ON-BILL REPAYMENT FOR ENERGY EFFICIENCY FINANCING

Real Estate Industry Consultation

California's Investor-Owned Utilities

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TOPICS COVERED

- On-Bill Repayment (OBR) overview
- Energy Efficiency Financing pilot programs overview
- OBR Tariff
  - Proposal
  - Discussion

ON-BILL REPAYMENT (OBR) OVERVIEW

ON-BILL REPAYMENT — GOAL

Improve interest rates and other terms under which financial institutions offer energy efficiency financing to non-residential customers, and to provide access to more affordable financing for these customers, by establishing a system of paying qualifying energy loans on the customers' utility bills.

> "The primary goal of the OBR pilots is to test whether the combined single bill payment can overcome lending barriers in the non-residential sector, and attract large pools of accessible private [i.e. non-governmental, non-utility] capital to the markets." (CPUC Decision 13-09-044)

On-Bill Repayment — Basics (1)

- With OBR, banks and other financial institutions (FIs) will be able to finance qualifying energy retrofits for non-residential properties and the utility would collect finance payments on the utility bill.
  - Retrofits could include a single piece of eligible equipment or more extensive energy efficiency upgrade
  - Certain renewable energy, distributed generation and demand response upgrades can be included (quantity depends on specific customer and program type)
- Program will explore whether paying financial obligation on the utility bill will reduce credit risk.
- Utility can disconnect service for failure to fully pay the retrofit financing, as they do now for failure to pay electric/gas bill.

ON-BILL REPAYMENT — BASICS (2)

- Financing obligation may transfer to the subsequent customer when the occupancy or ownership of the building or space changes, if the financial institution and the new occupant or owner formally consent to the transfer.
- New EE financing “hub” established to facilitate the “many-to-many” relationships among financial institutions, utilities and customers/borrowers.

ENERGY EFFICIENCY FINANCING PROGRAM OVERVIEW

EE Financing Pilot Programs

- CPUC recently authorized California IOUs to implement several innovative new EE financing programs (and re-authorized the ongoing On-Bill Financing):
  - *single-family loan program* with credit enhancement (primarily off-bill)
  - *master-metered multifamily financing program* that includes both credit enhancement and an On-Bill Repayment option
  - *small business* pilots with credit enhancement, on and off-bill, and some that are leasing-oriented
  - *On-Bill Repayment* (OBR) program for *non-residential customers* that
    - "shall not require bill neutrality"
    - "shall allow for pro-rata allocation of payments between utility bill obligations and loan repayment"
    - include "forms and procedures for written consent to achieve transferability"
- These pilots will be launched over coming months
- To facilitate operations, especially on-bill functionality, a California Hub for Energy Efficiency Financing (CHEEF) is established

NON-RESIDENTIAL PILOTS – SUMMARY

	Existing OBF Program	Proposed OBR Program	
		OBR <u>with</u> credit enhancement	OBR <u>without</u> credit enhancement
Credit enhancement	None	• No more than 20% of total financed cost • For lease origination: determined by RFP	None
Eligible customers	All non-residential IOU customers	Small business customers	All non-residential IOU customers
Eligible measures	Existing program guidelines apply, except basic lighting measures may not exceed 20% of total project cost for most customers	• All measures eligible for OBF • Projects with basic lighting in excess of 20% of total project cost • "Eligible Energy Efficiency Measures" ("EEEMs", i.e. all other CPUC-"traditionally"-approved EE measures) • Non-EEEMs may be up to 30% of loan total	• All measures eligible for credit-enhanced OBR. • EEEMs is defined more broadly to also include DG and DR • Non-EEEMs may be up to 30% of loan total
Interest rate	0%	TBD by FIs	TBD by FIs
Bill neutrality required	Yes	No, but contractor disclosure of projected bill impact required	

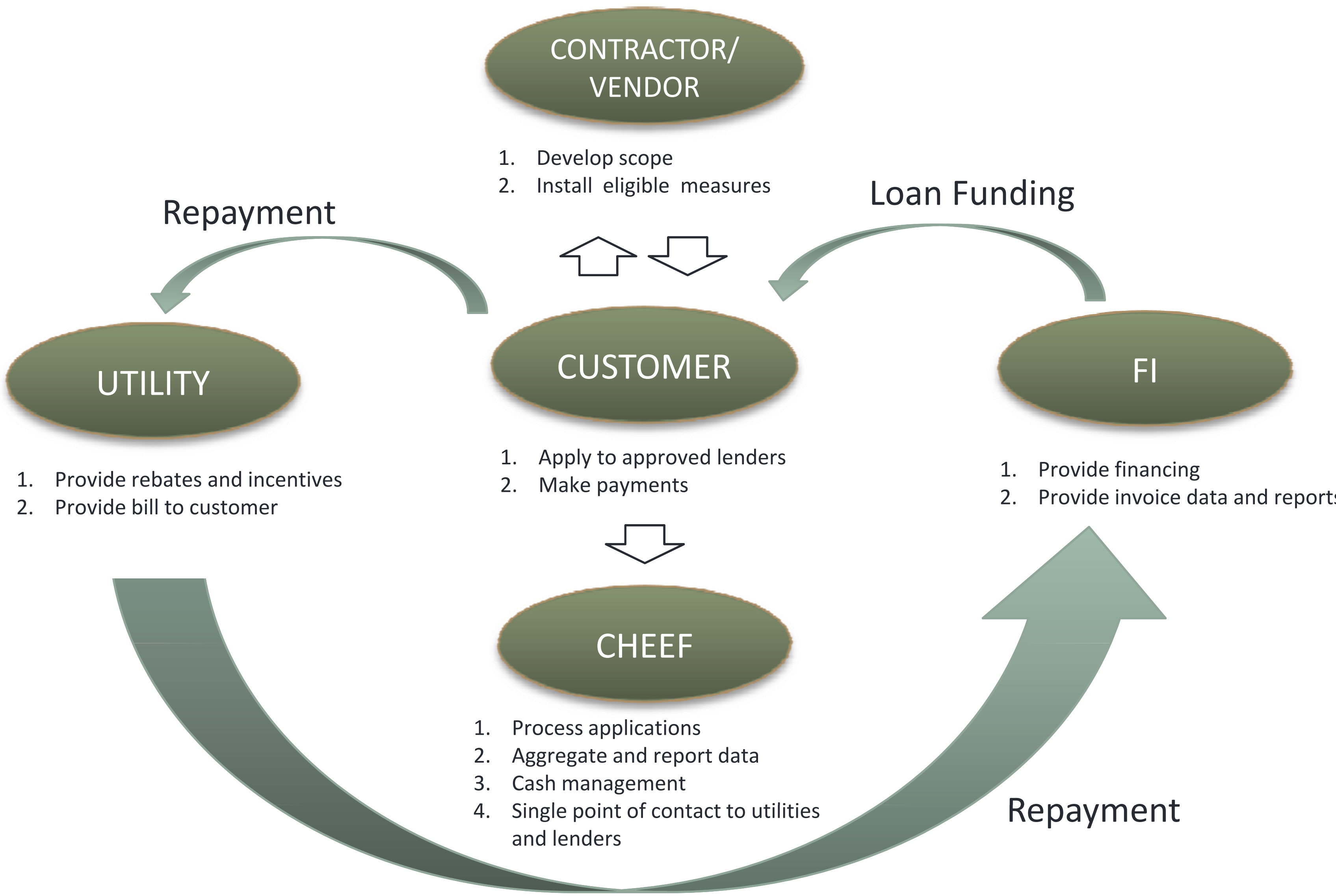
CHEEF Core Functions

- CHEEF to have overall responsibility for carrying out pilots, under contract to IOUs, and making reports to CPUC
- California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA, housed in State Treasurer's Office) has been requested to act as CHEEF during pilot period
- A number of these functions will be subcontracted to a trustee, master servicer or others

CHEEF to act as statewide interface between utilities and FIs:

- **Finalization, provision & enforcement of pilot guidelines to FIs**
- **Cash & financial data transfer between utilities & FIs**
- **Data collection, storage & dissemination**
- **Credit enhancement management**

On-bill Repayment Process Overview



OBR TARIFF

OBR TARIFF (1)

CPUC direction:

- "The OBR programs are primarily designed to test whether the combined utility bill, with or without [credit enhancements], **with transferability and service disconnection for non-payment of the financing charges**, offer sufficient incentives to [financial institutions] to enter the non-residential market with new capital."
- "We do not expect that every FI lending to non-residential borrowers will want or require transferability as part of OBR. However, these pilots will test its attractiveness and enforceability."
- "**Transferability of the underlying debt obligation to subsequent occupants ('with the customer's meter'), upon change of building ownership and/or tenancy, is both central to the appeal of OBR and a key implementation challenge.** Without a clear and enforceable obligation, owners and tenants might not disclose the debt when selling, leasing, or otherwise transferring an interest in the metered property. However, the Commission finds that the desired results can be achieved through the use of written agreements and a tariff process, as described below."

OBR TARIFF (2)

Draft OBR Tariff Excerpt:

"H. Transferability of Obligation to Pay OBR Charges"

"1. Responsibility to pay OBR Charges may be transferred to the subsequent customer of record at the same Premise. In order to transfer OBR Charges, the subsequent customer at the same Premises must consent to assume the obligation to pay the balance due on the Eligible Loan or Lease in writing as deemed appropriate by the Participating Financial Institution and must fully execute a Customer Agreement Form whereby the subsequent customer accepts and assumes the responsibility to pay the remaining OBR Charges on the Bill. Utility will include OBR Charges on the Bill of the subsequent customer only pursuant to instructions received from the CHEEF [California Hub for EE Financing]. At that point, the subsequent customer becomes the Customer for the purposes of this Rule.

"2. In the event the Customer ceases to be the Customer of record at the Premises where the Qualified Measures funded by proceeds from the Eligible Loan or Lease are installed, and the subsequent customer does not assume responsibility to pay all further OBR Charges, Customer remains fully responsible for all remaining amounts due under the terms of the Eligible Loan or Lease to the Participating FI pursuant to the terms of the Loan or Lease Agreement, and Utility will have no further obligation to collect the OBR Charges."

OBR Tariff — Questions for Real Estate Industry (1)

Rentals, Leases:

1. What issues do you see with transferring a financing obligation on a rental/leased property to a subsequent occupant?

2. What is the best mechanism to obtain consent from the subsequent customer to assume the financing obligation (e.g. a stand-alone agreement, requirement that landlords obtain written consent from existing tenants via a lease amendment, etc.)?

3. When would this disclosure and consent occur during a real estate transaction?

4. Are there barriers or problems you foresee?

5. Would the ease of handling this transaction vary with the size or type of rental/leased property?

OBR Tariff — Questions for Real Estate Industry (2)

Commercial Real Estate Sale:

1. How are existing second position loans normally handled in a commercial real estate sale?
2. Is a transfer of an obligation such as this to a new building owner more likely than with a rental/leased property?
3. Are there preferred mechanisms to record a second position loan (ex. UCC-1) in the County recorder's office to give notice to potential buyers? Are they workable here?
4. How would transferring a "loan" to a property buyer impact the transaction? If positive, in what ways? If negative, in what ways and how significantly?
5. Do you envision using the transfer process as we've laid it out? Why or why not? Under what circumstances would a property owner be willing to take on additional debt for an energy efficiency retrofit?
6. Based upon your knowledge of the process, are there any features you are aware of that will be deal breakers for your participation in the program?