Lessons Learned from the Field: Key Strategies for Implementing Successful On-The-Bill Financing Programs

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Presentation Overview

- Challenges of Rental Market from Two Different Perspectives
- Summary of On-the-Bill Financing Program Strategies
- Key "Lessons Learned" from the Field

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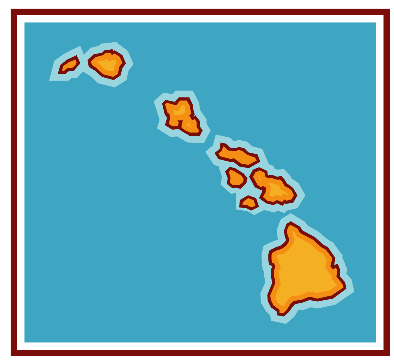
Hawaiian Electric Company

Hawaiian Electric Company has provided the energy that has fueled the islands' development from a Hawaiian kingdom to a modern state.

- Subsidiaries include: Hawaiian Electric Company, Inc. (HECO), Maui Electric Company, Ltd. (MECO), and Hawaii Electric Light Company, Inc. (HELCO)
- Provides electricity for 95% of Hawaii's residents (300,000+)
- Established in 1891, Hawaiian Electric remains one of the few locally
- Owned and operated major companies in the state

Hawaiian Electric Company
Giving you the power



Midwest Energy

- Midwest Energy, Inc. (Midwest Energy) is an electric and gas cooperative that serves 48,000 electric and 42,000 gas customers in central and western Kansas.
- Midwest Energy has its own transmission system and generates electricity from owned sources or procures it contractually
- It's gas system is not vertically integrated, containing no upstream transmission "pipes" or gas production.
- It is a local distribution company (LDC) in the traditional sense. The largest city served is Hays, Kansas with a population of roughly 20,000.

Midwest Energy Inc.

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Challenges in the Rental Market

The rental market is a difficult segment to target for residential energy efficiency improvements.

- Due to the split-incentive in which the landlord has little interest in paying for energy efficiency improvements because the tenant pays the utility bills.
- Several utilities have implemented on-the-bill financing programs, patterned after the Pay-As-You-Save Program© Model.

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Features of On-the-Bill Financing Programs

Utility provides the upfront capital as a way to encourage the investment in these energy efficiency improvements. Other program features include:

- No upfront capital required by customer;
- Efficiency improvements are paid for through a surcharge on the utility bill;
- The surcharge is tied to the location, not to the individual customer;
- Eliminates the “split incentives”

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Comparison of Approaches
Midwest Energy and Hawaiian Electric

	HECO	Midwest Energy
Targeted Equipment	Solar Water Heaters	Space and Water Efficiency Measures
Marketing Approach	Contractor Driven	Customer Driven
No Customer Down Payment	√	√
On-the-Bill Financing of Efficiency Improvements	√	√
Utility Tariff Service	√	√
Installation Tied to Location	√	√
Implemented thru Approved Contractors	√	√
Required Post Inspection/Verification	√	√
Term of Loan (Maximum)	12 years	15 years
Additional Features	$1,000 rebate	Comprehensive Energy Audit
	Equipment Warranty	Economic Analysis
	Free Maintenance	Contractor Management

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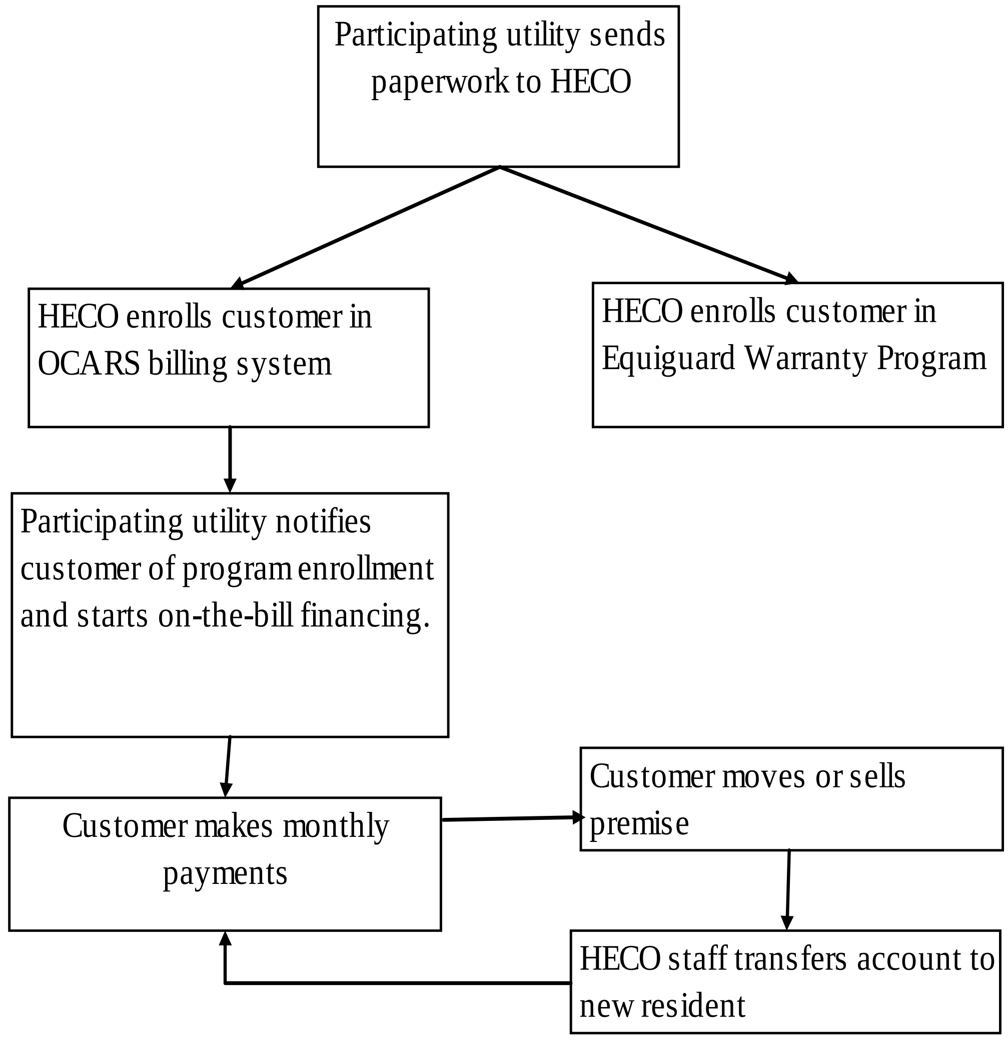
HECO's Program Characteristics

- Created to satisfy the requirements of Act 240 (SB2957), which mandated that the utilities shall establish a "pay-as-you-save" type program.
- Focus expanded beyond the original rental target market to all eligible existing residential home owners.
- HECO had to develop internally all of the necessary forms, documents, and program information as well a legal requirements.
- Developing this application process was also challenging
  – Required new types of accounting and billing systems that matched the monthly SSP payments with the "regular" monthly utility bills.
  – This process required the utility to also develop systems and responses to handle all aspects of loan financing and defaults.

INTERNAL SSP PROGRAM PAPER WORK FLOW



Midwest Energy’s Program Scope is Slightly Different from PAYS

- Has a broader view by focusing on a range of home improvements, rather than just one measure (i.e., solar water heaters).
- Only allows efficiency measures that are permanently attached to the foundation meaning so all improvements are related to space or water conditioning.
- The biggest difference between How$mart℠ and PAYS® is that Midwest Energy found it untenable to suspend How$mart charges to customers in the event that a How$mart℠ measure fails to work at any point in time during the period of time when How$mart charges apply.

How$mart

Midwest Energy's Program Process

- Customer-Initiated program
- The audit results lead to the development of a preliminary Conservation Plan
- Customers solicit participating contractors to provide bids for recommended improvements
- Conservation Plan is finalized with total costs of the improvements, estimated utility bill savings, and the How$mart^{SM} monthly charge
- Selected contractor performs the work
- Building owners and tenants must sign off on the completed work.
- Midwest Energy pays the contractor upon sign-off by the customer that work has been satisfactorily completed.

How$mart

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Midwest Energy's Roles

- Conducting comprehensive energy audit
- Developing recommendations for improvements
- Performing Economic analysis
- Controlling contractors
- Ensuring Quality control
- Acting as an Intermediary

Comparison of HECO and Midwest Energy Programs

2007-2009 Cumulative Program Year Results		
	HECO	Midwest Energy
Number of customers reached	484	350
Value of home improvements	$2,130,377	$2,288,664
Estimated energy savings(kWh)	1,189,188	637,000
Mmbtu Gas/propane	NA	8,806
Estimated Annual Energy Savings[1]	$463,783	$200,000

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Lessons Learned

- ***Keep the focus on the rental housing market***
  - Design works best for low cost measures that have a short payback
  - Midwest Energy has been successful in tapping because of its focus on lower-cost shell and heating measures.
- ***Keep the application process simple***
  - Midwest Energy was able to leverage its existing skills and capabilities into the How$mart Program
  - HECO had to develop this entire program from the ground up.

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More Lessons Learned

- ***Voluntary is better than mandated***
  - Offers more flexibility and increase the potential for long-term success
  - Midwest Energy viewed this as a a way to improve the overall housing stock in its service territory

- ***Contractor relationships are critical for program success***
  - Demonstrated a strong sense of commitment to these contractors by offering them training and by treating them an essential partner in this process.

Key Take-Away:
On-Bill Financing Programs Can Work

- Both utilities believe that the concept of the on-the-bill financing program is effective
- Programs are just beginning to live up to its promise of tearing down market barriers to energy efficiency.
- Midwest Energy has received more than 200 inquiries from every region of the country while HECO’s program continues to be a model for utility-financed efficiency improvements.
- These two utilities are demonstrating that with innovative program design, patience, and the ability to make program adjustments as needed, the demand and interest in these types of programs will continue to grow.

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Questions

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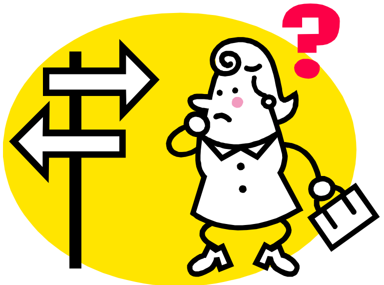

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