Roadmap for Implementing
Michigan's New Energy Policy

On-bill Program Goals

Increase the number of participating customers making energy and/or water improvements by:

- Maximizing the long-term reduction in energy and/or water use/demand per household
- Expanding access to financing for individuals who may not qualify for financial products currently in the marketplace
- Making energy and/or water improvements more affordable for customers

Guiding Principles for Program Design

The following guiding principles were used to evaluate the importance and efficacy of different program design elements:

- Provide uniformity and simplicity in processes
- Address gaps in coverage with existing available financing programs
- Is viable for capital providers
- Ensure reasonable participation costs for utility participants
- Leverage existing statewide resources
- Allow program goals to be met

On-Bill Program Design Elements

Key program design elements, and the reasons for including a specific design element in an on-bill program that is consistent statewide, are described in the tables below. These design elements reflect an initial model proposal for an on-bill program. Stakeholder feedback and discussion is necessary to further refine these design elements to ensure that an on-bill program meets the needs of the program partners.

Prior to the May 19, 2017, stakeholder meeting, the program design elements were compiled into three areas based on the level of decision making needed by the workgroup. One table listed the design elements that are either mandated by statute or may have required little or no discussion from the workgroup. Another table described the design elements that may have required some discussion from the work group to reach consensus. The final table identified the design elements that required discussion and consensus building.

During the meeting, stakeholders participated in a facilitated discussion to reach consensus on the design elements. Because of the discussion, the tables have been adjusted to show the design elements that stakeholders agreed upon and the design elements that remain open for discussion.

Design Elements Agreed upon by Stakeholders		
Program Design Element	**Description**	**Discussion**
Eligible utilities	• Utilities regulated by the Michigan Public Service Commission (Public Act 342) • Municipal utilities (Public Act 408) • Rural electric cooperative utilities	• Municipal utility and regulated utilities can participate per statute • Rural electric cooperatives are not governed by either statute, but have organizational characteristics that are conducive to an on-bill program
Home energy audit and diagnostic testing	• PA 408 requires compliance with American National Standards Institute home energy audit standards • PA 342 requires compliance with American National Standards Institute home energy audit standards ○ Statute allows eligible regulated utilities to propose alternative home energy audit standard, if desired	• Required by statute for municipal utilities • Supports maximization of long-term reduction in energy/water use • Subject to discussions with regulated utilities, as some may want to propose an alternative home energy audit standard
Loan type	• Unsecured loan • Multiple loans per customer allowed if total amount financed does not exceed maximum allowable loan amount	• Eases administrative duties • Supports maximization of long-term reduction in energy/water use
Interest rates	• Interest rate to be no greater than adjusted prime rate plus 4 percent	• If capital provider is a nonprofit corporation, then the interest rate cap is mandated by statute • Support making energy/water improvements more affordable • Subject to discussions with the capital provider
Loan term	• Maximum loan term is 180 months (15 years), not to exceed the useful life of the installed measures	• Supports making energy/water improvements more affordable • Subject to discussion with the capital provider
Capital provider	• Single capital provider	• Ease of administration • Subject to discussion with capital provider. Several capital providers may be required to satisfy some program design elements and to allow on-bill program to reach scale

Originator	• Capital provider to accept loan application and originate loan	• When capital provider accepts loan applications and originates loans, it is less costly and requires less data coordination with utility participants and loan servicer(s) • Subject to discussion with capital provider. If capital provider cannot originate loans, then an alternative structure with third-party originator will be explored • If several capital providers are required, a single originator would be preferred to reduce administrative burden and simplify contractor and customer use
Servicer	• Capital provider to service the loans	• If capital provider services loans, it is less costly and requires less data coordination with utility participants • Subject to discussion with capital provider. If capital provider cannot service loans, then an alternative structure with a third-party loan servicer will be explored • If several capital providers are required, a single servicer would be preferred to reduce administrative burden and simplify contractor and customer use
Underwriting criteria	• Twelve months of consecutive, on-time utility bill payment history • Any bankruptcies, foreclosures, or repossessions (greater than $1,000) must have been discharged at least 12 months prior to loan application • No outstanding tax liens • No outstanding collections (greater than $1,000)	• Supports expanding access to financing • Expands or tightens customer access by adjusting required number of consecutive months or by allowing delinquent payments • Credit bureau data collected for future data review (FICO score not used in credit review) • “On-time” defined by stakeholders as “payments without late fees” • Subject to discussion with capital providers
Credit enhancement	• Potentially offer a loan loss or debt service reserve	• Capital providers may not offer a loan with a 15-year term and alternative underwriting without a credit enhancement • Support making energy/water improvements more affordable and expanding access • Subject to discussions with capital provider and, if required, determine source of funding for loan loss reserve or debt service reserve

Billing cycle	• Each participating utility will be encouraged to move on-bill customers to a consistent billing cycle, within the utility, to simplify loan servicing • Subject to each utility's ability to implement	• Eases administrative tasks for utility, capital provider, and loan servicer (if different from the capital provider)
Transferability	• Notice of loan filed with county register of deeds so that obligation to pay the loan installment charge stays with the property and is binding to future customers contracting for utility service at the property	• Supports maximization of long-term reduction in energy/water use • Supports expanding access to financing • Includes a disclosure statement where the buyer would inform the seller of what items were included in the loan obligation
Statewide program administrator	• Assists utility and capital providers with development and management of the on-bill program per the Residential Energy Project Program Plan • Provides quality assurance • Manages contractor network • Partners with utilities to market and drive demand for the program • Measures and reports program performance to program partners	• Ease of administration for program participants • Provides uniformity and continuity among participating utilities and contractors • Ensures a consistent application of program procedures
Quality assurance	• Documentation review for every project • On-site inspections or phone calls to customers at a rate of 20 percent for each participating contractor's first ten projects. After ten projects, 5 percent of the contractor's projects will be inspected. • Remedial action process to correct mistakes and provide for continuous program improvement	• Essential to ensuring customer satisfaction, verifying compliance with statutory requirements and program procedures, and providing for continuous program improvement • Provides an opportunity to review workmanship of participating contractors • Consistent quality assurance protocols could support cost savings and continuity with other financing programs and provide contractors with administrative consistency

Design Elements That Still Need to Be Determined		
Program Design Element	**Description**	**Discussion**

Eligible properties	• Single-family homes (one to four units) within the utility's service territory
	  ○ Rental properties permitted
	    ▪ If tenant pays utility bill, property owner must authorize work and renter must sign agreement to accept loan payment
		• Legislation explicitly supports residential properties
		• Commercial properties may be considered in the future
		• On-bill programs are potentially a more effective approach to serving rental market, which is difficult to serve through traditional financing programs
		• Stakeholder group requested scan of other programs to determine how to address rental properties

Minimum/maximum loan amounts	• Minimum loan amount: $1,000 • Maximum loan amount: $30,000	• Raising minimum loan amount optimizes long-term reduction in energy/water use, because it encourages comprehensive, multi-measure projects • Lower minimum loan amount may expand access for lower-income customers to make efficiency improvements • Stakeholder group requested scan of other programs and/or a pilot program to address question of whether minimum loan amount should be raised to $3,000 or $5,000 to encourage more comprehensive work to support goal of maximizing energy savings

Eligible improvements	• Homeowners could finance any of the following improvements through the on-bill program:
	  ○ Appliances (clothes dryers, dishwashers, refrigerators)
	  ○ Building envelope improvements (air sealing, automated control systems, doors, energy recovery systems, insulation, roofing, windows)
	  ○ Heating, ventilation, and air conditioning systems (air conditioning, boilers, furnaces, geothermal systems, heat pumps, water heaters)
	  ○ Lighting (day lighting, LED lighting)
	  ○ Other measures (electric vehicle charging stations)
	  ○ Renewable energy improvements (solar PV, solar thermal)
		• A single measure "a la carte" approach does not maximize energy savings; a comprehensive, multi-measure approach would support the goal of maximizing the long-term energy/water use per household
		• Allows customers to address many efficiency and comfort issues in their homes
		• Allows property owner to finance building improvements that might otherwise prevent energy efficiency work
		• Stakeholder group requested scan of other programs and/or a pilot program to determine

	○ Measures that reduce water usage ○ Nonenergy building performance improvements (asbestos abatement, attic fans/ventilation, bath fans, building code upgrades, building envelope repairs, chimney liners, duct sealing/repair, electric upgrades, lead abatement, mold abatement) ○ Any measure approved as a utility cost-saving measure • Whenever possible, measures should carry the ENERGY STAR® label and have documented energy savings in the Michigan Energy Measures Database	best approach to encourage deeper, more comprehensive work to support goal of maximizing energy savings
Payment management	• Prepayments—customers who wish to make additional payments on the loan shall pay the loan servicer directly • Partial payments—when a customer does not pay the full billing amount (energy charges and loan installment charges), the loan servicer will apply the payment to the energy charges first • Delinquent payments—customers will be given a seven-day grace period, after the initial payment due date, before the payment is considered delinquent. Late fees will not be assessed on the loan installment charge. • Defaults—a loan is considered in default if three consecutive billing cycles pass without full payment toward the loan installment charge • Disconnection—PA 408 and PA 342 allow participating utilities to disconnect service for nonpayment of loan installment charge in the same manner as disconnection for failure to pay energy charges. Home heating assistance grants should not be applied towards loan payments, • Statewide uniformity will aid in ease of adoption and administration.	• Eases administrative tasks for utility, capital provider, and loan servicer (if different from capital provider) • Provides continuity to the loan servicer in program procedures between multiple utilities • The threat of utility disconnection for nonpayment is an effective deterrent of loan defaults • It is assumed a capital provider will agree to expanded underwriting criteria with this type of loan security • Supports expanding access to financing • Stakeholders agreed that prepayments should be made directly to loan servicer
Payments included for gas measures on electric bills or vice versa	• When a customer has different utility service providers for electricity and natural gas, the loan installment charge is placed on the utility bill that corresponds to the measures providing the majority of the energy savings (e.g., if the majority of savings are coming from electric measures, then the loan installment charge will be placed on the electric utility bill)	• Supports maximization of long-term reduction in energy/water use • Utility stakeholders suggested an administrative payment be provided to help defray the costs of providing payment collection services for another utility • Utility stakeholders suggested that a credit toward their energy waste reduction goals be provided if they are offering payment collection services for another utility