Finance and Funding Work Group (2018)

Four meetings held: .Jan 24, Feb 21, March 21 and April 18th. **Next meeting May 23rd.**

Agreed objectives:

a. Examine all existing financing/funding mechanisms and establish baseline data for current participation rates.(February)
b. Identify any underserved groups and their challenges(February)
c. Invite existing financing partners to discuss program progress to date and under what terms and conditions will there be greater participation(February)

d. Examine what we can learn from paradigms being utilized on other jurisdictions. (March)
e. Examine the current customer acquisition process from the contractor perspective, and interaction between client /contractor/utility and financing institution(March)

f. Examine the case for the establishment of a Loan Loss Reserve Fund, how and where?(April)
g. Examine the case for collaboration on financing with institutions like Citibank etc. in order to draw from a larger pool and subsequently be able to securitize and roll over funds.(April)

h. Examine the history of donor funding and how and under what conditions we can broaden the donor footprint. (May)

i. What recommendations can we seek to operationalize in this year's EERS update(June)

Topics covered in Jan 24th meeting:

a. Need for a market assessment study including customer demand
b. Need to broaden scope to include more local banks, understand why Granite State bank withdrew from the program
c. Need to review and agree on goals and how will drive financing and funding possibilities
d. Broaden financing process through more acquisition of more contractors and partner financial institutions
e. How to ensure better education/awareness of EE programs and measures
f. Should the customer acquisition process be streamlined, costs/benefits?
g. Need to establish standardized products/services to limit risk to financial institutions
h. Consider inventive mechanisms like Loan Loss Reserve and revolving credit lines and impact on financial institutions
i. Consider how in-state funding institutions can enhance the process
j. Review existing opportunities for foundation funding and past experience in farming this Sector
k. Need to develop benchmarks to track progress with financing programs

Discussion and recommendations arising from January 24th, meeting

a. Review and define goals for EE financing and funding
b. Review market assessment studies concerning customer demand for EE products and services and willingness to make use of financing.
c. Identify underserved populations and determine why.
d. Identify how existing programs can become more attractive to private financing institutions
e. Investigate the case for establishment of a loan loss reserve fund and other ways to maximize the leverage of each EE dollar spent.
f. Understand under what terms and conditions private foundations may be willing to partner with us
g. Establish a PUC webpage to provide a universal availability for all Work Group documentation

Topics covered in Feb 21st meeting

a. Examine existing financing/funding mechanisms and establish baseline data for current participation rates.
b. Identify any underserved customer groups and challenges(Utilities to prepare)
   Utility presentation covering current lending products and some historical data, as well as some thoughts on underserved customer groups and challenges.
c. Presentation by existing financing partners on program progress to date and strengths and weaknesses and how to increase participation.(Financing institutions, approached by utilities)
   Carol Ritchie from Merrimack County Savings Bank/Meredith Village Savings Bank will attend to provide perspective from a current lender.
d. Discussion of past efforts in Massachusetts to identify and partner with foundations.
e. Define goals of EE from financing/funding perspective

Discussion and recommendations arising from February 21st, meeting

a. Presentation by Eversource on behalf of the NH Utilities entitled Energy Efficiency Financing (Background Information for NH PUC Financing and Funding Work Group, Feb 21st, 2018)
b. Review of financing mechanisms currently offered, historic participation information and opportunities and challenges posed by the on bill instrument
c. Statement by Unitil that NH customers have considerable third party funds available but customers may be unwilling to take on debt or more debt
d. The 2017 stakeholder process identified increasing accessibility for moderate income customers as important to ensuring equitable access to the benefits of energy efficiency. During 2018, the utilities will work with lending partners to develop an offering for implementation later in 2018.
e. NHEC stated that the Market Assessment Study and Home Performance with Energy Star

evaluations that are currently being developed will provide specific customer survey information that can be used to assist with future program design.

f. Questions about customer characteristics, demand and measure/program response may be identified in the EM & V Market assessment study and HPwES process evaluation study.
g. Generally, NH Utilities believe EE program financing (loans) is a tool that helps to enable customers to participate in energy efficiency programs. Customers also have access to and frequently use other personal and private funding (other loans, credit cards, lines of credit, cash). Review of the buy down strategy and possible flexibility in either decreasing or increasing buy downs relative to income will be considered
h. Refer to Quarterly Reports for current participation rates by financing program
i. The level of denial of approval for on bill financing has historically been low
j. PUC Staff asked about potential use of utility shareholder funds for loans in addition to rate payer funding. NHEC indicated that it funds some programs using Coop member funds beyond existing program funds Merrimack County Savings Bank/Meredith Village Savings Bank Presentation/Granite State Credit Union Letter
k. Informal presentation by Carol Ritchie from Merrimack County Savings Bank /Meredith Village Savings bank
l. Conclusions from Carol's presentation included: system working well at present, utilizing buydown for on bill finance to 2% but open to considering lower buy downs going forward. Since end of 2014, 107 unsecured loans issued. Approval process may take no more than 24 hours. Normal bank terms for unsecured loans at around 12%, home improvement loans at 6.4%
m. Currently zero application fee, with utilities performing early screening for eligible measures and the bank conducting underwriting and approving candidate(With no requirement to review bill history for 3rd Party loans)
n. Unclear whether availability of a loan loss reserve would have any effect on lending conditions
o. Reported a very low denial rate for 3rd Party lending applications
p. Letter submitted on behalf of Granite State Credit Union confirming withdrawal from utility managed EE market due to poor Benefit/Cost of volume of lending vs required credit union resources, administration and maintenance

Funding

q. Eversource shared a document demonstrating examination of funding possibilities back in 2010 in Massachusetts, with limited success. Had little time to review and need to better understand findings
r. Discussion of VEIC grant from Tillotson Fund. Note: The funding accessed by VEIC is for the purpose of identifying energy efficiency value chains in rural economies. The funding is not for the deployment of energy saving measures or achievement of specific energy reductions
s. Utilities shared the perspective that additional exploration of foundation/outside funds will require time and resources.

    i.The Utilities noted that the current funding mechanisms provide a very direct connection between those investing in energy efficiency (all customers) and those who benefit from energy efficiency (all customers) ii.Foundations usually have their own goals for what they want to achieve with their dollars, which may or may not coincide with the energy savings goals of the EERS.

iii.If Staff and other Work Group members strongly support the investment of time and resources to a further exploration of foundation and other funding, the utilities can and will do so

t. PUC Staff raised the question as to whether some other currently undefined entity might be better suited to capturing foundation funding
u. Need to better understand the role of entities like of Renew Financial+ Citi in not only generating loans for EE but successfully securitizing them

Topics covered in March 21st meeting

Finance

a. Resumption of discussion concerning the goals for financing and funding within the EERS
b. Consider priorities for financing and the loan process, i.e. tight controls vs quick approvals and larger loan amounts. Utilities to explain the current loan process for residential customers as an input to this discussion
c. Discussion of the CDFA Clean Energy Fund model.
   If time permits begin to examine the following:
d. How can the customer acquisition process be simplified, strengthened, standardized to become more effective (Utilities to be prepared to present detailed customer acquisition processes for various market segments)
e. Examine the role of the contractor and how may that be made into a more effective acquisition tool (Utilities to invite contractor partners to speak about their experience in participating in EE programs and an examination of what is working and what needs strengthening)
   Deferred to the following meeting:
f. Discussion of the utilities approach in examining how can we better address the needs of those on moderate income and small C&I (Utilities will have a presentation on underserved customer groups and challenges)
g. Review EE financing paradigms from other agencies and jurisdictions (Invite speakers)

Funding

h. Continuation of discussion of past efforts in Massachusetts /elsewhere to identify and partner with foundations
i. Consider inviting a funding organization to speak to the WG to better understand the challenges and process

Discussion and recommendations arising from March 21st, meeting

a. Resumption of discussion of goals for financing and funding

b. Need to understand notion of effective demand
c. Utilities note that the savings targets were developed and agreed to by all parties and the Commission in both DE 15-137 and DE 17-136,
   but also note that some programs run short of funding early. Is there additional demand beyond the established targets? Staff concerned about utilities being limited by EERS budget, rather than thinking out of the box. Utilities design and implement the programs based on the targets that were agreed to. Staff is evaluating whether we can collectively make better use of each ratepayer dollar devoted to EE.
d. Staff explained the need to understand all the components of the EE program value chain and how financing and funding may enhance
e. On behalf of Eversource, Kate led a discussion of the following: market analysis and understanding of consumer groups; customer enrollment process, contractor activities, determination of need for lending, lending process by utility and bank, approval of works, timeframe, and any room for improvements?
f. Utilities noted that they are not lending institutions. However, they do offer on-bill solutions and partner with lending institutions to offer financing options for customers, and are committed to working collaboratively to further develop and refine Financing offerings.
g. Agreement to examine the lowest cost options for financing
h. Suggestion of need to better educate the marketplace/contractors
i. Need to understand the constraints faced by contractors in acquisition and delivery of EE measures
j. Staff recommendation to bring in one or two contractors to share insights, initially opposed by some utilities who were concerned about using contractors' time wisely.
k. Presentation by Scott Maslansky of CDFA concerning EE activities and lending mechanism.
l. Recommendation to further strengthen mutual activities and leverage respective funding sources
m. Utilities to coordinate with some residential and business contractors to participate in next meeting
n. Utilities want to better understand any programs offered with no rebates and facing quick loan approval
o. In trying to clarify use of the term 'rebates' one utility offered the following explanation. The Utilities would be concerned about potential reductions in project rebates as such changes may negatively impact the ability to meet goals. The utilities do not have this concern with regard to the interest rate buy-downs. We would be amenable to lowering interest rate buy-down amounts, if there were an agreement with lenders to reduce the full-cost interest rates or a determination that rates higher than 2% would be an attractive offering to customers.
p. Establishment of an Energy Audit Fund to partially offset the cost of energy audits for C&I customers as an additional marketing tool and incentive.

Topics covered in April 18th meeting

Finance

a. Utilities coordinated contractor presentations on strengths /weaknesses of current customer acquisition and financing process. Contractors included the following:

Bill Newell, Owner, Newell & Crathern (Residential)
Tori Martin, Client Services Manager, Yankee Thermal Imaging (Residential)
Meghan Hoye, President, LighTec (C&I);
Keith McBrien, Energy Efficient Investments, Inc.(C&I, Performance Contractor)

b. Staff coordinated presentation of the Commons Energy Model. Rebecca Foster from Commons Energy was present at the meeting, with Peter Adamczyk participating by phone.

Topics postponed till later meeting:

c. Resumption of discussion concerning the goals for financing and funding within the EERS
d. Discussion of the utilities approach in examining how can we better address the needs of those on moderate income and small C&I (Utilities to provide an update and are planning a presentati on for the May meeting)

Funding

e. Continuation of discussion of past efforts in Massachusetts /elsewhere to identify and partner with foundations (if time available)

Discussion and recommendations arising from April 18th meeting

a. Staff explained that it needed to better to understand the whole sales process beginning from the contractors in order to understand how effectively finance supported program measure adoption,
b. Contractors expressed the following views:
    - Financing option not applied often, customers do not want a loan, issue of credit worthiness
    - Rebates helpful, especially in comparison with Mass ratepayers. Rebates sell the work.
    - Need to better explain EE measures and programs especially on the residential side.
    - Younger home owners in old home are facing very high energy bills and urgently need EE measures, but costs of audit may be a challenge
    - For CAP agencies, audits can be burdensome since must meet strict DOE criteria
    - On bill financing could be more effective.
    - More ubiquitous on bill financing may encourage more comprehensive projects rather than piecemeal interventions.
    - There needs to be an on bill financing program for gas projects.
    - There may be a case for better market segmentation and more targeted and creative financing options. Consider blending rebates and on bill financing with other non EE finance for a comprehensive solution where some of the measures do not pass the cost benefit test.
    - Perhaps there is a need for a better analysis of the C & I segment.
    - For one utility the prequalification process can be as short as 15 minutes, for others longer. Raises the question of shorter approval and higher risk, or slower approval and lower risk.
    - More market outreach required. Marketing efforts should be better coordinated amongst utilities.
    - Would be helpful to have a financing package for multiple measures.

Commons Energy

c. Commons Energy operates in four market segments: Health care, municipalities, affordable multi-family housing and education.
d. As an ESCO they provide a broad range of energy solutions including design and implementation of energy projects, monitoring and verification of savings and guarantee of savings. Then ESCO assumes the risk as a means to overcome barriers to making energy savings investments.
e. Target customers with at least $50K in annual utility bills, analyze bills to understand savings opportunities, provide free opportunity assessment, complete an investment grade audit with limited risk to client, develop implementation plan and financing package as needed. Oversee equipment installation and commissioning, measure and verify performance; guarantee the savings.
f. Collaborate with Efficiency programs where possible, seek projects which combine deep energy savings and positive cash flow for customers without large capital reserves.
g. Customers are acquired via long established relationships with national Housing Trust, Champlain Housing Trust, Housing Vermont.
h. Utilize 'patient ' capital sourced from trusts and foundations including MacArthur Foundation, Kresge Foundation, National Housing Trust.
i. Challenge to partner with foundations, need to propose 'conforming ' transactions plus demonstrate evidence that savings will be realized.
j. Work with multiple financing sources in order to diversify their financial portfolio.
k. They are not a bank but work with approved financial partners, i.e. rates for affordable housing at 4.0% to 5.25%, with fixed rate financing.
l. Have a model plan for developing a public ESCO like theirs.

Proposed Agenda May 23, 2018

a. Presentation by Utilities of proposed approach to how we can better serve the needs of those on moderate income and small C & I
b. Presentation by utilities on past efforts in Massachusetts to identify and partner with foundations
c. In light of the rapidly approaching June preliminary deadline for proposing modifications to the 2019 plan, Staff have summarized a number of the takeaways from the previous discussion and have prepared a series of questions directed primarily at the utility program administrators in an effort to see if we can reach agreement and closure on a number of these items. Please be prepared to offer your own recommendations.
See below:

<u>Conclusions and action items from WG meetings so far:</u>

(a)Better market understanding and customer segmentation

The upcoming EM & V market assessment study and HPwES process evaluation studies will provide more detail about customer segmentation and customer demand for products and services.

(**b) How to reach moderate income and small C & I customers more effectively in 2019.**

We already know that moderate income residential and small C&I customers are currently underrepresented; what can the utilities propose now for the 2019 program to help meet their needs?

We understand that they may be asset rich but cash poor and thus with limited liquidity as a stumbling block.

What offering are the utilities currently working on to address this concern?

(c) Is there a need to broaden the portfolio of partnering institutions in 2019?

Currently there are a limited number of financing partners, and one has dropped out of the EE program in part due to low volume.

How would the utilities propose to augment the loss?

Do the utilities agree that we need to attract more financial partners to the process? If so,how?

(d) How do the utilities see a way to intensify collaboration with in state funding institutions such as the CDFA in 2019?

How would we strengthen mutual activities and leverage respective funding sources?

Would the establishment of a loan loss reserve encourage greater EE finance program acceptance?

(e) Do the utilities see benefit from collaboration with entities such as Commons Energy in the forthcoming future? If so, how might that take place?

(f)Do the utilities believe that there a case for reducing the level of buy downs and devoting more $'s to funding more projects in 2019?

What are the utilities doing in reviewing the current buy down strategy and gaining greater flexibility in either decreasing or increasing buy downs relative to income, for 2019?

(g) Do the utilities believe that there may be a case for the creation of a loan loss reserve and if so, how?

(h) Do the utilities believe that the contractors need further education and guidance on the programs and measures that they support so that they can sell more comprehensive solutions? If so what additional efforts can be taken in 2019 to address this need?

(I) If it is true that a number of customers avoid financing due to concern about their credit rating disqualifying access, is there anything that the utilities can propose to address this concern in 2019?

(j) In light of the absence of on bill finance arrangements for gas projects, what can the utilities propose for 2019 to address this concern?

(k) Do the utilities believe that there is a case for expanding EE via the ESCO model? If so what can be proposed to achieve this objective?

(l) Do the utilities believe that there is a compelling case to propose an integrated services model enabling multiple activities to be offered under a single shingle?

(m) Do the utilities believe that a faster customer acquisition process and associated finance is desirable?

(n) In light of the success of other organizations in harnessing foundation funds in support of EE, do the utilities believe that more effort needs to be devoted to this issue so that each ratepayer dollar can be leveraged more effectively?

In view of widespread stakeholder support, how best can we initiate and progress this goal in 2019?

(o) Do the utilities believe that there should be greater flexibility in the allocation of ratepayer funds between different classes of customers? Would this increase the take up rate for EE programs overall.

(p)Do the utilities believe that intensified customer education is necessary and how would they propose to effect it in 2019.

(q) What kind of benchmarks would the utilities propose to track performance with financing programs?

(r) Utilities have indicated that some programs run short of funds early. What recommendations can the utilities propose to alleviate this shortage in 2019?