ON-BILL ENERGY EFFICIENCY FINANCE PROGRAMS

Frequently Asked Questions

Table of Contents

QUESTIONS FROM MEMBERS OF ELECTRIC COOPERATIVES **2**

How will this program benefit members of the cooperative? 2

What is the cost to members participating in the program? 2

Will all members be required to pay an extra fee on their electric bill? 2

Will the program require participating members to take on new debt? 2

Why is it the electric cooperative's responsibility to provide financing? 2

Doesn't our electric cooperative already offer energy efficiency programs? 3

How does this benefit the community and local economy? 3

QUESTIONS FROM ELECTRIC COOPERATIVES **3**

Why should we offer another energy efficiency program, when we already provide tools and support for our members? 3

How is this any different from federal weatherization assistance already offered? 3

Are other electric cooperatives offering this type of program? 4

How does an on-bill finance program benefit the cooperative? 4

What are the benefits for our members? Why do they need this program? 4

What is the cost to members? 4

Why would we want to take on a lender role? 4

How will the cooperative cover the cost of any defaults/losses? 5

How do members pay us back for our investment? 5

What happens if a member moves/wants to sell their house before the "loan" is paid off? 5

Can we shut off electricity for non-payment of the energy efficiency charge? 5

What are the administrative responsibilities? 6

How can electric cooperatives fund the program? 6

Is applying for new USDA loans for energy efficiency burdensome? 6

Questions from members of electric cooperatives

How will this program benefit members of the cooperative?

Members who participate in the program will benefit from both lower energy bills (electric and/or gas) as well as more comfortable homes. On average, existing programs in Kansas, eastern Kentucky and South Carolina have reduced energy consumption for participating members by 20-35%. While members pay back the cooperative for its investment in energy efficiency improvements, they will still see a net reduction in their energy bills of 5-10%, which can equate to $200 of savings a year or more. Once the cooperative's investment has been repaid **(see next question)**, the member will receive 100% of the savings, which could amount to $1,000 a year or more. Additionally, homes that are weatherized and have proper insulation are much more comfortable places to live, particularly in the winter months.

What is the cost to members participating in the program?

Participating members pay nothing upfront for the energy efficiency improvements. Instead, they repay the electric cooperative over time, usually 5-15 years depending on the size of the investment, through an extra charge on their monthly electric bill. The extra charge is structured to be less than the savings the member will see on their electric bill on an annual basis as a result of the efficiency improvements **(see previous question)**. In other words, rather than the program costing members, on-bill financing instead results in a net reduction in energy bills for participating members, even while they repay the cooperative for the efficiency investment.

Will all members be required to pay an extra fee on their electric bill?

No. For electric cooperatives, there are sources of program funding available, in addition to existing capital resources that may be utilized to fund an on-bill finance program. Therefore, there is no need for the cooperative to fund the program by collecting a new fee from all of its members regardless of whether they participate in the program or not. Some cooperatives may choose to fund an on-bill finance program by collecting money from their members, but this is unusual and not preferred. Ideally, the only members that pay an extra fee on their electric bill are those that participate in the program.

Will the program require participating members to take on new debt?

The answer to this question depends on whether the program is structured as a "tariff-based" or "loan-based" program. The favored structure for on-bill finance programs developed in recent years is tariff-based, which does not require members to take on new debt. This is because the cost of the investment is not tied to the member (like traditional loans), but instead is tied to the meter of the property/home receiving the energy improvements. Therefore, the repayment obligation is transferred from one owner or occupant to the next and as a result, no new debt is incurred for members who choose to participate in the program.

Why is it the electric cooperative's responsibility to provide financing?

No legal or statutory requirement exists that mandates that an electric cooperative develop an on-bill energy efficiency finance program. However, for decades, electric cooperatives have played a central role in the development of rural economies by investing in necessary infrastructure as well as purchasing and distributing the electricity that powers our homes and communities. In fact, "concern for community" is one of the seven core principles that govern electric cooperatives, and encompasses "work(ing) for the sustainable development of their communities through policies accepted by their members." Additionally, with rising energy costs and new regulations on energy production being put in place, there is a need to improve the efficiency of electricity distribution and help reduce energy bills for rural consumers. Electric cooperatives, being owned by their members, have a responsibility to make investments that achieve these goals, and on-bill financing is the most impactful and cost-effective means for achieving that. That's why so many electric cooperatives are making it their responsibility to provide their members with financing for much needed efficiency improvements.

Doesn't our electric cooperative already offer energy efficiency programs?

It depends on your electric cooperative, but most cooperatives do offer programs, incentives and/or financing for residential and, in some cases, commercial energy efficiency. For instance, Blue Ridge Electric Membership Corp. offers an online Home Energy Checkup tool that members can use to identify the most cost-effective ways to improve their home's energy efficiency and lower their electric bills. They also offer a MyUsage tool that allows members to monitor their electricity use on a daily basis, as well as additional tips on how to save energy, lighting options and how to select a properly sized water heater. Finally, Blue Ridge also administers Operation RoundUp, which distributes member-donated funds to members in need of emergency bill assistance, and to local organizations that provide heating and weatherization services for income-eligible members. While these programs are beneficial, and in some cases critical, they are not available to all members and in most cases do not address the underlying problem of inefficient homes that result in high energy bills in the first place. An on-bill finance program that is broadly available to all members would accomplish that.

How does this benefit the community and local economy?

In addition to helping participating members reduce their energy bills (which, in many cases alleviates the impact of poverty), on-bill energy efficiency finance programs can have a substantial impact on the community and local economy. For instance, if an electric cooperative were to invest millions of dollars in residential energy efficiency improvements, existing jobs would be supported and new jobs would be created in the construction, services and retail industries as demand for energy-related services and products increased. In rural communities, such an investment could spur the creation of new local businesses as well. Additionally, a portion of each dollar a member saves on their electric bill would likely be spent locally, thereby increasing local economic output. Reducing the burden that energy costs have on disposable family income can also have ancillary benefits as individuals and families will have more to spend on food, health care, and education.

Questions from electric cooperatives

Why should we offer another energy efficiency program, when we already provide tools and support for our members?

While existing tools and other support for energy efficiency—including online home energy assessments, rebates for energy efficient appliances, etc—are beneficial for many members, they do not address the fundamental problems in a member's home that lead to high energy costs. Such problems include poor or non-existent insulation, air leakage, air ducts in need of repair, and old, inefficient heating appliances. Fixing these problems is costly, and presents a significant financial barrier to implementing efficiency improvements for hundreds to thousands of cooperative members. On-bill energy efficiency financing removes this barrier by providing access to capital for members of all income classes to implement comprehensive efficiency improvements in their home.

How is this any different from federal weatherization assistance already offered?

On-bill financing and federal weatherization programs achieve similar results of improving the efficiency of participating homes through comprehensive energy improvements, including weatherization and new, efficient heating systems. However, federal weatherization programs are only accessible to qualifying low-income residents. As such, they are unable to help a large portion of residents who also need efficiency improvements and cannot afford to pay for them, but do not qualify for federal assistance. Additionally, the federal programs are not available to individuals or families who rent, whereas on-bill finance programs that are tied to the meter can be made available to renters as repayment is transferred from one occupant to the next. Finally, federal weatherization programs are extremely underfunded, reaching only a small portion of residents requesting assistance each year, while up to $6 billion in federal loan guarantees is available to electric cooperatives for funding an on-bill finance program.

Are other electric cooperatives offering this type of program?

Yes. There are over thirty on-bill energy efficiency finance and repayment programs in place across the United States, many of which are being offered by electric cooperatives. The most notable on-bill finance programs include: Midwest Energy's How$mart Kansas program, which has improved the efficiency of over 1,000 homes since 2007; the How$mart Kentucky program, which has retrofitted nearly 200 homes since 2010; South Carolina's Help My House program (more than 125 since 2012); and, the newly created Upgrade to $ave program being offered through Roanoke Electric Cooperative in eastern North Carolina. Additional programs offered by cooperatives and other electric utilities exist in Georgia, Illinois, New York, Hawaii and other states.

How does an on-bill finance program benefit the cooperative?

Electric cooperatives that offer an on-bill finance program to their members will see both financial and non-monetary benefits. Financial benefits depend on the cooperative's financial structure and the power purchase agreement between the cooperative and the electric utility from which it purchases electricity. For instance, if the cooperative pays more to buy and distribute power during peak winter demand periods, then reducing that peak by lowering member electricity use through efficiency improvements helps reduce costs for the cooperative. While some cooperatives do not benefit in this manner because they do not pay more for peak power purchases in the winter, there are still other financial benefits. For instance, a significant amount of administration time is spent each year handling high bill complaints and instances where a member cannot pay their bill. These members are typically perfect candidates for an on-bill finance program, which can help reduce the administrative costs of addressing these problems. In terms of non-monetary benefits, anything that benefits members benefits the cooperative. A key aim of electric cooperatives is to maximize member satisfaction. After all, the cooperative is owned by its members, and, as such, is committed to serving in the best interests of its members.

What are the benefits for our members? Why do they need this program?

See the first question under **Questions from members of electric cooperatives**.

What is the cost to members?

See the second question under **Questions from members of electric cooperatives**.

Why would we want to take on a lender role?

From a cooperative's perspective, "lending" money to a member in order to finance efficiency improvements is financially risky, and could result in losses for the cooperative if members do not honor their obligation to repay the extra efficiency/retrofit charge on their electric bill. If the cooperative has borrowed money from an external source in order to fund the program, then the cooperative is financially responsible for paying off that loan, so any losses due to member non-payment must be borne by the cooperative. Such a situation could ultimately require the cooperative to raise rates or fees in order to recoup those losses. This possibility understandably makes cooperatives hesitant to act as a "lender." However, the "loans" are in reality "investments" in the meter by the cooperative, resulting in lower demand, reduced power purchase costs, enhanced ability of members to pay their electric bills, and more efficient distribution of electricity. Additionally, existing on-bill finance programs have an extremely low default (loss) rate, so the financial risk to the cooperative of offering such a program is extremely low. Also, certain program design elements—such as tying the loan/investment to the meter and shutting a member's power off for non-payment of the efficiency charge—help to minimize the risk for the cooperative. Given the substantial benefits that an on-bill finance program provides to members, the financial risk to the cooperative is justified, especially in light of the fact that such risk is minimal.

How will the cooperative cover the cost of any defaults/losses?

There are two basic ways that a cooperative or other electric utility covers the cost of default—or, loss of loan/investment funds due to member non-payment, property destruction or otherwise. The first way is that the cooperative absorbs the losses directly, meaning that the losses are paid using existing capital that the cooperative has on hand, or that the cooperative increases rates or fees for all its members in order to cover any default. The second way is that the losses are covered by a "loan loss reserve fund" that is set up at the onset of the program with the sole purpose of covering the cost of any potential default. The amount that goes into a reserve fund is determined by a set percentage of the total "loan" volume that the cooperative has lent or plans on lending for home efficiency improvements, with the percentage being higher than the anticipated default rate. A loan loss reserve may be funded using existing capital that the cooperative has on hand, state or federal grants or loans, interest rates applied to energy efficiency project costs, or any number of ways.

How do members pay us back for our investment?

The electric cooperative has already made substantial investments on behalf of its members, including for constructing and maintaining transmission and distribution infrastructure, and it currently recoups the cost of such investments through energy charges or fees applied to each member's electric bill. Recouping the cost of efficiency investments would be performed in the same manner—by adding a new charge onto the member's electric bill. This is why the program is called "on-bill" financing. The difference is that only members who participate in the on-bill finance program are charged the extra fee, whereas all members repay the cooperative for the cost of infrastructure and other investments that benefit all members equally.

What happens if a member moves/wants to sell their house before the "loan" is paid off?

There are two main program design options from which a cooperative may choose in order to address a change in occupancy or ownership, and what this means for repayment of an efficiency investment. The first is to require that the member repay any remaining "loan" balance upon moving out or selling their property. While a few electric utilities have selected this option in designing their programs, newer on-bill finance programs tie the repayment obligation to the meter instead of the member, and merely transfer the repayment obligation from one owner/occupant to the next. This latter option allows renters to participate in the program, while also enhancing the attractiveness of the program by offering "debt-free" financing to interested members.

Can we shut off electricity for non-payment of the energy efficiency charge?

Shutting off a member's power for non-payment of the energy efficiency charge is an attractive program design component for any electric cooperative because it helps ensure that the participating member will repay the cooperative for the efficiency investment. The authorization to do so depends on the state in which the utility operates and, by extension, how the utility is regulated. In Kentucky, for instance, utilities must receive approval from the state Public Utilities Commission to shut-off a customer's power if they do not pay a non-energy-related charge. In North Carolina, it is less clear whether electric cooperatives—which, while they are "regulated monopolies," are largely unregulated by the state Utilities Commission—would need to obtain legislative or regulatory approval to shut-off power for non-payment of an extra efficiency charge. This question is being looked into currently. However, again, such authorization is typically obtained by electric cooperatives that develop on-bill finance programs.

What are the administrative responsibilities?

The electric cooperative's administrative responsibilities related to an on-bill finance program will depend on whether the cooperative designs, develops and implements the program, or whether a third party is hired to do so. The role that the cooperative plays can be anywhere between full implementation or merely collecting payments on the electric bills and paying off the lender that provided the program capital. However, in the case of full implementation, the cooperative is involved in or primarily responsible for designing and implementing the program, which includes, among other responsibilities:

- all upfront startup tasks,
- applying for and obtaining financing;
- training and certifying contractors (developing a certified contractor network);
- marketing the program;
- determining participant/member eligibility;
- conducting home energy assessments or ordering energy audits;
- assessing project cost-effectiveness;
- quality assurance and control (verifying quality of contractor work);
- paying contractors for work conducted;
- member education and assistance;
- filing real property liens with county clerks; and,
- collecting and remitting payments and dealing with member disputes or issues of non-payment.

How can electric cooperatives fund the program?

There are a number of options available to electric cooperatives and other electric utilities to fund an on-bill finance program. For electric cooperatives, in-house capital (cash on hand) may be used, at least at the onset. Another option is to apply for a loan guarantee through the US Department of Agriculture's (USDAs) Energy Efficiency and Conservation Loan Program (EECLP), or for a loan or grant through the USDA's Rural Economic Development Loan and Grant Program. The National Rural Utilities Cooperative Finance Corporation is also not providing electric cooperatives with low-interest loans that may be used to fund an on-bill finance program. Additionally, private sector lenders such as local credit unions are becoming more active in energy efficiency financing. Each of these options comes with both pros and cons, and the cooperative must decide which option works best for the cooperative and its members. Funding any loan loss reserve may be more difficult; however, options exist for covering this portion of the funding as well.

Is applying for new USDA loans for energy efficiency burdensome?

For electric cooperatives and other rural electric utilities, applying for an EECLP loan guarantee may be burdensome, especially for utilities that are not active USDA borrowers. There is certainly the perception among most electric cooperatives that the EECLP program has a lot of "red tape" associated with it that the cooperative must work through in developing an application packet. However, two electric cooperatives—Roanoke Electric in North Carolina and North Arkansas Electric Cooperative—have successfully applied for and received an EECLP loan guarantee and, in Roanoke's case, are offering to share their business plan (an EECLP application requirement) with other interested cooperatives. USDA has also developed other tools and materials to help ease the application process. Regardless, receiving program funding from other sources may be less burdensome, and the decision depends on what makes the most sense for the cooperative.