

Securing Outside Capital: Supporting On-Bill Financing and Leveraging Ratepayer Funding

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Two Parts to “On-Bill Financing”

- On-bill financing – as a *program strategy*, part of the delivery of the program and interaction with the customer
- Capital – *where the money comes from* (and there is significant interest in having some of the capital to support financing coming from outside sources, i.e., outside of ratepayer funding)

Seeking Outside Capital

- Objective: increase customer participation while reducing upwards pressure on program costs and utility rates
- Solution: on-bill financing supported with outside capital (not program/ratepayer funds)
- Identifying sources and developing mechanisms
- Need: proactive outreach effort using a summary (in investor terminology) and an “investment prospectus” to attract and secure outside capital to support EE programs

Small Business Analysis

	70% Incentive	30% Incentive	50% Incentive
	30% On-Bill Financing	70% On-Bill Financing	50% On-Bill Financing
<u>Customer Perspective</u>			
Project Cost	20,000	20,000	20,000
Incentive (Rebate)	14,000	6,000	10,000
Amount Financed	6,000	14,000	10,000
Est. Annual Savings in kWh	50,000	50,000	50,000
Total Cost to Customer (nominal)	6,000	14,000	10,000
Total Cost to Customer (2010\$)	5,771	12,857	9,397
<u>Program Perspective</u>			
Program Costs			
Admin & Program Mng. Costs	5,740	5,740	5,740
Incentive (Rebate) Costs	14,000	6,000	10,000
Subtotal	19,740	11,740	15,740
Financing Support			
Interest Rate Buydown	229	1,143	603
Loan Guarantee*	60	140	100
Total Program Costs	20,029	13,023	16,443
% Higher Than 30% Inc./On-Bill	53.8%	0	26.3%
Program Cost per kWh Saved	\$0.040	\$0.026	\$0.033
Program Costs (500 customers)	10,014,527	6,511,618	8,221,281
Program Costs (1,000 customers)	20,029,053	13,023,236	16,442,562

Sources of and Mechanisms for Securing Outside Capital

Source/Mechanism	Advantages	Disadvantages
Market Capital: RFP or Auction by Program Administrators	Competitive bidding	Unproven system, lots of investor outreach, need large volume to drive down interest rates
State/Municipal Bond Offering	Proven system, flexible, cost effective, competitive bidding, lower interest rates (investor expectation for muni bonds)	Institutional hurdles, political will, perceived competition with other gov't bond issues
Utility Shareholder Capital	Flexible, accessible, close link to the EE/RE programs	Limited pool of capital, shareholders expect higher return on capital
Program Funds (Ratepayer Funding)	Sustainable through surcharges	Pressure on rates and nonparticipants, drives up program costs

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Highlighting the Benefits in the Summary and Prospectus

Investor

- Guaranteed return -- very low risk, safe
- Attractive returns (relative to other investment options with similar characteristics)
- Frequent opportunities to invest
- Utility or program administrator manages program – hassle free
- Green investment, positive public image and press
- Access to data (EM&V) on reductions in energy usage and avoidance of greenhouse gas emissions as a result of the program – green investment with documentation

Utility or State Energy Efficiency Program

- Increased participation due to higher incentives (rebates & low/zero interest financing)
- Better able to afford to go deeper, achieve deeper savings
- Lower program costs and less pressure on rates
- Larger program coverage as a result of additional capital (outside-of-program capital)

Participating Customer

- Access to low or zero interest financing
- Combination of incentives/rebates and attractive financing available on some measures
- Positive cash flow over life of project – lower cost from day one
- Lower energy bills and other benefits
- Increased property value

Next Steps and Schedule

- Summer internship project – will be completed by early September
- Specific form and organization of summary and prospectus can vary based on the source of outside capital and the mechanism selected – can be targeted to a specific mechanism and the specific needs of a state
- Documents will be available to the EEAC and the PAs