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Docket Number:	17-IEPR-08
Project Title:	Barriers Study Implementation
TN #:	217631
Document Title:	Expanding Opportunity with Inclusive Financing
Description:	Presentation by Tammy Agard of EEtility
Filer:	Raquel Kravitz
Organization:	Presented by Tammy Agard of EEtility
Submitter Role:	Public
Submission Date:	5/17/2017 9:15:18 AM
Docketed Date:	5/17/2017

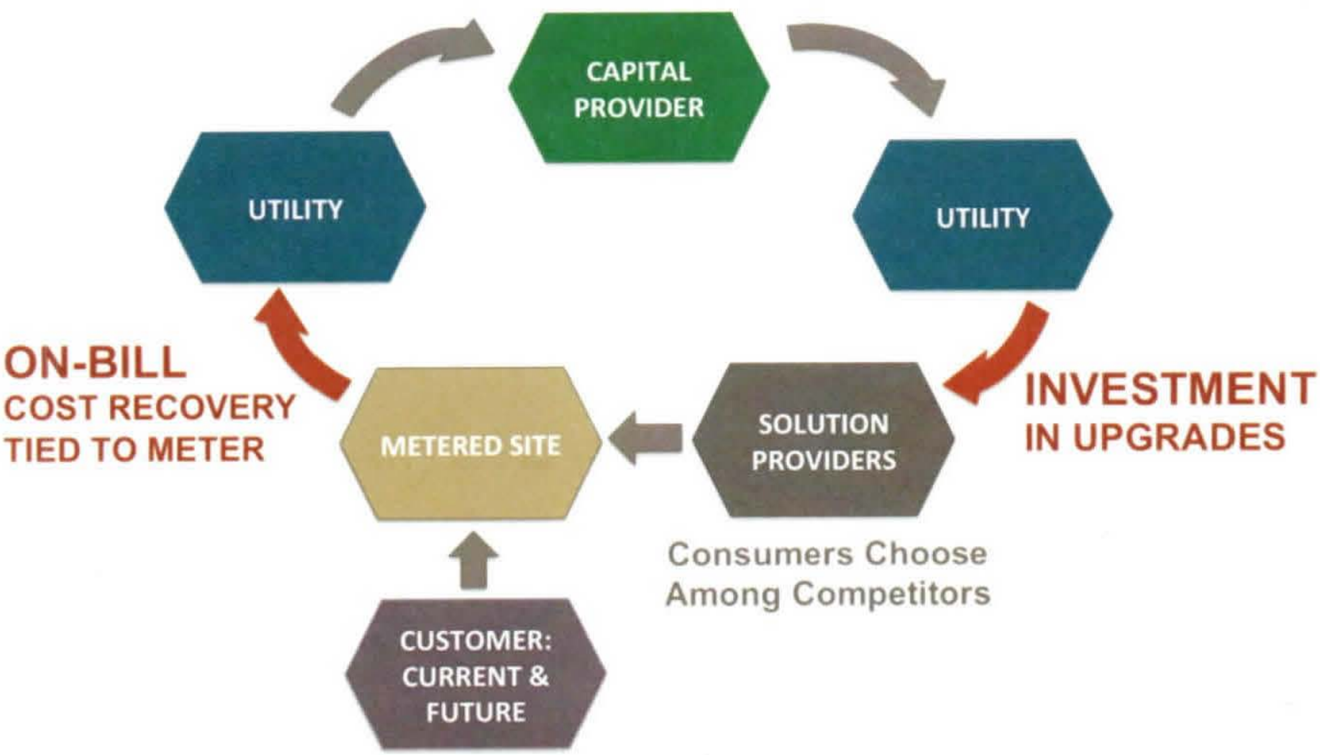
Expanding Opportunity with Inclusive Financing

The Arkansas Public Service Commission voted unanimously to approve our opt-in tariff for cost effective energy efficiency investments in early 2016.[1] Within 90 days, our utility switched from offering loans for energy efficiency upgrades (our HELP program) to offering inclusive financing through HELP PAYS®, a tariffed on-bill program based on the Pay As You Save® (PAYS®) system.

Mark Cayce, General Manager
Ouachita Electric Cooperative

With HELP PAYS, our utility can serve all customers, regardless of income, credit score, and renter status. The tariffed terms provide immediate net savings for the customer with no new debt obligation, and it assures the utility a low risk path to cost recovery through a charge on the bill that is less than the estimated savings from the upgrades. Our utility assures the upgrades continue to function throughout the period of cost recovery, and once cost recovery is complete, all upgrades belong to the owner.

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.



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1 Commissions in Kansas, Kentucky, Hawaii, and New Hampshire along with utility oversight boards in California and North Carolina have approved similar tariffs also based on the Pay As You Save® (PAYS®) system

Key Findings:
HELP PAYS® Inclusive Financing vs. HELP Loan

Ouachita Electric Cooperative transitioned from its previous, nationally recognized HELP loan program to its HELP PAYS® tariffed on-bill investment program in order to benefit more of its members, and to increase the benefits it could deliver to participants. With this preliminary analysis of data for the first nine months of the program, some of those benefits are being validated immediately by the market response compared to the same period of the prior year with the HELP program in Ouachita Electric Cooperative's service area.

1. Participation tripled:

During the period April 1, 2015 – December 31, 2015, the HELP program in the same utility's service area served 70 members, all owners of single family homes. Over the same period during 2016, 118 single family homes, 82 units of multifamily housing, and two commercial customers opted into the HELP PAYS program – approximately triple the number of participants.

2. Immediate net savings:

HELP PAYS® participants benefit from positive cash flow by keeping at least 20% of the estimated savings – compared to an average of zero immediate net savings in HELP, a bill neutral loan program.

3. Renters say yes:

Renters, who were categorically ineligible to participate in the HELP loan program, accounted for nearly half the participants in the first quarter of hte HELP PAYS program, and by the end of 2016, 100% of the multi-family renters in the service area that received an offer for financed upgrades chose to opt into the program. Their landlords readily supported the program, agreeing to pay copayments required to qualify upgrades if needed.

4. Average investment doubled:

In the same period during 2015, the average size of the 70 single family HELP loan project was near $2,280. In 2016, average investment through the HELP PAYS® program more than doubled to more than $5,500.

5. Total investment grew by more than 5x:

During the same period in 2015, the HELP loan program in the utility's service area produced investments in energy efficiency of approximately $290,000. With the HELP PAYS program, approved investments surged by more than a factor of 5 to exceed $1.4 million.

Inclusive Financing for Efficiency Upgrades

High energy bills are common in buildings and homes that waste a lot of energy. Efficiency upgrades can lower those high bills and improve residents' quality of life by providing better comfort, yet make those upgrades often requires *payment upfront.*

To make these improvements, some people pay cash out of pocket while others may take out a loan if they have strong credit and own their home as collateral. *But most people do neither.* The barriers are too high, so high energy bills continue to squeeze already-tight family budgets.

What can we do?

Inclusive financing breaks through these barriers by allowing a utility to invest directly in energy efficiency upgrades ***regardless* of a customer's income, credit score, or renter status.**

The utility covers the upfront cost of cost effective upgrades—without requiring either the building owner or the renter to qualify for a lease or a loan to take on new debt—and it recovers those costs on the utility bill with a charge that is significantly less than the savings.

These upgrades generate immediate net savings for consumers and make solar more affordable, whether through community solar or on-site rooftop solar.

Where is inclusive financing for energy upgrades available?

Utility regulators in Kansas, Kentucky, Arkansas and more have already approved opt-in tariffs for efficiency upgrades. Although only a few leading utilities in each of those states are taking advantage of the opportunity thus far, all of them are using the same system for their program design, called Pay As You Save® (PAYS®).

Pay As You Save® (PAYS®)

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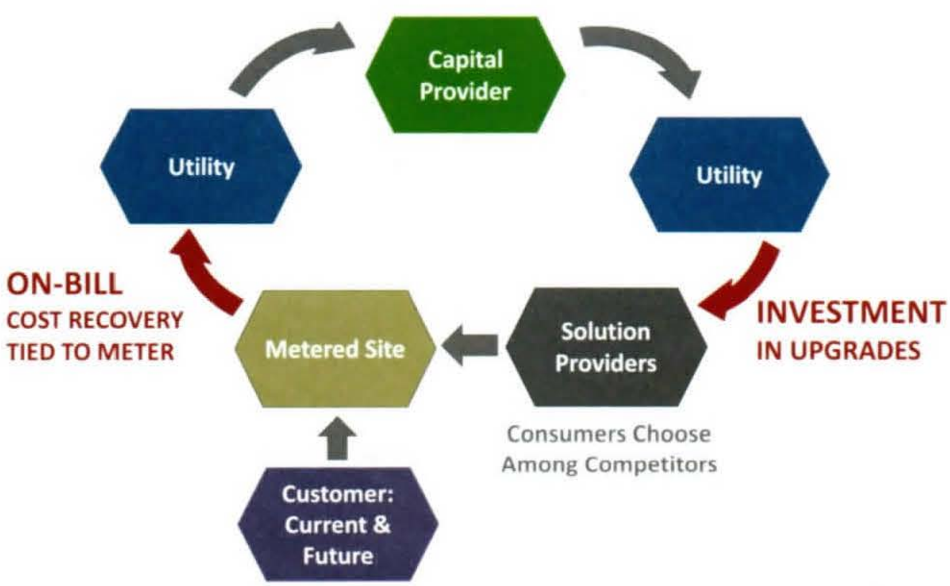

How does inclusive financing work?

First, the customer opts into a terms-of-service agreement (a tariff) that allows the utility to: (1) invest in the energy upgrades and (2) recover its cost with a charge on the bill that is capped at 80% of the estimated savings from the upgrade during 80% of the life of the upgrade. As a result, the household has *positive cash flow* from the start.

If the investment is not cost effective, the customer can make a co-payment upfront to buy down the cost of the system. Once the utility has recovered its costs for the upgrades, the monthly charge ends, and the customer's bill goes down even more because they get all the savings from the upgrades, which last even longer.

What happens if a customer moves?

The utility's investment is tied to the meter at the building, so it doesn't follow the customer. The tariffed charge applies to the next customer at that meter, who also enjoys the lower bills from the upgrades.

If the customer is a renter and decides to move, the landlord simply has to let future renters know that they are moving into an upgraded unit. For that reason, the cost recovery charge will appear on their utility bill—and that bill will be *lower* than it would have been without the upgrades for the same level of comfort.

If the customer owns the home or building and sells it, the customer must disclose the utility's investment in the upgrades to the buyer. Because there's no debt obligation or lien, there is no need to "pay off" the investment prior to selling the building.

What if the upgrades don't work?

Unless the customer damages or removes the upgrades, the utility must repair upgrades that stop working, or the charges stop. The utility recovers repair costs by extending the cost recovery term.

How is inclusive financing with PAYS different from on-bill loan repayment?

Attributes for an Efficiency Program	**On-Bill Loan**	**On-Bill Tariff**
Renters are eligible		✓
No credit score or minimum income level is required to participate		✓
Participant signs a loan or promissory note for a debt obligation	✓	
Participant accepts an opt-in utility tariff that is tied to meter		✓
Cost recovery is through a fixed charge on the utility bill	✓	✓
Cost recovery charge is capped at 80% of estimated savings		✓
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 customers at that location until cost recovery is complete		✓

For more information, visit: www.CleanEnergyWorks.org

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Attributes of Financing Approaches for Energy Upgrades

Attributes	Pay As You Save® (PAYS®)	Home Energy Lending Program (HELP)	Property Assessed Clean Energy (PACE)
Customer Eligibility			
• Residential customers are eligible	✓	✓	✓
• Commercial customers are eligible	✓		✓
• Renters are eligible	✓	[1]	
• No credit score check	✓	✓	
• Eligibility includes all customers in a utility's service territory	✓		
• Utility uses bill payment history to confirm good standing		✓	
• Eligibility includes all customers in a local tax jurisdiction			✓
Customer Experience			
• Energy assessment identifies cost-effective upgrades	✓	✓	✓
• Customer chooses contactor for installation	✓	✓	✓
• No upfront customer cost	✓	✓	✓
• Estimated savings must exceed cost recovery charges	✓	✓	
• Customer signs a promissory note to accept a debt obligation		✓	
• Customer opts into a utility tariff tied to the meter	✓		
• Customer agrees to disconnection for not paying utility bills	✓		
• Cost recovery is through a fixed charge on utility bill	✓	✓	
• Customer agrees to a lien on the property			✓
• Cost recovery is through property tax bill			✓
• Payments end if upgrade fails and is not repaired	✓		[✓][2]
• Participant's charges end when they leave the location if they have fulfilled their responsibilities, e.g. maintaining upgrades	✓		[✓][3]
• Tariff runs with the meter and remains in effect for subsequent customers at that location until cost recovery is complete	✓		[✓][3]

[1] One utility is piloting financing for renters where the building owner agrees to facilitate collections.

[2] Some PACE project developers market a performance guarantee.

[3] Because real estate negotiations commonly adjust the sale price based on the value of outstanding liens, the negotiations may ultimately obligate the seller to pay the outstanding balance on the investment.