

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Tuesday, May 16, 2017

Request for Consideration and Approval to Extend and Increase an Existing Receivables Contract with the Southern California Gas Company, Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison Relating to CAEATFA’s Administration of Energy Efficiency Pilots Pursuant to CPUC Decision 13-09-044

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Issue. Staff requests the Board’s approval to extend and increase an existing receivables contract with investor-owned utilities (“IOUs”) – Southern California Gas Company, Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison – to enable the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA” or the “Authority”) to continue its administration of the California Hub for Energy Efficiency Financing (“CHEEF”) on behalf of the California Public Utilities Commission (“CPUC”). CAEATFA entered into the current contract, which is for a total of \$7 million and expires on June 30, 2017, in order to implement energy efficiency financing pilot programs as described in CPUC Decision 13-09-044 (the “Decision”),¹ and to serve as the master administrator of the pilots on behalf of the CPUC.

The current proposal increases the total, not-to-exceed amount of the contract to \$15.36 million and extends the term through fiscal year (“FY”) 2019-2020. Additionally, this allocation will fund CAEATFA staffing at levels which facilitate effective implementation of the CHEEF’s scope of work, including the establishment of permanent staff positions necessary for continuity in implementation and long-term administration through the term of enrolled loans (up to 15 years after enrollment in a pilot program). The additional \$8.36 million² includes the re-appropriation of \$1.82 million from the initial contract, and because the funds are reimbursed ratepayer funds from the IOUs, this increased budget does not affect the General Fund. If the proposed contract is not extended and increased, CAEATFA will not be able to administer the pilot programs, and will be out of compliance with the Decision.

The additional funds have been approved by the CPUC, and CAEATFA’s corresponding reimbursement and expenditure authority is in the process of being considered and approved under the 2017 Budget Act. Staff does not anticipate any complications in seeking legislative budget approval.

¹ As modified by subsequent Decisions and CPUC governance processes.

² Under CPUC Decision 17-03-026, CAEATFA received approval for an additional \$8 million in funding. In a separate CPUC governance process, Rulemaking 13-11-005 on November 22, 2016 (Joint Ruling of Assigned Commissioner and Administrative Law Judge on Financing Pilots and Associated Marketing, Education, and Outreach Activities) approved \$8.36 million in additional funding. CAEATFA is in the process of reconciling the different funding amounts to expedite the program development, implementation, and administrative processes.

The proposed contract amendment sets forth provisions including, but not limited to, the following:

1. Provisions governing the administrative costs of CAEATFA serving as the CHEEF administrator, including periodic funding from the IOUs to CAEATFA, funding limits, and reporting from CAEATFA to the IOUs on use of funds. The expanded funding limit of the contract is \$15.36 million through June 30, 2020.
2. Provisions governing the establishment and operation of trust accounts for credit enhancements, transfer of funds amongst these accounts, and the withdrawal of funds in the event a claim by a financial institution is approved.
3. Provisions outlining the warranties provided by CAEATFA and the IOUs.
4. Provisions governing the establishment of CHEEF operational agreements with third parties, including, but not limited to, contracts for a trustee bank, master servicer, data manager, and residential energy efficiency retrofit contractor manager.
5. Provisions governing the confidentiality and data protection of borrowers' financial and energy usage information in connection with loans or leases enrolled in any of the pilot programs.
6. Provisions governing the interactions of the IOUs with CAEATFA, including identifying Southern California Gas Company as the IOU administrator of this contract with CAEATFA on behalf of the IOUs.
7. Provisions outlining insurance requirements for the CHEEF.
8. Provisions outlining the limits of liability and force majeure.
9. Provisions governing the termination of the contract.

BACKGROUND. In September 2013, the CPUC approved the Decision, authorizing two-year pilot programs to be supported by up to \$66 million of IOU ratepayer funds serving four market segments: single-family, with one-third of funds reserved for low and moderate income households; multi-family, affordable housing with master meters; small businesses; and On-Bill Repayment (“OBR”) of financing by non-residential energy users. The terms of the pilots were later extended in subsequent CPUC proceedings to two-years of activity per pilot to be launched in sequence.

CAEATFA is working with the CPUC, IOUs, Center for Sustainable Energy,³ and financial institutions and energy efficiency retrofit contractors throughout California to develop a series of pilot programs that allow consumers to finance energy efficiency retrofits. The pilot programs enable consumers to undertake deeper and broader energy efficiency retrofits than previously achieved through traditional programs (e.g., rebate and incentive programs) and will assist in removing the upfront cost barrier of financing for consumers to promote California's broader energy efficiency and environmental policy goals.

The pilots offer various forms of credit enhancements (“CEs”) to provide additional security to participating financial institutions (“PFIs”), thereby attracting more private capital to energy

³ The Center for Sustainable Energy is a vendor independently selected by the CPUC to carry out the statewide financing Marketing, Education, and Outreach plan.

efficiency financing and expanding consumer access to enhanced loan terms. The pilots will also include an OBR mechanism, which will test whether payment on the utility bill increases debt service performance across market sectors. Both CEs and OBR are implemented across multiple sectors, as further described in the Pilot Program descriptions below.

Residential

The residential pilots implement CEs and limited OBR features for single-family and multi-family residences.

Residential Energy Efficiency Loan (“REEL”) Assistance Program. Formerly known as the Single Family Loan Program, the REEL Assistance Program offers a loan loss reserve to PFIs for financings of residential energy efficiency upgrades. Because the loan loss reserve helps mitigate a PFI’s risk, lenders offer enhanced loan terms, such as lower interest rates or extended terms. One-third of the available CEs are available for loans made to low-to-moderate income borrowers. In addition, this program allows alternative underwriting criteria, such as utility bill payment history, to be considered to further expand access to financing. The REEL Assistance Program incorporates a sub-pilot, the Energy Financing Line-Item Charge (“EFLIC”), to be conducted in the PG&E service area only. EFLIC is designed to evaluate the attractiveness of OBR to customers in the residential sector, and to identify the impact of OBR on residential loan performance.

Program Status: As of May 1, 2017, four lenders are actively enrolling loans, and 112 contractors have enrolled in the REEL program. The program is in an early phase of uptake; 13 loans have been enrolled to date. REEL lenders are providing expanded access to capital, and providing better loan terms, such as longer tenors and lower interest rates.

Master-metered Multifamily Program (“MMMFP”). The MMMFP will target the low-to-moderate income sector (deed restriction that requires affordable rent pricing with at least 50% of units occupied by income-qualifying households). The program includes a credit enhancement as well. Similarly to the REEL Assistance Program, borrowers participating in this program will not be subject to utility disconnection as a result of non-payment of the OBR charge on their utility bill.

Program Status: Under Development

Non-residential

The non-residential pilots will implement OBR for the commercial sector. Unlike the residential programs, customers participating in the non-residential programs will be subject to utility disconnection as a result of non-payment of the OBR charge on their utility bill. For these programs, the loan obligation may remain and transfer with the utility meter upon consent from future property owners and customers.

Non-residential OBR (without credit enhancement). This program will target medium and large businesses, and public buildings. The program serves as an opportunity to evaluate the effects of OBR as a single feature since no CEs will be offered through this program.

Program Status: Under Development

Small business with credit enhancement. This program will offer on- and off-bill repayment of loans drawn for energy efficiency improvements to small businesses. The program will also include a CE (likely in the form of a loan loss reserve), and will support other types of financings that have proven to be effective within the energy efficiency industry, such as equipment leases and energy service agreements.

Program Status: Under Development

Funding Authorization and Resources for Future Program Activity. As of July 1, 2015, CAEATFA received extended legislative budget authority to carry out the services of the CHEEF within the initial \$7 million budget through June 30, 2017 (FY 2016-17). Over the spring and summer of 2016, CAEATFA staff re-evaluated its resources and pilot timetable to better identify the necessary resources needed to complete pilot implementation. To continue to carry out the CHEEF functions without an interruption in services, CAEATFA:

- requested approval of an additional \$8.36 million in administrative funds and additional staff resources through fiscal year 2019-2020 from the CPUC; and
- concurrently, worked in coordination with CPUC staff to request legislative approval of a 2017 budget request to provide CAEATFA with the corresponding reimbursement and expenditure authority beyond June 30, 2017.

The CPUC approved CAEATFA’s funding request and released \$8.36 million of CHEEF reserve funds to implement the pilots through FY 2019-2020. As noted above, CAEATFA is currently seeking legislative approval to implement this new budget. The additional funding will cover:

- administrative costs, including contracts for loan servicing, trustee services, technical consulting, and other functions that state employees cannot perform; and
- right-sizing the number and level of CAEATFA staff to more effectively implement the scope of work of the CHEEF, including the establishment of permanent staff positions necessary for continuity in implementation and long-term administration through the term of enrolled loans (up to 15 years after enrollment in a pilot program).

This additional funding allocation will be used to continue to develop, implement, and manage the CHEEF as the pilots are currently designed, through the anticipated timetables for their implementation. When these projections were initially developed in 2016, CAEATFA anticipated that the combined two-year implementation periods of the pilots, as they launch sequentially, would run through fiscal year FY 2019-2020. CAEATFA’s budget request, and the corresponding timetable, were based on estimates as of August 2016, and were developed relying on certain reasonable assumptions about costs and program activity.⁴ Since these initial estimates in 2016,

⁴ Costs may vary based on: pilot activity; as contracts are re-bid every three years at a minimum; staff vacancies; modifications to the OBR structure; or due to increased efficiencies over time.

CAEATFA has continued to work with the CPUC to implement additional program modifications and increased flexibility as described in the following section.

The tables in Attachment A were developed in consultation with the CPUC and provided to the public through workshops. The tables show CAEATFA's historic and anticipated expenditures to implement the CHEEF Pilots, as well as CAEATFA staff's anticipated implementation timetable from August 2016.

Recent Modifications to the Pilots. Throughout this process, CAEATFA has been working with the CPUC on identifying lessons learned and providing recommendations on program modifications that would increase its effectiveness and attractiveness for private market stakeholders anticipated to participate.

After considering stakeholders comments, the CPUC issued a proposed decision modifying and simplifying the pilots in early 2017, which was provided to the public for additional comment and response. On March 29, 2017, the CPUC released Decision 17-03-026, which provided the following directions:

- the CPUC committed to continued funding for CAEATFA to administer the pilots, including administration of the loss reserve after pilot implementation (loans are enrolled and supported for up to 15 years).
- required all financing pilots to be launched by no later than December 31, 2019;
- removed various program constraints and provided CAEATFA with more explicit authority and flexibility in designing and implementing the pilots; and
- provided guidance on the process of identifying metrics for the pilots and timing of the CPUC evaluation, measurement and verification process.

Given this new flexibility, and increase in staffing resources (pending approval of CAEATFA's budget request) staff has spent the last month reviewing its priorities and considering appropriate modifications to the REEL program to increase its effectiveness prior to moving forward in developing the remaining pilots. CAEATFA staff is excited and optimistic about the recent modifications to the pilots, which will increase their effectiveness in helping California meet its climate policy goals by leveraging private capital.

RECOMMENDATION. Staff recommends approval of the attached resolution to authorize the Executive Director to extend and increase an existing receivables contract in the total amount of \$15.36 million with Southern California Gas Company, Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison, so that CAEATFA may continue to develop, implement, and administer the energy efficiency financing pilots described in California Public Utilities Commission Decision 13-09-044.

RESOLUTION OF THE CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY AUTHORIZING THE EXECUTIVE DIRECTOR OR DEPUTY EXECUTIVE DIRECTOR TO EXTEND AND INCREASE AN EXISTING RECEIVABLES CONTRACT WITH PACIFIC GAS & ELECTRIC, SAN DIEGO GAS & ELECTRIC, SOUTHERN CALIFORNIA EDISON, AND SOUTHERN CALIFORNIA GAS COMPANY RELATING TO CAEATFA'S ADMINISTRATION OF ENERGY EFFICIENCY PILOTS PURSUANT TO CPUC DECISION 13-09-044

May 16, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority") was created under the provisions of Division 16 (commencing with Section 26000) of the Public Resources Code;

WHEREAS, the Authority wishes to extend and increase an existing contract in the total amount of \$15.36 million with Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Gas Company for the purposes of the Authority to develop, implement, and administer a series of pilot programs that allow consumers to finance complex energy efficiency retrofits, as described in California Public Utilities Commission Decision 13-09-044 (the "Decision") on behalf of the electric and gas investor-owned utilities (the "IOUs") of California;

WHEREAS, on September 19, 2013, the CPUC approved the Decision, authorizing the California Hub for Energy Efficiency Financing (the "CHEEF") pilot programs to be supported by up to \$66 million of IOU ratepayer funds serving four market segments: single-family, with one-third of funds reserved for low and moderate income households; multi-family, affordable housing with master meters; small businesses; and On-Bill Repayment (OBR) of financing by non-residential energy users;

WHEREAS, in the Decision, the CPUC created the CHEEF to increase the flow of private capital to energy efficiency projects and requested the Authority to assume the CHEEF functions, including, but not limited to, managing the flow of funds and data for the pilot programs, and providing a simple, streamlined structure through which energy users, financial institutions, energy efficiency upgrade providers, and the IOUs can participate in a standardized "open market" that facilitates financing of energy efficiency projects in California;

WHEREAS, the CPUC further directed the IOUs to assist the Authority to implement the CHEEF and directed the IOUs to contract with the Authority to establish procedures for the primary CHEEF functions of fund management, financial product/borrower data management and On-Bill Repayment billing and collections, as more fully described in the Decision; and

WHEREAS, the purpose of the contract is to set forth the terms and conditions governing such activities as directed by the CPUC, including, but not limited to, 1) provisions governing the administrative costs of serving as the CHEEF, including periodic funding from the IOUs to CAEATFA, funding limits, and reporting from CAEATFA to the IOUs on use of funds; 2) provisions governing the establishment and operation of trust accounts for credit enhancements,

transfer of funds amongst these accounts, and the withdrawal of funds in the event a claim by a financial institution is approved; 3) governing the establishment of CHEEF operational agreements with third parties; 4) provisions governing the establishment of CHEEF operational agreements with third parties, including but not limited to contracts for a trustee bank, master servicer, data manager, and contractor manager; 5) provisions governing the confidentiality and data protection of borrowers' financial and energy usage information in connection with loans or leases enrolled in any of the pilot programs; 6) provisions governing the interactions of the IOUs with CAEATFA, including identifying Southern California Gas Company as the IOU administrator of this contract with CAEATFA on behalf of the IOUs; 7) provisions outlining insurance requirements for the CHEEF; 8) provisions outlining the limits of liability and force majeure; and 9) provisions governing the termination of the contract;

WHEREAS, Public Resources Code sections 26002 through 26033 provide statutory authority to the Authority to serve as the central administrator, the CHEEF, of the pilots as described in the Decision and the contract.

NOW, THEREFORE, BE IT RESOLVED that the Executive Director or Deputy Executive Director of the Authority is hereby authorized to extend and increase an existing contract with Pacific Gas & Electric, San Diego Gas & Electric, Southern California Edison, and Southern California Gas Company in the total amount of \$15.36 million.

FURTHER, that the Executive Director or Deputy Executive Director shall execute and submit the contract to the Department of General Services for approval.

Attachment A

Table 1. CHEEF Initial Budget and Expenditures (September 2014 through December 31, 2016)⁵

Item	Allocated	Expended/ Encumbered ⁶	Balance
CHEEF Start-Up Cost			
Includes CAEATFA administrative, direct implementation, and contracting costs	\$ 5,000,000	\$ 2,737,533	\$ 2,262,467
Subtotal CHEEF Start-Up Costs	\$ 5,000,000	\$ 2,737,533	\$ 2,262,467
Marketing, Education, Outreach (MEO)			
Statewide MEO plan	\$ 8,000,000	(TBD)	\$ 8,000,000
CAEATFA outreach and training to financial institutions and Contractors	\$ 2,000,000	\$ 331,738	\$ 1,668,262
Subtotal Marketing, Education, and Outreach	\$ 10,000,000	\$ 331,738	\$ 9,668,262
Residential pilots			
Single family loan loss reserve	\$ 25,000,000	\$ 15,820	\$ 24,984,180
Energy Financing Line Item Charge (Funding to PG&E)	\$ 1,000,000	(TBD)	\$ 1,000,000
Multi-Family	\$ 2,900,000	\$ -	\$ 2,900,000
Subtotal Residential Pilots	\$ 28,900,000	\$ 15,820	\$ 28,884,180
Non-Residential Pilots			
Small business sector OBR with credit enhancement	\$ 14,000,000	\$ -	\$ 14,000,000
Sub-pilot: OBR for lease providers	\$ -	\$ -	\$ -
Sub-pilot: Off-bill for lease providers	\$ -	\$ -	\$ -
Non-residential OBR without credit enhancement	\$ -	\$ -	\$ -
Subtotal Non-Residential Pilots	\$ 14,000,000	\$ -	\$ 14,000,000
Information Technology (IT)			
IT Funding to IOUs ⁷	\$ 8,000,000	(TBD)	\$ 8,000,000
Subtotal IT Funding to IOUs	\$ 8,000,000	(TBD)	\$ 8,000,000
CHEEF Pilot Reserve			
CHEEF Pilot Reserve	\$ 7,000,000	\$ -	\$ 7,000,000
Adjustment to reconcile to D.12-11-015 and IOU Compliance	\$ 2,344,931	\$ -	\$ 2,344,931
Subtotal CHEEF Pilot Reserve	\$ 9,344,931	\$ -	\$ 9,344,931
GRAND TOTAL	\$75,244,931	\$ 3,085,091	\$72,159,840

⁵ Additional budget details can be found in the various program implementation plans filed with the CPUC.

⁶ Encumbered refers to the credit enhancement funds for enrolled loans under the Single family Loan Loss Reserve (LLR).

⁷ IT Funding to IOUs reports only the initial allocation and does not reflect current IOU expenditures.

Table 2. CAEATFA’s Anticipated Budget

Program Implementation, Each Pilot Two Years						
Costs	FY 14-15 (actual)	FY 15-16 (actual)	FY 16-17 (estimate)	FY 17-18 (estimate)	FY 18-19 (estimate)	FY 19-20 (estimate)
Staff (Assumes Max 12 Positions)	\$ 334,435	\$ 533,001	\$ 833,994	\$ 1,190,498	\$ 1,190,498	\$ 1,190,498
Contracts (Master Servicer, Trustee, Agent Bank, Technical Assistance, Contractor Manager)	\$ 52,333	\$ 344,378	\$ 1,110,000	\$ 1,810,000	\$ 1,685,000	\$ 1,310,000
Other OE&E	\$ 254,067	\$ 366,996	\$ 539,501	\$ 661,403	\$ 593,653	\$ 551,653
Total	\$ 640,835	\$ 1,244,375	\$ 2,483,496	\$ 3,661,901	\$ 3,469,151	\$ 3,052,151
CAEATFA Accumulative	\$ 640,835	\$ 1,885,210	\$ 4,368,706	\$ 8,030,607	\$ 11,499,758	\$ 14,551,909
<i>HBC Shared Costs</i>	\$ 180,064	\$ 312,332	\$ 317,657			
Accumulative Estimated Costs	\$ 820,900	\$ 2,377,607	\$ 5,178,760	\$ 8,840,661	\$ 12,309,812	\$ 15,361,963

Table 3. Anticipated Pilot Implementation Terms as of September 2016 (based on the date first loan enrolled)

Pilot Implementation Period	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Residential Pilot (CE)					
Small Business Pilot (CE)					
Multifamily Pilot (CE)					
Non-Residential OBR ONLY					