

**CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)
QUARTERLY REPORT AND PROGRAM STATUS SUMMARY**

APRIL 30, 2015

For the Quarter Ending on March 31, 2015

California Alternative Energy and Advanced Transportation Financing Authority

Background

Through a series of pilot programs spanning the residential, multifamily, and non-residential market sectors, CAEATFA is partnering with the California Public Utilities Commission ("CPUC"), the investor-owned utilities ("IOUs"), and the Center for Sustainable Energy ("CSE") to support the development of new, scalable, and leveraged financing products for consumers to help them produce deeper and broader energy efficiency projects than previously achieved through traditional program approaches. The pilots will assist in removing the upfront cost barrier of financing for consumers to undertake energy efficiency retrofits.

In September 2013, the CPUC approved Decision 13-09-044, which authorized two-year pilot programs to be supported by up to \$66 million of IOU ratepayer funds and serving four market segments. Credit enhancements to lenders are intended for the first three markets:

- o Single-family, with one-third of funds reserved for low and moderate income households,
- o Multi-family, affordable housing with master meters,
- o Small businesses, and
- o On-Bill Repayment of financing by non-residential energy users, without credit enhancement.

The pilot programs were established with a myriad of goals, all of which are intended to support the State's broader energy efficiency and environmental policy goals using an innovative approach. Primarily, the pilots are designed to:

- (a) attract a greater amount of private capital to the energy efficiency retrofit market by reducing risk to lenders;
- (b) broaden the availability of financing to individuals who might not have been able to access it otherwise; and,
- (c) address the upfront cost barrier to energy efficiency retrofit projects.

The initial pilot term approved in Decision 13-09-044 ends in December 2015. However, following the Decision, former CPUC President Peevey issued an Assigned Commissioner's Ruling that clarified the intent to have each pilot program operational for at least two years from the date of the pilot's launch.¹ CAEATFA subsequently submitted a letter to Edward Randolph, CPUC Energy Division Director, to request that the Commission further clarify the operational term of the Pilots and acknowledge the

¹ Former CPUC President Peevey's Assigned Commissioner Ruling Clarifying Operation of Energy Efficiency Finance Pilots: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M103/K390/103390632.PDF>

long-term administrative need for program administration. In an Assigned Commissioner and Administrative Law Judge's Ruling, it was noted that CAEATFA's letter would be treated as a Petition for Modification of Decision 13-09-044.²

Budget

The Decision directs the IOUs to allocate a total of \$65.9 million to the CHEEF over the initial pilot period. The breakdown of costs is as follows:

ITEM	FUNDING AMOUNT
1. CHEEF start-up cost (includes CAEATFA administrative and contracting costs)	\$ 5 million
2. Marketing, education, outreach	\$ 10 million
a. Statewide MEO plan	\$ 8 million
b. CAEATFA outreach and training to financial institutions and contractors	\$ 2 million
3. Residential pilots	\$28.9 million
a. Single family loan loss reserve	\$ 25 million
b. Energy Financing Line Item Charge (\$ to PG&E)	\$ 1 million
c. Multi-family debt service reserve fund	\$2.9 million
4. Non-residential pilots	\$ 14 million
a. Small business sector OBR with credit enhancement	\$ 14 million
i. Sub-pilot: OBR for lease providers	
ii. Sub-pilot: Off-bill for lease providers	
b. Non-residential OBR without credit enhancement	\$ 0
5. Information Technology (\$ to IOUs)	\$ 8 million
TOTAL FUNDING FOR EE FINANCING PILOTS	\$ 65.9 MILLION

To date, CAEATFA has expended approximately \$353,000 of the \$7 million allocated for CHEEF start-up costs and education, outreach, and training for lenders and contractors. This funding covers CAEATFA's expenditures from July 1, 2014 through March 31, 2015. At this time, CAEATFA has not expended any of its administrative costs towards contracts with third-parties. It is anticipated that expenditures will significantly increase as the Master Servicer develops its functionality and program activity begins to occur.

² Revised Assigned Commissioner and Administrative Law Judge's Ruling Re: California Alternative Energy and Advanced Transportation Financing Authority's Proposed Modifications to Decision 13-09-044 (Energy Efficiency Financing Pilots): <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M148/K824/148824390.PDF>

In addition, CAEATFA currently has legislative budget authority to carry out the services of the CHEEF through December 2015. It is seeking extended legislative budget authority in the 2015 Budget Act to shift the existing allocated funds through fiscal year 16-17 to reflect the minimum two-year term of each pilot.

CAEATFA's Role

CAEATFA is creating a streamlined, statewide platform for lenders and contractors to participate in the uptake of energy efficiency projects through increased access to financing. As the manager of the CHEEF, CAEATFA is developing uniform program requirements, standardized documentation and processes, and a central administrative entity to facilitate investment in energy efficiency projects and implementation of the pilot programs.

CAEATFA received the requisite legislative budget authority to act as CHEEF on July 1, 2014. At that point, CAEATFA was able to begin to hire staff, enter into administrative contracts, issue RFPs, and promulgate regulations for the Pilot Programs. Following this approval, CAEATFA entered into two key agreements to solidify its role managing the CHEEF. First, CAEATFA entered into a Memorandum of Agreement ("MOA") with the CPUC. The MOA was approved by the CAEATFA Board at its November 2013 meeting, and subsequently finalized with an effective date of July 18, 2014.³ In addition, the CAEATFA Board approved a contract between CAEATFA and the IOUs in November 2013. This contract received its final approval from the Department of General Services and became effective on September 12, 2014.

In addition, CAEATFA is collaborating with the CPUC, Center for Sustainable Energy (CSE), and the IOUs to deliver a \$10 million marketing, education, outreach and training campaign that leverages the existing Energy Upgrade California efforts and will further encourage lender and contractor participation in the Pilot Programs.

CHEEF Infrastructure

Central to the infrastructure needed to implement the CHEEF Pilot Programs are a Master Servicer, Trustee bank, Contractor Manager, Data Manager, Lease Originators, and Technical Advisor. Below are descriptions of each of these roles and information on the current status as it relates to CAEATFA's procurement processes.

- **Master Servicer.** The Master Servicer (MS) plays a key role in the daily administration of the program, accepting lender and loan enrollment applications, and processing on-bill repayment transactions. CAEATFA initially issued the Master Servicer RFP on October 21, 2014, but did not receive a qualifying bid. Staff subsequently modified the minimum qualifications for proposers and further clarified the scope of services. A revised RFP was issued on December 5, 2014. The CAEATFA Board approved the proposed award of the Master Servicer contract to Concord Servicing Corporation at its January 2015 Board Meeting.⁴ The contract was approved by the Department of General Services on April 23, 2015.

³ Minutes from the November 19, 2013, CAEATFA Board Meeting are available online at: <http://treasurer.ca.gov/caeatfa/minutes/2013/20131119.pdf>

⁴ Minutes from the January 20, 2015, CAEATFA Board Meeting are available online at: <http://treasurer.ca.gov/caeatfa/minutes/2015/20150120.pdf>.

- **Trustee Bank.** The Trustee holds the ratepayer funds provided by the IOUs to serve as credit enhancements under the various pilot programs. CAEATFA will maintain the integrity of ratepayer funding, and provide direction to the Trustee bank to transfer credit enhancement funds between IOU program holding accounts and participating lender accounts. The program regulations under development will identify the amount of credit enhancement funds available for each enrolled loan/lease, and will also identify the processes for payment of claims under the program.

The CAEATFA Board approved the proposed award of the Trustee contract to U.S. Bank Global Corporate Trust Services at its January 2015 Board Meeting.⁵ The contract received its final approval from the Department of General Services on March 11, 2015. Staff is currently working with the Trustee to establish holding accounts for the initial transfer of credit enhancement funds for program use from the IOUs.

- **Data Manager.** The Data Manager will receive Pilot Program data from the Master Servicer and other energy efficiency finance program administrators to prepare it for public presentation and use. The RFP for this service has not yet been released. CAEATFA staff is exploring options for how best to incorporate the role of the Data Manager.
- **Contractor Manager.** The Contractor Manager will enroll and manage participating contractors, and will conduct quality control oversight of projects not participating in an IOU rebate/incentive program. The RFP for this service is under development, and is expected to be released in May/ June of 2015.
- **Lease Originators.** The Decision currently requires the selection of up to four Lease Originators to participate as equipment lease providers in the small business lease pilots. The RFP for this service has not yet been released. Note that in CAEATFA's March 9, 2015 letter to Edward Randolph requesting modifications to Decision 13-09-044, CAEATFA requested that the Commission allow for the pilot to move forward without an RFP, but instead with minimum eligibility criteria for lease providers written into program regulations.⁶ Release of this RFP is pending further direction from the CPUC.
- **Technical Advisor.** The Technical Advisor will provide necessary expertise, outside of the scope possessed by the CHEEF. The RFP for this service is currently under development and being further refined. During this time, CAEATFA has been working in close collaboration with industry experts and stakeholders to obtain the relevant subject matter expertise.

Program Development

Residential Energy Efficiency Loan Assistance Program

The Residential Energy Efficiency Loan Assistance ("REEL") Program (previously referred to as the Single Family Loan Program) will be the first in the sequence of the pilots to launch. Staff has been working with the CPUC, the IOUs, and various stakeholders on developing the program structure. Stakeholder

⁵ Minutes from the January 20, 2015, CAEATFA Board Meeting are available online at: <http://treasurer.ca.gov/caeatfa/minutes/2015/20150120.pdf>.

⁶ Revised Assigned Commissioner and Administrative Law Judge's Ruling Re: California Alternative Energy and Advanced Transportation Financing Authority's Proposed Modifications to Decision 13-09-044 (Energy Efficiency Financing Pilots): <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M148/K824/148824390.PDF>

input on the REEL Assistance Program was solicited on numerous occasions:

- October 24-28, 2014: Lender and contractor roundtables on proposed program structure in San Francisco, Downey, and by webinar
- December 5, 2014: First draft of proposed regulations posted for public comment
- December 11, 2014: Public workshop on draft of proposed regulations
- January 20, 2015: Second draft of proposed regulations posted for public comment
- February 17, 2015: CAEATFA Board Meeting to consider adoption of proposed regulations

The Authority received over 30 sets of public comment on these regulations. Staff analyzed and considered all comments and incorporated changes to the emergency regulations when appropriate. The emergency regulations for the REEL Assistance Program were approved by the Office of Administrative Law on March 9, 2015, and are currently available on CAEATFA's website. The approved program structure represents a balance of stakeholders' comments with the statutory, legal and program administration framework as well as the CPUC's policy intent for the Program.

CAEATFA is beginning to recruit and train Participating Financial Institutions, Participating Finance Lenders and contractors to participate in the program. Staff expects to begin accepting loan enrollment applications in mid-2015 (approximately four to six weeks after the Master Servicer contract is approved by the Department of General Services). The REEL Program regulations will soon be updated to incorporate the Energy Finance Line Item Charge for customers in PG&E service areas.

Small Business Lease Program

On January 8, 2015, Staff held a stakeholder roundtable to solicit input from those participating in the energy efficiency equipment leasing market. Nearly 50 attendees participated in the roundtable discussion. Staff is continuing to reach out to stakeholders to gather information and conducting research to inform the program design. A workshop on a proposed program structure for the small business Pilot Programs is anticipated to be scheduled within the next 6-8 weeks.

On-Bill Repayment

Several of the Pilot Programs will include On-Bill Repayment ("OBR") as a key feature. Staff is continuing to work with the IOUs and the MS to further refine and establish the OBR infrastructure. CAEATFA held a webinar workshop to discuss the main elements of OBR functionality and structure on May 12, 2015. The workshop primarily served as a means for collecting feedback from prospective program

participants (i.e. lenders) on the proposed OBR structure and payment mechanisms. This feedback will help inform the development of regulations for each of the programs that include OBR.

As OBR development is tied to several dependencies, it is difficult to estimate launch dates for the OBR pilots. Staff currently estimates that the OBR pilots will launch in the fourth quarter of 2015. CAEATFA understands that time is of the essence in launching the Pilot Programs. Staff will continue to work with the Master Servicer and the IOUs to move OBR development forward as quickly as possible.

Pilot Program Data Collection

As each of the pilot programs is launched and loans are enrolled, Staff will collect various data for reporting purposes. This data will include but is not limited to the following: aggregate loan amounts, interest rates, project data, aggregate FICO scores and lender information. In addition, in the data management efforts for the pilots, CAEATFA will make best efforts to leverage and coordinate with existing federal Department of Energy and other energy data repository efforts (e.g. Building Energy Data Exchange Specification, Standard Energy Efficiency Data Platform, Investor Confidence Project Open Data).

Additional Information

More information on the CHEEF Pilot Programs is available on CAEATFA's website at <http://www.treasurer.ca.gov/caeatfa/cheef>. To receive notifications regarding workshops, regulations, and other items related to the CHEEF, please sign-up [here](#) for CAEATFA's listserve. Please direct inquiries on this report or generally on the CHEEF Pilot Programs to CAEATFA at (916)651-8157 or cheef@treasurer.ca.gov.