SOURCING CAPITAL FOR INCLUSIVE FINANCING

Part 7 of the Learning Circle Series
SEEA Serves the Southeast

Mission
The Southeast Energy Efficiency Alliance (SEEA) works to ensure people in the Southeast have the knowledge, resources, and opportunities to optimize energy use.

Vision
Energy efficiency is a primary driver of a prosperous, healthy and sustainable Southeast.

Work Areas:
- Built Environment
- State, Local & Utility Policy
- Energy Efficiency Finance
Drawing on Experience

Utilities in the Southeast have already demonstrated multiple sources:
- Community Development Finance Institution
- Federal finance facility
- Cooperative Bank

Clean Energy Works has helped develop the business plans to secure capital for investment through inclusive financing programs in NC and AR.

SEEA has partnered with Clean Energy Works to ensure the insights of experience are available more broadly as a source of assistance to stakeholders across the Southeast.
Sourcing Capital for Inclusive Financing Programs

• Distinguishing between sourcing and deploying capital

• Exploring different options for sourcing capital

• Arranging third-party private sector capital
Sourcing Capital is different than Deploying Capital

Example Scenario

Up to $5 Billion available annually at Treasury rates

Roanoke Electric Cooperative

$6 Million Investment program

Upgrade to $ave Using PAYS®

~$6,000 in upgrades per participant

Pay As You Save® and PAYS® are trademarks of Energy Efficiency Institute, Inc.
Capital Cycle from Perspective of a **Utility**

- **SOURCING CAPITAL**
- **DEPLOYING CAPITAL**
- **REPAYING CAPITAL**
- **RECOVERING CAPITAL**

- **Utility**
- **Capital Provider**
- **Metered Site**
- **Solution Providers**
- **Customer: Current & Future**

Consumers Choose Among Competitors

Learning Circle Series
Capital Cycle from Perspective of a Capital Provider

- **Earning Capital**
  - Capital Provider
  - Utility
  - Metered Site
- **Deploying Capital**
  - Utility
  - Solution Providers

- **On-Bill Cost Recovery Tied to Meter**
- **Customer: Current & Future**
- **Consumers Choose Among Competitors**

*Learning Circle Series*
Reserve Funds assure utilities can fulfill obligations

- Reserve Fund
- Earning Capital
- Capital Provider
- Deploying Capital
- ON-BILL Cost Recovery Tied to Meter
- Metered Site
- Solution Providers
- Customers Choose Among Competitors
- Customer: Current & Future

Learning Circle Series

Clean Energy WORKS
Sourcing Capital for Inclusive Financing Programs

• Distinguishing between sourcing and deploying capital

• Exploring different options for sourcing capital

• Arranging third-party private sector capital
Capital Sources for Sample Programs

<table>
<thead>
<tr>
<th>Utility</th>
<th>Program Name</th>
<th>Capital Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>EverSource</td>
<td>Municipal Smart Start</td>
<td>Ratepayer funds *</td>
</tr>
<tr>
<td>HECO</td>
<td>Solar Saver</td>
<td>Ratepayer funds *</td>
</tr>
<tr>
<td>Midwest Energy</td>
<td>How$mart</td>
<td>Bank (CFC), State grant *</td>
</tr>
<tr>
<td>Kentucky</td>
<td>How$mart KY®</td>
<td>Community Development Financial Institution (CDFI)</td>
</tr>
<tr>
<td>Roanoke</td>
<td>Upgrade to $ave</td>
<td>Rural Utility Service</td>
</tr>
<tr>
<td>Ouachita</td>
<td>HELP PAYS®</td>
<td>Bank (CFC)</td>
</tr>
</tbody>
</table>

* Looks like a grant, which then provides a revolving fund
## Sample Capital Sources by Cost, Eligibility, Reliability

<table>
<thead>
<tr>
<th>Capital Source</th>
<th>Cost of Capital</th>
<th>Eligibility</th>
<th>Recurring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratepayer funds *</td>
<td>Grant</td>
<td>Utility oversight (Commission or Board)</td>
<td>Potentially, but unreliable</td>
</tr>
<tr>
<td>State grant *</td>
<td>Grant</td>
<td>Program criteria</td>
<td>No</td>
</tr>
<tr>
<td>Community Development Financial Institution (CDFI)</td>
<td>~3%</td>
<td>Non-profit utilities</td>
<td>Yes</td>
</tr>
<tr>
<td>Rural Utility Service</td>
<td>~2% (Treasury + 1/8)</td>
<td>RUS borrower (most co-ops)</td>
<td>Yes</td>
</tr>
<tr>
<td>Bank (CFC)</td>
<td>~4%</td>
<td>Bank client</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* Looks like a grant, which then provides a revolving fund
## Utility is Responsible to Capital Provider, Regardless of Program Performance

<table>
<thead>
<tr>
<th>Utility</th>
<th>Program Name</th>
<th>Reported Charge Off Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>EverSource</td>
<td>Municipal Smart Start</td>
<td>0%</td>
</tr>
<tr>
<td>HECO</td>
<td>Solar Saver</td>
<td>0%</td>
</tr>
<tr>
<td>Midwest Energy</td>
<td>How$mart</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>How$mart KY®</td>
<td>&lt;0.1%</td>
</tr>
<tr>
<td>Roanoke</td>
<td>Upgrade to $ave</td>
<td>--</td>
</tr>
<tr>
<td>Ouachita</td>
<td>HELP PAYS®</td>
<td>--</td>
</tr>
</tbody>
</table>

Field experience shows Reserve Funds are *not necessary* in order to repay capital providers. However, utilities that lack experience with this type of investment portfolio may also lack confidence in ability to meet its obligations. Reserve Funds address this barrier.
What are the best sources of capital?

- Low barriers to access
- Reliably recurring
- Low cost
- No carrying costs (reimbursable loans, similar to line of credit)
- Consistent with sourcing capital for mainline business

*Typically, the best sources of capital are the mainline sources the utility uses for other corporate investments.*
Special look at Electric Cooperatives

- Rural Utility Service
  - Energy Efficiency & Conservation Loan Program (EECLP)
    - Draws on the same unsubsidized financing available since the 1930s
    - No competition, no deadlines
    - Reliably available, swiftly administered, consistent with mainline business
    - Reimbursable loan (similar to a line of credit: only owe what is used)
  - Rural Economic Development Loan & Grant (REDLG)
    - Subsidized, so capped at $1 million; competitive, so unreliable
  - [Rural Energy Savings Program]
    - Tariffed on-bill programs are not eligible; consumer loans only.

- Banks
  - CFC, CoBank, Wall Street
Sourcing Capital for Inclusive Financing Programs

• Distinguishing between sourcing and deploying capital

• Exploring different options for sourcing capital

• Arranging third-party private sector capital
Arranging third-party private sector capital

- Corporate finance
  - Use the same capital sourcing infrastructure that the company uses for its mainline business
  - Results in a blended cost of capital
- Green bonds
  - Dedicated capital raised through a bond issuance that may have a lower cost of capital
- Special Purpose Entity (SPE)
Questions?
Next Session
Inclusive Financing & Workforce Development
Thursday, August 17, 2:00 p.m. - 3:00 p.m. EDT

Session Description

Inclusive financing reaches underserved market segments, which are often places where little work has been available to contractors qualified to perform upgrades. What are the best ways to support workforce development to keep pace with increasing demand for high quality work that ensures the upgrades achieve the estimated savings on which investments are based?

Join us to hear from experts in training, quality assurance, and voluntary labor standards that support those with jobs created by flows of investment into new markets.
Inclusive Financing via Tariffed On-Bill Investment Program

Customer: Current & Future

Solution Providers

Program Operator

Metered Site

Utility

Capital Provider

ON-BILL COST RECOVERY TIED TO METER

INVESTMENT IN UPGRADES
Inclusive Financing via Tariffed On-Bill Investment Program

Capital Provider

Utility

Metered Site

Solution Providers

Program Operator

Customer: Current & Future

ON-BILL COST RECOVERY TIED TO METER

INVESTMENT IN UPGRADES

Learning Circle Series