



CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED
TRANSPORTATION FINANCING AUTHORITY

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Deana J. Carrillo

DATE: October 24, 2016

TO: All Interested Responders

**SUBJECT: REQUEST FOR INFORMATION (RFI) REGARDING SECURE
CASH FLOW SOLUTIONS FOR THE CALIFORNIA ALTERNATIVE
ENERGY AND ADVANCED TRANSPORTATION FINANCING
AUTHORITY'S ON-BILL REPAYMENT FINANCING PILOT PROGRAMS
(CAEATFA03-16)**

INTRODUCTION

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), a public instrumentality, was created in 1980 to assist specified entities by providing credit enhancements, access to low-cost financing through private activity tax-exempt bonds and loans, and other forms of financial assistance. CAEATFA is housed within the California State Treasurer's Office.

CAEATFA takes direction from its Board, comprised of five members: the State Treasurer, who serves as chairperson of the Authority; the State Controller; the Director of the Department of Finance; the Chairperson of the California Energy Commission (CEC); and the President of the California Public Utilities Commission (CPUC). The enabling legislation for CAEATFA is contained in the California Alternative Energy and Advanced Transportation Financing Authority Act, Division 16 (commencing with Section 26000) of the California Public Resources Code.

Note: *The cost for developing a response to this RFI is entirely the responder's responsibility and shall not be chargeable to the State of California, or the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA).*

OBJECTIVE

CAEATFA will be soliciting a bank to provide the products and services to ensure the secure flow of funds from utility companies to lenders participating in the State of California's On-Bill Repayment (OBR) Financing Pilot Programs. Through this RFI, CAEATFA seeks input on:

1. The most effective way to structure a Secure Cash Flow Solution for Participating Lenders, and
2. The costs and considerations associated with these solutions.

CAEATFA expects to issue an RFP for a Bank to provide this Secure Cash Flow service (henceforth referred to as a Secure Cash Flow Bank). CAEATFA welcomes responses to the questions posed in Section V.

KEY ACTION DATES (ANTICIPATED)

CAEATFA's Release of the RFI	October 24, 2016
Responders' Last Day to Submit Questions on RFI	November 1, 2016
Written Responses from CAEATFA to Responders' Questions	November 4, 2016
Final Date for Responders to Submit Response	November 14, 2016 at 4:00 p.m.

BACKGROUND

1. On-Bill Repayment (OBR)

OBR is a new way for customers of California's four (4) Investor-Owned Utilities (IOUs) to pay for energy efficiency investments in their homes and businesses. Lenders make loans to consumer or commercial customers, with proceeds from the loans used to pay for energy upgrades on the customer's property (lighting systems, heating and air conditioning systems, refrigeration, etc.). The lenders will receive their loan repayments via a charge placed on the customer's utility bill, collected by the IOUs and ultimately remitted to the Participating Lender.

2. Energy Efficiency Financing Pilot Programs and CAEATFA's Role

One of CAEATFA's major roles is to design and build a set of energy efficiency financing programs using utility ratepayer funding in a number of different ways. CAEATFA took on this role at the request of the CPUC. The CPUC issued a Decision (D. 13-09-044), directing the four IOUs it regulates to allocate \$75 million in ratepayer funds to create energy efficiency financing pilot programs. The pilot programs serve the consumer, commercial and multi-family sectors. Key features include 1) credit enhancements that cover some portion of the risk of customer default on financing repayments; 2) marketing and publicity for Participating Lenders and building contractors; and 3) on-bill repayment infrastructure for select pilot programs.

The CPUC requested CAEATFA take the role of developing and implementing these pilot programs, including developing program regulations with public input and working with private capital providers and energy contractors. As part of this program development, CAEATFA is creating and facilitating the OBR structure. This means CAEATFA is working closely with a number of parties including but not limited to:

- A. The four (4) California IOUs (Pacific Gas & Electric (PG&E); Southern California Edison (SCE); San Diego Gas & Electric (SDG&E) and Southern California Gas Company (SoCalGas), which—among multiple other roles—will place finance charges on their customers' bills, collect the finance charges, and remit them for ultimate distribution to lenders.
- B. Participating Lenders, who will agree to participate in the finance programs by enrolling with CAEATFA as Participating Lenders. Participating Lenders must apply to participate in the pilot programs, abide by all program regulations and meet strict requirements for operating history, financial soundness, and customer service. The lender's application to participate includes numerous details about the product and terms that they will be offering. When Participating Lenders enroll loans in the program, they must provide certain details on the transaction itself (e.g. project characteristics, borrower information and loan or lease terms). By this means, CAEATFA will have significant information about use of loan proceeds and the source of repayment. Because the on-bill repayment process requires Participating Lenders to

reconfigure some of their existing servicing processes and create some additional IT functionality, CAEATFA is expecting about five, and fewer than ten, lenders to participate in the OBR pilots.

- C. A Master Servicer, Concord Servicing Corporation, which will, among other roles, oversee and direct the flow of customer financing repayments as they move from the IOUs and through to Participating Lenders. The Master Servicer is responsible for receiving loan enrollment applications from lenders and communicating with the appropriate IOU to enroll borrowers for on-bill repayment, communicating to the IOUs what the charge should be each month, receiving data from the IOUs as to how much borrowers repaid toward their financing charges, communicating that data to the Participating Lender and directing the transfer of the appropriate amount of funds from a remittance deposit account to the Participating Lender. The Master Servicer also communicates between the IOUs and the Participating Lenders when other key events take place such as repayments in full, delinquencies and defaults, and removal of the OBR charge from the bill. The Master Servicer plays the role of facilitator and will not own bank accounts or customer funds. As a privately-held service organization, Concord Servicing Corp. does not have the capitalization nor the regulatory oversight of a bank; therefore a situation in which Concord were to own the deposit accounts presents significant concerns to potential Participating Lenders.

3. On-Bill Repayment Structure

A. Sequence of Events

OBR is expected to operate through the following sequence of events:

1. Participating Lender funds a loan to a commercial or consumer borrower.
2. Participating Lender enrolls a loan in the pilot program, transmitting relevant customer loan detail to the Master Servicer for forwarding to a IOU in order that the loan and loan charges can be boarded on the IOU's billing system.
3. Master servicer sends monthly billing information to the IOU for placement of charge on the utility bill.
4. IOU collects energy and finance payments from customer. IOU retains energy charge payments.
5. IOU pools together all financing payments it has collected from customers with on-bill loans for that business day and remits all finance payments to a remittance deposit account.
6. IOU sends a data file to the Master Servicer itemizing how much each borrower has repaid.
7. Master Servicer reads the IOU data file and determines the amount of financing payments that are due to each Participating Lender. Master Servicer verifies that the correct amount of funds have been deposited.
8. Master Servicer directs the transfer of funds out from the remittance deposit account (a loan repayment account) to a Lender. The Master Servicer will initiate a single, lump sum transfer to each lender, provided there are funds to remit, on a daily basis.

9. Each week, the Master Servicer provides the lender with a standard report accounting for all remittance transactions.

The creation of a Secure Cash Flow Solution that safeguards funds as they travel from that remittance deposit account to the Participating Lender is the subject of this RFI.

B. Account Structure

1. Remittance Deposit Accounts

There are four (4) IOUs that will collect customer finance payments as part of the program. Each IOU will need an account to which it can deposit these customer funds on a daily basis, provided the IOU has financing payments to remit on that day. Funds in these accounts will be transferred out to Participating Lenders by ACH as soon as possible (one (1) business day); the accounts will contain a balance of a day's worth of deposits. The ownership of these deposit accounts is the subject of several questions posed in this RFI.

2. Operational Reserve Accounts

There will be at least one (1) and up to four (4) accounts to hold the program's Operational Reserve. CAEATFA is exploring whether each IOU needs its own Operational Reserve or if a single account will suffice. The Operational Reserve will be funded by the IOUs prior to the start of the program for an amount up to \$3 million total (regardless of whether the \$3 million is held in one (1) or four (4) accounts).

The Operational Reserve accounts will only be used in the event that a utility billing delay or a customer's returned payment affects the timing of the flow of funds from the IOU to one of the Participating Lenders. Program regulations govern when the Master Servicer will have authority to authorize disbursements from the Operational Reserve. When the Operational Reserve is needed, the Master Servicer will direct funds from this account to a lender through ACH. The ownership of the Operational Reserve Accounts is also the subject of questions in this RFI. The Master Servicer will be responsible for tracking all Operational Reserve transactions.

Funds in the Operational Reserve will revolve and will be replenished from three sources: 1) The *Utility Remittance Deposit Accounts*; 2) Directly from Participating Lenders; and 3) From credit enhancement funds held by a Trustee Bank, currently US Bank.¹

¹ This happens in the event that a Participating Lender was paid through the On-Bill Repayment infrastructure and the IOU subsequently reported that payment was returned. In this case, the IOU will hold back funds from its next remittance to reimburse itself for the returned payment. The Master Servicer may need to tap the Operational Reserve to pay other Participating Lenders. The Participating Lender whose customer's payment was returned will need to reimburse the Operational Reserve if good funds do not come through the utility bill within a certain time frame. The Participating Lender may reimburse the Operational Reserve Account directly, or they may declare a default on the loan and file a claim for reimbursement from their Loan Loss Reserve (LLR) account (held by a Trustee, US Bank). In the event of a default and claim, the Master Servicer will direct the Trustee Bank to reimburse the Operational Reserve.

C. Transaction Volume

1. Incoming Deposits

- a. *To Remittance Accounts*: There will be up to five (5) incoming daily ACH or EDI deposits, one (1) each from SoCalGas, Southern California Edison, and San Diego Gas & Electric to the corresponding Remittance Deposit account, and two (2) from PG&E to its Remittance Deposit account (one (1) consumer stream, one (1) commercial stream).
- b. *To Operational Reserve Accounts*: On an occasional basis, the IOUs may increase the funding of the Operational Reserve, by making an occasional ACH or EDI deposit to the Operational Reserve Account or Accounts. Additionally, the Operational Reserve Account will occasionally need to be reimbursed by a le Participating Lender or by the Trustee Bank.

2. Outgoing Transfers

- a. CAEATFA expects about five (5) lenders to participate in the program. This means that if program volume were very high, and each Participating Lender made loans to borrowers in each IOU jurisdiction, there could be up to one (1) daily outgoing ACH from each utility remittance deposit account to a Participating Lender account for a total of twenty (20) outgoing daily transfers.
- b. In the case in which the Operational Reserve were tapped, there could also be up to one (1) outgoing transfer from the Operational Reserve to each Participating Lender. CAEATFA does not expect the Operational Reserve to be tapped on a daily basis. If the Reserve were to be split amongst four (4) accounts, CAEATFA also believes it would be unlikely that the Reserve would be needed for more than one (1) IOU at a time.

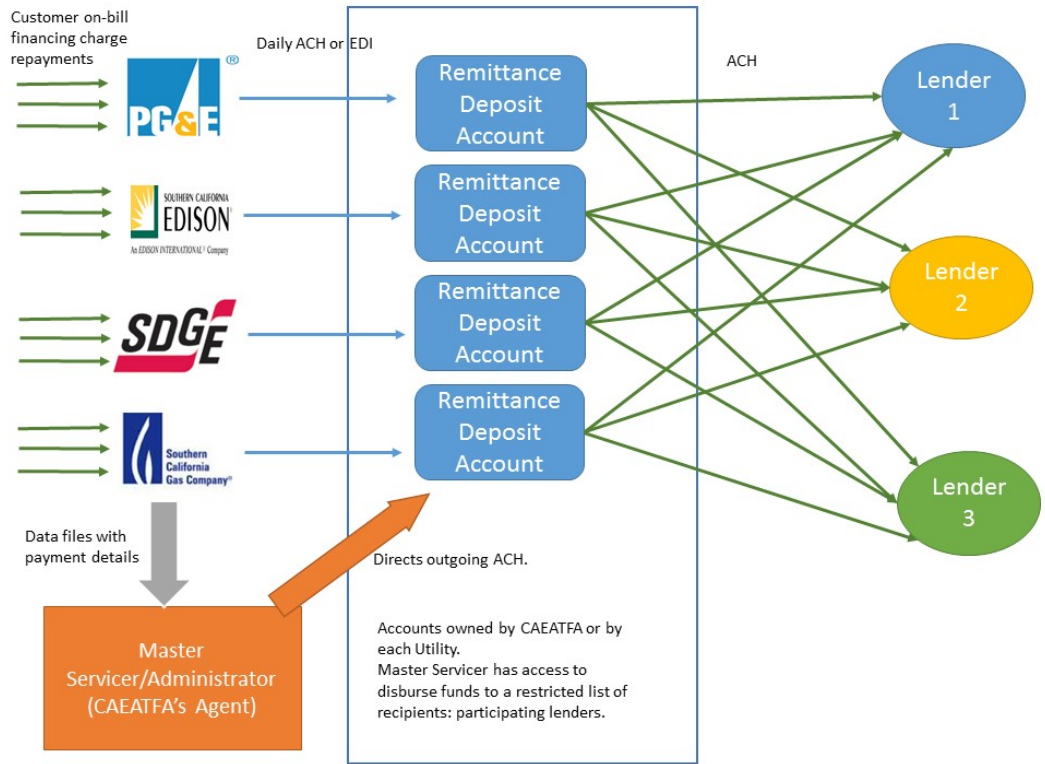
3. Internal Transfers

In the event that the Operational Reserve is tapped for a utility billing delay, then in a subsequent day, the IOU will remit funds from the delayed bill into the *Remittance Deposit Account*. At that point, the Master Servicer will need to direct an internal transfer from the *Remittance Deposit Account* to reimburse the Operational Reserve. CAEATFA expects this to happen occasionally.

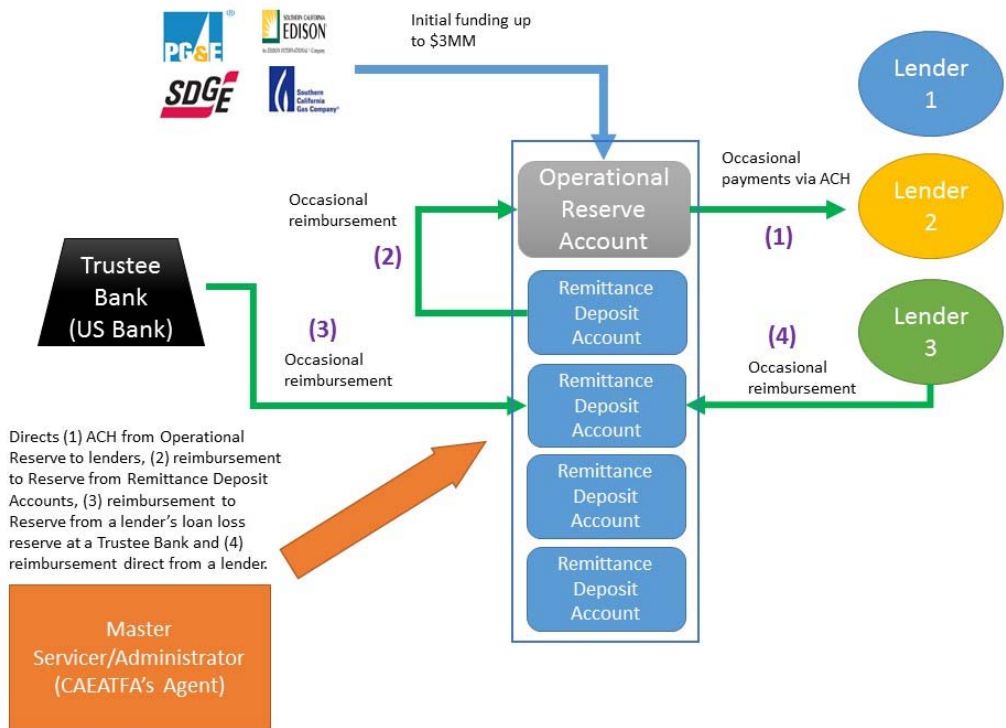
D. Graphical Representation

The following figures provide high-level graphical representation of this flow of funds as well as the use of the Operational Reserve Fund..

Flow of Funds



Operational Reserve



4. The Need For a Secure Cash Flow Solution in OBR

A. Challenges With the Flow of Funds

CAEATFA has identified challenges with the On-Bill Repayment structure that require a secure cash flow solution, provided by a bank. Specifically:

1. IOUs have indicated a strong desire not to remit customer finance charges directly to Participating Lenders, given the intent of the program to develop a “hub” type of system to collect and distribute customer finance repayments. The IOUs’ IT systems are currently capable of providing only a single daily remittance that combines financing repayments for all Participating Lenders; reprogramming would be of significant expense.
2. Which entity should own the Remittance Deposit Accounts given that funds in the accounts belong to multiple Participating Lenders? The co-mingling of these Participating Lenders’ funds might pose a barrier to participation, absent robust controls to track the movement of funds.
3. Participating Lenders want assurance that their funds are not comingled with those of the Master Servicer in any way. Therefore, Participating Lenders don’t want the Master Servicer to have ownership of the deposit remittance accounts. However, CAEATFA does want to enable the Master Servicer to have the ability to track and direct the flow of funds as they are deposited by the four IOUs and disbursed to the multiple Participating Lenders.

B. Business Requirements

During its program design process, CAEATFA identified several business requirements for the bank providing the secure cash flow.

1. *Remittance Deposit Accounts* must be able to receive a **daily incoming ACH/EDI transfer** from the corresponding IOU.
2. *Operational Reserve Accounts* must be able to receive occasional ACH/EDI deposits from the IOUs, a Participating Lender, or the Trustee Bank.
3. *Designated control*: The owner of the account must be able to grant the Master Servicer limited access to the account, such that the Master Servicer can initiate outgoing transfers from the Remittance Deposit Accounts and the Operational Reserve Accounts to the accounts of Participating Lenders. Preferably, this can take place in batch and with some automation.
4. Controls on the Remittance Deposit Accounts such that Participating Lenders will have some degree of assurance that their funds not be directed inappropriately.
5. The Secure Cash Flow Bank must be able to provide the Master Servicer with a **daily BAI data file** that includes all debits and credits to the Remittance Deposit Accounts and Operational Reserve Account(s).

Through this RFI, CAEATFA is seeking recommendations from banks on a Secure Cash Flow Solution to solve the above challenges. CAEATFA expects to contract with a bank to provide the products and/or services to facilitate a secure flow of funds, whether it be through the use of Cash Management Accounts or an Agent or Fiduciary another combination of products and services.

The Secure Cash Flow Bank will respond to directives from the Master Servicer regarding the amount of funds to transfer to each Participating Lender, either through a cash management software product or via an agent/fiduciary structure. The Secure Cash Flow Bank will not be responsible for making any payment determinations.

INFORMATION BEING REQUESTED

CAEATFA intends to follow this RFI with a Request for Proposals (RFP) to result in a contract with a Secure Cash Flow Bank. Prior to issuing a RFP, CAEATFA seeks answers to several questions. Recognizing the complexity and level of detail for which we are asking, we appreciate responses to all or some of the questions below.

A. High-Level Solution Description

CAEATFA welcomes either 1) responses to the individual questions listed below, or 2) a high-level, conceptual description of your solution for meeting the OBR Pilot Secure Cash Flow needs including:

- a. Obstacles and Opportunities
- b. Set-up Time
- c. Cost

Priority Questions

B. Attractiveness of the Project to Banks

1. What aspects of this project are appealing to you? Which issues present potential problems for your company and how could they be resolved?
2. What level of transaction volume is required for you to consider this project?
3. What level of automation of the tasks described above is desirable for you to find this project attractive?
4. What level of monthly billing or total contract value is required for you to consider this project?
5. What other elements would affect your consideration of this project?

C. Account Ownership

The remittance deposit accounts will be established to receive funds from the IOUs from which the Master Servicer will direct that funds be remitted. These accounts will hold customer loan repayments "in transit" from customers, via the IOUs, and destined for private lenders. Note that the funds in the account are not public (state-owned) funds; they are instead ratepayer funds, owned by the IOUs, that are in transit from customers to Participating Lenders. Given that these are customer loan repayments that have been collected by IOUs:

6. What are the options for account ownership? The options, in CAEATFA's view, include a) CAEATFA, b) each IOU owning its deposit account, and c) the bank that is selected through the RFP process for these functions. Are there other options that we have should consider?

7. What are the advantages and disadvantages of ownership by:
 - a. CAEATFA
 - b. Each IOU owning its deposit account
 - c. The Secure Cash Flow Bank
 - d. Other options
8. Under what circumstances is it feasible for the responding bank to own the accounts? Under what type of structure could the responding bank own the accounts?
9. Funds in the Operational Reserve Account(s) are IOU customer (“ratepayer”) funds, administered by the IOUs, and designated to the program. What are the options for account ownership?

D. Know Your Customer (KYC) Issues

CAEATFA’s understanding of the Know Your Customer rules is that the Secure Cash Flow Bank would need to have a strong understanding of the account owner, and the source and the use of funds in the accounts.

10. From a KYC perspective, do any of the above proposed account ownership structures pose a challenge?
11. Are the KYC concerns less or more prevalent in a Trust structure?
12. What is the timeframe for the KYC research and verification? Is it possible to open accounts while the bank is conducting the KYC research?
13. Lenders participating in the program undergo significant vetting by CAEATFA, and projects and loan transactions also have to be approved by CAEATFA, all per program regulations. Would the high level of regulatory oversight and controls employed by CAEATFA help in resolving potential KYC concerns for the Secure Cash Flow Bank? What program information would help to resolve KYC concerns?

E. Secure Cash Flow Bank as Trust or Cash Manager

CAEATFA has considered a secure cash flow structure that might be most appropriate for the trust division of a bank, wherein the bank takes an active role in receiving, verifying, and remitting funds from the IOU and (at direction of the Master Servicer) to the Participating Lender. CAEATFA has also considered a structure where the bank would provide more automated cash management software, wherein the processes are conducted in a far more automated role.

14. Can you comment on the options for providing a secure cash flow for Participating Lenders through use of a trust/fiduciary/agent structure?
 - a. What are the advantages and disadvantages of this structure?
 - b. What (if any) contractual agreements would be in place and between what parties?

15. Can you comment on the options for providing a secure cash flow for Participating Lenders through the use of a cash management/treasury management structure?
 - a. What are the advantages and disadvantages of this structure?
 - b. What (if any) contractual agreements would be in place and between what parties?
16. Is there a hybrid or other option?

Secondary Questions

F. Controls and Technology

CAEATFA is considering a structure through which CAEATFA or the IOUs would set up funding templates that would govern transfers of funds. Under this structure, the Master Servicer would be required to use these specific templates, and not others, to direct fund transfers out of the accounts and to specific Participating Lenders.

17. Can you comment on how practical this structure will be from an operational perspective?
18. Would batch ACH transfers be feasible under this structure?

G. Operational Issues

19. Can you provide an estimate of start-up time to put your secure cash flow solution in place including establishing connectivity with the Master Servicer?
20. The Operational Reserve Fund will be funded at up to \$3 million for the program, but funds must remain liquid so that they can be accessed immediately as needed. What are the options for interest bearing accounts in this circumstance? Is a Money Market fund feasible?
21. Are there any challenges with providing a daily BAI file to the Master Servicer?
22. Are there other challenges with the Business Requirements provided in section 4.B above?

H. Fees

23. Can you describe the general cost of the solution(s) you are suggesting in terms of:
 - a. Account set-up charges
 - b. Account maintenance charges
 - c. Account reporting
 - d. Other types of fees – please describe
24. It is CAEATFA's belief that the funds in the remittance accounts are not public funds (see Section C above). However, if the funds deposited into the remittance accounts were deemed by regulators to be public funds and needed to be collateralized, how would this affect your fees?
25. If CAEATFA were to forego interest on the funds held in the Operational Reserve, how would that affect the fees that you charge?

I. Overall Structure

26. Are there overall perspectives on the structure that you would like to share that are not addressed by the above questions?

PROCUREMENT APPROACH

This RFI is the first step in researching possible alternative secure cash flow solutions for CAEATFA's Energy Efficiency Financing Pilot Programs. Depending on the determination of feasibility, CAEATFA may issue a RFP whereby responders will propose a complete solution that meets CAEATFA's requirements. It is anticipated that any such RFP would be released in the spring or summer of 2017.

RESPONSE REQUIREMENTS

The responder shall include a cover page to the response that identifies: the company name, company address, and point of contact's information (name, telephone number, and e-mail address). All questions submitted in regards to this RFI shall be submitted in writing or by email to the contact listed below. Responders are not required to submit a response to this RFI in order to participate in any future RFP issuances.

Note: This does not constitute a solicitation for entering into any agreement with the State of California. The California Alternative Energy and Advanced Transportation Financing Authority is investigating secure cash flow solutions for CAEATFA's Energy Efficiency Financing Pilot Programs. The intent of this solicitation is to issue a future RFP.

Upon opening of the responses, all documents submitted in response to this RFI will become the property of the State of California and will be regarded as public records under the California Public Records Act (Government Code Section 6250 et seq.) and subject to review by the public. The State cannot prevent the disclosure of public documents.

Please submit your questions and/or response to:

California Alternative Energy and
Advanced Transportation Financing Authority
Attn: Dallas Aicega
915 Capitol Mall
Sacramento, CA 95814

You may e-mail your response and/or questions to: dallas.aicega@treasurer.ca.gov

For questions or concerns, please call Dallas Aicega at (916) 653-3303.

Thank you.