



Financing Energy Efficiency Programs

By Nivin A. Elgohary

Energy efficiency continues to be a growing concern for both rural electric cooperatives and their members around the country. Consumers and businesses in rural communities want to reduce their energy bills while promoting environmental sustainability. Co-ops have these same concerns, as well as a need to meet the evolving expectations of customers, regulators and other key stakeholders.

Many co-ops have begun offering programs to help their members to install energy efficiency improvements in their homes. A key question for co-op management is how to best finance these programs.

Some cooperatives may choose to self-finance an energy efficiency program out of their cash flow, but that can leave them short of funds that may be needed for other investments. And it can be tremendously expensive to ask co-op members to pay out of their own pockets for such things as rooftop solar or energy-efficient windows.

That's why many cooperatives are using debt capital as an alternative to self-financing. By partnering with a stable, reliable banking partner, co-ops are now able to implement programs that serve their members while maximizing their financial flexibility.

CoBank's ConSERVE Loan Program

One specific such financing tool is CoBank's ConSERVE Energy Loan Program. These loans can be unsecured, so they can be put in place quickly with a minimal amount of paperwork. The terms are flexible, so co-ops have a lot of leeway in structuring them to meet their members' energy-efficiency needs.

There are a variety of ways for co-ops to implement energy-efficiency programs. Some co-ops choose to perform an energy audit of a member's home and make efficiency recommendations based on their findings. The member

chooses an upgrade (for example, a new energy-efficient heat pump, new windows or doors, or insulation), and the cooperative makes an investment in that enhancement. Others offer a single energy-efficiency improvement to each of their members.

The cooperative then recovers that investment through a charge added to the member's monthly bill. The transaction is designed to provide overall savings to the member, with the cost of the energy efficiency upgrade being more than offset by the resulting savings in energy.

Success at Sand Mountain

One co-op with a successful energy-efficiency program in place is Sand Mountain Electric Cooperative, which serves more than 31,000 customers in northeast Alabama. In 2011, Sand Mountain received a \$2 million loan to fund a program using a ConSERVE loan from CoBank. With those funds, the co-op allowed consumers to borrow money from Sand Mountain to install new electric heat pump equipment. In addition to providing increased energy efficiency, the pumps also help Sand Mountain in leveling its peak load periods.

Ozarks Electric's HELP Program

Another CoBank customer, Ozarks Electric Co-op in Fayetteville, Arkansas, used the ConSERVE program to establish what it calls its Home Energy Lending Program, or HELP. HELP begins with an energy assessment of the customer's home, where certified contractors look for things such as air sealing, duct sealing, or attic insulation. Once improvements and terms are

agreed upon, Ozarks arranges with contractors to build out the energy-efficiency improvements. The project costs are then financed via the customer's electric bills, with flexible loan terms that can be set so that the payment is equal to or less than what the energy savings will be. The upfront costs to Ozarks Electric are provided by the ConSERVE loan.

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— Al Simpson, CEO, Arkansas Valley Electric Co-op

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And interest in this program is definitely growing. After becoming familiar with the Ozarks Electric program, Arkansas Valley Electric Co-op, which serves a neighboring area in western Arkansas, recently decided to launch a HELP program of its own. Arkansas Valley took out a ConSERVE loan with CoBank last December and started offering its own HELP program for members this March. According to Arkansas Valley CEO Al Simpson, the primary impetus came from the members themselves.

“Many of our members had heard about such a program being offered by other investor utilities,” says Simpson. “So we wanted to do something to help serve them better.” Arkansas Valley is focusing on blower door tests to find leaky windows and attics, encouraging its members to improve their insulation and caulking.

“With the financing from CoBank, we're prepared for any level of participation our members show in this program,” says Simpson. “And we know we will always have the resources from cash flow to handle the day-to-day infrastructure needs of the co-op.”

Energy efficiency is such a key concern for so many of co-ops around the country, for both themselves and for their members. With benefits to not just the environment but to the bottom line as well, both for co-ops and their members, these programs can only be expected to grow in popularity. ■

About the Author

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CoBank is a \$118 billion financial services institution serving hundreds of electric cooperatives and other rural borrowers across the United States. The bank offers a wide range of financial products and services to customers in the rural power industry, including term debt, project finance, lines of credit and leasing.

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