

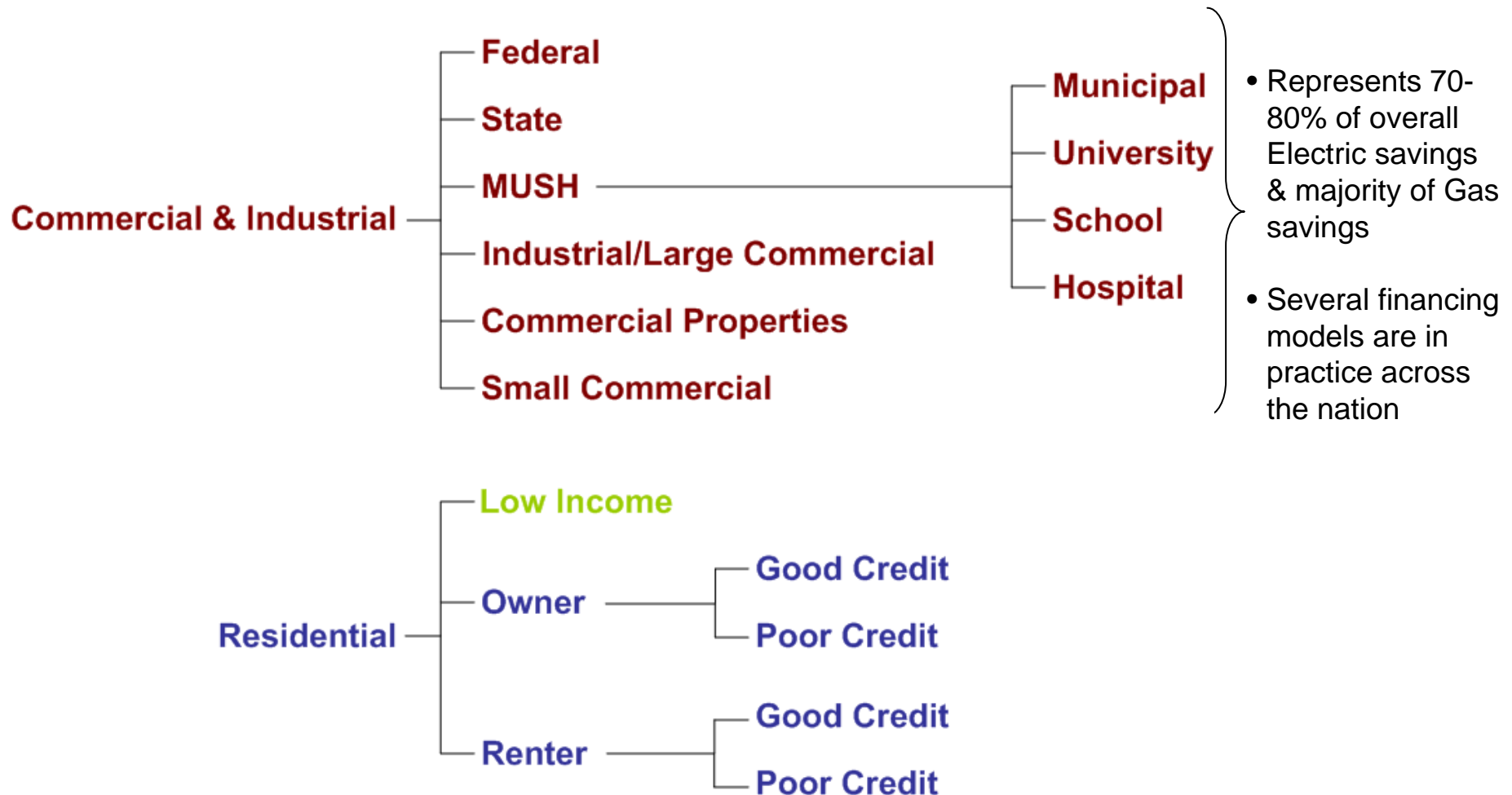
# Program Administrator Approach to Energy Efficiency Financing

Massachusetts PAs  
March 9, 2010

# Executive Summary

- PAs are committed to working with other stakeholders to seek and deploy effective financing mechanisms for EE
- We are taking a more segmented view of the market
  - Large portion of the Savings goals are driven by C&I, and we want to ensure adequate attention
  - Our research indicates potential approaches – on Residential & C&I side -that could be adapted/adopted
  - On the Residential side, segmentation can help us design solutions to address challenges unique to specific segments
- We are also actively engaged in the OBR working group discussions which have identified a number of issues
  - Some more relevant to certain customer segments
  - PAs perceive some of these issues as more “critical”
- Our approach is to optimize/build on current models, our own as well as others’, even as we seek new financing mechanisms and sources of funds

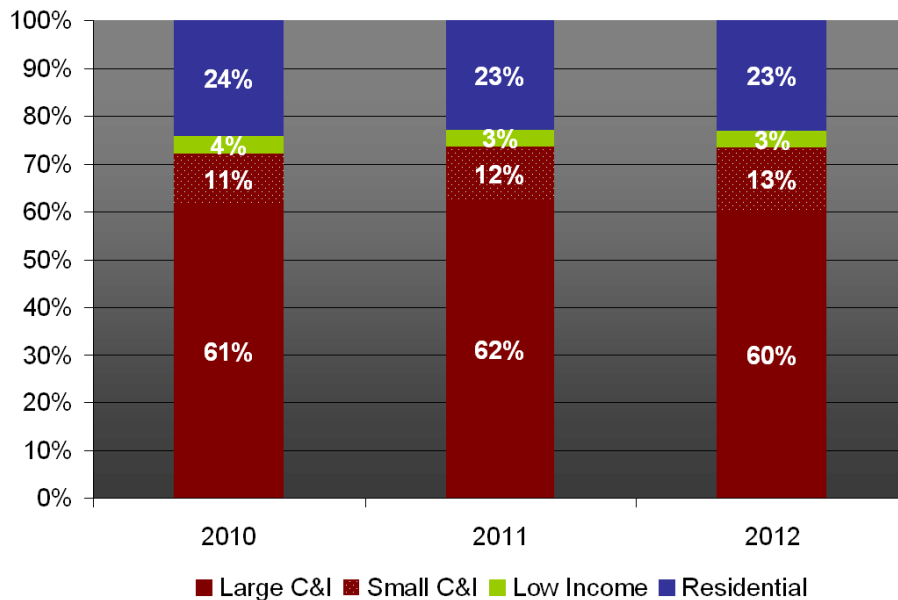
# The PAs are taking a segmented approach to financing



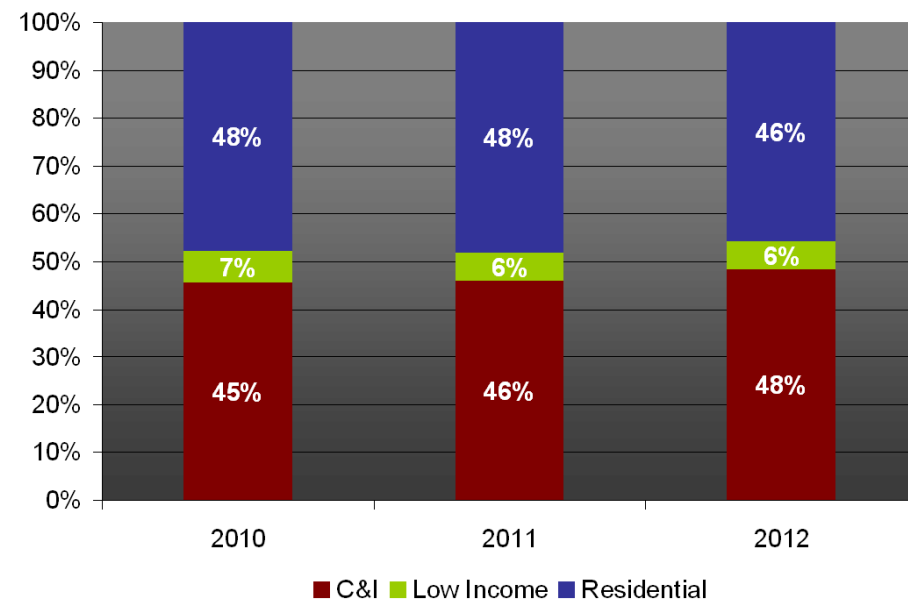
Note: MUSH sector can be further segmented into Private and Public sectors

# The Electric C&I sector, which represents >70% of expected savings, has received limited attention

## Electric - Statewide



## Gas - Statewide



# We found that the motivation/need varies by segment, and often within a segment

## C&I

- Small C&I
  - Access to capital at attractive terms
  - Net Cash flow impact
- Industrial/Large Commercial/Property
  - Avoid/Minimize Balance sheet impact
  - Net impact of operating cash flow
  - Favorable financing terms
  - Credit rating impact
  - Collateral requirements
- Federal/State/MUSH
  - Terms and conditions for accessing different financing pools
  - Acquisition regulations
  - Access to capital at attractive terms
  - Leveraging tax-exempt considerations

## Residential

- Good credit rating customers:
  - Attractive financing terms
  - Cash flow impact
- Poor credit rating customers
  - Access to capital
  - Degree of leverage
  - Cash flow impact
- Renters/owners of rental units
  - Alignment of who invests and who benefits
  - Access to capital
  - Cash flow impact

# Financing Available Nationally

C&I	Federal	State	MUSH	Ind./Large C&I	Comm. Prop.	Small C&I
	<b>Federal Alternative Finance Contract</b>	●	○	◐	○	○
<b>Tax Exempt Lease-Purchase Agreement</b>	●	●	◐	○	○	○
<b>Energy Performance Contract</b>	○	○	●	●	◐	○
<b>Externally Funded Revolving Account</b>	○	●	●	●	●	○
<b>Commercial Leasing</b>	○	○	◐	●	●	◐
<b>Vendor Financing</b>	○	○	◐	●	●	○
<b>PACE/Equity Investment</b>	○	○	○	○	○	●
<b>Consumer Lending</b>	○	○	○	○	○	●

○ Not Applicable    ◐ Somewhat Applicable    ● Applicable



# Financing Available Nationally

<b>Residential</b>	<b>Low Income</b>	<b>Owner</b>	<b>Renter</b>
	<b>PACE/Equity Investments</b>	●	●
<b>Externally Funded Revolving Account</b>	●	●	○
<b>Consumer Lending</b>	◐	●	○

○ Not Applicable

◐ Somewhat Applicable

● Applicable

# The PAs are also very engaged in the OBR working group that's addressing many of the issues

## Issue Buckets

- Repayment ← *• PAs have expressed position on specific issues (e.g. payment obligation, allocation of partial payment, service shutoff etc.)*
- Financing (loan terms) } ← *• PAs want to make sure that we find the most cost effective source of capital that provides high participation rates and relatively low loan defaults*
- Funding (source of capital) }
- Administrative & IT ← *• PAs want to make sure the IT/administrative cost and timing implications are fully considered*
- Customer Benefit (e.g. savings guarantee) ← *• PAs want to ensure that customer expectations are appropriately managed*



# The PAs are engaged in a number of discussions to support financing

- Ongoing discussion with ...
  - Customers: to understand their motivation and need for financing
  - Other utilities across the nation: to learn from their experience
  - Firms offering financial products to this industry
  - Consultants supporting financing for this industry
- Some PAs have also engaged consultants to design solutions for specific customers
- Learning from experience in other states – CT, NY, CA
  - On-Bill
  - Sources of financing
  - Targeted segments

# PAAs look forward to working with DOER and other stakeholders to move the ball forward ...

- Optimize existing programs:
  - Heat Loan for Residential
  - Small Business Financing Program
- Adapt/Adopt existing financing mechanisms for C&I segment
  - Finalize Federal Area-wide contracting mechanism
  - Further explore “Performance Contracting” option for Large Commercial
  - Adapt tax-exempt financing mechanism for MUSH sector
- Develop new tools and rules for under-represented segments
  - Develop “rules of engagement” and financing mechanisms for poor credit/low-middle income owner sector
  - Develop “rules of engagement and financing mechanism for rental sector
- Support efforts to source additional capital
  - Explore grants/loan-guarantees available at Federal/other sources
  - Explore ways to access capital markets to raise additional capital
    - Muni/tax-exempt bonds
    - Securitization
- Continue to develop and refine OBR approach