Federal financing options for on-bill financing energy efficiency programs

This document provides an overview of existing and pending federal programs that are available to eligible rural electricity providers for the purpose of developing and funding commercial and residential energy efficiency loan programs. The three programs, each offered (or expected to be offered) by the US Department of Agriculture's Rural Utilities Service, are the Energy Efficiency and Conservation Loan Program, Rural Economic Development Loan and Grant program, and Rural Energy Savings Program.

The information provided herein includes only basic information about these three programs. Specific application requirements are not included; however, links where more information can be found about the programs and requirements are provided.

Generally, the three loan programs each provide a significant source of financing for utility-run energy efficiency loan programs (as well as other energy efficiency programs). However, pros and cons exist with each program. The following comparison may help in determining which program might be the most appropriate for a given electricity provider. The remainder of the document provides a more detailed overview of each loan program.

Energy Efficiency and Conservation Loan Program (EECLP)

Pros:
- Non-competitive, large-scale (billions), highly reliable financing at Treasury rates
- Rolling 30-day processing for sound business plans from existing RUS borrowers
- Wider variety of eligible activities and investments, including renewable energy

Cons:
- Not subsidized
- If a new RUS borrower, need to pass through an eligibility process
- Writing an EECLP business plan from scratch is daunting; templates available

Rural Economic Development Loan and Grant Program (REDLG)

Pros:
- Assumed ease of application relative to other loan programs
- Zero interest loan to primary borrowers, or a grant

Cons:
- Energy efficiency applications compete with all other eligible activities
- Limited pool of funds available each year, with max loan of $1M
- Twenty percent in-kind match required
- Requirements for energy efficiency loan applications not specified

Rural Energy Savings Program (RESP)

Pros:
- Available specifically for on-bill finance energy efficiency re-lending programs
- Zero interest loan to primary borrowers
- Allows the borrower to add a 3% mark up to the end-user on the 0% interest loan

Cons:
- $8 million in funds appropriated for FY16, might leverage ~$50M
- Competitive awards with no assurance of follow on financing
- Program eligibility and other rules not yet specified; launch date currently unspecified

USDA’s Energy Efficiency and Conservation Loan Program

Summary

The Energy Efficiency & Conservation Loan Program (EECLP) implements a provision of the 2008 Farm Bill that allows an eligible utility (electric cooperatives and public power authorities serving rural areas) to borrow money at low interest from USDA’s Rural Utilities Service (RUS) for the purpose of making direct investments in energy efficiency upgrades and renewable energy installations to its own facilities or to properties owned by the customers it serves. These programs may be considered an *essential utility service*, meaning they can be sold and billed to customers in the same manner as electricity.

Goals of the EECLP

EECLP is poised to help align the interests of rural utilities with their customers’ interests in cutting waste and saving money. The primary goals of the EECLP include:

1. Increasing energy efficiency at the customer (end-user) level;
2. Modifying electric load such that there is a reduction in overall system demand;
3. Effecting a more efficient use of existing electric distribution, transmission and generation facilities
4. Attracting new businesses and creating jobs in rural communities by investing in energy efficiency; and
5. Encouraging the use of renewable energy fuels for either Demand side management or the reduction of conventional fossil fuel use within the service territory.

Eligible investments and activities

Eligible activities and investments include (but are not limited to) the following:

1. Energy efficiency/conservation measures at a customer’s home or business, where the assets financed are items that typically transfer to a new owner if the property was sold
2. Renewable energy systems, including on or off grid systems and fuel cells
3. Demand---side management investments, including Smart Grid Investments
4. Energy audits
5. Utility Energy Services Contracts
6. Consumer education and outreach programs
7. Power factor correction equipment on a customer’s side of the meter
8. Re---lamping to more energy efficient lighting
9. Fuel switching, meaning replacing a generator with more efficient equipment that uses a different fuel, or the installation of equipment that uses a fuel other than electricity in order to reduce peak electricity demand

Available financing and interest rates

RUS stated in the final rule that "the energy efficiency program should compete equally with other eligible loan purposes" for the overall electric program, which has the authority to make more than $6 billion in loans at Treasury rates each year. Given that very few applications have been submitted, virtually all of the funding remains available. To keep up to date on remaining funds, click on "Box Score" under the heading "Progress" here: http://www.rurdev.usda.gov/UEP_About_Electric.html

The interest rate to the qualifying borrower (rural electricity provider) is the current Treasury rate plus 0.125%. The borrower may then add an additional 1.5% onto any loan provided to an ultimate recipient (customer). Treasury rates are updated daily and can be found here: http://www.rurdev.usda.gov/UEP_rates.html

Eligible borrowers

"Eligible borrower" for the EECLP program means a utility system that has direct or indirect responsibility for providing retail electric service to persons in a rural area. This includes:

- "public bodies" such as municipalities, counties, other political subdivisions of a state such as districts and authorities; and,
- "non-public" bodies such as associations, cooperatives, corporations operated on a non---profit basis, Indian tribes on federal and state reservations, and other federally recognized Indian tribes.

RUS General Field Representatives (GFRs) steward the process for becoming a qualified borrower. In addition, a utility that operates at---cost (such as a municipal utility or public power authority) may still qualify as serving rural areas if it primarily serves customers outside of cities that have more than 20,000 people. Most of the 2,000 municipal utilities in America serve towns so small that they meet that test.

RUS has a process for qualifying new borrowers, and the RUS GFRs in each state are a good place to start with an inquiry. Although RUS does not appear to have a public list of qualified borrowers, the vast majority of the electric cooperatives are already qualified borrowers.

More information

The final rule that established EECLP as it was published in the Federal Register can be found here: http://www.rurdev.usda.gov/SupportDocuments/UEP_EE_FinalRule.pdf

RUS has said that it will release bulletins with guidance as well as a toolkit for applicants on the EECLP website at: http://www.rurdev.usda.gov/uep_homepage.html.

If you have further questions, RUS recommends contacting its GFR for your state, and that person's contact information is listed on this map: http://www.rurdev.usda.gov/UEP_GFR_map.html

Rural Economic Development Loan and Grant Program

Summary

The Rural Economic Development Loan and Grant (REDLG) program provides funding to rural projects through local utility organizations. Two funding options are available through REDLG:

1. Under the **REDLoan program**, USDA provides zero interest loans to local utilities which in turn pass through to local businesses (ultimate recipients) for projects that will create and retain employment in rural areas. The ultimate recipients repay the lending utility directly. The utility is responsible for repayment to the Agency.
2. Under the **REDGrant program**, USDA provides grant funds to local utility organizations which use the funding to establish revolving loan funds. Loans are made from the revolving loan fund to projects that will create or retain rural jobs. When the revolving loan fund is terminated, the grant is repaid to the Agency.

Eligible borrowers

To receive funding under the REDLG program an entity must:

- have borrowed and repaid or pre---paid an insured, direct, or guaranteed loan received under the Rural Electrification Act;
- be a not-for-profit utility that is eligible to receive assistance from the Rural development Electric or Telecommunication Program; or,
- be a current Rural Development Electric or Telecommunication Programs Borrower.

Eligible investments and activities

REDLG grantees and borrowers pass the funding on to eligible projects. Examples of eligible projects include, but are not limited to:

- Capitalization of revolving loan funds
- Technical assistance in conjunction with projects funded under a zero interest REDLoan
- Business Incubators
- Community Development Assistance to non-profits and public bodies (particularly job creation or enhancement)
- Facilities and equipment for education and training for rural residents to facilitate economic development
- **Energy efficiency programs**

Available financing and interest rates

During FY 2014, approximately $91 million is available for zero interest loans and $10 million for grants. An in-kind match of twenty percent of the project costs is required.

See the 2014 Notice of Funds Availability (to be published) at: http://www.rurdev.usda.gov/RD_NOFAs.html

How to Apply

To apply for REDLG funding, please contact your Rural Development State Office. See the following website to find contact information: http://www.rurdev.usda.gov/recd_map.html

Rural Energy Savings Program

Summary and background

The Rural Energy Savings Program (RESP) is a federal loan program that, it is anticipated, will be offered through the Rural Utilities Service (RUS) of the US Department of Agriculture (USDA). Once developed into a rule (and funded), the program will provide up to $75 million per year in zero interest loans to eligible borrowers every year through 2018 (funding permitted). The purpose of RESP is to "help rural families and small businesses achieve (energy) cost savings by providing loans to qualified consumers to implement durable cost-effective energy measures."

RESP is specifically intended to fund commercial and residential "on-bill finance" energy efficiency loan programs. Under such programs, the ultimate recipient (families or businesses) receives a low-interest loan from their electricity provider or other eligible borrower (eligible entities) to make comprehensive, cost-effective energy efficiency improvements. The loan would then be repaid through an extra charge on their electric bill. In other words, RESP supports the creation of expansion of consumer re-lending programs, where the rural electricity provider receives a RESP loan from RUS, and then re-lends the funds to customers who want to make energy efficiency improvements to their home or business. The intent of on-bill financing programs is for the cost savings achieved as a result of the efficiency improvements to exceed the cost of the loan.

RESP was signed into law in February 2014 as a provision of the Agriculture Act of 2014 (see Sec. 6205). The program sat unfunded and therefore dormant until December 2015, when Congress appropriated $8 million for the program as part of a larger budget deal. The bill stipulates that RESP must be operating by September 30, 2016, or the funds will be rescinded. RUS is currently preparing the program for launch, but has not provided a timeline or program details. RUS has stated that launching the program is a priority.

The $8 million appropriation will be used to leverage a larger loan pool. It will be used as a credit subsidy, buying down the interest rate of a certain amount of exisiting RUS loan authority to zero percent. The amount of zero-percent loans has not been announced; it is expected to be approximately $50 million. These funds will be available until expended, and efforts are underway to provide RESP with additional funding for the next fiscal year.

Eligible borrowers

The RESP provision defines an eligible entity (primary borrower) as:

1. "any public power district, public utility district, or similar entity, or any electric cooperative…that borrowed and repaid, prepaid, or is paying an electric loan made or guaranteed by (RUS) or any predecessor agency;
2. any entity primarily owned or controlled by one or more entities described in [1]; or,
3. any other entity that is an eligible borrower of the (RUS)…"

In terms of entities (qualified consumers) that can serve as the ultimate recipient (borrower) of RESP loans, the provision defines a "qualified consumer" as "a consumer served by an eligible entity (electricity provider) that has the ability to repay a loan," with "ability" being determined by the eligible entity.

Eligible investments and activities

Eligible investments are generally defined as energy efficiency measures implemented for or at property served by a rural electric utility, with such measures being "structural improvements and investments in cost---effective, commercial technologies to increase energy efficiency."

Ultimately, the energy efficiency activities to be funded through a RESP loan will be determined by the primary borrower. However, the measures offered, in aggregate, must achieve cost savings that result in a payback period of 10 years or less. Services such as energy audits and measurement and verification are required activities.

Available financing, loan terms and interest rates

Under RESP, the RUS will make up to $75 million available each year through Fiscal Year 2018. The RESP provision does not place a cap on individual loan amounts. The maximum loan term for the primary borrower is 20 years, and the maximum loan term to the ultimate recipient (consumer) is 10 years. The interest rate to the primary borrower will be zero percent, and the maximum interest rate that can be offered to the ultimate recipient is three percent.

The interest earned by the primary borrower can be used only for establishing a loan loss reserve and/or offsetting personnel and program costs associated with servicing the consumer loans.

Program application requirements for electricity providers

In applying for a RESP loan, primary borrowers must:

1. establish a list of energy efficiency measures that are expected to decrease energy use or costs for qualified consumers;
2. prepare an implementation plan for use of the loan funds, including use of any interest to be received;
3. provide for appropriate measurement and verification to ensure the effectiveness of the energy efficiency loans/improvements; and,
4. demonstrate expertise in effective use of energy efficiency measures at an appropriate scale.

Borrowers/utilities that have already established an energy efficiency program for qualified consumers may use an existing list of energy efficiency measures, implementation plan, or measurement and verification system associated with the program to satisfy RESP requirements, if the existing systems are consistent with the provisions of RESP.

To read the full RESP provision

Agricultural Act of 2014 (see Sec. 6205, p. 209):
www.congress.gov/113/plaws/publ79/PLAW-113publ79.pdf

Prepared by Appalachian Voices, Clean Energy Works, and Environmental and Energy Study Institute.