On-Bill Financing in Kansas and Oregon – It Works!

Thursday, May 16th 2013
10:00am-11:30am PDT/1:00pm-3:30pm EDT

Speakers:

Michael Volker: Director of Regulatory & Energy Services, Midwest Energy, Inc.
Brian Alfano: Lender Relations Manager, Clean Energy Works Oregon
How$mart®

It’s NOT Financing!

Tearing Down Barriers to Energy Efficiency

May, 2013

Michael Volker, Midwest Energy, Inc.
Director of Regulatory & Energy Services
Agenda

- Who is Midwest Energy?
- ECON 101
- What is How$mart®?
- 4 Key Attributes
- Results
- Why does it work?
- Specific questions?
Midwest Energy, Inc.

- Vertically integrated gas & electric coop
- 49,000 electric, 42,000 gas customers
- 41 Counties (majority of Western Kansas)
Why do Energy Efficiency?

- Well-Performing markets are optimal. (Productive AND Allocative Efficiency)
- Energy use markets are NOT well-performing.
- Market failure (Externalities, etc.).
- Other forms of market failure:
  - First Cost Barrier
  - Split Incentives
  - Imperfect Information (knowledgeable customers)

- Midwest Energy’s approach to EE is to address the reasons EE markets fail.
What is How$mart®?

➢ Utility investment in EE
➢ A line extension beyond the meter.
➢ Can be profitable for the utility.
➢ How$mart® has four key attributes...

PAYS® concept by Energy Efficiency Institute, Colchester, VT
Harlan Lachman harlan@eeivt.com (802) 879-8895
What is How$mart®?

Key Attributes

1. No Upfront Capital
   - Buy down required?

2. Efficiency Paid for on the Bill
   - Energy savings paid for on the energy bill

3. Surcharge LESS than Savings
   - Extensive audit/calibration

4. Repayment tied to Premise
   - Repayment stays with savings
   - Survives occupancy changes
What is How$mart®?
Results since July, 2007

• 1,700+ Conservation Plans (Audits + Recommendations)
• 900+ buildings improved
• $5+ Million utility investment
  $5,600+/project
  • Customers add $1,600/project
• 2,200+ kWh/project/yr. saved
• 270+ therms/project/yr. gas saved
• Net bill saving = $10/month
How$mart® - Why?

Why Does This Work for the Utility?

- Costs Recovered
  - Can earn allowed ROR.
  - Program cost recovery (5%)
- Low Risk
  - Default risk is small if any – obligation transfer
  - Disconnect for non-payment
- Improves Customer Satisfaction
- Politically Popular
Why Does This Work for the Customer?

- First cost barrier lowered.
- No additional debt.
- Removes split incentives barriers (landlord/tenant and builder/buyer).
- Results in net lower energy bills.
- External benefits (Comfort, Safety, Sustainability).
Satisfaction and Value Perception of Midwest Energy

Percent responding with a high score (8-10 on 10 pt. scale)

Higher overall satisfaction and value perception among energy services users

Numbers in parenthesis refer to mean satisfaction/value perception scores.
Program Interest

- **How$mart®**: first voluntary application of the PAYS® model

- **Many, many inquiries** (Regulatory Commissions, National Labs, Environmental Groups, Utilities, Consultants, Other groups of interest)

- **Five National Recognitions in Five Years**
How$mart® Questions?

General OBR Statistics and Metrics – Not an On Bill Repayment program. Midwest Energy is the administrator. Funds INVESTED are Midwest Energy’s funds. No FICO involvement – utility bill must be current. Disconnect for non-payment.

Loan Product Details – NOT A LOAN – Utility Investment, Repayment for Residential: 15 year max; Commercial: 10 year max; Lighting: 7 year max; Geo Loops: 30 year max. Residential rates currently 3.0%, Non-residential 4.5%. Loan rates vary depending on MWE access to low-cost capital

Customer Service – MWE handles all. That’s why we do this.
How$mart® Questions?

Banking Compliance and Borrower Protection – In Kansas, utilities are exempt from consumer lending laws for energy efficiency under K.S.A. 16a-1-202 as long as the transactions are regulated by the Kansas Corporation Commission (i.e. by Commission-approved tariffs).

Contractor Management – Midwest Energy does not come between contractors and their customers. However, Midwest will not pay contractors until the project passes the post-retrofit audit. Midwest has a strong contractor support program where training (including CECs) are available for contractors.

Billing Issues – Manageable. The new billing system just installed has some issues calculating repayment balances. Otherwise, no problems.
REBUILDING OUR LOCAL ECONOMY
ONE HOME AT A TIME
Background

- Clean Energy Works Portland pilot
- Started early 2009 by City of Portland and Energy Trust
- $20 MM investment from US Department of Energy as well as funding from Oregon DOE, Lottery and several jurisdictions
ONE-STOP HOME ENERGY REMODEL
HOW IT WORKS

1. APPLY
2. ASSESS
3. FINANCE
4. TRANSFORM
FINANCE

• CEWO financing:
  – No Money Down
  – Low Rates and Flexible Terms
  – Option to Include Non-Energy Upgrades
  – Both On-Bill and Off-Bill options

• Or pay cash which allows homeowner’s to obtain their own financing
OVER 92% OF 1,877 BORROWERS HAVE A 680+ CREDIT SCORE

Credit Score Distribution

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LENDER SELECTION

- Drives competition between lenders
- Allows homeowner choice
- Introduced additional products to market to serve homeowner needs
- Allows for range of loan sizes and terms
Energy Upgrades to Date

- More than 2,700 total homes completed
- Single-family, owner-occupied
- $12,000 average investment from the homeowner
- Air/duct seal, insulation, hot water, furnace/heat pump, windows
- $79 monthly payment
- 30% energy reduction = $50 monthly savings
- 3 tons CO2 saved annually
On-Bill

- Works with three utilities in the State
- Homeowner signs agreement with Craft3
- All compliance/billing handled by Craft3

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Rate</th>
<th>Loan Term</th>
<th>Security</th>
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<tbody>
<tr>
<td>$1,000 - $7,500</td>
<td>As low as 5.99% rate fixed for term of loan</td>
<td>Up to 7 years (84 months)</td>
<td>No appraisal, no equity required UCC-1 placed on title</td>
</tr>
<tr>
<td>$7,501 - $30,000</td>
<td>As low as 5.25% rate fixed for term of loan</td>
<td>Up to 15 years (180 months)</td>
<td>Unsecured, no appraisal, no equity required</td>
</tr>
<tr>
<td>$1,000 - $7,500</td>
<td></td>
<td>Up to 7 years (84 months)</td>
<td></td>
</tr>
<tr>
<td>$7,501 - $25,000</td>
<td></td>
<td>Up to 15 years (180 months)</td>
<td>Deed filed with county on home</td>
</tr>
</tbody>
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Questions?

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