

Marketing and Implementing On-Bill Financing: Lessons Learned from Three Different Program Models



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The Cadmus Group, Inc.
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Overview

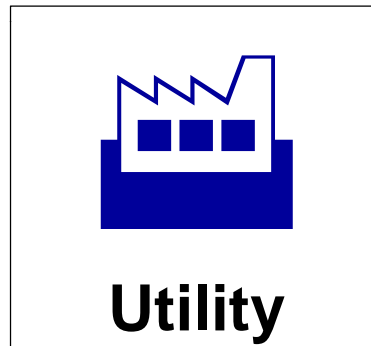
- What is OBF?
- Selected OBF programs
 - Statewide commercial/MF program in California
 - Statewide residential program in Illinois
 - Local residential/MF program via local water utility
- Lessons Learned
 - Startup considerations
 - Underwriting/capitalization
 - Financing and incentives
 - Customer motivations
 - Program contractors

What is OBF?

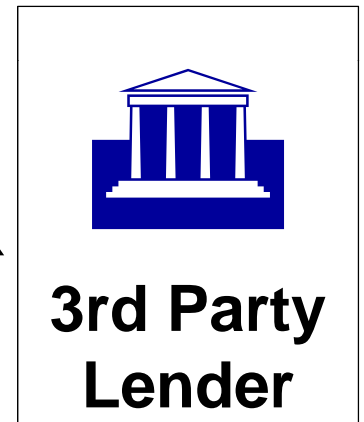
- Pay the cost of an energy or resource efficiency project over time, not upfront, via utility bill

- Capital Provider:

OBF



OBR




- Loan vs. Tariff: Loan associated w/ account holder, a tariff “runs with the meter” (PAYS)

California Non-Residential OBF

- Utility capital provider
- Bill neutral projects w/ incentives
- 0% interest



 A Sempra Energy utility®	ACCOUNT NUMBER 111 222 3333 4 SERVICE FOR OBF CUSTOMER 123 MAIN STREET LOS ANGELES, CA 90000-0000	DATE MAILED Dec 14, 2010 24 Hour Service 1-800-427-2000 English 1-800-427-6029 Español www.socalgas.com	page 1 of 2 H			
	Account Summary Previous Balance - Unpaid Amount Due Now \$1,837.22 Payment Received 12/06/10 THANK YOU - 1,837.22 Current Charges + 1,370.50 On-Bill Financing Program Loan Installment + 681.05 For detailed loan info call 800-GAS-2000 Total Amount Due \$2,051.55		<table border="1"> <tr> <td>DATE DUE</td> <td>Jan 4, 2011</td> </tr> <tr> <td>AMOUNT DUE</td> <td>\$2,051.55</td> </tr> </table>	DATE DUE	Jan 4, 2011	AMOUNT DUE
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Illinois Residential OBR

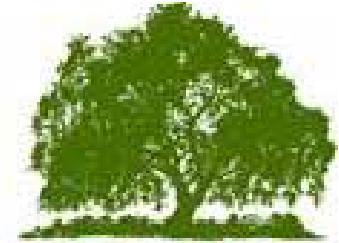
- 3rd party capital provider
- Bill neutral projects w/ incentives
- 4.99% interest



Illinois Energy Efficiency
Loan Program



Residential/Multifamily Pay-As-You-Save (PAYS)



WINDSOR
EFFICIENCY PAYS[®]

- California Water Utility
- Tariff, fuel blind, cash flow positive, PG&E incentives
- 7% effective interest



0.8 GPF
Stealth Toilet



Drought
Resistant
Landscaping

Startup Considerations

- Program managers spend more time on start-up than originally estimated
- Many ways to structure OBF
- Intersection of two heavily regulated industries

Utilities and Lenders

- Lending Laws: CA OBF = non-res



Startup Considerations

- Portable measures (PAYS clothes washers)
- Rate impacts
- Billing changes
- Enabling laws



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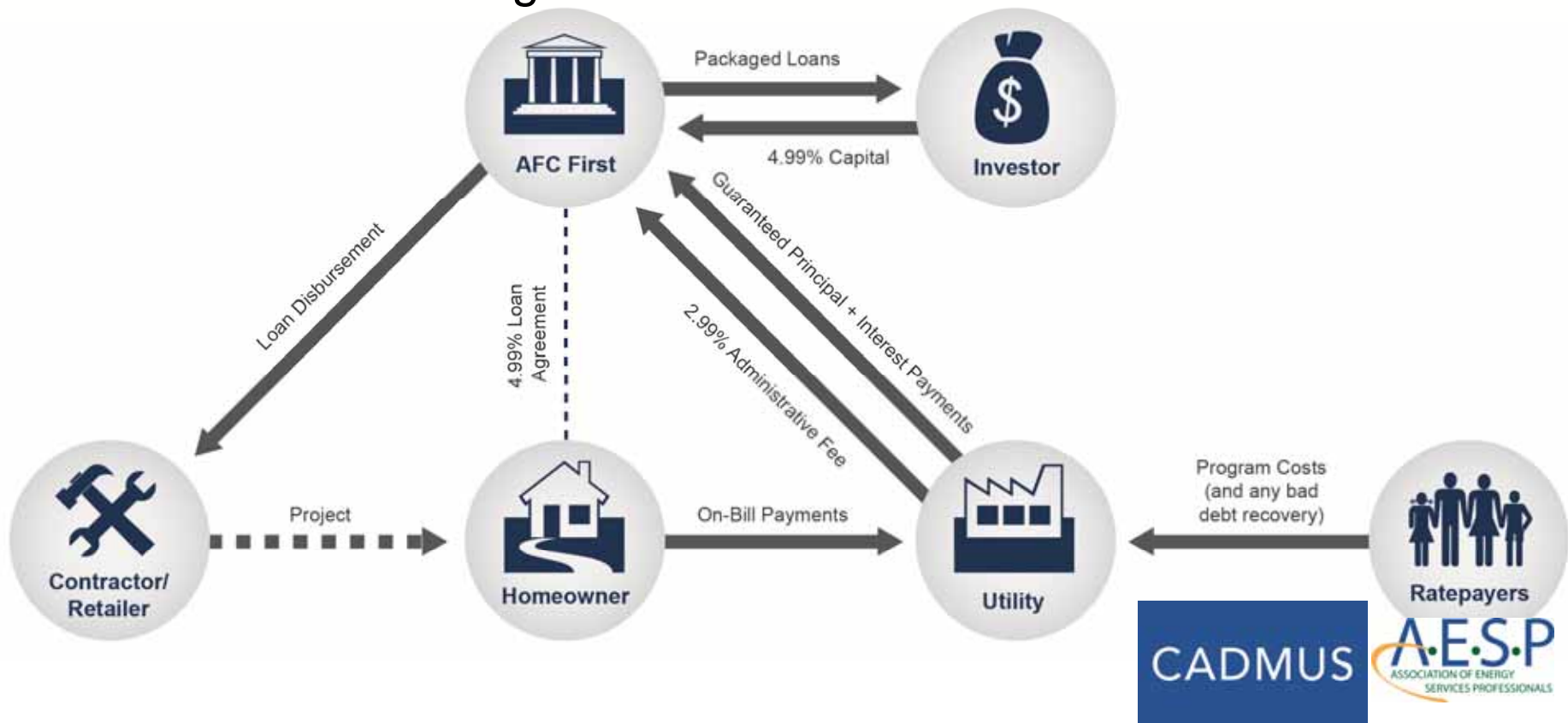
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Funding Sources

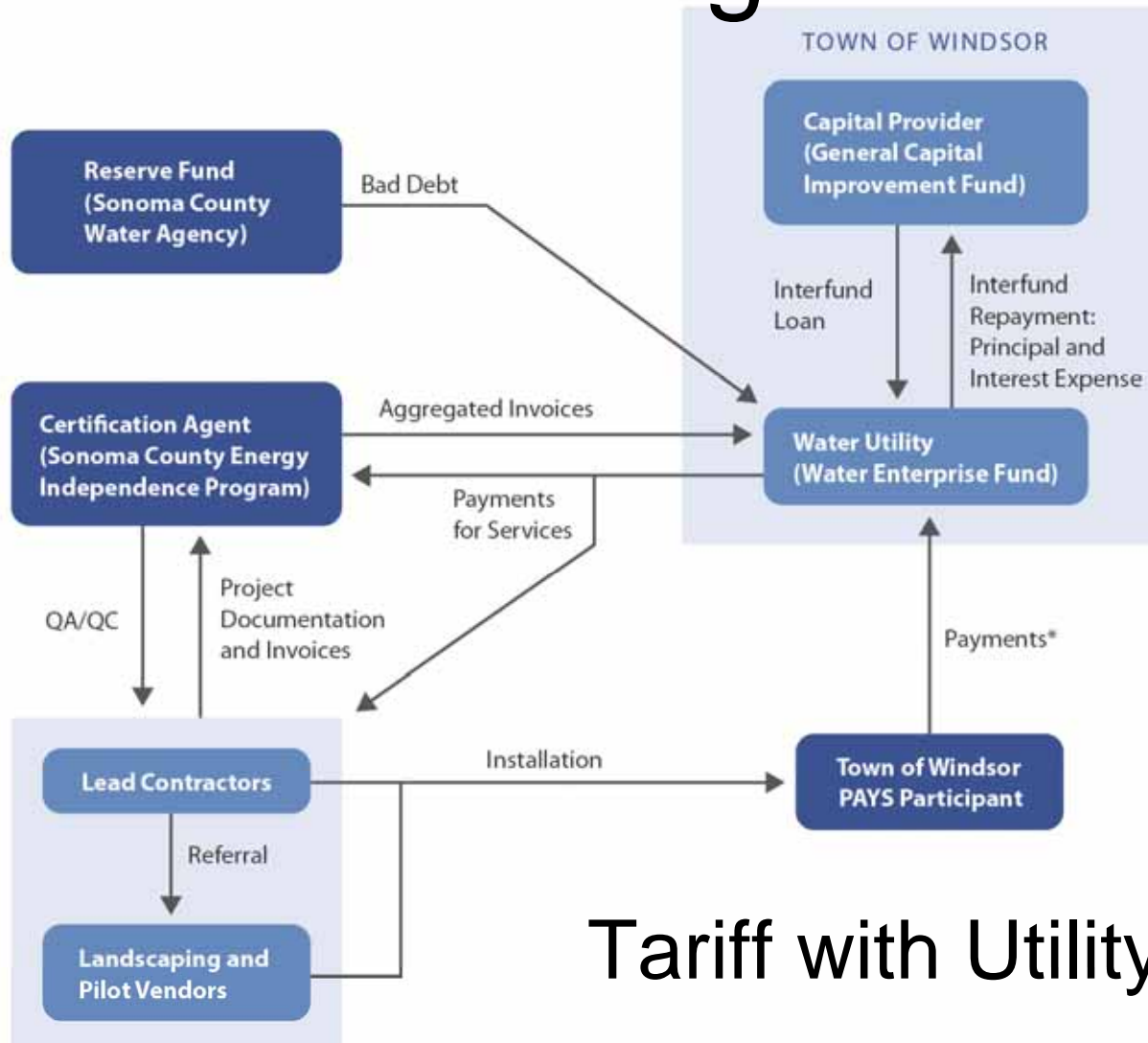
- OBF Ratepayer/Utility Funds
 - Lending laws dictate interest in CA
 - No leverage on volume
 - Limited loan pool
- OBR 3rd Party Capital
 - Leverage ratepayer funds
 - Ability to expand loan pool

Funding Sources

- OBR 3rd Party Capital
 - Parties do what they do best
 - Lenders lend
 - Utilities manage EE



Funding Sources



Tariff with Utility Funds

*Each Payment Covers the Following: Measure Charge, Certification Charge, and Program Activity Charge

Funding Sources

Tariff with Utility Funds

- Interfund loan
- Alternative investment option for general fund: short term muni yielding 0.5%
- Interest rate risk
- Built in mechanism offsets lost revenue

Project Eligibility and Incentives

- Financing programs often allow/require participation in incentive programs
- Incentives often needed for bill-neutrality, esp. more comprehensive or gas only projects



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Project Eligibility and Incentives

- Bill-neutrality/positive cash flow restrictions limit eligible measures
 - PAYS not offered to commercial customers due to technology limitations (0.8 gallon toilet)

Underwriting Practices

- General
 - Disconnection security
 - No collateral (utilities don't want to be banks!)
- Non-residential OBF
 - CA statewide, very few defaults to date (<1% over 6 years)
 - Underwriting based on utility repayment history
 - One IOU initially required commercial credit check, no longer requirement
 - Online customer eligibility check

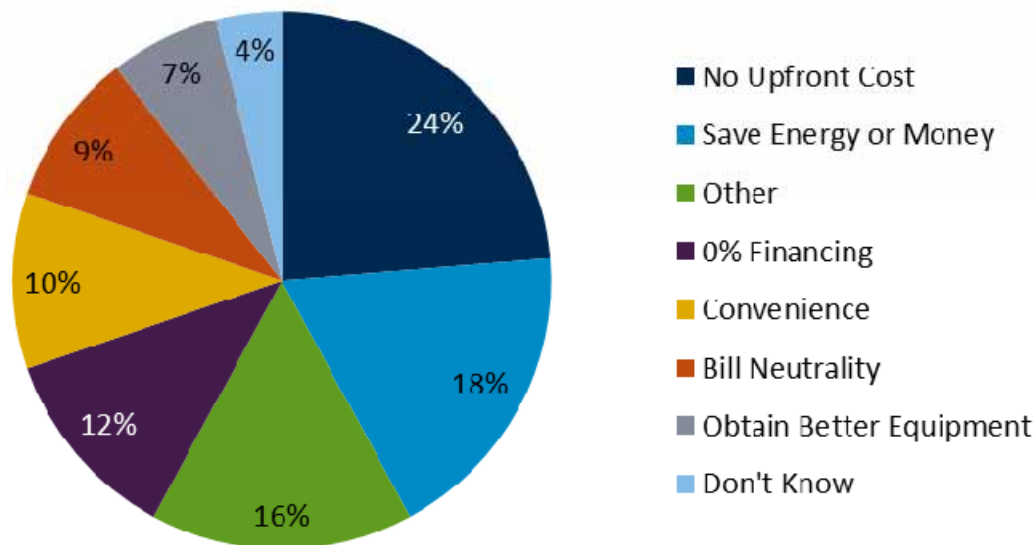


Underwriting Practices

- Residential OBF
 - No defaults to date in Illinois (it's still early, programs started launching in 2011)
 - Borrower credit history (FICO, DTI), utility account standing
 - Prequalification in one hour
- PAYS
 - Too early to tell if tariff gets paid off
 - No “borrower” = no underwriting

Why Customers Use OBF

- Non-Residential Customers (CA)
 - No upfront costs (most loan proceeds paid to vendor, customers don't handle money)
 - Makes financial sense (save money, attractive rate)
 - 77% of OBF participants would not have done EE project w/o OBF

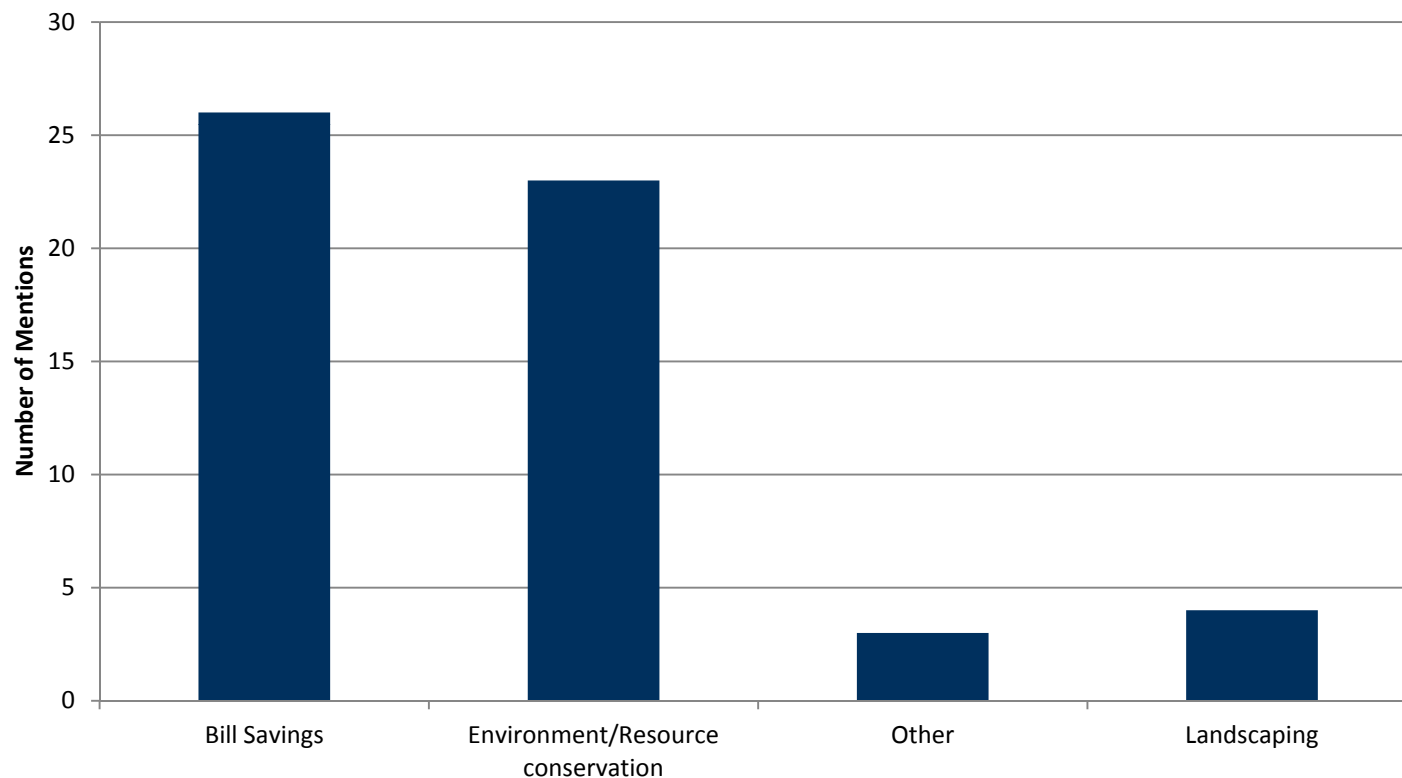


Cadmus Group, 2010-2012 OBF Process Evaluation

n = 76

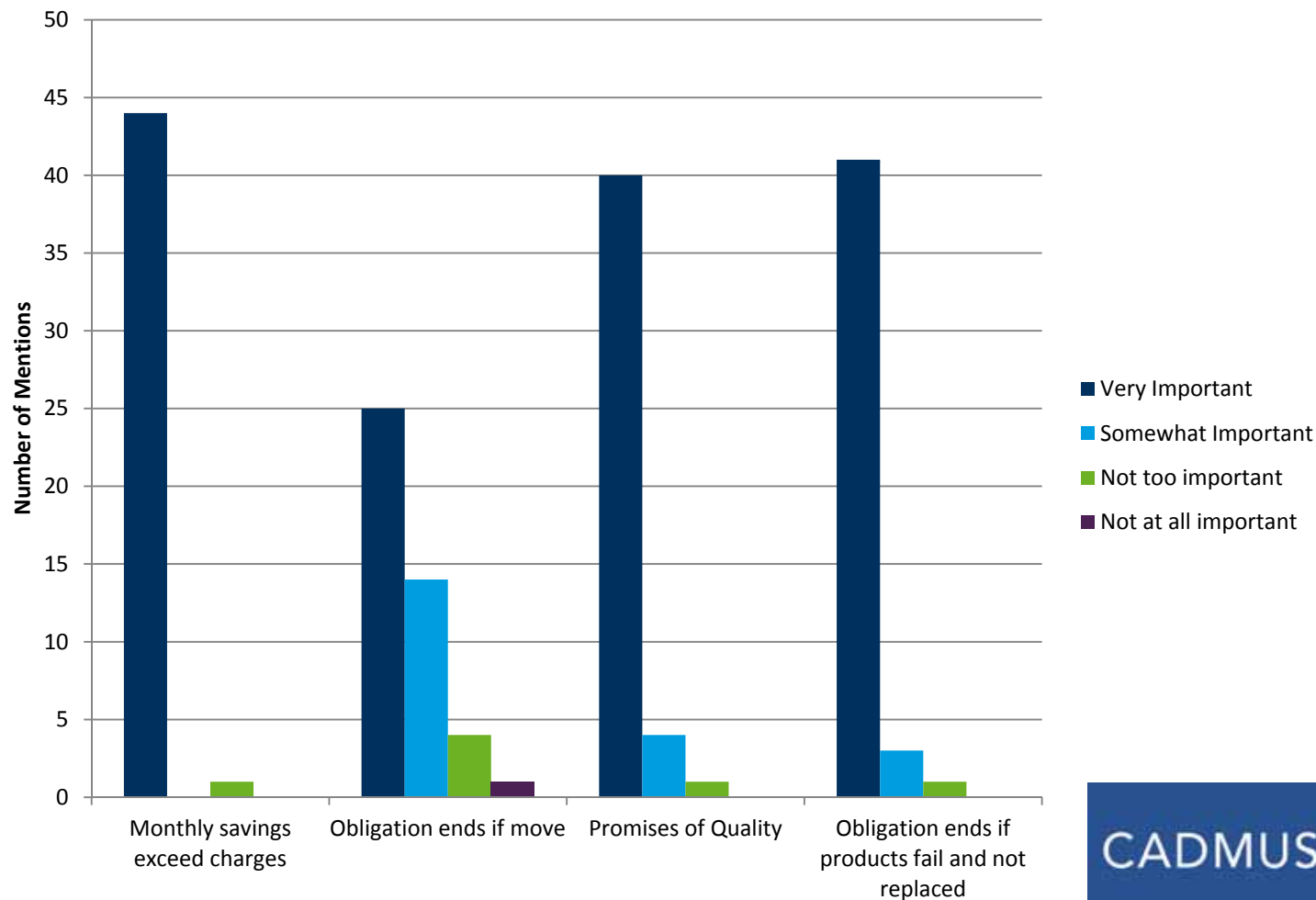
Why Customers Participate in PAYS

- Single Family Customers (N=47)



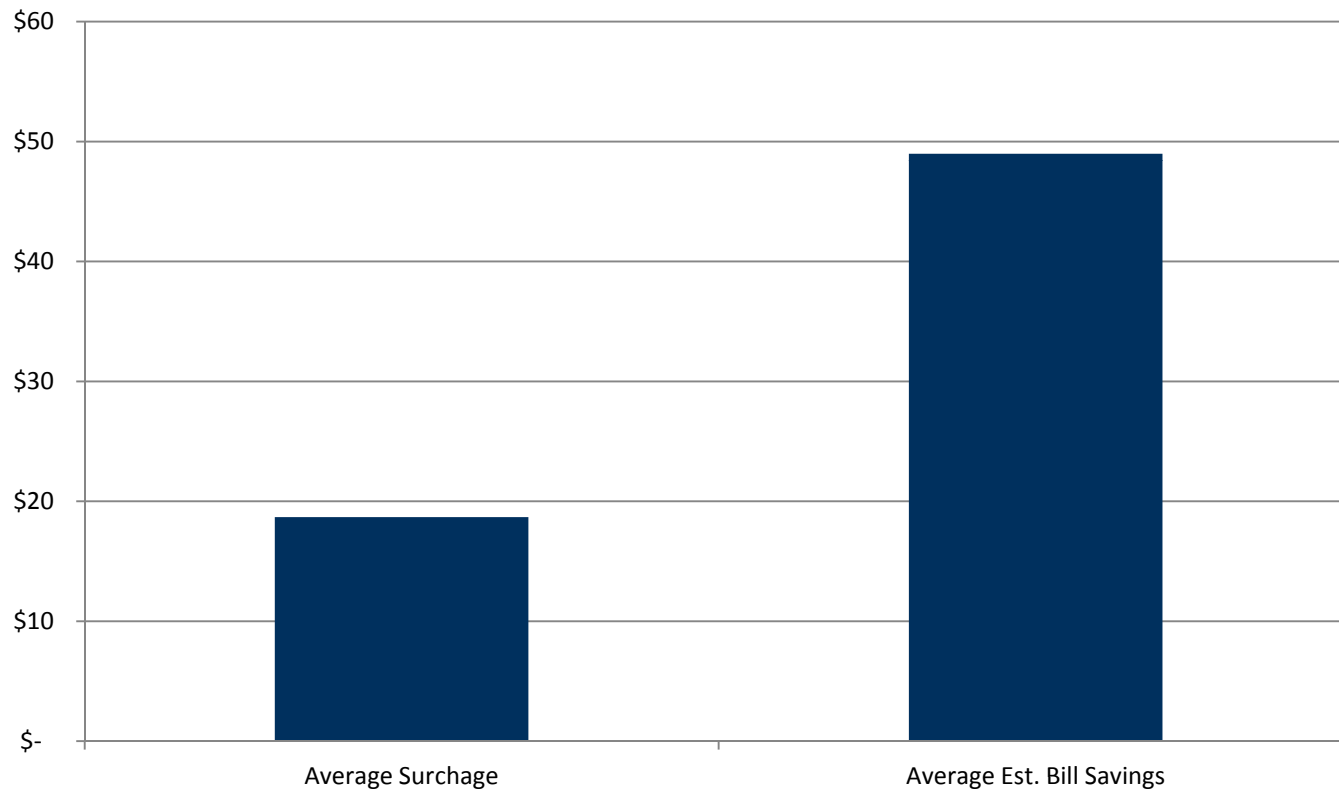
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PAYS Surcharge vs. Savings

- Single Family Customers (N=47)



Customer Outreach

- Integrate with incentive program (if separate)
- Responsive follow-up
- Business Customers
 - Contractors reach small customers
 - Utility account representatives for larger/institutional customers
- Residential Customers
 - Customers don't want to shop around for loans
 - Customers don't want to manage contractors
 - When programs partner with a contractor, ensure outreach responsibilities are clearly defined, support contractors' ability to conduct outreach

What Contractors Want

- To be paid quickly
- Simple forms (financing and incentives)
- Minimal changes once offering and application process are introduced
- Ability to resolve questions in 1 phone call
- Clear expectations

Working with Contractors

- They need training to
 - Set expectations
 - Successfully help customers
 - Make program administrators' lives easier
- Certification
 - Reward contractors doing quality work
 - Prevent fraud or abuse
- Get feedback on problems or competing financing solutions
 - Fixing problems early on prevents contractors from dropping out prematurely
 - Some contractors already offer 0%/low interest financing

Conclusions

- OBF/OBR is not for beginners
- Cost-effectiveness is TBD
- Loan performance is good, but still early
- Customers generally happy with services
- More measures and flexibility = more uptake
PAYS ~ 53 OBF ~ hundreds OBR ~ hundreds
- Integration with other programs is key

Thank You!

Questions?

Cadmus EE Finance Group

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