

California Hub for Energy Efficiency Financing

Quarterly Report and Program Status Summary

April 1, 2015 – June 30, 2015



CALIFORNIA HUB FOR
ENERGY EFFICIENCY
FINANCING

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Table of Contents

Section 1: Background.....	1
Section 2: Budget.....	3
Section 3: CAEATFA's Role.....	4
Section 4: Program Development.....	7
Section 5: Additional Information	10
Appendix A: Reporting Components Required by D.13-09-044.....	11

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

Section 1: Background

Through a series of pilot programs spanning the residential, multifamily, and non-residential market sectors, CAEATFA is partnering with the California Public Utilities Commission (“CPUC”), the investor-owned utilities (“IOUs”)¹, and the Center for Sustainable Energy (“CSE”) to support the development of new, scalable, and leveraged financing products for consumers to help them produce deeper and broader energy efficiency projects than previously achieved through traditional program approaches. The pilots aim to bring broader access to private capital and will assist in removing the upfront cost barrier of financing for consumers to undertake energy efficiency retrofits.

In September 2013, the CPUC approved Decision 13-09-044 (“D.13-09-044”), which authorized two-year pilot programs to be supported by up to \$66 million of IOU ratepayer funds and serving four market segments; credit enhancements to lenders are intended for only the first three markets below:

- Single-family, with one-third of funds reserved for low and moderate income households,
- Multi-family, affordable housing with master meters,
- Small businesses, and
- On-Bill Repayment of financing by non-residential energy users, without credit enhancement.

The pilot programs were established with a myriad of goals, all of which are intended to support the State’s broader energy efficiency and environmental policy goals using an innovative approach. Primarily, the pilots are designed to:

- (a) attract a greater amount of private capital to the energy efficiency retrofit market by reducing risk to lenders;
- (b) broaden the availability of financing to individuals who might not have been able to access it otherwise; and,
- (c) address the upfront cost barrier to energy efficiency retrofit projects.

This report is responsive to D.13-09-044, Ordering Paragraph 21, which directs CAEATFA in conjunction with the IOUs to issue quarterly reports through the pilot period by program and on CHEEF operational expenses. The reports are to notify the CPUC of implementation progress and issues, the platform and space within which CHEEF functions take place, accounts and account managers associated with the CHEEF, database permission criteria and platforms, customer facing products, pilot program performance aggregate profile information regarding borrowers, and an overview of participating financial institutions. Appendix A of this report includes information on each of the above-listed data points that are required pursuant to D.13-09-044.²

¹ The IOUs consist of Southern California Gas Company, San Diego Gas and Electric Company, Southern California Edison, and Pacific Gas & Electric.

² D.13-09-044 directed that quarterly reports be issued beginning on January 31, 2014. However, CAEATFA did not receive approval by that date to operate in the role of CHEEF. Due to that circumstance, SoCalGas requested and the Commission granted a suspension of Ordering Paragraph 21 until the time the CPUC established a revised schedule of requirements. Although the CPUC has not provided further direction regarding the timing for issuing

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

In March 2015, CAEATFA submitted a letter to Edward Randolph, CPUC Energy Division Director, to request that the Commission consider several changes to the pilot program design as identified in D.13-09-044. These recommendations were provided with the purpose of creating a more streamlined implementation and experience for program participants, as well as to support various market needs that may not have been considered in previous phases of program development. In a subsequent Assigned Commissioner and Administrative Law Judge's Ruling that included the letter as an attachment, it was noted that CAEATFA's letter would be treated as a Petition for Modification ("PFM") of Decision 13-09-044.³ Following this determination, the Commission issued Decision 15-06-008 ("D.15-06-008"), dated June 11, 2015, to partially modify Decision 13-09-044 and Resolution E-4680 implementing the energy efficiency financing pilot programs.⁴ D.15-06-008 sought to address adjustments to the financing pilots previously suggested by CAEATFA in its PFM. Most notably, D.15-06-008 extends the finance pilots' terms beyond 2015 so that each pilot is funded for a full 24 months of operation, based on the time that each pilot launches. D.15-06-008 also acknowledged that loans issued during the pilot terms will have ongoing administrative expenses beyond the pilot terms.

Decision 15-06-008 left several of the issues included in the PFM open until later resolution. On June 16, 2015, the Commission issued a Notice of Prehearing Conference and Administrative Law Judge's Ruling Regarding Prehearing Conference Statements. The Notice identified that a Prehearing Conference would be held on July 6, 2015, with the purpose of identifying remaining issues from the PFM; determining whether additional evidence on issues is needed and the process for gathering such evidence; and hearing suggestions on a procedural schedule for moving forward.

quarterly reports, CAEATFA issued the initial report in 2Q, 2015, which is in close proximity to the timing of implementing the first pilot program. See letter of SoCalGas to Paul Clanon dated January 24, 2014, and response of Paul Clanon to SoCalGas dated February 4, 2014 regarding this matter:

<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M086/K120/86120334.PDF>.

³ Revised Assigned Commissioner and Administrative Law Judge's Ruling Re: California Alternative Energy and Advanced Transportation Financing Authority's Proposed Modifications to Decision 13-09-044 (Energy Efficiency Financing Pilots): <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M148/K824/148824390.PDF>.

⁴ Decision 15-06-008 Partially Modifying Decision 13-09-044 and Resolution E-4680 Implementing Energy Efficiency Financing Pilot Programs:

<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M152/K787/152787673.PDF>.

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)
 QUARTERLY REPORT AND PROGRAM STATUS SUMMARY**

April 1, 2015 - June 30, 2015

Section 2: Budget

The Decision directs the IOUs to allocate a total of \$65.9 million to the finance pilots over the initial pilot period. The breakdown of costs is as follows:

ITEM	FUNDING AMOUNT
1. CHEEF start-up cost (includes CAEATFA administrative and contracting costs)	\$ 5 million
2. Marketing, education, outreach	\$ 10 million
a. Statewide MEO plan	\$ 8 million
b. CAEATFA outreach and training to financial institutions and contractors	\$ 2 million
3. Residential pilots	\$28.9 million
a. Single family loan loss reserve	\$ 25 million
b. Energy Financing Line Item Charge (\$ to PG&E)	\$ 1 million
c. Multi-family debt service reserve fund	\$2.9 million
4. Non-residential pilots	\$ 14 million
a. Small business sector OBR with credit enhancement	\$ 14 million
i. Sub-pilot: OBR for lease providers	
ii. Sub-pilot: Off-bill for lease providers	
b. Non-residential OBR without credit enhancement	\$ 0
5. Information Technology (\$ to IOUs)	\$ 8 million
TOTAL FUNDING FOR EE FINANCING PILOTS	\$ 65.9 MILLION

To date, CAEATFA has expended approximately \$581,879.46 of the \$7 million allocated for CHEEF start-up costs and education, outreach, and training for lenders and contractors. This funding covers CAEATFA’s expenditures from September 12, 2014 through June 30, 2015. At this time, CAEATFA has expended \$32,333.31 of its administrative costs towards contracts with third-parties. It is anticipated that expenditures will significantly increase as the Master Servicer continues to develop its functionality and program activity begins to occur.

As of July 1, 2015, CAEATFA received extended legislative budget authority to carry out the services of the CHEEF within the initial existing \$7 million budget through June 30, 2017.

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

Section 3: CAEATFA's Role

CAEATFA is creating a streamlined, statewide platform for lenders and contractors to participate in the uptake of energy efficiency projects through increased access to financing. As the manager of the CHEEF, CAEATFA is developing uniform program requirements, standardized documentation and processes, and a central administrative entity to facilitate investment in energy efficiency projects and implementation of the pilot programs.

CAEATFA received the requisite legislative budget authority to act as CHEEF on July 1, 2014. Following this approval, CAEATFA entered into two key agreements to solidify its role managing the CHEEF. First, CAEATFA entered into a Memorandum of Agreement ("MOA") with the CPUC. The MOA was approved by the CAEATFA Board at its November 2013 meeting, and subsequently finalized with an effective date of July 18, 2014.⁵ In addition, the CAEATFA Board approved a contract between CAEATFA and the IOUs in November 2013. This contract received its final approval from the Department of General Services and became effective on September 12, 2014. At that point, CAEATFA was able to begin to hire staff, enter into administrative contracts, issue Requests for Proposals ("RFPs"), and promulgate regulations for the Pilot Programs.

In addition, CAEATFA is collaborating with the CPUC, Center for Sustainable Energy (CSE), and the IOUs to deliver a \$10 million marketing, education, outreach and training campaign that leverages the existing Energy Upgrade California efforts and will further encourage lender and contractor participation in the Pilot Programs.

CHEEF Infrastructure

Central to the infrastructure needed to implement the CHEEF Pilot Programs are a Master Servicer, Trustee bank, Contractor Manager, Data Manager, Lease Originators, and Technical Advisor. Below are descriptions of each of these roles and information on the current status as it relates to CAEATFA's procurement processes.

- **Master Servicer.** The Master Servicer (MS) plays a key role in the daily administration of the program, accepting lender and loan enrollment applications, and processing on-bill repayment transactions. CAEATFA initially issued a competitive RFP in October 2014, but did not receive a qualifying bid. CAEATFA Staff subsequently modified the minimum qualifications for proposers and further clarified the scope of services. A revised RFP was issued in December 2014, and staff recommended Concord Servicing Corporation as the Master Servicer to the CAEATFA Board for consideration and approval in January 2015. CAEATFA's contract with Concord Servicing Corporation was approved by the Department of General Services on April 23, 2015. Since then, CAEATFA Staff has worked to familiarize the Master Servicer with the Pilot Programs, specifically focused on developing the infrastructure for the Residential Energy Efficiency Loan Assistance Program ("REEL") while simultaneously developing the foundation for on-bill repayments. In conjunction with CAEATFA, the Master Servicer has met with the IOUs

⁵ Minutes from the November 19, 2013, CAEATFA Board Meeting are available online at: <http://treasurer.ca.gov/caeatfa/minutes/2013/20131119.pdf>

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

to discuss overall program development, data collection, data transfer, and data storage functionality necessary for both the off-bill and on-bill pilots. The Master Servicer and CAEATFA will continue to work together to ensure the necessary infrastructure, processes, and procedures are in place in order to administer the Pilot Programs efficiently and effectively.

- **Trustee Bank.** The Trustee holds the ratepayer funds provided by the IOUs to serve as credit enhancements under the various pilot programs. CAEATFA will maintain the integrity of ratepayer funding, and provide direction to the Trustee bank to transfer credit enhancement funds between IOU program holding accounts and participating lender accounts. The program regulations under development will identify the amount of credit enhancement funds available for each enrolled loan/lease, and will also identify the processes for payment of claims under the program.

Since the Trustee contract was approved by the Department of General Services on March 11, 2015, Holding Accounts have been established for the initial transfer of credit enhancement funds for program use from the IOUs. As of June 30, 2015 one IOU, Southern California Gas, had transferred credit enhancement funds into their Holding Account. The remaining three IOUs are currently in the process of funding their respective accounts.

- **Data Manager.** The Data Manager will receive Pilot Program data from the Master Servicer and other energy efficiency finance program administrators to prepare it for public presentation and use. The RFP for this service has not yet been released; CAEATFA staff continues to explore options for how best to incorporate the role of the Data Manager and is in the process of drafting the RFP.
- **Contractor Manager.** The Contractor Manager will enroll and manage participating contractors, and will conduct quality control oversight of projects not participating in an IOU rebate/incentive program. The RFP for this service is under development, and is expected to be released in the third or fourth quarter of 2015.
- **Lease Originators.** The Decision currently requires the selection of up to four Lease Originators to participate as equipment lease providers in the small business lease pilots. The RFP for this service has not yet been released. Note that in CAEATFA's March 9, 2015 letter to Edward Randolph requesting modifications to Decision 13-09-044, CAEATFA requested that the Commission allow for the pilot to move forward without an RFP, but instead with minimum eligibility criteria for lease providers written into program regulations.⁶ As of June 30, release of this RFP is pending further direction from the CPUC. CAEATFA staff will attend a pre-hearing conference on July 6, 2015 to address proposed modifications to the programs. CAEATFA has recommended the CPUC consider removing the requirement to competitively select lease service providers for small business pilots.
- **Technical Advisor.** The Technical Advisor will provide necessary expertise, outside of the scope possessed by the CHEEF. The RFP for this service is currently under development and being

⁶ Revised Assigned Commissioner and Administrative Law Judge's Ruling Re: California Alternative Energy and Advanced Transportation Financing Authority's Proposed Modifications to Decision 13-09-044 (Energy Efficiency Financing Pilots): <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M148/K824/148824390.PDF>

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)
QUARTERLY REPORT AND PROGRAM STATUS SUMMARY**

April 1, 2015 - June 30, 2015

further refined. During this time, CAEATFA has been working in close collaboration with industry experts and stakeholders to obtain the relevant subject matter expertise.

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

Section 4: Program Development

Residential Energy Efficiency Loan Assistance Program

The Residential Energy Efficiency Loan Assistance (“REEL”) Program (previously referred to as the Single Family Loan Program) is the first in the sequence of the pilots to launch. Staff has been working with the CPUC, the IOUs, and various stakeholders on developing the program structure. The program regulations were approved by the Office of Administrative Law and considered effective as of March 9, 2015. However, loan enrollments in the program cannot occur until the Master Servicer has established its functionality, enabling the enrollment of Participating Financial Institutions/Participating Finance Lenders, which will launch the process to enroll Qualified Contractors. During this reporting period, CAEATFA has focused on infrastructure development, lender recruitment, and general education on the program to encourage lender and contractor enrollment. Below is a list of outreach events that CAEATFA staff attended between April 1 and June 30, 2015:

- April 23, 2015 Overview of CHEEF Pilot Programs at 2015 Municipal Green Buildings Conference in Downey
- April 27, 2015 Overview of CHEEF Multifamily Pilot at the Housing California 2015 pre-conference Workshop
- April 28, 2015 Overview of REEL program at PG&E Regional Contractor Forum in Tulare
- May 7-8, 2015 Exhibitor booth to recruit prospective lenders at California Bankers Association Annual Convention in Huntington Beach
- June 1-2, 2015 Exhibitor Booth at the Energy Efficiency Finance Forum hosted by the American Council for an Energy-Efficiency Economy in San Francisco

CAEATFA has begun to recruit and train Participating Financial Institutions (“PFIs”) and Participating Finance Lenders (“PFLs”). As PFIs and PFLs enroll, CAEATFA will train contractors to participate in the program. To date, CAEATFA has approved one PFL, Viewtech Financial Services (“Viewtech”). CAEATFA Staff is working with Viewtech to prepare them for on-boarding loan enrollments with the Master Servicer. In addition, CAEATFA Staff is in the process of reviewing additional lender applications and continuing to engage prospective program participants. Staff expects to receive its first loan enrollment applications in late summer/early fall - 2015.

The REEL Program regulations will soon be updated to incorporate the Energy Finance Line Item Charge for customers in PG&E service areas, and may also include other revisions resulting from lessons learned during CAEATFA’s experience onboarding lenders and contractors.

Small Business Lease Program

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

On January 8, 2015, CAEATFA held a stakeholder roundtable to solicit input from those participating in the energy efficiency equipment leasing market. Nearly 50 attendees participated in the roundtable discussion. Staff is continuing to reach out to stakeholders to gather information and conducting research to inform the program design. CAEATFA staff has been conducting outreach to potential participants in the small business Pilot Programs to research potential program structures. A workshop on a proposed program structure for the small business Pilot Programs is anticipated to be scheduled within the next 6-8 weeks.

On-Bill Repayment

Several of the Pilot Programs will include On-Bill Repayment (“OBR”) as a key feature. CAEATFA staff is continuing to work with the IOUs and the MS to further refine and establish the OBR infrastructure. CAEATFA held a webinar workshop to discuss the main elements of OBR functionality and structure on May 12, 2015. The workshop primarily served as a means for collecting feedback from prospective program participants (i.e. lenders) on the proposed OBR structure and payment mechanisms. This feedback will help inform the development of regulations for each of the programs that include OBR.

As OBR development is tied to several program implementation milestones, specific launch dates for the OBR pilots are not yet available. Critical to the development of the OBR infrastructure are the development and modification of the IOU information technology (“IT”) systems. In June 2015, the Commission approved Decision 15-06-008.⁷ This Decision revised the process and timeline for amending the IOUs’ existing OBR tariffs. It also aligned the timing for the IOUs to submit their IT Advice Letters outlining budget needs for development. The Decision directs CAEATFA and Commission Staff to work together to recommend changes to the OBR Tariffs; CAEATFA is in the process of soliciting feedback from interested stakeholders to determine where changes could improve the OBR process. Based on this revised timeline, the IOUs are expected to file Advice Letters to modify their OBR tariffs and to identify funding needs for IT development in mid-August 2015. During Commission staff’s review of the Advice Letters, CAEATFA will continue to meet with the IOUs and the Master Servicer to move OBR development forward as quickly as possible

CAEATFA staff currently estimates that the OBR pilots are expected to launch in the fourth quarter of 2015/first quarter of 2016; depending on the length of time for IT infrastructure build-out and sequential program development.

Pilot Program Data Collection

As each of the pilot programs is launched and loans are enrolled, Staff will collect various data for reporting purposes. Staff is working with stakeholders and industry experts to bring the Data Working Group report from theory to practice. This data will include but is not limited to the following: aggregate loan amounts, interest rates, project data, aggregate FICO scores and lender information. In addition, in the data management efforts for the pilots, CAEATFA will make best efforts to leverage and coordinate with existing federal Department of Energy and other energy data repository efforts (e.g. Building

⁷ Decision 15-06-008 Partially Modifying Decision 13-09-044 and Resolution E-4680 Implementing Energy Efficiency Financing Pilot Programs, June 19, 2015:

<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M152/K787/152787673.PDF>

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)
QUARTERLY REPORT AND PROGRAM STATUS SUMMARY**

April 1, 2015 - June 30, 2015

Energy Data Exchange Specification, Standard Energy Efficiency Data Platform, Investor Confidence Project Open Data).

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)
QUARTERLY REPORT AND PROGRAM STATUS SUMMARY**

April 1, 2015 - June 30, 2015

Section 5: Additional Information

More information on the CHEEF Pilot Programs is available on CAEATFA's website at <http://www.treasurer.ca.gov/caeatfa/cheef>. To receive notifications regarding workshops, regulations, and other items related to the CHEEF, please sign-up [here](#) for CAEATFA's listserv. Please direct inquiries on this report or generally on the CHEEF Pilot Programs to CAEATFA at (916)651-8157 or cheef@treasurer.ca.gov.

CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) QUARTERLY REPORT AND PROGRAM STATUS SUMMARY

April 1, 2015 - June 30, 2015

Appendix A: Reporting Components Required by D.13-09-044

Below is a full list of data points required by D.13-09-044 to be submitted as part of this Quarterly Report. Many of these components are related to the implementation stages of the program. As detailed above, CAEATFA is in the process of establishing the basic infrastructure for implementing the financing pilots. Additional information will be provided in subsequent Quarterly Reports as program activity ramps-up.

- **The platform and space within which CHEEF functions take place**
 - No information is currently available on this data field.

- **Accounts and account managers associated with CHEEF**
 - CAEATFA is still in the process of working with the Trustee and Master Servicer to establish account access.

- **Database permission (and levels therein) criteria and platforms**
 - CAEATFA is still in the process of working with the Master Servicer to establish database infrastructure. No permissions have been set at this time.

- **Customer facing products (such as websites/informational charts)**
 - CAEATFA maintains information about the pilots and related workshops, trainings, and events on its website: <http://treasurer.ca.gov/caeatfa/cheef/>. Information on Eligible Energy Efficiency Measures is available online at: <http://eeems.azurewebsites.net/>. CAEATFA is also working with the Center for Sustainable Energy to integrate messaging about the financing pilots within the Energy Upgrade California efforts (<https://www.energyupgradeca.org/en/>).

- **Transactions of various financial products administered by CHEEF and certain aggregate profile information about borrowers, project purposes/scope, financed amounts, etc.**
 - No transactions have occurred under the CHEEF programs yet.

- **Overview of participating FIs**
 - As of June 30, 2015, one lender - Viewtech Financial Services - was enrolled in the Residential Energy Efficiency Loan Assistance Program.
 - Viewtech Financial Services indicates that they will offer statewide financing.
 - Financing will be provided either through a Retail Installment Contract (RIC) or **Consumer Loan**, which will be offered at a fixed rate of 7.9% to FICO scores as low as _____, compared to its market rate terms ranging from _____ to _____.
 - CAEATFA is currently processing applications from two more Eligible Financial Institutions.