



**SEEA**

SOUTHEAST ENERGY EFFICIENCY ALLIANCE

**WEBINAR SERIES**

# DUE DILIGENCE WITH THE DECISION TOOL FOR UTILITY MANAGERS

Part 4 of the SEEA Learning Circle Series

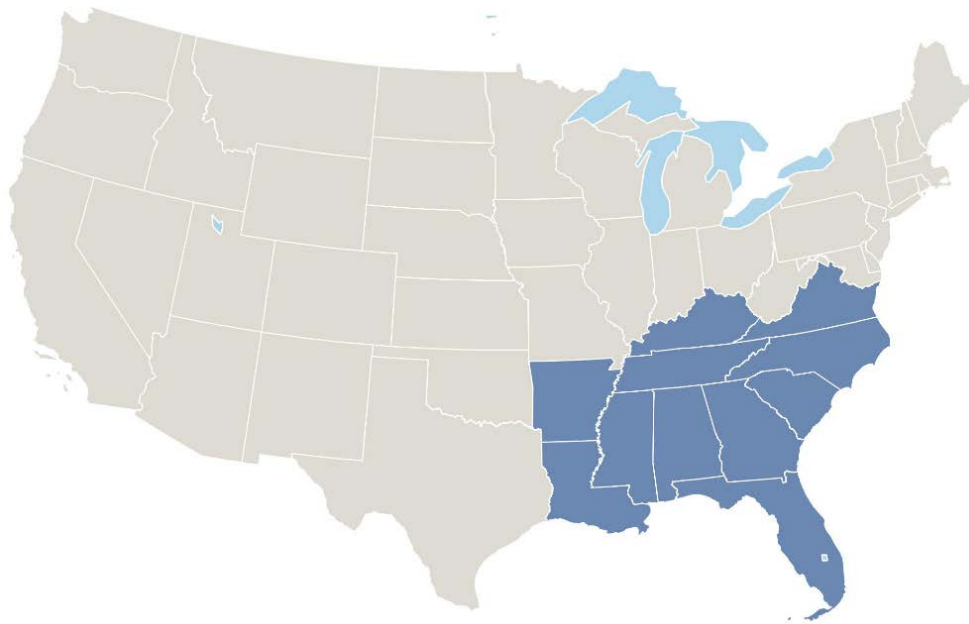
# SEEA Serves the Southeast

## 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 & Energy Efficiency Finance

## Work Area Goal

Expand the availability and accessibility of capital to make energy efficiency investments

## EE Finance Activities

- 2014 Arkansas Energy Office Statewide Financing Options Study
- 2014 Southeast Energy Efficiency Fund
- 2014 North Carolina On-Bill Working Group
- 2015 SEEA webinar with CEO of Roanoke Electric
- 2015 SEEA conference highlight: The Roanoke Center
- 2016 SEEA conference highlight: 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*.

# Beyond the Basics: Learning Circle on Inclusive Financing

1. Introduction to Inclusive Financing for Energy Efficiency
2. Update on Existing Programs
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

# Supporting More Assistance Through a Learning Circle

- Participants moving beyond “101” level have:
  1. Joined the prior sessions
  2. Identified an application of tariffed on-bill financing for energy efficiency that they want to pursue or explore
- Sessions will feature more direct dialogue and reserve more time for exchange to delve deeper on specific topics
- Questions related to your project can benefit from follow-up attention so *be active in entering your questions throughout.*

# Office Hours:

## A benefit for Learning Circle Participants

- First office hours held after session #3 were helpful to those who dialed in, with immediate action items that supported their specific interests.
- **NEXT SESSION: 1-2pm EDT on Friday, April 28<sup>th</sup>**
- Call in to take advantage of focused attention on your project or a particular line of inquiry to support your work
- Questions or topics in advance are welcome. Send them to: [wholmes@seealliance.org](mailto:wholmes@seealliance.org)

# Drawing on Experience

- ✓ **Holmes Hummel, PhD.**, founder of Clean Energy Works to mobilize more investment in the clean energy economy, open to all through inclusive financing;



- ✓ **Mark Cayce**, CEO of Ouachita Electric Cooperative in southern Arkansas, where the utility has undertaken a deliberative process to first introduce a Home Energy Lending Program (HELP) and then subsequently to switch to HELP PAYS<sup>®</sup>, a more inclusive tariffed on-bill program.



# Why focus on Utility Managers within the Learning Circle Series?

- **Utility managers**, working under the governance of their board, tend to the strategic interests of their enterprise, which may also be subject to regulations that frame their decisions.
- Utility managers have **lots of questions**, and they rely upon staff to research options and explore the experience of others in the field.
- Supporting the decision processes of utility managers is on the critical path of adoption for inclusive financing programs – and it is essential for **ensuring the investment portfolio is well managed**.



# **Decision Tool for Utility Managers:**

***Key considerations before investing in resource efficiency and rooftop solar through a tariffed on-bill program***

Sponsored by USDA Rural Business Services

Through a Cooperative Agreement with Roanoke Electric Cooperative

*prepared by*

**The Energy Efficiency Institute, Inc.**

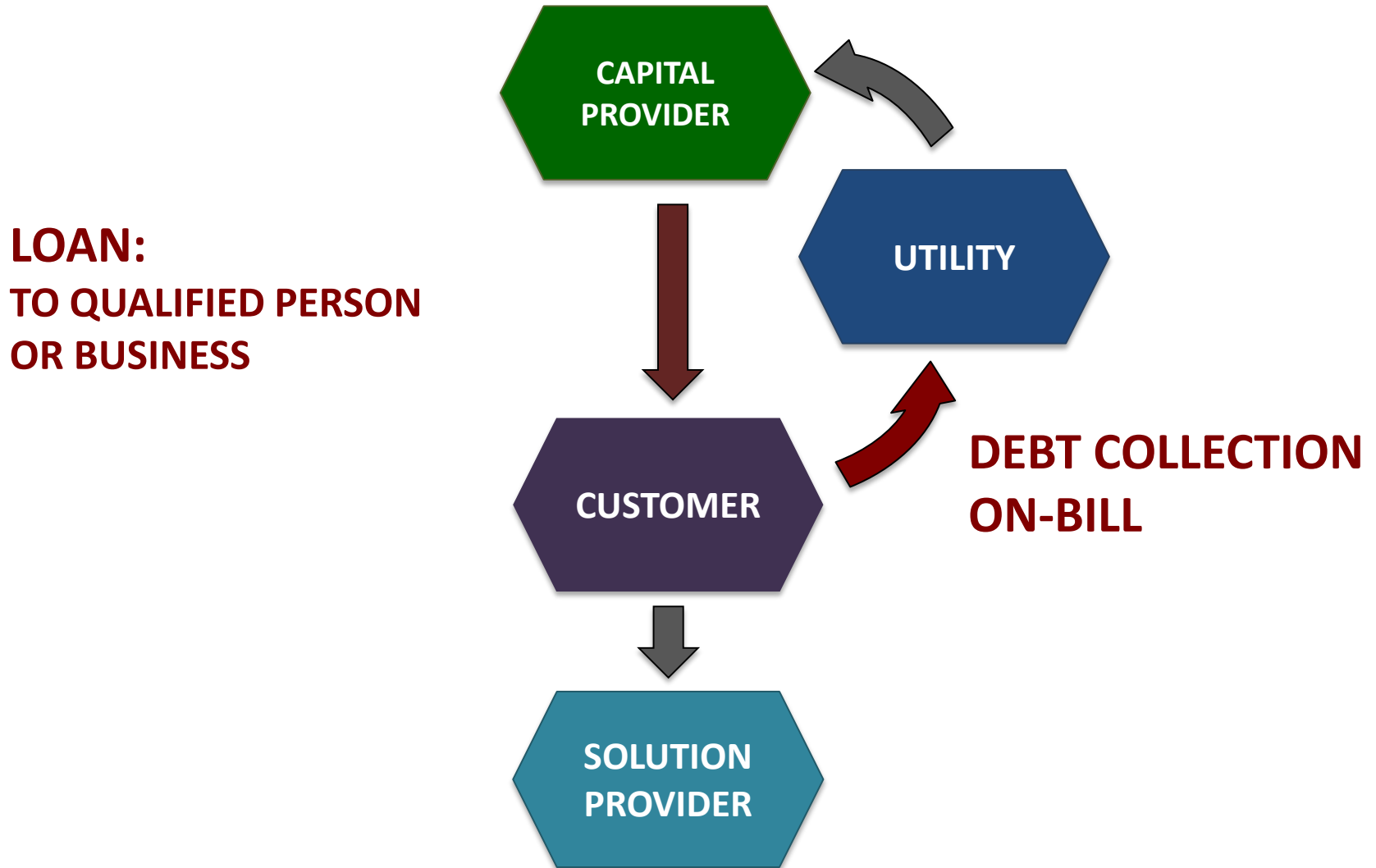
# Due Diligence by Utility Managers Inclusive Financing for Energy Efficiency

- Is inclusive financing through a tariffed on-bill (TOB) program a good fit for your utility?
- Will a standardized implementation plan work for your utility's tariffed on-bill program?
- Questions?

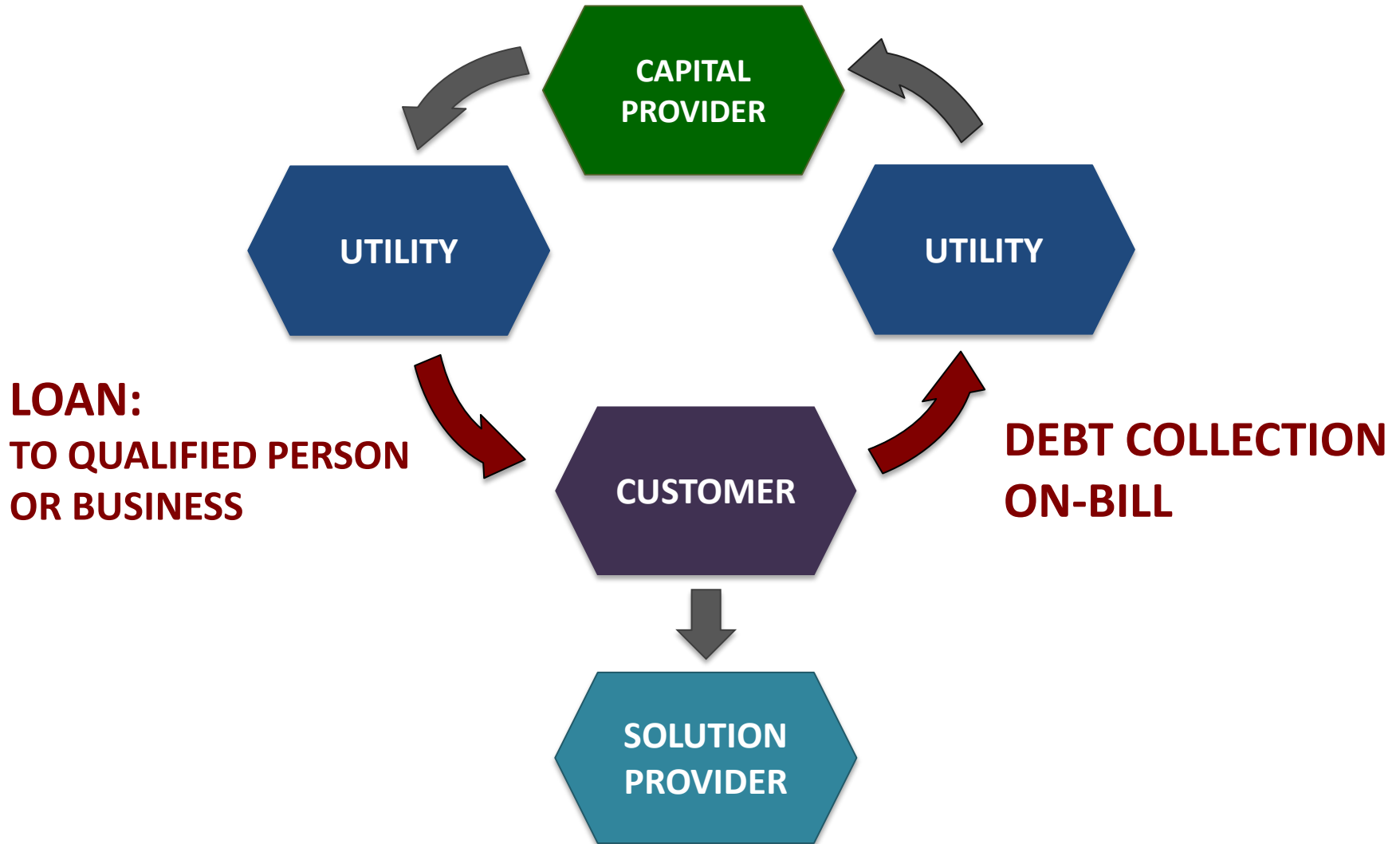
## Types of Financing with Utility Role: On-Bill

- On-Bill Repayment of Third-Party Loans
- On-Bill Loans
- Tariffed On-Bill Investment Programs

# On-Bill Repayment: Utility serves as debt collector



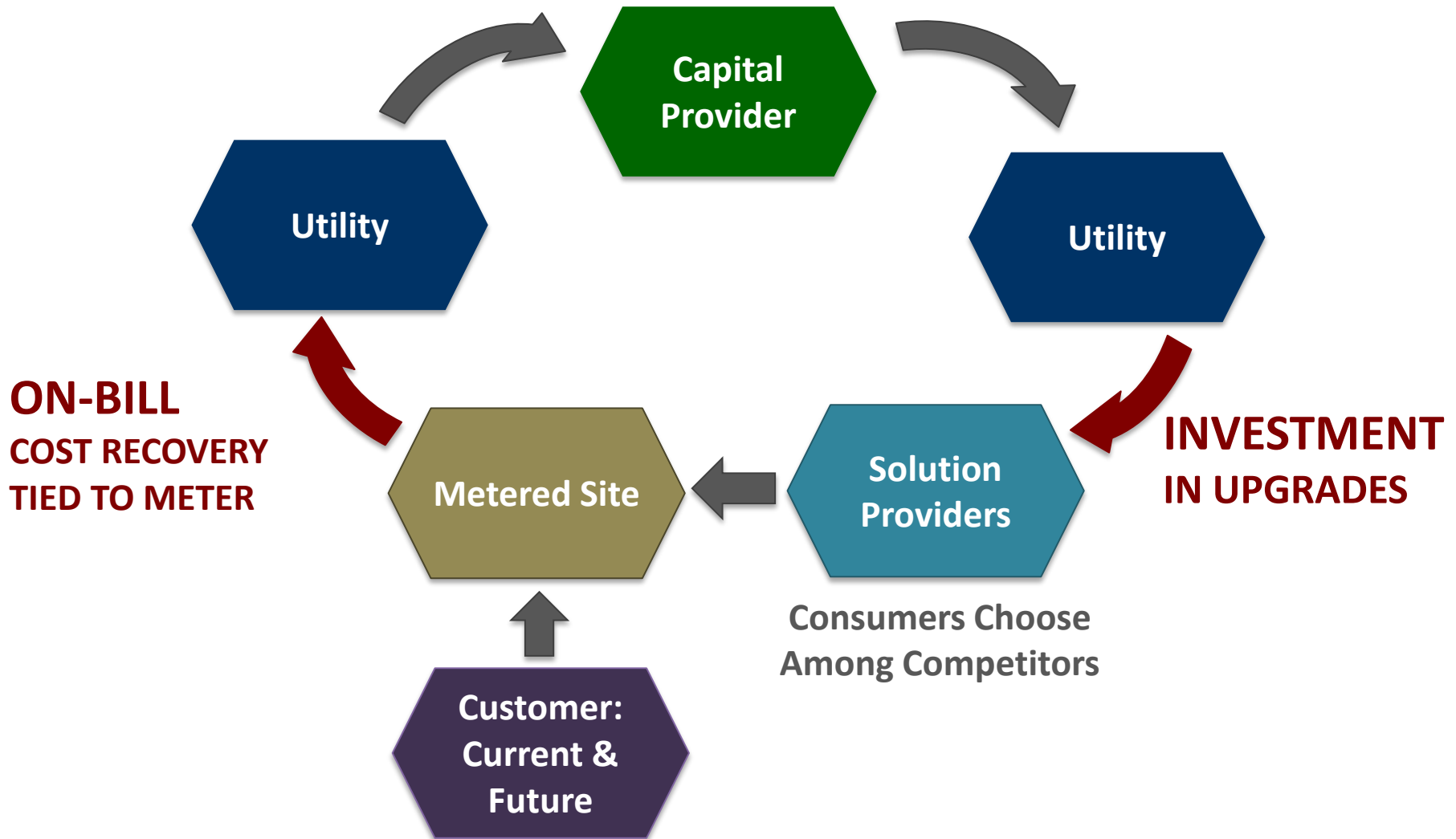
# Re-lending: Utility “becomes the bank”



Attributes	Home Energy Lending Program (HELP)	HELP PAYS <sup>®</sup>
• 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		✓

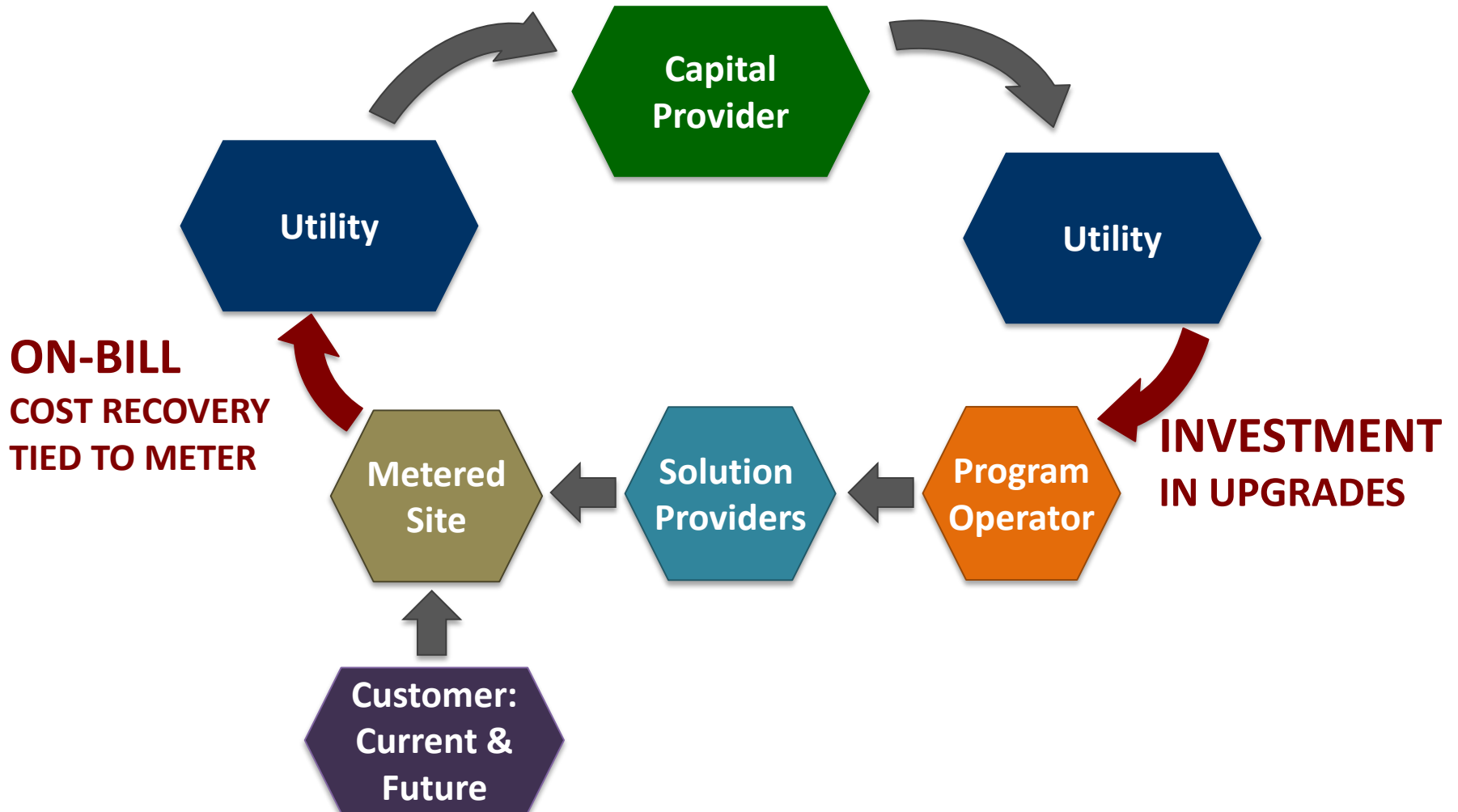
# PAY AS YOU SAVE<sup>®</sup> (PAYS<sup>®</sup>)

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.



# Tariffed On-Bill Investment Program

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.





# Program Roles in a Tariffed On-Bill Program

- Utility
- Likely Customers, and Property Owners
- Program Operator
- Measure Assessor (Investment Advisors)
- Certified Contractors
- Capital Provider

# Key Program Roles for Utility

- ❑ Outreach
- ❑ Program oversight
- ❑ Financial management
  - Addressing uncollectible payments
- ❑ Establish an opt-in tariff

# 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:** Upgrades on an optional and voluntary basis 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 3.2, 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.

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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 benefiting 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.*

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# Regulatory Considerations

- Authority to disconnect for non-payment
- Tying the obligation to the meter
- Disclosure to successor customers
- Tariff approval

# Due Diligence by Utility Managers Inclusive Financing for Energy Efficiency

- Is inclusive financing through a tariffed on-bill (TOB) program a good fit for your utility?

- Will a standardized implementation plan work for your utility's tariffed on-bill program?

- Questions?

# Will a standardized implementation plan work for your utility's tariffed on-bill program?

- Program Design Considerations
- Preliminary Financial Analysis
- Generic Implementation Steps

# Program Design Considerations

- Target market
- Target energy saving upgrades
- Program scale
- Benefit streams
- Start-up & operation costs

# Preliminary Financial Analysis

- Evaluating targeted upgrades
- Evaluating an investment program



**FINANCIAL ANALYSIS OF A  
PAY AS YOU SAVE® INVESTMENT PROGRAM**



# Standard Implementation Plan

- Regulatory approval
- License PAYS
- Software solutions
- Workforce development
- Program delivery
- Evaluation

# Questions?

# Office Hours:

## A benefit for Learning Circle Participants

- **NEXT SESSION: 1-2pm EDT on Friday, April 28<sup>th</sup>**

Call In: (641) 715-0875 / Access Code: 480411#

- Call in to take advantage of focused attention on your project or a particular line of inquiry to support your work
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# Next Session:

## Exploring Program Operator Models

Thursday, May 18, 4:00 p.m. - 5:00 p.m. EDT

First, a look at roles of a Program Operator for an inclusive financing program, then options to fulfill them:

1. Utility operates entire program
2. Utility outsources most program operations
3. Program operator provides analytic support, and utility handles customer engagement

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1. Introduction to Inclusive Financing for Energy Efficiency
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4. Due diligence with the *Decision Tool for Utility Managers*
5. Exploring Program Operator models – 5/18
6. Establishing a Reserve Fund for tariffed on-bill EE programs - 6/15
7. Sourcing capital for a Tariffed On-Bill investment program - 7/6
8. Jobs: Workforce development in rapidly expanding EE markets - 8/17



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