

Residential Energy Efficiency Loan Assistance Program (REEL)

Regulatory Re-Adopt and Proposed Modifications Workshop

Wednesday Jan 10, 2018

9:30 AM – 11:00 AM, or until business is concluded

915 Capitol Mall, Room 110

Sacramento, CA 95814

Or via Webinar

Live captioning is available at:

<https://rrcaptions.my.webex.com/rrcaptions.my/j.php?MTID=ma430f99a3de4699a6f81c3d45e710cb3>

Password: CAEATFA



CALIFORNIA HUB FOR
ENERGY EFFICIENCY
FINANCING



Goals of this workshop:

- Present proposed modifications to regulations prior to March, 2018 re-adopt
- Explain reasoning behind proposed modifications
- Receive verbal comments and questions

Regulations Re-Adopt with Modifications

Anticipated Timeline

- **September 5, 2017:** REEL Emergency Regulations took effect, modifying Regulations effective April, 2016
- **January 9th, 2018: Public Workshop to Discuss Proposed Modifications**
- **Now through 12pm on January 18th, 2018:** Comments welcome on CAEATFA's proposed re-adoption with modifications
- **February, 2018:** Regulations submitted to CAEATFA's Board for consideration
- **2nd half of February, 2018:** CAEATFA posts notice of Emergency Regulations, Re-adopt with modifications required under regulations package to OAL
- **March 2018:** Emergency regulations re-adopted with modifications

Please review the draft regulation text and submit specific comments and suggestions to CHEEF@treasurer.ca.gov.

Written comments due by **12 PM** Thursday, **Jan 18th**



Pilots and REEL Overview

Why financing pilots?

California Legislature has set ambitious climate change mitigation goals:

- AB 32 (2006) required state to **reduce its GHG emissions** to 1990 levels by 2020.
- AB 758 (2009) recognized the need for California to address climate change through **reduced energy consumption in existing buildings** (residential, commercial, and public).
- AB 802 (2015) authorized energy efficiency programs to **bring existing buildings up to current code** and creates a building energy-use benchmarking and disclosure.
- SB 350 (2015) required doubling of the state's **energy efficiency savings by 2030**.
- SB 32 (2016) required the state to **reduce GHG emissions 40% below 1990 levels by 2030**.

\$50 Billion | **Needed to retrofit CA's existing buildings***
Ratepayer and taxpayer \$ are insufficient

California will only achieve its building energy reduction goals through leveraging private capital

**Harcourt Brown and Carey, "Energy Efficiency Financing in California Needs and Gaps Preliminary Assessment and Recommendations." July 8, 2011.*



CPUC Decision 13.09.044 outlines two main sets of goals for financing pilots

*“developing **scalable** and **leveraged** financing products to stimulate **deeper EE projects** than previously achieved through traditional program approaches (e.g., audits, rebates, and information)”*

*“test whether transitional ratepayer support for Credit Enhancements can lead to **self-supporting EE finance programs in the future**”*

- Deeper projects
- More projects
- Scalable products
- Expanded access to financing
- Leveraged financing products

- Attractive financing without credit enhancement support

March, 2017 CPUC Decision provided CAEATFA with some authority to modify aspects of pilot design

Key CPUC Regulatory Actions regarding pilots:

- D.13.09.044 (Sept, 2013) “Financing Decision”: Calls for CAEATFA to set up the CHEEF, Authorizes the pilots through December, 2015 with \$65.9MM for the pilots and \$9.3MM in reserves.
- D. 15.06.008 (June, 2015) : Approves some of CAEATFA’s requested modifications; allows all pilots to run for a full two year period.
- D. 15.12.002: (Dec, 2015) Approves some of CAEATFA’s requested modifications; allows inclusion of energy service agreements (ESAs)
- November 22, 2016 AC and ALJ Ruling: Releases \$8.36MM in reserve funding to CAEATFA to continue CHEEF operations through FY 19-20
- D. 17.03.026 (March, 2017) : Provides CAEATFA with clarified authority to modify pilot program design, commits Commission to long term funding support of the pilot programs including loan servicing for the life of enrolled loans

CHEEF Pilot Program Comparison

	REEL (Residential)	Affordable Multi-Family	Small Business	Large Commercial
Products	Loans, RICs Up to \$50,000	Loans, leases & ESAs any size*	Loans, leases & ESAs Up to \$2.5MM*	Loans, leases, ESAs Up to \$5MM
Repayment and disconnection	Off-Bill	On or Off-Bill No disconnection	On or Off-Bill Possible disconnection	On-Bill Possible disconnection
Credit Enhancement initial authorization	Loan Loss Reserve Up to \$25MM	Loan Loss Reserve Up to \$2.9MM	Loan Loss Reserve Up to \$14MM	None
Project requirements	70% EE or DR	70% EE or DR	70% EE or DR	70% EE, DR, or DG
Borrowers	Homeowners or renters modifying 1-4 units	For-profit or non- profit owners of properties with at least 50% income restricted units	SBA size small businesses and non-profits	Any size business or non-profit; government and public entities

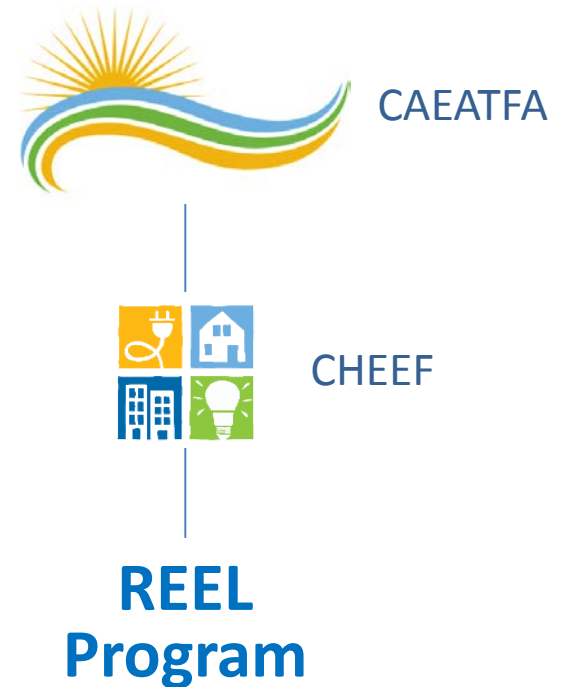
* Only first \$1MM in financing will receive a credit enhancement

EE = Energy Efficiency DR=Demand Response DG =Distributed Generation

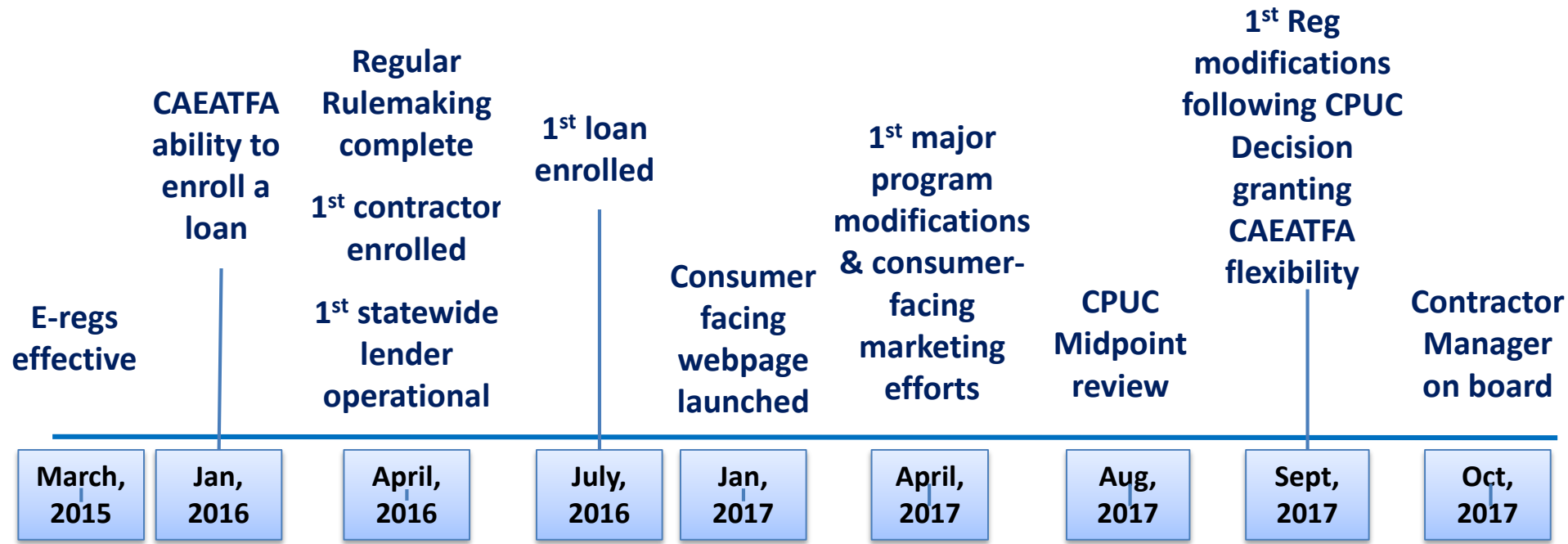


Residential Energy Efficiency Loan (REEL) Program

- ✓ Designed to help homeowners and renters **access attractive financing for energy efficiency projects** by mitigating risk for participating lenders.
- ✓ Goal: Bring about **more energy upgrades and deeper energy retrofits** by providing customers with more financing opportunities.



REEL timeline and current metrics



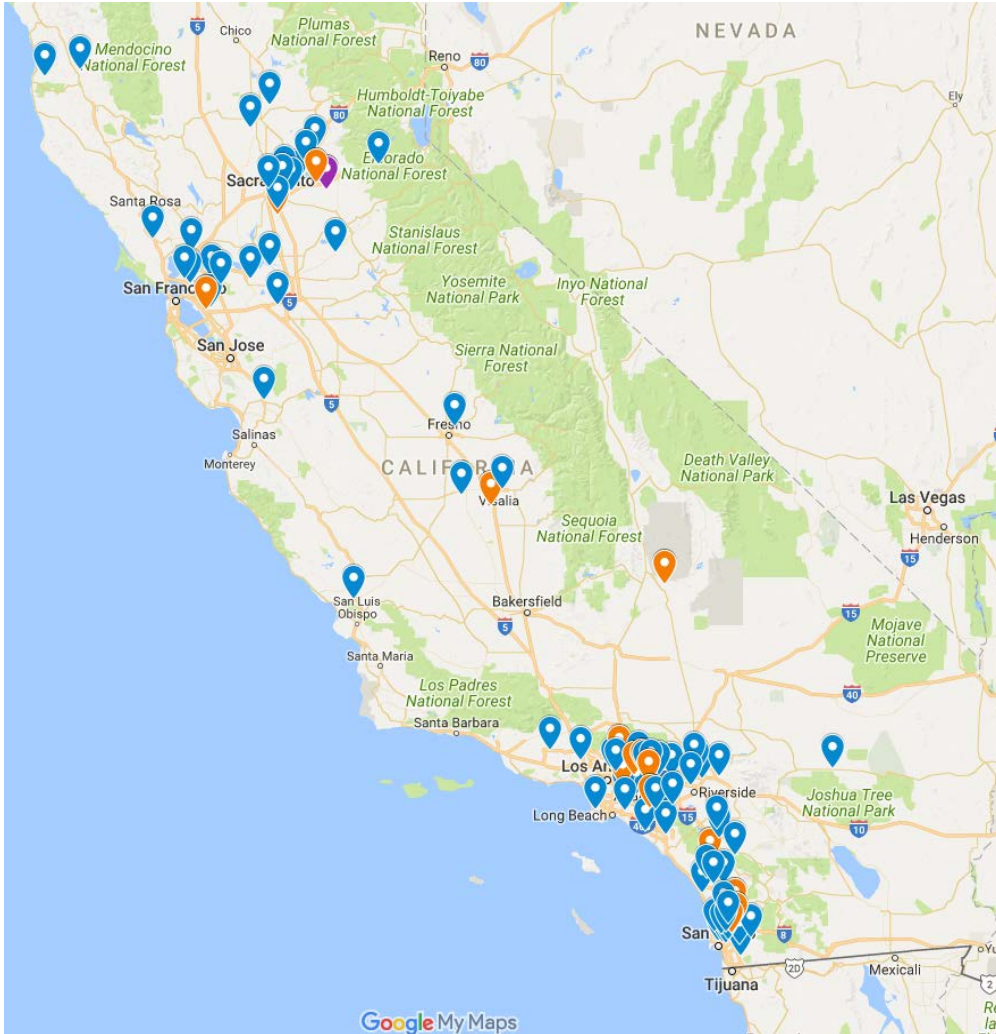
REEL Activity as of Year End 2017

Participants	Loan Activity	Benefits to Borrowers
<ul style="list-style-type: none">• 4 active lenders• 174 enrolled contractors• 50 contractors completed a project	<ul style="list-style-type: none">• 108 enrolled loans• \$1.82 million• \$16,874 average loan amount• 83 “Finance-only” projects• 10 year: Average term	<ul style="list-style-type: none">• 6.84% average rate• \$64,500 in interest saved*• \$36,300 reduction in monthly payments*• 30% of borrowers: FICO of 700 or lower• 56% of borrowers live in LMI census tract**

*Compared to credit union’s conventional unsecured loan product

** AMI of census tract is less than 120% of Metropolitan Area or State AMI

REEL Loans to Date by Geography



Blue = single loan
Orange = 2 loans
Purple = 3 loans

Proposed Modifications to Regulations

Proposed Modifications Include:

- Updating contractor eligibility criteria
- Updating the methodology for determining Low-to-Moderate income borrowers
- Updating the methodology to rebalance lenders' Loan Loss Reserve accounts
- Incorporating a list of eligible energy efficiency measures into the regulations
- Providing an option for lenders to access a greater credit enhancement for loans to borrowers with low credit scores
- Clarifying rules for self-installation projects
- Clarifying paperwork submitted for projects with multiple contractors and self-installers
- Clarifying CAS/CAZ test responsibility for projects with more than one Participating Contractor

§10091.1: Definitions

Updates to §10091.1 Definitions

The following definitions have been added:

- [§10091.1()] **“Credit -Challenged Borrower”** means a Borrower with credit score below 640.
- [§10091.1()] **“Credit-Challenged Program”** means the optional program in which an Eligible Financial Institution or Eligible Finance Lender can be approved, per the application process described in Section 10091.2(b), to receive higher Loan Loss Reserve contributions described in Section 10091.8(l) for Credit-Challenged Borrowers.
- [§10091.1()] **“Title 20”** means Appliance Efficiency Regulations described in Title 20, Division 2, Chapter 4, Article 4 of the California Code of Regulations, as applicable to the Eligible Improvements and as amended from time to time.
- [§10091.1()] **“Title 24”** means the Building Standards Code of the California Code of Regulations, as applicable to the Eligible Improvements and as amended from time to time.

Updates to §10091.1 Definitions

The following definitions have been updated:

- [§10091.1(k)]“**Eligible Contractor**” means a contractor or contractor company with an active license with the Contractors State License Board to do the work he, she, or it performs. The contractor’s license must not have been the subject of disciplinary action during the previous year.
- [§10091.1(l)]“**Eligible Energy Efficiency Measures**” or “EEEMs” means energy efficiency measures eligible for financing under the Program. The Authority establishes allowable measure categories and efficiency standards in identified by the Investor Owned Utilities and approved by the Section 10091.10. ~~CPUC as eligible for rebates or incentives. A~~ The list of EEEMs will be accessible from the Authority’s website. A measure that is eligible for an IOU, REN or CCA rebate or incentive program and is not on the EEEMs list is eligible for financing as long as the rebate or incentive is being sought. ~~The list of EEEMs shall include demand response measures to the extent that they are approved for energy efficiency rebates or incentives.~~

Updates to §10091.1 Definitions

The following definitions have been updated:

- [§10091.1(q)]“**Eligible Improvements**” means improvements made to Eligible Properties.
 - (1)Eligible Improvements must be installed by Participating Contractors, except as set forth in Section 10091.10(c).
 - (2)Eligible Improvements may include:
 - (A)The installation of EEEMs ~~as specified by the IOU(s)~~ that provide gas savings where an IOU provides gas service to the (s) the-Eligible Property and/or electric savings where an IOU provides electric service to the Eligible Property. ~~with the corresponding gas and/or electric service.~~
 - (B)Additional related home improvements to the Eligible Property.

Updates to §10091.1 Definitions

The following definitions have been updated:

- [§10091.1(q)]“**Low-to-Moderate Income**” or “**LMI**” means either:
 - 1) Borrower’s household income is at or below the current annual income limits as determined by the California Department of Housing & Community Development according to county and family size and adopted in Section 6932 of Division 1 of Title 25 of the California Code of Regulations. PFI/PFLs may assume households are comprised of four persons but must include spousal income, if applicable, in income calculations.
 - 2) Area Median Income (AMI) of Borrower’s census tract does not exceed 120% of AMI for Borrower’s Metropolitan Area, County or the State.
- [§10091.1(mm)]“**Self-Installer**” means a Borrower who installs any ~~EEEM~~ Eligible Improvement that may be self-installed pursuant to Section 10091.10(c).

§ 10091.2: Eligible Financial Institution and Eligible Finance Lender Applications to Participate

Updates to §10091.2 Eligible Financial institution and Eligible Finance Lender Applications to Participate

[§10091.2(b)] added:

A PFI or PFL who wishes to participate in the Credit-Challenged Program, should also submit the following:

(1) A detailed description of its loan program and products to finance Eligible Improvements resulting from participation in the Credit-Challenged Program. The description should include but is not limited to anticipated loan product details, such as collateral required (if any), maximum and minimum loan amounts, interest rates (including maximums and whether fixed or variable), loan terms, property type (owner occupied vs. leased or rented), and a description of underwriting criteria, with reference to any minimum credit score or maximum total debt-to-income ratio.

(2) A detailed description of the additional benefits to Credit-Challenged Borrowers, resulting from the Eligible Financial Institution's or Eligible Finance Lender's participation in the Credit-Challenged Program as indicated in subsection (a)(10) above. This description should include a comparison between existing, similar loan products, and the proposed loan program with and without access to the Credit-Challenged Program.



§ 10091.3: Additional Requirements for Finance Lenders

Updates to §10091.3 Additional Requirements for Finance Lenders

No substantive changes were made in §10091.3.



§ 10091.4: Loan Eligibility and Minimum Underwriting Criteria

Updates to §10091.4 Loan Eligibility and Minimum Underwriting Criteria

No substantive changes were made in §10091.4.



§ 10091.5: Contractor Qualification and Management

Updates to §10091.5

No substantive changes were made to §10091.5.



§ 10091.6: Establishment and Funding of Loss Reserve Accounts

Updates to §10091.6 Establishment and Funding of Loss Reserve Accounts

[§10091.6(c)]

On an annual basis ~~based on the fiscal year ending June 30th~~, the ~~Authority shall compare the balance of each Loss Reserve Account to the total of the outstanding Claim-Eligible Principal Amounts corresponding to that account as reported by the PFI, PFL, or Successor Servicer pursuant to Section 10091.11.~~ The Authority shall instruct the Trustee to rebalance a PFI or PFL's Loss Reserve Account, if necessary, and move funds from the PFI or PFL's Loss Reserve Account into the Program Holding Account. The initial rebalance amount will be the sum of the original Loan Loss Reserve Contributions associated with enrolled loans that were paid off in full during the fiscal year. ~~return any excess funds to the Program Holding Account where the Loss Reserve Account balance exceeds the total of the outstanding Claim-Eligible Principal Amounts to LMI Borrowers multiplied by 20% plus the total of the outstanding Claim-Eligible Principal Amounts to non-LMI Borrowers multiplied by 11%.~~



Updates to §10091.6 Establishment and Funding of Loss Reserve Accounts

[§10091.6(c)] Continued

(1) If the PFI or PFL did not make any claims as provided under Section 10091.9 during the fiscal year, the initial rebalance amount will not be changed and the funds will be transferred from the PFI or PFL's Loss Reserve Account to the Program Holding Account. When the Total Loan Principal Amount of an Enrolled Loan is greater than the Claim-Eligible Principal Amount, the outstanding Claim-Eligible Principal Amount for the Enrolled Loans shall be calculated using the original proportion of the Claim-Eligible Principal Amount to Total Loan Principal Amount.

(2) If the PFI or PFL made one or more claims as provided under Section 10091.9 during the fiscal year, and the total claim amount is less than the initial rebalance amount, the final rebalance amount will equal the initial rebalance amount less the claim(s) amount.

(3) If the PFI or PFL made one or more claims as provided under Section 10091.9 during the fiscal year, and the total claim amount is more than the initial rebalance amount, there will be no rebalance.



§ 10091.7: Optional Loss Reserve Reservation and Project Pre-Approval

Updates to §10091.7 Optional Loss Reserve Reservation and Project Pre-Approval

[§10091.7]

(a) A PFI or PFL may submit a request for a Loss Reserve Reservation to the Authority prior to enrolling an Eligible Loan so that loss reserve funds may be set aside. Funds reserved will be used as the Loss Reserve Contribution for the Eligible Loan upon the approval of a Loan Enrollment Application in accordance with Section 10091.8 below. A Loss Reserve Reservation request shall include the following information in a form to be specified by the Authority:

(4) Indication of whether the Borrower qualifies as a Low-to-Moderate Income borrower as defined by Section 10091.1(aa) and methodology utilized to determine LMI qualification.

§ 10091.8: Loan Enrollment

Updates to §10091.8 Loan Enrollment

➤ [§10091.8(c)]

To enroll an Eligible Loan for a project completed in whole or in part by a Participating Contractor, a PFI or PFL will submit the following documents to the Authority:

- (1) a Loan Enrollment Application, as described in subsection (e) below;
- (2) a Certificate of Completion from each Participating Contractor certifying work on the project, as described in subsection (f) below;
- (3) an executed California Hub for Energy Efficiency Financing Disclosure as described in Section 10091.15;
- (4) an Itemized Invoice, as described in subsection (g) below; and
- (5) a utility bill, for each IOU servicing the Eligible Property covering each meter and fuel provided from within 60 days of the PFI/PFL's loan approval.

➤ [§10091.8(d)]

To enroll an Eligible Loan for a project completed in whole or in part by a Self-Installer, a PFI or PFL will submit the following documents in a form specified by the Authority:

.....



Updates to §10091.8 Loan Enrollment continued

➤ [§10091.8(e)]

The Loan Enrollment Application shall be in a form specified by the Authority and shall include the following information:

(13) An indication whether the Borrower qualifies as a Low-to-Moderate Income Borrower as defined in Section 10091.1(aa) and methodology utilized to determine LMI qualification.

(27) Whether the project included a Self-Installer component and/or more than one Participating Contractor

➤ [§10091.8(h)]

(2) Certification from the Self-Installer of the following:

(A) The improvements installed are Eligible Improvements.

(B) All self-installed improvements were either EEEMs ~~installed are~~ eligible for self-installation pursuant to Section 10091.10(c) or non-EEEM, additional related home improvements.

(C) He or she understands that the Authority and its directors, officers, and agents, and the IOUs and their directors, officers and agents, do not guarantee the performance, quality, or workmanship of the Eligible Improvements.

(D) The Eligible Loan proceeds were used to pay for EEEMs or additional related home improvements, in compliance with the Program rules.



Updates to §10091.8 Loan Enrollment continued

[§10091.8(I)]

Upon enrollment of an Eligible Loan:

(1) The Authority will determine the Loss Reserve Contribution:

(A) For Enrolled Loans to Borrowers with Low-to-Moderate Income, the Loss Reserve Contribution shall be twenty percent (20%) of the principal amount of the Credit Enhancement Basis.

(B) For Enrolled Loans to Credit-Challenged Borrowers where the PFI/PFL is approved for participation in the Credit-Challenged Program, the Loss Reserve Contribution shall be twenty percent (20%) of the principal amount of the Credit Enhancement Basis

(C) In no circumstance will the contribution be more than twenty percent (20%)

(D) For all other Enrolled Loans, the Loss Reserve Contribution shall be eleven percent (11%) of the principal amount of the Credit Enhancement Basis.

§ 10091.9: Claims

Updates to §10091.9 - Claims

No substantive changes were made to §10091.9.

§ 10091.10: Project Requirements

Updates to §10091.10 Project Requirements

➤ [§10091.10(c)]

~~Where a project is performed by a~~ Self-Installer may install or have installed the following Eligible Improvements:

- 1), ~~only~~ EEEMs as defined in Section 10091.1(l) that have been designated and labeled as available for self-installation and
- 2) additional related home improvements as described in Section 10091.1(q).

EEEMs that have not been identified as eligible for Self-Install must be installed by a Participating Contractor.

Updates to §10091.10 Project Requirements

➤ [§10091.10(d)]

(The following criteria will determine if an EEEM is eligible for self-installation:

- (1) The fuel source must be electric only except as indicated in (2), below.
- (2) The EEEM fits within the definition of either
 - (A) “Water Heaters,” “Clothes Washers,” “Clothes Dryers,” “Dishwashers,” “Refrigerators, Refrigerator-Freezers, and Freezers,” ~~“Cooking Products and Food Service Equipment”~~ “Pool Heaters, Portable Electric Spas, Residential Pool Pump and Motor Combinations, and Replacement Residential Pool Pump Motors,” “Plumbing Fittings” (for water heated by gas or electricity), as defined in Title 20, Division 2, Chapter 4, §1602 of the California Code of Regulations; or
 - (B) A smart thermostat containing a communications interface, a user display and interface, and an HVAC system interface (for heating systems using either gas or electricity, or electric cooling systems); or
 - (C) A portable air purifier or air cleaner

➤ [§10091.10(j)]

In the event that multiple Participating Contractors work on a project and the combined measures of the project trigger a safety test, the Participating Contractor who installed any of the measures described in Section 10091.10 (h) (1-3) shall arrange for the safety test, unless otherwise agreed upon by the Participating Contractors.



Updates to §10091.10 Project Requirements: Eligible Energy Efficiency Measures List

Background on the EEEMs List:

- CPUC Decision 17.03.026 gave CAEATFA authority to determine what measures are eligible for financing in the program; prior eligibility was linked to the IOU's rebate and incentive programs
- Goal was to create a simple, streamlined, list with statewide consistency
- CAEATFA took measures offered by each IOU and expanded those measures to be available statewide, creating statewide consistency for gas measures and statewide consistency for electric measures
- CAEATFA retained most IOU rebated measures as a goal of the program is to facilitate uptake of the IOU Home Upgrade and other rebate and incentive programs
- CAEATFA expanded the list to allow financing of many measures at-code, consistent with state policy to capture orphaned energy savings
- CAEATFA consulted contractors and industry experts to include additional measures where there are reasonable assumptions that there will be energy savings

Updates to §10091.10 Project Requirements: Eligible Energy Efficiency Measures List

[§10091.10()]

The following table designates the Eligible Energy Efficiency Measures (EEEM) for the Program and the corresponding minimum efficiency requirements for each measure. In any situation in which the Title 24 requirement exceeds the specification in the table (for example certain climate zones with increased R-Value requirements) the EEEM must be installed to meet Title 24 requirements.

Note: In addition to the table in the Regulations which appears on subsequent slides, CAEATFA is providing copies of the EEEMs list for public review in a separate file.

Category	Measure	IOU Fuel Source Eligibility: E=Electric G= Gas	Minimum Efficiency Requirements
Appliances	Air Cleaner/Purifier	E	Energy Star
	Clothes Dryer	E/G	
	Clothes Washer	E/G*	
	Dishwasher	E/G*	
	Freezer	E	
	Refrigerator	E	
Building Envelope	Air Sealing	E/G	Whole building air sealing equal or greater than 15 percent leakage reduction
	Attic Insulation	E/G	Title 24 compliant
	Cool Roof	E	Title 24 compliant replacement of at least 50% or 1000sf of roof area.
	Floor Insulation	E/G	Title 24 compliant
	Radiant Barrier	E	Title 24 compliant for attic installation only
	Wall Insulation	E/G	Title 24 compliant
	Windows/Glass Doors	E/G	Title 24 compliant, only for conditioned spaces
	Window Film		

* IOU fuel source eligibility corresponds to fuel used for water heating.

Category	Measure	IOU Fuel Source Eligibility: E=Electric G= Gas	Minimum Efficiency Requirements
HVAC	Air Conditioner Unit Only	E	Central unit, Title 24 compliant
	Duct Insulation	E/G	Title 24 compliant
	Duct Sealing: Replacement or existing	E/G	
	Evaporative Coolers: ducted, ducted with dampers, window	E	
	Furnace Only	G	
	Heat Pump	E	
	Hydronic Radiant Heating	E/G	
	Mini-split system: with or without heating component, ducted or ductless	E	18 SEER or greater
	Smart Thermostat	E/G	Defined in Section 10091.10(d)(2)(b)
	Split/Package System	E/G	Title 24 compliant
	Wall Furnace: Gravity or Fan	G	
	Whole House Fan	E	



Category	Measure	IOU Fuel Source Eligibility: E=Electric G= Gas	Minimum Efficiency Requirements
Lighting	LED Lighting	E	LED lighting and fixtures. Must be hard wired, UL Listed and Energy Star Certified. Replacement recessed light fixture must be rated ICAT (insulation contact air tight)
Pool Products	Pool Pump Motor	E	Title 20 and Title 24 compliant
	Pool Variable Speed Drive	E	
	Variable speed motor with or without pool pump	E	
Water Heating	Faucet Aerator	E/G*	Title 20 compliant
	Gas Storage Water Heater	G	Energy Star
	Heat Pump Water Heater	E	
	Shower Head – Low Flow	E/G*	Title 20 compliant
	Shower Thermostatic Valve	E/G*	
Tankless Water Heater	E/G*	For gas: Energy Star; for electric: Title 20 compliant	
Other	IOU/REN/CCA Rebated Measure	E/G	Measure not elsewhere on this list for which Participating Contractor or Borrower receives an IOU/REN/CCA rebate or incentive.

* IOU fuel source eligibility corresponds to fuel used for water heating

§ 10091.11: Reporting

§10091.12: Sale of Enrolled Loans

§ 10091.13: Termination and Withdrawal

§ 10091.14: Reports of Regulatory Agencies

§ 10091.15: CHEEF Privacy Rights Disclosure

Updates to §10091.11 - 15

No substantive changes were made to §10091.11 -15.

NEXT STEPS

Please submit written comments to CAEATFA
by 12 PM on January 18th, 2017 at CHEEF@treasurer.ca.gov.

*For more information please visit <http://www.treasurer.ca.gov/caeatfa/cheef/> or
www.thecheef.com*

Send comments or questions to CHEEF@treasurer.ca.gov

Thank You

