

Home Energy Audits and Loans Emerge as Linchpins in Utility Marketing Efforts

Leading utilities transform legacy weatherization programs into residential marketing platforms

Web-based home energy audits, and tighter contractor certification for home energy improvement loans, are transforming the effectiveness of these fundamental residential utility marketing programs. Leading utilities are learning to integrate these traditional programs so they serve as cutting edge, permission based marketing platforms to cross-promote an entire portfolio of energy efficiency and home comfort initiatives.

These are among the findings of two new reports, **Home Energy Audits** and **Home Energy Improvement Loans**, in a Leading Energy Utility Marketing Programs report series published by Market Development Group. Each report candidly details the strategies, tactics, tools and structure behind at least 10 utility program case studies. Each report also offers insightful profiles on the service providers and other partners that play key roles in program implementation.

Home Energy Audits includes utility case studies from: Anaheim Public Utilities; Atlanta Gas Light; Jackson EMC; Lincoln Electric Service; Ontario Hydro Energy; PPL Electric; Puget Sound Energy; Salt River Project; Southern California Edison; and TVA distributors Memphis Gas, Light and Water; Nashville Electric Service; and Tri-County EMC. Partners profiled are: Electrotek Concepts; Enalasy; Enercom; Energy Star; Lawrence Berkeley Labs; Nexus Energyguide; and Xenergy.

Home Energy Improvement Loans includes utility case studies from: American Electric Power; Austin Energy; Cass County Electric Cooperative; Central Hudson Gas & Electric; Cooperative Finance Corp; Duke Power; Fort Payne Improvement Authority; Sacramento Municipal Utility District; Snohomish County PUD; Southern Company; and Tennessee Valley Authority. Partners profiled are: Chevy Chase Bank; CMS Capital Financial Services; FannieMae; Key Bank; Volt VIEWtech; and Wisconsin Energy Conservation Corporation.

Market Development Group documents and promotes leading practices and lessons learned from innovative energy utility marketing programs implemented by investor-owned utilities, municipalities and electric cooperatives. Its mission is to help management, marketing executives and staff of utilities and their partners leverage the experience and expertise of industry leaders as they create and improve their product and service offerings.

The report authors are Ed Thomas and Peter Buttrick. Thomas is a consultant who specializes in tactical implementation of utility marketing programs. He is a prominent conference presenter and his clientele include: National Rural Electric Cooperative Association, The C Three Group, and The Hughes Group.

Buttrick is a consultant specializing in financing energy-related products and services to mass markets. His clients have included Edison Electric Institute, Allegheny Power, Home-Link Services, Pacific Gas & Electric, BPA, and PacifiCorp. Peter was a Vice President with GMAC, and a Regional Manager with First Union Bank.

The complete tables of contents for both reports, along with sample case studies and profiles are now available at www.marketdevelop.com.



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home energy improvement loans

by peter buttrick

leading energy utility
marketing program

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Table of Contents

Table of Contents	1
Introduction	2
Summary of Utility Programs	5
Reasons For Selecting These Utilities.....	5
Common and Best Practices Program Characteristics	5
Common and Best Practices Marketing Approaches	6
Summary of Partner Offering	7
Reasons For Selecting These Partners	7
Common and Best Practices Program Characteristics	7
Common and Best Practices Marketing Approaches	7
Future Prospects for Programs	8
Common Barriers and Challenges	8
Most Promising Strategies to Overcome Barriers.....	8
About the Author and Market Development Group.....	9
Peter Buttrick	9
About Market Development Group	10
Utility Case Studies	11
American Electric Power	1
Austin Energy	1
Cass County Electric Cooperative	1
Central Hudson Gas & Electric Corporation.....	1
National Rural Utilities Cooperative Finance Corp (CFC).....	1
Sacramento Municipal Utility District.....	1
Snohomish County Public Utilities District.....	1
Southern Company.....	4
Fort Payne Improvement Authority (TVA)	12
Partner Profiles.....	16
Chevy Chase Bank, FSB.....	17
CMS Capital Financial Services	21
Fannie Mae.....	24
Key Bank.....	29
Volt VIEWtech, Inc.	33
Wisconsin Energy Conservation Corporation.....	38

Sacramento Municipal Utility District

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Corporate: www.smud.org

Programs: www.smud.org/home/customer_services.html

Loan: www.smud.org/home/eeip.html

Ownership: Municipal Electric Utility

Number of customers: 530,000



BACKGROUND

The Sacramento Municipal Utility District (SMUD) is the nation's sixth largest municipal electric utility. SMUD began providing electricity to customers in 1946. It generates, transmits and distributes power to a service area that includes Sacramento and Placer County, California.

History

SMUD began its residential energy efficiency programs 1984 in response – in part – to new insulation standards. Below market financing was offered to customers as a way to reduce the monthly expense for the upgrade.

From the finance programs inception, SMUD has funded the program out its General Fund and provided all the lending functions internally. In the first few years though, not many people took advantage of the program.

SMUD's energy efficiency programs took off in the early 90's due to several factors including:

- the shut down of Rancho Seco Nuclear Power; and
- SMUD's General Manager, David Freeman, wanted to build a "Conservation Power Plant". Long an advocate of energy efficiency, Freeman's vision was to replace the loss of energy from Rancho Seco with conservation programs.

The second wave of the energy efficiency program increased the measures customers could finance to include HVAC, appliances, windows and doors (today they also include solar hot water and roofing). However, the market shift really occurred within the HVAC and windows contractor community. They understood the market impact that could occur by aligning themselves with SMUD. As a result, these contractors promoted the program heavily and are one of the key reasons for SMUD's success and longevity.

Three years ago, SMUD outsourced their loan management system to Fiserv. Fiserv, www.fiserv.com, is a company that works with lenders for complete outsourcing solutions, in-house software systems, Internet-based services, and PC-based applications. They help financial organizations manage front-and back-office operations, automate end-to-end account and information processing, and implement performance and knowledge-based support centers.

Using Fiserv gave SMUD a greater capacity to understand and manage the nature of their customer loan accounts. While outsourcing the loan management system worked well, the system proved too

robust and too expensive. With the term of this agreement close to expiring, SMUD will be replacing its loan management system sometime in the coming year.

RELEVANT PRODUCT NAME AND DESCRIPTION

The Energy Efficiency Loan Program

The Energy Efficiency Loan Program will finance energy upgrades to residential and some commercial units. The minimum loan is \$1,000 and no maximum amount. SMUD employs “common sense underwriting” when evaluating a customer's credit. They look at a mix of guidelines including credit score, their utility bill payment history, and their debt-to-income ratio. SMUD currently enjoys an overall loan approval rate of 82%, the highest of all the utilities interviewed in this report. As added security, SMUD also files a property lien with the county.

Dates offered

Phase 1 – 1984 to 1990 (insulation loans)	\$8 to 10 million
Phase 2 – 1990 to Present (everything else)	\$315 million

Price/cost to Customer

Today's interest rate is 9.25% fixed rate with a 10-year term. No other fees are charged to the customer. The interest rate SMUD charges a customer is based on internal cost, anticipated losses, and administrative expense.

The Municipal Utility Act prohibits SMUD from earning a profit. Thus, customers that use the program pay for the program.

Defaults / Delinquencies

During the Mid 90's, SMUD's loan portfolio losses reached as high as 9%. However, over the last 4 years, SMUD's losses have averaged .73%. Further, due to liens filed, most of the past defaults from the Mid 90's are being collected today.

How marketed

While SMUD does some promotion through bill inserts and advertising, the contractors that participate in the program perform most of the marketing.

How customer signs up

Customers can participate in the finance program through several avenues: either, they can call the toll-free number provided by SMUD (1-888-742-SMUD) and receive a list of participating contractors; or they can call a participating contractor directly. If customer needs financing, contractor facilitates all loan documentation for submission to SMUD. Within 24 hours, the contractor is informed of loan approval or denial. If approved, the contractor is given an approval code and begins work installation. When the work is completed, the customer signs work completion certificate. SMUD pays the contractor and the customer begins making monthly loan payments.

Number of customer sign-ups and churn

Since 1984, 63,000 customers totaling almost \$325 million have financed equipment through SMUD. However, with the recent refinance activity and a hot California housing market, many customers have paid their SMUD loan off. Currently, SMUD has 18,000 accounts totaling \$66 million outstanding with an average loan amount of \$6,300.

How service delivered and billed

All customer contact with SMUD's loan program is handled by its customer service department; loan processing is delivered by an internal loan center staff; equipment installation and marketing is performed by authorized contractors; loan payments are billed by a separate 3rd party company (Fiserv); loan delinquencies are handled by SMUD; and a local collection agency performs on-going work for loans that are 90 days past due.

Key vendors/partners/allies

- Fiserv
- SAP (handles the Management Information Systems for all of SMUD)
- Authorized Contractors

KEY REASONS FOR SUCCESS**Success:**

- Learned from their mistakes
- Senior management commitment to program
- Loan program longevity
- Leverage customer trust / loyalty
- Marketing cost assumed by contractor
- File UCC with County (becomes real property / better chance of future recovery)
- Contractor quality control - SMUD audits contractors first 10 installations
- 82% loan approval rate

Failure:

- Relaxed underwriting standards in mid 90's lead to 9% to 10% portfolio losses

LESSONS LEARNED

- Prudent underwriting reversed losses to less than 1% over the last 4 years.*
 - Employ a good (don't need all the bells & whistles) loan management system
 - Contractors want/need to know you are in the program the for long haul
 - Hire a good collection agency – today recoveries exceed charge-off's
- * (not just based on FICO scores)

Future enhancements:

SMUD is in the middle of evaluating RFP's for a new loan management system. Their objective is to reduce costs and lower interest rates.

Key staff individuals:

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CMS Capital Financial Services

CMS Capital Financial Services

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Corporate: www.cmsenergy.com

Loan Program: www.cmsenergy.com/AboutCMS/index.asp?ID=8

COMPANY DESCRIPTION

CMS Capital Financial Services (CMS CFS) provides private label, turn key financial services to energy companies and related sponsors throughout the US. The company's sole focus is providing energy related home improvement financing for energy-related home improvements.

History

CMS Capital Financial Services roots can be traced back with the company's Executive Director, Louise Kelly, and her tenure at Signet Bank. At Signet, Ms. Kelly build a successful energy finance division. By the time that Signet had sold its Energy Finance Division to Allfirst (who later established First Utility Finance), Ms. Kelly had built a strong client base and a core group of staff to manage the complex lending process. One of their earliest and most successful utility programs was with Consumers Energy. In 1998, Consumers – recognizing the value of First Utility Finance – purchased the company. The new company was renamed CMS Capital Financial Services.

Once the sale was complete – the company's focus turned to “building a better mousetrap” for its utility sponsors, contractors, and customers. The company's management team set out to design a system and software that would reduce paperwork for contractors and customers, simplify the process (quick credit decisions), and pay contractors faster than other lenders.

While the new process was in development, CMS CFS focused on lending to customers of Consumers Energy and its existing clients. During this period, the company's primary source of loan funds was its parent company. However, last summer CMS CFS was approved to originate the Fannie Mae Energy Loan Program. This afforded CMS CFS's energy sponsors greater flexibility, more revenue opportunities, and additional loan products to offer their customers and contractors.

CMS CFS recently moved their corporate headquarters to Salt Lake City, Utah. They are in the process of obtaining their industrial loan charter allowing them to originate financing throughout the U.S.

Company Location(s):

Corporate Headquarters - Salt Lake City, Utah

Loan Center Headquarters - Jackson, Michigan

Sales / Marketing Office - Cary, North Carolina

Number of employees: CMS Capital Financial - 25

Ownership: Consumers Energy is the parent company of CMS Capital Financial Services.

Annual Revenue: CMS Energy Corporation has annual sales of \$15 billion and assets of \$16 billion throughout the U.S.

RELEVANT PRODUCT NAME AND DESCRIPTION

CMS Capital Financial Services

CMS Capital Financial Services assumes the name of each program sponsor. Further, each program sponsor is given a unique toll-free number and CMS CFS answers each call in the name of the sponsor.

As previously stated, CMS CFS has two investors for their energy loan program: Fannie Mae and Consumers Energy. Both offer fixed rate financing for energy related home improvements to homeowners that have acceptable credit; and both allow the program sponsor the ability to “buy-up” the interest rate to earn revenue.

The primary difference between the two investors is that Consumers Energy also offers promotional financing programs (i.e. 90 days same as cash) and a full recourse option.

Strategic Alliances:

- Consumers Energy
- Fannie Mae
- Fiserv
- Program Sponsors
- Contractors

Association memberships: Edison Electric Institute and American Gas Association

Primary Competitors:

- Chevy Chase Bank
- Consec Finance

Competitive Strengths: Four elements are key strengths for CMS. They are 1) Good People in the areas of Management, Loan Origination Team and Back-office Support Staff; 2) Energy Loan Experience, especially in managing multiple interests, such as investor, sponsor, contractor and customer; 3) Systems and Software; and 4) Customization of programs to meet customer’s needs.

Competitive Weaknesses: Two concerns here are 1) the industry itself is young and 2) CMS CFS, as a company, is a new player.

Key Customer Accounts

- Consumers Energy
- TXU
- Kentucky Utilities / Louisville Gas & Electric
- Home Service Store
- N Star
- KeySpan Energy

Total Number deployed: CMS CFS expects loan volume to increase 140% in 2002.

Price Structure to Utility and Customer:

CMS CFS permits sponsors to buy-up or buy down interest rates depending on the objectives (revenue / sell more product / etc.) of the program. Customer interest rates range from 9% to 15%, and in some cases are offered promotional financing.

How/where product sold: The financing is sold via program sponsors and their trade allies

How/where marketed:

CMS CFS has an active sales force that markets to potential program sponsors. They also exhibit at trade shows, promote the program through press releases, and advertise. Lastly, the company intends to sponsor a utility symposium later this year to facilitate ideas among its clients and prospects.

Future enhancements planned:

CMS CFS is in the process of forming a new division called the Independent Contractor Program. This program will allow utilities – that may not want to sponsor a program – to offer their contractor CMS Capital's Express Loan Program. The program will initially roll out in 5 states and then nationally.

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