BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKET NOS. UE-190529, UG-190530, UE-190274, UG-190275 (*Consolidated)*

EXH. WMG-05

CLEAN ENERGY WORKS
WHAT IS INCLUSIVE FINANCING AND WHY ARE SOME OF THE LARGEST STATES IN THE COUNTRY CALLING FOR IT NOW?

ON BEHALF OF

NW ENERGY COALITION

November 22, 2019

Clean Energy WORKS

What is inclusive financing for energy efficiency, and why are some of the largest states in the country calling for it now?

Over the last fifteen years, seventeen utilities in seven states have deployed more than $30 million through inclusive financing programs for thousands of cost effective energy efficiency upgrades to customers' homes and buildings. These programs are inclusive because they have overcome entrenched barriers such as income, credit score, or home ownership that too often disqualify customers for debt-based financing programs. In each case, utilities have offered to invest in energy efficiency upgrades that are cost effective even with a portion of the estimated net savings dedicated to the customer from the start. The utility recovers its costs at each location through terms of service defined in an opt-in tariff, which allows the utility to include a charge on the bill that is less than the estimated savings.

Utilities using this systematic approach have reported cost recovery rates exceeding 99.9%, with zero cases of disconnection for nonpayment of cost recovery charges, even in areas characterized by conditions of persistent poverty. They have been able to reach underserved market segments because the tariffed terms of service remove barriers to participation posed by the split incentive between renters and landlords, the underwriting requirements that apply to consumer debt instruments, and risks associated with participation. In addition to expanding the addressable market for solution providers, these utilities have also reported exceptionally high conversion rates from energy audits to investment. The program data[1] they report produces a striking picture of a breakthrough financing mechanism that can expand participation in the clean energy economy, reach underserved markets, and unlock investment opportunities.

Compared to typical debt-based financing programs, inclusive financing based on Pay As You Save® (PAYS®) has a stronger market response because:

1. The addressable market is twice the size because nearly all customers are eligible, including renters and low- and moderate-income (LMI) households.
2. When customers are offered upgrades with the PAYS value proposition, nearly all utilities have reported customers accept offers more than half of the time, indicating that more customers want to participate; even risk-averse and debt-constrained customers.
3. Customers with access to inclusive financing tend to undertake projects that are larger in scope because the terms are more attractive.
4. The investment is more secure because utility collections have a charge-off rate that is approximately 10 times lower than unsecured consumer lending.

What is inclusive financing?

Inclusive financing opens doors to the benefits of energy efficiency upgrades by clearing barriers including those relating to access to capital and eligibility for financing, such as income, credit, and renter status. Many states have large LMI populations whose energy bill payments fund energy efficiency programs from which they are systematically disqualified by these factors despite facing the highest degree of energy burden. Inclusive financing programs do not require customers to prove that they are either wealthy enough to qualify for credit or poor enough to qualify for public assistance restricted to low-income households. Inclusive financing is unique in that it offers all utility customers the option to access cost effective energy upgrades using a proven model for investment and cost recovery that benefits both the utility and its customers.

[1] Program data available in the paper "What is inclusive financing for energy efficiency, and why are some of the largest states in the country calling for it now?" by Dr. Holmes Hummel of Clean Energy Works and Harlan Lachman of Energy Efficiency Institute, Inc., published in the *2018 ACEEE Summer Study on Energy Efficiency in Buildings.*

Pay As You Save® (PAYS®)

The PAYS® system, developed by Energy Efficiency Institute, Inc. enables building owners or tenants to purchase and install money-saving resource-efficient upgrades with no upfront payments and no debt obligation. Those who benefit from the savings pay for these upgrades through a tariffed charge on their utility bill. The charge is capped at a level that is significantly lower than the estimated savings, and the period of cost recovery is shorter than the useful life of the upgrades. The methods used to calculate estimated savings are based on industry tools and workforce capabilities that are not unique to PAYS, yet the PAYS system adds consumer protection by requiring a portion of net savings be dedicated to the customer from the start. The customer pays for their utility service as long as they occupy the location where the upgrades are installed, and the charge remains on the bill for that location until all costs are recovered. If upgrades fail and are not repaired, customer charges stop, eliminating a major risk barrier for potential participants.

Results from PAYS® programs across the United States

There are 17 inclusive financing programs based on PAYS that are or have been operating in seven states – Arkansas, California, Hawaii, Kansas, Kentucky, New Hampshire, and North Carolina. Investor owned utilities, rural electric co-ops, and municipal utilities have implemented PAYS programs in commercial buildings, single-family homes, and multifamily housing. The majority of programs have been implemented by cooperative and municipal utilities.

Four factors have contributed to accelerated investment through PAYS:

1. Larger addressable market due to fewer barriers to eligibility
2. Higher adoption rates (i.e., the portion of customers who receive an assessment of cost effective energy upgrades that go on to accept the utility's offer on PAYS terms)
3. A willingness of both utilities and customers to undertake larger projects that achieve deeper savings
4. The involvement of program operators experienced with implementing PAYS programs

Two examples of PAYS® programs

Ouachita Electric Cooperative switched from an on-bill loan program to a more inclusive tariffed on-bill program based on the PAYS system. Among customers who received an energy assessment indicating cost effective opportunities for efficiency upgrades, more than 80% accepted the offer, including virtually all of the multi-family housing renters. The average project size for residential customers was more than double the average size in the utility's previous on-bill loan program. The primary reason for the larger investment and deeper savings was the decrease in risk exposure for both the utility and the participants.

Roanoke Electric Cooperative serves several persistent poverty counties, finding very few members chose to join their on-bill loan program. When Roanoke Electric offered Upgrade to $ave, the surge of demand created a waitlist of more than 100 households. To keep up, workforce development has been a challenge. In addition to finding benefits for the participants and the utility, Roanoke's business case found benefits to all ratepayers, which were positive due to avoided wholesale costs for energy and demand.

More states calling for inclusive financing

CA and NY, two states with some of the largest numbers of LMI households, have each found that access to financing is a significant barrier. In both states, a top recommendation advanced by their state energy office to address that barrier is the introduction of inclusive financing for all cost effective energy efficiency upgrades, using approaches with attributes of tariffed on-bill programs.

For more information: **www.cleanenergyworks.org**