

# **Pay As You Save<sup>®</sup> (PAYS<sup>®</sup>)**

*Tariffed On-Utility Bill Efficiency System*

KEEA Webinar

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# Overview

- What is PAYS®?
- Getting customers to say “Yes!” with an offer that works
- Risk and how to manage risk so that the offer doesn’t suffer
- Successful programs built on PAYS®



What is PAYS<sup>®</sup>?

# Pay As You Save<sup>®</sup> (PAYS<sup>®</sup>)

- Concept originated in 1999 by Energy Efficiency Institute
- A market-based system where customers, vendors, and capital providers acting in their own interests produce unprecedented resource efficiency investment that is also in society's interest.

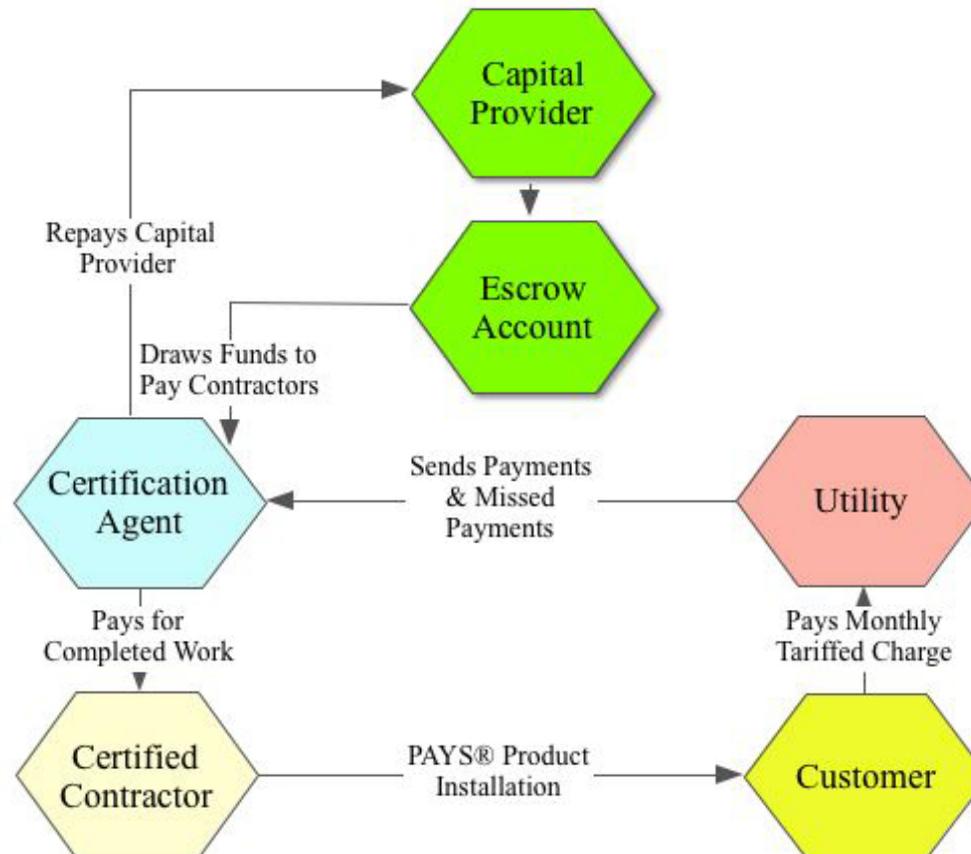
## What PAYS<sup>®</sup> Does

- Efficiency purchases with no up-front payment and no debt
- Customers pay only for as long as they save
- Estimated savings exceed monthly payment
- Payment over time until occupancy ends or measure fails

# How a PAYS<sup>®</sup> Program Works

- Contractor markets products and services
- Customer selects (qualifying) measure(s)
- Customer pays nothing to contractor
- Customer pays tariffed charge on utility bill:
  - Estimated savings greater than payments
  - Measures certified to provide immediate net savings
  - DNP for non-pay just like any other utility tariff
  - Customer only pays as long as they save
- When customer leaves, charges “run with the meter”
- Not a consumer loan; no new debt obligation

# PAYS<sup>®</sup> Program Flow Chart



# PAYS<sup>®</sup> system results

- More customers buy more measures
- Customers say “Yes!” after having said “No”
- Even expensive measures become marketable
- Contractors do marketing even when not asked to
- Primary limiters:
  - Capital
  - Contractor capacity



**Getting customers  
to say “Yes!”  
with an offer that works**

# Getting customers to say “Yes!”

- Eliminate barriers
- Removing some barriers is not enough
- Barriers like weak links in a chain; any weak link can break the chain
- Need to remove all barriers to create an offer that works for all customers

## Customer barriers to “Yes!”

- Inability to pay up-front costs
- Fear of no savings or insufficient savings
- Project hassle
- Future hassle
- No debt capacity
- Worry that cash flow will be worse
- Split incentive

## The offer is key to...

- Measure take-up rates
- Contractor participation
- Accessing capital
- Lower program costs
- Meeting water-use reduction, climate change, & least-cost resource goals

# An offer that works

- Eliminates barriers to all customers
- Is pivotal to key program components
- If compromised, reduces program results



**Risk and how to manage  
risk so that the offer  
doesn't suffer**

# Risk

- Customers are least able to manage risk
- Tendency is to shift risk to customers
- Shifting risk to customers undermines results
- To customers, there is no distinction between perceived risk and real risk

# Shifting risk can undermine programs

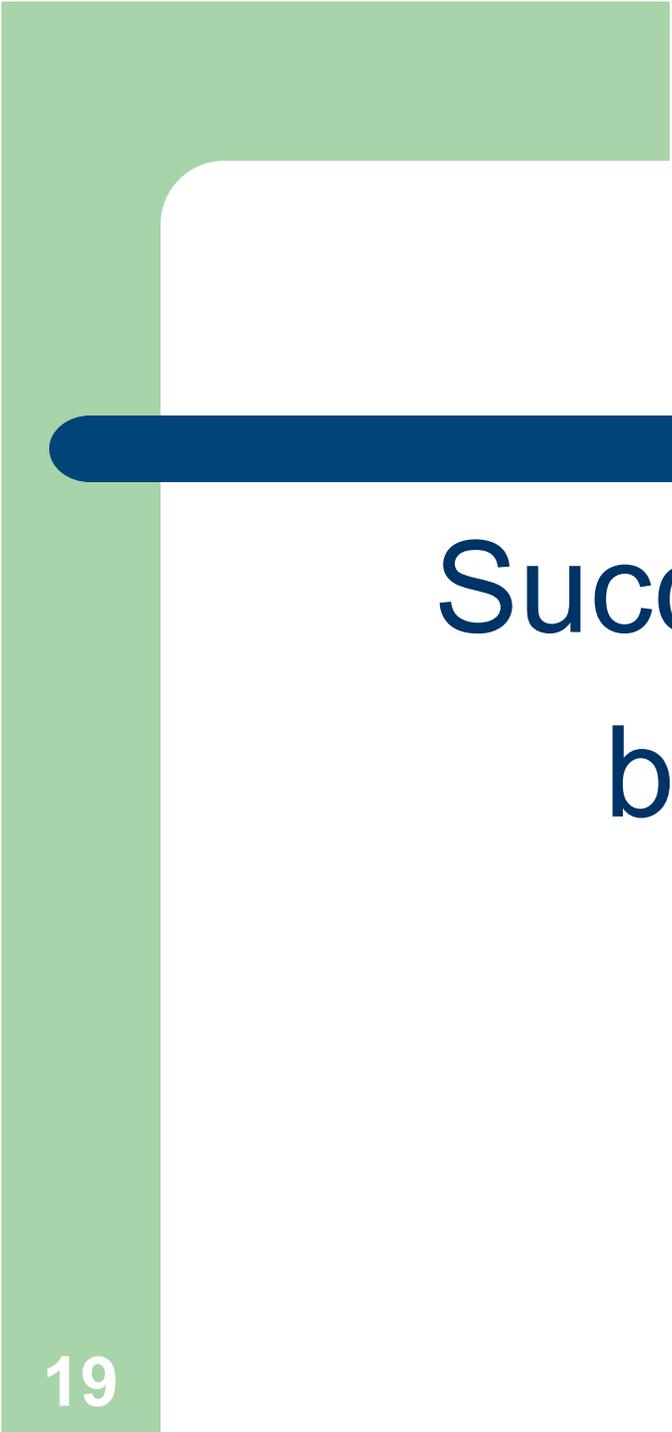
- Customers
- Capital providers
- Contractors
- Non-participants

# Successful risk management

- Protect the offer (and customer) from risk to create an offer that works
- Match risk assignment with reward
  - Participants
  - Non-participants
  - Contractors
  - Capital providers
  - Utilities

# Risk mitigation for utilities

- High repayment rates
- Lower bills = lower bad debt
- Extending payment term for missed payments or repairs
- Contractor bonding for duration of payments insures against contractor errors
- To date, \$10 million in measures produced < \$100 (.001%) bad debt



# Successful programs built on PAYS®

## Stratford, NH – first PAYS® customer

- January 2002
- Town street-lighting change out
  - \$13,050 to change and relocate 58 fixtures
  - \$6,292 annual savings
- Would pay for itself in 2 years, but...
  - Voters turned down project (twice)
  - Did not want to take on debt
- PAYS® did not require voter approval
  - Not a loan, not debt; but a utility bill
- “We couldn’t have done it without PAYS®”

# U.S. Programs based on PAYS®

- New Hampshire
  - Public Service Company of NH (2002-present)
  - NH Electric Cooperative (2002-2004 ??)
- Kansas
  - Midwest Energy (2007-present)
- Hawaii
  - Hawaiian Electric Company (2007-09)
  - Hawaii Electric Light Company (2007-09)
  - Maui Electric Company (2007-09)

# New Hampshire Smart Start

- “...the PAYS concept is ...getting...customers that participated to install more energy efficiency measures than they otherwise would have done.” (p. 7)
- “All feedback ...received from... participating members was... very positive: ‘If it wasn’t for the PAYS program they would not have done these installations.’ (p. 35)
- “The two major barriers...addressed by PSNH’s ...pilot were...difficulty for municipalities to incur long-term debt... and high first cost. (p. 86)

# Kansas How\$mart

- \$2.3 million Residential program
- To date, 50% of offers accepted
- 432 projects by 359 homeowners, 53 rental properties, and 10 commercial businesses
- No rebates; customers with means paid additional \$631,294 to qualify measures
- Commission limits activity by budget

# Hawaii SolarSaver Pilot

- Solar hot water (SHW) heating pilot
- PAYS<sup>®</sup> legislation; Commission approval June, 2007
- High demand forced three year pilot to finish in two years
- In 2<sup>nd</sup> year, 74% of participants previously rejected other offers (with \$1,000 rebate)

# More Information

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