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CAEATFA Comments on 22-DECARB-03

Additional submitted attachment is included below.

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Comments for the Equitable Building Decarbonization Program, Docket #22-DECARB-03 RFI

Thank you for the opportunity to provide comments in response to the CEC's RFI to inform the development of the Equitable Building Decarbonization Program. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) administers the California Hub for Energy Efficiency Financing (CHEEF), which runs three financing programs ("GoGreen Financing") for behind-the-meter customer investments in the residential, small business, and affordable multifamily housing sectors. The programs are operated as part of a public-private partnership among state agencies and investor-owned utilities (IOUs) to help California meet its energy savings goals by increasing private investment in energy efficiency retrofits. CAEATFA deploys a credit enhancement in the form of a loan loss reserve to attract private capital lenders to the programs and facilitate attractive energy efficiency financing options for Californians. These programs are authorized by the California Public Utilities Commission (CPUC), and IOU ratepayer funds support the majority of CHEEF activities.

Of the four question areas that the RFI presents, our response is limited to questions regarding the Incentive Program (Question 11).

11.a: How should the CEC prioritize the use of funds between these options? What market actor should be incentivized? Why?

CAEATFA invites the CEC to consider targeting incentive funds towards Interest Rate Buy-Downs (IRBDs) that may be distributed by the GoGreen Financing programs. IRBDs are one-time payments intended to reduce the costs of capital associated with financing, and financing is an important tool that can help Californians achieve energy improvements without being limited by upfront cost barriers or sacrificing the scope of a retrofit. Combined with benefits derived from CAEATFA's credit enhancement, which include interest rate reductions, extended term lengths, and broader underwriting criteria, an IRBD can help make financed projects more feasible and attractive for borrowers.

IRBDs have been successfully utilized by energy efficiency financing programs across the country, including those in Michigan, Massachusetts, Pennsylvania, and New York. IRBDs can deliver various benefits, such as incentivizing certain project types (e.g. whole building retrofits or decarbonization/electrification projects), facilitating lower interest rates for underserved borrowers, and driving lender and contractor participation in financing programs. A reduced monthly payment facilitated via an IRBD could make a financed energy efficiency project possible for a borrower who otherwise would not be able to consider it, or help the borrower invest in a more efficient product or deeper retrofit.

Administratively, IRBD funds would be provided by GoGreen Financing directly to a borrower's private capital provider to reduce the interest rate a customer pays beyond the reductions enabled by the credit enhancement. CAEATFA has leveraged over $46 million in private capital towards energy efficiency projects through the GoGreen Financing programs. Our participating lenders are ready and eager to deploy these funds to generate even more energy efficiency projects in California.

CAEATFA has consistently held that debt-based financing is one of many financing options that may be considered for energy retrofits and is only suited for borrowers with the cash flow ability to repay a loan. It is important to recognize that while IRBDs may be used to help increase access to and affordability of financing for underserved borrowers, they must be coupled with sufficiently rigorous financing qualification criteria, such as credit score minimums and debt-to-income ratio maximums, to ensure consumer protection. The GoGreen Financing programs maintain these types of consumer protections, among others, through program regulations.

11.b: What criteria or factors beyond the reduction of direct GHG emissions should be considered when evaluating incentive options? How do these considerations benefit residents living in under-resourced communities?

CAEATFA could target IRBD funds to borrowers by the area median income of their property's census tract, geographic location, project type (e.g. deeper retrofits), or a combination thereof. IRBD funds could also be targeted towards projects that include complementary "whole home" measures (e.g. projects which include building envelope measures, such as air sealing, insulation, or cool roofs, along with efficient HVAC systems and/or water heaters).

We therefore identify two criteria to consider when evaluating incentive options:

1. The number of borrowers to potentially be reached via the incentive, especially the number of LMI borrowers (identified by, for example, area median income or credit score) or those living in disadvantaged communities as determined by CalEnviroScreen.[1] Low-income designations, credit score, and geographic location are all data points that GoGreen Financing programs already capture and report on.
2. The potential amount of interest and/or cost savings that can be generated for borrowers via the incentive, especially the underserved borrowers as identified by the criteria above.

[1] CAEATFA categorizes borrowers who reside in census tracts with a CalEnviroScreen score of 75 or above as living in disadvantaged communities.

11.c: Where are the gaps in current incentive offerings that if addressed could advance the market for low and zero-carbon building technologies?

IRBD funds could be uniquely effective when steered toward underserved households who may not qualify for grant and other assistance programs that target low- and very low-income customers, but who also do not have sufficient income, creditworthiness, or savings to either afford the upfront costs of energy saving improvements or access market-rate financing options. This coverage gap is sometimes referred to as the energy efficiency "donut hole," and the GoGreen Financing programs are designed to serve customers affected by it.

A reduced monthly payment facilitated via an IRBD could help make a financed energy efficiency project even more accessible through GoGreen Financing by rendering a project feasible or by helping borrowers invest in more efficient products and deeper retrofits.

Thank you again for the opportunity to submit comments on this RFI.

Sincerely,

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