

CALIFORNIA: ON-UTILITY BILL FINANCING FOR ENERGY EFFICIENCY



WHAT IS NEW IN CALIFORNIA CLEAN ENERGY FINANCING?

The first cost investment is a major barrier to the adoption of clean energy technologies (efficiency and renewables).

Financing can overcome the first cost barrier but acquiring financing can be a cumbersome process and many property owners do not have the time or the knowledge to do so effectively.

Consequently, the CPUC directed the state's IOUs to propose financing for the 2013/2014 cycle. They requested that the financing have the following characteristics:

- a credit enhancement strategy for the *single-family residential market*;
- a financing program designed for the *multifamily residential market* that includes both credit enhancement and an on-bill repayment option and/or tariff-based energy efficiency improvement reimbursement mechanism;
- a credit enhancement strategy for the *small business market*; and
- an on-bill repayment strategy for *all non-residential customers* that “shall not require bill neutrality and shall allow for pro-rata allocation of payments between utility bill obligations and loan repayment.”

THE CONSULTANTS IDENTIFIED THE FOLLOWING DESIGN CRITERIA:

- The financing should be contractor centric and make doing business, easier not more difficult for contractors and owners.
- The program must Increasing EE deal flow to be considered a success.
- Success would also require that two “worlds” interact productively, energy and finance.
- Traditional financing products (loans/leases) should used if possible.
- These efforts should be developed initially as pilots and not fully scaled programs.
- The financing pilots must be integrated with other EE programs.

THE PROPOSED SOLUTION: A STATE-WIDE FINANCING “HUB”

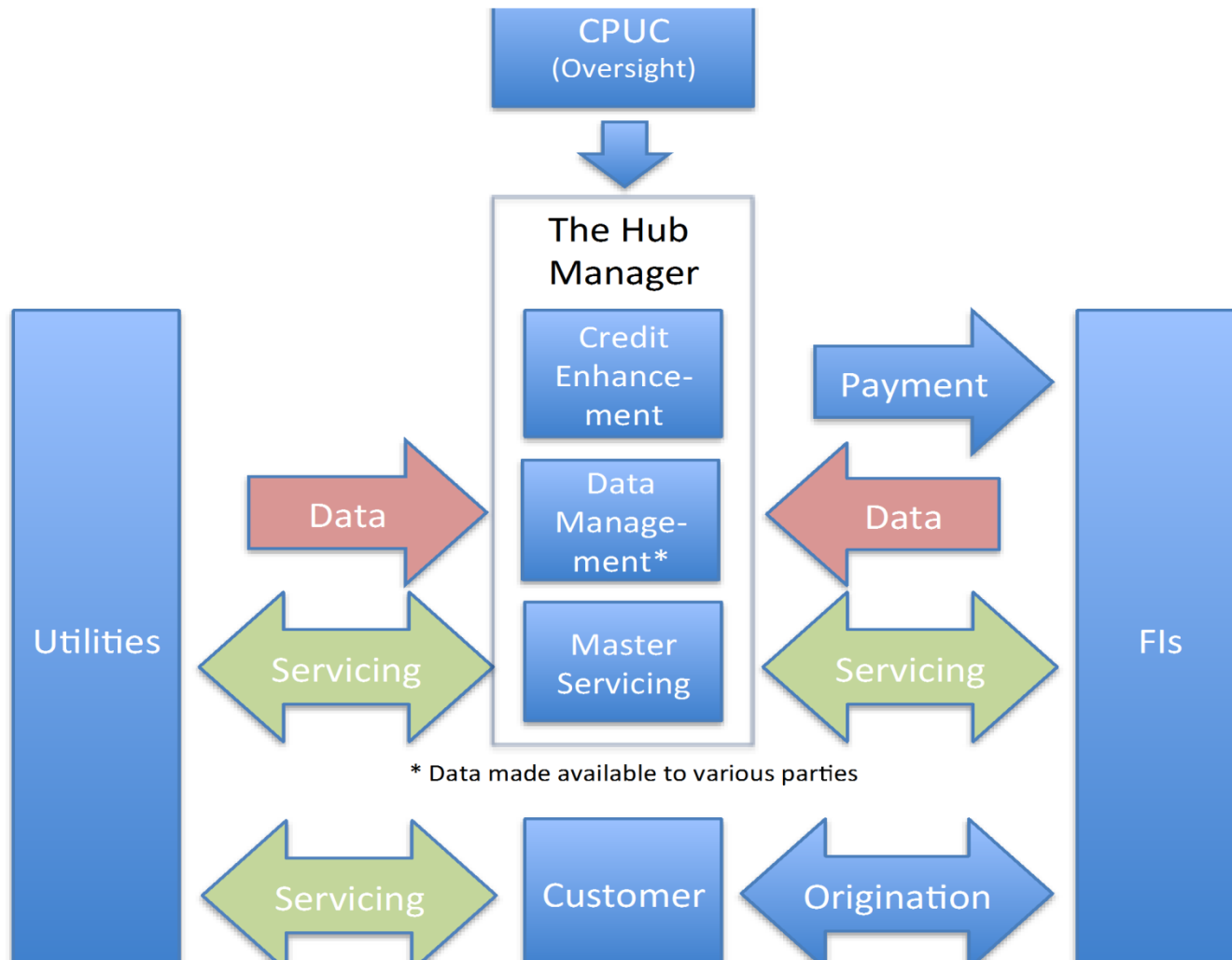
Hub Manager responsibilities include:**

- Establish master servicer operational requirements and contract entity to perform these functions
- Establish data management standards and protocols and contract entity to perform these functions (if different from master servicer)
- Design policies & procedures to manage credit enhancement and contract entity to perform these functions (if different from master servicer)
- Subject to CPUC guidelines (and/or joint-IOU instruction) develop rules governing FI qualification & pilot participation
- Monitor FI performance and enforce rules

Depending on IOU preferences (and the CPUC decision), a single or multiple sub-contracts could be issued for Hub functions.

**Hub Manager responsibilities will vary based on CPUC decision.

HUB MANAGER — HIGH-LEVEL SCHEMATIC



* Data made available to various parties

THE HUB MANAGER

These criteria & principles pose several significant needs:

Means for communicating & enforcing program protocols to a range of FIs

Cash & financial data processing and transmittal across multiple IOUs & FIs

Administration of credit enhancements in multiple forms across multiple pilots & market sectors

The Hub Manager acts as the statewide interface between utilities and financial institutions The Hub Manager is responsible for:

Provision & enforcement of program guidelines to FIs

Cash & financial data transfer between IOUs & FIs

Data collection, storage & dissemination

Credit enhancement management

THE HUB MANAGER

These responsibilities will be carried out by several entities—the Hub Manager will either directly carry out functions or sub-contract for them (and be responsible to the IOUs & CPUC for their proper performance)

The Hub Manager (and its subcontractors) acts as the statewide interface between utilities and financial institutions, responsible for:

Provision & enforcement of program guidelines to FIs

Cash & financial data transfer between IOUs & FIs

Data collection, storage & dissemination

Credit enhancement management

Potential Allocation of Responsibilities

Hub Manager (not sub-contracted)

Master Servicer

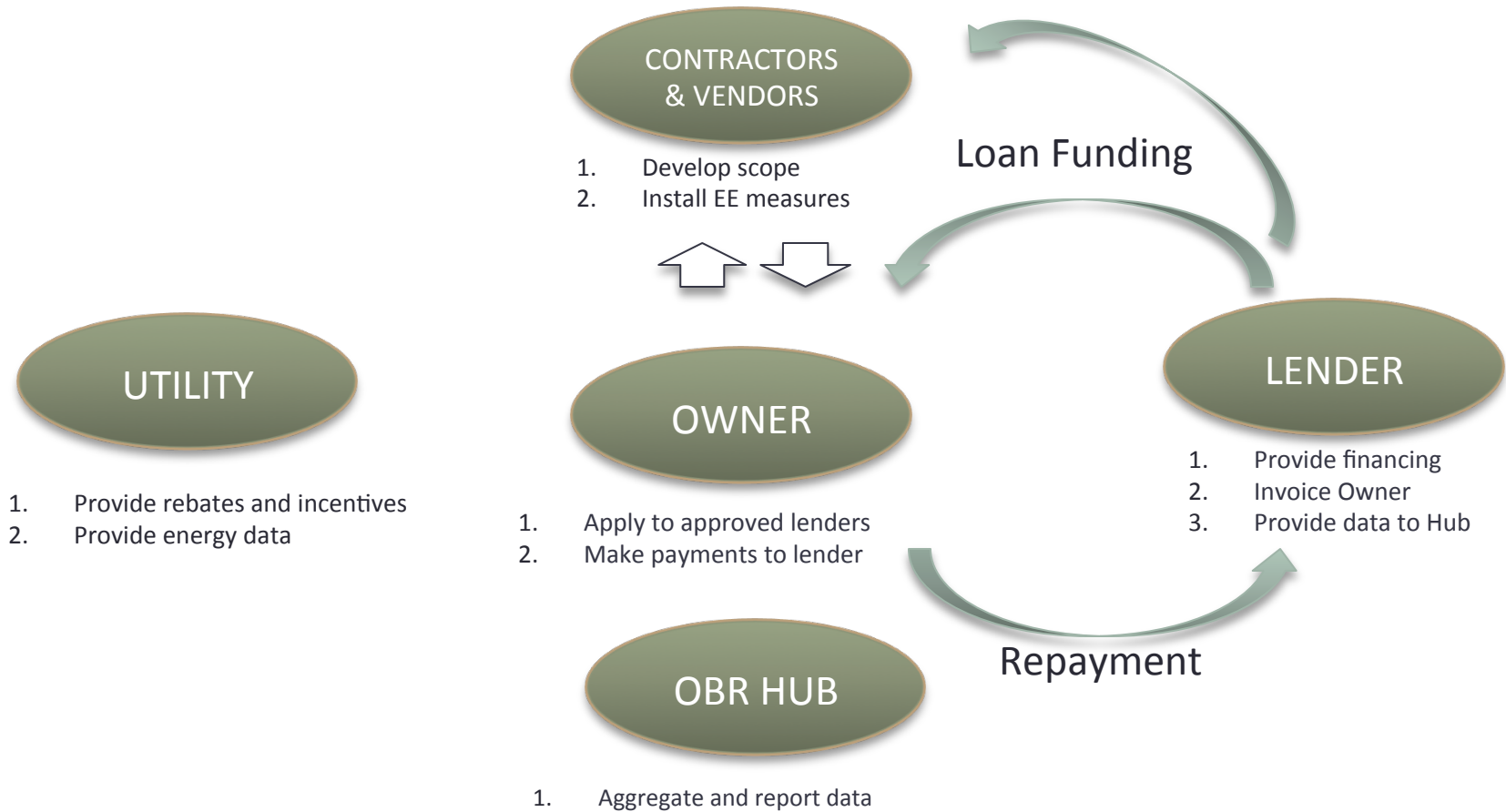
Master Servicer + Data Manager

Master Servicer + Trustee Banks

Proposed Residential Pilots

SINGLE FAMILY RESIDENTIAL PILOT RECOMMENDATIONS				
Program	WHEEL	Local Lending Products	Line Item Billing	Middle Income Targeted
Pilot/Sub-Pilot	Pilot	Pilot	Sub-Pilot	Sub-Pilot
Recommended Funding Level	\$24 million*		\$1 million	\$1 million
Description	Unsecured dealer loan product leveraging secondary markets capital	Range of loan products leveraging local capital	On-utility bill loan repayment; no bill-related loan security	Effort to expand access to capital and energy efficiency
What Pilot is Testing	Attractiveness of mid-interest rate dealer loans, Opening capital markets to residential EE financing	Attractiveness of low-interest rate direct loans, Ability of local lenders to deliver capital across broad geographies	Attractiveness of repaying loan on bill and its impact on loan performance	Extent to which responsibly expanded access to capital for middle income households increases EE uptake
Credit Enhancement	Subordinate Debt	Loan Loss Reserve	N/A	\$1 million
Credit Enhancement Justification	Required if to offer WHEEL in CA	CPUC guidance	N/A	Credit enhancement beyond what is available for WHEEL/local products may be necessary to bring in private capital providers

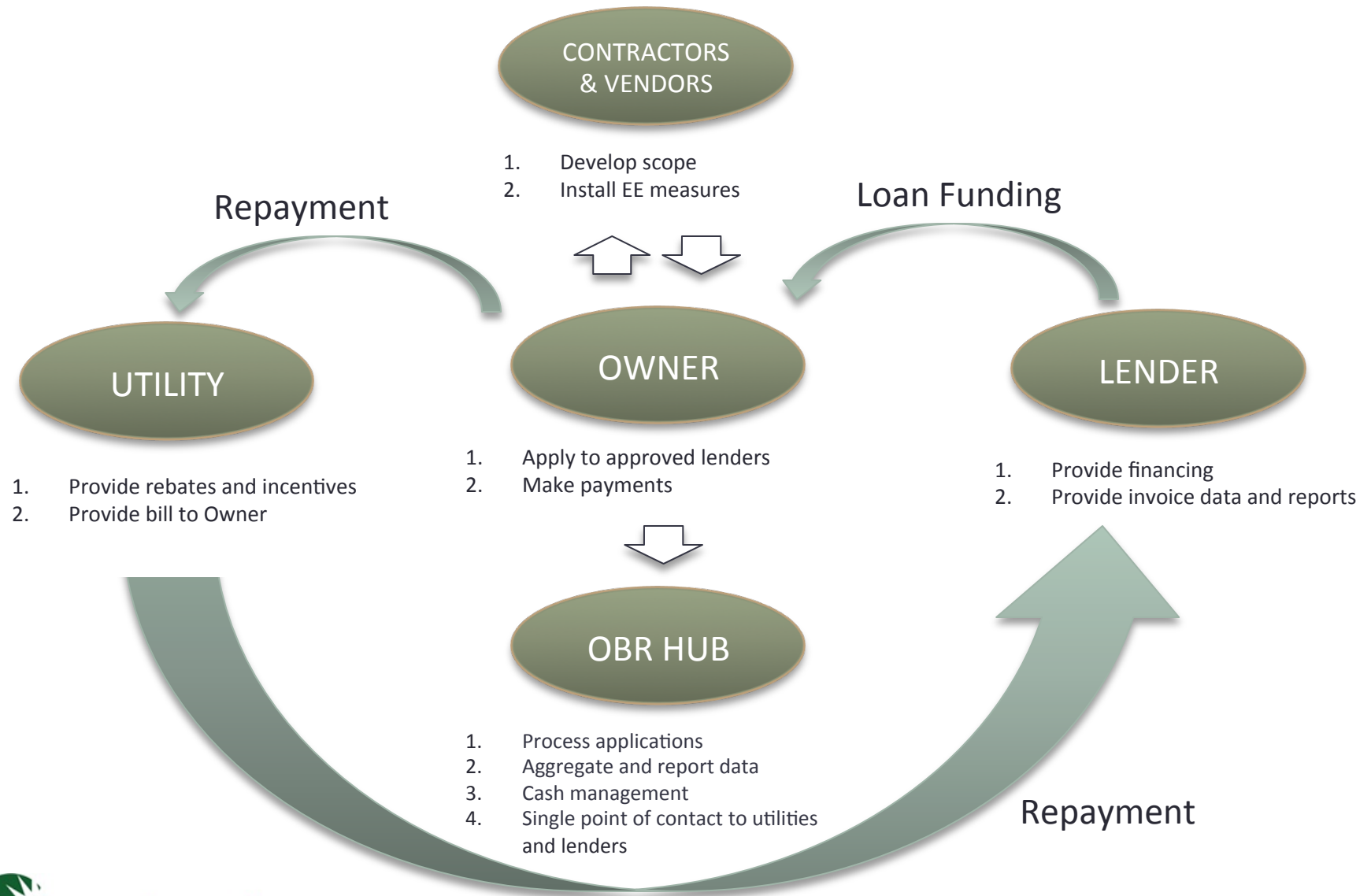
RESIDENTIAL PILOTS



Non-Residential Pilots

NON-RESIDENTIAL ON-BILL FINANCING & REPAYMENT SUMMARY			
	Existing OBF Program	Proposed OBR Program	
		OBR w/credit enhancement	OBR w/o 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	All non-residential IOU customers	All non-residential IOU customers
Eligible Measures	Existing program guidelines apply, except lighting measures may not exceed 20% of total project cost. (Government & institutional customers exempted from this lighting-maximum)	<ul style="list-style-type: none"> • All measures eligible for OBF, • Projects with lighting in excess of 20% of total project cost, • All other CPUC-“traditionally”-approved EE measures 	<ul style="list-style-type: none"> • All measures eligible for credit-enhanced OBR. • “Demand-side investments” (renewables, DG, DR, storage), EE measures not approved by the traditional CPUC tests (e.g. low-e windows), and certain non-energy measures. May not exceed 20% of total project cost
Interest rate	0%	Market rate	Market rate
Credit enhancement	None	No more than 20% of total financed cost. For lease origination: determined by RFP.	None
Bill Neutrality Required?	Yes	No, contractor disclosure of projected bill impact required.	

NON-RESIDENTIAL PILOTS



HOW CAN LOCAL GOVERNMENTS PARTICIPATE IN THE PILOTS?

Local Governments can participate in the following ways:

Marketing: Promote the existence of the new statewide programs to residents and businesses. Include links in existing municipal websites to direct web visitors to the pilots. Suggest the use of OBR as a complement to the existing OBF programs due to the greater loan amounts and longer terms.

Jobs and Contractors: Work with local contractors to encourage them to participate in the pilots.

Jobs and Manufacturing: Determine if your jurisdiction includes manufacturers of energy efficiency or renewable energy products or materials. Inform them of the pilots and encourage them to seek business development opportunities in this growing field.

Community and Green NGOs: Inform them of the pilots and work with them to get the word out to maximize the uptake of the Pilots