Energy Efficiency Finance
Techniques, Developments & Options

September 27, 2013
Council of Smaller Enterprises

Mission

We help small businesses be more successful by…

✓ Saving them money on the cost of doing business
✓ Connect them to the resources and people they need to succeed
✓ Serve as the voice of small business at local, state and federal levels
Complete turnkey, energy solutions customized to meet the needs of the business.
Overcoming Barriers

• Despite its potential, there are barriers to pursuing EE measures:
  • High upfront costs, with uncertain benefits realized over many years
  • Current financing mechanism rely on public funding and are insufficient in scale and standardization to effectively address EE
  • Lack of widespread access to low-cost financing
  • Many property owners constrained from borrowing due to little to no equity, first mortgage
  • Incentives are often misaligned (owner/tenant)
Providing a Pathway to Capital

Commercial Bank Financing
- Bankable at typical standards
- Any size project cost
- Currently working with KeyBank

Enhance Credit
- COSE Energy Loan Guarantee
  - Not bankable at typical standards
  - Up to $35,000 total project cost

Alternative Funding
- Ohio Efficiency Fund
  - Mid-Market Business; off balance sheet
  - $100,000 - $1,000,000 total project cost
  - On-Bill Repayment
  - Proposed Legislation
Before you get on the road, you should take advantage of all possible assistance

**INCENTIVES**

- **Utility Rebates:** Utility programs pay for a portion of total energy efficiency project costs or for discrete efficiency upgrades.
- **Interest Rate Buy-downs:** Federal, state and utility programs lower the borrowing cost (i.e., interest rate) for energy efficiency projects.
- **Tax Deductions:** Federal tax deductions for building owners who implement efficiency upgrades that meet pre-defined performance thresholds.

**FINANCING SUPPORT**

- **On-bill Repayment:** A customer’s regular utility bill would include an added line item for energy efficiency project payments. Some lenders view this as credit support given the historically low default rates on utility bill payments.
- **Credit Enhancement:** Federal, state and local programs provide loan loss reserves, loan guarantees and other protections that provide credit support for energy efficiency.
- **Free Energy Assessments:** No-cost technical services and engineering support that help identify and screen suitable energy efficiency projects.

**PERFORMANCE GUARANTY**

- **ESCO Performance Guaranty:** Guarantees issued by large ESCOs or contractors with a strong balance sheet that protect customers and financiers from shortfalls in project performance.
- **Energy Savings Insurance:** Specialty insurance products backstop energy savings on projects to mitigate performance risk. Insurance products can be used in lieu of ESCO guarantees when a contractor is unable or unwilling to provide a financeable guarantee.
Achieving Energy Efficiency Goals and Internal Investment Reqs.

- Avoid capital outlay
- Use savings to pay for project
- Reduced operating expenses
- Enhanced reliability of operations
- Reduce exposure to utility uncertainty
- Expand feasible energy savings
Key Features of On-Bill Repayment in Ohio

- Private financing for qualifying energy efficiency/renewable energy
- Loan repayment through monthly utility bill
  - Threat of shutoff improves credit quality
  - Obligation stays with meter
- Commercial lenders are better equipped to underwrite and finance
  - Utility is the payment conduit – similar to VISA
- Projects originated by contractors
- Projects could be required to produce net monthly energy savings
- Utilities should receive admin fees from banks/investors for billing services
  - Utility receives credit for energy savings
Benefits of OBR

- No direct costs to taxpayers or ratepayers
- Creates jobs
- Reduces emissions of pollutants
- Enables consumer to secure financing for EE and renewable energy project investments at lower cost than traditional lending products
- Beneficial to ratepayers through avoided cost of new generation capacity and reduced use of higher cost generation
- Beneficial to utility shareholders through payments for billing services
- Improved performance and utilization of utility EE Programs
Proposed Legislation

• Directs PUCO to establish statewide On-Bill Repayment program(s) for all rate classes
• Obligation stays with meter
• Utility collects payments via standard monthly billing procedure
• Provide flexibility for contractor/financing business models
• Third-Party servicer would process payments
  • Reduces administrative burden on utilities
  • Creates uniform standard for contracts, lowers transaction costs
• Scale and standardization can reduce costs
• Utilities would be adequately compensated for services provided
  • Fees from lenders/investors
  • Credit for energy savings
Alternative Pathway: Efficiency

Services Agreement

Metrus’ ESA structure turns efficiency into a resource by removing all first-cost barriers and charging only for realized energy savings.

Efficiency Services Agreement

ESCO/Contractor and Metrus enter into a turnkey project installation and maintenance contract, backed by a performance guarantee or insurance policy.

Broad Public Relations Platform

As part of the DOE & White House Better Buildings Challenge, customers will enjoy a prominent PR platform to advertise projects.

Efficiency Services Performance Contract (ESPC) Agreement

ESCO/Contractor designs and installs the EE project and provides long-term maintenance.

Metrus covers 100% of project cost. Customer repayment based on avoided energy use and reduced operating expense.

Customer
# Example Project – Profile

<table>
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<tr>
<th>Target Project Parameters</th>
<th>Example Project Summary</th>
<th>Example ESA Terms</th>
<th>Example Fund Investor Profile and Return</th>
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<tbody>
<tr>
<td><strong>ESA Contract Term</strong></td>
<td><strong>Customer Type</strong></td>
<td><strong>ESA Service Charge</strong></td>
<td><strong>Investor Mission</strong></td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>Small/Medium enterprise</td>
<td>$0.09/kWh (90% of current utility rate)</td>
<td>Financial return, economic development, social, environmental</td>
</tr>
<tr>
<td><strong>Project Size</strong></td>
<td><strong>EE Measures</strong></td>
<td><strong>Other Services Included</strong></td>
<td><strong>Return on Investment</strong></td>
</tr>
<tr>
<td>$100K to $1.0M</td>
<td>Lighting, controls, HVAC upgrade (3 month construction)</td>
<td>Maintenance, M&amp;V, Project Management, Insurance</td>
<td>6% (worst case) fully amortized loan, P+I paid monthly or quarterly</td>
</tr>
<tr>
<td><strong>Target Annual Energy Savings</strong></td>
<td><strong>Total Project Cost</strong></td>
<td><strong>ESA Escalation Rate</strong></td>
<td><strong>Interest Deferment</strong></td>
</tr>
<tr>
<td>15% to 30%</td>
<td>$286,875</td>
<td>3.0% per year</td>
<td>15 months (3 months construction, 12 months operation)</td>
</tr>
<tr>
<td><strong>Simple Payback</strong></td>
<td><strong>Projected Savings (Y1)</strong></td>
<td><strong>Term</strong></td>
<td></td>
</tr>
<tr>
<td>&lt; 7 years</td>
<td>$55,000/year (550,000 kWh electricity)</td>
<td>10 years</td>
<td></td>
</tr>
<tr>
<td><strong>Flexible ESA Levers</strong></td>
<td><strong>Environmental Benefits (Y1)</strong></td>
<td><strong>Fair Market Value Purchase Option</strong></td>
<td></td>
</tr>
<tr>
<td>• Term</td>
<td>379 metric tons CO2 avoided/year (75 cars off the road)</td>
<td>$23,375 at end of term</td>
<td></td>
</tr>
</tbody>
</table>
Project Transactions

- **Fund**
  - Sign efficiency services agreement with customers
  - Enter into key project-level contracts with trade contractors
  - Mitigate key investment risks
  - Utilize low-cost sources of capital to enable customers to implement projects *that would otherwise go undone*

- **Customer**
  - Enter into the ESA; provide facility access to trade contractors to install & maintain EE project
  - Reduces energy usage; continue utility service
  - Make ESA payments to the Fund based on realized energy savings

- **Efficiency Services Contractor**
  - Enters into EPC, O&M, M&V agreements with Fund
  - Provides performance guarantee on energy savings
THANK YOU

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THANK YOU

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