



CADMUS



Energy-Efficiency Financing Pilots

Focus Group and

Stakeholder Interview Results

July 2013



Instructions

- Send questions to PG&E's EE Finance Mailbox:
EEFinance@pge.com



Recap: Financing Project Overview

Phase 1: PG&E

- Analysis tool
- Interviews with lenders & stakeholders
- Baseline survey
- Customer focus groups

Phase 2: Statewide

- Evaluability
- Program theory
- Program indicators
- External program review
- More lender interviews, customer focus groups



Today's Agenda



Customer Focus Groups



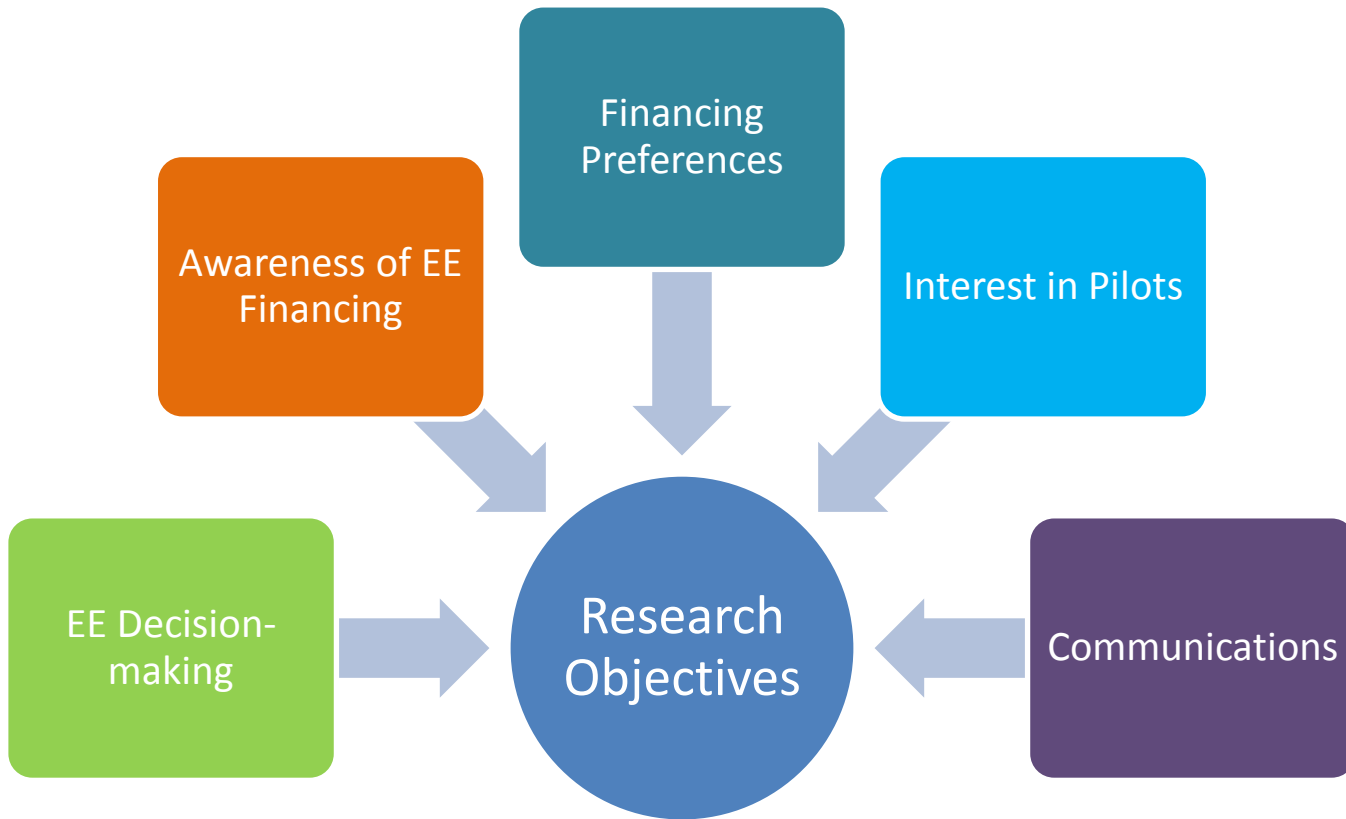
Stakeholder Interviews



Discussion



Focus Groups





Explored Five Pilots



Business

- **Larger Business:** On-Bill Repayment
- **Small Business:** Equipment Leasing



Single Family

- Warehouse for EE Loans
- Local Lending Products



Multi-Family

- On-Bill Repayment



Segmentation

Larger Business

- Used Financing Before
- Have not used Financing Before

Small Business

- Single Decision Maker

Single-Family

- EE Project Completed
- EE Project Not Completed

Multifamily

- Nonprofit (CHPC)
- Market Rate

- Spoke with 82 respondents across 12 groups
- Held groups in two locations (Fresno & San Francisco)



Findings Across All Groups

Know little about financing

- Not on radar screen
- Unfamiliar terms
- Uncertain how difficult to obtain an EE loan*

Timing of information important

- Want information early in decision making process

Want flexible repayment

- Prefer longer term with smaller payments
- Want early pay-off options

Interest rate key issue

- Prefer fixed rates
- Use car and home loans as benchmarks



Larger Business Findings

Prefer self-financing

- Rarely use loans/financing for EE
- May use credit cards but pay them off promptly

Upgrade when equipment fails

- Rebates have influenced many to take action
- Business sustainability norms influence some



Larger Business Pilot Reactions

Pilot Features	Reactions to Features
PG&E and contractors may inform customers about pilot offering	<ul style="list-style-type: none"> • Prefer PG&E involved in outreach • Uncertain about unknown contractors approaching them
Traditional credit review by lenders	<ul style="list-style-type: none"> • OKAY
Market-rate interest rates	<ul style="list-style-type: none"> • OKAY
May have loan fees	<ul style="list-style-type: none"> • Expect modest fees • Prefer fees rolled into loan payment
All energy-efficiency upgrades eligible; could include related steps needed to complete project	<ul style="list-style-type: none"> • Like that loan could cover related steps



Larger Business Pilot Reactions (cont.)

Pilot Features	Reactions to Features
Can still get PG&E rebates	<ul style="list-style-type: none"> • Want rebates to continue
Pay as part of your utility bill	<ul style="list-style-type: none"> • No strong preference: could pay on bill or directly to lender
Nonpayment can result in utility service shutoff	<ul style="list-style-type: none"> • Disconnection unacceptable
Savings from upgrades designed to lower bill/offset increases	<ul style="list-style-type: none"> • Liked savings to offset monthly loan payment
Payment is attached to utility meter (transferable)	<ul style="list-style-type: none"> • Minority favored transferability



Larger Business Conclusions

Larger business decision – makers...

1. Do not see on-bill repayment or transferability as benefits

2. Will likely require multiple communication approaches and interactions

3. Need to learn more, focus initial marketing on obvious benefits



Small Business Findings

Prefer self-financing

- Rarely use loans/financing for energy efficiency

Upgrade when equipment fails

- Rebates have influenced many to take action

No preference on loan application submission

- No preference if application goes to lender or PG&E



Small Business Pilot Reactions

Pilot Features	Reactions to Features
Work directly with contractor to obtain financing	<ul style="list-style-type: none"> • Prefer PG&E involved in outreach • Uncertain about contractors approaching them
Traditional credit review by lenders	<ul style="list-style-type: none"> • No consensus regarding traditional credit review • Review may take too long and eligibility may be too stringent
Program-capped interest rate	<ul style="list-style-type: none"> • Like program-capped interest rate
Program-capped fees	<ul style="list-style-type: none"> • Like program-capped fees • Prefer fees rolled into loan payment
All energy-efficiency equipment eligible	<ul style="list-style-type: none"> • Like that all energy-efficiency equipment is eligible



Small Business Pilot Reactions (cont.)

Pilot Features	Reactions to Features
Can still get PG&E rebates	<ul style="list-style-type: none"> • Want rebates to continue
Pay as part of your utility bill OR pay lease company directly	<ul style="list-style-type: none"> • Like that loan payment could be paid on-bill
Nonpayment can result in utility service shut off	<ul style="list-style-type: none"> • Disconnection unacceptable
Savings from upgrades designed to lower bill/offset increases	<ul style="list-style-type: none"> • Liked energy savings to offset monthly loan payment
Payment is attached to utility meter (transferable)*	<ul style="list-style-type: none"> • Found value in transferability

* Explored, but not presented as part of the pilot design.



Small Business Conclusions

Small business
decision –
makers...

#1. Found value in on-bill repayment
and transferability

#2. Need to learn more, focus initial
marketing on obvious benefits



Single Family Findings

Prefer self-financing

- Only loans/financing for EE when funds are not available

Upgrade under three scenarios

- When equipment fails
- Reached comfort breaking point
- Planned replacement

Return On Investment is key

- When considering an EE loan



Single Family Reactions: WHEEL

Pilot Features	Reactions to Pilot Features
Contractor provides financing, certified and managed by a finance company	<ul style="list-style-type: none"> • Uncomfortable with contractor providing the loan
Simple application, easy in-home/online	<ul style="list-style-type: none"> • Prefer face-to-face contact with lender
Interest rate projected to start at 9%	<ul style="list-style-type: none"> • Found 9% to be too high
No customer fees and no additional program costs	<ul style="list-style-type: none"> • Like having no customer or program fees
All energy-efficiency equipment eligible; could cover materials needed to complete project	<ul style="list-style-type: none"> • Like that loan could cover related steps
Can still get PG&E rebates	<ul style="list-style-type: none"> • Want rebates to continue



Single Family Reactions: WHEEL

(CONT.)

Pilot Features	Reactions to Pilot Features
Pay as part of your utility bill or pay lender directly	<ul style="list-style-type: none"> • No strong preference: could pay on bill or directly to lender
Utility service not affected (explored, but not part of known pilot design)	<ul style="list-style-type: none"> • Disconnection unacceptable
Savings from upgrades designed to lower bill/offset increases	<ul style="list-style-type: none"> • Liked energy savings to offset monthly loan payment • Skeptical that projected energy savings will be achieved



Single Family Reactions: Local Lending Products

Pilot Features Presented	Reactions to Pilot Features
Loans provided by local lenders or through contractors	<ul style="list-style-type: none"> • Uncomfortable with contractors providing loan
Application process will vary—based on lender, may require security or lien	<ul style="list-style-type: none"> • OKAY
Interest rate projected to be 6% to 7%. Rates may vary by FICO score	<ul style="list-style-type: none"> • Found 6% to 7% to be too high
May have fees	<ul style="list-style-type: none"> • Expect modest fees • Prefer fees rolled into loan payment



Single Family Reactions: Local Lending Products (Cont.)

Pilot Features Presented	Reactions to Pilot Features
All energy-efficiency equipment eligible; could cover materials needed to complete project	<ul style="list-style-type: none"> • Like that loan could cover related steps
Can still get PG&E rebates	<ul style="list-style-type: none"> • Want rebates to continue
Pay as part of your utility bill or pay lender directly	<ul style="list-style-type: none"> • No strong preference: could pay on bill or directly to lender
Utility service unaffected	<ul style="list-style-type: none"> • Disconnection unacceptable*
Savings from upgrades designed to lower bill/offset increases	<ul style="list-style-type: none"> • Liked energy savings to offset monthly loan payment • Skeptical that projected energy savings will be achieved

*Explored, but not part of known pilot design.



Single Family Conclusions

Single family
decision –
makers...

#1. Have many questions
regarding financing

#2. Need to learn more, focus
initial marketing on obvious
benefits



Multifamily Findings

Prefer self-financing

- Only loans/financing for EE when funds are not available

Have varied awareness of financing options

- Nonprofit (CHPC): Have used EE loans/financing
- Market rate: Not aware of EE loan

Complete upgrades in two ways

- In-unit upgrades: When units are vacant
- Large scale projects: Building-by-building

No preference on loan application submission

- No preference if application goes to lender or PG&E

Nonprofit sector constrained by staff availability

- Require loan to cover cost of staff hours as well as project



Multifamily Reactions

Pilot Features	Reactions to Pilot Features
<p>PG&E, contractor, or CHPC partner offers financing product</p>	<ul style="list-style-type: none"> • Prefer trusted third party • Comfortable with PG&E direct outreach • Not comfortable with contractors
<p>Traditional credit review by lenders</p>	<ul style="list-style-type: none"> • OKAY • Some concern from CHPC segment that the review process may take too long
<p>Slightly below market interest rates</p>	<ul style="list-style-type: none"> • Like slightly below market rate
<p>May have fees</p>	<ul style="list-style-type: none"> • Expect modest fees • Prefer fees rolled into loan payment
<p>All energy-efficiency equipment is eligible; may cover materials needed to complete project</p>	<ul style="list-style-type: none"> • Like that loan could cover related steps



Multifamily Reactions (Cont.)

Pilot Features	Reactions to Pilot Features
Can still get PG&E rebates	<ul style="list-style-type: none"> • Want rebates to continue
Pay on your utility bill	<ul style="list-style-type: none"> • CHPC segment: On-bill repayment appealing • Market rate segment: No strong preference - could pay on bill or directly to lender
Utility service unaffected	<ul style="list-style-type: none"> • Disconnection unacceptable*
Savings from upgrades designed to lower bill/offset increases	<ul style="list-style-type: none"> • Liked energy savings to offset monthly loan payment • Skeptical that projected energy savings will be achieved
Payment is attached to utility meter (transferable)	<ul style="list-style-type: none"> • Value in transferability



Multifamily Conclusions

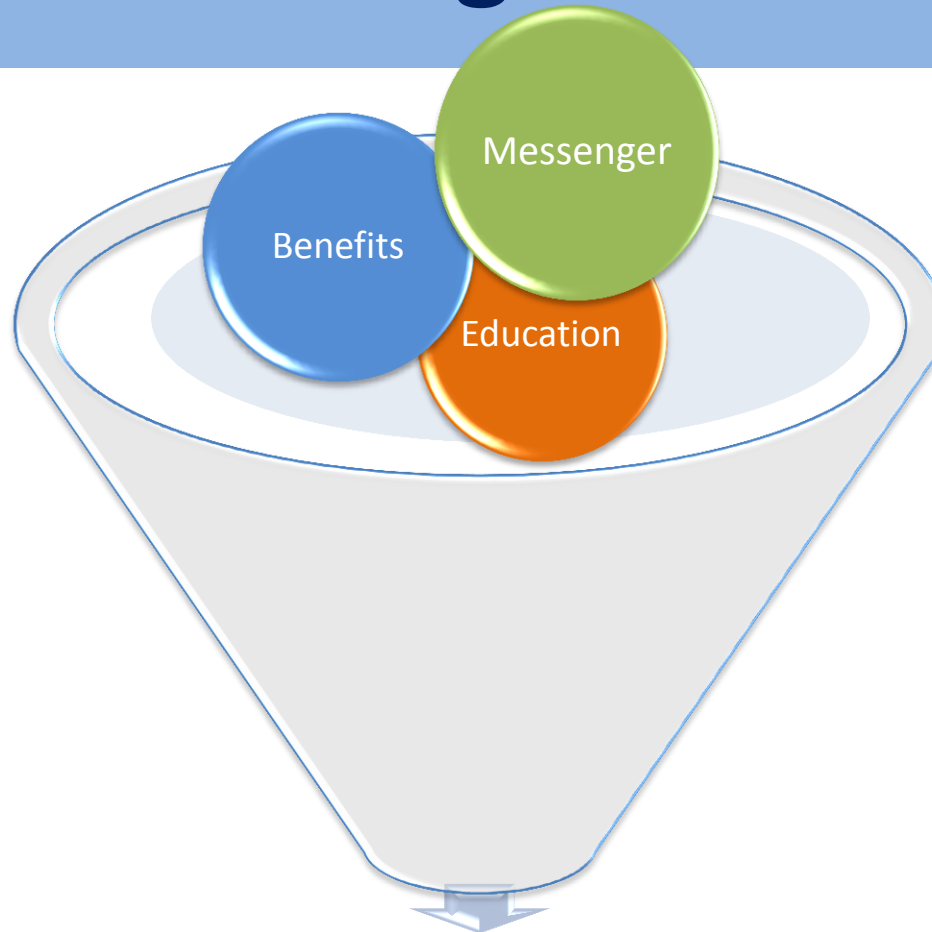
Multifamily
decision –
makers...

#1. Need to learn more, focus
initial marketing on obvious
benefits

#2. The nonprofit sector will
need additional help



Tailoring is Critical



Awareness & Engagement



Stakeholder Interviews

- Purpose of Research
- Stakeholders Interviewed
- Key Findings



Purpose of Stakeholder Interviews

- Provide insights for PG&E and ED to help inform successful implementation of the financing pilots
 - Learn about recent developments with EE financing programs, products, customers, and issues
 - Explore reactions to OBF / OBR and the potential features such as transferability and disconnect
 - Identify lenders that may be interested in participating in the pilots and in being interviewed



16 Stakeholders Interviewed

Organizations	
CA Department of General Services (DGS)	Harcourt Brown & Carey
CA Housing Partnership Corp (CHPC)	PG&E Account Executives
CRHMFA Homebuyers Fund (CHF)	PG&E Legal Department
Small Business California (SBC)	SoCalGas Finance Lead
Council of Development Finance Agencies	SDG&E Finance Leads
Cen Cal Business Finance Group	All Facilities Energy Group



Findings - Stakeholder Interviews

- Findings are qualitative not quantitative
- Key Findings – General
 - Billing software changes can only go so far without more details on the pilots
 - If contractors are not paid promptly, they will drop out or raise prices
 - Bridge financing for construction is repeatedly noted as important
 - IOU write-off data is important to lenders & investors



Findings - Stakeholder Interviews

- Key Findings – Residential
 - Contractors say financing leads to deeper retrofits
 - CHF finance programs average 7 measures per project
 - 2/3 of their applicants close on the loan
 - Lenders lost interest in an ARRA program due to delays in finalizing program design
 - Could a tariff be a hindrance to selling a home?



Findings - Stakeholder Interviews

- Key Findings – Small Business
 - Owners are too busy; EE does not drive their success; EE process must be obstacle-free
 - Standard credit approval process is an obstacle for EE
 - E.g., SBA 504 loans require personal guarantee, so hardly any loans are for non-critical investments
 - Up to 95% of businesses are small to medium¹
 - They represent over 50% of all business energy use¹

¹ not fact-checked



Findings - Stakeholder Interviews

- Key Findings – Multi-Family
 - What fees will utilities charge for OBR services?
 - There is a perception that project viability is very sensitive to external costs
 - LLR may need to be at least 20%; one program found that this was the minimum needed to attract lenders
 - Direct install measures are essential to viability
 - But IOU-selected contractor may be different from contractor selected for other measures (e.g., ESAP contractor, owner-selected contractor for other work)



Findings - Stakeholder Interviews

- Key Findings – Other Sectors
 - State: tax-exempt lease purchase agreements are attractive: 1.25% - 2.50% for 7 - 15 years respectively
 - Unsecured OBR could solve problems where prior bond debt exists
 - MUSH sector: unfamiliar with financing these projects
 - Usual options are difficult – bonds, bridge / take-out loans
 - Collateral can be an issue
 - Simple no-collateral loans could expand the market



Thank You

Please send questions or comments to
PG&E EE Finance Team at:
EEFinance@pge.com