

Energy Association of Pennsylvania
Response to PA PUC Staff Questions Re: On Bill (Financing) Repayment

1. In order to determine the success of a pilot program, performance metrics will need to be established. Please provide detailed comments as to what metrics would allow a pilot to be deemed successful. Additionally, please include in these comments responses as to whether there should be a minimum or maximum number of projects included in the pilot and also if said projects should have a set monetary cap. And what should the length of the pilot be?

The purpose of a pilot program should be to:

- Better understand the potential uptake rate of a full-scale on bill repayment (OBR) program and its corresponding capital requirements
- Uncover potential hidden costs and administrative issues (i.e., Uncollectible expense)
- Prove or disprove that the barrier to small commercial and industrial, and GNI, participation in Act129 programs is access to capital; and,
- Develop the data necessary for future support by capital providers of sufficient magnitude in order to supply any potential unmet need in Pennsylvania.

The premise put forth to the working group for on bill financing or on bill repayment (OBR) is that it would help EDCs achieve their Act 129 goals by improving penetration of the small C&I and the Government/Non-profit/Institutional (GNI) customer segments. Therefore, the key metric should be incremental participation by small C&I and GNI customers that is attributable to the availability of OBR. Participation in OBR alone is not the metric that most accurately determines the impact of OBR since customers who may have participated in Act 129 solely due to the structure of program delivery or the rebate levels would be ‘free-riders’ if they also availed themselves of OBR. It is also worthy to note that there may be some limitations to GNI participating in OBR since it may be inconsistent with the due process required of some GNI entities to approve funding.

The metrics suggested should ultimately being used to determine if the benefits of the program are greater than the costs, taking into account potential other financing options available to the customer as outlined in EAP’s response to the request for a listing of available “off bill” financing options.

With regard to better understanding the potential uptake of a full scale OBR program as well as to determining whether access to capital is truly a barrier resulting in significant lost opportunities for energy savings, the following metrics should be considered:

By customer class

A. Total prospective participants to which the OBR was offered:

1. Total OBR applicants that were rejected due to credit worthiness
2. Total OBR applicants that were approved (includes free riders)
3. Total approved OBR applicants that completed a project without using OBR
4. Total approved OBR applicants that completed a project using OBR. From this population of completed projects using OBR, research and track:
 - a. What percentage of applicants would have completed the project in the absence of an OBR program.
 - b. What percentage of program participants would not have completed the project in the absence of an OBR program?

B. With regard OBR cost:

1. The cost associated with designing and building an EDC OBR capability.
2. The cost to maintain and support an OBR capability
3. The expected uncollectible costs to the EDC

C. With regard to the data necessary for future support by capital providers:

1. Estimated energy savings and verified energy savings from completed projects
2. Estimated electric bill and actual verified electric bill reductions from completed projects

3. Average loan terms, average loan amounts
4. Billing & Payment issues
5. Analysis of aging receivables in 1-30 days, 30 – 60 days, 60 -90 days and over 90 days late
6. Frequency of payments received that do not cover monthly electric charge and loan repayment
 - i. Number of credit actions taken due to OBR
7. Default rates

D. Possible success criteria could consider:

1. Whether an OBR program significantly increases the number of completed energy efficiency projects. In other words, an OBR program should be considered a success if it significantly reduces the lost energy savings lost opportunity due to participants capital cost barriers.
 - i. If the results of metric A.4.b above is 50% or greater, then it may be appropriate to consider the OBR pilot program a success.
2. Low default rates – less than 1%
3. It should be cost effective – do the benefits of the energy savings attributable to OBR outweigh the cost to rate payer to support an OBR program. In other words, could the energy savings be realized at a lower acquisition cost through participating customers willing and able to self fund projects?

With respect to whether there should be a minimum or maximum number of projects included in the SEF pilot or a set monetary cap, EAP suggests that a min/max number of participants may not be necessary for the SEF pilot and could skew results since the goal is to determine whether there is an unmet need among potential small commercial and industrial participants or the GNI sector for this form of financing.

Maximum amount of loan should be governed by Act 129 program parameters as approved in utility's EE&C Plans.

With respect to the length of any pilot and in order to collect reliable customer participation data as identified above, EAP suggests customer participation in a pilot for 24 to 36 months.

2. Please comment as to some possible timelines for the deployment and implementation of a pilot program.

Implementation timeframes are driven by the pilot design and complexity of system change requirements and cost and will vary by EDC. If the pilot is to be funded by Act 129 funds, the Act 129 requirements should be followed. Both the lender and the administrator should be competitively bid since both functions would be new Conservation Service Providers (CSP) under the requirements of Act 129. If the pilot can be implemented without modifications to an EDC's billing system, a pilot could be deployed in a shorter timeframe. If modifications to the billing system are necessary there may be a longer time frame needed to implement.

The pilot as currently proposed by SEF will require significant system modifications which will differ from utility to utility depending on current billing system capabilities and will take a minimum of 12 months to implement. It must be noted that Duquesne is in the midst of converting its billing system and could not implement a pilot such as the one proposed by SEF any earlier than late-2015.

Consideration must also be given to the other required IT priorities including (but not limited to):

- a. DSP 2 and market enhancement programs
- b. Cap rate shopping
- c. Application of LIHEAP benefits to CAP participants
- d. Smart Grid/Smart Meter deployment

3. Should it be decided that OBF is possible beyond a pilot program, to the best of your ability, please detail what you believe would be the key cost components of a long-term program. What would the cost of full implementation of OBF look like? Please provide an itemization/categorization of costs as much as you are able (e.g. the costs of updating systems could be one cost in an overall cost breakdown).

The following key cost items are best estimates based on preliminary assessments:

- a. System enhancement per utility Range of \$1,000,000 to \$2,000,000 ----- 1 time
- b. Training and change management per utility \$ 250,000 ---- 1 time
- c. Credit and collections \$ TBD
- d. Full and current cost recovery of the development and operational expenses would be required by the EDC.
- e. The pilot may not provide full picture of all ancillary costs. If OBR is implemented in the context of Act 129, system enhancements, change management and credit and collections costs should be above the 2% budget.

It is difficult to provide a reliable estimate for the costs of full implementation of OBR when the program details are unknown.

Some of the EDC systems are not currently constructed to manage a 3rd party payment.

4. Please comment as to how to handle partial payments and termination (please consider issues such as those that would pertain to a commercial master-metered multifamily unit where termination of electric services to the building due to non-payment by the building owner would adversely affect tenants of said building).

a. Partial Payments

- i. Any and all payments received must be applied to the electric service portion of the customer's bill first (Distribution & Commodity).
 - This priority carries forward to future months and applies to balance catch-up situations.

b. Non-Payment Penalties

- i. Participating OBR customers should be subject to the same payment requirements and non-payment penalties as with the rest of their monthly electric bill and include a disconnect penalty to create a more secure payment stream with lower default risks.
- ii. New termination protocols must be developed to incorporate the non –service portion of a customer's bill. EAP is not certain whether Commission rules allow for termination of commercial accounts when customer fails to pay non-basic charges. EAP notes that the SEF model appears to have the obligation attached to the meter such that if customer moves, he/she is not obligated to pay balance of loan. What happens if property empty for a sustained period? EAP not comfortable with this approach and would seek definitive wording in any tariff that there is no recourse by lender against utility.
- iii. Existing customer notification requirements (under Chapter 56 for residential customers) would be followed.

c. Loan Balance on termination/move

- i. Loan balance should remain with the individual/entity that originated the loan
 - Balance due on move/sale of property

Alternative Non-Payment Processes:

EDCs should not be required to terminate electric service for nonpayment of the loan.

If the EDC is not permitted to terminate service for partial payment of a financing program, finance charges for a customer in arrears on finance charges should be returned to the 3rd party finance company and finance charges should be eliminated from EDC bill.

5. Please consider and comment on how an energy audit would be paid for. If an audit was conducted and the project was deemed not qualified to take part in the OBF program, would the business owner cover the cost of the audit separately? If a project is qualified, should the audit be included in the OBF loan or paid for separately?

The energy audit can be paid for in the following ways:

- a. Any Act 129 program that has an energy audit component can be utilized. The requirements under the EDCs Act 129 plan would be followed.
- b. Customer would pay for audit if project does not qualify for a rebate under Act 129 or as an OBR eligible program.
- c. Financing of the audit cost could be allowed if the project qualifies and based on Act 129 EE&C Plan.

6. Please respond to an additional consideration, similar to the previous question. Would safety and repair be included in an OBF loan or would that cost be incurred separately by the business owner?

Since one of the stated purposes of the proposed OBR pilot is to determine if access to capital is a barrier for customer participation in Act129 programs, EAP maintains that only approved Act 129 energy efficiency projects should qualify for the OBR pilot program. In other words, any work performed or measures installed where EDCs cannot obtain savings credit should not be included in the loan amount under the OBR program.

7. Please provide suggestions as to how/if the proposed model could be modified to include government/nonprofit/multifamily entities. Should there be a separate model for multifamily? If yes, please describe or provide said model. Should there be a separate model for government/nonprofit? If yes, please describe or provide said model.

- If the multifamily facility is master metered then the facility should be eligible under the same terms and conditions as other commercial EE projects.
- If the multifamily facility has residential metering for individual units, then the facility should not qualify for financing of commercial EE projects.

8. At the meeting, bill neutrality was discussed. Please comments as to how bill neutrality would best be determined. Please consider (but do not limit discussion to) the following: Should it be based on estimated energy savings? How would changes in circumstances be accounted for? Should the payback period be taken into consideration?

Customer's use of their facility may change over time causing their bill to fluctuate from what was estimated when the loan was originated. EDCs will not be in the position of guaranteeing bill neutrality. Installation of identical measures by two different customers may result in significantly different energy savings based on the utilization of that measure by each customer. Also, this is a discussion between the lender and the customer. The EDC's would have no authority or involvement in the decision regarding the loan amount, term, or savings neutrality discussions.

- Customers' contractor should provide:
 - i. Total cost of the project
 - ii. Estimated savings from the measure
 - iii. Years required to pay back
- The customer and the finance provider must determine if the business case makes sense for them. While bill neutrality may be a determinant in considering whether project eligible for advance/loan, the On-bill Administrator/Lender/Contractor must be clear that there is no guarantee.
- EAP notes that for the GNI sector, if bill neutrality is important, may want to use the Guaranteed Energy Savings Law available to that sector.

9. Please comment as to whether or not OBF should be only available to energy efficiency projects that qualify under Act 129. If it is restricted to Act 129 projects, should there be coordination with interested gas companies to allow them to participate as well? If it is not restricted to Act 129 projects, please provide suggestions for cost-recovery options.

a. Qualifying Projects

- On bill repayment should initially be available only for energy efficiency projects implemented under Act 129.
- After gaining experience, may expand to other non-act 129 projects.

b. Cost Recovery

- Full and current cost recovery is essential regardless of project applicability.
- Cost recovery should use the current Act 129 surcharge mechanism which provides recovery for amounts in excess of the 2% Act 129 cap such as the cost attributable to the Statewide Evaluator.

c. To the extent gas utilities are interested in a finance program, that program should be handled separately and apart from Act 129 EE programs.