

CA EE FINANCING PILOTS AND ON-BILL REPAYMENT

Financial Institutions Consultation

California's Investor-Owned Utilities

December 10, 2013

AGENDA

Objective: Engage Financial Institutions and receive their input on design and implementation of new OBR EE finance pilots

- On-Bill Repayment, CHEEF
- EE Financing Pilots
- Residential OBR Pilots
 - Multifamily Master-Metered
 - EFLIC
- Small Business OBR Pilots
 - Small Business On-Bill Repayment
 - Small Business On-Bill Lease
- Other Non-Residential OBR Pilot
- OBR Tariff regulations
- Engagement Opportunities for Financial Institutions

ON-BILL REPAYMENT – OVERVIEW

ON-BILL REPAYMENT — GOAL

The Goal of On-Bill Repayment (OBR) is to:

- ❑ Attract private capital to support energy efficiency investments, by leveraging the additional security created through use of the utility bill to service energy efficiency financing
- ❑ Improve interest rates and other terms under which financial institutions offer energy efficiency financing to customers
- ❑ Enable more customers to qualify for energy efficiency financing than would otherwise be possible in the absence of OBR, and explore if OBR reduces delinquency and defaults.

“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 – WHAT IS IT?

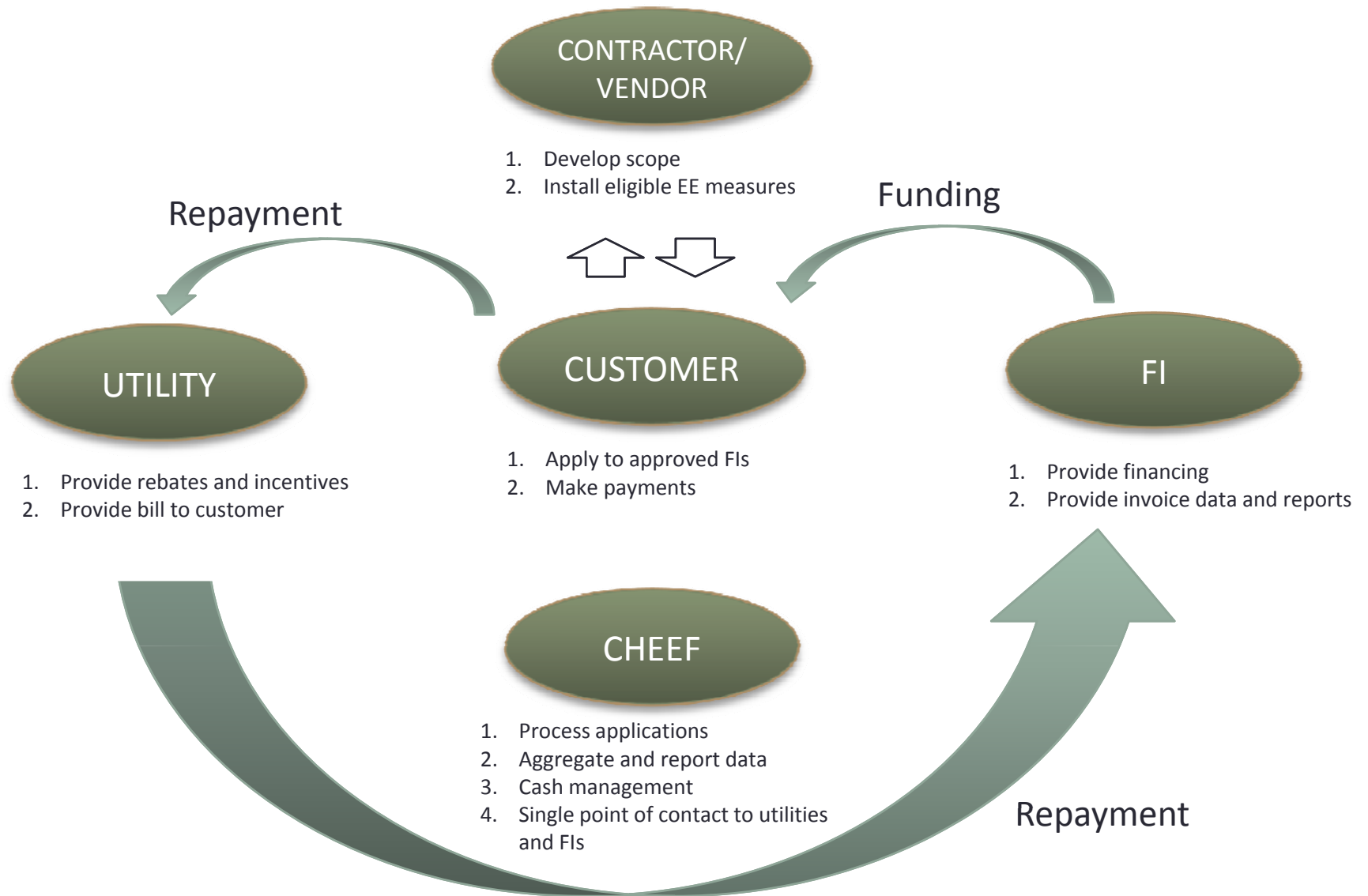
❑ OBR provides a mechanism to:

- Allow private, non-utility capital to flow to energy efficiency investments through variety of financial instruments such as loans and leases
- Allow customers to repay financial obligations created under these financial instruments through charge on their utility bill
- Provide investors with some additional security derived from having a charge for energy efficiency on customers' utility bill – particularly disconnection for failure to pay finance charges that are serviced through that utility bill – and option for transferability

❑ Eligible use of funds:

- Retrofits could include a single piece of eligible equipment or more extensive energy efficiency upgrades
- Certain renewable energy, distributed generation and demand response upgrades can be included (quantity depends on specific customer and program type)

ON-BILL REPAYMENT PROCESS OVERVIEW



ON-BILL REPAYMENT — FURTHER DETAIL

- ❑ On-bill repayment (OBR) program for non-residential customers that
 - “shall not require bill neutrality”
 - “shall allow for...allocation of [partial] payments between utility bill obligations and loan repayment”
 - include “forms and procedures for written consent to achieve transferability”
- ❑ A financing obligation may transfer to the subsequent customer when the occupancy or ownership of the building or space changes, if the FI and the new occupant or owner formally consent to the transfer.
- ❑ A new EE financing “hub” will be established to facilitate the “many-to-many” relationships among financial institutions, utilities and customers/borrowers.
 - This “hub” is known as the California Hub for Energy Efficiency Financing, or CHEEF

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 sub-contracted 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**

EE FINANCING PROGRAMS – OVERVIEW

NEW EE FINANCING PILOT PROGRAMS – BACKGROUND

- ❑ CPUC 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, including some that are leasing-oriented
 - *other non-residential programs (primarily medium-large businesses)*

- ❑ These pilots will be launched summer 2014.

ALL APPROVED PILOTS AND BUDGETS

Sector	Pilot	Budget	OB	CE	Dc	Notes
Res	Single Family Direct Loan Program	\$25 M		✓		Loan Loss Reserve
	Energy Finance Line Item Charge	≤\$1 M	✓	✓		Pilot only in PG&E territory
	Master-Metered (Affordable) Multifamily Financing Program	≤\$2.9 M	✓	✓		Debt Service Reserve Fund
Non-Res	Small Business	\$14 M	✓	✓	✓	Includes sub-pilot for lease products
	Medium, Large Business	--	✓		✓	OBR without CE
Subtotal Pilots		\$42.9 M				
All	Marketing, Education & Outreach	≤\$10 M	Statewide total; from EE funds			
	EE Financing Entity	\$5 M	EEFE start up costs, incl. Master Servicer functions			
	IT Upgrades at IOUs	≤\$8 M	For implementing pilots			
Total		\$65.9 M				

Budgets over 2+ year period

OB = on-bill

CE = credit enhanced

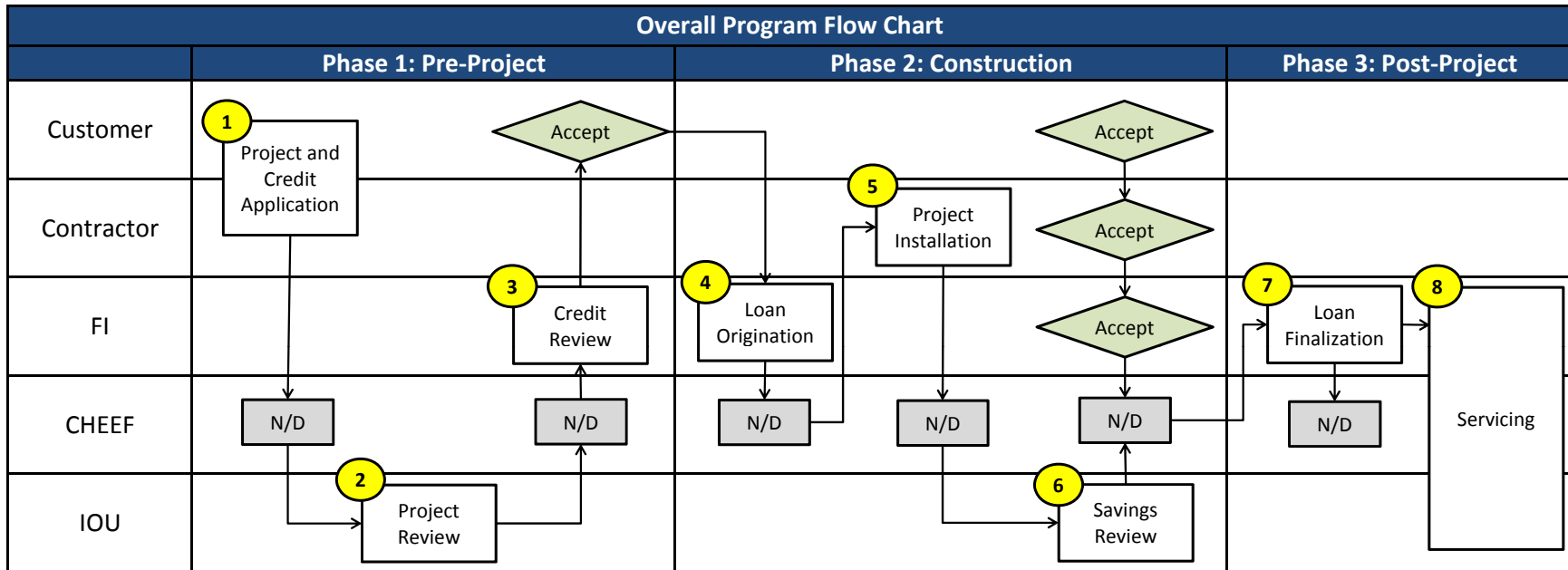
Dc = Disconnection allowed

NON-RESIDENTIAL PILOTS – KEY FEATURES

	Proposed OBR Program	
	OBR <u>with</u> credit enhancement	OBR <u>without</u> credit enhancement
Credit enhancement	<ul style="list-style-type: none"> • No more than 20% of total financed cost • For lease origination: determined by RFP 	None
Eligible customers	Small business customers	All non-residential IOU customers
Eligible measures*	<ul style="list-style-type: none"> • “Eligible Energy Efficiency Measures” (“EEEMs”, i.e. all other CPUC- “traditionally”-approved EE measures) • Non-EEEMs may be up to 30% of loan total 	<ul style="list-style-type: none"> • 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	TBD by FIs	TBD by FIs
Bill neutrality required	No, but contractor disclosure of projected bill impact required	

* Customer not required to take a utility rebate or incentive to participate

FINANCE PILOT PROGRAMS — TYPICAL PROCESS FLOWS



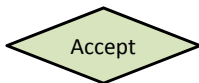
Key



Stage Indicator = Designates Process Flow Stage



Notify/Data = CHEEF notified of Stage completion and data normalized



Accept and Move to Next Phase = Acceptance required before project moves to next Phase

Note that a credit enhancement allocation is made at time of loan closing.

FINANCE PILOT PROGRAMS — PROJECT SEQUENCE

1. Customer potentially meets with IOU Account Executive (AE) and/or contractor, driven by AE/contractor marketing or customer inquiry.
2. *(If yes to above)* AE/Contractor interviews customer, collects site information (possibly including results of energy audit).
3. *(If yes to above)* Contractor proposes a project scope, estimated cost, anticipated energy savings, anticipated bill impact, and incentives (typically utility and/or manufacturer rebates) and provides payment options, including the financing instrument (loans, leases, other instruments depending on the pilot).
4. Customer makes financing instrument and payment decision.
5. AE/contractor may collect application information and provides to **FI**.
8. **FI** collects application information from customer, makes underwriting decision and informs customer (and/or contractor).
9. Customer executes financing agreement.

FINANCE PILOT PROGRAMS — PROJECT SEQUENCE

10. Customer (or contractor) installs improvements and when satisfactory Customer signs completion certificate
11. IOU performs inspection (if required by rebate/incentive programs)
12. As appropriate, **FI** receives completion certificate and other required documents
- 13. FI funds contractor or customer**
- 14. FI provides appropriate documentation to CAEATFA**
15. CAEATFA directs Trustee to transfer credit enhancement from IOU account to **FI's** account at the Trustee
16. Master Servicer transmits appropriate information to IOU
17. IOU verifies customer data transmitted by Master Servicer
18. IOU places payment obligation on customer's bill and begins OBR collection process

PILOT PROGRAMS IMPLEMENTATION — KEY DATES

Milestone	Timeframe
IOUs file for approval of OBR program implementation plans and OBR tariff	Dec. 19, 2013
FI recruitment and contractor training begin; development of marketing program	Jan. 2014
CAEATFA issues RFP to select Master Servicer, Data Manager	Jan./Feb. 2014
CAEATFA contracts with Master Servicer, Data Manager	Q1, 2014
Integration of financing with IOU incentive program delivery implemented	Q1 ,2014
CAEATFA directs trustee to establish accounts for financial institutions	Q1, 2014
IOUs launch OBR	July 2014

Schedule subject to change

QUESTIONS FOR FINANCIAL INSTITUTIONS

QUESTIONS FOR FIS (1)

Credit Enhancements*

- The CHEEF is required to demonstrate that CEs are delivering real results (better rates, terms, more flexible underwriting etc., deeper energy efficiency retrofits, more projects). Do you have recommendations for how the CHEEF can meet this requirement for each pilot?
- What type of performance (financial product volume, pre-pay rate and defaults) over what period of time would motivate and allow you to continue to participate in these pilots without credit enhancement?

Eligible Measures

- Do you have any concerns or interest in what customers are funding?
- Contractors are required to estimate the bill savings financed projects will deliver. Would you value seeing these estimates and/or be willing to incorporate them into your underwriting practices?

* does not apply to Med.-Large Business OBR

QUESTIONS FOR FIs (2)

Data Collection

- The pilots require transmission of data on participant financial characteristics, financial products, installed improvements and energy performance. Originators will likely be required to collect and share this data (along with a consumer data release consent form for Confidential and Personally Identifiable Information; PII will be held and protected by a qualified master servicer). Additionally, originators will be required to regularly report to the CHEEF on performance of financial products that are supported by credit enhancements.
 - How can this data collection/transmission and confidentiality regime best be managed to meet FI (and others') needs?

QUESTIONS FOR FIs (3)

- Do you have any recommendations on how best to market/co-brand/coordinate between IOUs and participating FIs?
- What volume and in what timeframe would you need to see in a given EE finance program to deem it successful for your company? For example, in a small business on bill repayment program, would it be a certain number of loans? Dollars?
- By having the utility collect payments on your behalf, does this make an impact on your overhead costs? Please consider all aspects such as lower per transaction cost or higher per transaction cost. For example, does the lender foresee putting in place some form of administrative support to manage the interaction between the lender, servicing entity, and IOU?
- Based upon your knowledge of the design of each pilot program, are there any pilot features of which you are aware that will be **deal breakers** for your participation?

QUESTIONS FOR FIS (4)

- How would transferring a financial obligation such as this to a property buyer impact the transaction? If positive, in what ways? If negative, in what ways and how significantly?
- What issues do you see with transferring a loan obligation on a rental/leased property to a subsequent occupant?
- Do you envision using the transfer process as we've laid it out? Why or why not?
- Do you see value in the threat of disconnection for failure to pay a finance charge? What are the key elements that must be in place in order for disconnection to have value for you?

MULTIFAMILY MASTER-METERED; SINGLE FAMILY EFLIC

MASTER-METERED MULTIFAMILY PILOT PROGRAM — GOALS

Goal:

Test the value of OBR in the affordable master-metered MF segment, improve delivery of services across IOUs, building auditors, contractors, and lenders, and gather performance data in a multifamily setting.

“The Commission finds it reasonable to implement an MMMFP that includes OBR without shut-off for non-payment of financing charges, for substantially master-metered affordable multifamily properties.” (Decision 13-09-044)

MASTER-METERED MULTIFAMILY PILOT PROGRAM — BASICS

- ❑ Debt Service Reserve Fund as the primary CE
- ❑ Net bill neutrality an objective, not a requirement
- ❑ SoCalGas to implement a limited (5 property) early version; subsequently the MMMFP will operate in all IOU service territories across state
- ❑ Eligibility limited to properties that are a customer of IOU
- ❑ Contractors need to have certifications, as established through CAEATFA or IOU requirements
- ❑ Eligible EE measures (EEEMs) as listed on IOU websites
- ❑ Marketing, education and outreach effort to support MMMFP
- ❑ CE Budget: up to \$2.9 million

ENERGY FINANCE LINE-ITEM CHARGE (EFLIC)

Goal:

Test the attractiveness of On-Bill Repayment and its impact on residential loan performance, including yielding data on residential utility payment as alternative underwriting criteria.

This sub-pilot will be limited to the PG&E Service Territory.

EFLIC – BASICS

- On-Bill Repayment for residential customers
- EFLIC loan charges are not dis-connectable charges
- Partial payments are allocated based on a prioritization basis: delinquent charges then current, and within that utility charges, energy related, and then 3rd party
- EFLIC payment obligation not transferable to subsequent owners, occupants
- Pilot only in PG&E service territory
- Program is linked to the Single Family Loan Program (SFLP) – contractor requirements, eligible measures are defined in that program
- EFLIC is an additive feature to SFLP – can be offered as a choice to consumers or as the only offering from a given FI
- Marketing, education and outreach effort to support EFLIC
- Budget: up to \$1 million

QUESTIONS FOR FIs

EFLIC

- Low & Moderate Income Households
 - In the event that a more substantial credit enhancement is available for FIs/financial products targeting low-to-moderate income households, do you have recommendations for how the CHEEF can best use the tool of additional credit enhancement?
- No shut off
 - Residential on bill repayment does not have a shutoff for non-payment provision. Does this make you more or less likely to participate in this EFLIC pilot and why?

SMALL BUSINESS PILOTS

SMALL BUSINESS OBR PILOT PROGRAM — GOALS

Goal:

“The primary goal of the Non-Residential pilot programs is to build the deal flow necessary to test the value of OBR as a bridge to overcome traditional lending barriers in these markets. [Credit enhancements shall] be offered in connection with OBR because the value of OBR to investors, customers, and contractors is unproven.”

“This pilot program is targeted to owners of [small business] commercial properties that may be unable, or lack business incentives, to obtain EE financing.”

[Decision 13-09-044]

SMALL BUSINESS PILOTS — SUMMARY

- Three Small Business Pilots will be offered
 - **On-Bill Loan:** Lenders provide financing for energy efficiency. Financing charges paid through utility bill collections.
 - **On-Bill Lease:** Lease originators selected through RFP will offer equipment leases for energy efficiency. Financing charges will be paid utility bill collections.
 - **Off-Bill Lease:** Lease originators selected through RFP will offer equipment leases for energy efficiency. Financing charges will be paid through traditional lease company collections (no utility bill collections). [This pilot was described in greater depth during an earlier webinar].

The three pilots share many features in common, as described in following slides.

SMALL BUSINESS PILOTS — BASICS (1)

- ❑ Up to \$14M credit enhancement (CE) – shared among all Small Business pilots –administered by CAEATFA (likely in the form of Loan Loss Reserve, LLR, but possibly in the form of a Debt Service Reserve Fund)
 - Final CE terms & FI eligibility will be set by CAEATFA
 - CAEATFA will hold funds in a trustee account until (and if) defaults occur
 - All credit enhancements available on a first-come/first-served basis to financial institutions
 - As financial obligations are funded, CAEATFA will allocate funds to individual financial institutions' accounts within the trustee
- ❑ Eligibility limited to small business customers (as defined by the SBA) who are a customer of one of the four IOUs.

SMALL BUSINESS PILOTS — BASICS (2)

- ❑ Contractors need to have certifications, as established through CAEATFA or IOU requirements.
- ❑ All EE measures eligible for an IOU incentive and listed in IOU Finance Program website may be financed through credit-enhanced financial products
- ❑ A marketing, education and outreach budget has been allocated to support this initiative.
- ❑ FIs will be required to collect & transmit to CHEEF (or sub-contractor) data on financial products and customers (and customers will be required to sign a data release consent form).
- ❑ FIs will receive approval to participate in the pilot by applying to CHEEF. Rules for qualification are still to be developed.

SMALL BUSINESS LEASE PILOTS — GOALS

Primary Goal:

- Test premise that availability that EE-targeted lease increases small business customer adoption of EE improvements.

Sub-Goals:

- Increase standardization of EE financing pilot infrastructure with consistent pilot rules and protocols administered by CAEATFA
- Attract lease originators and their investors by:
 - Reducing credit risk with credit enhancements and the threat of shut-off for non-payment;
 - Building financial product volume through a broad definition of small business (based on US SBA), broad measure eligibility (including changes to OBF to channel some projects to the pilots) and focus on strong contractor networks;
 - Measuring performance by collecting data on energy and financial performance;

SMALL BUSINESS LEASE PILOT — BASICS

- ❑ The Lease Pilots will Competitively select at least two (and up to four) lease originators
- ❑ These lease originators will agree to comply with all features of the small business pilots.
- ❑ The lease pilot will begin solely as an off-bill pilot and, when full on-bill functionality is available, transition to allow for an OBR lease pilot.
- ❑ Originators for the on-bill pilot shall be required to permit small business customers to repay the lease obligation via the utility bill
- ❑ One goal of the on-bill lease pilot is to test and compare the impact of On Bill with the Off Bill Lease pilot

SMALL BUSINESS OBR PILOT – BASICS

- ❑ Relies on traditional bank loans (business lending) products.
- ❑ All features described for the other small business pilots described earlier are available (credit enhancement, disconnection for failure to pay financing charges etc.)
- ❑ Originators for the on-bill pilot shall be required to permit small business customers to repay the lease obligation via the utility bill
- ❑ Unlike the lease pilot, no competitive RFP shall be required. Lenders shall apply to CAEATFA to qualify as eligible financial institutions, according to CAEATFA-determined rules.

QUESTIONS FOR FIS

Small Business Pilots

- Underwriting

- The IOUs' On-Bill Financing pilot declines less than 5% of applicants (relying on utility bill repayment history) and has experienced a lifetime default rate under 1%. Given the strong OBF pilot performance to date, and the credit enhancement available for small business pilots, would you be likely to modify your underwriting, and if so, how?
- If not, do you have recommendations for how to transition from 0% OBF to on-bill repayments of loans/leases/etc.?
- Contractors are required to estimate the bill savings that financed projects will deliver. Would you value seeing these estimates and/or be willing to incorporate them into your underwriting practices?

NON-RESIDENTIAL OBR

NON-RESIDENTIAL OBR PILOT PROGRAM — GOALS

Goal

“The primary goal of the Non-Residential pilot programs is to build the deal flow necessary to test the value of OBR as a bridge to overcome traditional lending barriers in these markets.”

“Moreover, it is important to begin collecting data about the potential value of OBR as an EE market incentive, to stimulate education and marketing efforts, and to energize EE contractors.” No CE due to “...lingering questions about owner interest and need [for CEs]”

NON-RESIDENTIAL OBR PILOT PROGRAM — BASICS

- OBR without Credit Enhancement
- Any non-residential IOU customer (oriented to medium-large businesses)
- No specified credit enhancement budget
- All EE measures eligible for an IOU incentive and listed in IOU Finance Program website may be financed
- Additionally, EEEMs defined by CPUC to include Distributed Generation and Demand Response
- No fees collected during pilot period
- Marketing, education and outreach effort to support customer, FI engagement
- FIs will be required to collect & transmit to CHEEF (or sub-contractor) data on financial products and customers (and customers will be required to sign a data release consent form).
- FIs will receive approval to participate in the pilot by applying to CHEEF. Rules for qualification are still to be developed.

OBR TARIFF RULES

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 FIs to enter the non-residential market with new capital.”
- ❑ “...we find the OBR program shall include non-residential shut-off in general conformity with Commission approved shut-off protocols to be approved in the OBR tariff. In addition, non-residential customers with OBR are not precluded from making partial payments for combined energy and debt bill, although partial payments may expose the customer to collections procedures and/or ultimate notice of disconnection.”
- ❑ “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...the Commission finds that [establishing and communicating a clear and enforceable obligation] can be achieved through the use of written agreements and a tariff process...”

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.”

QUESTIONS FOR FIS

- ❑ OBR tariff rules are expected to include the following; are these the right forms and elements?
 - a. Mandatory language regarding the loan/lease obligation to be included in the transactional documents
 - b. Consent forms that would allow the financing obligation to be assumed by new customer upon approval of new customer and FI
 - c. Form language for consent to assignment between financial institution and customer. Should this be part of the program required documents, or should the financial institution use its existing forms?
 - d. Form for consent from subsequent customer to pay financial obligation on utility bill
 - e. A utility bill impact illustration (so the current or prospective occupants can see estimated monthly utility bills and repayment amounts as a result of the energy upgrade)
 - f. Requirement that existing customer retain obligation to pay loan if consent to assignment is not achieved

UPCOMING OPPORTUNITIES FOR FIs TO ENGAGE

- ❑ Policy and Regulatory
 - PIP, OBR tariff filings – provide input
 - CAEATFA rulemakings – provide input
 - Other formal and informal IOU, CPUC and CAEATFA input opportunities
- ❑ CHEEF Roll Out
 - RFPs for Master servicer, data manager – bid
 - RFPs for Leasing companies – bid
- ❑ Participation in Pilots
 - Become a CHEEF-qualified FI
 - Work with IOUs on pilot marketing
 - Work with IOUs, CAEATFA on outreach and engagement of customers, contractors, other market actors
 - Active lender in pilot(s)
- ❑ Stay in contact: Frank Spasaro, SoCalGas, SCGOBF@Semprautilities.com