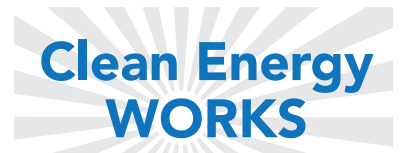
*Pay As You Save<sup>®</sup> and PAYS<sup>®</sup> are trademarks of Energy Efficiency Institute, Inc.*



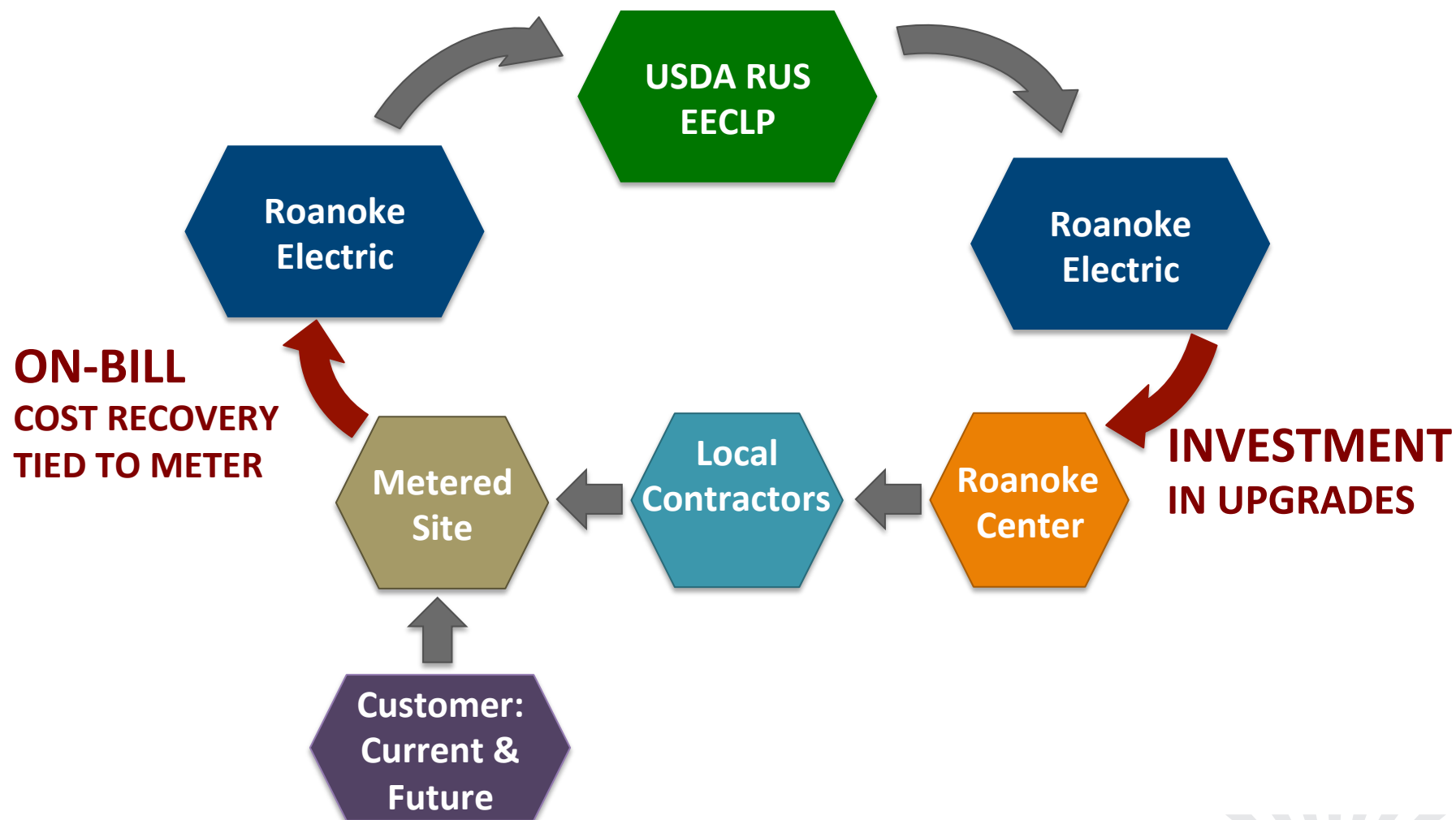
# A Program Operator can aid implementation



*Pay As You Save® and PAYS® are trademarks of Energy Efficiency Institute, Inc.*



## Example: Roanoke Electric's



*Pay As You Save® and PAYS® are trademarks of Energy Efficiency Institute, Inc.*



# PAYS® Offer – Here's how it works:

- Energy saving upgrades are installed in your home or building, and you pay nothing upfront. The utility pays for the installed energy solution.
- To recover its costs, the utility puts a fixed charge on your electric bill that is significantly less than the estimated energy savings from these upgrades.
- You have no loan, no lien, and no debt associated with this transaction; just lower utility bills and a more comfortable home.
- When the utility recovers its costs, your obligation to pay ends.
- If you leave this location sooner, or if an upgrade fails and is not repaired, your obligation to pay ends if you have followed your responsibilities.

# Opt-in Tariff for On-Bill Energy Efficiency: Approved by Utility Commissions in Kansas, Kentucky, and Arkansas

## PAY AS YOU SAVE® (PAYS®) ON-BILL PROGRAM MODEL TARIFF

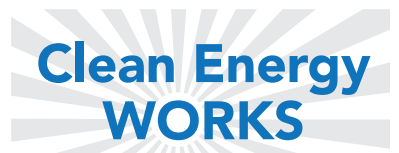
- 1 **Eligibility:** Subject to an optional and voluntary terms to any cooperative member who takes service under any rate schedule for energy efficiency improvements (upgrades) where the cooperative provides electric service to the structure. It shall not be a requirement that the structure be all-electric.
- 2 **Participation:** To participate in the Program, a member must: 1) request from the cooperative an analysis of cost effective upgrades, 2) agree to the terms of the cost effectiveness analysis fee as described in Section 2.2, and 3) review the Purchase Agreement that defines member benefits and obligations, and implement any project that does not require an upfront payment from the member as described in Section 3.3.
- 3 **Energy Efficiency Plans:** The cooperative will have its Program Operator or approved energy efficiency contractor perform a cost effectiveness analysis and prepare an Energy Efficiency Plan (Plan), identifying recommended upgrades to improve energy efficiency and lower power costs.
- 3.1 **Incentive Payment:** The cooperative may make an incentive payment for program participation that is less than or equal to the value of the upgrades to the cooperative.
- 3.2 **Net Savings:** Recommended upgrades shall be limited to those where the annual Program Service Charges (Service Charges), including program fees and the cooperative's cost for capital are no greater than 80% of the estimated annual benefit from reduction to members' annual utility charges based on current rates in electricity and/or gas costs.
- 3.3 **Copy Option:** In order to qualify a project for the Program that is not cost effective, Members may agree to pay the portion of a project's cost that prevents it from qualifying for the program as an upfront payment to the contractor. The cooperative will assume no responsibility for such upfront payments to the contractor.
- 3.4 **Cost Effectiveness Analysis Fee:** If the cost of the cost effectiveness analysis exceeds the value to the cooperative of upgrades accepted by members for installation, the cooperative will recover from participants the portion of the cost for the analysis that is greater than the value of the upgrades to the cooperative. The utility will not recover costs for the analysis if the Energy Efficiency Plan concludes that proposed upgrades are cost effective only with a copy. The cooperative will recover all of its costs for the analysis at a location from a member who declines to install upgrades identified in an Energy Efficiency Plan that does not require a copy.
- 3.5 **Existing Buildings:** Projects that address upgrades to existing buildings deemed unlikely to be habitable or to serve their intended purpose for duration of service charges will not be approved unless other funding can effect necessary repairs.
- 4 **Approved Contractor:** Should the member determine to proceed with implementing The Plan, the cooperative shall determine the appropriate monthly Program Charge as described below. The member shall sign the Agreement and select a contractor from the cooperative's list of approved contractors.
- 5 **Quality Assurance:** When the energy efficiency upgrades are completed, the contractor shall be paid by the cooperative, following on-site or telephone inspection and approval of the installation by the cooperative or its Program Operator.

© 2016 by the Energy Efficiency Institute, Inc., Colchester, VT

- 6 **Program Service Charge:** The cooperative will recover the costs for its investments including any fees as allowed in this tariff through monthly Service Charges assigned to the meter at the location where upgrades are installed and paid by members occupying that location until all cooperative costs have been recovered. Service Charges will also be set for a duration not to exceed 80% of estimated life of the upgrades or the length of a full parts and labor warranty, whichever is less and in no case longer than twelve years. The Service Charges and duration of payments will be included in the Purchase Agreement.
  - 6.1 **Cost Recovery:** No sooner than 45 days after approval by the cooperative or its Program Operator, the member shall be billed the monthly Program Charge as determined by the cooperative. The cooperative will bill and collect Service Charges until cost recovery is complete except in cases discussed in Section 7.
  - 6.2 **Termination of Program Charge:** Once the cooperative's costs for Upgrades at a location have been recovered, the monthly Program Charge shall no longer be billed, except as described in Section 7.
  - 6.3 **Extension of Program Charge:** As described in Section 6 or for any other reason, if the monthly Service Charge is reduced or suspended, once repairs have been successfully effected or service reconnected, the number of total monthly payments shall be extended until the Service Charges collected equal the cooperative's cost for installation as described in Section 5. The duration of Service Charges will also be extended if there are missed payments and the current occupant is still benefitting from the upgrades in order for the cooperative to recover its costs to install upgrades at a location.
  - 6.4 **Tied to the Meter:** Until cost recovery for upgrades at a location is complete or the upgrades fail as described in Section 7, the terms of this tariff shall be binding on the metered structure and any future member who shall receive service at that location.
  - 6.5 **Disconnection for Non-Payment:** Without regard to any other Commission or cooperative rules or policies, the Service Charges shall be considered as an essential part of the customer's bill for electric service, and the cooperative may disconnect the metered structure for non-payment of Service Charges under the same provisions as for any other electric service.
  - 7 **Repairs:** Should, at any future time during the billing of Service Charges, the cooperative determine that the installed Upgrades are no longer functioning as intended and that the occupant, or building owner if different, did not damage or fail to maintain the upgrades in place, the cooperative shall reduce or suspend the Program Service Charges until such time as the cooperative and/or its contractor can repair the upgrade. If the upgrade cannot be repaired or replaced cost effectively, the cooperative will waive remaining charges.
- If the cooperative determines the occupant, or building owner if different, did damage or fail to maintain the upgrades in place, it will seek to recover all costs associated with the installation, including any fees, incentives paid to lower project costs, and legal fees.
- The Service Charges will continue until cost recovery is complete.

*The model tariff here is based on the most recent filing, unanimously approved in Arkansas.*

*Pay As You Save® and PAYS® are trademarks of Energy Efficiency Institute, Inc.*



# Introduction to Inclusive Financing for Energy Efficiency

- Making the case for more inclusive solutions
- Overview of tariffed on-bill programs
- Comparison to other on-bill financing approaches
- Precedents in the field
- More opportunities to learn

## Example Transaction: How\$martKY™

Single story home, upgraded with insulation, air sealing, and heat pump

- **Investment:** \$10,000
- **Cost Recovery Period:** 15 years
- **Cost of Capital:** 3%
- **Estimated Savings:** \$100 / month
- **Charge:** -\$70 / month
- **Net Savings to Customer:** \$30 / month, ~30% of savings
- **Energy Savings:** 8,000 kWh / year

*Source: Briefing by MACED, the program operator for the [How\\$mart KY](#) program.  
This sample has conveniently round numbers; average investment size is ~\$7500.*



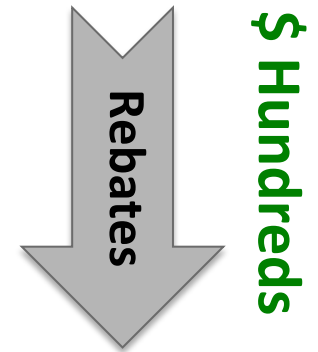
Attributes	Home Energy Lending Program (HELP)	HELP PAYS®
• Residential participants are eligible	✓	✓
• Renters are eligible		✓
• No credit score check or no debt to income ratios	✓	✓
• No upfront participant cost	✓	✓
• Estimated savings <u>must exceed</u> cost recovery charges by 20%		✓
• Participant signs a loan or promissory note for a debt obligation	✓	
• Participant accepts an opt-in utility tariff (NOT a debt) tied to meter		✓
• Cost recovery is through a fixed charge on the utility bill	✓	✓
• Participant accepts tariff with disconnection for non-payment		✓
• Payments end if upgrade fails and is not repaired		✓
• Tariff runs with the meter and remains in effect for subsequent customer at that location until cost recovery is complete		✓

# Paying for cost effective efficiency upgrades

After all rebates and public funds are applied, the remaining balance yields these options:

- ☐ Pay Cash
- ☐ Pay on Credit
- ☐ Decline the upgrades

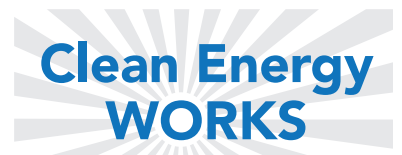
**Rate-payer or  
Public funds**



**Customers**

**\$ Thousands**

in upgrades  
per participant

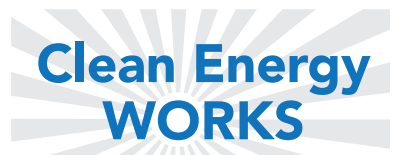
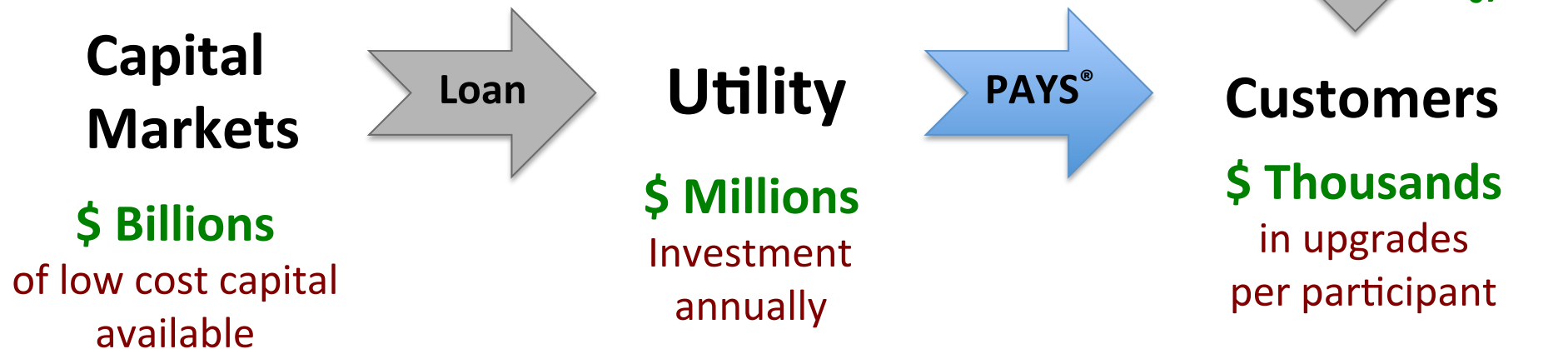


# Paying for cost effective efficiency upgrades

After all rebates and public funds are applied, the remaining balance yields these options:

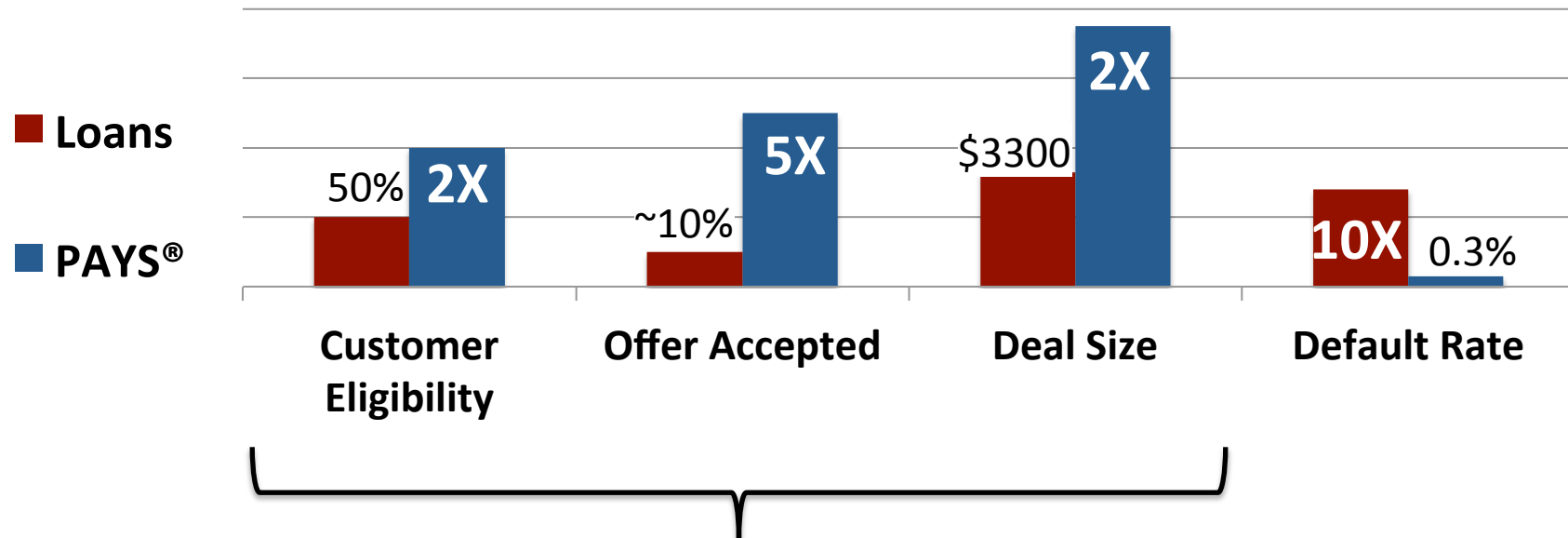
- ☐ Pay Cash
- ☐ Pay on Credit
- ☐ Decline the upgrades

✓ **PAYS Offer**



# PAY As You SAVE<sup>®</sup> (PAYS<sup>®</sup>)

## Comparison for building efficiency upgrades



**Investment acceleration is a product of these multiples.**

- ✓ No consumer loan, lien, or debt
- ✓ Reaches renters and low-income
- ✓ Higher uptake rates
- ✓ Deeper energy & carbon savings

# Introduction to Inclusive Financing for Energy Efficiency

- Making the case for more inclusive solutions
- Overview of tariffed on-bill programs
- Comparison to other on-bill financing approaches
- Precedents in the field
- More opportunities to learn

## Result: Surge in Investment

Comparing last (and best) 4 months of **HELP (Loan)**  
with first 4 months of **HELP PAYS®: (Tariff)**

- **Doubled customers** seeking assessments, and *more than a third* were multi-family (compared to 0 previously).
- Among customers receiving assessments, **100% opt-in for multi-family rental units**, and >80% for single family.
- **Doubled the scale of capital improvements** from an average of \$3000 to above \$6000 to get deeper energy savings (~30%).

**Double customers X Double project size =**

- **Quadrupled investment**, soaring from \$225k to **\$1 million**.

Source: Preliminary Results of the Ouachita Electric  
HELP PAYS® Program, November 2016, [www.oecc.com](http://www.oecc.com)



**Ouachita Electric  
Cooperative**

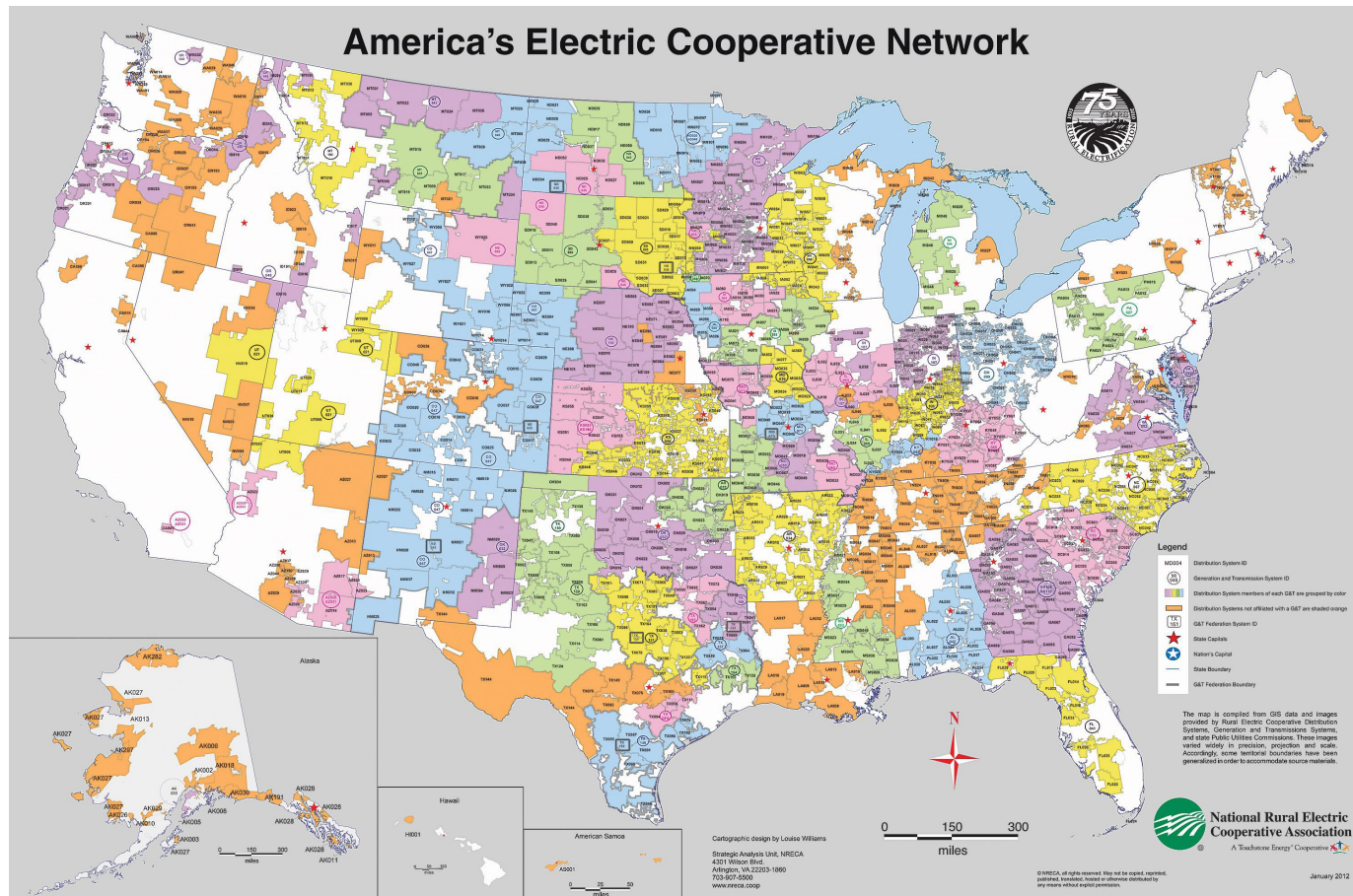
# Example Investment Program:



- **2,400+** efficiency assessments with offers to invest
  - **1,400+** investments: More than half of customers say “Yes!”
  - **~\$5,700** per building, with co-payment from customer
  - **\$8+ million** invested
  - Less than **0.1%** charge off
  - **Annual Savings:**
    - **3.2 million** kWh
    - **386,000** therms
    - **5,200** tons carbon
- Tariff virtually assures full cost recovery**
- These savings generate multiple benefit streams**

*Source: Midwest Energy, reporting results through August 2015*

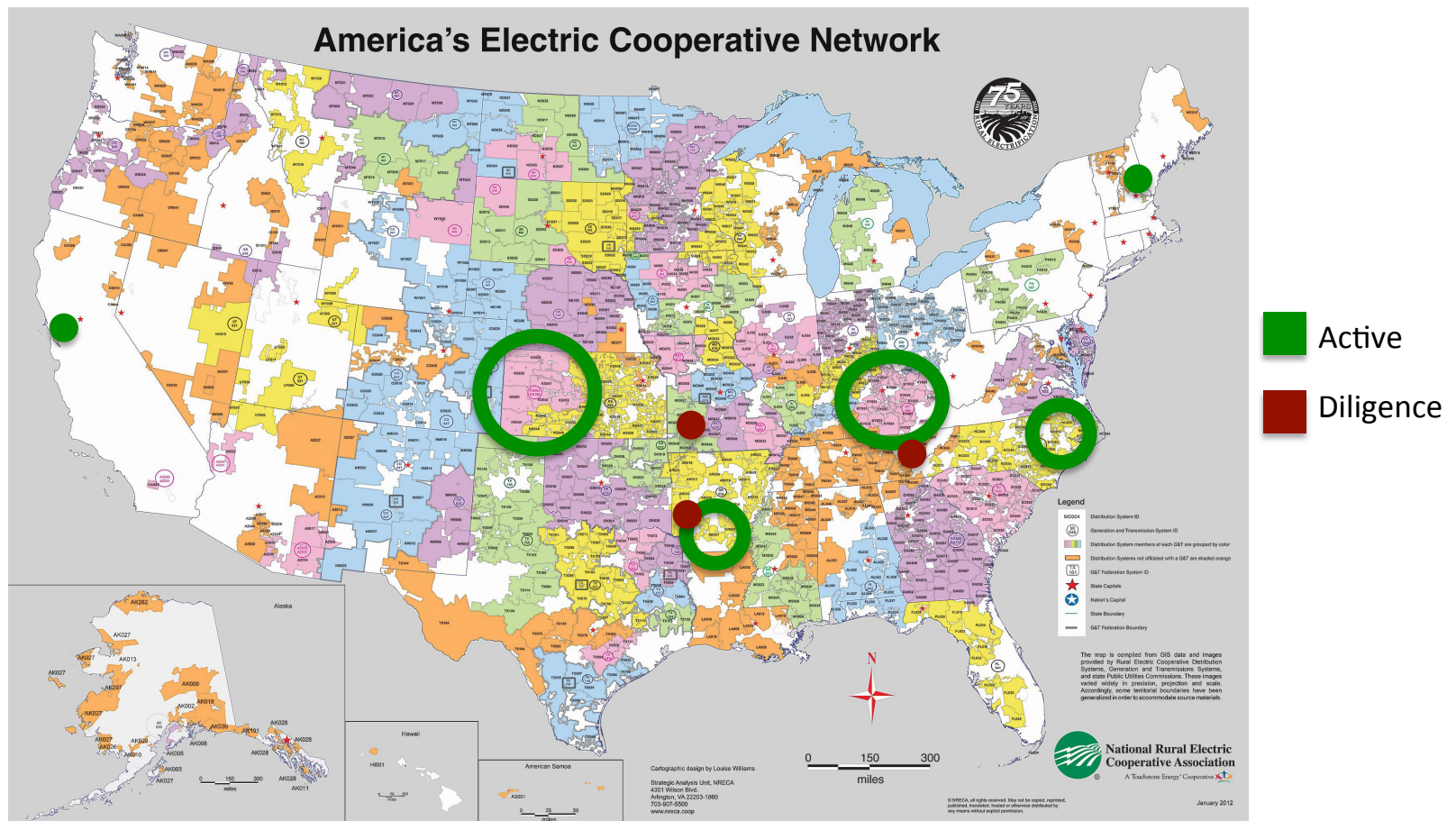
# Cooperative Leadership Matters



**More than 90% of persistent poverty counties in the U.S. are served by electric cooperatives.**



# Cooperative Leadership Matters



**More than 90% of persistent poverty counties in the U.S. are served by electric cooperatives.**

Rural communities are leading the way on inclusive financing, and are offering assistance.

# Introduction to Inclusive Financing for Energy Efficiency

- Making the case for more inclusive solutions
  - Overview of tariffed on-bill programs
  - Comparison to other on-bill financing approaches
  - Precedents in the field
- More opportunities to learn

## More Introductory Information Online

- **CleanEnergyWorks.org**
  - [Introduction to PAYS®](#)
  - [Top 20 Questions & Answers](#)
- **Clean Energy Solutions Center (U.S. DOE)**
  - [Inclusive Financing for Distributed Energy Solutions](#)

*And, join us for the following sessions in this series...*



*Learning Circle Series*

The logo for Clean Energy WORKS features the words "Clean Energy" in a blue sans-serif font, with "WORKS" in a larger, bold, blue sans-serif font below it. The text is set against a background of radiating grey lines that create a sunburst effect.

**Clean Energy  
WORKS**

# Next Session:

## Update on Inclusive Financing Programs in the South

Thursday, February 16th, 2:00 p.m. - 3:00 p.m. EST



Learn from leading program operators who are managing multi-million dollar efficiency investment portfolios in areas of the South that are affected by persistent poverty.



*Learning Circle Series*

**Clean Energy  
WORKS**

# Beyond the Basics: Learning Circle on Inclusive Financing

1. Introduction to Inclusive Financing for Energy Efficiency (today)
2. Update on Existing Programs (Feb 16<sup>th</sup>)
3. Consumer Protections in Inclusive Financing for Energy Efficiency
4. Due diligence with the *Decision Tool for Utility Managers*
5. Exploring Program Operator models
6. Establishing a Reserve Fund for tariffed on-bill EE programs
7. Sourcing capital for a Tariffed On-Bill investment program
8. Jobs: Workforce development in rapidly expanding EE markets

# SEEA Learning Circle for Inclusive Financing

## Eligibility:

- Participants in the introductory sessions
- Articulation of a project that furthers your interests

## Benefits:

- Opportunity to participate in advanced sessions
- Access to other Learning Circle participants
- Assistance with advancing your project

**Contact:** Wesley Holmes, [wholmes@seealliance.org](mailto:wholmes@seealliance.org)



*Learning Circle Series*

**Clean Energy  
WORKS**

# Questions?



**SEEA**  
SOUTHEAST ENERGY EFFICIENCY ALLIANCE

*Learning Circle Series*

**Clean Energy  
WORKS**

A large, faint, circular logo is centered in the background. It consists of several concentric, wavy lines that create a sense of motion or a stylized globe. The lines are in various shades of blue, matching the background.

[www.SEEALLIANCE.org](http://www.SEEALLIANCE.org)