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

CPUC (Oversight)

The Hub Manager
  Credit Enhancement
  Data Management*
  Master Servicing

Utilities
  Data
  Servicing

* Data made available to various parties

Customer

Payment

Servicing

Origination

FIs
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

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

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
### Single Family Residential Pilot Recommendations

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

- **UTILITY**
  1. Provide rebates and incentives
  2. Provide energy data

- **OWNER**
  1. Apply to approved lenders
  2. Make payments to lender

- **CONTRACTORS & VENDORS**
  1. Develop scope
  2. Install EE measures

- **LENDER**
  1. Provide financing
  2. Invoice Owner
  3. Provide data to Hub

- **OBR HUB**
  1. Aggregate and report data

**Loan Funding**

**Repayment**
## Non-Residential On-Bill Financing & Repayment Summary

<table>
<thead>
<tr>
<th></th>
<th>Existing OBF Program</th>
<th>Proposed OBR Program</th>
<th>OBR w/credit enhancement</th>
<th>OBR w/o credit enhancement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit enhancement</strong></td>
<td>None</td>
<td>No more than 20% of total financed cost. For lease origination: determined by RFP.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Eligible Customers</strong></td>
<td>All non-residential IOU customers</td>
<td>All non-residential IOU customers</td>
<td>All non-residential IOU customers</td>
<td></td>
</tr>
<tr>
<td><strong>Eligible Measures</strong></td>
<td>Existing program guidelines apply, except lighting measures may not exceed 20% of total project cost. (Government &amp; institutional customers exempted from this lighting-maximum)</td>
<td>• All measures eligible for OBF, • Projects with lighting in excess of 20% of total project cost, • All other CPUC-“traditionally”-approved EE measures</td>
<td>• 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</td>
<td></td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>0%</td>
<td>Market rate</td>
<td>Market rate</td>
<td></td>
</tr>
<tr>
<td><strong>Credit enhancement</strong></td>
<td>None</td>
<td>No more than 20% of total financed cost. For lease origination: determined by RFP.</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Bill Neutrality Required?</strong></td>
<td>Yes</td>
<td>No, contractor disclosure of projected bill impact required.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NON-RESIDENTIAL PILOTS

CONTRACTORS & VENDORS
1. Develop scope
2. Install EE measures

OWNER
1. Apply to approved lenders
2. Make payments

LENDER
1. Provide financing
2. Provide invoice data and reports

OBR HUB
1. Process applications
2. Aggregate and report data
3. Cash management
4. Single point of contact to utilities and lenders

UTILITY
1. Provide rebates and incentives
2. Provide bill to Owner

Repayment
Loan Funding

Repayment
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.