California Alternative Energy and Advanced Transportation Financing Authority
California Hub for Energy Efficiency Financing

Commercial Loans, Leases, and Energy Service Agreements

Flexible Financing for Commercial Energy Savings Workshop
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[Editor's Note: This transcript has been prepared by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) and it believes it to be a fair and accurate reproduction of the comments of the speakers.]

Jonathan Verhoef: Good morning everyone and welcome to the California Alternative Energy and Advanced Transportation Financing Authority Small Business Financing Workshop. Thank you all for attending. My name is Jonathan Verhoef. I'm the specialist working on our non-residential financing program. Just a few logistics, everyone's in mute, but if you have a question or comment, you can raise your hand in the webinar interface and you can also type into the chat box. We're going to allow for some time for questions and answers with each section and there is also going to be a block of time for Q&A at the end of the session. We're also going to be sending out a follow-up survey after the webinar so people can also weigh in that way. Just to note, our deck has a few slides in a different order than the one that's posted, but the slide deck that we're using is posted on our website as a reference. We're not going to be going through every slide in detail because there's a lot of information here, but we are going to be going through the slide deck, so you can follow along if you'd like.

Slide 2 – Closed Captioning is Available **1:36**

Closed captioning is available for this meeting at the following URL you see there: my.webex.com. It is also available through the meeting invitation and there is a link to the closed captioning, as well.

Matt Singer: Is this going to be recorded at all?

Jonathan Verhoef: Yes, we're recording this meeting.

Matt Singer: Cool.

Jonathan Verhoef: Mm hmm.
Matt Singer: It means I don't have to.

Slide 3 – Workshop Agenda 1:51

Jonathan Verhoef: I am just going to run through the workshop agenda briefly. In the Executive Summary, we are going to go over some core concepts. In the Introductory Section, we're going to talk about the background of our Pilots, the California Hub for Energy Efficiency Financing and where we are so far. Then, in our Program Structure, we're going to be getting into more detail on our proposal and if we have any feedback. We're going to talk about how to engage in our program, what kind of projects are covered, and how the financing works. Then we're going to be getting into the Participation Section, how the various players interact and at the end, we will have a Feedback Section for any questions you might have.

Slide 4 – Gain Program Insight and Provide Feedback 2.40

The goals for our Workshop, we're going to be providing you with a detailed, unified approach. Where we are and what we're planning and then, we would like to hear from you and get your feedback on our program.

Slide 6 – Small Business Off-Bill Financing Launching Late 2018 3:06

Miriam Joffe-Block: Good morning everybody. This is Miriam Joffe-Block. I'm the Program Manager with CAEATFA and the CHEEF. Thanks everyone for joining us. I just want to also note, we've got a room full of people here in Sacramento and we've got about 75 people on the line so we will do our best to incorporate your comments and questions as we go. I'm going to start with just a couple of brief summaries about the Pilot. This Small Business Program is a private capital program. We are trying to leverage private capital to support loans, leases, and Energy Service Agreements for non-profits and small business customers. This Pilot features a credit enhancement in the form of a Loan Loss Reserve as well as a statewide marketing campaign.

Slide 7 – Ratepayer Funded Credit-Enhancement Results in Benefits for Customers, and Larger Projects 3:58

The concept here is that we can take a small amount of ratepayer dollars and use them as a credit enhancement to leverage private capital and to allow financing companies to offer either more attractive terms or broader underwriting criteria than they normally would to accept a wider range of applicants. This in turn allows contractors to sell more projects or to sell deeper retrofit and higher efficient equipment that can be more expensive and then, allow customers to access that capital and that savings and then, the state of California saves, so we all win.

Slide 8 – Who Should Participate in This Program and Why 4:37

Obviously, finance companies, and contractors, and ESCOs have a lot to gain from this Program. We also want to call attention to utility program implementers. Our hope is that you will be able to integrate our financing into your program and be able to meet your savings goals for the utilities with less direct rebate and incentive costs because you can use financing to help customers achieve savings instead of paying out a cash rebate. For local government, who might be on the line, we hope that you will see our financing program as a way to help you meet your local sustainability goals. Now we are going to find out who is here with us on the line and then, we'll figure out who's here in person so I'm going to launch a couple of polls.

Polling Questions 5:36

The first one is if you can describe your organization in one of these fives ways, and if you are an "other," don't worry, we have another poll for you that's coming next. And in terms of in the room, I know we've got a few governments. We've got a private contractor. Private contractor. Finance.

Matt Singer: Financing.

Robert Ridgley: Energy commission.

Miriam Joffe-Block: Energy commission. In the room we've got finance and government. Okay, we've got a good mix. I'm going to close the poll and share the poll. I'll just read it out loud for the folks in the room. We've got about 30% energy service companies or contractors. About 30% other. About a third of program implementers and a handful of finance companies. Now, if you answered other, then please tell us who you are. We'll take just about another 15 seconds for folks to identify. I'm going to close this poll and share it. We got about 36% consultants and then, we've got about a fifth manufacturers, distributors, and utility company reps, and government entity reps. Thank you very much. Finally, I am curious to know how familiar you are with the CHEEF Pilot. If you could tell us if you are very familiar, somewhat, or new? And maybe folks in the room if you are very familiar? Raise your hand. Somewhat familiar? And very new? Thank you. That helps me. I'm going to close this poll and we're going to share. We've got over half of folks here are new to CHEEF. That means I am going to go through a little bit of background and actually, the background might be new to you, even if you're familiar.

Slide 10 – California Will Only Achieve Its Building Energy Reduction 8:04

Goals Through Leveraging Private Capital

We all know that the State of California legislature has set very ambitious climate change goals for building energy reduction and given the amount of retrofits that are needed out there to bring existing buildings up to code, let alone beyond code, there's no way we will be able to meet these goals relying on public funds or ratepayer funds. We must engage private capital and that's the point of the Pilot.

Slide 11 – California Public Utilities Commission Authorized $75 Million Toward a Series of Statewide Financing Pilots to: **8:29**

That is why the Public Utilities Commission has authorized the Pilot program and has set $75 million dollars towards them. I want to talk a little bit about the partners involved, so CAEATFA, the California Alternative Energy and Advanced Transportation Financing Authority is where Jonathan and I work. We are housed in the State Treasurer's Office and we run programs to leverage private capital to support the state policy goals, particularly around energy and environmental policy. We administer the CHEEF, which is the California Hub for Energy Efficiency, which is the hub that was conceived of by the Public Utilities Commission when they authorized these pilots. We are developing the pilots in partnership with the four investor-owned utilities in California and the pilots also have a marketing implementer, which is important for that deal flow generation, which we need, and right now, that is the Center for Sustainable Energy.

Slide 12 – Residential Energy Efficiency Loan Assistance Program (REEL) Launched in the Summer of 2016 **9:25**

Our first Pilot launched in the summer of 2016, which is the Single Family Residential Pilot. I wanted to share a little bit of stats and highlights because we have had some really good growth, particularly, as we have made some modifications. I'm going to talk about the types of modifications that we want to make to the Commercial Pilot and this sort of redesign in a few minutes. Since I wrote this slide, we've crossed the 2.8 million mark in residential loans, which is a small start, but a great growth for us in our early stage. We have more than 200 participating contractors. We just enrolled two new lenders in the last couple of weeks.

Slide 13 – Small Business Program is Designed to Barriers to EE Financing **10:09**

Small business owners have some real barriers to energy efficiency. Number one, they have scarce capital and they don't necessarily find it that lucrative to invest their scarce capital in energy efficiency when they can invest it in new employees or new product lines and they also have scarce time. They are not able to research complex financing options and put a lot of time into it, so we want our Program to help take away that first cost investment barrier and help them access capital in a very simple and easy way.

Slide 14 – Public-facing platform to promote the financing pilots just launched 10:44

Another component of our Pilot is the Statewide marketing campaign and a new public-facing platform called GoGreen Financing has just launched. Right now, its content is really consumer-facing for the consumers that might take out one of these Residential Energy Efficiency Loans just launched on April 13th and the contractor and partner site will launch in June. Once the small business is up and running, then contractors and finance companies participating in our program will be featured on the site, so that customers who are driven to this website through the utilities marketing, can find you.

Slide 15 – Private Capital Offered Through the CHEEF Complements Utility On-Bill Financing (OBF) and C-Pace 11:23

We really want to design the CHEEF Small Business Pilot to fill a niche that is not being filled by on-bill financing and Commercial PACE. Both OBF and C-PACE offer great options for small businesses, but we think there are projects that our program will serve that OBF and C-PACE don't serve. For example, there are customers who want to do projects that are going to have a payback longer than what the utilities require, or the project will never be bill neutral. There are also more than half of all small business owners rent their space, so C-PACE is not an option for them and we think we can serve tenant occupants.

Slide 16 – A New Approach to the Small Business Pilot 12:03

Some of you attended a workshop in 2016 where we talked about the design of the Commercial Pilot and you might be wondering what we've been doing since then and why we are back now with another workshop so, I want to talk about that for a minute. Back in late 2016, CAEATFA started a process of asking the Public Utilities Commission for the authority to make some modifications to the Pilot, so that they would be more broadly relevant to the market, as well as more simple and streamlined for stakeholders to use. In March of 2017, the CPUC issued a decision granting CAEATFA broad authority over the direction of the Pilot, so what we did was we made two rounds of regulatory modifications to our Residential Pilot and we've seen a lot of growth since we've made those changes. We spent the last six months developing a commercial financing pilot that we thought would accommodate the various needs of the commercial energy efficiency market. That's what we want to show you today and that's what we want your feedback on both today, and following today, and additional conversations. I also want to talk a little bit about our philosophy with the Pilot design. We are seeking to enable broad uptake and broad market participation. We are expecting that not every project that is financed through our program will have energy savings in the way that the CPUC have them measured that. We are okay with that because we are taking a portfolio approach and we believe that on a portfolio level, we have savings. That is more important that we reach many people and have broad uptake to actually get savings than to keep the Pilot very small and narrow focused because the criteria is too stringent. We believe that Decision 17.03.26 gave us authority to do this. We're testing a pilot. This is a pilot, so we want to test a lot of approaches. We also are not expensing ratepayer dollars the same way as a traditional utility rebate or incentive program does. We are using ratepayer dollars to leverage third party capital, which we believe is very different and so we don't think we need all of the rigor and strictness that you would find in a project where somebody receives a $20,000 dollar pay out from a utility. I also want to note that savings for these pilots will be determined by the energy measurement and verification team that CPUC contracts with and there is a round of contracting that they are currently undergoing. CAEATFA has been advocating for a meter-based savings approach to remove the need for complex data collection up-front.

Slide 18 – Small Business Off-Bill Program to Launch in Q4 of 2018, Followed by On-Bill in 2019 **14:47**

This next slide shows our timeline. We will be drafting regulations this spring. We will have another regulatory workshop this summer to present you the actual regulations for comments and then, we will have redrafting after your comments, with a launch in 2018.

Jonathan Verhoef: Thank you, Miriam. Now, I'd like to talk a little bit about some of the key concepts of the Program.

Slide 20 – Program Permits Projects up to $2.5 Million; Offers a Credit enhancement on the First $1 Million **15:14**

Jonathan Verhoef: This slide illustrates, on a high level, financing eligibility and how the credit enhancement works. For the Small Business Pilot, what we are proposing is a maximum finance amount of up to $2.5 million at the second line there. If you look at the line beneath that, Claim Eligible Financed Amount up to $1 million, that means up to $1 million of any project may receive the credit enhancement. Within that amount that's being credit enhanced you can see there are two sub-categories. 70% or more must be used for Energy Saving Measures and related installations. I will talk a little bit more about related installations on the next slide. Up to 30% may be used for non-energy improvements. This is intended to be a selling point for the Program, as well. The remaining portion of the project would be the Claim Ineligible Financed Amount measure that are not eligible for the credit enhancement.

Slide 21 – Claim-Eligible Financed Amount Can Include Legally Required Installations and Up to 30% Non-Energy Improvements **16:20**

This slide goes into more detail of how this all breaks down, so on the left, underneath the at least 70%, you can see that we've got Energy Saving Measures and Demand Response. That's the goal of the Program, to reduce energy consumption. Within the Program we've got different ways that those can qualify, and those are the three sub-categories on the bottom left, and I will be going into more detail on those later. Then there's, as I mentioned, related installation. Included within the Energy Saving Measures and Demand Response, there are legal and practical requirements for the project completion. For your new HVAC, you need to repair the drywall, that's included as part of the Energy Savings Measures. Or you need a permit, or you need some safety measurements that are required by law, that's also included within that 70%. Within 30% are non-energy improvements that you can use the rest of that financing for other improvements within your building, so you can work on landscaping, new floors, remodeling. Over on the bottom right, you can see within Claim Ineligible Financed Amount, you're allowed to have additional non-energy installations over 30% of the cost or additional energy savings measures beyond that credit enhancement amount or potentially credit enhancement amount of $1 million and that is also where we are allowing distributed generation.

Slide 22 – Program Rules are Structured Around the Amount of Financing **17:49**

This slide illustrates our proposed tiers. These tiers are going to inform how the Program will be applied, as well as we're looking at having different levels of credit enhancement. Which is again, it is proposed. We are still looking on determining what level of credit enhancement to apply but the most important tier there is over $350,000. That's going to have a different method of qualification that I will talk about a little bit later.

Polling Questions **18:35**

I wanted to run a poll to see what kind of project-sizes people are typically looking at in their portion of the industry? So, I'll give everyone a few seconds to weigh in on that poll here.

Miriam Joffe-Block: This first poll is for, on the contractor side, if you can let us know what your average project size is.

Inderjit Mundra: About $100k.

Miriam Joffe-Block: Here in the room, we have about $100,000.

Unidentified Speaker: What would an example of a $100K project be?

Inderjit Mundra: We provide commercial LED lighting, so they would go in. It is probably about 150,000 square feet.

Jonathan Verhoef: Thank you for weighing in. So, for the results of the poll: We've got about 14% at under $50,000. 60% at $50,000 to $350,000 and 26% over $350,000.

Miriam Joffe-Block: Do you want to ask about commercial?

Jonathan Verhoef: I would like to run a second poll here and this is for the finance companies.

Unidentified Speaker: I would assume it would be the $150,000.

Miriam Joffe-Block: Okay.

Unidentified Speaker: It's definitely not under $50,000.

Jonathan Verhoef: In the room, we have $50,000 to $150,000 and on the line, we've got 20% at under $50,000, 50% at $50,000 to $350,000, and 30% at over $350,000. At this point, we have time to take a few questions I'm going to go ahead and see if anyone has raised their hand in the room.

Miriam Joffe-Block: Do we have any questions on this structure, so key concepts so far in the room?

Unidentified Speaker: I have a question. Just so I understand, credit enhancement is essentially, a loan loss reserve.

Miriam Joffe-Block: The question is, is the credit enhancement, I'm just going to repeat the question because the microphone doesn't carry.

Unidentified Speaker: Sure.

Miriam Joffe-Block: The question is, is the credit enhancement a Loan Loss Reserve? And yes, in this particular program, we are designing the credit enhancement as a Loan Loss Reserve. Jonathan, we have a question. We have a question that I'm going to read.

Jonathan Verhoef: Okay.

Miriam Joffe-Block: How does this Program support or compete with implementing the IOU requirement to offload much of their EE programs to third party administrators once their business plans are approved by the CPUC? So, we don't want to compete with something that's already happening. What we hope is that the program will compliment those efforts and that perhaps we can be the financing arm of those third-party projects. That's what we want to hear from folks who are going to bid on the utilities administration as to whether or not what we're proposing would work for their programs. I'm going to turn to a couple of questions about what Jonathan just went over and then we'll try to answer some others as we go on. Let's see, I have a question here. What does claim-eligible mean? I'm going to go back, Jonathan, to that slide.

Jonathan Verhoef: Okay.

Miriam Joffe-Block: Claim-eligible means that if there's a default, the finance company can submit a claim with us and we will pay out of the Loan Loss Reserve up to that amount so we'll actually reimburse at 90%. We want the finance company to have some skin in the game. Claim-eligible up to a million means up to $1 million dollars of the project can be claim-eligible, which actually, means $900,000. It means that your finance project could be $2 million dollars, but we will give you a credit enhancement on the first $1 million of it. If there's a default, we will reimburse you. We will consider that $1 million, whatever portion of that $1 million, we'll consider that claim-eligible. Let's keep going and I'll address some of these questions together as we move on.

Slide 24 – Contractors Play an Important Role with All Project Stakeholders 22:56

Jonathan Verhoef: Now we would like to talk a little bit about contractor eligibility and role. The contractor plays a key role in the project and we're envisioning that a lot of these projects are going to be contractor-driven. As you can see in the diagram here, the contractor is going to be providing the finance company with a scope of work, as well as a cost breakdown of energy savings versus non-energy saving measures, which references that 70% and 30% breakdown that I was talking about earlier. Then the customer is going to be getting a scope of work as well as a bill impact estimate. A side note -- we're going to be providing a sample version of the bill impact estimate so you don't have to draft your own. Then we'll be getting from the contractor proof of eligibility as well as project certification from the contractor.

Slide 25 – Contractors Must Meet Participation Criteria 23:37

For contractor participation criteria, we’ve got active California contractor’s license, no disciplinary action by the CSLB within the past 12 months. We’re proposing at least $2 million in general liability insurance and we’ve got a participation agreement for which you’re going to abide by the program rules. At this point, I’d like to engage in a little bit of Q&A. We’ll start with question two here. We’re trying to get a sense of the role of Project Developer in the industry, which is to say, people who are driving projects that have a California contractor's license. I’d like to know from folks, how common is it in the industry that, that is actually taking place? Anyone in the room is welcome to weigh in, as well. Is that common, do you think?

Unidentified Speaker: Twice as much.

Jonathan Verhoef: Okay, got you.

Miriam Joffe-Block: If folks on the line want to comment on these developer questions? If you want to raise your hand, we will unmute your line.

Jonathan Verhoef: I see some folks say it is not common, but very common on the lighting side. That's interesting. So, in that regard, in the case of a project developer, would they normally work with a firm that has a California contractor's license in-house? Related to that, are there many project developers who do not have their own California contractor's license? Have you seen this before? Is anyone raising their hands?

Miriam Joffe-Block: No hands raised.

Jonathan Verhoef: It looks like distributors work with contractors to develop projects. Great. Thank you very much folks for weighing in.

Slide 27 – Energy Saving Measures Qualify via Three Pathways 25:40

Now, I would like to talk a little bit about Project and Measure Eligibility. This is referenced on the previous slides. We’re proposing three different pathways for Energy Saving Measures to qualify for the Program. First, I want to give some definitions. Energy Saving Measures is any Energy Efficiency or Demand Response Measure including alterations and improvements that are required. Energy Efficiency is an energy using appliance equipment, control system, or practice whose installation or implementation results in reduced grid-supplied energy use. Demand Response are reductions, increases, or shifts in electricity consumption by customers in response to economic or reliability signals. There are three measures or the three ways that measures can be qualified. First, we have a pre-qualified list and that is included as an Appendix in this slide deck. The list is intended to have broad categories for capturing the most commonly used type of measures in the commercial and non-residential space. A second method of qualification is if you've gone through the utility custom approval process, then you're qualified for financing through the Program. The third is, I'll talk a little bit more about this on other slides, but certified measures by a Certified Energy Manager or Professional Engineer.

Slide 28 – Pathway 1: Measures on the "ESM List" are Pre-Qualified 27:04

This is our first pathway of the pre-qualified measure list. Examples include unit controls, VFDs, LED lightning, insulation, and heat pumps. Projects up to $350,000 dollars can use this pre-qualified measure list. Up to $2.5 million for lightning projects, which only the first $1 million will be claim-eligible for financing. Also, we include utility deemed rebate other as a category. So if you receive a utility rebate and we haven't captured it on the list, you can still qualify with this method. I'll come back to those questions in a little bit.

Slide 29 – Pathway 2: Measures Approved for IOU Custom Incentives 27:50

Method two, as I've said, if you've already gone through the utility customer approval process and you're qualified, so that's any measure already approved by the utilities, as well as REN or CCA custom programs. All we're going to need is that you are going to need a copy of your utility custom approval notification.

Slide 30 – Pathway 3: Measures Professionally Certified as Expected to Save Energy 28:12

The third method, we put together because we've gotten a lot of external feedback that the utility custom process takes a long time, so customers in the real world are likely to install a less efficient measure, rather than wait on that custom measure getting approved through the process. What we're exploring here is a faster process by which someone can install custom measures that are not on our list. Professionals that we are looking at here are professional engineers licensed in California and certified energy managers who are certified by the Association of Energy Engineers. When they're submitting their certification they're also to be providing us with their energy savings estimate for the project.

Slide 31 – Contractors Must Meet Basic Requirements for All Projects 28:59

I want to go over contractor project requirements: You need to hold a license that is applicable to the work being performed and ensure that ESM fuel savings, you know, electric or gas match the utilities service types. For example, if you're getting electrical service from a municipal, SMUD or LADWP, then a lighting measure won't qualify. You would want to use a gas measure in that circumstance. As I mentioned, a bill impact estimate is required so the customer knows what kind of savings they're looking at. We are going to provide a sample version of that. All measures need to be Title 24 compliant and as mentioned on a previous slide, non-energy related improvements can comprise up to 30% of a claim-eligible financing amount.

Slide 32 – Projects Will be Subject to Post-Installation Verification Checks 29:49

On the back end, we're going to be subjecting projects to post-installation verifications and checks. A portion of the project will get documentation checks where we will be checking that the project is a utility customer. We will be checking any claimed rebates. We want to make sure that the fuel source matches. We are going to be looking at the cost breakdown between energy and non-energy measures and checking the invoice. A subset of those that are getting the check we're going to be having on-site verification, where we check the equipment type and quantity, as well as verify installation. Now, we've got time for a little bit more Q&A. I want to go back to the previous questions here.

Slide 28 – Pathway 1: Measures on "ESM List" are Pre-Qualified 30:36

We'd like to hear from folks. Do you all think that our energy saving measures list will be useful as it is currently proposed in its current form and are we missing any important measures on the draft lists? There are specs for some of the measures on the list and we want to know if those specs are reasonable requirements? Is anyone raising their hand?

Miriam Joffe-Block: We've got a lot of questions coming in that we are trying to answer, but I don't see any hands raised. Would anybody like to comment on the questions Jonathan has posed so far?

Miriam Joffe-Block: I think we saw one comment on the ESM List about the need for a heat pump so we will take that feedback. We're interested in any detailed feedback you have on the ESM List. We do have a comment in the room, if you could introduce yourself, so folks know.

Matt Singer: Matt Singer from DLL. I just wanted to point out in cooling instead of the air in ground source heat pumps. A heat pump air source heat pump is… what they wanted.

Miriam Joffe-Block: The comment is that an air source heat pump would be the electric heat pump over space heating.

Matt Singer: Yes.

Jonathan Verhoef: On the question on solar I just wanted to say as I mentioned earlier, solar is included in the non-credit enhanced amounts. The project size can be up to $2.5 million. The first $1 million is eligible for the credit enhancement and solar is not going to be included in that credit enhancement; that potential $1 million.

Miriam Joffe-Block: Right. So, we could have a joint energy efficiency and solar project. We will not pay a credit enhancement on the solar piece because that's prevented in the CPUC's original guidance. There are already other incentives for distributed generation. We have another question in the room, if you could introduce yourself again?

Matt Singer: Matt Singer, DLL. The lighting portion, is there any specific reason for some you're requiring DLC and then, for some you are requiring EnergyStar?

Miriam Joffe-Block: Dan, do you want to take that one?

Dan Mellinger: Sure. The qualifications for the lighting measures should be in line with the categories that each program promotes there. Typically, the categories do not overlap, so an energy star category won't be found on DLC and vice versa. So, the reason for the difference is purely alignment with the program categories that each one covers.

Miriam Joffe-Block: That was Dan Mellinger from Energy Futures Group, Technical Consultant for CAEATFA on the Commercial Pilot Development.

Jonathan Verhoef: Thank you all for your great questions. We're going to keep moving, but if you don't get a chance at the Q&A session at the end, we will definitely record everyone's questions and follow-up with you after the presentation.

Slide 20 – Program Permits Projects up to $2.5 Million; Offers a Credit enhancement on the First $1 Million **33:50**

Miriam Joffe-Block: Jonathan, I'm going to return to this slide for a second to just clarify a few things. We understand that this looks confusing, even though, we're saying that we've actually simplified the Program, so I get the confusion. What we're trying to illustrate here is that we want the financing to be available for a large variety of projects, so we're going to make our financing available for any project up to $2½ million dollars. That's a per project cap. There's been some questions as to whether it's a per customer cap or a per project cap. We don't actually know how we would enforce a per customer cap because we're not getting the customer's identity before the finance company offers the financing. In fact, CAEATFA will not even necessarily know the customer's identity until after the project has already been submitted to us for enrollment. CAEATFA is very behind the scenes here and the deals are worked out between contractors and finance companies and we are just creating this hub to bring them together and we're using a credit enhancement to try to make the financing more attractive. That's all we're doing. We're trying to minimize the amount of vetting of project that we have to do up front, so we can just enable the market to work. We are putting in some guiderails. So, if it is a $2.5 per project cap, a million of it is credit enhance*able* or credit enhanc*ed*. It can include solar. That will not get a credit enhancement. 70% of what's claim-eligible needs to be an Energy Saving Measures. If the project has no Energy Saving Measures and it's entirely solar, it's not really a project for our Program because we are an energy efficient program. 30% of that claim-eligible amount could be something else. As an example project, we could have a $200,000 project; $70,000 of it is lighting and HVAC; $30,000 of that project is painting and bathroom remodeling for a restaurant. That whole $100,000 is claim-eligible and we will pay a $10,000 Loan Loss Reserve contribution on that project. The other $100,000 is solar PV. That's not going to get a credit enhancement from the Program, but that can be part of the project. We want to hear from finance companies how they would handle that sort of blended credit enhancement or non-credit enhancement piece, but we understand that customers often want to do one project and not have two separate loans or transactions if they want to include distributed generation and that's what we're trying to enable. We may or may not have gotten it right, so we look forward to your feedback. I'm going to talk about the credit enhancement a little bit now.

Slide 34 – Credit Enhancement is Structured as a Loan Loss Reserve 36:33
No Cost to Finance Company or Customer

The credit enhancement is going to be set-up as a Loan Loss Reserve. We have a current budget of $14 million for that Small Business Loan Loss Reserve, but we are able to shift more funds into that if there is more demand. We are over funded in our residential program right now, so if you build it, we will shift funds. We will open trustee accounts for participating finance entities at a Trustee Bank. Every time an entity enrolls a loan with us, or a lease or an ESA, we will make a contribution to that entity, that finance company's Loan Loss Reserve account. What we are proposing to do, which is new, is that we are proposing to offer sub-accounts to finance companies, who want to be able to sell different parts of their portfolio to different investors. If there's an investor who buys everything that five years or more, or there is an investor who buys everything up to non-profits, or everything that is lighting, we want you to be able to segregate those pools.

Slide 35 – Finance Companies are Incentivized to Finance Smaller Projects through a Higher LLR Contribution Rate **37:42**

Talking about the tiers here, we are proposing to pay higher Loss Reserve contribution on loans, leases, and Energy Service Agreements under $50,000. The reason we are proposing to do that is that we know that small projects are very hard to finance because the companies are smaller, they're higher risks and then, you have to take as much time on those small transactions sometimes as the large ones. We are trying to incentivize finance companies to make their financing available in this very small ticket sphere. We believe there's a lot of demand out there from what we see with the OBF Program and also, from the Small Business Statewide study that was done by the EM&V team for this Pilot. I'm going to come back to these questions. There will be a 10% Loss Reserve on the mid-tier and on Tier 3, it would be a 5% contribution.

Slide 36 – Finance Company May Recoup 90% of Claim-eligible Charge-off Amount **38:35**

In the event of a default, the finance company would be able to recoup 90% of the claim-eligible charge-off amount. We want the finance companies to have skin in the game both on an individual deal and on a portfolio basis. We would make these payments "net of any recovery" that the finance company makes. In the Appendix of your deck there is a very detailed example of a claim calculation if folks want to see that with more detail.

Slide 37 – CAEATFA Will Rebalance the Loan Loss Reserve Accounts Annually, to Recapture Funds for Continued Program Use **39:09**

CAEATFA is required to do some recapturing of funds as loan pay off, so that we can recycle and reuse these funds for future projects. What we will do is at the end of the fiscal year, we will take a look back at the previous fiscal year and for loans that have leases and ESAs. Whenever I say, "loan," I just mean financing instrument. For loans that have paid off, we will recoup our original contribution amount. If a claim has been made during that fiscal year, we will net out that claim amount before we recoup, because the point here is portfolio insurance, so you have to be able to use the contributions from the performing loans to offset the risk of the non-performing loans. If the claim amount is larger than the recapture amount, we won't do any recapture that year.

Slide 35 – Finance Companies are Incentivized to Finance Smaller Projects through a Higher LLR Contribution Rate **39:59**

I'm going to come back to these questions. These are for finance companies, either now, or in written comments, or in a phone call with us later. We want to know whether the 20% contribution rate will really help you finance smaller projects?

Matt Singer: I have a question. Matt Singer, DLL again. I'm confused. You're saying that with the Loan Loss Reserve, we could recoup up to 90% of the total amount? So, what are these different contributions rates, percentages be?

Miriam Joffe-Block: Great question. The question is differentiating the recoup amount in the claim versus the contribution rate. So, for every loan that is made, for every $50,000 loan that is made, we are going to contribute $10,000 to a trustee account for DLL.

Matt Singer: Okay.

Miriam Joffe-Block: If DLL makes, you know, 10 of those, that will be $100,000. The account will build as you enroll more loans in the Program. Now, let's say one of your $50,000 loans defaults. You can recoup, let's say it defaults the first day and you never even get a payment on it.

Matt Singer: Mm hmm.

Miriam Joffe-Block: And so, 90% of that would be $45,000. Is that right?

Matt Singer: Mm hmm.

Miriam Joffe-Block: $45,000. Then, $45,000 would be what you could recoup. We would ask you to take the $5,000 loss, so we split the losses with you 90/10. So, that the finance companies have some stake in every deal and then, we would pay out of your Loss Reserve Account $45,000.

Deana Carrillo: You're building your own insurance pool.

Matt Singer: Mm hmm.

Deana Carrillo: One is the percentage we put in and one is what you are allowed to draw out.

Miriam Joffe-Block: Another question is, are there other categories of underserved businesses for which loans, leases, and ESAs should receive a higher rate? For example, businesses at a disadvantaged census track, should we contribute 20% to those loans, and would that actually help finance companies serve those customers? We're very interested in your responses to that and whether or not the 10% versus 5% Loss Reserve makes a difference. There is a hand raised from Bob Gunn. Bob, I'm going to unmute you. I'm going to unmute your line. I'm going to try.

Bob Gunn: Hi. Hi, there. Can you hear me? This is Bob.

Miriam Joffe-Block: Hi, Bob.

Bob Gunn: Hi, I have a two-part question. One, depending on who the bank is, the Trustee Bank accounts that we're going to work with, would cannabis businesses be allowed to participate in these energy efficiency funding opportunities? And second, follow-up question is, might we consider them an underserved business considering their lack of other commercial credit availability?

Miriam Joffe-Block: Because we're not using federal funds, we don't at this moment see any prohibition on various industries from qualifying. If the finance company is comfortable with the loan, we don't see any problem with the borrower being a cannabis business or a liquor store or a pawnshop or what sometimes those sin industries are excluded from other financing like FDA. So, we would be okay with that. As far as I know, we have not received any comments to the contrary, but we are open for comment. In terms of whether we would consider them underserved, that's a very interesting question and I encourage you to make an argument to us as to why they should be considered underserved.

Bob Gunn: Perfect, thank you.

Miriam Joffe-Block: And you can send me an email with your arguments.

Bob Gunn: Perfect. I will. Thank you so much.

Miriam Joffe-Block: Do we have other comments on the credit enhancement? Yes, in the room, if you can you introduce yourself?

Robert Ridgley: Hi, Robert Ridgley with the Energy Commission. I notice that you have demand response as one of the programs that you're proposing to finance. It seems like it might be an apparently more risky program than other types of measures of programs. What sort of demand response programs are you considering?

Miriam Joffe-Block: The question is we have demand response as a measure that we would consider eligible? We would consider demand response measure eligible for the Program and that there is more risk? I am assuming that you mean more risk from a savings potential or more risk for the financial company?

Robert Ridgley: Maybe both, yeah.

Miriam Joffe-Block: I think in terms of the risk to the finance company as to whether savings would be there, I think that really depends on how the deal is structured and if it's structured as a service agreement where payments are based on savings versus a loan or a lease. We would allow the finance company to make and take that risk. In terms of what measures we would consider eligible for the Program, I think there are two ways that a demand response measure would qualify. One would be if the professional consultants through their pathway was able to certify, if an engineer or a certified Energy Manager was able to say in this context this demand response measure will save energy, or if it were part of a utility or third-party implemented program, then we would consider it to be qualified.

Robert Ridgley: Okay.

Miriam Joffe-Block: You know, if the utilities blessed it or their program implementer's got it passed, then we would want to be financing for it.

Robert Ridgley: I see.

Miriam Joffe-Block: It is more complicated than just a measure that we can put on a EEEMs list, absolutely.

Sasha Cole: So, I guess, one of the...

Miriam Joffe-Block: Can you introduce yourself, please?

Sasha Cole: Oh, yeah, I'm Sasha Cole, I'm Office of Ratepayer Advocates for the Public Utilities Commission. And sometimes I don't get to see how these things work out on the business side, so I kind of have a question. Because you keep talking about the kind of size of the Loan Loss Reserve and I guess that translates for these people into lower interest rates that...

Miriam Joffe-Block: So, that...

Sasha Cole: That translates to the lower financing cost per project. And I'm trying to figure out if anyone, just very quickly, if you can hear this and know sort of what the size of that is?

Miriam Joffe-Block: I think the question is how does the Loss Reserve actually translate into benefits to the end user or to the borrower?

Sasha Cole: And then, to more projects.

Miriam Joffe-Block: And then, more projects.

Sasha Cole: You know that aren't just the government.

Miriam Joffe-Block: Right.

Sasha Cole: It's more projects with less risk to ratepayers and getting more for the money.

Miriam Joffe-Block: I will say that in the REEL Program, on the Residential Program, we have seen the loss reserve contribute to four types of benefits for borrowers. Those have been lower rates, longer terms, which means that folks can stretch their payments out and make those payment affordable, higher amounts available to borrow and broader underwriting criteria. Better rates if your FICO score is lower or even getting a loan if your FICO score is lower. We're interested to see in the commercial financing world, what the Loss Reserve will enable finance companies to do. I think for some, it will be able to affect their rate, for others based on their source of capital, it will not. We've heard things like lower reserves required of contractors, who sometimes have to put up a reserve as well in order to borrow. We've heard enabling companies that might not have the full-length of their lease left that, if let's say their lease is only 5 years, but the equipment they want to pay has a 10-year life cycle, then the finance company might be able to accept a shorter lease. I will pause for a moment to see if there are any finance companies who want to talk about what types, not a commitment of any sort, but just how a Loss Reserve can help make financing more attractive? This question, I'll just note is from the Office of Ratepayer Advocates, who oversee the funds for the Program inside the CPUC.

Sasha Cole: We don't oversee it, but we are kind of the watchdogs, yeah.

Miriam Joffe-Block: The watchdogs. That's a good... Any raised hands?

Jonathan Verhoef: We have a hand raised.

Miriam Joffe-Block: Do you want to unmute him?

Jonathan Verhoef: Hi, I unmuted you, would you like to comment?

Miriam Joffe-Block: I'm going to unmute Dennis Quinn from Joule Assets.

Dennis Quinn: Right. Yeah, thank you. I appreciate it. So, we kind of operate NAESCOs and operate using a variety of capital sources. The comment I would have more translates to being able to get more customers and more meetings with small businesses involved with programs such as this. Where we, under pay for performance, so our sense is a pay for performance approach is actually, going to be a fit to the ratepayers and the fact that you're actually -- the ratepayers are actually going to be paying for what they receive and getting access to capital through a program such as this will be important in being able to incorporate more customers into that program. It's still a little bit uncertain the extent pay for performance might mix with an OBF with a zero, existing zero interest or what the cost of that might be. In this particular case, this allows for a cost competitive, and I'm not going to speak to the rate differential that a lender might, or a capital provider might make, but it certainly provides access to capital. So, that pay for performance approaches can (Indiscernible) and programs can actually roll out into the upcoming solicitations. (Indiscernible) input, thanks. I appreciate it Miriam.

Miriam Joffe-Block: Thank you. I'm going to move on to talk a little bit about finance companies. We'll come back to have more discussion at the end and I really appreciate the discussion everyone.

Slide 39 – Finance Companies Perform Multiple Functions in the Small Business Program **50:23**

What I want to talk about now is the important role that the finance company performs in our Small Business Program and I've broken this role into about eight different mini roles, just so we can get an appreciation of the complexity of the value chain in commercial financing. First, there's the market representation. This is the name that we're going to put out there that is associated with our Program that customers will see that they should go apply for financing from this company. This entity will be associated with the state program. Then, there's the entity that actually does the underwriting and needs to follow our program guidelines. Then, there's the entity that originates, and when we say originates here, we mean execute the legal contracts and the loan documents. Then, there's the entity that actually does the disbursement of funds to the contractor.

Slide 40 – Finance Companies Perform Multiple Functions in the Small Business Program (continued) **51:17**

Then, there's the entity that does what we call loan submittal. This entity is providing us data on the loan, lease or ESA so we can enroll it in the program and fund that loss reserve. CAEATFA doesn't actually get any loan or lease documents. We just get some data related to it that the lender provides us. Then, there's a servicing entity, which is going to send out billing and do the receive payment. There's the entity that needs to do monthly reporting, which is supplying CAEATFA with regular information about loan performance. There's a lot of interest in this Program around how energy efficiency loans perform. One of our goals and directives from the Public Utilities Commission is to make public anonymously information about how energy efficiency loans are doing, so there is a monthly reporting function. Then there's what we call the Loan Loss Reserve Account Representative, which is the entity that would have the name on the trustee accounts and be responsible for filing a claim and be allowed to file a claim in the event of a default.

Slide 41 – Program should Accommodate a Wide Variety of Commercial Financing Models 52:22

Now, in some cases like a commercial bank, the bank might do all eight of those functions that I just mentioned. But what we have seen in the energy efficiency financing world is that often there will be an entity that has some capital that will then, hire somebody else to originate sort of the and may or may not fund. They may purchase the loans back later. There are many, many different models. What we want to be able to do, and this is kind of new in our Program design from what you've seen before, we want to enable a wide variety of models to participate in our Program.

Slide 42 – To Accommodate Various Models, CAEATFA is Proposing a Flexible Participation Strategy for Finance Companies 52:59

What we're proposing is kind of a flexible participation strategy for finance companies where two entities would be able to join together and apply as a primary and affiliate-applicants, if they wanted. The primary applicant would be the one that does the loan submittal to us, but then, the applicants would tell us okay, who's going to do the origination, who's going to service, who's going to report. It could all be the same entity, but there is the flexibility to have it be flipped. Then, a third-party could be designated to be the Marketing Representative because we know some of the entities who are interested in participating with us, do white label products and don't want their own name on it, but want to put the name of whoever they're originating for on it.

Slide 43 – Regardless of Structure, Applicants Must Meet Key Requirements 53:48

All of our applicants are going to need to meet some key requirements like telling us okay, here's the product that we are going to offer- a set of products- and here is the benefit that borrowers can expect based on that Loan Loss Reserve contribution and everyone will need to be properly licensed to engage in the particular business activities that they're doing.

Slide 44 – Non-Financial Institutions Can Participate with Additional Requirements 54:10

We are defining a financial institution for purposes of the Program as a federally insured depository, a CDFI or a Financial Development Corporation. Entities that are less regulated or not regulated will need to meet some additional requirements to participate. What we want to make sure is that the entities that are underwriting, originating, and servicing have a certain amount of net worth, so that we know they are going to be around in the Program in the 4th, 5th, 6th, 10th year and also have the demonstration of key personnel and the qualifications to perform those tasks. We are proposing a requirement for originators of demonstrating at least $10 million in committed capital, whether that's a bank line of credit or a letter from another investor. We're interested to know whether that is a reasonable requirement.

Slide 45 – Seeking Feedback on Finance Company Requirements: 55:04

Some questions for which we are seeking feedback on this topic are: What level of information can finance companies provide to CAEATFA on their underwriting, so that we can make sure that we have sound underwriting? But we also understand that there's proprietary things out there. For the originator role, what other than the committed capital, what other demonstrations of experience and confidence should CAEATFA require? Should we ask for a certain number of loans closed, or an amount of financing closed to date, or years in business? For the servicer role, how can we ensure that Applicants are going to give high customer service? Is it reasonable for CAEATFA to require that Applicants disclose the funder's of their financing if they're not their own source of capital? What other demonstrations of confidence should we look for? Is there anyone who wants to speak to that right now? If so, please raise your hand and I will unmute you. Okay, then, I'm going to go on and talk a little bit about the financial products.

Slide 47 – Program supports a variety of financing instruments 56:09

As I mentioned, loans, leases, and Energy Service Agreements, we want to be able to support all three in our Program. Loans are really straightforward, except that these need to be fully amortizing loans, not lines of credit or open-ended lines. The real difference in our definition here is between a lease and an Energy Service Agreement. We are really defining a lease as something that has fixed payments regardless of what happens with the energy usage, whereas the Energy Service Agreement is going to relate payments based on savings. What we're proposing is to define an Energy Service Agreement as an instrument where payments are based at least 75% of that monthly payment is based on energy savings. We're trying to distinguish between a product where everyone is incentivized to save energy, which is what happens in the structure of the service agreement versus the lease where the payment happens regardless of whether savings are there. Now, we are very interested to hear your feedback on this. We understand there are many, many different models of ESAs out there and we're looking to make sure that our definition incorporates what's out there in the market, but we also really do want to draw a line between a fixed required monthly payment and one that is actually, tied to savings realized because we think there is a structural difference.

Slide 48 – Product Requirements 57:34

In terms of the product requirements, we're trying to be pretty broad here. We are not proposing to cap interest rates in the Small Business Programs. We do cap them on the residential side from a consumer protection standpoint, so we understand that small businesses have all sorts of different credit risks and we want to encourage participation from finance companies who are serving some of the borrowers who can't get credit elsewhere because they might be high credit risks. What we are asking for is disclosure of either lease principle and interest, and fees, or an APR. We're interested to know what the lease companies think of that. We know that lease companies typically don't do that type of disclosure, but we're looking for something that can meet your needs, but also, is very transparent to a borrower who's participating in a government-backed program. Please help us with some suggestions there. No restriction on term lease. We will maintain that credit enhancement for 10-years, so a loan will remain claim-eligible for 10-years from when it's enrolled.

Slide 49 – Product Requirements, Continued 58:44

Generally, we don't want to do refinances because we want new projects. We don't want to just refinance something that would have happened without this Program, but we are going to make an exception if the loan is enrolled within 90 days of project completion. And that's to enable down payment loan or some sort of progress payment or bridge financing. Fees have to be reasonable and in line with industry standards. We're not requiring progress payments to contractors. We know that they really appreciate it. In terms of collateral, we are not requiring any collateral on claim-eligible, that Tier 1, under $50,000. For claim-eligible amounts over $50,000, we do think that the finance company should take a security interest, so that the ratepayer dollars are back up and are not the first on the line, but we're interested in your thoughts on that. We don't want the security to be real property with the exception of a UCC-1 fixture filing.

Slide 50 – Seeking Feedback on Product Requirements 59:48

Some questions that we're interested in on the finance side are: What collateral requirements should there be for financing greater than $50,000? Is it enough for CAEATFA to require a security interest or should the regulations be more specific? On the Energy Service Agreement, does our proposed definition work for the industry? And is the requirement that 75% of the monthly payment be based on savings, is that appropriate to distinguish an ESA from a lease? And if not, what is? And then, the question about lease disclosure of APR. Is there anyone who wishes to respond to our questions? Adler, I'm going to unmute your line. You can introduce yourself, please.

Adler Prioly: Can you hear me?

Jonathan Verhoef: Yes.

Miriam Joffe-Block: Yes, we can.

Adler Prioly: I actually had raised my hand with regard to the previous slide where you asked for some feedback.

Miriam Joffe-Block: Oh, no problem. Can you introduce yourself?

Adler Prioly: I'm sorry?

Miriam Joffe-Block: Can you introduce your name and organization?

Adler Prioly: My name is Adler Prioly. I'm the Director of Clean Energy at Reinvestment Fund. We are a large community developed finance institution that has been providing lending for clean energy projects since 1993, then talking with Jonathan and Miriam, we like what you're doing and so pleased to be here. But my suggestion on the previous slide, I think you were asking about what particular level of information can finance companies provide? I think it could be helpful, just for their understanding of background if some of these firms asked them to disclose kind of what's the number of loans they've made in the loan volume, just to understand the ratio of activity to their overall production. I think a shop that does $500,000 in loans may seem small, but having done a number of consumer loans in the amount of $1,000 or $5,000, the activity relative to their volume is actually, substantive. That's just a suggestion on maybe disclosure for understanding qualifications and then, second, I think disclosing whether entities are rated or have some other kind of recognized systematic institution designation, could be helpful.

Miriam Joffe-Block: Sorry, can you repeat that second one?

Adler Prioly: Yeah, asking the entities to understand capacity. Asking them provide disclosures about whether they have specifically recognized designations. For example, Reinvestment Fund where I work, we're actually rated by S&P and (Indiscernible) non-profits. I imagine that, that is not necessarily a criteria you want to require of all of your financial partners, but as a disclosure, is helpful for assessing capacity.

Miriam Joffe-Block: Yes, thank you. Those are both excellent suggestions to consider and not just the total dollar amount closed, but the actual ongoing activity as well as other designations that can be sort of a proxy for a hard vetting of the Financial Institution. Thank you.

Adler Prioly: I just have one last comment about underwriting. I think asking about loan-to-value requirements and I imagine there might be some questions around balance sheet requirements. Various ratios, which may be debt to assets. I don't necessarily know that you want to require that, but asking firms to disclose kind of how they think about those ratios when they're underwriting and whether they have specific hard lines with respect to what those should be. Thank you.

Miriam Joffe-Block: Thank you for the comment. Actually, we're going to move on to customer eligibility and talk about some of that underwriting now. Before I do that, I do want to address a comment that called in that said, is there a prepayment penalty or did Jonathan address this in writing? But is there a prepayment penalty and can you confirm that progress payments are provided to the contractors? So, both of those determinations, prepayment penalties for borrowers and progress payments to contractors would be the decision of the finance company. What we're hoping to do is attract a bunch of different finance companies that offer different products that serve different market sizes that can work for different kind of contractors and borrowers, so that there would be sort of a variety and a pick. What we've seen on the residential side is that the finance companies have not, so far, had any prepayment penalties and the borrowers love it. In terms of the progress payments, that would again be up to the finance company who would probably want to look at the particular contractor and underwrite them. What we are trying to do is enable something like a progress payment by allowing that refinance, so that some funds could be advanced and then, taken out when the loan is actually closed.

Slide 52 – Eligible customers include small businesses and non-profits, 1:05:10

those that own their buildings and those that rent

In terms of the customers, who are these customers who are going to come and save energy through this Program? The Program is targeting small, in terms of SBA size, non-profit or small businesses. Government entities are not eligible for this program. They will be eligible for our nonresidential program, which will roll out subsequently. Affordable Multi-Family Buildings will also have their own pilot and there are some details about those in your Appendix. We want to be open to owners or tenants. We are proposing some universal credit standards here, no bankruptcies, judgements, or liens within the last five years. We want to know what you think about that, if there are, especially, CDFIs that might work with companies that have had bankruptcies. We don't want to interfere with that.

Slide 53 – Customer Credit Requirements are Designed to Fit Within Finance Companies' Existing Underwriting Processes 1:06:10

Now, in terms of specific credit standards, we're really trying to strike a balance here of allowing finance companies to follow their own underwriting standards, with the need to have some guiderails in place to protect the ratepayer's funds. We want to keep this simple, but yet, have guiderails that folks can follow. Again, we're interested in your feedback as to how we did. For the small tiers, for the $50,000 and under, we're only requiring two things. One, is that they've been in business for at least a year and the other is that the underwriter must conduct a credit check using some sort of standard industry scoring system. We're not even requiring what that credit minimum is. We're just saying, you, as the lender, or lease provider, need to look at what their credit history is and that's because the amount of ratepayer dollars per loan is pretty small. On the Tier 2, from $50,000 to $350,000, we're asking for that credit check. We're asking for one other thing; we're asking for either a check for positive operating profit, which we will take (EBIT), EBITDA or positive taxable income. We know that some companies don't look at income statements per loan for financing amounts under $250,000 or $350,000. Then, we're saying okay, we at least want to know that the customer is in business for 5 years or that they have provided a personal guarantee. That is kind of a pick from that menu there. Then, Tier 3, we're asking for the credit check. We are asking for the positive operating profit because we think for over $350,000 everyone's looking at an income statement, so we don't think that's a burden. We're looking for either one of the Debt-Service Coverage Ratio is greater than 1.15, so you've done some sort of balance sheet check for cash flow analysis, or that you're doing an ESA and the project is projected to be cash flow positive, so that we think that the customer will be able to repay.

Slide 54 – Seeking Feedback on Financing Customer Requirements 1:08:22

So, questions for the finance companies on this one. The first is, how familiar are you with the SBA industry size requirements? We know that you know banks and small business lenders who use the SBA program are very familiar, but for this more specialty lenders working in the energy efficiency or clean energy states, is this easy for you to meet these requirements or is this a whole new learning curve? That's a question there. On the credit side, a question about our preclusion of bankruptcies, judgments, and liens; does that preclude lending that you want to allow? Should we actually require a specific minimum credit score from a standard agency or is it enough to require that you've done a check of some sort? Are the underwriting requirements flexible and streamlined enough to fit with your existing operation? Will they support lending to businesses and non-profits that might not access traditional credit? Are they strict enough for the ratepayer funds? I want to see who wants to comment on this. Please raise your hand. Adler, I'm going to unmute you again.

Adler Prioly: Just a few comments on the previous slide, so for the Debt-Service Coverage Ratio, I would actually, and just for context for everyone, we tend to work on much smaller opportunities that are often times, a little bit more challenged finding commercial financing. In Tier 3, Debt-Service Coverage Ratio for 1.15, I actually think, we've done things down to 1.1, and I'd actually propose some thinking about the Debt-Service Coverage Ratio of 1.1 or an average of 1.10. That's because for smaller ESA projects often times they have an escalator and it may start off on the low-end, but because the revenues are increasing, and inflation adjusted, the project economically actually strengthen over time. So, in underwriting that's something that we look at and it's something to think about.

Miriam Joffe-Block: And Adler, are you doing those for like a traditional loan or are you -- is that a traditional loan structure?

Adler Prioly: It is, so, we've done ESAs and we look at the Debt-Service Coverage Ratio. So, we've done that for sort of real estate as well as for energy lending at that sort of 1.1. Assuming that it's a small project and we can structure it appropriately and then, --

Miriam Joffe-Block: Okay, so, the ESA exemption here would work?

Adler Prioly: Yeah.

Slide 56 – Program Should Enable Sale and Transfer of Enrolled Financings **1:11:42**

Miriam Joffe-Block: Thank you. I'm going to move along to the secondary market and this is basically, that we want to make sure that our Program can enable the sale and transfer of enrolled financing. Our goal is to bring more capital into the energy efficiency space, so we want to make sure we are not designing the Program in a way that can prohibit those transactions. We are going to ask for, when loans or leases are sold, we do need to maintain some ongoing program responsibility. We need to still get reports, we need to know who's in charge of that Loan Loss Reserve account, and we need to make sure that the customer's still going to have good servicing. We are working out what that transfer responsibility from entities might look like, but we are also, as I mentioned earlier, proposing to open up to three sub-accounts for finance companies that want to group their enrolled loans, lease or ESAs by specific investor.

Slide 58 – Project and Financing Process 1:12:50

Jonathan Verhoef: Now, I'd like talk a little bit about program participation and how the various players get involved. In this slide, you can see there are four different swim lanes for the different participants and we are in session with a developer to build a web-based portal for entering loan and project info for contractors and finance companies to enter this info into our Program. This slide shows a project timeline. Starting with the customer choosing a lender and contractor who are participating in the Program and then, option for the finance company then to pre-approve credit and then, the contractor would enter into the portal and enter the scope of work on the project. If necessary, the professional consultant, the Energy Manager, or engineer would then certify estimated energy savings. At that stage CAEATFA have what we need to make an initial pre-approval for the project and then, estimate a Loan Loss Reserve amount. Then, the lender would receive notification of the project and at that point, if they haven't done the credit check already, they would do the credit check and approve the project and then, installation starts. The work is done. The contractor has certified completion and finalizes the project data and the customer signs off on the project that they're satisfied. At that point, the finance company will add loan data and submit the project data within 90 days and have an option to fund at that point. Then, CAEATFA will consider the loan enrolled and we will fund the Loan Loss Reserve.

Miriam Joffe-Block: Do you want to see if there are comments on that or questions on that?

Jonathan Verhoef: Did anyone have any questions or comments on this timeline slide? Oh, go ahead.

Robert Ridgley: Robert Ridgley, Energy Commission again. So, are there any final certifications or confirmation of energy savings?

Jonathan Verhoef: We have the back-end checks for our quality assurance and then, the Public Utilities Commission is going to be doing the EM&V on the back-end verifying energy savings for the Program.

Unidentified Speaker: Is that only for the ESA? I was confused between that and the loan and what is being required to measure the energy savings.

Miriam Joffe-Block: We've got two questions right now. One, is about verification of energy savings and the other is whether that verification of savings would be different for a loan versus an Energy Savings Agreement?

Jonathan Verhoef: Mm hmm.

Miriam Joffe-Block: In terms of what the actual savings from the Pilot will be, that will be determined in two ways. For projects that have a utility rebate or incentive, the utility will calculate the savings, like they do with all of their rebate and incentive programs. We're expecting to have a lot of non-rebated projects or finance only projects because we think that the pathways that we have laid out are actually going to be faster and easier for a contractor who would normally have to go through the utilities custom programs. We've heard that those programs take a very, very long time to get approval and what happens is that customers gets frustrated and they just want the savings. So, then, they install something that's less efficient because they don't want to wait for the incentive. What we're trying to do is enable custom projects to come through our professional certification path where a CEM or PE, certify that something is going to save energy. Then, the project could just be installed in our program with no incentive and again, that's that balance of less ratepayer money requiring less up-front stringency. Now, what will the end result of those savings be? The Commission right now, I believe, in the last few weeks they have issued a pre-solicitation draft for -- there will be a RFP going out for an evaluator who will evaluate the Pilot in addition to several other PUC programs. That evaluator will determine what are the savings that can be claimed by the utilities for these pilots. Then, we'll see. We'll see as our kind of broad approach results in a portfolio savings or not? I think one of the influences on us is that sometimes even the very, very strict requirement programs aren't yielding the savings that folks want to see and aren't achieving the kind of cost efficiency or meeting that total cost ratio that is desired, so we're proposing to be more streamlined and those energy checks will happen on the back-end.

Unidentified Speaker: So it's not borne by the customer?

Miriam Joffe-Block: Okay, so, the question is whether the energy check is borne by the customer? The calculation of energy savings for the pilots overall, will be borne by the Program or borne by the hiring of an evaluator to or from the Commission, I guess. I'm not sure exactly what budget lines to evaluate the Program.

Sasha Cole: We like to call it the ratepayers'. It comes out of your utility bill dollars.

Miriam Joffe-Block: Thank you Sasha. In terms of the Energy Service Agreement side, in terms of if a customer were to enter into an Energy Service Agreement with a contractor and a finance company, that would be the responsibility of the finance company and the contractor to say to the customer here are your projected savings. That's why our definition of that Energy Savings Agreement is so important. We don't want to define an Energy Savings Agreement as something where the contractor says the savings are going to be there and then, they're not. That's why we want a definition of an Energy Savings Agreement where the payments are actually tied to savings. Now, payments can be fixed monthly, but they need to be reconciled to actual savings. The customers pay for what they're really getting in terms of efficiency and not just what the contractor installed and left there. We're also open to the idea of savings guarantees. I think we want to get some feedback as to whether that would also help, and it could be an alternate definition of an Energy Savings Agreement as maybe just an instrument with a guarantee.

Jonathan Verhoef: We have a question from the room saying, when do contractors actually get paid in this Program? Progress payments, final payments, etc.? And that's between the lender and the contractor. We are the hub of energy efficiency financing so we are bringing different parties together, but our assumption with this Program is that there is going to be discussion outside of our Program between the customer and the contractor or the contractor and the lender and these agreements are going to be reached and we're just facilitating that through our Credit Enhancement Program.

Slide 60 – We Want Your Feedback and Input! 1:20:20

Miriam Joffe-Block: After you show how to give feedback, maybe we'll read some of these questions out loud.

Jonathan Verhoef: We would love to hear from you all. You all have given a bunch of great comments and questions. As I said, we will be following up on those after, if we don't get to them now, but the contact information for us here and the presentation, can all be found on our website at thecheef.com. We would definitely love to hear from you further discuss about our program approach. Did you have any particular questions that you wanted to get to?

Miriam Joffe-Block: If anybody wants to comment and has not, now's a great time to raise your hand. There was a comment from Jeff Guild about review of project cost for eligibility if not viable. I think this was a comment maybe about the breakdown between energy savings and non-energy. Jeff, if you want to speak, I invite you to raise your hand and I'll unmute you, if you want to talk to that a little bit more, but it seems like a good discussion. Another question is what if your small business client is about four months short of the 2-year business requirement, but the project will return an immediate $7,000 a month savings? I think the 2-year business requirement could be overridden if it's a Tier 2 project, if the customer provided a personal guarantee along with a credit check. If you don't think that's reasonable, and you think there should be like an ESA exemption on the Tier 2 project, then please submit that to us in a comment because we would be interested to hear your thoughts.

Jonathan Verhoef: I had one that I want to answer. This is a few related questions. One, of them is, what is the non-residential public agency pilot going to come out? So, this Pilot that we've outlined here is all off the utility bill. We are planning on doing an on-bill repayment pilot, as well and that is planned to begin in 2019. The on-bill repayment is going to be a requirement for the large nonresidential and government agency financing pilot.

Miriam Joffe-Block: We had a question here about how the program works. Do the finance entities and the contractors partner together? What we're expecting is that we basicially will create this hub with our platform; our GoGreen Financing platform and we will list all of the finance companies and their offerings and all the contractors and their offerings. Then, customers will either start by applying for credit, or more likely finding a contractor and then, the contractor will have several different finance companies to offer financing. We imagine that finance companies and contractors will sort of develop relationships and work together, which is what happens all the time right now outside of our hub, except that we will hopefully, through our credit enhancement and our Program, be able to offer better rates. We will help facilitate the deal flow, but the actual match making of contractor and finance company won't take place through our platform, it'll take place in the real world, through conversations and then, we'll ask both parties to just supply us some data so we can enroll the financing in the Program.

Jonathan Verhoef: We have a hand raised, Jeff Guild?

Miriam Joffe-Block: Oh, okay. Oh, yeah, I invited him to... do you want to unmute him?

Jonathan Verhoef: All right, Jeff, you're on the line.

Jeff Guild: Yeah, thanks. So, the example you gave for breaking down kind of the non (Indiscernible).

Miriam Joffe-Block: Sorry, Jeff.

Jeff Guild: Can you hear me okay?

Miriam Joffe-Block: Yeah, can you just introduce your background, what company you're from?

Jeff Guild: I'm Jeff Guild. I'm with Enovity. We develop projects, implement projects, and we also, implement programs. It's kind of hard to classify one single thing, but our target customers are typically, larger commercial institutional and public agencies, as well as private commercial real estate also, so kind of a wide variety. We do some lighting projects. We do a lot of mechanical projects. A lot of thing that involve retro-commissioning and controls upgrades so sometimes the lines get blurred between what is you know strictly energy efficiency and what is a general upgrade to a facility. So, your example, putting in new efficient equipment, but also, trying to paint the bathrooms and whatever else. That's kind of a clear-cut example. But, often times, we'll do a project and in order to affect energy savings through a controls measures, we need to upgrade the controls and then, people start to question well, what's the measure, where do the energy savings start? Whatever non-energy benefits the customer might be getting from the upgrade, it's in the eye of the beholder frequently. And that beholder isn't always benevolent, so how is that supposed to work in practice where there isn't a bright line between what is an energy efficiency measure and what's not?

Miriam Joffe-Block: Right. So, I think our attempt to deal with that is to say, that anything that's legally and practically required as part of the installation would count towards that 70% requirement of claim-eligible financed amount. If I understood your example correctly, and in order to put in the lighting that the customer wants to put in that's efficient, you also have to go ahead and update all of those controls. We would consider the controls, a practical measure and you would count those controls as an Energy Saving Measures.

Jeff Guild: Okay.

Miriam Joffe-Block: I think the key here is going to be how we define legal and practical in our regulations. In our next workshop, when we actually have that text or even beforehand, I invite you to weigh in because we understand that and the Commission has given us flexibility on that one. We know that you know when you start going into a building, you discover other things that you have to do. You find knob-and-tube wiring, or I don't know, you find things you have to take out or things that you have to add. If it's necessary for the installation, we would consider that part of that 70% cost

Jeff Guild: That sounds good and that's a little bit more broad. I think what we're used to dealing with is in the context of qualified project costs, when a customer is eligible for an incentive and that incentive is capped at the eligible project cost and it can turn into kind of a very nuance and varied interpretation of what is a qualified cost. What you described sounds good. I would just caution about it not being clear.

Miriam Joffe-Block: Okay, yeah. Thank you for that comment. I want to show one more time on the screen, we've got all the questions at the end on how to give us feedback. There will be a survey coming to you after this webinar that'll include our questions. You don't have to answer all of them, just the ones that are relevant to you or answer whatever you want. If we didn't ask something, but you want to tell us, we would love to hear from you and we hope you will join us again later this summer when we will hopefully have regulations to put in front of you. Thank you.

Jonathan Verhoef: Thanks everyone.