



September 30, 2014

Ms. Kaili Sermat-Harding
Assistant Deputy Minister
Ontario Ministry of Energy
Conservation and Renewable Energy Division
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VIA EMAIL

RE: Comments on Implementing On-Bill Financing in Ontario

Dear Ms. Sermat-Harding

The Canadian Energy Efficiency Alliance (CEEA) is the independent advocate for the energy efficiency industry in Canada. We promote public policy and investment that recognizes energy efficiency as the first and most cost-effective fuel in Canada, creating jobs and increasing economic competitiveness in multiple sectors across Canada. We act as a sound resource for policy makers, businesses, builders, consumers, energy companies and environmental groups to address energy efficiency and conservation issues. We represent almost 25,000 like-minded industry members, including large international corporations, Canadian utilities and a wide variety of related industry associations including the NAIMA, Canadian Construction Association, ElectroFed, HRAI and the Mechanical Contractors of Canada.

CEEA applauds the Ministry's commitment to conservation first in its 2013 Long Term Energy Plan (LTEP). We look forward to working with the Ministry to assist with efforts to promote a coordinated approach to conservation efforts among electricity and natural gas utilities in Ontario, as our membership includes the largest electricity and natural gas distribution companies in this province.

Further to our participation in the Ministry's consultation session on September 11, 2014 regarding the implementation of on-bill financing (OBF), we offer the following comments.

1. Ensure a Holistic Market Approach

Energy efficiency financing programs are being proposed with greater frequency throughout North America as a means of addressing the barrier of high upfront capital costs for energy improvements. However, most of these programs are plagued by low participation rates, indicating either inadequate program marketing or a disconnect between program design and the needs of customers or lending institutions.¹ To help deliver real benefits from an OBF program, we strongly encourage the Minister to ensure that a thorough market assessment is conducted in order to understand the motivators and barriers for OBF in Ontario. The assessment could identify the segments offering the greatest potential for energy savings through OBF, develop actionable target customer profiles, and identify optimal market positioning and messages. Consideration should be given to target sectors where the breakdown of financial barriers has been historically difficult, such as multi-unit residential properties, condominium associations and cooperative housing complexes.

OBF is one tool among many that can drive energy efficiency, and it cannot stand alone. Rather, it should be incorporated into a broader program of market outreach, education and community engagement that includes complimentary incentives, social benchmarking, labeling and best practices.

RECOMMENDATION: Ensure thorough, upfront market research is used to define the Ontario market segments for OBF. Incorporate OBF into a holistic approach to energy efficiency savings opportunities.

2. Whole Home Energy Savings

In order to provide a broad reaching tool that addresses energy conservation opportunities in the whole home regardless of fuel source, a program should be deployed that combines natural gas and electric energy saving opportunities. A unified program can deliver long term energy and cost savings with greater customer satisfaction than stand-alone utility programs.² Although the program may encompass dual fuel tracking, all customer-facing

¹ Hayes, Nadel, Granda and Hottel, "What have we learned from Energy Efficiency Financing Programs?" ACEEE, September 2012 (<http://www.aceee.org/sites/default/files/publications/researchreports/u115.pdf>)

² Nowak, Kushler and White, "Successful Practices in Combined Gas and Electric Utility Energy Efficiency Programs", ACEEE August 2014.
<http://www.aceee.org/sites/default/files/publications/researchreports/u1406.pdf>

applications, billing and program material should reflect an integrated approach to energy efficiency. The resulting coordination and integration of demand-side management and conservation programs supports one of the key objectives of the LTEP as well as the Ontario Energy Board's draft demand-side management (DSM) framework guiding how natural gas utilities engage in conservation activities for the next five years (2015 to 2020).

CEEA does not believe, however, that utility companies should be in the business of lending money, as it is not their core business and other third party institutions have the necessary infrastructure to better handle lending activities. We believe that on-bill repayment, along the lines of the open bill access programs offered by some utilities, can be an effective collection mechanism provided to third party lenders. Enbridge Gas Distribution was mandated by the Ontario Energy Board (OEB) to provide open bill access in 2009 and continues to offer billing services for a host of third party service providers, ranging from hot water heater rental companies to duct cleaning services. Accounting methodologies, billing agreements and other logistical elements for the handling of customer payments, third-party marketing materials and settlement have already been operationalized, thereby minimizing the time and resources necessary to develop new protocols for all utilities. However, there are distinct differences to Enbridge's open bill access that should be considered in a new OBF program, specifically the possibility of recourse through the utility for non-payment of the third party loan, such as disconnection, and transferability of amounts that may be outstanding to a subsequent homeowner or tenant. We address these issues in item 4 below.

RECOMMENDATION: Combine gas and electricity energy savings opportunities, with lending activities undertaken by third-party financial institutions.

3. Timeframe for Implementation

As mentioned above, we believe that a thorough market assessment for OBF is critical to ensure net ratepayer benefits. The timeframe for implementation, therefore, should not compromise the development of a meaningful program that addresses market barriers and is sustainable for the long term.

Time and resource efficiencies during program development may be gained by leaning on efforts previously undertaken by the Ministry, the OEB, or by other jurisdictions that have already launched OBF programs. For example, we heard during the consultation session that Manitoba Hydro has developed an extensive savings calculator to estimate energy savings on proposed energy improvements. It may be more efficient to license this calculator than deploy other methods of confirming energy savings. With respect to utility billing system modifications, we also heard during the consultation session from

NYSERDA that a third party platform was deployed that linked to multiple utility billing systems, thus minimizing the need for utility company modifications. These opportunities for recycling of previous efforts or streamlining of efforts using third party platforms should be explored.

RECOMMENDATION: Explore areas for efficiencies in other jurisdictions or existing programs.

4. Qualifying Measures

Improvements that provide measureable reductions in energy consumption and have upfront capital costs that warrant financing should be considered eligible measures for the OBF program. In order to ensure maximum energy savings and build capacity in the sector, all improvements should be completed by qualified contractors that have been pre-screened to ensure they possess an appropriate level of training and/or certification. Fortis BC, for example, has a rigorous on-boarding process for contractors that includes license requirements, proof of insurance and disability coverage, and attendance at a mandatory program training session. In Ontario, the OPA imposes similar requirements for contractors participating in the SaveONenergy Heating and Cooling incentive program, Recognizing that the contractor market is a key marketing channel for energy efficiency upgrades, the rigor of qualification should be balanced against the quantity of contractors able to promote the program and penetrate the market.

CEEA is a strong advocate of the EnerGuide rating system for products and homes, as it is a simple tool that builds energy literacy for consumers. The OBF and other incentive programs should support the integration of the EnerGuide rating system by encouraging their use in qualifying retrofits.

We have recommended previously that lending activities for the on-bill financing program be assumed by third-party financing institutions to minimize risk and cost of lending for the utility companies and the ratepayer. However, utility companies will still incur other costs for the implementation and operation of the OBF program. Because this lending mechanism is a tool for achieving DSM and conservation targets, these administrative costs should be borne by the ratepayer. With respect to LDCs recovering costs that may result in savings to the gas utilities, or vice versa, a quarterly or bi-annual clearing mechanism should be deployed to settle costs and resulting energy savings.

RECOMMENDATION: Specify qualifying measures that meet energy reduction criteria and require a certified contractor for installation. Implement a system for settlement of costs and savings between gas and electric utilities when energy reduction measures impact both fuel types.

5. Key Program Characteristics

CEEA believes that the following program elements are important to create momentum for investment in residential and small commercial energy efficiency measures:

- a. **Contractor driven.** Recognize the contractor as the key marketing channel for the OBF program, and ensure his/her capability to deliver achievable energy savings.
- b. **Keep it simple.** Avoid onerous application requirements and paperwork to facilitate processing times and program uptake.
- c. **Use public sector dollars to leverage private sector capital.** In order to attract third party lenders and entice them to broaden the pool of eligible participants in an OBF program, the Minister should provide a financial backstop that reduces lender risk. This could be in the form of interest rate buy-downs, loan loss reserves, or other risk mitigating measures. This backstop can fade over time as data builds to support alternative underwriting criteria for the OBF loan class.
- d. **Transferability of the loan.** Homeowners may not have ownership horizons as long as the payback period of certain energy efficiency improvements. Therefore, they may be disinclined to assume a loan for measures with which they may not realize the full life of savings. By attaching the loan to the meter, the homeowner who benefits from the improvements becomes responsible for the loan.
- e. **Right to disconnect.** In a recent report from the State & Local Energy Efficiency Action Network (SEEA), two-thirds of on-bill financing programs examined provided for disconnection of utility service in the event of nonpayment of the loan.³ However, there is no clear connection between disconnection rights and default rates for these financial products. As a class, on-bill loans had a default rate of less than one percent.⁴ Therefore, we do not believe that the right to disconnect is crucial to ensure successful deployment of third party capital for energy efficiency measures.

³ Financing Energy Improvements on Utility Bills: Market Updates and Key Program Design Considerations for Policymakers and Administrators. Financing Solutions Working Group of the State & Local Energy Efficiency Action Network. May 2014.

⁴ Ibid.



We look forward to working with the Ministry in the coming months as the OBF program is developed and implemented. Please do not hesitate to contact Elizabeth McDonald, President and CEO, if you have any questions about CEEA's recommendations.

Best Regards,

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