

On Bill Financing Working Group

Notes : Meeting December 16, 2009

Meeting opened at 10AM, Mike Sherman of DOER moderating. Attendees in person and on phone included: Mike Sherman, Derek Buchler, Paul Horowitz, Paul Gromer, Jeremy McDiarmid, Tom Darling, Penn Loh, Fran Cummings, MaryJo Connelly, Larry Chretien, Charles Harak, Karina Lutz, Bill Codner, Jeff Schlegel, Steve Allenby, Kevin Galligan, Dick Oswald, Trish Walker, Birud Jhaveri, Paul Johnson.

Review. The group reviewed its purpose: to provide the EEAC with a set of principles and key aspects concerning on-bill repayment and financing, including substantial exploration of choices and consequences in critical areas such as placing repayment obligation on meters or customers, termination and partial payment and related concerns. In previous meetings the working group had agreed that any on-bill repayment plans should be accompanied by full disclosure to customers in clear language. The group also agreed that customers eligible for low income energy efficiency programs should not be solicited to take on debt, and that there is substantial concern around affordability for residential customers in the 60-120% of median income bracket.

The intention of this meeting was to make progress toward a report to the EEAC at the January 12, 2010 meeting concerning the key identified issues, including issues where the working group has reached agreement and those where it has not, with the intention of both informing the EEAC and seeking guidance for further action.

Existing Loan Programs

Heat Loan program There have been over 5,000 Heat Loans since the program was first mandated as a pilot by the legislature in 2005. Max loan is \$10k, average loan around \$8,000. 19 HEAT loan lenders (11 active currently), 5 offer only secured loans, 5 offer both secured and unsecured and 9 only offer unsecured. Underlying interest rates are about 7% (varies by lender); customers pay 0% interest, usually 5-7 years. Default rates said to be very low but no hard data. No reported data on where loans are made or the income levels of borrowers (with MassSave as the gateway low income customers are directed to LI programs).

Small C/I Loan programs National Grid, WMECO, NSTAR. Brief presentation on National Grid program: customers get 70% incentives, balance on-bill to be paid within two years; 45% of customers pay off their cost in one payment and get a 15% discount. NGrid does no credit check or review of bill payment history and has 1%+ default rate; the average loan has been around \$1,500. WMECO uses payment history as a customer qualifier. NSTAR does a parallel program using sundry billing.

Pay and Save Pilot This mandatory pilot required in the Green Communities Act has a maximum of \$500/home for participating residential customers and \$1,000 for C/I customers – little/no information on its progress but participation said to be very low. More relevant, OBF as discussed in the working group oriented to deeper savings than can be achieved by the Pay and Save pilot.

Boston Public Works Using a grant from the City of Boston, this loan program provides secured loans to residences. A lien is placed on the home for 10 years. If the house is sold before then, the lien is paid off. This sort of lien, known as a mechanic's lien, is not a second mortgage.

Issues Matrix. Jeff Schlegel and Paul Gromer presented an issues matrix, highlighting 19 issues, such as repayment obligation, termination, positive cash flow, customer eligibility, risk for uncollectibles, nature of charge, allocation of partial payments, etc. The matrix shows the requirements of the current Pay and Save pilot program being operated by Program Administrators and a straw proposal developed by NEEC.

In the discussion that followed there appeared to be much agreement on many issues but significant disagreements about whether obligation should attach to meter or personally to customer, whether termination of utility service should be allowed for non-payment, how to handle partial payments (DPU rules under restructuring may answer payment allocation principles but there's a need to translate them into how the mechanism would work in an on-bill repayment regime. There were some comments about the need to obtain more information about the demographics (location, income, etc.) of participants in existing programs, especially the Heat Loan program, to inform program planning.

These questions do not have simple answers. Bill Codner noted that National Grid is developing a pilot program in New York State, where the obligation attaches to the meter, but the NY PSC has said customers cannot be terminated for non-payment of their loans. Charlie Harak noted that Massachusetts has strong termination rights dating back to a case in 1975, and does not believe any residential customer's protections should be weakened in the name of providing a loan resource. Paul Gromer noted that risk perception for lenders is a critical element and the ability to terminate customers for non-payment would reassure potential lenders.

Eligibility. WG members seemed agreed that eligibility should be pool-based rather than based on individual credit ratings but there were some suggestions that utility bill payment history should be considered. In the existing small C/I programs, WMECO takes past 12 months history into account, National Grid does not. Both PAs reported very low default rates. There was one comment that payment history should be considered for residential customers.

One Size Fits Some. Much of the repayment issues discussion focused on residential customers. There appear to be fewer concerns on small C/I loans from the available history, though in greatly expanded on-bill repayment that might change because of sheer numbers. Derek Buchler raised the concern that though group members don't want customers who are eligible for low income programs to take on loans, if an obligation is attached to the meter, some low income customers would 'inherit' the obligation, posing an additional burden. Some responses indicated that this problem might be a very small percentage and provisions for dealing with that other small circumstances could be made in shaping the overall repayment obligations. DOER suggested that developing different repayment rules for different customer segments may be appropriate.

Next Steps. The WG's short term goal is to present its initial report to the EEAC at the January 12, 2010 meeting. A WG meeting was set for January 7 at CLF [that's now confirmed]. Three sub-groups were formed to address issues related to **Obligation, Termination and Allocation.**

Obligation: Paul Johnson (lead), Penn Loh, Larry Chretien, Mary Jo Connelly, Birud Jhaveri, Trish Walker, Derek Buchler, Dick Oswald, Bill Codner, Danielle Rathbun, Jeff Schlegel.

Termination: Charlie Harak (lead), Paul Gromer, Paul Johnson, Trish Walker, Bill Codner, Larry Chretien, Birud Jhaveri, Dick Oswald, Derek Buchler, Danielle Rathbun, Jeff Schlegel.

Allocation: Mary Jo Connelly, Paul Johnson, Birud Jhaveri, Trish Walker, Derek Buchler, Dick Oswald, Bill Codner, Larry Chretien, Danielle Rathbun, Jeff Schlegel.

The charge for these groups is starting from the matrix, to develop their issues list, indicate areas of agreement and for each of the major areas indicate possible consequences of a given action, and consider that there could be different arrangements for different customers sectors. Where there are disagreements, the groups should develop succinct statements of the differences along with the primary reasons (in bullet form preferred) that their position should be adopted. Any hybrid approaches should be noted as well as the strengths in adopting them. Groups should consider the proposals from three perspectives:

- Customer: ease and attractiveness of participation, appropriate risk level certainty of meeting obligations;
- Lender: clarity of risk, level of risk, attractive features;
- PAs: ease of implementation and administration, costs (program and administrative) salability to customers in each sector.

Groups should communicate via email and report back to the WG at the Jan 7 meeting, though earlier reports would be welcomed (send any docs to Mike Sherman at DOER).

It was agreed that materials from the Working Group would be posted on the EEAC website (www.ma-eeac.org).