BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company for Approval of 2013-2014 Energy Efficiency Programs and Budget (U39M).	A.12-07-001 (Filed July 2, 2012)
And Related Matters.	A.12-07-002 A.12-07-003 A.12-07-004

REPLY COMMENTS
OF THE DIVISION OF RATEPAYER ADVOCATES

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I. INTRODUCTION

In accordance with the Administrative Law Judge's Ruling Requesting Supplemental Information and Comments on Expert Consultant Financing Pilot Proposals (ALJ Ruling), issued on November 16, 2012, the Division of Ratepayer Advocates (DRA) submits these comments in reply to the opening comments submitted pursuant to the ALJ Ruling. This Ruling solicits comments on the Energy Efficiency (EE) Financing Proposal for the 2013-2014 EE program cycle developed by Harcourt Brown and Carey (HB&C) and Blue Tree Strategies (Consultant) pursuant to Decision 12-05-015. This Decision directed the utilities to hire "an expert financing consultant to design new pilot financing programs for 2013-2014" *and* to organize working groups "on the new program design and data collection needed to support scalable financing programs in the future. Pursuant to the Decision, San Diego Gas and Electric (SDG&E) retained HB&C to develop the proposal and HB&C released the financing pilot proposal on October 19, 2012 (EE Finance Proposal or Proposal).

II. DISCUSSION

A. The Commission should take the additional time to determine the merits of the proposed WHEEL pilot in order to determine more clearly the attendant benefits and costs.

In their Opening Comments, Pacific Gas and Electric Company (PG&E) and Natural Resources Defense Council (NRDC) note concerns about the potential for the proposed WHEEL pilot to have "high cost of origination" and "high servicing fees and product pricing."[1] PG&E raises a concern about the risks associated with "potential securitization of the loan portfolio."[2] These are legitimate concerns about costs that will impact both WHEEL customers and ratepayers. On the benefits side of the equation,

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[1] PG&E Opening Comments, p. 4; NRDC Opening Comments, p. 4.

[2] PG&E Opening Comments, p. 4.

DRA notes in Opening Comments, that the benefits of establishing the WHEEL program this early in financing pilot development are not clear. DRA agrees with NRDC that the Commission should take additional time to evaluate these costs, in particular to weigh them against the benefits of the WHEEL, before it approves this pilot proposal.[3] The time to vet the WHEEL proposal is available given that the current lending market is capable of meeting HB&C's projected finance need for the pilot period ($20-$80 M annually).[4] This will provide the consultants the additional time necessary to work with the financial community and other stakeholders to flesh out the details of WHEEL and for the Commission to determine its merits as needs arise in the future.

B. DRA agrees with PG&E about the importance of understanding customer motivations to increase EE uptake in the context of financing.

PG&E emphasizes in its Opening Comments the need for "further research" to better understand "the specific needs of customers [and other market actors]" and that meeting these needs should be a primary objective of the pilot program.[5] Specifically, it is important to "better understand their specific problems and motivations needed to enhance the availability and uptake of energy efficiency financing," and that "the Commission's goal to expand financing offerings to customers to allow for greater investments in energy efficiency should be tested."[6] DRA could not agree more.

As DRA recommended in its Opening Comments, EE financing should be placed in the larger context that the Commission seeks to address. To do this, it is critical for

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[3] NRDC Opening Comments, p. 3.

[4] DRA confirms that Matadors Community Credit Union has a roughly $30 M energy efficiency residential lending capacity, and that other California lending institution have similar capacities. As RF notes there are over 400 credit unions in the State, not to mention the over 100 private banks that operate in California, some of which, like Umpqua Bank, also service energy efficiency loans. (http://www.us-banks.net/us/california/).

[5] PG&E Opening Comments, p. 14.

[6] PG&E Opening Comments, p. 15.

EM&V to ask the right questions and institute the appropriate program design, which may require adjustments to pilot program design. The following are key questions that EM&V for the finance pilots should address and the context within which pilot programs should be designed and authorized:

(1) What are the barriers to energy efficiency investment and what is the magnitude of each barrier?

(2) How well do various components of the financing program address these market barriers?

The purpose of piloting, first and foremost, is to gain insights and test features for future expansion and program planning. A pilot that produces a high level of savings, but provides few insights is of less value than one that produces a low level of savings, but provides key, necessary insights for future program development and improvement. The Commission should confer the necessary authority to EM&V teams to influence and modify EE finance program design in order to gather essential information that can improve and expand finance program potential.

C. Regarding Question 6 - the multifamily financing pilot(s) should be open to affordable and market rate properties despite the availability of financing offerings to market rate properties via the RENs.

The utilities note that it may be acceptable to limit the multifamily financing pilot to the affordable sector of the market since the multifamily financing pilots offered by the RENs are open to both affordable and market rate multifamily property owners.[7] The REN multifamily pilot offerings alone are not sufficient for the number of market rate multifamily properties. In fact, the experience of the REN and ARRA multifamily pilots support the importance of not restricting pilots to one market segment; as the mix of

[7] PG&E Opening Comments, p. 11; SCE Opening Comments, p. 6; SDG&E and SoCalGas Opening Comments, p. 7.

uptake amongst the two sectors will vary.[8] For example, LA County's pilot has enrolled nine properties, six of which are affordable. On the other hand, the SMUD-ARRA pilot reports that of the 48 properties enrolled, the majority are market rate. Finally, SDG&E ARRA pilot marketed to 100% of affordable property organizations, and less to market rate properties. The mix of properties should not be prematurely foreclosed as recommended in the Consultant proposal.

D. Regarding Question 7 - coordination between energy and water companies is already established by Decision 11-05-020.

DRA agrees with SDG&E and SoCalGas that including water bill savings as part of the net eligible financeable amount will require coordination and additional verification. SDG&E and SoCalGas suggest one option is for the primary lender parse the loan amongst two or more bills. They further suggest that an additional verification step will be necessary to track projected versus actual water savings.[9] While DRA is sympathetic to the transactional costs and general coordinating difficulty amongst two or three companies (water, gas, electric), this difficulty must be overcome in order to effectively manage efficient use of resources for residential customers. DRA encourages the Commission to require whatever inter-utility coordination (water and energy companies) is necessary to simultaneously address water and energy bill savings. This coordination is possible, as demonstrated by the working relationships between electric, gas and water companies recently established at the direction of Decision 11-05-020.

E. California Housing Partnership Corporation's recommendation for a 20% Debt Coverage Reserve also constitutes a bill neutrality guarantee and should be denied.

As DRA stated in Opening Comments, the Consultant-proposed Debt Service Reserve Facility constitutes a bill neutrality guarantee and should not be carried forward.

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[8] Opening Comments of Local Government Sustainable Energy Coalition, p. 8.

[9] SDG&E and SoCalGas Opening Comments, p. 8.

In its Opening Comments, California Housing Partnership Corporation recommends the same concept with greater funding under a different name.[10] Consistent with DRA's Opening Comments, this constitutes more of a grant than a financing option. DRA is sympathetic to the multifamily property owners' reluctance to count on bill savings materializing with little data to support such an expectation. However, DRA does not how this uncertainty and risk should be transferred to ratepayers. The Commission has already approved via the REN multifamily financing pilots several additional grants and incentives, such as the BayREN $5,000 *per unit* "capital incentive" grant.[11] If the Commission wishes to explore financing as a viable option, it must create a test financing that is sustainable, and multiple additional grant monies for projects are not.

F. The full database should be operational in advance of the Commission-required multifamily workshop in 2013/beginning of 2014.

Multiple parties in addition to DRA cite the lack of data as a barrier in attracting financing.[12] NRDC references the Commission's recent consideration of an "Energy Data Center".[13] While this is important, it should not be a reason to delay the utilities collection of basic data about multifamily retrofits and financing to inform these pilots. The utilities and the Commission should be able to simply organize existing data to provide stronger factual support about the barriers that exist for comprehensive retrofits (high costs, difficulty coordinating amongst programs) and what is required to overcome these barriers.

Furthermore, NRDC specifically recommends "the Commission should direct the utilities to implement all financing pilots with the requisite disclosures and permission

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[10] Opening Comments of California Housing Partnership Corporation, pp. 6-7.

[11] D.12-11-015, pp. 40-41, Ordering Paragraph 8.

[12] See Opening Comments of Greenlining, Green For All, The Utility Reform Network, p.4; NRDC Opening Comments, pp. 8-9.

[13] NRDC Opening Comments, p. 8.

that can be expected to permit the resulting loan information and participant energy usage information to be available for CPUC research activities related to efficiency, in a manner consistent with all applicable privacy requirements."[14] DRA similarly urges the Commission to require that disclosures and permissions be part of the pilots in order to make this data accessible at the least to the Commission and the utilities.

Finally, DRA encourages the Commission to set a deadline for a functioning database populated with completed projects. The Commission has a natural opportunity to set a deadline for this to be made available in advance of the multifamily workshop it requires for end 2013/beginning of 2014.[15] If the database is available the progress of the pilots can be discussed in a broader and more meaningful context.

G. DRA clarifies and expands its position on financing for the larger commercial and industrial sector.

Due to the vast nature of the Pilots and ALJ Ruling questions, DRA deferred full comment on the commercial and industrial sector to its reply comments. DRA clarifies its position expressed in Opening Comments. In DRA's comments, DRA recommends no credit enhancements for the medium and large commercial customers. DRA clarifies that this recommendation was meant for large commercial and industrial customers, who have other sources of low interest capital. NAESCO agrees with DRA, and PG&E raises similar concerns (although they do not entirely oppose credit enhancements for this sector). PG&E believes that "credit enhancement funds in the pilot programs should be prioritized based on the customer segments in which they are most needed" and that "[i]t is not yet clear that medium and large commercial customers will require credit enhancements."[16] NAESCO argues that there is little demand for energy efficiency among large commercial customers, that financing does not drive demand, but should

[14] NRDC Opening Comments, p. 9.

[15] D.12-11-015, pp. 30, 38, 48, Ordering Paragraph 16.

[16] PG&E Opening Comments, p. 12.

follow demand. This statement reinforces the concept that customers do not seek financing (such as auto loans) before they identify interest in a product that needs financing (such as car). DRA acknowledges this is a valid point.

DRA stated in its opening comments that the Commission should not provide further subsidization of energy efficiency financing above and beyond the level of subsidization authorized by Decision 12-11-015 for On Bill Financing (OBF). DRA notes that (1) the industrial sector has other sources of financing and (2) the addition of further ratepayer-funded credit enhancements/OBR to the industrial/large commercial sector above the allocation of the financing budget to OBF they receive, unfairly skews EE finance benefits, funded by all ratepayers, towards industrial and large commercial customers. It also represents poor targeting of EE financing funds, as residential customers represent the greatest market opportunity for energy efficiency, given that their portion of both electric and gas energy consumption is the largest among all customer classes (nearly 50%).[17]

Industrial customer energy use, by contrast is less than 30% of total energy use in the State. If we take it as a given that there are comparable and high per-building energy inefficiencies as a percentage of total building use in both sectors, it is reasonable to postulate that there is greater potential for efficiency gains in the residential sector than in the industrial sector given that total energy use in this sector is significantly higher. Thus, apportioning a much larger percentage of finance expenditure on the industrial sector above the portion reserved for the residential sector represents an ineffective targeting of ratepayer dollars.

The Commission should apply a cap of 50% on total ratepayer funding allocated to large commercial and industrial OBR & OBF to prevent a financing program paid for

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[17] Residential customer energy use is 46% of electric and 50% of gas use among residential, commercial and industrial customers (does not include agriculture and mining customers). In contrast, the industrial sector's energy use is 22% of electric use and 30% of gas use among the same set of customer classes. See California Energy Commission query tool: http://www.ecdms.energy.ca.gov/elecbyplan.aspx.

by all ratepayers that is unfairly skewed towards benefits to the large commercial and industrial sectors. DRA recommends a cap of 50% as a reasonable balance between the larger and smaller customers, and to encourage development of financing programs for the typically underserved residential sector.

III. CONCLUSION

DRA appreciates the opportunity to provide these reply comments for the Commission's consideration.

Respectfully submitted,

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