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ON-BILL REPAYMENT WORKING GROUP

REPORT TO THE ENERGY EFFICIENCY  
ADVISORY COUNCIL

MAY 10, 2010

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## EXECUTIVE SUMMARY

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The On-Bill Repayment (“OBR”) Working Group submits this report to the Energy Efficiency Advisory Council (“EEAC” or “Council”). Today’s report sets forth the results of a collaborative, broad-based working group that has been meeting since September 2009, with approximately 12 full meetings since then.

The mission of the OBR working group was to examine and determine repayment mechanisms that would facilitate the use of outside funding, as envisioned in the Program Administrator 2010-2012 Statewide Energy Efficiency Investment Plans, beginning in 2011. The Working Group’s initial charge was to examine both financing and repayment mechanisms. However, the intensive nature of financing and repayment, and the need for somewhat different knowledge and skill sets, led the Working Group to concentrate on repayment issues and become known as the OBR Working Group.

As with other EEAC Working Groups, the OBR Working Group was chaired by DOER in its staffing capacity to the Council. Membership in the group consisted of voting EEAC members, Program Administrators, other non-voting EEAC members, EEAC consultants, and other interested parties, such as members of the Green Justice Coalition, and a weatherization contractor. The meetings were formally noticed as public meetings and were open to anyone wishing to attend in person or participate by telephone.

The report sets forth the core principles that have achieved full consensus of the working group and shows in matrix format how the principles will be applied to residential and small commercial customers. These principles include:

- Full disclosure in clear language regarding financing terms, default provisions, and remedies to any efficiency program participant who considers and elects to use outside funding offered through the Program Administrators.
- The adoption of appropriately inclusive standards in determining customer eligibility for participation. The OBR Working Group recommends that inclusive standards be applied in determining eligibility for participation and that individual credit checks not be employed. The exact underwriting standards that will be applied will be determined in negotiation with lenders and servicing entities in accordance with the principles expressed here.
- Electric or gas service will not be terminated upon a customer’s failure to pay the energy efficiency portion of a service bill, or failure to pay a companion bill. Partial payments will first be allocated to the energy/distribution portion of the bill.
- Program Administrators will be the conduits for outside financing and repayment including their normal collections process, but do not anticipate serving as the lender.
- Customers who qualify for low-income programs will not be solicited for any financing programs.

Although discussions within the Working Group have coalesced around certain overarching principles, the group recognizes that these principles and expectations are subject to modification and will continue to evolve, depending in part on the particular terms and requirements of outside lenders. Outside financing opportunities that materialize will need to be considered from a repayment (OBR) perspective, and the OBR principles outlined in this report are not intended to be categorically fixed. As experience is gained, strategies and efforts will evolve.

The report also sets forth detailed matrices detailing OBR approaches and issues in different customer categories, reflecting the group's consensus that a segmented approach to OBR is appropriate. Key findings by sector are:

- Major customer segments such as Residential, Small Commercial & Industrial (Small C/I), Renters and Owners, are distinct and require distinct provisions to meet their needs. Within those groups, particularly within the rental market, further segmentation should be conducted, with an analysis of barriers facing the particular segments and an exploration of the type of financing program that will address those barriers most effectively.
- Customer segmentation may require additional tailoring of repayment to meet household income, business type, or other distinctive repayment requirements, which will be discovered through implementation.
- A robust residential OBR model has been established. Renters, in residential and commercial properties require substantial additional work but the Working Group believes that the OBR work should move forward in all sectors and subsectors to ensure that every class of customer is able to participate appropriately in deeper energy savings opportunities provided by the additional leverage of outside funding.
- Work clearly needs to be done to address the needs of renters and households whose income exceeds 60% of median income but for whom the burden of either customer cash contributions or additional obligations brought on through financing is considerable and may need amelioration. Addressing these needs should be accomplished through other venues, which may include the EEAC and its Equity Committee, landlord associations, the legislature, and the Department of Public Utilities ("DPU").

Finally, the report sets forth the following proposed next steps:

- Communicate the findings of the EEAC OBR Working Group to the DPU to determine, what processes and actions, if any, are required in that venue to move the OBR and financing issues forward for 2011.
- Match the OBR concerns to the work being done by PA's, DOER, other EEAC members and other parties on financing to develop a complete and integrated financing/repayment implementable plan.
- Continue to develop the renter matrices further in a small working group devoted to that issue. Set a timeline for resolution but no later than September 1, 2010 for a further report to the EEAC.
- Continue to explore the question of households with incomes above 60% but still experiencing disproportional energy burdens, carefully describe this demographic, characterize relevant living conditions, employment and other relevant factors, and develop cost-effective solutions for addressing the needs of this group.
- A phased implementation approach should be used that will help mitigate investment and other risk, and that will allow for continuous validation of concepts and implementation strategies and details.
- Review the Pay and Save pilot program data and evaluation report for insights that may be useful for design and implementation of full scale financing proposed for 2011 and beyond.
- Address additional concerns raised by the EEAC, the DPU or Working Group members. (also see Section 4 for additional comments)

# 1. INTRODUCTION

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The OBR Working Group was established by the Division of Energy Resources (“DOER”), acting in its role as Chair of the Council, to explore all options for on-bill repayment in order to expand existing on-bill financing options and make energy efficiency programs more accessible to customers. The OBR Working Group has focused on ways to work towards implementation of the financing goals and principles described in the Massachusetts Joint Statewide Three-Year Gas and Electric Energy Efficiency Plans (“Three-Year Plans”) both prior to and following their approval by the Department of Public Utilities (the “Department”) in its Orders, each dated January 28, 2010, regarding the electric Program Administrators’ Three-Year Energy Efficiency Plans and the gas Program Administrators’ Three-Year Energy Efficiency Plans in dockets D.P.U. 09-116 to D.P.U. 09-120 (regarding electric Program Administrators) and dockets D.P.U. 121 to D.P.U. 09-128 (regarding the gas Program Administrators). The Three-Year Plans promote financing mechanisms to help address barriers associated with the potentially substantial up-front costs of installing energy efficiency measures (see § II.B. of each Three-Year Plan); the OBR Working Group seeks to set forth and have the Program Administrators adopt consensus-based standards, representing the views of multiple stakeholders, for the provision of on-bill repayment for residential and Small C/I customers over the next three years.

The OBR Working Group was endorsed by Council resolution on July 28, 2009, in the overall resolution approving the Statewide Electric and Gas Energy Efficiency Programs. As with other EEAC Working Groups, the OBR Working Group was chaired by DOER in its staffing capacity to the Council. Membership in the group consisted of voting EEAC members, Program Administrators, other non-voting EEAC members, EEAC consultants, and other interested parties, such as members of the Green Justice Coalition, and a weatherization contractor. The meetings were formally noticed as public meetings and were open to anyone wishing to attend in person or participate by telephone.

## 1.1. PRINCIPLES

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### Items Addressed by OBR Working Group

The OBR Working Group has addressed multiple aspects of on-bill repayment and has agreed on the following eleven core principles:

#### 1. No Promotion of Loans to Low-Income Customers

The OBR Working Group has agreed that the Program Administrators and others involved with implementation of the Three-Year Plans will not promote loans to customers eligible for low-income programs. Customers who are eligible for low-income programs should be directed in the carefully tailored low-income programs, which provide

100% of the funding for energy efficiency measures for eligible participants. All parties seek to avoid over-leverage for any customer, including the most vulnerable customers in the low-income sector.

## **2. Repayment Tied to Customer for Residential and Small C/I Owned Properties**

The OBR Working Group has also determined that, for residential owner customer segments and Small C/I(owner) customers, repayment should be tied to the borrower and not to the meter. As detailed in the residential matrix set forth in Section below, meter-based repayment is not appropriate at this time for this sector given that questions still remain on how it would work and how payment obligations would be handled. Repayment should instead be tied to the customer who has initiated the energy efficiency measures and accepted responsibility for payment.

## **3. No Termination for Non-Payment**

The OBR Working Group has agreed that there will be no termination of energy services based on non-payment of the energy efficiency loan portion of bill. Termination rights could create customer backlash, would be excessive, and would risk violation of customer protection standards and policies established to ensure the provision of energy services to customers. Similarly, in rental situations, rent increase and evictions protections are needed to ensure tenants are not inappropriately charged for the cost of the improvements or evicted for other than standard non payment of rent provisions. These problems argue for the development of robust “Green Leases” that provide adequate statements of responsibilities of landlords and tenants and provide appropriate remedies for abuses in apportioning the costs of financed energy efficiency improvements through the PA programs.

## **4. Allocation of Partial Payment**

The OBR Working Group has also reached consensus on the allocation of partial payments, and has determined that the energy/distribution portion of the bill will be paid down in full prior to the payment of the energy efficiency loan portion. The OBR Working Group has also addressed additional items on the bill, including services and rental charges, and determined that these will also be paid down prior to the energy efficiency loan.

## **5. Fixed Payments**

The OBR Work Group has determined that any OBR re-payments will be fixed over the term of the loan. The use of fixed, monthly finance charges reduces customer concerns regarding loan repayment and lends itself to succinct, clear disclosure. Variable interest rates will not be employed. [Please note, however, prepayment will be allowed.]

## **6. No Requirement of Positive Cash Flow/No Savings Guarantee**

The OBR Working Group has agreed that there will be no absolute requirement of positive cash flow, and no savings guarantee, with respect to any project for which financing is provided. Although all participants of the OBR Working Group aspire towards achieving net savings through on-bill repayment, it is understood that such savings are dependent on many factors (including, for example, commodity costs, weather, measure-mix and building occupancy) and accordingly cannot be guaranteed.

## **7. Certain Customers at 60%-120% of Statewide Median Income**

The Working Group's discussions included a question about the ability of customers whose income ranges from 60%-120% of median income to participate in any financing, and suggestions that such customers should be treated comparably to customers eligible for the low-income programs. Some anecdotal evidence suggests that this income group is currently underserved and harder to reach and as such efforts will be made to design initiatives and explore ways to reach these valued customers. However, while agreeing that there certainly are customers for whom the costs of copayment and perhaps financing are substantial barriers to participation, the Working Group was not able to readily find and examine well documented evidence about the burden of energy and customer copayments on this class of customers, or even determine where the upper end of the vulnerability range lies. We note there is no specific mandate under the Green Communities Act to reach these customers separately from other residential or low-income customers but agree that financial and other barriers that impede participation by any segments of eligible customers are of concern and need to be addressed. The Working Group believes that issues pertaining to targeted income groups need primarily to be addressed by other EEAC Committees (*i.e.* ,Residential and/or Equity).

## **8. Customer Eligibility**

With respect to customer eligibility, the OBR Working Group has determined that on-bill repayment should be available for all qualifying customers including residential customers (other than low-income, as described above) who are either owners or renters, as well as for Small C/I customers. However, due to the split incentive problem (most often tenants pay utility costs but property owners bear the cost of capital investment) and the complexity of meter-based obligations in residential rental markets, the workgroup has been unable to reach a consensus opinion. Discussions will continue with respect to on-bill repayment issues specific to renters. A more detailed discussion of issues related to OBR in the rental market is set forth in Sections 2.4.3. (Residential) and 2.4.2(Small C/I). Large C&I customers will be eligible for uniquely tailored solutions and are not addressed in this report.

## **9. Credit Checks and Payment History**

The OBR Working Group has also determined that credit checks will not be used for qualification purposes in the residential owner segment; in order to decrease the risk of customer defaults, however, payment history will be relevant to qualification decisions and on-bill repayment will only be available to customers who have been current on their energy bill for a certain minimum period of time. Credit checks may be used in rental or Small C/I segments and/or where larger loan sizes require enhanced underwriting. , a subject that will need further exploration once the lender community is engaged. See Section 2.4 for more detail.

## **10. Collection and Banking Laws**

The OBR Working Group agrees that the Program Administrators will not serve as collection agents for outside loans (aside from standard utility bill collection procedures). The Program Administrators will provide a means of repayment by enabling OBR on either a standard or sundry bill, but will not actually be involved with the provision of financing dollars or in any other way acting as a bank, lender or guarantor. The OBR Working Group agrees that the Program Administrators should not become regulated banking institutions that are required to comply with banking laws as a result of OBR efforts, and is continuing to review compliance issues with respect to banking and lending laws.

## **11. Full and Fair Disclosure**

Finally, the OBR Working Group emphasizes that there must be full and fair disclosure to all customers regarding any financing of measures that utilizes OBR, including estimated loan costs, default provisions, remedies, and use

of payment history or other qualifying standards, and that the disclosure must be clear and plainly written. Although the OBR Working Group will not assume primary responsibility for drafting disclosure language, the group may review such language to ensure that it complies all applicable state and federal statutes and regulations.

## 1.2 ITEMS BEYOND OBR WORKING GROUP SCOPE

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As detailed below, numerous core principles have been discussed and agreed upon, achieving full consensus of the OBR Working Group. We note that by consensus, Working Group does not require 100% agreement on each and every issue. However, the Working Group has taken pains to ensure there is substantial agreement on the principles and the expression of the principles detailed in the matrices. Where there is significant disagreement or the members recognized an issue as unfinished, the Working Group and the report has noted such. Resolution on certain issues, however, has not been captured by this report, either because (1) the issues are beyond the Working Group's scope of inquiry and have not been part of OBR Working Group discussions, or (2) the issues have not been resolved by consensus of the Working Group (these unresolved issues are addressed in Section 2.3 and in comments in Section 4.1).

While outside financing is interwoven with, and related to, the purposes of the OBR Working Group, it is a separate and distinct issue, and will be coordinated with on-bill repayment at an appropriate time. Outside financing opportunities that are presented to the parties will carry terms that will necessarily need to be considered from an OBR standpoint. It is anticipated that certain terms set forth herein will continue to evolve and may reflect lender requirements or other conditions in the financing marketplace and the legal and regulatory oversight of that marketplace. The Working Group, however, seeks to establish core guidelines and expectations regarding OBR matters, which will serve as a guide as outside financing opportunities are presented and evaluated.

Also excluded from the OBR Working Group Report are specific Program Administrator billing system issues related to on-bill repayment, and specific Department of Public Utilities issues, if any. The Working Group recognizes there are significant Program Administrator issues regarding specific repayment mechanisms, including issues relating to cost recovery and technical implementation. Many of these items are specific to the individual PAs and therefore are not addressed in this report. All parties understand that sundry billing options are a viable option for on-bill repayment (as opposed to totally integrated bills, which might require substantial billing system expenditures). There may be differing repayment solutions for different classes and groups of customers and those solutions may differ as well among the Program Administrators, depending upon their individual circumstances.

## 2. ANALYSIS OF ISSUES, OPTIONS AND RECOMMENDATIONS BY SEGMENT (MATRICES)<sup>1</sup>

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### 2.1 SUMMARY OF ISSUES

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The Working Group quickly found four distinct customer groups with different requirements and needs with respect to OBR. Attached are tables (matrices) summarizing financing and on-bill repayment issues that should be addressed in order to implement one or more effective financing offerings in the energy efficiency programs. The four customer groups are: residential owners, residential renters, small C&I renters, and small C&I owners. For the purposes of the Working Group, however, we created three matrices:

- Residential owner-occupied properties
- Residential rental properties
- Small businesses rented

The Small business owner-occupied category represents a very small percentage of that customer class, and while small c/I owned properties resemble residential owner-occupied properties in some ways, the business characteristics of small C/I customers are a stronger association than the differences between owned and rented properties. Thus three matrices were created by the working group.

**Residential owner-occupied properties.** Much of the early OBR working group discussion focused on the issues related to residential owner-occupied property, and overall, significant progress was achieved in terms of

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<sup>1</sup> The issues and matrices in this report section are derived from EEAC Consultant Draft Based on OBR Working Group Discussions April 29, 2010, and comments provided to DOER by Working Group members.

resolving issues for residential owner-occupied properties. Owned residential real estate financing represents the most straightforward financing segment and formed the basis for other segment proposals.

**Small C&I .** With respect to small C&I customers, financed through owner obligations, the Working Group built upon the residential owned obligation structure to address business-specific issues and collateral types. Some Program Administrators have been running successful financing programs with thousands of C&I customers for a number of years. These programs have enjoyed very low default rates, very high repayment levels and customer satisfaction and strong associated energy savings. The existing C&I financing mechanisms have also involved substantial customer incentives and bonuses for early repayment. These programs have not, however, generally financed measures that require substantial capital investment on the part of property owners, again leaving the issues around leased and rented property for further resolution.

**Residential rental properties.** Residential rental properties garnered considerable discussion, but achieved only modest consensus due to the complexity of the problem. The “split incentive”, in which tenants pay utility costs but property owners pay the capital costs of energy efficiency improvement and therefore have very little incentive to make investments for which they realize no off-setting energy savings. The Working Group reviewed a meter approach involving landlord obligation, but did not achieve a clear consensus. The matrix included in this report reflects only preliminary discussions and is presented neither as a consensus view nor as an encapsulation of the full Working Group’s current thinking. In particular, the Program Administrators’ comments on rental repayment approaches are set forth separately in Section 4.

Additionally, the discussions concerning rental properties and renters attempted to grapple with issues of customer income and program level equity. For example, a point was raised that renters comprise 35% of the residential population statewide but even the sparse evidence available indicates that renters are under-served as a percentage of non-low income program participants. The Working Group will continue to assess the particular challenges of the rental community to ensure full access to energy efficiency opportunities. A further set of discussions related to customers whose income is above 60% of statewide median, the maximum level for qualification for low income energy efficiency programs. While the Working Group agreed that the questions of equitably serving renters and equitably serving households whose income is above 60% of median income (there is likely considerable overlap between those two groups) need to be addressed, no solutions were presented within the context of the Working Group’s charge to explore and develop on-bill repayment mechanisms. Some Working Group members recommended that households falling above 60% of the state median household income<sup>2</sup> should in effect be treated like households below 60% of median and not asked to take on energy efficiency financing debt. Rather, those members suggested that low-income subsidies be extended to customers in the low-mid income range.

Given the concerns about where and how to attach the obligation in residential rented properties, the Working Group was not able to reach a substantial consensus on a residential renter matrix. A preliminary residential rental property proposal is attached in Section 2.4.3, but this should be viewed as a first attempt at solutions in an ongoing discussion.

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<sup>2</sup> --The GJC has referred to the group of customers whose household incomes are at 60-120% of the median, but the 60-120% grouping was set indicatively rather than definitively. Further study about this issue is needed in other venues.

## 2.2 STATUS OF THE ISSUES

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The Working Group operated on a consensus basis but strove to avoid a lowest common denominator approach. Where working group members expressed real differences, the Working Group has pointed up those issues and will address them in further work. In commercial and residential properties most of the individual issues are in fact resolved but key issues, such as the structure of the obligation in residential rentals remain unsettled at this moment. On others, we have been able to craft acceptable solutions to parties. Thus for small C/I rented properties, some Working Group members felt it was essential to have customer service termination as an option, primarily to reduce perceived risk in the eyes of any potential lender. Program Administrators believed this requirement could substantially impede the operations of the existing Small C/I lending operations. A resolution was found in which a U.C.C., lien, sometimes known as a “mechanic’s lien” could be placed, providing the level of assurance or perhaps more assurance than would be provided by termination.

Note that there is a difference between major issues that remain unresolved, and issues for which there is agreement at a high level but the details still need to be worked out. In the matrices we have labeled these details as “TBD”.

Finally, we expect to find that although the Working Group has recognized that a “one size fits all” approach does not work across broad classes of customers--such as renters v. owners and residential v. commercial customers--we also expect to find that in order to maximize the use of outside capital, further distinctions may need to be made among subgroups of customers about questions such as loan terms, repayment schedules, loan requirements by size (loans above a certain size may require enhanced underwriting), and other distinctions that will be discovered and experimented with as we move further into this area and gain experience about what works and what doesn't.

## 2.3 ISSUES NOT CONSIDERED IN OBR WORKING GROUP DISCUSSIONS

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The following issues were not discussed in the OBR working group, at least not significantly in any efforts to develop specific approaches or recommendations to resolve the issues:

- **Source of financing capital and specific nature of financing offers.** – These issues are being addressed in the other “bucket” of financing issues (including attracting and attaining outside capital for financing, cost of such capital, specific design of the finance program, etc.). That “bucket” is being worked on by various parties and a separate progress report will be made to the EEAC. Ultimately, to develop a complete and comprehensive set of financing packages, the OBR issues will be coordinated when addressing financing terms for specific financing offers. Further, specific interest rates offered to customers will be determined by several factors, including the result of future program design decisions setting overall levels of rebates, interest buy-downs and other customer incentives.

- **PA implementation.** – Once the overall OBR mechanism and financing approach is determined, what will PAs need to do in their billing systems to quickly and efficiently implement OBR repayments, or to implement repayment through a separate bill? The requirements may be different depending on whether repayment is strictly On-Bill as opposed to on a separate or “sundry” bill. The PAs have scoped and commented on the common issues herein; understanding the solutions may be PA-specific in some cases.
- **DPU requirements or issues for the DPU to address.** The role of the DPU is yet to be determined. DOER will address the findings of the OBR Working Group to the DPU in an appropriate manner. Additionally, it may be appropriate to incorporate the complementary issue of financing to the DPU simultaneously. Discussions on this topic are ongoing.

## 2.4 RESIDENTIAL AND C/I MATRICES

### 2.4.1 RESIDENTIAL OWNER OCCUPIER MATRIX (FROM 4/29/2010 VERSION WITH COMMENTS FROM WORKING MEMBERS)

*Note: This version of the matrix is modeled for residential owner-occupied properties. The guiding purposes for this version of the matrix are to deal with the large number of residential customers in owner-occupied properties for which a single model will work, and to make some progress with a new or improved financing offering in the field soon. There are many market segments and variations that need to be addressed. Many of the more complex situations occur in rental properties (see the residential renter matrix), but condominium developments also present challenges, as do buildings with changes of use, changes in residents' income, etc. The goal and proposed approach is to build the OBR model that will work for many customers and to tackle the progressively more difficult questions in parallel processes.*

Issue	Current Proposal	Comments
Principle: program financing should not be offered to low-income customers	Protections to ensure that customers eligible for low income programs participate in those programs (in which the programs provide 100% of the funding for measures, as grants) and do not receive loans or offers for loans.	Some discussions involved changing the subsidy threshold to 80% of SMI from 60% currently, but this topic was deemed to be outside the scope of the workgroup's mandate despite its implications for OBR terms and implementation
Repayment obligation: should repayment be tied to the customer or to the meter?	Tied to the customer for residential owner properties. (See rental matrix for rental property.)	Preference among most of WG (including PAs) is to tie the obligation to the owner, with disclosure requiring that obligation be satisfied on sale of property. Tie to owner simplifies issues in many respects
Termination for non-payment	No termination for nonpayment of EE loan	WG reviewed and considered consumer protections and current statutes on energy services, and recommends no termination for nonpayment of EE loans.

Issue	Current Proposal	Comments
Allocation of partial payments	Allocation of partial payments in similar manner as in Terms and Conditions for Distribution Service (TCDS), with loan charges treated as part of energy service charges, and secondary to the generation and distribution service charges.	Allocation of partial payments in similar manner as in Terms and Conditions for Distribution Service (TCDS). Partial payments would be applied first to any outstanding balances for energy, generation and/or distribution services. Where applicable, equipment rental or customer service charges will also be paid down prior to the energy efficiency loan.
Requirement of positive cash flow	Objective (aspirational) of positive cash flow. Savings to customers are not guaranteed, therefore clear disclosure and information is crucial.	<p>WG discussed additional consideration for low/moderate income customers, with goal to increase access to EE funds for customers at 60-120% median income. Potential for EE loan to add financial burdens to this community.</p> <p>Also need to address customer eligibility, objective of positive cash flow, and loan term in relation to financial risks for specific financing offers.</p>
Savings guarantee	No	Do not guarantee savings, but provide best estimates on savings, and clear disclosure. Also provide education to customers on optimal practices and monitoring results.
Remedy if estimated savings do not materialize	<p>This is an efficiency program issue, not financing/OBR issue per se.</p> <p>Determined by underlying EE program; respond to concerns and resolve with customers who aren't satisfied.</p>	If savings do not materialize because program is not designed or implemented properly, improve QA/QC.

Issue	Current Proposal	Comments
Nature of payment: fixed or floats with savings?	Fixed over the term of the loan	Prepayment allowed without penalty.
Eligible measures	Eligible measures TBD with an emphasis on non-portable measures.	Eligible measures should be cost effective approved measures and non-portable. List TBD
Customer eligibility	TBD	
Customer class	Residential	NOT for customers eligible for the low-income program (see above)
Owners vs. renters	Both eligible, but different offerings  (see other matrix on issues in rental property)	Continue work on issues for renters in parallel.
Credit checks	No individual credit checks, with possibility of using utility repayment history as qualifier.  FICO scores may be collected for data analysis purposes with appropriate disclosure and permissions but will not be used in underwriting decisions.	Emphasize/support pooled lending and pooled (diversified) risk.  PAs continue to investigate legal issues from being party to a financial transaction and providing utility bill history as an underwriting criterion.  Income verification may be required to protect <60% median income customers.
Customer bill payment history	Eligibility limited to customers that have been current on their electric bill for at least 12 (potentially as many as 24) consecutive months	12 months vs. 24 months, and for which customer segments. Unregulated fuel customers would rely on electricity bill history. Regulated fuel customers may be evaluated on one or both utility bills <sup>3</sup> .

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<sup>3</sup> Further research/review should be conducted concerning potential issues of a PA program relying on billing history for another fuel (*e.g.*, gas PA relying on electric billing history)

Issue	Current Proposal	Comments
Maximum loan amount	TBD for specific financing offer	Consider investment needed to achieve deeper savings. Could be minimum loan amounts per servicing issues and transaction costs.
Maximum term	TBD for specific financing offer	Measure life and lender terms will affect this. Terms as long as 10 years or more needed for some projects. Consider measure lives as one driver to extent possible.
Source of capital	Outside capital, separate from PA and program funds; excludes capital raised by PAs for other types of financing programs	Loan principal shall not include program monies from EE funds or PA shareholder funds. PAs are not the source of capital but portal to the customers and the primary collection path for repayment of loans.
Cost of capital	Being addressed related to source of capital, above (seeking lower cost capital)	
Disclosure requirement	Full and fair disclosure regarding measures, costs, savings, loan costs, cash flow, defaults, remedies, and use of payment history. Use plain language explanations (will need disclosures in multiple languages).	<p>Disclosure must be:</p> <ul style="list-style-type: none"> <li>- complete and fair</li> <li>- clear and understandable (plain language)</li> <li>- concise so that someone will read it</li> </ul>

Issue	Current Proposal	Comments
Customer interest rate	<p>Unknown at this time.</p> <p>The objective is to offer attractive rates determined by market conditions and applied interest rate subsidy, if applicable.</p>	<p>Concern regarding 60-120% median income customer's ability to access financing and repay without hardship.</p> <p>Tiered interest rates based on income levels are problematic due to additional program complexity, investor concerns over credit quality and the need for greater income verification capabilities.</p>
Collection procedures and protections	<p>Collections subject to standard utility servicing efforts for non-serious delinquencies (anticipated to be 30-60 days). Loans delinquent &gt; preset servicing term would be handed over to a special servicing entity to collections (similar to current utility practice of turning unpaid debts to special servicers for collection. Default and charge-off at 120 days (TBD).</p> <p>Future detailed terms and conditions to be developed.</p>	<p>Standard utility/PA collection procedures<sup>4</sup>. Uncollectibles at some point TBD would be turned over to a service agency. Funds collected from service agency will be used to reimburse injured party or loan loss reserve fund.</p> <p>The financial agreements will specify the duties and limitations for all loans servicing not directly involving the PAs. PAs request that cost recovery for related costs should be addressed and permitted.</p>

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<sup>4</sup> Further work on the details of collection procedures needs to be undertaken, including the treatment of customers installing electric and gas measures, as well as the role/selection of service agency.

Issue	Current Proposal	Comments
Who is at risk for defaults	Loan loss reserve or investors at risk for defaults.	<p>Expectation of low default rates based on existing HEAT Loan defaults (&lt; 1%).</p> <p>Funding for a loan loss reserve could come from federal sources, foundations, EE program funds (similar to how the EE program funds<sup>5</sup> pay for any defaults in the small business financing program currently) or other sources.</p>
QC on measures / installations	QC on measures/installations (see above)	
Applicability of banking and consumer protection laws	OBR and financing program will be subject to compliance with all laws and regulations including banking/lending statutes.	Need to acquire better understanding of the requirements and the applicability of such laws to PAs as portal vs. provider of financing. The particular issues will become clearer as specific financing offerings are developed.

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<sup>5</sup> Question remains if program funds meet GCA requirements for cost effectiveness.

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## 2.4.2 SMALL C/I MATRIX (FROM 4/29/2010 VERSION WITH COMMENTS FROM WORKING MEMBERS)

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On Bill Repayment of commercial energy efficiency loans is already offered through select utilities in Massachusetts. Current programs are financed with utility capital and ratepayer-backed recovery. Broadening the program to longer term loans and changing the expected capital source to the public markets has some implications for the delivery and structure of C&I OBR, but much of the program reflects existing best practices in business lending with OBR.

Issue	Current Proposal	Comments
Repayment obligation: should repayment be tied to the customer or to the meter?	Tied to the customer (owner or tenant).	Preference would be to tie the obligation to customer (owner or tenant) with disclosure requirement that obligation must be satisfied on sale of property or change of tenant.  Tie to owner simplifies issues in most respects

Issue	Current Proposal	Comments
Termination for non-payment	UNDECIDED: Need to reduce risk of default through appropriate incentive structure.	<p><b>TERMINATION:</b> Termination (or at least the threat of shutoff) is important to the program to lower expected defaults and funding costs. Absent adequate incentives to encourage repayment capital providers will require significantly higher interest from the program with implications for EERF funds and/or adoption. Lack of termination also limits program negotiating position with capital providers and makes program more reliant on other measures such as property or fixture liens which may be more exclusionary and potentially more costly to maintain.</p> <p><b>NON-TERMINATION:</b> The PAs' view is that the potential benefits of the termination option are outweighed by the potential detriments. The primary detriments are: 1) increased risks to participants relating to EE programs which could create a barrier to participation; 2) potential backlash and negative perceptions regarding EE efforts for disruptive service terminations that could force a business to shut; 3) job loss and economic harm to local communities associated with termination; and 4) potential expenses involved in terminating service where customer contests the action. The PAs operating small business financing efforts have experienced low default rates (1%-3% range is typical) to date and do not see need for termination threat, especially if other tools, <i>e.g.</i>, loan loss reserves or back up programs, are implemented.</p>
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Issue	Current Proposal	Comments
Allocation of partial payments	Allocation of partial payments in similar manner as in Terms and Conditions for Distribution Service (TCDS).	Allocation of partial payments in similar manner as in Terms and Conditions for Distribution Service (TCDS). Partial payments would be applied first to any outstanding balances for energy, generation and/or distribution services. Where applicable, DPU approved tariffs on equipment rental or customer service charges will also be paid down prior to the energy efficiency loan.
Requirement of positive cash flow	Aspire to achieve positive cash flow for shorter payback measures. No limits on longer measures.	Positive cash flow not required as some measures have a significant payback period.
Savings guarantee	No	Do not guarantee savings, but provide best estimates on savings. Also provide education to customers on optimal practices and monitoring results.
Remedy if estimated savings do not materialize	Determined by underlying EE program; respond to and resolve with customers who aren't satisfied	If savings do not materialize because program is not designed or implemented properly, improve QA/QC.
Nature of payment: fixed or floats with savings?	Fixed over the term of the loan, but allowing for pre payment without penalty	Fixed over the term of the loan
Eligible measures	Eligible measures (regardless of fuel) TBD with an emphasis on non-portable measures.	Many programs specify only non-portable measures can qualify for financing limiting addressable opportunity, especially in leased space. Program desire to assist in deeper savings projects where some portion of measures may be considered portable. Details TBD
Customer eligibility	TBD	

Issue	Current Proposal	Comments
Customer class	Small commercial as defined by the program eligibility requirements and further defined by loan maximum	
Owners vs. renters	Both eligible.	Work to date focused more on issues in owner property. Renters currently participate in the small business program.
Credit checks	No individual credit checks for loans up to residential loan maximum (use utility bill history as per residential owner model) For loans greater than residential maximum (amount TBD), business or investment property level due diligence	Emphasize/support pooled lending and pooled (diversified) risk.  PA's continue to investigate legal issues from being party to a financial transaction.
Customer bill payment history	Customer bill payment used for smaller loan amounts (up to residential maximum) with 12/24 month repayment history.	TBD. Eligibility limited to customers that have been current on their electric and/or Gas bill if applicable for at least 12 [24?] consecutive months.  For larger loan balances, tenant / owner must meet traditional underwriting standards to be performed by financing entity (exact terms TBD)
Maximum loan amount	TBD	Consider investment needed to achieve deeper savings. Could be minimums per servicing issues and transaction costs.
Maximum term	TBD	Measure life and lender terms will affect this. Terms as long as 10 years or more needed for some projects. Term not to exceed existing lease, if applicable

Issue	Current Proposal	Comments
Source of capital	Outside capital sourced from market sources (similar to residential model).	Ultimately, preference not to use program monies from EE funds. Some PAs are currently using EE program funds as capital, and other PAs are using or proposing to use company funds (as a substitute for program funds or as a transition to other capital). PAs are not expected to be the source of capital but portal to the customers and the primary collection path for repayment of loans.
Cost of capital	Being addressed (See Source of capital, above)	Cost of capital will be determined by market forces, and program elements among other factors.
Disclosure requirement	Full and fair disclosure  Full disclosure regarding measures, costs, savings, loan costs, cash flow, defaults, remedies, and use of payment history.	Disclosure must be complete and fair.
Customer interest rate	Unknown at this time.	TBD

Issue	Current Proposal	Comments
Collection procedures and protections	<p>Standard utility procedures and protections.</p> <p>DPU would need to address any changes to utility collection procedures.</p>	<p>Standard utility/PA collection procedures. Uncollectibles at some point TBD would be turned over to a service agency. Funds collected from service agency will be used to reimburse injured party or loan loss reserve fund.</p> <p>The financial agreements will specify the duties and limitations for all loans servicing not directly involving the PAs.</p> <p>PAs request that cost recovery for related costs should be addressed and permitted.</p>
Who is at risk for defaults	<p>Capital provider or loan loss reserve at risk for defaults.</p> <p>Structure of credit enhancement (loan loss reserve fund) and financing initiative TBD</p>	<p>Expectation of low default rates based on existing small business program proxies (&lt; 2%).</p> <p>Funding for a loan loss reserve could come from federal sources, foundations, EE program funds (similar to how the EE program funds<sup>6</sup> pay for any defaults in the small business financing program currently) or other sources.</p>
QC on measures / installations	QC on measures / installations	
Applicability of banking and consumer protection laws	OBR and financing program will be subject to compliance with all laws and regulations including banking/lending statutes.	Need to get better understanding of the requirements and the applicability to PAs as portal vs. provider of financing.

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<sup>6</sup> Question remains if program funds meet GCA requirements for cost effectiveness.

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### **2.4.3. RESIDENTIAL RENTAL MATRIX (FROM 4/29/2010 VERSION WITH COMMENTS FROM WORKING MEMBERS)**

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#### **Summary:**

The workgroup has made progress in addressing the rental community, but significant issues remain unresolved despite the group's best efforts. Competing interests between tenant protections, low-mid income advocacy, financial community requirements and PA concerns, have made it difficult to find a collectively acceptable approach. Further discussions are required in this area, including some that go beyond the scope of the work group's activities (including addressing the potential for additional subsidies for rental and 60-120% income communities and PA concerns over implementation cost/complexity). Despite a lack of consensus on key issues, the workgroup's conversations have coalesced around a meter based obligation structure with certain elements widely supported.

#### **Matrix Overview:**

The On Bill Repayment workgroup has been working to improve the equitable distribution of System Benefit Charges to the rental community through the potential use of meter based repayment obligations. Two significant issues (among many) have been identified as major barriers to rental adoption of energy efficiency measures. The two issues are the split equity problems between tenant (receive energy savings) and landlords (pay higher costs for efficiency) and the economic disincentive to adopt energy efficiency measures. Both issues are structural problems that are unlikely to be solved by market forces in the foreseeable future and require a new approach to drive energy efficiency adoption.

As many council members are aware, the rental community is currently paying into System Benefit Charge (SBC) pools, but anecdotally<sup>7</sup> receiving very little of the benefits (rebates, interest rate buy-down or other subsidies applied toward energy efficiency improvement). Among the most significant barriers to energy efficiency (EE) adoption in the rental market are the split incentives problem between landlord (LL) and tenants and an economic disincentive to adopt EE measures. On Bill Repayment (OBR) provides one of the leading potential solutions for solving the split incentive issue through meter-based obligations that would split the savings and cost of improvements equitably between landlords and tenants.

For purposes of this report, \the group has focused on meter-based obligation structures because they tied the cost of financing improvements to the energy user substantially bridging the split equity problem. Meter obligations also had the added benefit of ensuring

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<sup>7</sup> PAs are reviewing programs to determine use of SBCs among renters.

that the proper incentives remain in place to facilitate appropriate participant behavior. In order to appropriately balance the cost to the landlord (construction/remodel expenses) from adopting energy efficiency with the benefit expected to accrue to the tenant (energy bill savings), we have posited that a portion of the financing cost of improvements be allocated to the tenant (not to exceed expected savings) through a meter obligation. The landlord would be required to pay-in an upfront amount (which itself could be financed separately) equal to the amount needed to reduce the expected finance costs to some percentage below expected savings. All work would be based on voluntary agreement from both landlord and tenant subject to pre-agreed upon terms<sup>8</sup>.

Although the Working Group has provisionally included a matrix reflecting this meter-based model, it should be emphasized that the members have not reached consensus on this model. While the matrix captures the thread of some discussions, it does not represent the view of the Working Group as a whole, and further discussions and analysis will be required before a consensus model can be established. In particular, the Program Administrators have not endorsed the model set forth in the matrix and have instead advanced their comments separately. These comments are preliminary, and the Program Administrators anticipate that significant further discussion (including discussions with representatives of the landlord and rental communities) and analysis will be required to develop a viable, mutually agreement repayment model for the rental sector.

Issue:	Proposed:	Comments:
Repayment obligation:	METER with Landlord (LL) guaranty	LL is required to guaranty as the primary recipient of benefit (new EE improvements to property). Tenant shares benefit through Meter based finance charges.
Allocation of partial payments:	EXISTING -	Allocation of partial payments in similar manner as in Terms and Conditions for Distribution Service (TCDS). Partial payments would be applied first to any outstanding balances for energy, generation and/or distribution services. Where

<sup>8</sup> See Appendix –Rental Agreement

Issue:	Proposed:	Comments:
		applicable, DPU approved tariffs on equipment rental or customer service charges will also be paid down prior to the energy efficiency loan.
Termination for non-payment, Eviction:	NONE – Landlord/tenant agreement would include eviction capability failure to pay rent. (Finance payments are deemed a rent surrogate just as a “green lease” that included higher rents for energy efficiency improvements would be and therefore non-payment could lead to eviction under this model)	<p>No Termination for non-payment.</p> <p>Non-payment could, under certain circumstances, precipitate eviction due to failure to pay rental surrogate.</p> <p>This model raises the risk of eviction under certain circumstances. Clear protections needed.</p>
Requirement of positive cash flow	Aspirational using best estimate. Extending loan duration or requiring LL to put down part of capital cost to lower tenant payments (see financial model for details). Landlord and Tenant must both approve measures to protect both parties.	<p>The sum of landlord contribution and utility rebate should, using best estimates, result in positive cash flow for tenant. This is critical for tenants with income below 120% SMI.</p> <p>We need to determine whether that down payment is feasible for/attractive to landlords.</p>
Savings guarantee	No, (see also “Nature of Charge” below)	
Remedy if savings do not materialize	Contractual agreement between LL and Tenant spells out both parties’ legal obligations as well as future assumptions which are limited to best efforts and best analysis.	Ideally, there would be tenant recourse or a mechanism for adjusting the ‘split’ in cases where the retrofit does not turn out to be cash flow

Issue:	Proposed:	Comments:
	<p>Tenant can move at lease expiry or break lease subject to existing terms.</p>	<p>positive.</p> <p>Tenants also need recourse if landlords violate the terms of the “green lease”.</p> <p>More research needed on “green lease” models.</p>
<p>Nature of charge:</p>	<p>Financing charges are fixed for life of obligation. Energy costs/use will vary with weather/temperature, actual efficiency gains, and tenant behavior among other factors. This has to be made very clear to both the EEAC and landlord/tenant</p>	
<p>Eligible measures</p>	<p>Cost effective EE improvements as determined by DOER</p>	<p>These items should not be portable</p>
<p>Customer eligibility</p>	<p>Eligibility is determined by LL credit quality. Underwriting will follow traditional underwriting measures of an investment property and will not be based on tenant credit.</p> <p>(The LL has every incentive to screen the credit quality of tenants and due to guaranty will have further incentive to do so under OBR)</p>	
<p>Customer class</p>	<p>RESIDENTIAL RENTAL ONLY</p>	
<p>Owners vs. renters</p>	<p>RENTAL</p>	
<p>Credit checks</p>	<p>YES, related to LL and investment property</p>	

Issue:	Proposed:	Comments:
Customer bill payment history	No, responsibility of the Landlord to ascertain credit quality of tenants.	Landlord should not be authorized to carry out additional tenant credit checks. Landlords have opportunity to check tenant credit at time of initial lease.
Maximum loan amount	TBD // limits per unit and property maximum	
Maximum term	TBD – Has implications for tenant cash flow and LL required upfront capital. Traditionally limited to expected measure life.	Maximum term to be determined by negotiations with capital provider
Source of capital	Outside capital sourced from market sources (similar to residential model).	<p>Ultimately, preference not to use program monies from EE funds.</p> <p>PAs are not expected to be the source of capital but portal to the customers and the primary collection path for repayment of loans.</p>
Disclosure requirement	<p>YES, Landlord and Tenant must both have disclosed and agreed to:</p> <p>A best estimate of expected savings and financing charges</p> <p>Capital commitments (Landlord) and agreement to repay (Tenant)</p> <p>Authorization to allow detailed credit check (Landlord)</p> <p>Alteration of terms for eviction to include EE finance payment (Tenant)</p> <p>Landlord agreement to guaranty</p>	<p>Agreement to treat finance payments as rent proxy creates possibility of increased eviction risk that may be unacceptable. Need to establish leases i.e. “Green Lease” that would state responsibilities of landlords and tenants and offer suitable protections to ensure rents are not inappropriately increased or tenants inappropriately evicted for non-payment.</p>

Issue:	Proposed:	Comments:
	EE finance payment backed by potential lien on investment property	
Interest rate	TBD	Subject to market conditions and subsidy \$'s
Collection procedures/protections	<p>Tenants will be responsible for contractually agreed upon finance charges. Terms related to failure to pay obligation will be spelled out in rental agreement and are expected to be similar to partial payment of rent.</p> <p>If normal collection measures (set forth in program Terms &amp; Conditions - T&amp;C) do not remedy loan, loan balance is turned over to special servicer that will contact the LL and seek remediation. Should contact the tenant if he/she is still living there. LL should be contacted after the servicer determines there is no recourse with the tenant.</p> <p>Remedy of the loan by the servicer (including LL payments, tenant remedy, etc.) will result in the METER based obligation being returned to the utility OBR program.</p> <p>Failure to remedy will result in default and associated collection measures.</p>	
Who is at risk in case of Default	Investors / Loan Loss Reserve Fund (if applicable).	
Relationship to low income program	Low income LL/Tenant may choose to enter into these agreements subject to meeting	<60% qualifies for WAP and subsidized improvements. Low

Issue:	Proposed:	Comments:
	above criterion	<p>income tenants may choose to enter into an established METER lease agreement, but new obligations will not be written to tenants &lt;60% median income.</p> <p>In mixed buildings, where some tenants qualify for LEAN but not a majority, program needs to closely coordinate with LEAN, operationally, financially and otherwise.</p>
QC on measures / installations	EXISTING measures are deemed adequate to monitor and verify installation.	Question – higher efficiency systems (boiler, solar hot water, etc.) may require regular maintenance to achieve projected efficiency. Can this be worked into agreements as the LL and Tenant have different incentives with respect to efficiency targeted maintenance?
Applicability of banking laws	OBR and Financing program will be subject to compliance with all laws and regulations including banking/lending statutes.	

### 3. ISSUES NOT ADDRESSED BY THE WORKING GROUP REPORT

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As noted in earlier sections of this report, some issues raised by members of the Working Group were either peripheral to the group's charge to explore and recommend principles and mechanisms for on-bill repayment of outside financial capital resources that will be incorporated into the Program Administrator Energy Efficiency Investment Plans for the years 2011-2012 and beyond. These issues include:

- Status of customers whose income is above 60% of the statewide median income up to some higher level (initially posed as 60-120% of median);
- Service to residential renters compared to owners in the residential energy efficiency programs, characterized as "Mass Save" and including primarily the electric and gas <sup>9</sup>.
- The "Pay and Save" pilot program mandated under the Green Communities Act. The pilot was in progress during the course of the Working Group's discussions. An evaluative report was issued and made available for comment after the this round of Working Group meetings leading to this report was completed.

#### 3.1 CUSTOMERS ABOVE 60% OF STATEWIDE MEDIANINCOME

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Members of the Working Group, particularly those representing the Green Justice Coalition (GJC), advanced the position that residential customers whose income ranges above the 60% of state median income should be viewed as in the equivalent situation with respect to being asked to pay the customer share of energy efficiency measures, which is currently set at 25% of total measure costs. This position posed several difficulties for the Working Group's fulfillment of its charge.

First, the question of customer share of efficiency program costs was not in the Working Group's charge. The question is a policy question that had not been previously addressed by the EEAC or the DPU. The EEAC has recently formed an Equity Committee, which is presumably the venue for raising the issue in the Council. Further, since the DPU is the regulatory arbiter of determinations about the income eligibility boundaries of low income

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<sup>9</sup> For the 2010-2012 period, Program Administrators have designed statewide multifamily energy efficiency programs that will serve buildings of more than four dwelling units. Additionally, the Low Income programs are offering a parallel multifamily program built upon the traditional Low Programs offered.

programs, additional work would have to be done to engage that body and develop a final determination.

Second, while the Working Group members acknowledged that the burden of energy costs certainly impacts customers whose income is above 60% of median, there was no agreement in the group about where to set the upper end of income with respect to thinking about different policies on customer contribution. It was noted that the federal Department of Housing and Urban Development (HUD) sets 80% of median as the upper range of low income for the purposes of determining eligibility for federal housing assistance. That's one marker but the Working Group did not have the time or resources to consider other possible markers, higher or lower than 120% of median income, that could be considered as an upper boundary. There was agreement that more work is needed to understand the issue and make recommendations. The general consensus was that this income-related question is certainly valid but this Working Group was not the most appropriate place to consider it.

### 3.2 SERVICE TO RENTERS

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In a discussion somewhat similar to the question of income-related decisions, some members of the Working Group proposed intensive efforts to increase the percentage of residential program participants who are renters. Data in this area are scarce because PA's have not been required previously to report on the numbers or percentages of renters served under the PA's electric RCS program or the gas weatherization program, popularly known as Mass Save. The RCS legislation specifically is targeted to 1-4 family buildings, and as acknowledged elsewhere, until this year, there was no statewide multifamily program targeted to that residential sub-sector (we note that Low Income programs have done work in various types of multifamily low income housing over the years and are also launching a new multifamily effort in 2010). GJC presented census statistics indicating that statewide, 35% of dwelling units are occupied by renters, but fully developed PA or other data on what percentage of renters have been served are spotty at best, and need further work.

This is again an issue that while central to the question of equitable service among residential customers, is somewhat secondary to the question of how to finance and repay obligations in the OBR context. The Working Group had a number of detailed discussions involving members who have had many years' experience of working with renters and landlords and did not come to any clear consensus beyond the recognition that there are complex, legal, financial and regulatory issues, that property owners and managers are diverse in their composition e.g. owner-occupiers landlords at one end, corporate property managers at another and numerous variations in between. Further property owner perceptions of their own interests and the value of energy efficiency for them varies greatly. Most tenants pay their own utility costs, while the costs of capital improvement are borne by owners – with this common situation there is a widely recognized split incentive that works against finding an equitable balance of costs and benefits in rental housing, short of

regulatory or legislative solutions that would mandate certain efficiency practices. Such game changing initiatives are not currently on any legislative or regulatory agendas.

The Working Group member consensus is that the issue of equitable service to renters is important but the equity issue itself is not in the scope of the OBR Working Group and beyond a recommendation that further work concerning renters is needed, the Working Group has not gone beyond the development of what is admittedly an early step in the residential renter matrix.

### 3.3 PAY AND SAVE PILOT AND REPORT

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While the OBR Working Group discussions were in progress, the DPU, in accordance with a mandate in the Green Communities Act (Chapter 169 of the Acts of 2008), ordered electric and gas utilities to conduct a financing pilot known as Pay and Save in each of their territories. As stated in the GCA, the pilot was limited to a maximum financed amount of \$500 in residences and \$1,000 for Small C/I participants. These amounts are considerably less than the financed investments contemplated in the drive to achieve deeper and broader savings under the GCA mandate to acquire all cost-effective energy efficiency. Indeed the existing Small C/I financing option offered by National Grid and others significantly exceeds the C/I limitation, with some thousands of customers participating in financing over the past several years.

At the conclusion of time- and finance-limited Pay and Save pilot programs, an evaluation for all the pilot programs was conducted by Black and Veatch. This evaluation will be posted on the EEAC website. The evaluation included a survey of participants and non-participants in the pilot. The evaluators concluded there was a high percentage of free ridership with respect to financing, that participation was limited and that many customers felt the financing option was more trouble than it was worth. The survey found some conflicting responses, including responses to questions with respect to whether increased financing would be attractive. The evaluation concluded that there was little interest in financing, a conclusion, which some parties, including DOER believed was not warranted by the limited nature of the pilot.

Despite the limited nature of the pilot there may be some lessons learned with respect to how customers view financing opportunities from their respective vantage points. To be successful, any financing/OBR repayment mechanisms must be perceived by customers as providing good value and being customer-friendly. Therefore there may be value in further exploration of what was observed in the pilot.

## 4. COMMENTS ON RENTAL UNITS AND OTHER ISSUES:

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*This section primarily presents comments made by Program Administrators but it also includes issues raised by other stakeholders in the course of the OBR discussions over several months and many meetings.*

GENERAL COMMENT: The Program Administrators present these comments as a preliminary working proposal for a residential renter section. The PAs regard these comments as a straw/position paper intended to reflect the PAs' overarching concerns with the approach outlined in the rental matrix and as a means to focus discussion. The Program Administrators stress that the following section requires additional analysis, discussion, and vetting, and does **not** represent a consensus position.

### **Renters**

- Overall, the PAs stress that the proposed rental option does not provide benefits over the owner option, but can create an unnecessarily complicated system that would insert the PAs into the relationship between landlords and tenants. The Program Administrators point out that the core beneficiary is the landlord by actually financing the difference between the total cost less the rebates, tax benefits and capital improvements to the property. The tenant benefits primarily by a reduction in energy bills, thereby potentially reducing the cost of rent or the utility bill.
- Instead of the approach outlined in the rental matrix, the Program Administrators propose developing a loan program for landlords (based on the owner-obligation scenario). Should the landlord wish to shift a portion of the cost to the tenant, that may be accomplished through a higher rent. This general approach would avoid complex billing, transaction-tracking and legal issues. For example, given that the state sanitary code requires landlords to provide the means for heat and hot water, making tenants responsible to pay (even if in a loan) for new heating/DHW systems may violate the state sanitary code. Furthermore, the PAs believe that the potential evictions associated with energy efficiency programs could be problematic and create unwanted "backlash" against the programs.

### 4.1 AT-RISK GROUPS

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Several workgroup members have expressed concern over the implications of placing additional financial burdens on at-risk groups (<60% median income and 60-120% median

income). Although the model suggests setting financing costs at a safe margin<sup>10</sup> below expected savings, there was concern that this group could be vulnerable to volatile income streams and more exposed to eviction, etc. as a result of the additional fixed payment obligations. Several suggestions / issues are listed below. These comments do not reflect the consensus of the OBR Working Group (and some of the suggestions/issues are outside the scope of the OBR Working Group's efforts), but are presented to set forth suggestions/issues raised by some of the non-PA participants:

- Low income programs must be even better coordinated than before, as we increase outreach to low-to-moderate income communities and start to reach neighborhoods and multi-unit buildings that may be occupied by a range of household incomes, some below 60% of median income, some in the 60-120% median income range, and some above that.
- We need to be cautious about offering financing to households in the 60% to ~120% SMI range, as additional debt may adversely affect their financial security. There is still the issue of how to identify these customers and whether or not the utilities should be responsible for attempting to ID these customers and steer them to the appropriate EE programs.
- For households in the 60~120% range, the group discussed offering higher levels of rebates and incentives than for households above the 120% range<sup>11</sup>.
- Outreach and marketing (such as community mobilization initiatives) to be specifically tailored towards these particular sectors, including landlords.
- In addition to getting to consensus on the renter matrix, several other steps must also be taken in order to ensure adequate participation and access to these programs by renters and 60-120% homeowners: thought this piece concerned renters, not owners.
- Restructure utility rebates/incentives and marketing/outreach.

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<sup>10</sup> The margin being the difference between finance payments and expected savings of which the target margin was never finalized although 10% and 15% were numbers used in discussions.

<sup>11</sup> Questions arose as to the appropriate level of increased incentives. The PAs believe this implies a tiered rebate/incentive system and further program segmentation. Further segmentation would need to be reviewed by the EEAC and DPU. [PA NOTE:Further program segmentation would require large administrative undertaking and collection of income data. Such a separate effort for this specified income sector is not mandated under the GCA (as opposed to Low Income programs, which are). This issue merits discussion but would be a change to existing DPU-approved plans. EMV work with allow some market research but with limits. and the research might not address overall program design.

- Program budgets should be allocated specific to renters and 60-120% homeowners. Programs should be designed specifically to the needs of these sectors. A market research consultant should be hired by the PAs to address both of these populations.

## APPENDIX A -CASH FLOW MODEL OF COSTS, SAVINGS AND FINANCE

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SOURCE: DOER <sup>12</sup>

### Appendix- Financial Demonstration Model:

#### RENTAL BOILER & HOT WATER EXAMPLE

Assumptions:		Notes
N Gas Utility (yearly)	\$ 1,650	based on 1100 Therms @ \$1.50 per Therm // Average for MA is 1,070 Therms or \$1,650
% HVAC & Hot Water	95%	(May include some cooking, drying, fireplace, etc.)
Targeted Energy bef. Imp.	\$ 1,568	Amount targeted for upgrade and efficiency gains
Old Boiler Efficiency	65%	(Average of Natural Gas Fired Boiler pre 1975)
New Boiler Efficiency	90%	(Actual not AFUE - Targeted Boiler / Hot Water Efficiency)
Boiler Replacement Cost	\$ 10,000	(Estimate for equivalent boiler, hot water and install)
Utility Rebates	\$ -	Rebate applied to interest rate buy down (See K19)
Fed Tax Credits	\$ -	Assumes home owner qualifies for immediate tax credit
Net	\$ 10,000	

Energy Cost Inflation	3%		
Down Principle	50.0%	\$ 5,000	Dep/yr \$ 364
Interest Rate	0.0%	Subsidized	6.5% Market
Duration	144 months		
Duration	12 years		

#### Consumer Payment:

	Yearly	Monthly
Payment	\$ 417	\$ 35
Savings	\$ 435	\$ 36
Net	\$ 19	2
Savings Ratio		105%

#### Energy Use

	Before	After
Therms	1,100	810
Cost	\$ 1.50	\$ 1.50
Efficiency	65%	90%
Heating Equiv.	679	679
Cost	\$ 1,650	\$ 1,215
		\$ 435

PV of Subsidy	\$ 1,534
Discount Rate	6.5%

Current boiler & hot water subsidy is \$1,600 for >95%

<sup>12</sup> The data in this model was compiled by the DOER and has not been reviewed or verified by the Program Administrators.

