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Joint Agency Workshop on Senate Bill 350 Low-Income Barriers Study Implementation

New & Existing Clean Energy Financing Pilots for Low-Income Customers

May 16, 2017
New & Existing Clean Energy Financing Tools for Low-Income Californians

*Moderator:* Deana Carrillo, California Alternative Energy and Advanced Transportation Financing Authority

- Al Gaspari, Pacific Gas & Electric
- Justin Wynne, California Municipal Utilities Association
- Stephanie Wang, California Housing Partnership Corporation
- Tammy Agard, EEtility
- Erica McConnell, Interstate Renewable Energy Council
Overview of Panel Presentation

I. Overview of Recommendations in the Barriers Report

II. Discussion of Financing Structures and other Creative Solutions to reach the Low-Income market.

III. Q & A
Why Financing?

- Rebates and Incentives alone won’t enable California to reach its EE goals.

- Creative market solutions, and public-private partnerships are necessary to address unique challenges to the Low-Moderate Income Market:
  - Split incentives
  - Upfront Costs
  - Insufficient Credit
  - Lack of Ability to Pay/Income Barrier
Continuum of EE Financing Products

Private Capital

- Aggregation & Securitization
- Advanced commercial or project financing (ESCOs)
- Vendor credit, leasing
- Credit line with commercial bank
- Credit Enhancements/Subordinated Capital
- Public ESCOs
- Public EE Funds (Revolving, Special, Mezzanine)
- Utility On-Bill Financing
- Budget financing, Grants with co-financings
- Free installation/Grants/Rebates/Subsidies

Public/Rate Payer Funds

Financing Recommendation in the CEC’s Low-Income Barriers Study

- CPUC consider developing a tariffed on-bill pilots targeting low-income customers

- Legislature consider authorizing programs:
  - Provide low-income customers the option to use CA Alternative Rates for Energy (CARE) for community solar offering. Expand to EE
  - Credit enhancement/Risk Sharing Financing for energy projects targeted to:
    - Market rate low-income multifamily housing
    - Across all industries in disadvantaged communities

- State should explore social impact bonds
California Hub for Energy Efficiency Financing (CHEEF)

- Standardized, statewide platform designed to:
  - Bring private capital into energy efficiency space
  - **Provide more attractive financing** reaching a *broader customer base*, enabling more EE projects with deeper energy savings
  - Establish statewide database of EE project and financing data to spur future investments

- Developing and implementing EE finance pilots targeting **single family residential**, **multi-family residential**, small business and large commercial sectors.

- Public-private partnership of state agencies, lenders, contractors, investor-owned utilities, and borrowers.

- Program features include
  - credit enhancements to mitigate risk for lenders
  - on-bill repayment options
  - statewide marketing and outreach campaign
<table>
<thead>
<tr>
<th>Product</th>
<th>Residential Energy Efficiency Loan Assistance Program (REEL)</th>
<th>Efficiency Finance Line Item Charge</th>
<th>Master-Metered Affordable Multi-Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential Energy Efficiency Loan Assistance Program (REEL)</td>
<td>Loans, Retail Installment Contracts (Up to $50,000)</td>
<td>Loans, Retail Installment Contracts, Payment Plans (up to $1,000)</td>
<td>Loans, Leases, Energy Service Agreements (ESAs)</td>
</tr>
<tr>
<td>Repayment and disconnection</td>
<td>Off-Bill</td>
<td>On-Bill</td>
<td>On-Bill / Off-Bill</td>
</tr>
<tr>
<td>Credit Enhancement</td>
<td>Loan Loss Reserve $25 MM Credit</td>
<td>Loss Reserve $2.9 MM</td>
<td></td>
</tr>
<tr>
<td>Occupancy Requirement</td>
<td>Tenant or Owner</td>
<td>Owner Occupants</td>
<td>- Owner may NOT Occupy</td>
</tr>
<tr>
<td>Project Requirements</td>
<td>EE and (DG permitted, but does not count toward 70% and not Credit Enhanced)</td>
<td>70% EE No DG</td>
<td>- At least 50% of Property</td>
</tr>
<tr>
<td>Service Territory</td>
<td>IOU Service Territories</td>
<td>PG&amp;E</td>
<td>- Deed Restricted</td>
</tr>
<tr>
<td>Status</td>
<td>Launched</td>
<td>TBD</td>
<td>- Affordable</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- 70% EE, Solar Hot Water, No DG</td>
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</table>

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING**
**CHEEF Commercial Pilot Features**

<table>
<thead>
<tr>
<th>Loans, Leases, &amp; ESAs</th>
</tr>
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<tbody>
<tr>
<td><strong>Small Business</strong></td>
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<tr>
<td>Meets SBA size restrictions, for-profits and non-profits</td>
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<tr>
<td>Credit Enhancement</td>
</tr>
<tr>
<td>Up to $14 MM</td>
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<tr>
<td>EE, DR, and DG*</td>
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**On Bill**

<table>
<thead>
<tr>
<th><strong>Non Residential</strong></th>
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<tbody>
<tr>
<td>Any size business, non-profit or government</td>
</tr>
<tr>
<td>No Credit Enhancement</td>
</tr>
<tr>
<td>EE, DR, and DG**</td>
</tr>
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</table>

**Off Bill**

**On Bill**

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

**ESA = Energy Service Agreement**

*70% of financing must be EE, or DR to receive credit enhancement; DG measures cannot be credit enhanced*
How is the CHEEF Meeting the Low-Income Market

REEL

- 1/3 of Credit Enhancement Funds targeted to Low-Moderate Income Borrowers
- Lenders Providing Expanded Loan Terms
  - Lower interest rates
  - Broader Underwriting Criteria (Higher DTI/expanded income)
  - Longer loan terms = lower monthly payment
- Alternative Underwriting Criteria Available (Bill Payment History)
- Single Measures, meet the borrower where they are
- Allow financing for:
  - Renters
  - Mobile home owners
- Consumer Protection
  - Contractor Network
  - Regulated financial entities, special requirement for finance lenders
  - Capped Interest Rates
- New Modifications under Consideration:
  - Streamlined pathway for lenders to provide low dollar financing products
  - Expanding to include payment plans
## Residential Energy Efficiency Loan (REEL) Assistance Program

### Program Ramp Up:
- First loan enrolled July, 2016
- Over 100 contractors enrolled
- 5 approved lenders, 4 active
- Over a dozen loans enrolled, 20% to LMI Borrowers
- Consumer marketing has not actively begun

### Tangible benefits provided by Lenders to Borrowers due to CHEEF Loan Loss Reserve

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Lender 1</th>
<th>Lender 2</th>
<th>Lender 3</th>
<th>Lender 4</th>
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</thead>
<tbody>
<tr>
<td>Credit expansion</td>
<td>FICO min reduced from 660 to 640</td>
<td>FICO min = REEL min of 580</td>
<td>FICO min remained at 600</td>
<td>FICO min = REEL min of 580</td>
</tr>
<tr>
<td>Rate reduction</td>
<td>640 bp (for FICO of 640)</td>
<td>668 bp (for FICO of 580)</td>
<td>1200 bp (for FICO of 600)</td>
<td>1050 bp (For FICO of 580)</td>
</tr>
<tr>
<td>Term extension</td>
<td>From 1 years to 5, 10 or 15</td>
<td>From 5 years to 5, 10 or 15</td>
<td>From 5 years to 5, 10 or 15</td>
<td>From 5 years to 5, 10 or 15</td>
</tr>
<tr>
<td>Amount available to borrow</td>
<td>From $10k to $50k</td>
<td>From $20k to $50k</td>
<td>From $20k to $50k</td>
<td>From $15k to $50k</td>
</tr>
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A CalCoast borrower with a 600 FICO score taking out a $10,000 5-year loan would save $3,668 over the five years.
How is the CHEEF Meeting the Low-Income Market

Affordable Multifamily

- Restricted to units that are at least 50% deed restricted to affordable housing

- Supporting structures that allow for off-balance sheet financing
  - Energy Service Agreements
  - Operating Leases

- Developing technical assistance support for building owners.
Financing Strategies, Creative Solutions and Opportunities

Questions for Panelists:

- How do we address homeowners and business owners who can’t take on new debt?
- What type of strategies are you employing to meet this market?
  - Status
  - Benefits of Structure
  - Challenges and Solutions
  - Remaining Risk
- What market segments remain to be the most challenging?
- What are the challenges and solutions to grow on-bill financing? On bill repayment? PAYS? CARE flexibility?
- What stakeholders/business actors need to be at the table?
- What can we learn from other States?