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Comments on Revised Draft of the SB350 Barriers Study

Additional submitted attachment is included below.

December 8, 2016

Dr. Holmes Hummel
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P.O. Box 73386
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California Energy Commission
Dockets Office, MS-4
Re: Docket No. 16-OIR-02
1516 Ninth Street
Sacramento, CA 95814

RE: Comments on the Revised Draft Report for the SB 350 Study on Barriers of Low-Income and Disadvantaged Communities to Renewable Energy and Energy Efficiency

Clean Energy Works appreciates the opportunity to offer comment on the CEC's Revised Draft for the Study of Barriers and Solutions to Energy Efficiency, Renewables, and Contracting Opportunities Among Low-Income Customers and Disadvantaged Communities mandated by SB350. With the clarifications noted below, Clean Energy Works supports adoption of the SB350 Barriers Study.

Clean Energy Works is a champion for accelerating investment in energy efficiency and renewable energy using inclusive financing. In the prior rounds of comments, Clean Energy Works explained inclusive financing as tariffed on-bill investment programs offered by utilities to all customers, regardless of income, credit score, or renter status. More than a dozen utilities in multiple states have demonstrated success with tariffed on-bill investment programs based on the Pay As You Save® (PAYS®) system created by the Energy Efficiency Institute.[1] Clean Energy Works previously provided an overview of the concept, an update on key field results reported this year, and a summary of programs in other states that are based on PAYS. These comments on the Revised Draft are limited to the same topic.

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[1] Pay As You Save and PAYS are terms that describe a type of tariffed on-bill investment program developed by the Energy Efficiency Institute, Inc. (EEI). EEI filed for trademark protection to ensure that the terms would not be used by others to market different programs or program designs that would create confusion in the sector. EEI has not charged royalties for use of the trademark, but rather has sought to ensure that parties using the phrase are referring to programs that ensure the key conditions of the Pay As You Save system.

<u>Comment on Chapter 3: Structural Barriers and Solutions to Increasing Low-Income Customer's Access to Energy Efficiency and Renewable Energy</u>

Clean Energy Works commends the CEC for leading its discussion of structural barriers with a section dedicated to the Low Homeownership Rate among low-income customers. At the CEC's workshop on the Draft Report on September 13, 2016, the Governor's Advisor addressed the Commission in an extended exchange. When asked about the top priority for attention in the study, reaching renters was the immediate reply.

The Revised Draft discusses Tariffed On-Bill Investments as a responsive remedy to the challenge presented by nearly 3/4 of low-income residents in California not being homeowners, a status that is often used as criteria for access to financing for upgrades to building energy performance in the residential sector. This passage of the Revised Draft includes the following statement regarding tariffed on-bill programs:

> "This program would require the utility to finance the upgrade investment cost or obtain lending partners. A loan-loss reserve fund established by the State could be useful to insure utilities against energy upgrades that fail to produce anticipated savings."

<u>Revisions to this passage are warranted to avoid confusion.</u>

1. Utilities do not take on lending partners to implement a tariffed on-bill program.

The Revised Draft notes that participation in tariffed on-bill programs does not obligate a customer to take on a consumer loan obligation. For that reason, the utility or its partners in a tariffed on-bill investment program do not make loans to participants. The utility may, however, facilitate capital commitments to make investments through a tariffed on-bill program.

While some utilities with tariffed on-bill programs have used ratepayer funds as a source of capital for such investments, experience in New Hampshire and Hawaii has demonstrated that these resource pools are much smaller than the actual market capacity to deploy capital to cost effective energy efficiency upgrades and other distributed energy solutions. Nevertheless, the pool of ratepayer and taxpayer funding already allocated to pilot programs demonstrating on-bill programs in California may be sufficient to help investor-owned utilities gain experience with tariffed on-bill programs.

2. Utilities do not offer a savings guarantee to participants of tariffed on-bill programs.

Further elaboration on this point is included in comments submitted by Clean Energy Works on September 29, 2016.[2] (See item #3.) For that reason, utilities with tariffed on-bill programs do not need insurance to address the potential that upgrades would fail to produce anticipated savings.

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[2] See Clean Energy Works, written comments, September 29, 2016.
http://docketpublic.energy.ca.gov/PublicDocuments/16-OIR-02/TN213841_20160929T151705_Holmes_Hummel_Comments_Comments_on_Draft_Report_for_SB350_Barri.pdf

Tariffed on-bill programs do assure participants that the upgrades will continue to function throughout the period of cost recovery. Therefore, utilities and participants may benefit from other approaches to assuring the program meets its objectives. For example, monitoring and verification of the program performance with the application of the Uniform Method Protocol for Whole Building Energy Retrofits established by the U.S. Department of Energy (or a similar protocol accepted by parties in California) provides an opportunity to detect outliers early and, if needed, exercise an installation contractor's warranty for workmanship. Similarly, a tariffed on-bill program may require that participants or their landlords maintain a service agreement for mechanical equipment during the period of cost recovery in order to ensure that the warranty for such equipment is not voided by lack of regular maintenance. Although no utility with a tariffed on-bill program has reported equipment breakdown to be a significant issue, some insurance companies can offer pricing for a policy to cover equipment breakdown for all equipment installed through such a program.

3. A reserve fund established by the State could be useful to insure utilities against charge-offs of billed charges for cost recovery not collected from program participants.

Some tariffed on-bill programs are accompanied by reserve funds to cover charge-offs, which are billed charges that the utility is unable to collect. More than a dozen utilities in several states with tariffed on-bill programs have collectively invested more than $20 million in more than 3,000 sites over the last several years, and the charge-offs reported to date are less than 0.1% of the total portfolio. Despite this indication that the risk of charge-offs is very low, some utilities seek assurance that charge-offs from their investments in energy efficiency upgrades through a tariffed on-bill program will be socialized through a reserve fund of some sort.

For reference, state energy offices in at least two states (Arkansas and Tennessee) are each taking steps to establish a reserve fund that would provide a remedy to utilities not able to collect the billed charges for cost recovery from a participant in a tariffed on-bill program. These reserve funds are not called loan-loss reserves because tariffed no-bill programs do not involve making loans to participants. No utility with a tariffed on-bill program has reported ever needing to proceed with disconnection procedures for non-payment by a program participant. Nevertheless, the existence of a reserve fund may offer some assurance to a utility that perceives the potential for charge-offs could be larger than it can manage.

For the reasons discussed above, the quoted passage of the Revised Draft should be revised to ensure that the report reflects an accurate description of the concept of inclusive financing via tariffed on-bill programs. One possible revision would be as follows:

> "This program would require the utility to finance the upgrade investment cost or ~~obtain lending partners~~ <u>facilitate capital commitments for those investments</u>. A ~~loan-loss~~ reserve fund established by the State could be useful to insure utilities against ~~energy upgrades that fail to produce anticipated savings~~ charge-offs of uncollectible program service charges billed to participants for cost recovery."

Comment on Recommendation 4(a)

Clean Energy Works supports Recommendation 4(a) with no changes. These comments are intended to help inform implementation by offering some broader visibility in the field.

With this recommendation, the California Energy Commission is in good company with energy offices in other states that are encouraging and helping implement tariffed on-bill programs, including by assisting publicly owned utilities (POUs) and rural electric cooperatives. In particular, state energy offices in Arkansas and Tennessee have played an active role in supporting implementation of best practices, offering technical assistance, and convening stakeholders for voluntary participation in workshops designed to support program planning and implementation. In each case, only those utilities that are interested in offering an inclusive financing solution are receiving the benefits of that assistance, and the authority to decide whether to offer a tariffed on-bill program remains with the governing bodies of those utilities.

The U.S. Department of Energy's Clean Energy for Low-Income Communities Accelerator may be able to offer support for technical assistance on the design and implementation of tariffed on-bill programs.[3] The California Energy Commission is already a participant in the Accelerator. Therefore, the CEC should be able to take advantage of any federal support available through the Accelerator for assistance to stakeholders seeking to expand access to opportunity for low-income communities through tariffed on-bill programs.

Clean Energy Works commends the CEC for conducting an active stakeholder engagement throughout the development of the report. While our participation has focused narrowly on inclusive financing as a pathway for expanding opportunity for low-income communities, the success of any such program depends vitally on the performance of a well-qualified workforce supported with high quality jobs. For that reason, we would like to support stakeholder comments that encourage further attention to workforce education and training as well as job quality as the CEC completes the report and proceeds with implementation workshops.

Once again, we appreciate the opportunity to offer input at multiple stages of the development of this study, and we commend the staff who have worked with a demanding timeline to complete the report, laying the groundwork for responsive implementation activities going forward.

Sincerely,

Holmes Hummel, PhD
Principal, Clean Energy Works

[3] The Clean Energy for Low-Income Communities Accelerator is part of the Better Buildings Initiative of the U.S. Department of Energy. More information is available online: https://betterbuildingssolutioncenter.energy.gov/accelerators/clean-energy-low-income-communities