

ILLINOIS RESIDENTIAL ENERGY EFFICIENCY ON-BILL FINANCING (OBF) PROGRAM

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ON BEHALF OF THE ILLINOIS OBF UTILITY COLLABORATIVE
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PROGRAM DEVELOPMENT HISTORY

- Law in effect July 10, 2009
- ICC Workshops; Aug 8, Sept 14, Oct 9, Nov 2, Dec 4, 2009
- Statewide OBF utility collaborative
 - Coordinated by Jim Monk, IL Energy Association
 - Decision to conduct joint financial institution (FI) request for proposal (RFP)
 - Collaborative engaged EE financing experts for program design, prepare FI RFP, support procurement, contracting & set-up
- Program Design Document submitted to ICC February 4, 2010
- Dockets conducted & ICC Orders issued June 2, 2010
- RFP issued August 6, 2010
- FI research and recruitment conducted all along; 7 Notice of Intent to Propose; 3 proposals
- Proposals submitted October 4, 2010

PROGRAM STATUS

- Selection for contract negotiations made Oct 29, 2010 to AFC First Financial Corp. (AFC); expert in residential EE loan programs
- Contract negotiations November 2010 to present
- Utility update session to OBF stakeholders and Staff; Nov 4, 2010
- AFC's scope of work includes completing OBF Program design & set up
- Priority placed on information technology and billing and collections systems; immense effort
 - Data exchange protocols; flow of funds; timing & integration with utility billing cycle; prepayment; default events
- Wholesale loan being arranged
- Targeted program launch June 2011

PROGRAM BACKGROUND & DESIGN SUMMARY

Legislation

- Sec. 16-111.7 and Sec. 19-140
- \$2.5 million total financing outstanding per utility
 - \$12.5 statewide total (Ameren IL being \$5 mil)
- Loan payments made via the utility bill
- Non-payment of loan is treated as non-payment of utility bill
- Single family residential property owners (up to 4 units)
 - No rate class exists for the commercial customers who are allowed:
 - Only small commercial retail customers, as defined in Section 16-102 are eligible: those nonresidential retail customers of an electric utility consuming 15,000 kilowatt-hours or less of electricity annually in its service area.

PROGRAM DESIGN SUMMARY

Legislation

- Loan funds provided by a selected Financial Institution (FI) partner
- Utility passes loan payments to FI; regardless of whether customer paid
- Program costs recovered through EE Riders and bad debt recovered through Bad Debt Rider
- Dispute resolution is between customer and FI

PROGRAM DESIGN SUMMARY: LOAN TERMS

- Minimum/maximum Loan size: \$500 minimum requested; maximum to be determined (estimated at \$20k)
- Loan terms: up to 10 years; 3 & 5 year terms also offered
- Term finance only; construction period financing by Vendors
- Loan disbursement to Vendor at project completion with approval of Borrower
- Payment schedules: level monthly pmts of principal and interest in arrears
- Prepayment option: prepayment in full w/o penalty
- Interest rate to be determined based on wholesale loan rate

PROGRAM COMPONENTS & SERVICES FROM AFC

- Loan underwriting guidelines
- Loan origination procedures, application, borrower qualification, compliance with Act & underwriting guidelines, closing loan documents, disbursement & controls
- Vendor network, qualification, training, management & enforcement
- Marketing
- Loan servicing & administration
 - Flow of funds; tracking data & reporting
 - Dispute resolution
 - Call center
- Program evaluation & monitoring; Commission events

OVERVIEW COMMENTS & ISSUES

- A lot of work in set-up; innovative program; important nationally
- Underwriting guidelines being finalized
- Wholesale loan to be arranged & hence interest rate to be finalized
 - Credit structure very sound
 - Strategy to keep interest rates low to borrowers
 - State Treasurer Green Energy Program potential being explored
- Sound, scalable financing mechanism; replicable to other sectors
- Utility & hence ratepayer costs = program set-up, program operations & bad debts.
- Need projects to finance: importance of Eligible Measures test
 - Fix needed; 10+ yr simple payback projects typical for residential
 - Open replacement market; all parties interested, including customers
 - Potential to serve other residential EE programs, e.g., CMAP/CNT

LOAN UNDERWRITING & ELIGIBILITY

Eligibility

- Account number must be valid and active
- Account history, current on utility bill

Underwriting

- FI recommends minimum FICO score of 640
 - Consistent with emerging national standards for secondary market
- FI recommends debt-to-income test, 45-50% maximum (depending on loan size & credit score)

PAYBACK CRITERIA

“eligible electric energy efficiency measure ("measure") shall be defined by the following:

(A) the measure would be applied to or replace electric energy-using equipment; and

(B) application of the measure to equipment and systems **will have estimated electricity savings (determined by rates in effect at the time of purchase), that are sufficient to cover the costs of implementing the measures, including finance charges and any program fees not recovered pursuant to subsection (f) of this Section.**”

(Duplicative for the gas OBF legislation)

- Unlike TRC where cost is based on difference in baseline compared to efficiency measure; savings here must equal or exceed installation plus entire measure cost
- **Even if a measure passes TRC, it does not mean it can be financed**

MEASURES

VERY FEW measures pass this criteria

- **Ameren Illinois:**
 - 1600+ square feet insulation
 - Moderate Income “retrofit”
 - Bundled; insulation, central A/C, air and duct sealing, furnace, direct install (CFLs, aerators, showerheads)
- **Integritys:** Possibly Energy Star gas furnaces
- **Nicor:** Possibly Energy Star gas furnaces, gas boilers and gas water heaters
- **ComEd:** Energy Star refrigerators

Measure list will be revised just prior to launch: measure determination subject to inputs - gas/electric costs, loan interest rate, EE program rebate and tax rebates.

PROGRAM EVALUATION

- After three years
- “Effects of the measures installed “
- Overall operation of the program, including
 - customer eligibility criteria
 - whether the payment obligation should attach to the meter location.
- Solicit feedback from participants and interested stakeholders.
- Issue a report to the Commission on its findings no later than 4 years after the date on which the program commenced
- The Commission shall issue a report to the Governor and General Assembly including a summary of the information described in this Section as well as its recommendations as to whether the program should be discontinued, continued with modification or modifications or continued without modification, provided that any recommended modifications shall only apply prospectively and to measures not yet installed or financed.