BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of 2013-2014 Energy Efficiency Programs and Budget (U39M).	Application 12-07-001 (Filed July 2, 2012)
Application of San Diego Gas & Electric Company (U902M) for Approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-002 (Filed July 2, 2012)
Application of Southern California Gas Company (U904G) for Approval of Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-003 (Filed July 2, 2012)
Application of Southern California Edison Company (U338E) for Approval of Energy Efficiency and Demand Response Integrated Demand Side Management Programs and Budgets for 2013-2014.	Application 12-07-004 (Filed July 2, 2012)

Comments of the Local Government Sustainable Energy Coalition on Financing Pilot Proposals

JODY S. LONDON
Jody London Consulting
P.O. Box 3629
Oakland, California 94609
Telephone: (510) 459-0667
E-mail: jody_london_consulting@earthlink.net

For THE LOCAL GOVERNMENT
SUSTAINABLE ENERGY COALITION

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I. INTRODUCTION

As directed in the November 16, 2012 Ruling from Administrative Law Judge Fitch, the Local Government Sustainable Energy Coalition ("LGSEC") provides these comments on energy efficiency financing proposals. The Ruling requested comments on issues identified in the October 2012 consultant's report ("Report"). The LGSEC responds to the specific questions posed by the ALJ. The LGSEC also has identified several issues the California Public Utilities Commission ("CPUC" or "Commission") should address as it considers next steps for energy efficiency financing. Those issues are described in these comments, as well.

The LGSEC appreciates the breadth of the Report. We understand the Commission's interest in making financing tools available across California's economy as quickly as possible. While there is definitely a role for the proposed "Finance Hub," designing the Hub and making it operational will take some period of time. Expecting the Hub to immediately take on the range of programs and responsibilities outlined in the Report is not realistic. If the Commission authorizes formation of the Hub, it should take the time to do it right.

The Commission must be mindful that there are ongoing financing programs that should be directed to continue and expand, where appropriate. This will allow financing activity to occur while the Commission determines how it will proceed with the recommendations in the Report.

II. RESPONSES TO QUESTIONS POSED IN THE RULING

In the Ruling, the Administrative Law Judge ("ALJ") requested that the investor-owned utilities ("IOUs") and the financing consultant ("Consultant") provide additional information on a set of 9 questions identified in the Ruling. The Ruling also requested parties to provide comments on the same 9 questions, as well as on additional questions identified in the Ruling, the IOUs' filed comments, or the Consultant proposal submitted to the IOUs. The LGSEC's responses to the questions are below.

A. *Financing Hub*

1. Would it be reasonable to phase or stage development of a financing Hub? How?

a) The Hub should be fully designed, developed with a sufficient pool of willing lenders ready to participate before the HUB goes into operation.

Locally originated and administered financing programs should not be part of the Hub roles and functions during 2013-14. Placing Hub operating requirements on existing programs will have a negative effect on those programs. No Hub administrator/manager has been proposed yet. The myriad tasks and processes for which the Hub will be responsible have not all been identified, nor have they been charted to show the interrelationships between all stakeholders. There has been no stakeholder process to gather input on the detailed operations of the HUB. The IT infrastructure to coordinate communications and transfer of information between all stakeholders has not been adequately discussed with stakeholders. The HUB concept presently lacks adequate governance planning, structure, assignment or budgeting, and we have concerns that the estimate for its implementation and operation may be under-estimated (but scaled appropriately to a pilot developed to manage OBR and LIB operations).

In light of these concerns, the Commission should let the Hub move forward in conjunction with the development of the utilities' On-Bill Repayment ("OBR") and line item billing ("LIB") programs. If the IOU/Consultant proposal for the 2013-14 period is to be viewed as a pilot to compare results of the Hub/Wheel program and local financing programs which will inform critical decisions regarding financing in 2015, then local programs should not be hindered at the outset.

Local program administrators are happy to participate in discussions with stakeholders involved with designing, developing, and implementing the Hub. Local program administrators are also happy to share data and information that supports the Hub's role in transitioning to a statewide financing administrator. However, it will take time and resources to streamline and troubleshoot this process to make it automated. Perhaps Commission funding can be made available to these local programs to pilot that process.

b) There are Clear Initial Benefits of Locally Administered Financing Programs

The Regional Energy Networks ("RENs") are poised to develop and implement single-family and multi-family financing and non-residential PACE programs in the two most populous regions in the state. Development and results of these programs compared to development and results of the Hub will provide significant lessons learned for the Commission for 2015.

Particularly in the residential sector, stark contrasts between the proposed Hub and Wheel financing and local programs are emerging. These include:

- LA County's residential private financing program (partnering with Matador's Credit Union) currently offers a loan product that supports Energy Upgrade California projects. This program provides a 4.99% rate, 5 year term, unsecured loan with one-day approval. This lender is licensed to operate throughout the State. Matador's residential loan volume capacity is approximately $3 million per month.
- Santa Barbara County's residential lending partners (Coast Federal Credit Union and Ventura County Credit Union) both provide 20-1 leverage on loan loss reserves for 15 year unsecured loans starting at 5.90% (compared to 10-1 for Matador's and as used by the Consultants in the comparison of loan loss reserves to subordinate debt).

These credit unions also have loan volume capacity similar to or greater than Matador's.

- SoCalREN, on behalf of BayREN and other local residential lending programs receiving Commission support, has developed a proposal for expanding these current programs to include HVAC burnout incidences. This program (soon to be presented to the IOUs and the Commission as a pilot under 2013-2014 final Program Implementation Plans and for consideration under the Statewide financing activities) addresses the Commission's concerns about these incidences. The program provides a clearer program role for the Commission, ensures proper permitting and code compliance, engages the HVAC contractor community, and encourages deeper and more comprehensive retrofits. This program can be rolled out quickly in Southern California and the Tri-County regions, and in the BayREN and San Diego regions.

These contrasts highlight the current benefits that local programs can quickly provide in moving energy efficiency financing to scale in the State. The LGSEC requests that adequate balance in financial support be provided to the local financing programs compared to funds allocated for creation of the Hub and support of the Wheel. We ask that implementation of the Hub not hinder current operation of existing local programs or development of new programs and products. It should be noted that there are 1,670 credit **u**nion locations in California and \$144.8 billion in assets[1]; these local markets should be explored as vigorously as statewide command and control and the secondary financial markets.

The Hub creates a middle man in interaction between local lender and local customers. Lenders want to build a relationship with clients in their territory, not just be the capital provider.

[1] www.creditunionsonline.com/credit-unions-california.html

Credit unions think of energy efficiency financing as a customer acquisition opportunity and an opportunity to publicly serve the community. Partnership with public agencies (local programs) can increase exposure and credibility. Many customers like to keep investment local, know their "banker," and some like to walk into a branch.

2. Could and should fees from lenders or other parties be collected to help cover the costs of the financing Hub development and maintenance? How?

Financing program development costs are reasonably expected to come from one-time funding sources, such as the Commission. Program administration as conducted by IOUs and RENs should also come from the Commission. HUB operating and maintenance costs should be borne by the financial institutions that choose to participate in and benefit from the Hub services.

As the Commission considers how to cover the costs of the Hub, it should consider the volume of loans and lenders needed to adequately cover the estimated Hub operating and maintenance costs. It also should make sure that existing, locally administered programs (the only ones that exist currently) will not be expected to bear the burden of initial Hub operating and maintenance costs. This is neither fair nor appropriate; it will devastate locally run programs.

3. How specific should Commission guidance and oversight be on specifying exact credit enhancement terms with financial institutions?

Certain credit enhancement terms need not be specified but should be part of competitive solicitations to ensure public subsidy results in a substantially more attractive product. For example, how will credit enhancements result in lower interest rates when there is no negotiation process? What terms would secondary market providers require to obtain the lowest finance rates? Will there be negotiations which will result in lower interest rates?

Treatment of the credit enhancements for financial institutions and program administrators should be specifically laid out by the Commission so that they are treated consistently in different programs. For example, the use of credit enhancements as subordinate debt, loan loss reserves, interest rate buydown, performance guarantees, etc. must be consistent in terms of when they are considered “spent,” how they are treated when energy efficiency program cycles end, and similar issues such as under what conditions are they “returned” to the program administrator or Commission.

4. Comment on the Hub management, government, and oversight functions described in the consultant report, and describe any alternative recommendations in detail.

The LSEC has reservations about the proposed Hub. A detailed list of these concerns is provided in Attachment A. Below we address questions raised in the Ruling.

a) Concerns Over Processing

While there are potential benefits related to a one stop model, the consultant report does not provide sufficient detail to determine whether workflows actually elicit helpful efficiencies for lenders, contractors, consumers or the PUC, or instead produce additional costs. The LGSEC finds the consultant report unclear regarding the interaction between the Hub and utility incentive programs like Energy Upgrade. To produce convenience and cost effectiveness for contractors, customers and the CPUC, Hub processes should be streamlined with rebate application and associated quality control processes. The LGSEC believes that careful program design should encourage customers and contractors to take advantage of both rebates and financing simultaneously. Failure to adequately streamline these processes will cause considerable undue burden on participating contractors who are already overwhelmed with bureaucratic requirements related to completing Energy Upgrade jobs. Asking contractors and customers to engage with another separate and complicated application process will likely reduce participation, and therefore loan volume, significantly. Because the consultant report does not address details about integrated workflow processes, the LGSEC poses the following questions. Will the contractor separately apply to EUC (for example) and send the homeowner to the HUB to apply for financing? Does the HUB know when EUC enrolls project? Does the HUB know when EUC verifies project completion? Does that trigger loan funding?

In addition, LGSEC is concerned about the potential for high administrative costs and burden for both the HUB and lenders. If the HUB disburses credit enhancement funds per project, this could result in great expense, lag and uncertainty for lenders, which will likely lower interest in participation. Will the HUB manage this task centrally for all of California? If so, has the high level of administrative cost associated with such a large number of transactions been factored into initial operating costs estimates?

Finally, LGSEC recommends that the selected Hub manager be nimble and not bound by excessive internal regulations. The HUB manager should have no ties to, association with, or vested interest in secondary markets. To comply with the letter and spirit of the Guidance and Final Decisions (D.12-05-015, D.12-11-015), the HUB should not be managed, supervised, administered or controlled in any way by the IOUs.

b) General Concerns

The Hub should be managed by a third party and not co-managed by the utilities. The Hub may ultimately be a program that manages loans for the entire state (IOU and publicly-owned utility territories), manages enhancements from a variety of sources (CPUC, POUs, Prop 39 funding, Cap & Trade revenues, state and federal grants, other legislated funding), and manages products that allow financing for various energy-related measures (renewables, distributed generation, water/energy, demand reduction, green building, zero net energy).

As the Commission considers whether to authorize formation of a Hub, one next step should be to reach out to energy financing programs that currently exist in order to initiate statewide coordination efforts (e.g., Western Riverside Council of Governments' residential PACE program, which has generated $7 million in applications in one year of operation). The Commission should know what projects are being financed, what program requirements exist, what is the financing rate, how has uptake occurred and been generated, what data is gathered, and so on.

B. *Multi-Family*

5. Is it sufficient to address only the multi-family affordable housing segment that is master-metered to test financing strategies for the multi-family market? Why or why not?

No, it is not sufficient to address only the multi-family affordable housing segment that is master-metered. The financing structure of the affordable housing segment of the multifamily market varies dramatically from market rate multifamily segment financing and the lessons learned will not translate or provide a clear path to addressing market rate projects. ARRA investments in energy upgrade programs in the multi-family sector showed interest in building upgrades across the segments: low income, affordable, private, and of varying sizes. These programs in northern and southern California received much interest and participation. The RENs intend to follow up on this and test interest in financing for these programs and projects. The funding provided to the RENs for this is relatively small but will test financing interest in a key sector and build on key information gained under the ARRA programs. Let the Consultant recommendation here apply only to the IOU-managed programs.

The LGSEC recommends implementing the REN multifamily co-financing pilots in order to see if it proves to be among the valuable tools for a portion of property owners in this diverse market sector who might be receiving incentives but lacking up-front capital to undertake upgrades. We see offering a simple lending product that could be quickly deployed in conjunction with the bundled measures incentives as one piece of an integrated approach that will help "close the deal" with property owners. If successful the pilots could be expanded from the financing pool of $200 million. We hope that this will be available along with OBR financing as an option to which property owners can be referred during technical assistance.

6. Do you agree with the report conclusion that financing is not the key need for market-rate multi-family housing energy efficiency and that projects are likely to be completed only at times of recapitalization or refinancing? Explain.

While recapitalization and refinancing of multifamily properties are key opportunities to leverage for energy efficiency investments, other trigger events for upgrades include ongoing maintenance and property enhancements at time of unit turn-over, replacement of failed equipment, and retrofit events (e.g., seismic or water damage) where construction funding is already being invested in a project and occupants are already being displaced.

Based on experience implementing programs, it is crucial that financing products are not treated as stand-alone tools, but rather as critical components of a comprehensive residential market transformation approach. We would like to emphasize the importance of multifamily financing pilots to leverage the outreach, technical assistance, and incentives planned under Energy Upgrade California. The Bay REN Multifamily program will refer eligible projects coming through the multifamily technical assistance to the proposed BayREN multifamily Capital Advance and IOU OBR multifamily financing products.

7. Should the economic benefits of water savings be included in the calculation of "bill neutrality" and the net eligible financeable project amount during the pilot period, as recommended in the report? Explain.

The LGSEC does not support a "bill neutrality" requirement for financing eligibility as this could be a market deterrent. Moreover, water measures typically have longer payback periods than electric measures and will not contribute to greater cost effectiveness.

It may make sense in certain instances to include water savings. For example, for the Multifamily OBR pilot there would be an advantage to including water efficiency because the number of properties statewide which are centrally/master metered for water is significantly higher than the number of properties centrally/master metered for electricity or gas. Both market-rate and low-income multifamily rental properties are commonly master metered for water whereas only low-income properties are allowed to be master metered for electricity.

The Bay REN Pay As You Save ("PAYS") pilot is specifically addressing OBR for water/energy measures; outcomes from this pilot should be assessed in determining the role for water efficiency measures in energy efficiency programs.

C. *Non-Residential Pilot Design*

8. Do you see sufficient justification for piloting credit enhancements for medium and large commercial customers? Explain.

Yes, credit enhancements for this sector should be piloted, strictly because of the size of the market and the potential savings that can be realized. The Consultant has indicated that this market has challenges that limit short term deal flow (long sales cycles, reluctance to take on debt, insufficient credit) and recommends a relatively small budget for this pilot – enough to suggest 22 pilot projects.

Yet, the challenges identified by the Consultant (at least two of them) are the reasons PACE was enacted. Significant commercial market PACE activity is underway throughout the

State – under a variety of new administrative models. The advent of these new PACE models alone indicates significant and growing interest in commercial PACE. Marketing, outreach, education, efforts to accelerate the deal process are all underway in PACE jurisdictions using ARRA funding, CPUC funding (2012 ARRA Program Continuation Funding), and private capital.

Because of the size and potential savings benefits of this market, LGSEC recommends that credit enhancements for non-residential PACE programs be made available. The Commission previously rejected requests for enhancements in the form of Loan Loss Reserves and creative audit incentives structured on a revolving model. LGSEC believes, in its nascent market stage, commercial PACE programs would benefit from enhancements such as interest rate buydowns and audit assistance.

9. The consultant report recommends limiting lighting measures in the on-bill financing programs and assigning lighting-centric projects to the on-bill repayment mechanism. Do you agree with this approach? Explain your rationale.

The LGSEC reserves comment on this issue at this time.

D. *General/Overall Issues*

10. Are the pilot proposal budgets sufficiently detailed to warrant moving forward with approval? Explain your rationale and any alternative proposals.

The Consultant proposals are sufficiently detailed to move forward with the design, development, and building of operating infrastructure of the Hub only. There is not enough detail provided to have the Hub oversee any existing local financing programs. If the HUB is authorized to proceed with managing any programs, it should be restricted to OBR, OIB, and OBF programs.

In the short 2013-2014 timeframe, development and implementation of the Hub and Wheel should not interfere with or hinder the development or implementation of local programs (residential, multi-family, PACE, public agency, and others). Significant lessons can be learned through local administration and implementation which will inform ongoing development of the longer term goal of statewide coordination. Necessary coordination between local programs and the Hub will occur absent placing local programs immediately under Hub operations.

11. Would you recommend any additional objectives to be tested in the recommended pilots? Specify.

Each of the pilots should be allowed to finance projects that include measures that are not tied to an IOU incentive and measures that go beyond only energy efficiency measures.

Credit enhancements should not be treated as utility incentives or rebates because credit enhancements do not *directly* fund or subsidize the cost of a project. Therefore, financing programs which use ratepayer credit enhancements should allow: other energy efficiency measures which are not tied to utility incentives (e.g., as defined by PACE legislation), renewables, demand response measures, water measures which have electricity/gas mitigation impacts, green building measures.

The State has aggressive goals for increasing integrated demand side management ("IDSM") projects and zero net energy ("ZNE") buildings. Financing is a key resource to achieving those goals and credit enhancements are a key to bringing financing to scale. Current Commission approved credit enhancements originate from energy efficiency program funding. Loan programs are restricted to energy efficiency measures only. The LGSEC hopes that a final financing decision will allow these pilot programs to expand the range of measures that qualify for loans to include measures that support IDSM and ZNE objectives. Initially, the amount of loan program portfolios that utilize credit enhancements can restrict the proportion of non-energy efficiency measures to a certain percentage in individual loans, or the program portfolio can restrict the total amount non-energy efficiency measure funding.

The LGSEC recognizes the importance of this issue and has made recommendations to the Governor's Office, California Air Resources Board, Department of Finance, and to the Commission that non ratepayer funding from programs like Cap and Trade revenues, Prop 39, CAEATFA and other programs are a perfect use of those funds. They leverage private and ratepayer funding and broaden the range of greenhouse mitigation measures that can be implemented.

12. How do you recommend balancing the goals of "keeping it simple and fast" compared with addressing the complexity of market issues in the sectors targeted and with the pilot features proposed?

The Hub should be, at least in the early term (2013-2014) a highly-organized centralized resource for tracking, monitoring, and reporting on the various programs. Additionally the Hub can develop organizational efficiency to manage data and delivery to the CPUC, banks, RENs, other agencies, consultants, etc. Until this is done it is questionable that the Hub can undertake the many immediate tasks it will face: immediately issue RFPs; approve lenders; set all standards and criteria for lenders, contractors and programs; assess the performance of programs and alter or sunset programs; serve as a central "bank;" run multiple programs on a statewide basis with no demonstrated experience or base from which to work, and uncertainty about who will run it, and to whom it will report and be held accountable.

13. Are there general criteria or participation agreements that participating financial institutions should adhere to in order to access credit support and/or on-bill repayment mechanisms?

The LGSEC supports development of "general" criteria or agreement principles for participation. However, based on immediate past experience with the utilities, the LGSEC has concerns that financial institutions will be able to conform to stringent IOU requirements for:

- Non-disclosure agreements on data;
- Internal system data security design specifications;
- Data transfer protocols;
- Program status reporting;
- Management and transfer of credit enhancements (particularly loan loss reserves);
- Review and approval of marketing collateral;
- Length of time to execute agreements.

It is unclear what role the IOUs will have in the HUB related to how financial institutions will execute agreements to formally participate.

14. Similarly, are there quality assurance or project economics disclosure requirements that should apply to projects financed via the pilots?

The LGSEC has learned that quality assurance and quality control are a critical program element to lenders. They impact the program costs and subsequently the financing rate. Lenders require that processes exist to verify that projects provide adequate safety, management, monitoring, customer service, and consumer protection.

Under current residential financing and commercial PACE programs, local governments have found the IOU incentive programs and processes are generally adequate. However, as proposed above, the LGSEC strongly recommends these financing programs include more measures than just IOU incentive measures. Similar disclosure requirements should be part of financed projects absent an IOU incentive. They should be similar, but not identical, because credit enhancements are not the same as incentives.

15. Is the recommended 20% limit on financing of non-energy-related project costs reasonable? Explain.

For the reasons stated in the response to question 14, a 20% allowance for non-energy-related, project-related costs is reasonable. We assume this proposal includes financing for non-energy-related project costs such as: asbestos mitigation, hazardous materials remediation, etc. Does the 20% limit also apply to our response to Question 11, i.e., should the limit also be applied to "non-energy efficiency" measures such as renewables, demand response, water/energy nexus measures, green building?

16. Should any of the pilot programs (on-bill repayment, for example, for any specific sectors) be designed to help or allow bringing buildings only up to code compliance rather than exceeding minimum requirements and encouraging high-efficiency installations?

To the extent that the Commission has identified code compliance as a problem, certain financing programs should be designed to require code compliance only. HVAC burnouts are a prime example. Attractive financing programs can be used to encourage homeowners and contractors to appropriately install HVAC units, while existing incentive programs can encourage them to examine and go beyond.

17. Interested parties should also feel free to comment on the reasonableness of any of the pilot design features

The comments herein and below address this question. We do not at this time have a specific response to this question.

18. Do you believe the pilot proposals can be reasonably rolled out in the first quarter of 2013? Describe any alternative proposals.

Certainly the local financing programs can be rolled out in the first quarter of 2013. Hub and Wheel should proceed with program design and development, infrastructure development, and building participation. Roll out of actual program management and financial products should be delayed until these items are established. Local financing programs should operate independent of the HUB and WHEEL.

19. Are there particular milestones that each pilot should be required to achieve to measure performance? If so, how should those be determined? Should achievement of milestones be used to trigger ramping up larger-scale rollout, rather than a defined pilot period?

Existing financing programs and those with approved funding should report quarterly on program uptake by sector, with energy savings projections. The statewide financing fund of $200 million should hold back a reserve to expand funding for successful programs. Also, a small portion of the $200 million financing fund ($5 million) should be set aside for competitive grants on projects purposed to drive market transformation, e.g., co-benefits studies, municipal/regional building profiles, pilots that demonstrate return on investment on commercial upgrades for mid- and large- sized buildings.

20. Should the Commission allow the Regional Energy Networks (REN) to move forward with their pilot proposals for which funds were reserved? Explain any concerns with any of the pilots? How should the REN pilots be coordinated with those proposed in the consultant report?

Yes, the REN and local government pilots for which funds have been reserved should move forward. The LGSEC has stated that these programs should not be managed under the HUB and that is our primary concern. The RENs are happy to work with the HUB in providing any data or information that will assist the HUB in development and implementation. The RENs are happy to have HUB programs available in REN territory to provide financing alternatives to property owners.

III. LGSEC Comments on the Joint Response of SCG and SDG&E

The LGSEC agrees that a higher priority goal of the pilot programs should be to deliver project volume. In response to the questions above, we have stated how we believe project volume can be realized. The LGSEC's responses to the questions above also address our comments on the Joint Utility Response. We offer comments on the Joint Response to specific questions below.

A. *For the recommendation not to offer credit support for public sector financing, further explanation of the rationale.*

OBF is an attractive financing program offering 0% financing and unsecured debt. However, the LGSEC believes lack of participation by most public agencies in OBF is due to the fact that:

- Funds are reimbursed rather than provided upfront
- Projects have restrictive, simple payback term requirements
- Projects are limited to only those with IOU incentives
- IOU terms and conditions are restrictive
- IOU programs are independent and require electric or gas only

The LGSEC supports the Consultant's recommendation to expand OBF to "all technologies."

The Consultant also suggests that public sector entities have adequate access to bonds and tax-exempt leases and that the barrier to accessing these sources is a lack of staff and insufficient technical capabilities. The LGSEC agrees that these are indeed barriers for most public sector entities. The solution to having more of them access financing is not tied only to providing every public agency with expertise. The rationale for the RENs is an attempt to mitigate that challenge in a cost-effective manner.

The LGSEC maintains that a solution for the public sector lies in developing a product that is easy to access, removes restrictions in current products, allows project flexibility (e.g., IDSM, ZNE) and leverages public agency credit worthiness. The SoCalREN has developed a public agency building financing program that has provided a pool of lenders willing to make loans under standard terms and agreements. These lenders offer an attractive market rate recognizing public agencies' generally good credit-worthiness. What will make the program attractive for public agencies is a credit enhancement that can be used to provide project performance guarantees or can be leveraged to provide a revolving loan fund (where the credit enhancement is reserved against outstanding loans).

IV. CONCLUSION

The Consultant report has provided a model for accelerating energy efficiency financing that may be effective. Before the Commission rushes to roll out a host of programs for a new entity – the Hub – to design and administer, it should do its due diligence in terms of understanding the responsibilities for this potential new entity, and ensure that it is not duplicating existing work. Importantly, programs that are operating currently, or are slated for immediate expansion, should be allowed to proceed while the Commission determines how it will build on existing momentum and progress.

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Respectfully submitted,

Jody S. London
Jody London Consulting
P.O. Box 3629
Oakland, California 94609

Telephone: (510) 459-0667
E-mail: jody_london_consulting@earthlink.net

For THE LOCAL GOVERNMENT
SUSTAINABLE ENERGY COALITION

ATTACHMENT A:
Additional Comments from LGSEC

- The Consultant Recommendations are premised on the assumption that available financing is the *first cost barrier* to the energy efficiency retrofit market, "even where there is a compelling return on investment". We would assert that the first cost barrier is *demonstrating* the return on investment, a gap that comprehensive building audits can address. Without the audit, there is no credible estimate of return on investment. Audit rebates, as proposed by the RENs, have shown their ability to mitigate this gap and drive conversion rates. Additional data on co-benefits would close the gap even further.

- The Consultant Recommendations claim that loan loss reserves lower interest rates (p. 3), but extensive consultation and outreach by the RENs with banks and other lenders indicates that a strategically-structured loan loss reserve may reduce basis points, extend loan repayment terms, and allow lenders to adjust FICO requirements to offer loans to a wider consumer population.

Chapter 2: Project Approach

- HBC proposes that energy efficiency is "sold" only by contractors and ESCOs, not "bought" by consumers. LGs and the RENs have strong backgrounds and track records for strategic project design, and partnering with contractors and other stakeholders to drive project demand.

- HBC proposes to develop a complex statewide financing infrastructure that could be made available to other entities - RENs and POUs and others – on a "fee-for-service" basis, in order to expand energy efficiency uptake and accelerate recovery of "IOU ratepayer capital" (p. 13). This suggests that IOUs and their partners may access infrastructure services without charge, but banks, local governments, RENs, POUs and others must pay. This is unacceptable. Either the fees would be paid by RENs from REN-vested ratepayer funds (in which there is no recoupment/recovery of ratepayer capital) or paid by local governments directly. In the latter case, this would mean the ratepayer pays twice – first as the ratepayer and again as a constituent.

<u>Chapter 3 – The Hub</u>

- The Consultant emphasizes the transparency of the Hub, but it is important to note that preexisting programs have operated with full transparency as well.

- Pages 18-24 detail a list of sweeping actions and powers to be vested in the Hub, ranging from managing ratepayer funds, approving and enrolling loans, tracking all data (including loan, consumer credit histories, repayment histories, energy use information), screening banks and other program participants, managing all procurement processes statewide for energy efficiency financing, integrating REN programs under their purview, developing and managing processes, service level agreements, forms and requirements for customers, contractors, utilities and financial institutions, and approval of forms and protocols. The Hub will screen and approve participating banks and lenders and develop those qualifications. Further, the HUB will approve placement of financing on utility bills, process defaults and disconnections and administer those functions across the utilities and banks. Also, the HUB will convene all stakeholders, and operate and maintain a master database that will track and contain all detail on all loans, energy, consumer and stakeholder information, and issue routine reports of an as yet undetermined form and content. The HUB will screen, approve and disburse credit enhancement funds and, perform all these functions as they relate to the Lease Origination, WHEEL, OBF, OBR, and LIB financing programs. However, the Consultant Recommendations do not provide any organizational structure chart for the HUB, are uncertain whether the HUB will be run by a government agency, the utilities, a non-profit, or a for-profit consultant (but stipulates that the HUB will require technical services consultant). In the near term, Consultant recommends that an IOU launch and run the HUB. This is a daunting and overwhelming scope and a sweeping delegation of powers. As stated earlier, LGSEC strongly urges that the HUB be adequately designed and developed before any programs are managed by the HUB.

- The RENs have concerns about the sweeping authority and power vested in this structure where powers and responsibilities are listed with detail, yet the governance is either vague or undefined, and the 2-year budget is arguably substantially under-estimated. (For a statewide apparatus of this scale and scope, $5 million is likely insufficient; consider that the IOUs and Engage 360 spent $800,000/month to only run a website with far less information layers than anticipated here). Also, the Hub appears to need substantial legal, accounting and auditing services – have these costs been adequately considered?

- It is also inconsistent with D.12-05-15 and D.12-11-015 to suggest that REN programs would be administered by the Hub, which itself may be run by the utilities. Both decisions were clear that REN programs would be implemented outside any administration or interference by the IOUs.

CHAPTER 4 – SINGLE FAMILY – THE WHEEL

- Market demand in energy efficiency financing has not yet been sufficiently developed to create a commodity valuable enough to stimulate a secondary market.
- REN research consistently indicates that interest in energy efficiency drops precipitously once interest rates move beyond 8%
- The Consultant has compared loan loss reserve and Wheel programs using a loan loss reserve default rate structure that is grossly over-inflated (3%, 6% and 15%) over life of loans. To date, residential and commercial PACE and flex path programs in the State of California are averaging a default rate of less than 1%.
- Pooling the single family Wheel and loan loss reserve funds, on a first-come first-serve basis is ill-advised. The October 12, 2012 financing workshop attracted only one lender, and that lender attended as the guest of a REN. That lender specifically shared with the consultants and the audience that a first-come/first-serve basis will eliminate lender interest – they will not invest the time, money and resources to develop a new loan product in the face of a "free-for-all" arena for a nascent market. Also, this approach will require excessive administration and raise costs.

- The LGSEC urges caution in simply taking at face value statewide energy efficiency financing programs in other states. Some of those programs cover states with comparatively small populations (Oregon has only 5.4 million people), and others run successful programs because (e.g., Keystone Program in Pennsylvania), they have been funded by the state and public funds to provide interest-rate buy-downs, rebates, or as much as a 50% backing of loans by direct deposit with credit unions (Vermont), etc. Keystone's program has been immensely successful but initial efforts to off-ramp this program to the private banking industry has been unsuccessful – the business model cannot be duplicated by private, for-profit entities.
- The "pooled" Wheel and loan loss reserve funds ($26 million) means this money is locked in place for at least 10 years, frustrating the nimbleness necessary at this point to adjust, reduce, correct or terminate non-performing programs; and subjects ratepayer funds to risk that is avoided in a traditional loan loss reserve model.
- We do not see evidence of a 6% interest rate gain on the Wheel funds (as indicated in the Appendix for Chapter 4, p. 39). Even assuming this were the case, the costs and adverse consequences of the Wheel overcome this purported asset.
- NAESCO and the Energy Programs Consortium have been working to launch a national Wheel for 3 years and the program has not yet become operational.
- The LGSEC has concerns that legal and regulatory issues attached to the OBR and LIB programs have yet to be cleared. Before additional time and funding ($21 million) are sequestered in these programs, we believe it is critical to gain legal and regulatory clarity on various issues, including default and service interruption,

transferability, whether collecting on loans through billing exposes the IOUs to additional, unintended regulation and legal obligations.

- The BayREN has carefully considered the Final Decision, including ALJ Fitch's concern that the ratio of the loan loss reserves requested under the Single Family-EUC Subprogram of the BayREN Program Implementation Plan may be high compared to the loan volume projected; and warrants that it will work with the Commission under the statewide financing proceeding to attain consistency with the 2013-2014 Transition Period financing standards and criteria.