

# **An Outline of the Regulation for the Energy Efficiency and Conservation Loan Program**

Rural Utilities Service  
Electric Program  
US Department of Agriculture

# The Energy Efficiency and Conservation Loan Program

- ▶ Rural Utilities Service published the Final Rule for the Energy Efficiency and Conservation Loan Program on XX, 2013 which implements Section 6101 of the 2008 Farm Bill
- ▶ This regulation is an added subpart to an existing regulation (new “subpart H” to 7 CFR 1710)
- ▶ Section 6101 expands the ability of the electric program to make loans for energy efficiency activities
- ▶ The regulation allows new financing opportunities for RUS borrowers to provide energy efficiency activities to businesses and homeowners in rural America
- ▶ Eligible EE programs can be developed and implemented by an eligible borrower for its service territory
- ▶ Eligible investments and activities include; building weatherization, HVAC upgrades, ground source heat pumps, lighting, small scale renewable generation, energy audits, soft costs, etc

## The Energy Efficiency and Conservation Loan Program – cont...

- ▶ A typical borrower's energy efficiency program might have the utility relending the funds to the consumer for EE upgrades to homes, businesses or industry.
- ▶ Utilities may charge an interest rate to the consumer for the EE loan.
- ▶ Loans to RUS borrowers may have terms for up to 30 years, and are based on the aggregate useful life of the equipment.
- ▶ Potential borrowers should reach out to [GFRs](#) for guidance on submitting an application.

# Options to Enable Energy Efficiency

- ▶ Rate Based Structure, the cooperative may choose to include some energy efficiency activities in the rate base
- ▶ Energy Service Contracts, the cooperative can choose to be a full service energy efficiency provider.
- ▶ Payment through Electric Bill Financing
- ▶ Consumer Loans

# Financial Structures for Consumer Loans

- ▶ Loans will be made to a RUS borrower. The borrower may make loans to their consumers that have the following criteria:
  - Consumers may be residential, commercial, or industrial
  - Loans may be secured or unsecured
  - Loan receivables are owned by the eligible borrower

## Financial Structures for Consumer Loans – cont...

- ▶ Loans may be serviced directly by an RUS Borrower or a financial institution
- ▶ Loans to the consumer should be less than or equal to 1.5% above the interest rate from RUS to the borrower.

# Leveraging other RD programs

- ▶ The Rural Business Service (RBS) and Rural Housing Service (RHS) have programs that can be leveraged using EE funds
- ▶ Please contact RBS energy coordinators for more information on the Rural Energy for America Program. The list of RBS energy coordinators will be provided in the EE marketing plan
- ▶ RUS will provide RHS contacts as soon as possible

# RUS Secured Loan Provisions

- ▶ Typical term for loans are usually under 15 years
- ▶ Ground source loop investments etc. may be up to 30 years
- ▶ Financial feasibility must be demonstrated for all loans
- ▶ Loan advances shall be on a reimbursement basis except for an initial advance of up to 5% for startup costs
- ▶ Loan Amounts
  - Consumer education and outreach programs may not exceed 5% of the RUS loan amount



# Applying for a Loan – an Overview

- ▶ RUS will reimburse expenditures after the completed work; similar to the current drawdown procedures
- ▶ Energy efficiency investments will not be listed on the traditional construction work plan
- ▶ Subpart H of the rule clarifies the application materials for RUS to approve an energy efficiency program and the associated loan

# Performance Standards

- ▶ Borrowers are required to use Energy Star or [Federal Energy Management Program](#) qualified equipment. If these products are not available geographically or for the product category, the requirements do not apply
- ▶ Energy Star and the Federal Energy Management Program provide energy efficiency standards for residential, commercial, and industrial equipment

## Application Documents – See Slide 9

The required application documentation listed in this section is not all inclusive but is specific to Eligible borrowers requesting a loan. Required materials include:

- ▶ A letter from the Borrower's General Manager requesting the loan
- ▶ A copy of the board resolution establishing the EE Program
- ▶ An Energy Efficiency Business Plan – see slide 12
- ▶ A Quality Assurance Plan – see slide 16
- ▶ Analytical support documentation – see slide 19
- ▶ A copy of RUS' written approval of the EE Program.
- ▶ An EE Program work plan
- ▶ A statement of initial working capital advance pursuant to §1710.409(c)(1)
- ▶ A proposed draft Schedule C pursuant to 7 CFR part 1718

# Business Plans

An Eligible EE Program must have a business plan for implementing the program. The business plan is expected to have a global perspective on the borrower's energy efficiency plan. Therefore, energy efficiency upgrades should be identified **in aggregate**. The business plan must have the following elements:

- ▶ **Executive summary.** The executive summary shall capture the overall objectives to be met by the Eligible EE Program and the timeframe in which they are expected to be achieved.
- ▶ **Organizational background.** The background section shall include descriptions of the management team responsible for implementing the Eligible EE Program.
- ▶ **Marketing plan.** The marketing section should identify the target Consumers, promotional activities to be pursued and target penetration rates by Consumer category and investment activity.

## Business Plans – cont...

- ▶ **Operations plan.** The operations plan shall include but is not limited to:
  - A list of the activities and investments to be implemented under the EE Program and the Btu savings goal targeted for each category
  - An estimate of the dollar amount of investment by the utility for each category of activities and investments
  - A staffing plan that identifies whether and how outsourced contractors or subcontractors will be used to deliver the program
  - A description of the process for documenting and perfecting collateral arrangements for Ultimate Recipient loans, if applicable
  - Aggregate Btu savings associated with planned energy efficiency upgrades

## Business Plans – cont...

- ▶ **Financial Plan.** The financial plan shall include but is not limited to:
  - A schedule showing sources and uses of funds for the program
  - An itemized budget for each activity and investment category listed in the operations plan
  - An aggregate Cost effectiveness forecast
  - Where applicable, provision for Ultimate Recipient loan loss reserves. These loan loss reserves will not be funded by RUS. Loan loss reserves are not required when a utility will not be relending RUS funds
  - Identify expected Ultimate Recipient loan delinquency and default rates and report annually on deviations from the expected rates

## Business Plans – cont...

- ▶ **Risk analysis.** The business plan shall include an evaluation of the financial and operational risk associated with the program, including an estimate of prospective Consumer loan losses
- ▶ The borrowers are strongly encouraged to follow a bulletin or such other publication as RUS deems appropriate that contains and describes best practices for energy efficiency business plans. RUS will make this bulletin or publication publicly available as RUS deems it necessary

# Quality Assurance Plans

An eligible EE program must have a quality assurance plan as part of the program. The quality assurance plan is expected to have a global perspective on the borrower's energy efficiency plan. Therefore, energy efficiency upgrades should be identified **in aggregate**. The quality assurance plan must have the following elements:

- ▶ Quality assurance assessments shall include the use of qualified energy managers or professional engineers to evaluate program activities and investments
- ▶ Where applicable, program evaluation activities should use the protocols for determining energy savings as developed by the U.S. Department of Energy in the Uniform Methods Project



## Quality Assurance Plans – cont...

- ▶ Energy audits shall be performed for energy efficiency investments involving the building envelope at an Ultimate Recipient premises
- ▶ Energy audits must be performed by certified energy auditors
- ▶ Follow up audits shall be performed within one year after installation on a sample of investments made to confirm whether efficiency improvement expectations are being met. Audits are an eligible purpose for the EE loan program
- ▶ In cases involving energy efficiency upgrades to a single system (such as a ground source heat pump) the new system must be designed and installed by certified and insured professionals acceptable to the utility

## Quality Assurance Plans – cont...

- ▶ Industry or manufacturer standard performance tests, as applicable, shall be required on any system upgraded as a result of an EE Program. This testing shall indicate the installed system is meeting its designed performance parameters
- ▶ In some programs the utility may elect to recommend independent contractors who can perform energy efficiency related work for their customers. In these cases utilities shall monitor the work done by the contractors and confirm that the contractors are performing quality work
- ▶ Contractors not hired by the utility may not act as agents of the utility in performing work financed under this subpart
- ▶ The borrowers are strongly encouraged to follow a bulletin or other publication that RUS deems appropriate and contains and describes best practices for energy efficiency quality assurance plans. RUS will make this bulletin or publication publicly available and revise it from time to time as RUS deems it necessary

# Analytical Support Documents

Applications for loans under this subpart may only be made for eligible activities and investments included in an RUS-approved EE Program. This documentation must include, but is not necessarily limited to, the following:

- ▶ A comparison of the utility's projected annual growth in demand after incorporating the EE Program
- ▶ An updated baseline forecast on file with RUS, where each includes an estimate of energy consuming devices used by customers in the service territory and a specific time horizon as determined by the utility for meeting the performance objectives established by them for the EE Program
- ▶ Demonstration that the required periods of performance can reasonably be expected to be met

## Analytical Support Documents – cont...

- ▶ A report of discussions and coordination conducted with the power supplier, where applicable, issues identified as a result, and the outcome of this effort
- ▶ A description of efforts to identify state and local sources of funding and, if available, how they are to be integrated in the financing of the EE Program
- ▶ Copies of sample documentation used by the utility in administering its EE Program

# Energy Efficiency Work Plan

- ▶ All energy efficiency borrowers must maintain a current Energy Efficiency Work Plan (EEWP) approved by their board of directors covering in **aggregate** all new construction, improvements, replacements, and retirements of energy efficiency related equipment and activities
- ▶ An energy efficiency borrower's EEWP shall cover a period of between 2 and 4 years
- ▶ The borrower's EEWP may only include facilities, equipment and other activities that have been approved by RUS
- ▶ The borrower's EEWP must include an estimated schedule for the implementation of included projects

# Load Forecasting\*

- ▶ Comparison of projected annual growth in demand before and after incorporating the EE Program
- ▶ An itemized estimate of the energy savings and peak demand reduction to be obtained for each category of eligible activities and investments to be pursued
- ▶ A report of discussions and coordination conducted with the utilities power supplier
- ▶ An estimate of the amount of direct investment in utility-owned generation to be deferred as a result of the EE Program

\*RUS acknowledges that preapproved load forecasts may not include the information stated above. However this information should be included in subsequent Load Forecasts

# Environmental Report

- ▶ A borrower's environmental report (ER) is expected to accompany the energy efficiency work plan associated with the loan request
- ▶ The ER will be based on the programmatic environmental assessment (PEA) recently developed by RUS
- ▶ The PEA is expected to produce a streamlined environmental report for the majority of energy efficiency programs

# RUS Accounting

Nothing in this program changes RUS accounting, monitoring, and reporting requirements



## For Additional Information

Please visit our website at: [http://www.rurdev.usda.gov/UEP\\_HomePage.html](http://www.rurdev.usda.gov/UEP_HomePage.html)