

# **Financing and On-Bill Repayment: Summary of Financing Issues & Mechanisms for Outside Capital**

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# Outline of Presentation

- Summary of financing issues and mechanisms for securing outside capital
- Formation of the financing and on-bill repayment working group
- Financing and on-bill repayment work plan and schedule

Note: financing is not a panacea, but it can be a useful and effective strategy for many customer segments

# Two parts or “buckets” for Financing and On-Bill Repayment

- Financing and on-bill repayment – as a *program strategy*, i.e., part of program delivery and focused on customer interaction; *on-bill repayment* as a way for customers to pay back the financing capital
- Capital – *where the money comes from* (and there is significant interest in having some of the capital to support financing coming from other sources of funding, i.e., outside capital in addition to ratepayer funding)

# First bucket -- issues to consider

- Customer financial incentive/program mkting
- Financing terms and “selling” to the customer
- Appropriate interest rate (low vs. zero rate)
- Repayment obligation - with meter or customer?
- Repayment obligation in event of vacancy/fire?
- Partial payments, application of partial payments
- Rental properties- split incentives
- Regulatory issues (some legal issues)
- Modifications to billing/CIS systems, and costs
- Etc. (partial list above)

# Obtaining Outside Capital from Other Sources of Funding

- Objective: increase customer participation while reducing upwards pressure on program costs and utility rates\*
  - Solution: financing supported with outside capital (not program/ratepayer funds)
  - Challenges: Identify sources and develop mechanisms to obtain outside capital
- \* Compare to strategy of increasing participation by ever increasing incentive levels, which increases program costs

# One Potential Vision

Ramp Up of Electric Program Costs and Outside Capital (in millions, 2009 dollars)

	PA Electric Plan	Consultant Estimates	Total EE Expenditures	Ratepayer Funding	Outside Capital
2009	178		178	178	?
2010	241	~240	240	180	60 (25%)
2011	329	~400	400	240	160 (40%)
2012	447	~600	600	300	300 (50%)
		Future →	1 Billion	400	600 (60%)

# Mechanisms for Outside Capital

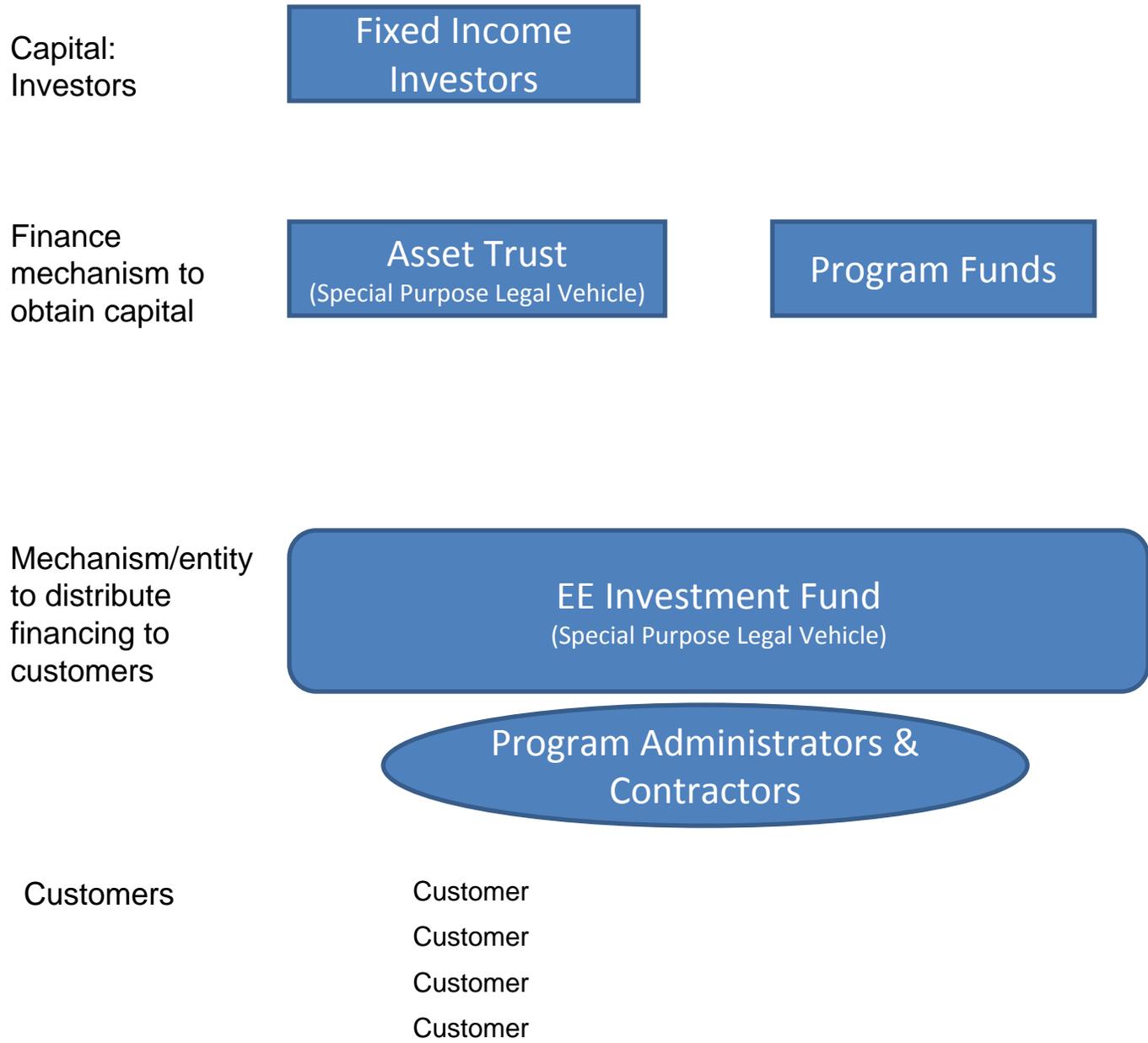
Source/Mechanism	Advantages	Disadvantages
Market Capital: RFP or Auction by PAs	Competitive bidding	Unproven system, lots of investor outreach, higher interest rates
Market Capital: Energy Efficiency Investment Fund and Asset Trust	Proven system (used for other investments), attractive to investors (secured), moderate/low interest rates	Time needed to develop special purpose legal vehicles and details
State/Municipal Bond Offering	Proven system, flexible, cost effective, competitive bidding, lower interest rates (investor expectation for muni bonds)	Institutional hurdles, political will, time to develop, competition with other gov't bond issues
Utility Shareholder Capital	Flexible, accessible, close link to the EE/RE programs	Limited pool of capital, higher cost of capital
Program Funds (Ratepayer Funding)	Available, sustainable through surcharges	Pressure on rates and nonparticipants, drives up program costs

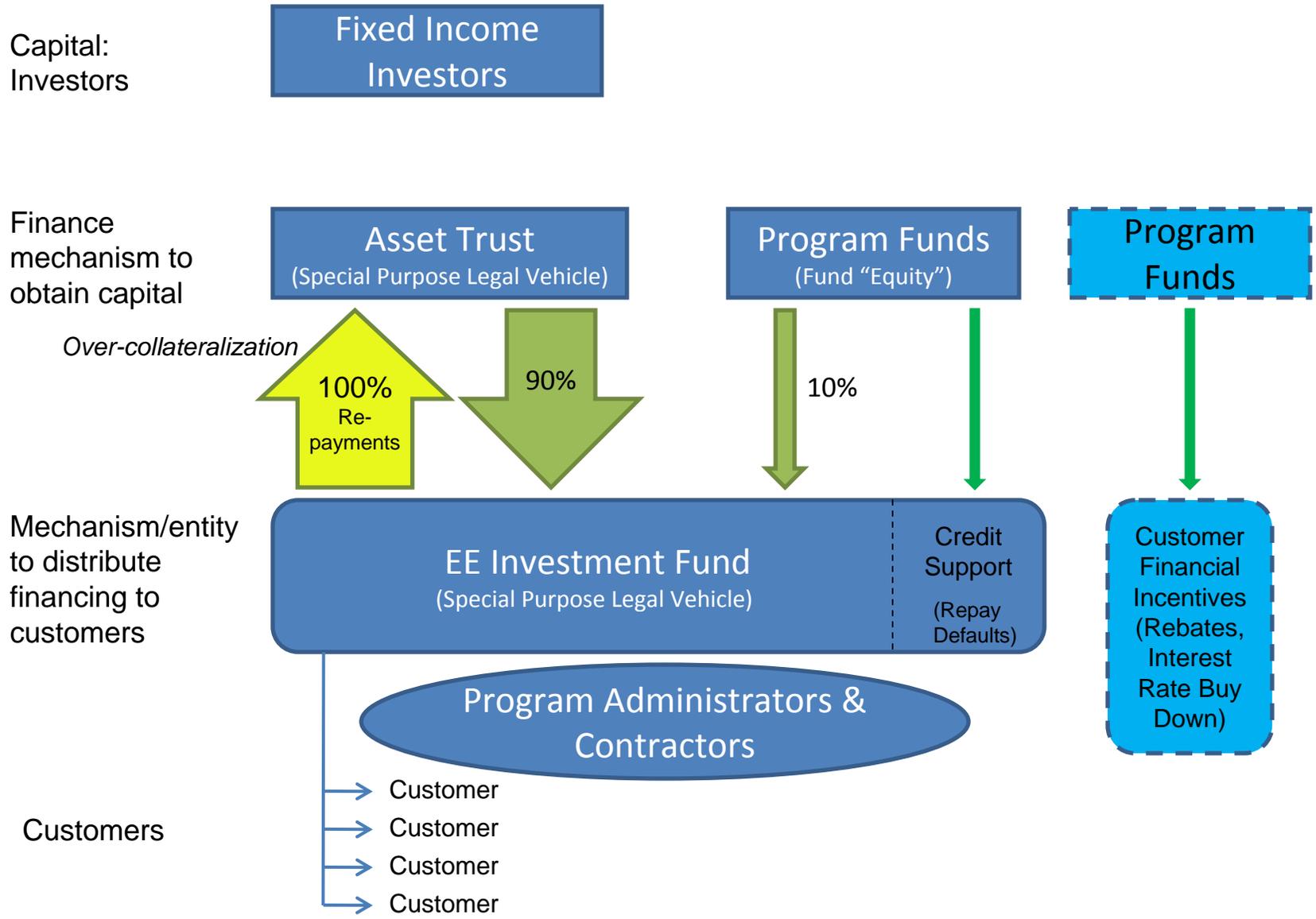
By Nick Schlegel, Schlegel & Assoc. The table does not include the municipal improvement district/property tax approach because it is not a mechanism to obtain outside capital per se (municipal bonding is included above).

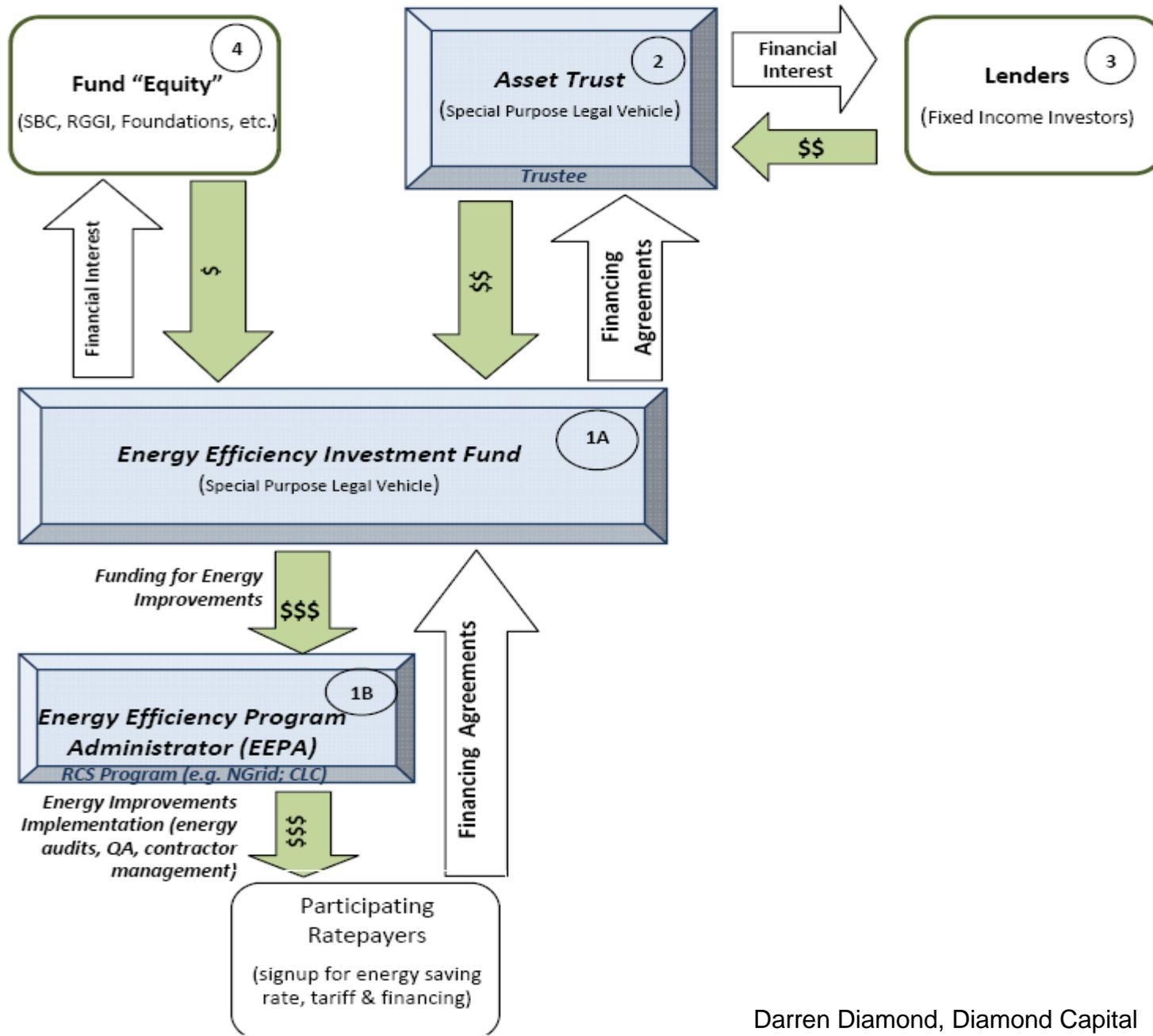
# Integral Components

- Capital -- investors
- Finance mechanism to attract and obtain capital
- Mechanism or entity to distribute financing to customers
- Customers

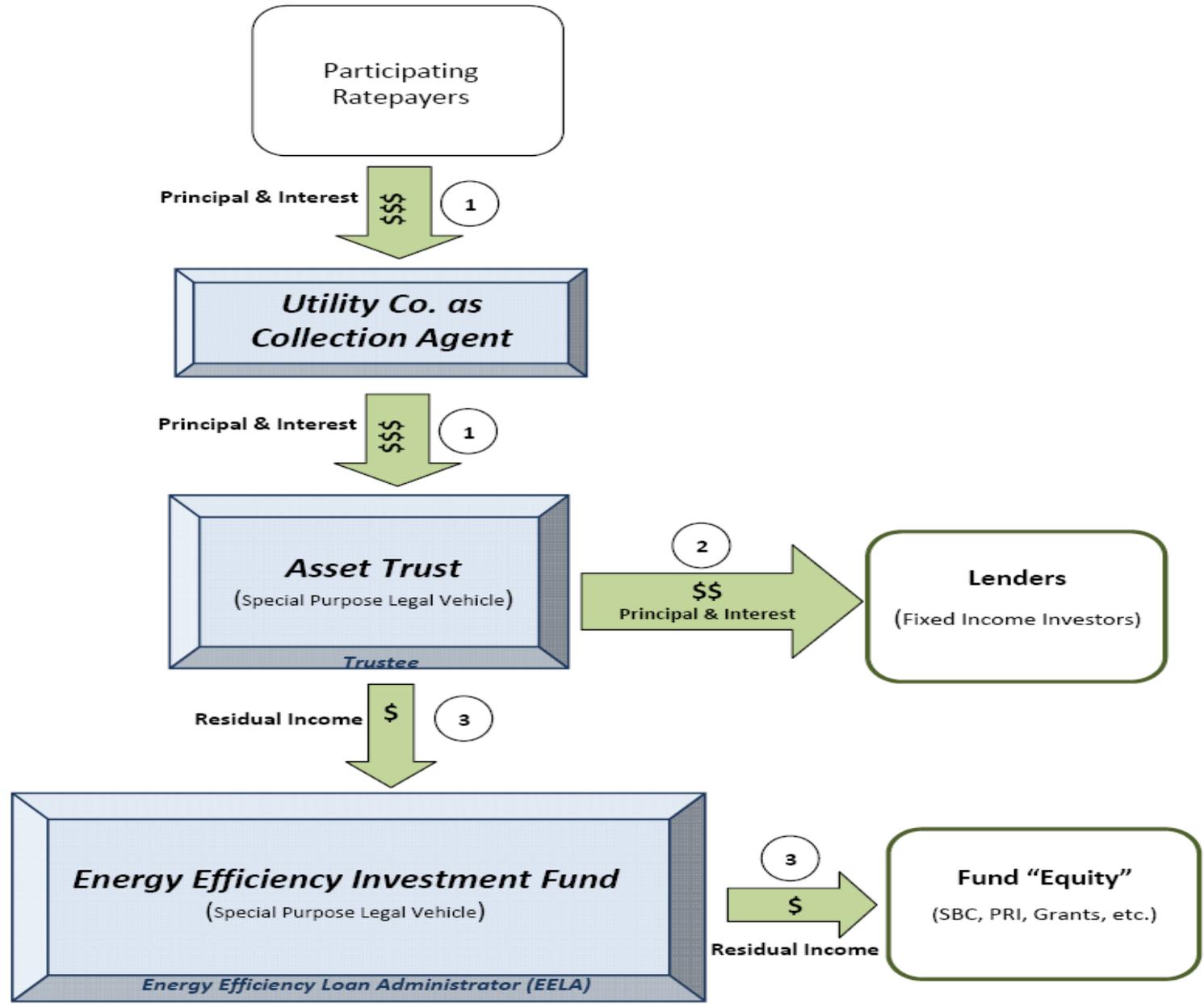
(In addition, other important components: program administrators and contractors)

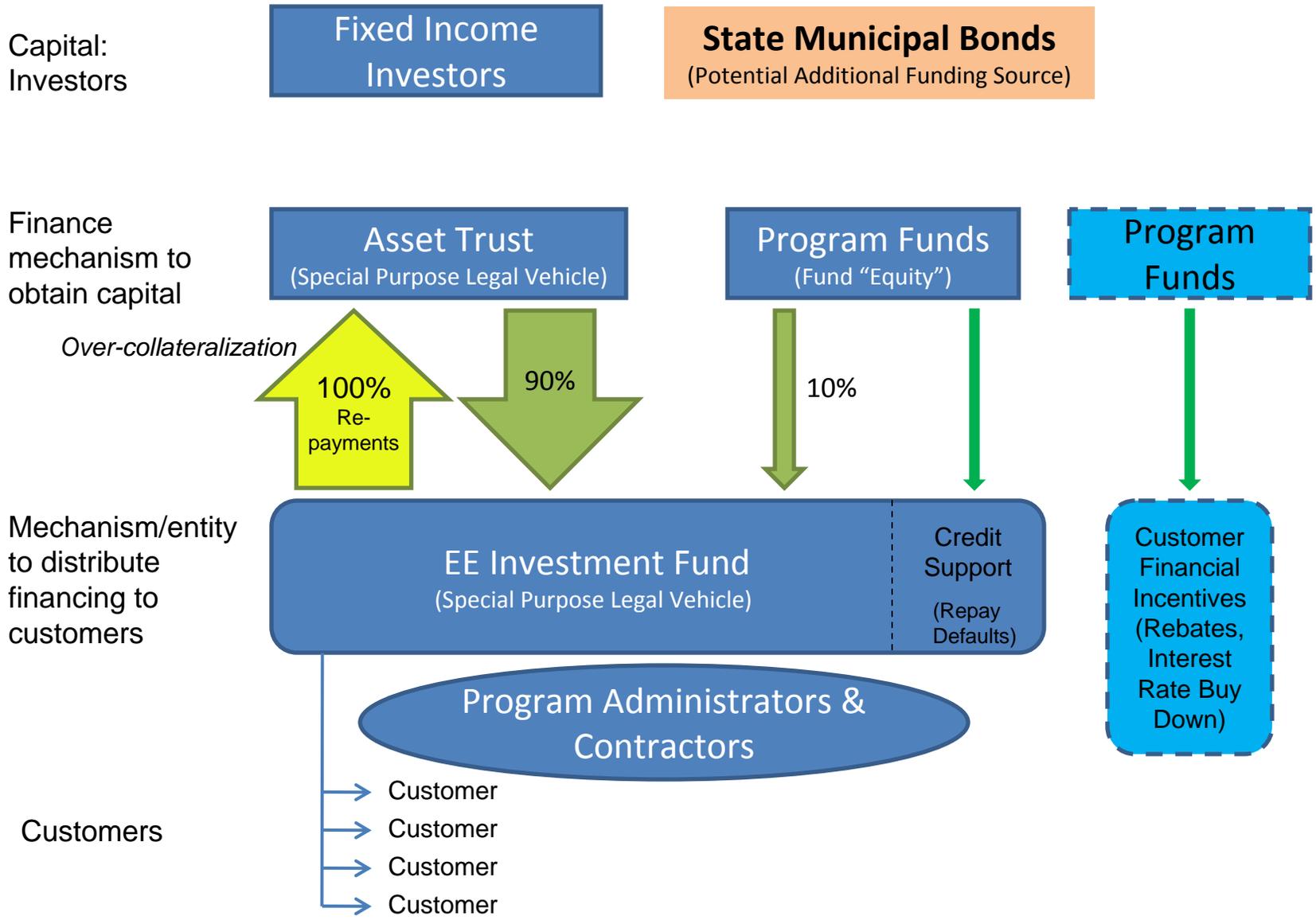






**Payment Flow (Cash Received)**





# Formation of Working Group

- Council July 28 Resolution
  - Consultant recommendations:
    - Working group focus on issues in first bucket (program strategy and customer interaction)\*
    - Meet initially to develop scope and sharpen focus of the working group, develop work plan
    - REVISED: begin meeting after Sept. 15 sometime
    - Proposed meeting time: weekly, Thurs 9:30 am (beginning Sept. 24, or later? TBD)
    - Interim report to Council in early October (Oct. 6?)
- \* DOER will lead work on obtaining outside capital, second bucket

# Financing Work Plan & Schedule

- Review at a future Council meeting based on the initial scoping and planning meeting of the financing & on-bill repayment working group
- Recognize that it will take significant time to address issues and develop mechanisms (perhaps 6-9 months)
- At the same time, it is important to continue work on the issues and work deliberately
- Include review of data from the 2009 pilots