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Low-Income Multifamily Pilot Program

April 16, 2013

Agenda



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- Why Multifamily?
- Multifamily Pilot Overview
- Pilot Plan
- Pilot Progress to Date
- Next Steps



Why Multifamily?



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Interest

- Large untapped energy efficiency resource in building structures
- Economy of scale improves cost effectiveness
- Building owners often own multiple sites and could potentially keep the momentum going

Barriers

- Misalignment of utility incentives for tenant versus landlord
 - Who pays the utility bill?
 - Who gets the incentive?
 - What is the impact on rent for the tenant?
- Long timeline and complex nature of large projects with multiple contractors and interactions with tenants
- Sources of affordable capital
 - How does owner make the investment?
 - How does owner recover the investment?
- Confidentiality of utility data

Traditional Multifamily Program

- Because of the identified barriers, traditional programs are limited to low cost Residential measures and common area lighting measures

Multifamily Pilot Overview



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Term

- December 2012 - June 2013

Objective

- Develop a process and financial mechanism to overcome barriers in order to install full weatherization in income qualified multifamily properties

Description

- Gather experienced stakeholders and create a weatherization work management process to streamline effective implementation of weatherization measures that can be replicated over multiple income qualified multifamily projects
- Design an effective utility incentive structure
- Identify sources of readily available financial products and green funds
- Gauge owner's sensitivity to a mix of financial options
- Develop prerequisite conditions for properties to be considered in the pilot that minimize data confidentiality issues and provide higher economic value to owner
- Field test owner's implementation of weatherization measures and refine process as necessary

Multifamily Pilot Overview, Continued



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Benefits

Tenants

- Improvements in thermal comfort and internal air quality
- Realized energy savings reduces future impact of increases in utility bill contribution in rent formula or paid directly by tenant

Property Owner

- Implement otherwise unaffordable building enhancements
- Enhance building reputation
- Save money from electric and/or gas energy savings

Utility

- Multi-measure energy savings credits

Multifamily Pilot Overview, Continued



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Different stakeholders help to provide improvements in process and financial barriers

- Program Implementation Contractor
 - CLEAResult
 - CLEAResult designs and manages energy optimization programs for utilities across the country as well as in Michigan
- Potential Lenders, Grants and Approvers
 - National Housing Trust (NHT)
 - NHT provides financings tools to help encourage property owners to install the energy-saving measures needed on their properties
 - Great Lakes Cap Fund
 - Great Lakes is a nonprofit company based in Lansing, MI, providing services in multiple states across the Midwest and East. They also own multifamily properties.
 - Michigan State Housing Development Authority (MSHDA)
 - MSHDA is a quasi-governmental agency based in Lansing, MI, who oversees low income property development and other housing-related initiatives for the State of Michigan.
- Qualified Property Owners and Property Management Company
- Trade Ally
 - Audit and Weatherization Services

Pilot Plan



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- Identify property from a list of previously assessed multifamily buildings meeting prerequisites below
 - Designated as an income qualified property served by DTE Energy Gas
 - Comprehensive amount of multi-measure weatherization opportunities
 - ROI Target ≤ 8 years
 - Property manager/owner pays the overwhelming majority of the utility bills (gas, electric, water) and usage is commercially metered
 - Availability of replacement reserves or some other form of cash from the owner
 - Owner willing to assign portion of energy cost savings to tenant
- Identify Project Scope
 - Select measures from comprehensive energy assessment
 - Obtain general contractor cost estimates



Pilot Plan, Continued



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- Assemble Finance Package and Terms
 - Custom utility rebate
 - Lender(s) and other funding sources
 - Owner investment
 - Utility bill savings
- Decision to Move Forward
 - Utility
 - Lender
 - Owner
 - Includes landlord signature affirming intent to assign portion of energy cost savings benefit to tenant
- Project Implementation
 - Quality and control
 - Verified energy savings
 - Payments

Progress To Date



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- Discussions with HUD lenders are fruitful
- Typical funding formula:

Percent of Cost	Paid By
20-25%	DTE Energy Incentive
20-25%	Owner/Replacement Reserve Fund (MSHDA Approval)
50-60%	Loan backed by GLCF/NHT Loan Loss Reserve (“guarantee”)

- Discussed Pilot with 25-30 properties to date
- Pilot interest is high but current participation is low
 - Properties have very long decision and funding cycle
 - Proving to be too long for this short Pilot timeframe
- Full weatherization began on one multifamily site on April 8th with expected completion in 8 weeks
 - Strong economic justification with utility incentive, replacement reserves, and energy cost savings
 - Owner decided not to finance
 - Work management process performing well
 - Confidentiality issue minimized because gas use is centrally metered and landlord pays the bill

Next Steps



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- Continue research for available financial tools
- Longer Term Issues:
 - Utility Allowance adjustments in Property's annual budgets
 - Incentives to “buy down” interest rate on loans mentioned above
 - Utility Program “rules” – Confidentiality of residential data
 - Long term utility rebate to assure incentives will be there during long decision-making and implementation process
- Continue identifying properties that are candidates for long life weatherization
- If parties are interested, coordinate a meeting with DTE Energy, Consumers Energy and MPSC to discuss incentive split and other “program rules” issues
- Document all findings in Pilot by end of June 2013

For More Information



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See the Multifamily Report:

<http://www.aceee.org/research-report/e137>

