Briefing Paper
Savings-Within-Reach Loan Product

May 23, 2012

Summary

Staff has developed an on-bill loan option to increase participation in the Savings-Within-Reach (SWR) moderate-income program track. Energy Trust would loan $300,000 to help capitalize a loan pool, and Craft3, the lender, would contribute another $300,000. The first $45,000 in loan losses, if any, would be borne by Clean Energy Works; Energy Trust would be at risk for the next $45,000 in losses, and Craft3 would bear the rest. Energy Trust would also use incentive funds to pay Craft3 up to $350 per-loan transaction fee, an amount still to be finalized.

Background

- Savings-Within-Reach is nearly two years old, shows strong growth, and has only scraped the surface of the market potential. In 2010, there were 77 SWR projects, 440 in 2011, and we expect 700 in 2012.
- Moderate income is defined as 185%-250% of federal poverty level (66% to 89% of average Oregon income). Income is self-reported by the customer on an affidavit form and is otherwise not validated by Energy Trust.
- The Savings-Within-Reach delivery model is contractor-driven, and leaner than the existing Clean Energy Works Oregon (CEWO) process. Savings-Within-Reach involves no energy modeling, no Energy Advisor, and emphasizes cost-effective, passive envelope measures.
- In 2011, Savings-Within-Reach projects had an average project cost of $2,989 and average incentive of $1,159, leaving an out-of-pocket customer cost of $1,830.

Discussion

- The goals of the loan option:
  - Increase participation in moderate-income energy efficiency upgrades by up to 300 loans in the first year
  - 90% of applicants qualify for loan product
  - Demonstrate collaborative capitalization of loan pool
  - Demonstrate shared loan-loss reserve pool
  - Leverage CEWO on-bill platform
  - Demonstrate a net-neutral (or close to it) loan product,
- We expect customers to come from: Energy Trust trade ally marketing, CEWO referrals, referrals from community organizations, and referrals from the Oregon Housing and Community Services first-time homebuyer loan program.

- The loan product is intended for smaller projects ($5,000 or less) for packages of measures that are likely to save as much as they cost to the customer. Space and water heating equipment would be eligible, but only if preapproved by the program.
- The interest rate would be 5.99% for a term of 10 years, repaid through the utility bill.
- The utility has no obligation to force payment and will not shut off service for failure to pay the loan portion of the utility bill. Consequently, the interest rate on the loan is equivalent to standard, unsecured credit for those with acceptable credit scores
- Loans would be offered to PGE, PAC and NWN customers. Cascade Natural Gas does not currently work with CEWO to provide an on-bill option, and the initial roll out of this option is limited to those customers who are eligible to leverage the existing CEWO on-bill platform.
- The lending entity would be Craft3, a community development entity (formerly Shore Bank Cascadia), which implements loans through CEWO.
- These projects would be considered part of Energy Trust's pilot efforts under Oregon's Energy Efficiency and Sustainable Technology Act (EEAST).
- Energy Trust loan would contribute $300,000 to capitalize the initial $600,000 loan pool. Craft3 will also contribute $300,000. Energy Trust would earn 1% on its $300,000.
- Energy Trust loan loss risk would be limited: CEWO would be responsible for the first $45,000 in loan-losses. Energy Trust would be responsible for the next $45,000, and Craft3 would cover all other losses. Craft3 has experienced less than .05% in defaults in the CEWO program; only three loans defaulted in its CEWO portfolio. After 2-3 years, we would review the loan-loss experience and recalibrate our exposure to loan losses.
- Energy Trust would authorize an incentive payment to Craft3 of up to $350 per loan. Energy Trust would seek to reduce this to $300 if the utilities allow the on-bill cost for this customer class to be covered under their current CEWO agreements with Craft3.
- Staff has analyzed cost-effectiveness of the loan option using historical SWR project costs. The analysis indicated that the loan option should be cost-effective, at near net-neutral cost to participant. Actual costs will be monitored carefully during the initial roll-out.

Next Steps

- Execute loan agreement with Craft3
- Develop program SWR project protocols with Craft3
- Discussion with utilities to accept the charges for on-bill for these customers as part of the current CEWO agreements with Craft3
- Have SWR contractor orientation of the loan product
    - Sign an addendum to TA agreement to offer this product
    - Agree to EEAST compliant wages at $15.15 per hour, which is 180% of state minimum wage