NH Energy Efficiency Resource Standard

Three-Year Program Plan
VEIC Review of

ENERGY EFFICIENCY FINANCING

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Desired Outcomes

- Increase program yields
- Serve more customers
- Increase customer savings
- Further develop and expand NH’s product and service provider infrastructure
- Result in sustained, orderly market development
- Stimulate private investment and the use of new financing approaches
- Increase awareness of the job creation and economic development impacts of EE
## Benefits and Challenges of EE Financing Programs

<table>
<thead>
<tr>
<th>Program Type</th>
<th>Potential Benefits</th>
<th>Potential Challenges</th>
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<tbody>
<tr>
<td>Revolving Loan Funds</td>
<td>Simple to administer and track</td>
<td>Often slow to revolve</td>
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<td>Recycling of scarce dollars</td>
<td>Large amount of capital needed to seed the fund</td>
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<td>Flexible eligibility requirements</td>
<td>Rigorous underwriting</td>
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<td>Rate and term flexibility</td>
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<td>Bond Issuance</td>
<td>Bond authority high, with no sunsets</td>
<td>Scale hard to achieve</td>
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<td>Patient capital, low rates</td>
<td>Adds to public debt</td>
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<td>Credit Enhancement</td>
<td>Public/Ratepayer dollars leverage private sector capital</td>
<td>Public entity on hook for defaults/non-performing</td>
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<td>Primary and secondary market appeal</td>
<td>States must follow DOE guidance for federal funds</td>
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<td>Lower rate for customer</td>
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<td>Green Bank</td>
<td>Reduces cost of capital (compared to conventional financing) by combining public and private capital in one fund</td>
<td>Improved data collection needed to accurately measure the impacts of Green Banks on EE/RE</td>
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<td>Use public funds to stimulate private capital. CTGB only 5 years old!</td>
<td>State legislation required</td>
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Table adapted from NASEO “Unlocking Demand: An Analysis of State Energy Efficiency and Renewable Energy Programs” 2013.
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| Energy Savings Performance Contracting | Guaranteed energy and cost savings  
Minimal owner investment  
Owner control over team/equip  
Cash-flow positive | Best for MUSH market  
Complex process to manage  
Need long-term $ |
| On-Bill                      | Cash-flow positive  
Payments transfer to next ratepayer  
Utility payment history underwriting reaches hard-to-serve customers | Up-front costs to modify billing systems  
Shut-off concerns  
Utility reluctance to act as lender |
| PACE                         | Improvements and lien stay w/ property  
Little or no public funds needed  
100% financing  
Long-term repayment, long-term asset | FHFA roadblock  
Senior lien objections  
Owner-occupied bldgs. only  
Statute needed, local buy-in |
| Secondary Market             | Scales to meet high demand  
Private capital potentially unlimited | Secondary market investor & rating agencies define risk |

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Successful RLFs administered by NASEO members

- Nebraska Dollar and Energy Saving Loan Program (Residential focus but also available to C&I). Capitalized with $23MM in oil over-charge funds. The Energy Office purchases half the loan at 0% interest and a commercial lender provides the other half at market rates. The blended rate to the borrower averages between 3% and 4%.

- Texas LoanSTAR program (only tax-exempt and MUSH market). Capitalized with $98.6MM in oil over-charge funds in 1998. Rate is 2% and term can be up to 15 years. Projects must reduce energy use by 20% per statute.

- AlabamaSAVES (C&I market). Capitalized with $25MM in DOE SEP funds, AL SAVES buys up to 25% of a qualifying loan from a lender and subordinates their interest. Up to 10-year term, with exceptions.

- Pennsylvania Keystone HELP (Residential). 100% financing up to $20k for 5-30 years. Contractor-driven program capitalized by State Treasury. Renew Financial administers
RLF DESIGN AND ADMINISTRATION MODELS

RLFs have been designed and implemented in different ways in order to meet states' specific market needs and maximize the impact of the funds. In addition to the origination and servicing of loans, several successful RLFs often also include non-financing program structures such as a contractor training and qualification, quality control, and technical assistance for borrowers. This is where public-private partnerships can play a crucial role—and where allies, for instance, can work with states to market programs and loan offerings, and professional certification groups such as the Air Conditioning Contractors of America can help ensure quality installations.

IN-HOUSE ADMINISTRATION

Some Energy Offices have opted to run their energy loan funds in-house. For instance, the Texas State Energy Conservation Office (SECO) manages the LoanSTAR loan program for publicly-owned and tax-district supported facilities. SECO has developed comprehensive program guidelines, receives and reviews loan applications, provides funds for approved projects, determines the amortization schedule for each loan, monitors the design, construction, and closeout of each project, and handles repayment collection and other loan needs. Since its establishment in 1998 with a capitalization of $12.8 million, LoanSTAR has made over 700 loans exceeding $430 million in project costs.

THIRD-PARTY ADMINISTRATION

Some State Energy Offices have partnered with a third-party administrator (TPA) to manage their energy RLFs. A TPA may take on some or all tasks associated with operating the loan fund, including managing the application and underwriting process, servicing loans, sourcing projects, and marketing the program. The Energy Division of the Alabama Department of Economic and Community Affairs works in close partnership with a TPA, Abundant Power to administer and originate loans for the AlabamaSAVES program, which targets commercial and industrial borrowers. AlabamaSAVES has used a loan fund of $215 million to support over $500 million in projects.

LOAN PARTICIPATION PROGRAM

Another RLF design and administration option is a 'participating loan' approach. Under this option, the State Energy Office may work with lenders to purchase a portion of each energy efficiency or renewable energy loan made. For instance, in Nebraska's Dollar and Energy Savings Loan Program, the Nebraska Energy Office (NEO) purchases a percentage of each loan at a 1% interest rate, lowering the borrower's costs while still providing an attractive yield for their partner lenders. The fund has achieved a 2.5 private-to-public capital leverage ratio since the program's establishment in 1990, with NEO's $153.3 million combined with $77.2 million from private lenders to support over $330 million in loans.

GRANTS-TO-LOANS

Another way to activate public-private partnerships in an RLF is to award grants to lenders to make loans for targeted energy efficiency and renewable energy measures. The State of Washington's Clean Energy Fund, overseen by the State Energy Office, uses a competitive solicitation process to identify nonprofit lenders (such as community development financial institutions and credit unions) interested in lending for clean energy. Selected lenders manage loan underwriting and servicing, absorb any losses, and revolve these loans for at least ten years. The State Energy Office has received funds from the State legislature to manage this program, which has resulted in as much as 10x leverage of state funds.

TO LEARN MORE

NASEO’s Financing Committee, which is chaired by NYSERDA Treasurer Jeff Pitkin and Virginia Energy Division Director Al Christopher, tackles state energy loan funds and other financing issues of importance to state energy policy makers. This committee is open to any State and Territory Energy Office director or staff, as well as NASEO Affiliate partners. To learn how to participate in this committee, contact Sandy Fazeli at sfazeli@naseo.org.
VT HEAT Saver Loan Program

- Seeded with $670,000 of DOE and VLITE
- Reporting period is from the soft-launch in Q4, 2014 thru Q3, 2016
- 249 customers served from 116 various towns in all areas of VT
- 85 qualified contractors (mostly Efficiency Excellence Network with a few biomass/solar hot water firms)
- 80% of customers served were low-moderate income households
- The leading measure was weatherization (39%), followed by boilers, furnaces and air-source heat pumps
- Average loan size was $11,441
- Terms up to 15 years with interest rates between 0% to 4.99% based on borrower income and term length
- $2.85MM in private capital from VSECU and OCU using about $480,000 in interest rate buy-down (IRB)
Best Practices for Achieving Success

- Designing a payback structure that creates an attractive return for private sector investors;
- Achieving a cyclical/growing funding stream that allows the program to be a consistent option in the target market as long as opportunity or demand is sufficient;
- Designing programs in such a way as to cover administrative costs;
- Tapping into funding sources that do not depend on ongoing government subsidies;
- Ensuring that typically underserved segments of the population have access to the program; and
- Attaining flexibility of program design to allow for supporting strategies and approaches unique to particular communities in a state/region.

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