

# ON-BILL REPAYMENT

Lessons, Goals and a Michigan  
Context

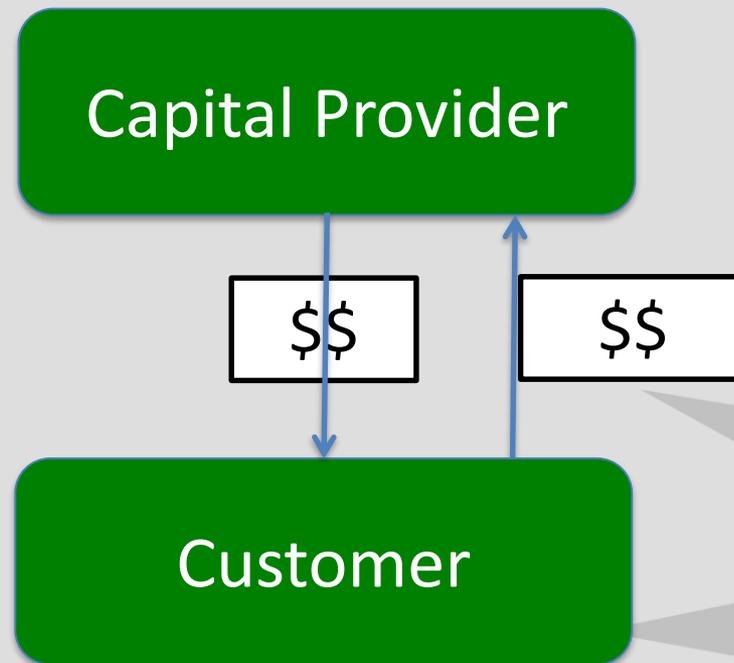


**Harcourt Brown & Carey**

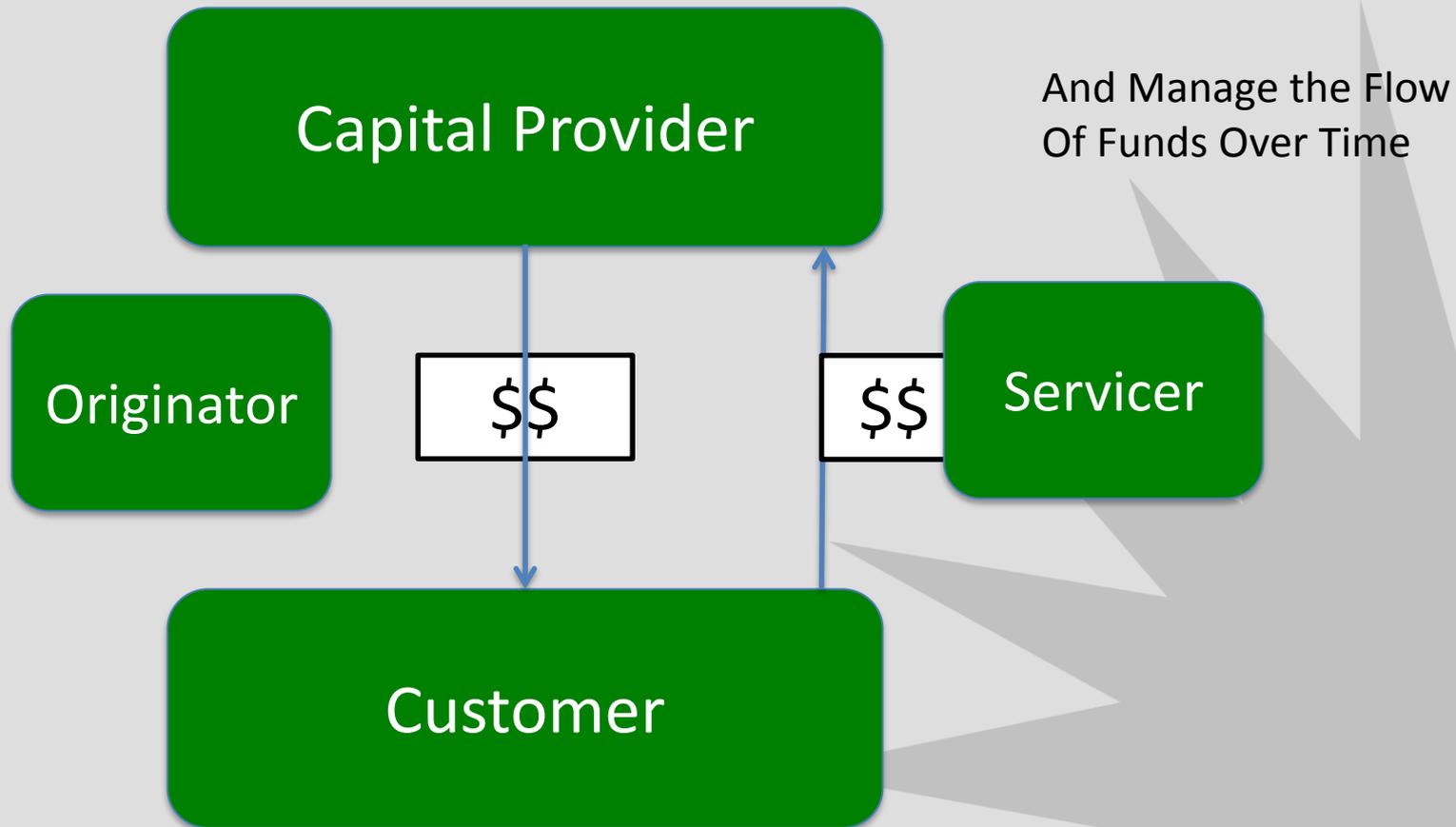
ENERGY & FINANCE

# FINANCE: A Means to Get Money from a Capital Provider

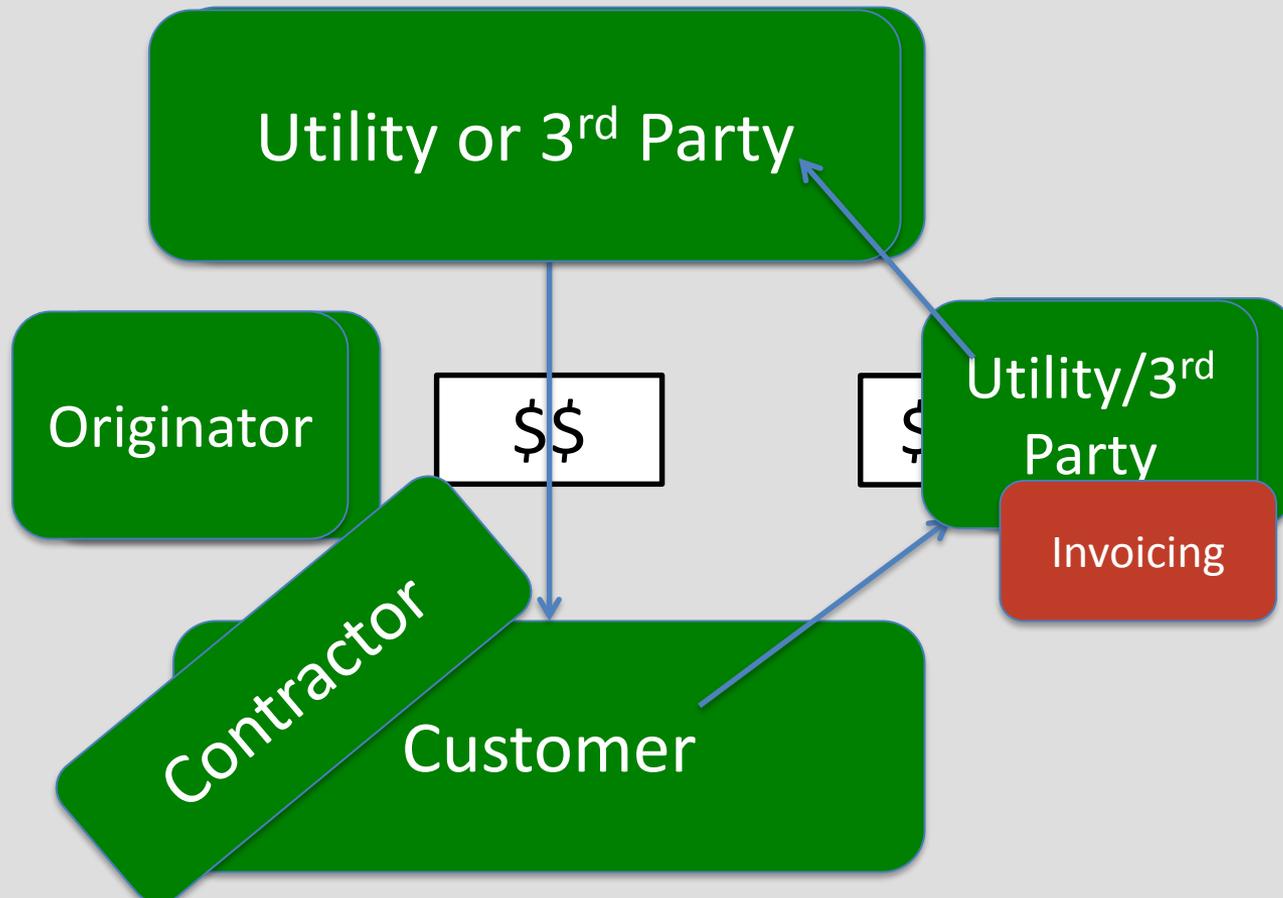
To a Customer – and Back from the Customer Over Time



# And Someone Needs to Review Credit and Create the Financing Agreement



# Utility On-Bill Programs



# What Makes for Success in EE Financing?

- Measures of success depends on program goals. Goals for Michigan might include:
  - *Highest possible uptake*
    - Implies a focus on emergency change-out of equipment, HVAC
    - Implies that speed and simplicity are always crucial
  - *Deepest possible energy retrofits*
    - Means detailed level of study of each building
    - Focus is not so much on speed, but on understanding of interaction among different equipment (lighting, HVAC, insulation) ideal sizing of equipment, robust data collection
    - Typical expectation of positive cash flow
    - Simplicity is still important
  - *Strong penetration in to low-moderate income markets*
    - Program focus is on customizing programs to low income markets, often combining with other low income support programs
    - Strong focus on positive cash flow = longer terms become important
    - Simplicity still critical

# What About the Michigan EE Finance Market?

- Michigan's EE Finance Market Has Michigan Saves....Why Bring in anything else?
- Michigan Saves set out early on with a clear goal of achieving:
  - *Highest possible uptake* AND has achieved success through a focus on emergency change-out of equipment, HVAC.
    - Speed and simplicity are hallmarks of the Michigan Saves approach.
- But Michigan Saves does leave gaps in the market:
  - Low-moderate income customers sometimes do not pass typical credit review. (esp. debt-to-income qualification)
  - Terms are limited to 10 years, meaning some deeper retrofits do not provide positive cash flow.
  - Homeowners expecting to move soon, or tenants may be unwilling to take on long-term payment obligations.



# Key Steps in Program Design

- Identify the Gaps: What does Michigan Saves do well? What does it miss?
- Understand Your Resources: Use the resources you already have (capital, contractors, Michigan Saves, utility programs)
- Define Goals: And design everything else around those goals.



# Possible Goal: Provide for Deeper Retrofits & Serve Low-Moderate Income Population

- Decision Points Include:
  - Capital Source(s).
    - Capital Source must be comfortable with:
      - 15 year terms (10 is usual max)
      - Use of alternative underwriting in some way
      - Potential for transfer of payment obligation from current to successor occupants
    - Will the program be “open source” and make many capital sources eligible to participate, or closed, with only a limited and tightly controlled number of capital providers?



# Decision Points (con't)

- Key Program Metrics (how will the program be measured for success in 1,5, 10 years)
  - Energy saved?
  - Loan volume
  - Size of projects vs. typical
  - Penetration in to low-moderate income markets?



# Decision Points (con't)

- Critical Design Requirements
  - What triggers disconnection for failure to pay? Does disconnection follow the same rules as existing disconnection policy for energy bill payment?
  - Assuming 3<sup>rd</sup> party capital is used, how will customer partial payments be addressed? Is the utility always paid first, then the capital provider? Or vice versa?
  - How quickly can funds pass through the on-bill “machine”...from customer to utility to lender?
  - What do you do in the event of a disruption in the payment flow (delayed bill, returned check).
  - Data collection: What data will be collected? Who will collect this data? Who will present it to whom (the public, regulators etc.)



# Decision Points (con't)

- State-wide Consistency
  - Will all measures that qualify be the same from one utility to another (a statewide and consistent list) or will they vary? If they vary, will they vary from one utility to another or in some other way?
  - Will all forms used for the program be consistent statewide? What forms & releases will be required?
    - Authorization to place charge on the bill? Who signs?
    - Information releases from customer.

# Decision Points (con't)

- Administration
  - Will the program provide for a centralized administration function? If so, what elements will be centralized?
    - Project qualification
    - Contractor management
    - Loan origination
    - Loan servicing
    - Funding or development of a capital pool
    - Interface between the program and a capital source
  - What variation will be allowed from one utility, or type of utility, to another?
  - In a case of shared utility service territory, whose bill will the charge be placed on?

# Decision Points (con't)

- Enhancements
  - What role might Michigan Saves and its loss reserve play in providing credit enhancement to some or all financing?
  - What role will utilities, individually or collectively, be willing to play in providing credit or other program support? How much variation will be allowed among utility participants?
  - Are there roles that other participants (eg. State of Michigan) in supporting the program.

# Some High Level Lessons & Conclusions

- Success comes from focus on a goal, while maintaining as much simplicity as possible.
  - Balance the audit (and other program) requirements with the need for speed and simplicity.
  - Remember that the contractor needs to be engaged in the process, and must remain the lead in the customer interaction.
  - Keep approval and other program elements as fast as possible.
  - Reduce uncertainty about whether customers or projects qualify as much as possible.
  - Keep statewide consistency as much as possible, to reduce lender, contractor and customer confusion.
  - Remember any consumer finance transaction is a small-dollar transaction; keep transaction costs, learning curves to a minimum