

TARIFFED ON-BILL FINANCING PROGRAMS

Southeast Utilities-Only Low-Income Working Group

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OUTLINE

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On-Bill Tariff Model
and Comparison to
Other Financing
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Existing Programs
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Implementation
and Key
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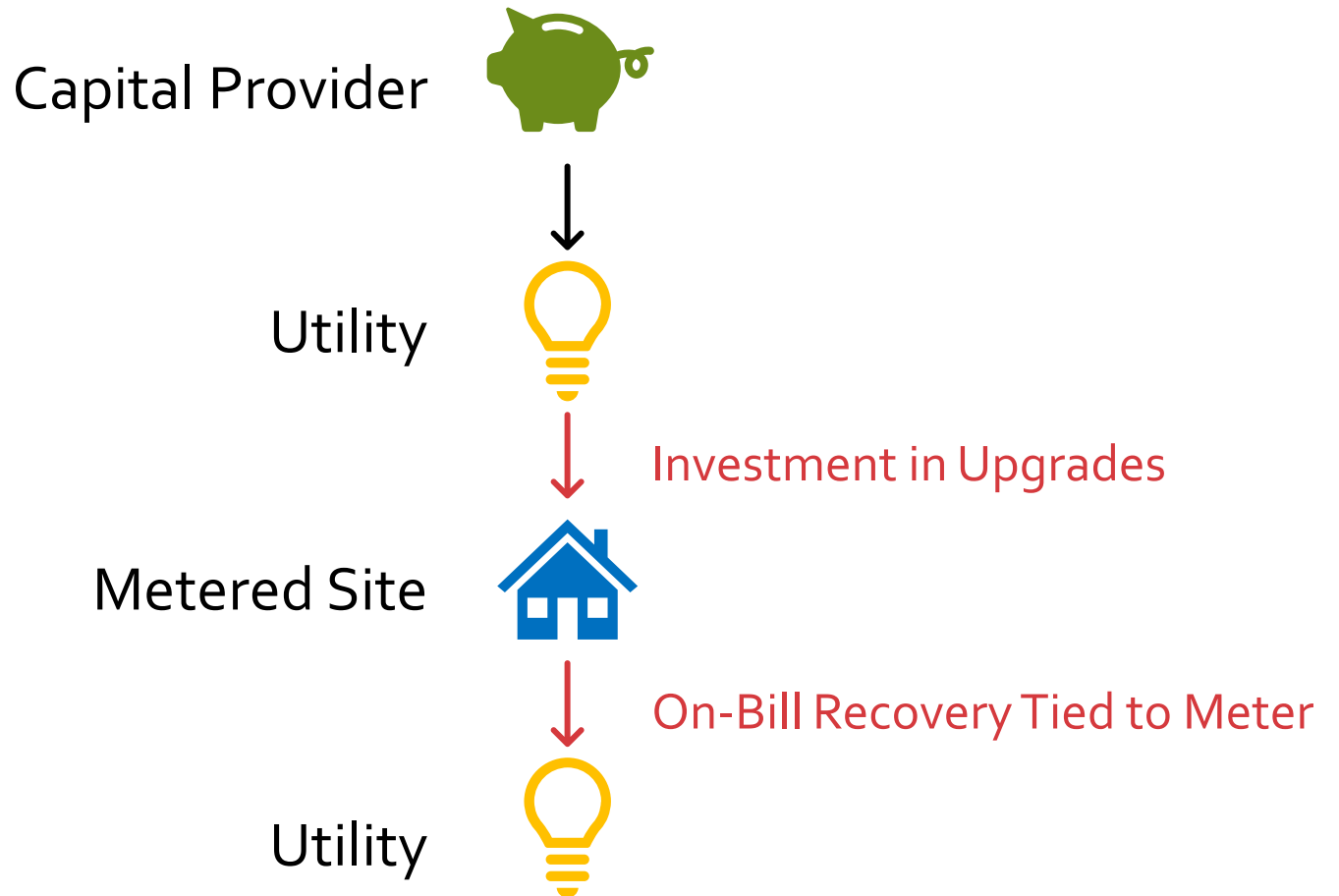
04

Common Questions
and Available
Resources

How On-Bill Tariff Programs Work

- The utility invests in cost-effective energy upgrades to improve building efficiency.
- The utility pays the installer, so the customer generally pays nothing upfront for the upgrades they choose; in some circumstances, customer may have option to make a co-payment for upgrades that are not cost-effective on their own
- Using a tariff, the utility puts a fixed charge on the monthly bill that is significantly less than the estimated savings generated by the upgrade so the customer enjoys immediate and sustained positive cash flow.
- Until the investment is recovered, the tariff charge applies automatically to future customers at that site.

Tariffed On-Bill Model



On-Bill Repayment

Utility acts as the debt collector



Capital Provider



Loan to Qualified Person/Business



Customer



Upgrades Installed



Metered Site



Debt Collection On-Bill



Utility

Re-lending

Utility "becomes the bank"



Capital Provider



Utility



Loan to Qualified Person/Business



Customer



Upgrades Installed



Metered Site



Debt Collection On-Bill



Utility

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		✓

On-Bill Tariff Programs in the Southeast

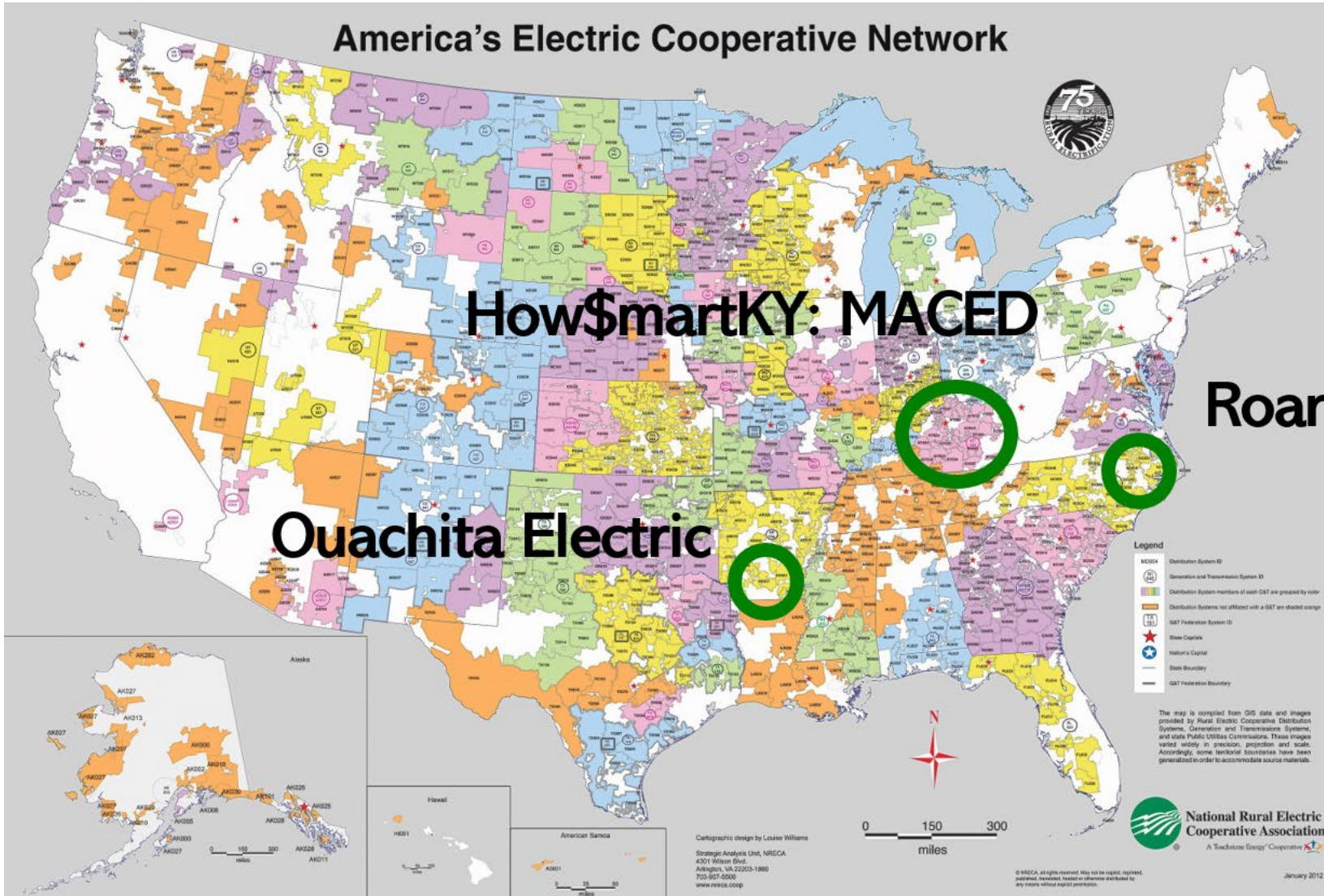
America's Electric Cooperative Network



How\$martKY: MACED

Roanoke Electric

Ouachita Electric



Key Program Statistics: How\$martKY

- In place since 2011, now offered by 6 electric co-ops in Kentucky and administered by Mountain Association for Community Economic Development (MACED)
- Eligible Customer Classes: Residential (6/6) and Small Commercial (5/6)
- Number of Homes (as of Oct. 2016):
 - 547 assessments, 371 offers made, 293 offers accepted
 - 52% low-moderate income, 24% in manufactured homes
- Average job cost: \$7377
- Average projected monthly savings: \$50.32 (5270 kWh)
- Average monthly charge: \$39.24
- Cost recovery > 99.9%, zero disconnections for nonpayment

Key Program Statistics: Ouachita Electric HELP PAYS®

- Began in 2016 after recognizing limits of their previous loan program. EETility acts as the program operator. It took 8 months from initiating the process to program implementation.
- Number of Homes in 2016: 198 (>2% of market)
 - Opt-in rate was 100% for multifamily and >80% for single-family
 - Comparing best 4 months of loan program to first 4 months of PAYS®, doubled the number of customers and project size
- Average job cost: \$5634
- On average, participants saw 22% decrease in energy usage

Key Program Statistics: Roanoke Electric Upgrade to Save


- Roanoke also began looking into PAYS[®] after limited success with their loan program, which they began in 2014. They converted to a tariff model in July 2015.
- Number of Homes: 250 single-family homes (as of September 2017), 2 commercial
 - Opt-in rate was 100% for multifamily and >80% for single-family
- Average job cost: \$7200
- Average monthly savings per site: \$80+
- Average monthly tariff: ~\$60, 10 year term at 3% per annum
- Participants estimated to keep on average ~25% of savings during cost recovery

Typical Measures Installed

- Duct sealing
- Air sealing
- Insulation
- Programmable thermostats
- HVAC system replacements (which under some other financing programs were perceived to be too risky to finance)

Program Implementation

- Timeline
- Preliminary Analysis
 - Financial, Feasibility, Program Design Considerations
- Implementation Steps
 - Legal and Regulatory Approval
 - Program Design (Including licensing, software)
 - Workforce Development
 - Implementation
 - Evaluation



Program Implementation Timeline

- From initial analysis to implementation, timelines have ranged from as little as 7 months to as long as 18 months.
- Once tariff is approved, implementers have said they can launch program in 3 months.
- The overall process is shorter if no regulatory approval is required.

Preliminary Analysis: Financial and Feasibility Assessments

- At beginning of decision-making process, utilities should conduct (or hire a consultant to conduct) a financial and feasibility study to build the business case for an on-bill tariff program in their service territory.
- Program Design and Financial Considerations:
 - What measures are suitable for a PAYS[®] tariff?
 - Could PAYS[®] support enough of the upfront cost to be meaningful support for customers?
 - What are the costs to launch and operate a PAYS[®] program, under what circumstances could a PAYS[®] program be cost-effective? (For regulated utilities, this may include considerations of the CSPM cost-effectiveness tests)
 - Is there a gap in the market for financing in the utility's territory, and could a utility-administered financing program increase uptake of energy efficiency?

Preliminary Analysis: Program Operator Models

- One particular aspect of this initial assessment is assessing what roles the utility will play in implementing the program.
- Program Operator Functions
 - Identify high potential sites
 - Marketing
 - Contractor Relations
 - Workforce Development
 - Scheduling
 - Quality Control and Quality Assurance
 - Billing
 - EM&V
 - Customer Satisfaction

Preliminary Analysis: Program Operator Models

Utility Internal Staff Responsibilities	In-House	Third Party Operator	Hybrid Example
Identify high potential sites	✓	✓	✓
Marketing	✓		✓
Contractor Relations	✓		
Workforce Development	✓		
Scheduling	✓		✓
Quality Control	✓		✓
Quality Assurance	✓		
Billing	✓	✓	✓
EM&V	✓		✓
Customer Satisfaction	✓		✓ (Shared)

Major Implementation Steps

Regulatory Approvals

- Authority to disconnect for nonpayment: Regulators have authorized utilities to do this for existing programs, but to date no disconnections have occurred
- Tying obligation to the meter
- Disclosure to successor customers
 - Handled via contracts between utility and property owner
 - Owner responsible for notifying new tenants or buyers
 - Utility provides notice of tariff to new tenants/owners when they learn of a new account
- Tariff approval- Model tariff is available

Source Capital

- Utilities typically have not had difficulty sourcing capital; typically, best sources are mainline sources utility uses for other corporate investments
- Utilities serving rural territories can also get funding from USDA (EECLP, REDLG, RESP)

Major Implementation Steps

- License PAYS® model or develop comparable materials
- Upgrade IT systems as needed
 - Billing system and administrative needs checklist is available
- Sign agreements with program partners
- Training and workforce development
- Market and launch the program
- Evaluation
 - Utilities typically follow the same protocols that they do for other EE programs (such as International Performance Measurement & Verification Protocol)

Common Questions

- Does this subject us to banking/lending regulations?
 - To date, regulatory authorities have allowed utilities to run these programs under their general tariff authority and have not flagged financial regulations as a concern
- How can we mitigate the risk of nonpayment?
 - Some utilities have established loan-loss reserve funds to guard against financial risks; can be funded separately or through a one-time 5% fee on the cost of the financed measures
 - Experience has shown that these funds are not necessary for a program to be successful; uncollectible payments under these programs have been extremely low, typically less than 1%
- How do these programs perform in cost-effectiveness testing?
 - Subjecting measures to traditional cost-effectiveness testing (CSPM tests) may be necessary for regulated utilities; these can be incorporated into preliminary feasibility analysis.
 - Otherwise, the OBT model could work for any upgrade that fits within the 80/20 model for a given household.

Available Resources

- Decision Tool for Utilities
- Example Financial Analyses
- Example Feasibility Assessments
- Model Tariff for Regulatory Approval
- Billing and Administrative Systems Checklist
- Sample EM&V Report
- SEEA Inclusive Financing Webinar Series

Questions?

