

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).

Application No. 12-07-001  
(Filed July 2, 2012)

And Related Matters.

Application No. A.12-07-002  
Application No. A.12-07-003  
Application No. A.12-07-004

**OPENING COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES  
TO ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING  
SUPPLEMENTAL INFORMATION AND COMMENTS  
ON EXPERT CONSULTANT FINANCING PILOT PROPOSALS**

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## **I. INTRODUCTION**

The Division of Ratepayer Advocates (DRA) submits these comments in response to the Administrative Law Judge’s Ruling issued on November 16, 2012 (ALJ’s Ruling), which 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 D.12-05-015 (Decision). 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 Harcourt Brown and Carey (HB&C) to develop the proposal and HB&C released the financing pilot proposal on October 19, 2012 (EE Finance Proposal or Proposal).

DRA commented on the Consultant’s original financing proposal and appreciates the thoughtful consideration of its comments by the Consultant as it developed the current Proposal that is now the subject of the ALJ’s Ruling. The Consultant should be commended for its efforts in developing the Proposal, engaging stakeholders, and providing a user friendly platform with notifications of updates to access milestone developments.

These opening comments address only the residential sector. DRA uses four criteria for evaluating the EE Financing Proposal for this sector:

- pilot program effectiveness;
- the pilot’s testing capability;
- ability to achieve lasting reductions in energy consumption; and,
- the soundness of the reasoning and assumptions offered in the proposal.

These comments additionally emphasize the paramount importance of gathering information in coordination with program design and implementation, with specific recommendations on database development and evaluation design. The comments are organized into three sections, the first addresses the hub and single family pilot proposals. The second section is devoted to the Multi-Family residential sector. The third section addresses specific questions from the ALJ Ruling. DRA reserves the right to comment on other aspects of the Proposal in its reply comments.

## II. DISCUSSION

### A. THE HUB AND SINGLE FAMILY PILOTS

#### 1. THE HUB

HB&C's "*Recommendation for Energy Efficiency Finance Pilot Programs*" (EE Finance Proposal or Proposal) introduces the piloting of a centralized structure; the "California EE Finance Hub" has three functions: to provide (1) database development and information transparency, (2) lender and contractor services (loan servicing and origination, technical and advisory support) and (3) cash flow management for On Bill Repayment (OBR). The 2013-2014 proposed budget for the Hub is \$5 M, or 2% of the cost of EE financing transactions.<sup>1</sup>

#### **a. Remaining infrastructural details and a line item budget for the Hub should be addressed through a Commission Tier II advice letter process**

The Proposal describes the functions of the Hub, but lacks specifics on the mechanics of how the Hub would operate and its infrastructure requirements. These details involve ratepayer capital commitments and data privacy issues. Therefore, DRA recommends that any details that are developed and not included for consideration at this point should be collated and submitted for an expedited Tier II advice letter approval that will trigger both stakeholder input and Commission oversight.

Details to be submitted would include, but not be limited to:

- The platform and space within which Hub functions take place;
- Accounts and account managers associated with hub;
- Database permission (and levels therein) criteria and platforms; and,
- Customer facing products (such as websites/informational charts).

#### **b. The Hub should create a one-stop-shop source of information for consumers**

DRA recommends that the pilot facilitate a truly transparent market by adding among the hub's responsibilities, the critical task of creating a hassle-free, one-stop-shop platform, where consumers can easily assess their options among interest rates and loan terms available to them for specified financing products. This should be done in close collaboration with the Energy

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<sup>1</sup> *Recommendations for Energy Efficiency Finance Pilot Programs*, Harcourt, Brown and Carey (HB&C) Energy and Finance, October 19, 2012.

Upgrade and Flexpath teams. To facilitate the use of the one-stop-shop platform, the Commission should require that any transaction receiving credit-enhanced financing should provide customers the website link upfront in full disclosure.

The value of a one-stop-shop should not be underestimated, nor should its development be delayed. Several studies (UC Berkeley, Energy Policy, RFF, CPUC’s interim Goals Study findings), show that lack of information and hassle factors are key market barriers to energy efficiency investments.<sup>2</sup> A Clean Energy Works of Oregon process evaluation finds that customers rate “access to a one stop shop for energy efficiency information and services,” which serves to address these market barriers, “as the most valuable component of their financing program (90% value!).<sup>3</sup> There are numerous examples of where this has been successfully accomplished (Clean Energy Works Oregon (CEWO), Keystone Help, MassSave, AustinEnergy, Sonoma County's Energy Independence Program (SCEIP)).

It is particularly important to minimize confusion for the customers in a program where multiple lenders participate and dozens of loan products will be on offer. If possible, the hub should consolidate loan offerings in an easily browse-able format.

## 2. SINGLE FAMILY PILOTS

There are two main pilots within the EE Finance Proposal for single family EE financing. One pilot involves the creation of a Warehouse for Energy Efficiency Loans (WHEEL) that will leverage a 20% subordinated debt credit enhancement designed to access secondary market capital. This pilot will offer customers “dealer-driven” loans at a 9% interest rate and is designed to serve the reactive market.<sup>4</sup> The second pilot is a “Direct Loan” program financed by

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<sup>2</sup> See *End-Use Energy Efficiency in a 'Post-Carbon' California Economy*, Sanstad and Aufhammer (UC Berkeley Climate Change Center, 2006), *How High Are Option Values in Energy Efficiency Investments*, by Sandstad and Blumstein (*Energy Policy*, 1995), *Borrowing to Save Energy: An Assessment of Energy-Efficiency Financing* by Palmer, Walls and Gerarden (Resources for the Future, 2012); *Energy Efficiency Economics and Policy*, Gillingham, Newell and Palmer (Resources for the Future, 2009); *Clean Energy Works Portland Pilot: Process Evaluation Wave 4, Final Report*. [http://demandanalysisworkinggroup.org/documents/2012\\_11\\_29\\_ES/PGT\\_DAWG\\_Meeting\\_2012\\_11\\_29\\_v08.pdf](http://demandanalysisworkinggroup.org/documents/2012_11_29_ES/PGT_DAWG_Meeting_2012_11_29_v08.pdf).

<sup>3</sup> *Clean Energy Works Portland Pilot: Process Evaluation Wave 4. Final Report*, June 24, 2011, emphasis added.

<sup>4</sup> Indicated in conversation with Matthew Brown of HB&C. Phone call on December 7, 2012. Also implied in Pilot Proposal’s suggestion that LLR involves loans that take more time to close than WHEEL loans, and WHEEL is more palatable to consumers who have an immediate need to replace broken equipment (such as an air conditioner in the hot summer or a furnace in cold winter). Customers with an immediate need to replace broken equipment are referred to as the “reactive market.”

local banks, credit unions, and Community Development Financial Institution (CDFIs) who will leverage a 10% Loan Loss Reserve (LLR). This option is aimed to serve the proactive and comprehensive energy efficiency retrofit market. Both the reactive and proactive market segments represent potential savings opportunities; the reactive could provide volume and the proactive with depth of savings.<sup>5</sup> The recommended collective expenditure for these pilots is \$24 M. There are two sub pilots proposed for later development. DRA does not comment on them here.

**a. The WHEEL pilot offers little benefit to ratepayers and EE customers. It should be eliminated for consideration among residential pilot offerings for 2013-2014**

The Warehouse of Energy Efficiency Loans (WHEEL) Pilot requires a 20% ratepayer subsidized credit enhancement in the form of subordinated debt, but it is unclear what ratepayers are getting in return for taking on the default risk of a credit enhancement that is two to four times larger than typical credit enhancement for these types of loans. Typically, an investment entity earns a higher interest rate for offering subordinated debt. It is not evident that this is occurring (that ratepayers are earning a higher interest rate than other lenders in return for providing subordinated debt). On the other hand, the magnitude of the credit enhancement (20%) is not resulting in comparable reductions in interest rate offerings in comparison to other energy efficiency loan offerings within California and across many states (See Table I).<sup>6</sup> Presumably, a credit enhancement should result in lower interest rate loan offerings because they provide reduced lending risk. Other energy efficiency lending programs offer interest rates between 5% and 8% (and some as low as 1% for deep savings measures), some subsidized with

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<sup>5</sup> Caution should be exercised with the assumption that reactive energy efficiency projects will produce significant savings, unless it is able to combine other EE measures. There is a high rebound effect associated with types of installations (air conditioners/furnaces) that reactive customers tend to seek. Air conditioner replacement, for example, has been shown to increase electricity consumption (*Cash for Coolers: A Good Policy?*, by Davis, Fuchs, Gertler, April 2012). Energy efficient heating replacements similarly have high rebound effects (10%-60%), “Energy Efficiency and Climate Policy: The Rebound Dilemma” by Robert J. Michaels, Institute for Energy Research, 2012, p. 14.

<sup>6</sup> For example, in Pennsylvania Keystone Help’s program, ARRA and DEP funds reduced 8-9% market rate interest rates to between 1-8%.

credit enhancements and others not at all. As the proposal states, the typical credit enhancement is much lower than 20%, and specifically around 5-10%.

**Table 1  
Typical interest rates for residential energy improvement loans**

<b>Energy Improvement Financing Program</b>	<b>Loan Term</b>	<b>Loan Size</b>	<b>Interest Rate<sup>7</sup></b>	<b>Minimum credit score</b>
SMUD			<b>5.5%<sup>8</sup></b>	
San Jose Credit Union	7 years	>\$15,000	<b>6%</b>	>720
emPowerSBC	15 years	\$5000-\$25,000	<b>5.9%</b>	“good” credit score
	5 years	\$1000-\$5000		
Keystone Help (PA)		varies	<b>1%-8%</b>	
Clean Energy Works Oregon <sup>9</sup>	20 years	\$5,000 -\$30,000	<b>6%</b>	>590
Umpqua (OR) for CEWO	10 years	<\$20,000	<b>5.75</b>	
Mass Save	7 year	<\$25,000	<b>0%</b>	
Austin Energy		<\$11,000	<b>0-6%<sup>10</sup></b>	> 639

All of these loans are unsecured.

One of the advantages of the subordinate debt proposal over the loan loss reserve is that it earns interest at a rate that is projected to correspond to default rates. Thus, it is a “zero net subsidy” option for ratepayers. While this seems attractive, the loan itself is not particularly attractive to consumers at a 9% interest rate. And this zero net subsidy comes at a price: because loan underwriting criteria (and other aspects of the loan) must be standardized for the secondary capital market, it becomes harder to achieve program flexibility such as the ability to pilot a diverse range of options and have a range of loan offerings based on criteria other than lending criteria (i.e., offerings based policy based criteria like lower interest loans for comprehensive retrofit projects). At this early stage of California’s statewide financing program, tailoring solutions to specific geographic and market needs, and allowing programmatic changes based on pilot feedback is the right strategy to generate demand and learn lessons.

<sup>7</sup> Interest rates are rounded up to the nearest percent.

<sup>8</sup> This interest rate is reserved for whole house loans. A 10.75% applies to unsecured single measure loans, which are, apparently, extremely rare (~1%).

<sup>9</sup> CEWO’s various loan options are not all indicated here.

<sup>10</sup> 2% is added to each interest rate tier for credit scores below 639.

### **c. 10% LLR Pilot**

#### **1) The Hub should take an active role with participating lenders to pre-negotiate rates and terms**

The pilot proposal does not address the role of the lending managers/negotiators for the local residential EE lending market. Lending managers/negotiators have been a standard role in successful financing EE programs that use external sources of funding. Many successful EE financing programs achieved low interest rates through negotiations with lending partners. Clean Energy Works Oregon and emPowerSBC are good examples of this. Many of the financing programs in Table 1 used this method to achieve attractive terms.

Therefore, DRA recommends that the hub be empowered to pre-negotiate rates and other loan terms through a lending managers/negotiator similar to the CEWO model. These lender managers would negotiate attractive interests rate and loan terms that provide the greatest leverage of the 10% ratepayer credit enhancement. To the extent possible, these managers would create some degree of consistency and standardization among loan offerings. Loans of the same type should have fairly consistent loan terms, based on a limited number of loan underwriting and EE policy criteria (e.g., credit scores, type of retrofit (comprehensive projects vs. single measure, energy efficiency potential (house vintage or climate zone))). In this manner, the loan offerings can be presented to customers in a clear and comprehensible way.

#### **2) The pilots should tailor program offerings based on geographic requirements, housing vintage, and other types of appropriate market segmentation**

The proposal does not recommend specific ways to tailoring the finance offerings based on geographic needs or policy preferences (such as offering lower interest rates for comprehensive measures or older vintage houses). Yet research suggests that this type of tailoring has the ability to achieve greater savings, cost effectiveness, and customer needs. A recent HAAS study notes that there is “substantial diversity in investment inefficiencies across the population.”<sup>11</sup> It goes on to state that “targeted energy efficiency policies have the potential to generate larger gains than general [energy efficiency program offerings].” Another study notes that energy efficiency policies should vary geographically to account for the geographic

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<sup>11</sup> Alcott, Greenstone, 2012.

differences in cost-benefits for a given policy.<sup>12</sup> A LBNL study similarly acknowledges that approaches to addressing the EE gap will vary by market segment and region.<sup>13</sup>

By keeping the pilots tailored by market segment and geographically-tailored, the pilots will allow the greatest learning opportunities and be able to flexible in changing course with program feedback and unique local and regional needs. Therefore, DRA recommends that once a residential pilot approach is finalized (WHEEL/LLR), the next step is to develop tailored program offerings.

**3) The pilots must be designed in coordination with evaluation design such that the pilots can provide meaningful feedback on the energy efficiency needs and the potential of financing to fulfill those needs**

The initiation of statewide energy efficiency pilots in California present a tremendous opportunity for insight into energy efficiency decision-making and the ability of financing to influence these decisions.

DRA recommends that the Commission include EM&V design as part of its formal proceeding direction on financing and require that program implementers work closely with EM&V research teams in the design of the financing program. Without an adequate evaluation strategy, the financing pilots offer little to future program planning. Currently, “[e]mpirical literature testing behavioral failures specifically in the context of energy decision-making is very limited,”<sup>14</sup> therefore making it extremely difficult to design an appropriate financing program, and even more difficult to forecast the impact that financing programs will have on energy consumption. Conducting this type of research (using control groups, pre-and post-data collection, and varying offerings in various regions) will require careful coordination with finance program design at the *outset*. Therefore, DRA recommends that the Commission include EM&V design as part of its formal proceeding direction on financing and require that program implementers work closely with EM&V research teams in the design of the financing program. Without an adequate evaluation strategy, the financing pilots offer little to future program planning.

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<sup>12</sup> Davis, Fuchs, *Cash for Coolers*, 2012.

<sup>13</sup> LBNL, *Limits to EE financing*, p. 3.

<sup>14</sup> RFF, 2009, p. 18.

## **B. MULTIFAMILY PILOTS**

The utilities and their Consultant recommend an On Bill Repayment (OBR) pilot for affordable multifamily residential buildings. While OBR has features of reducing the risk to the lender via disconnection and tying the loan to the meter, this pilot would not have disconnection as one of the “insurance” features, but would test for the value of tying the loan to the meter. The Consultant also recommends a credit enhancement for the multifamily pilot called a Debt Service Reserve Facility (DSRF). The Consultant expects that these multifamily projects will engage multiple programs and services, such as the Energy Savings Assistance Program and upgrades that impact the amount of water used in the building. The expectation is that the meter will enhance the security of the loan,<sup>15</sup> thereby allowing the lending institution to offer more attractive financing terms. The MF pilot will also generate experience with transferring loans when tenants move, and provide data about the proportion of customers that do not make complete payments.

As described below and in DRA’s responses to Questions 5 to 7, DRA supports a multifamily pilot that tests either the value of OBR or the value of a credit enhancement, but not both. If both features are in the same pilot it will be difficult to assess the value of each feature. Regarding the credit enhancement, DRA supports a Loan Loss Reserve and opposes the DSRF as described in the proposal. Finally, DRA agrees that the pilots should tap owner meters, but that the pilot should be open to both market rate and affordable sectors of the multifamily market.

### **1. Database development is the way to achieve several MF pilot goals**

The Commission ordered the utilities to create a dataset in its May 2012 Guidance Decision, reiterated this order in Decision 12-11-015.<sup>16</sup> This database would facilitate better responses to the questions answered today.<sup>17</sup> This dataset is a better method than the proposed pilot for achieving two of the three goals of the multifamily pilot.

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<sup>15</sup> The lender will have recourse to assess late fees and penalties on delinquent loan payments, and the ability to initiate collections processes. However, removing disconnection from the meter theoretically lessens the value of the meter.

<sup>16</sup> D.12-05-015, OP 25 and D.12-11-015 Section 5.2.1.4 and COL 55.

<sup>17</sup> DRA’s understanding from a brief email exchange with SoCalGas is that database efforts are pending while priority has been given to developing pilot proposals.

- Understand how to better coordinate and streamline the delivery of services across utilities, building auditors, contractors and lenders (create strong value proposition for building owners and tenants).
- Gather data to evaluate actual performance of energy efficiency measures in multifamily setting.<sup>18</sup>

Much multifamily retrofit work was completed in the last few years which should populate the database. To inform these comments, DRA has created a list of recently completed multifamily upgrades in California through publicly available data.<sup>19</sup> This list is Attachment A to these comments, and is summarized below.

The Commission should not depend on the proposed pilots to populate the dataset. The simple consideration of time to launch and complete projects, to say nothing of tracking post-project usage data, means that any projects launching even as soon as next month would need at a minimum two years before the data from the project could be useful in a dataset. If the database is to track loan payment performance or the transferability of loan when the account is transferred to a new customer, many more years will pass before this data is available. Therefore, it is critical that the dataset which is to inform the Commission prior to two years from now be immediately created from the multifamily retrofit and rehabilitation projects that have occurred in the past two years.

It is not necessary to wait for projects that have a financing component in order to build the database which will then facilitate financing. For example, New York built and analyzed a database of 231 buildings comprised of 21,022 units in order to provide information to the lending community. Just accumulating these data from various program sources took fifteen months (New York DB/LC study).<sup>20</sup> California has concluded its American Reinvestment and

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<sup>18</sup> Harcourt, Brown and Carey, *Recommendations for Energy Efficiency Pilot Programs*, Report to the California Investor Owned Utilities, October 19, 2012, p. 45.

<sup>19</sup> Property data in DRA's basic inventory is from the following sources: 1. CEC Final Reports of ARRA SEP programs available at [www.energy.ca.gov/ab758/pilot-programs.html](http://www.energy.ca.gov/ab758/pilot-programs.html), HUD programs available at [www.hud.gov/offices/pih/programs/ph/capfund/ramps/ca.cfm](http://www.hud.gov/offices/pih/programs/ph/capfund/ramps/ca.cfm), EUC Multifamily Case Studies available at <https://multifamily.energyupgradeca.org/>, Data Requests to the Cities of Oakland and Berkeley, and CSI-MASH data is from [www.californiasolarstatistics.ca.gov/](http://www.californiasolarstatistics.ca.gov/).

<sup>20</sup> Deutsche Bank/Living Cities/Steven Winter and Associates/HR&A Advisors, *Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting (New York DB/LC Study)*, pp. 12, 14.

Recovery Act (ARRA) funded State Energy Program (SEP), which included many multifamily whole building retrofits.

**Table 3**  
**DRA Inventory: CA MF residential properties with completed energy-water related upgrades, 2009-12**

Ownership Type	Number of properties	Amount of subsidy
Public	35	\$67,141,913
Affordable	253	\$84,702,766
Market Rate	7	\$422,874
<b>Unknown</b>	<u>12</u>	<u>\$8,464,217</u>
<b>TOTAL</b>	307	\$160,731,771

This table shows that the majority of energy efficiency-related retrofits have occurred in affordable buildings, and the majority of subsidy support has been directed to affordable buildings.

Finally, one of the main findings from the New York DB/LC Study is that actual building savings are strongly correlated with pre-retrofit usage: the higher the usage (particularly heating fuel) before the retrofit, the higher likelihood that significant energy and bill savings will result from the project. The implication for underwriting of retrofit loans therefore is “[c]ollect basic energy data prior to or at the point of loan application, including building vintage, heating system type, total fuel expenses, current commodity prices, electric metering configuration, and past or planned capital work.”<sup>21</sup> The New York DB/LC Study contains a list of recommendations for “Shaping Reliable Building Databases,” which include ongoing alignment of data collection efforts and ongoing stewardship of the database.<sup>22</sup> The pilot recommendations should specify that several goals and outcomes cannot be met, especially those of increasing volume and creating lender acceptance, without a reliable state database.

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<sup>21</sup> Deutsche Bank/Living Cities/Steven Winter and Associates/HR&A Advisors, *Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting*, pp. 5, 8.

<sup>22</sup> Deutsche Bank/Living Cities/Steven Winter and Associates/HR&A Advisors, *Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting*, pp. 82-84.

## 2. Recommendations for Addressing Split Incentives

The ALJ Ruling asks, “For any of the pilot programs, describe how the designs address the "split incentive" issue, if at all.”

The Consultant is upfront that the multifamily pilot proposal does not “immediately take on the split incentive challenge,” but asserts that the pilot is a strategic pathway to addressing the split incentive issue.<sup>23</sup> The only direct way for the pilot to address the split incentive problem would be for the pilot to market financing to the utility customer that pays for the utility bill. This is not part of the proposal because current law prohibits it.

Furthermore, DRA does not support shifting the risk associated with OBR to the tenant until evidence is compiled showing a low risk that loan payments will outweigh bill savings.

The creation of the database is also one of the foundational steps to addressing the split incentive issue in facilitating the property owner’s (and regulatory oversight body’s) understanding of whole building usage. The comprehensive energy efficiency infrastructure was improved, but benchmarking and disclosures are not commonplace. Tracking MF energy usage is cited as a barrier for other demand-side programs as well. The California Solar Initiative program evaluation states, “Another barrier to enabling participation from the PPA provider’s perspective is the inability to access a data about a potential client’s past energy usage.”<sup>24</sup> So overcoming this barrier will not only facilitate financing but will facilitate program participation and perhaps even higher quality program results, across the spectrum of demand-side programs.

DRA recommends the Commission remove any existing obstacles to the tracking of data of multifamily buildings’ tenant usage. Despite the multiple free Automated Benchmarking Services available to property owners in California, it is unknown how many are utilizing this service and taking the necessary steps for tenant usage to be automatically uploaded, tracked, and analyzed. The Commission could speed this process were it to order the utilities to more easily facilitate the use of benchmarking software.

DRA also agrees with the Consultant assertion that the split incentive problem may be best resolved over the long term, as the value to the property owner beyond tenant bill savings

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<sup>23</sup> “Ultimately, we believe this targeted pilot program holds real promise in being the strategic pathway to eventually addressing the entire market of multi-family properties, including a way to address the “split incentive” dynamic.” Harcourt, Brown and Carey, *Recommendations for Energy Efficiency Pilot Programs*, Report to the California Investor Owned Utilities, October 19, 2012, p. 43.

<sup>24</sup> CSI Low Income Program Evaluation, Market Assessment Report, p. 100.

includes increased property values, increased tenant satisfaction and retention, and decreased lost rent due to turnover.<sup>25</sup> This assertion is supported by Oregon’s evaluation of MF property owners’ reasons for investing in upgrades that reduce tenant-paid usage.<sup>26</sup> This belief is also supported in the Consultant’s October 19, 2012 recommendations.<sup>27</sup>

If the Commission intends to directly tap tenant bills for savings due to multifamily retrofits, DRA recommends, it should follow the suggestion of the San Diego ARRA Final Report to utilize the California Utility Allowance Calculator (CUAC).<sup>28</sup> Currently some public and affordable housing properties may utilize this method of calculating a monthly allocation for each tenant, which then lowers the monthly rent amount due from the tenant. Making an adjustment in the calculation could account for bill savings from retrofits. This still puts the tenant in an affordable property at risk. However, the affordable MF sector may have less ability to realize owner benefits such as rent increases. Therefore, it may be most important to directly address the split incentive problem in affordable properties in which each tenant is allotted an estimated amount for utility bills, and take the difference in bill savings accruing to tenant-usage off the utility bill allotment in these properties. The *Energy Upgrade California in San Diego County Final Report* describes in detail the potential of using the CUAC in a pilot.<sup>29</sup>

### **3. Pilots Should Not Include Bill Neutrality Guarantee**

The affordability MF pilot appears to include a guarantee of bill neutrality which is contrary to Commission direction. It is unwarranted for ratepayer dollars to shield property owners from risk, and as well as costly and unsustainable.

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<sup>25</sup> “In the long run, we believe the most compelling driver for investment into energy efficiency of tenant metered multi-family properties would be if property valuations and rental prices recognized the value of energy efficiency with a scoring mechanism. A number of scoring systems are being piloted that enable appraisers and renters to compare the energy performance of similar properties. Were this energy performance recognized in properties values and rental rates, property owners would be incentivized to invest in energy improvements without regard to who pays the utility bill, as lower utilities would be reflected in a property’s value or rent. While these initiatives show promise, other tools that help overcome the split incentive are essential to driving investment in the multifamily space”, IOU Response of November 30, 2012 to ALJ Ruling of November 16, 2012, p. 8.

<sup>26</sup> Research Into Action, *Final Report Survey of Multifamily Property Owners*, November 12, 2010.

<sup>28</sup> *Energy Upgrade California™ in San Diego County Final Report (ARRA San Diego County Final Report)*, June 24, 2012 pp. 20-21.

<sup>29</sup> *ARRA San Diego County Final Report*, June 24, 2012 pp. 19-20.

The Consultant recognizes the Commission’s direction that pilots should not have a bill neutrality guarantee.<sup>30</sup> However, the proposal for the MF pilot appears to provide the building owners a guarantee although this guarantee is labeled a Debt Service Reserve Facility (DSRF). The pilot proposal recommends a DSRF for the MF pilot, with an explanation that “DSRF protects building owners and tenants from failure to meet debt service payments projected on the basis on energy cost savings.”<sup>31</sup> It also compares the proposed DSRF to a loan loss reserve. “A debt service reserve is available to cover potential payment shortfalls or delays in payments. As with a loan loss reserve, funds remaining in the reserve are available to support future loans or to serve other uses available to the public benefit fund.”<sup>32</sup> However, this comparison to a loan loss reserve does not seem correct, because a loan loss reserve typically will protect the lender against loan default (up to a defined limit) without regard to whether savings on energy bills matched expectation.

There is abundant evidence in the proceeding and recognition by the Commission and other parties that projected and actual energy savings have great variance.<sup>33</sup> There is ample explanation of the risks associated with predicting bill savings in the comprehensive New York DB/LC Study.<sup>34</sup> The Commission should not permit this type of back-end bill neutrality guarantee to be approved for any pilot.

The term “bill neutral” should refer only to the upfront calculation of the total loan amount against the expected simple payback of the project. This is the definition of bill neutral that is used in SDG&E’s current On Bill Financing program which explicitly states that

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<sup>30</sup> “Note that the consultant’s recommendations reflect the CPUC decision to not require bill neutrality due to concerns that bill neutrality requirements may make some deeper energy retrofits impossible within the likely loan terms provided,” IOU Response of November 30, 2012 to ALJ Ruling of November 16, 2012, p. 21.

<sup>31</sup> Harcourt, Brown and Carey, *Recommendations for Energy Efficiency Pilot Programs*, Report to the California Investor Owned Utilities, October 19, 2012, p. 15 and p. 50.

<sup>33</sup> Chris Lee, Itron and Heather Braitwaite, Harcourt, Brown and Carey, *CPUC Energy Efficiency Finance Workshops Notes held February 8-10, 2012, March 19, 2012*; Cadmus Group, *Final Report: Energy Efficiency and Sustainable Technology (EEAST) Program Evaluation, #10-122*, June 30, 2011, p. 17.

<sup>34</sup> Deutsche Bank/Living Cities/Steven Winter and Associates/HR&A Advisors, *Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting*, pp. 47-51.

customers are responsible for the loan regardless of the savings on the energy bill.<sup>35</sup> This should be the definition to which the MF pilot adheres.

DRA agrees that any pilot that taps tenant bills should alleviate the risk to the tenant that bill savings might not materialize as predicted. However, the MF property owner should not require the same level of protection from this type of risk as a property owner. The property owner already has the experience of determining risk when taking on a loan that comes with owning a building. The property owner may have access to technical assistance in order to make a more informed decision, and the property owner has the benefit of realizing aggregate bill savings.

Therefore, DRA recommends that any MF pilot approved should not alleviate the risk for building owners of variance from any actual and expected bill savings. The pilot should not be providing building owners a guarantee of bill neutrality. With the DSRF as an offset to late payments due to differences in energy savings, the entire \$2.9 million funding recommended for the MF pilot may be perceived as a grant for building upgrades rather than funding that supports financing.

#### **4. The Commission Should Require Utilities to Hold Workshops and File an OBR Tariff**

The utilities should file via Advice Letter an OnBill Repayment tariff that describes the process of communication (information/work flow), billing process, rates, terms and conditions between the lender and the utility and the allocation of partial payments of the bill. Regarding the allocation of partial payments of the utility bill, the priority should be for the billed utility service and the second priority for the loan payment. Payment for utility service is an essential need and even the importance of supporting a fledgling energy efficiency lending market does not trump residential dependence on utility service. Furthermore, both the SDG&E/SoCalGas OBF program and the Clean Energy Works Oregon programs assign partial payments 100% to

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<sup>35</sup> SDG&E, *On Bill Financing, Customer and Contractor Handbook*, p. 9, downloaded October 10, 2010, available at [www.sdge.com/sites/default/files/documents/770702857/On-Bill%20Financing%20Handbook.pdf?nid=1461](http://www.sdge.com/sites/default/files/documents/770702857/On-Bill%20Financing%20Handbook.pdf?nid=1461); SoCalGas Onbill Financing Loan Agreement, February 2009, p. 2.

the utility service and then to the loan repayment, whether principal or interest.<sup>36</sup> The Commission should adopt this same policy for OBR.

While DRA understands the Consultant's explanation that some details are not in their recommendation, certain details regarding loan payment amounts, payment status of the customer, and the process of communication (information/ work flow) between the utility, lender, and customer will need to be spelled out before pilot launch. Therefore, DRA recommends the utilities host a workshop to develop a uniform OBR tariff, and subsequently file this tariff with the Commission via a Tier 3 Advice Letter. The uniform OBR tariff should contain, for example, the answers to the following questions:

- Will the IOU verify the OBR loan amount for accuracy against the loan terms? Will this verification be done before running each billing cycle? Will the IOU need to track the number of payments already made to ensure monthly loan charges don't continue beyond the point when the loan is fully paid? Who sends the notice to the customer that the loan has been fully paid?
- Will accelerated or pre-payment of the OBR loan be permitted? If so, under what terms and conditions? What will be the process and workflow to accommodate this? How will the utility calculate late payment charges? What is the interest rate applied to late payments on the loan amount? Will the late payment charges be itemized and separately stated for the utility services and the OBR loan? How will late payment charges be calculated and processed for partial payments of the OBR loan?
- What will be the process, terms and conditions for treatment of OBR loans that have to be renegotiated (particularly in cases where customer and lender "settle" outstanding payments, including late payment charges, later to alleviate OBR loan defaults)?
- Will adjustable interest rate loans be permitted? If so, how will this be accommodated?
- Will the IOU bill include both the current monthly OBR loan payment due and the current balance on the loan? Will the IOU bill have a separate page devoted to the OBR loan? Will the name of the lender be clearly shown? Will the bill clearly state that the OBR loan is not a utility service?
- Will the IOU be responsible for answering customer questions about the OBR loan or the OBR loan charges? If so, what information will the IOU service representatives have about the loan terms and conditions and how will they access

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<sup>36</sup> SoCalGas Onbill Financing Loan Agreement, February 2009, p. 2; Cadmus Group, *Final Report: Energy Efficiency and Sustainable Technology (EEAST) Program Evaluation, #10-122*, June 30, 2011, p. 25.

that information? What is the IOU's liability in the event of providing incorrect information about the OBR loan?

- Because the OBR loan is secured by the utility meter, its practical effect equates to a lien on the property. This will impact the real estate industry and the process and workflow related to the sale of the property. How will the OBR process tie-in to this real estate process and workflow? What are the obligations of the utility, lender, customer, and other parties? What is the process and workflow to secure a lien release? Under what conditions can the lien be released prior to an assumption of the loan balance?
- Does the customer have other responsibilities beyond payment of the OBR loan on time? If so, what are these other responsibilities and what will be the process for ensuring the customer is clearly notified and understands these responsibilities?
- What will be the terms and conditions under which customer-specific information can be released by the IOU? Will customer consent to such release be a condition for participating in the OBR pilot?

In the event of an OBR loan payment is several months late,<sup>37</sup> DRA recommends the utilities take a similar approach to the Clean Energy Works Oregon project where OBR is discontinued, the utility is released from collections associated with the loan, and the delinquent loan account is taken on by a financial institution.<sup>38</sup>

##### **5. A second MF pilot should test credit enhancement separately from OBR**

Including any credit enhancement in the OBR pilot will dilute the value of the OBR pilot. It will be difficult to tell whether lender interest and attractive financing terms stem from OBR or from the credit enhancement.

As an alternative, DRA suggests a credit enhancement should be separately piloted for the MF market. Rather than the consultant's recommended DSRF/bill neutrality guarantee, DRA recommends a loan loss reserve in order to provide confidence to lenders that loan defaults will be covered to a certain extent. A loan loss reserve is the preferred form of credit enhancement, because the funds will truly be "recycled" if the customers do not default on the loan payments.

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<sup>37</sup> The Clean Energy Works Oregon program severs the loan from the utility at 90 days.

<sup>38</sup> Cadmus Group, *Final Report: Energy Efficiency and Sustainable Technology (EEAST) Program Evaluation*, #10-122, June 30, 2011, p. 25.

A loan loss reserve presents the least risk to ratepayer dollars, and it is sustainable to continue this type of credit enhancement past the pilot period.

**C. Response to ALJ Questions**

- *Q1. Would it be reasonable to phase or stage development of a financing hub? How?*
- *Q2. Could and should fees from lenders or other parties be collected to help cover the costs of the financing hub development and maintenance? How?*

DRA reserves the right to respond in its reply comments.

- *Q3. How specific should Commission guidance and oversight be on specifying exact credit enhancement terms with financial institutions?*

*See above.*

- *Q4. Comment on the Hub management, government, and oversight functions described in the consultant report, and describe any alternative recommendations in detail.*

The proposal solicits input on who the Hub manager should be. At this stage, DRA recommends that the Hub manager be an entity with residential energy efficiency financing expertise. Given that ratepayer funds are involved, it is critical that the entity operate pursuant to all of the rules of a public entity, including but not limited to following a public process for all decision making and full transparency of information.

- *Q5. Is it sufficient to address only the multi-family affordable housing segment that is master-metered to test financing strategies for the multi-family market? Why or why not?*

DRA agrees (as described above in the Split Incentive section) that only meters for which the owner pays the bill should be addressed to test financing strategies for the multifamily market. With regard to the part of the question referring to the affordable housing segment, it is insufficient to address only the affordable housing segment in the multifamily pilot because:

1. If the concern is prioritizing the neediest tenants and buildings, it is not necessary to restrict the pilot to affordable housing sector in order to reach low income tenants. The utilities' have enough data to reasonably estimate which areas and buildings are likely to serve lower-income households for many years. The utilities have enrolled approximately 25% of its customer

base in the CARE program, and where high concentrations of these CARE customers living in MF buildings are found indicates needy areas. Even without the rent restrictions required of affordable properties, demographics provide confidence that this housing serves the lowest income Californians. For example, DRA collected this type of data for 2011 for all the utilities. There are several Climate Zones\* in PG&E and SoCalGas territory where more than the majority of individually metered MF customers are on CARE. If the CPUC were to target MF pilot projects to these areas, there is a high likelihood that the buildings will continue to serve low income customers in needy areas, even if the rents are to rise.

**Table 4  
CONCENTRATION OF MF CARE CUSTOMER IN  
UTILITY SERVICE TERRITORIES<sup>39</sup>**

Utility	Climate Zone*	Geographic area	Number of multifamily individually metered gas customers on same rate for entire year	% of multifamily gas customers on CARE
PG&E	R	Red Bluff, Merced, Fresno	43, 521	66%
PG&E	W	Bakersfield	11,299	65%
PG&E	P	Clear Lake, Sierra foothills	1,569	64%
SoCalGas	2	Bakersfield, Barstow, Lancaster, Fresno	45,000	59%
PG&E	V	Eureka, northernmost coast	4,999	58%

\*These zones are more accurately called Baseline Allocation Zones, as they correspond to geographic areas defined by individual utilities for purposes of assigning baseline gas usage amounts to customers. These Baseline Allocation Zones do not necessary correspond to the California Energy Commission’s Building Climate Zones.

2. Relative to their five percent share of the market, the affordable segment received a disproportionate share of public subsidies in 2009-12. See Table 4 above, where affordable properties were approximately 80% of the retrofits and received approximately half of the funds. This segment has arguably been the most targeted through federal funds in the last few years, with technical assistance, and contractor training in addition to retrofit subsidies. The MF affordable housing segment has been the exclusive recipient of CSI Multi-

<sup>39</sup> PG&E response of May 17, 2012 to DRA Data Request 1 (2012) issued May 2, 2012 and SoCalGas response of June 5, 2012 to DRA Data Request 1 (2012) issued May 2, 2012.

- Family Affordable Solar Housing program incentives, and has been a large recipient of many of the ARRA MF projects funded in 2009-2011. While this is an important sector to target because of the neediness of the tenants, more is known about this market due to these existing programs serving this segment.
3. DRA does not suggest that participation by affordable housing be limited, but only that it is essential to open the pilots beyond the affordable MF sector. The Consultant estimates that 150,000 of 3 million MF units are affordable. It is important to start gaining knowledge about the 2.85 million units that are market rate.<sup>40</sup>
  4. To address the long term split incentive goal of having property owners see a rise in rents and property values, it is critical to extend the offerings to market rate residential properties.

The Consultant proposal suggests that the affordable MF pilot, which it recommends over the pilot for all MF buildings, will provide a strategic pathway to the rest of the MF market. However, there is no further discussion of how affordable properties pave the way toward accessing market rate MF properties.<sup>41</sup> Additionally, if affordable properties have lessons applicable to market rate MF properties, these lessons should be gleaned from the affordable retrofit projects that have already been completed or are nearing completion.

It is imperative to expand the knowledge base beyond affordable housing owners and developers. The affordable MF sector may have unique characteristics that do not translate as well to market rate MF housing.<sup>42</sup> And if volume is one of the long term goals, it is critical to reach beyond the affordable sector which is estimated at only 5% of MF properties.

- **Q6.** *Do you agree with the report conclusion that financing is not the key need for market-rate multi-family housing energy efficiency and that projects are*

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<sup>40</sup> For example, the MASH program lists the variety of ownership and investment decision-makers that have it has collected from the program tracking database. “these organizations include affordable housing developers (both nonprofit and for-profit entities), general-market housing developers that own some affordable housing properties, municipal housing authorities, property management firms, and independent property owners.” It goes on to explain that nonprofit affordable housing developers and Community Development Corporations are the majority of host customers in the CSI-MASH program. *CSI Low Income Program Evaluation, Market Assessment Report*, pp. 86-88.

<sup>41</sup> “real promise in being the strategic pathway to eventually addressing the entire market of multi-family properties,” Harcourt, Brown and Carey, *Recommendations for Energy Efficiency Pilot Programs*, Report to the California Investor Owned Utilities, October 19, 2012, p. 11, footnote 23.

<sup>42</sup> Deutsche Bank/Living Cities/Steven Winter and Associates/HR&A Advisors, *Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting*, p.2 footnote 1.

*likely to be completed only at times of recapitalization or refinancing?  
Explain.*

is considerable.”<sup>43</sup>

One approach to Because recapitalization or refinancing are traditional times to access large amounts of capital, DRA agrees with this conclusion. While there has been much discussion of the “first cost” barrier for retrofits, the “overall cost” barrier of retrofit-rehabilitation projects is just starting to receive attention as more projects are completed.<sup>44</sup> The only other way to surmount high overall costs would be better coordination of funding sources, and better alignment of program requirements attached to these funding sources. DRA looks to the lessons learned in California from the ARRA State Energy Programs which demonstrate that most projects required layering grants, subsidies, incentives, and any available source to make deals happen.<sup>45</sup>

For example, the six MF properties in Oakland and San Francisco through ARRA SEP had to leverage \$1.8 million in outside funds in addition to the \$400,000 financed amount.<sup>46</sup> This barrier is persistent in some of the other state examples such as Oregon, “In a program area with a mix of funding sources, the efficiency lost to interpreting and patching together multiple funds for every participating household improving this need for funding is further stewardship of the website developed as part of the ARRA comprehensive energy efficiency infrastructure, called “Funding Finder.” This is simply a customized search of all funding available to a California property, and is intended to be user-friendly. DRA supports the recommendation from the San Diego ARRA SEP pilots, that IOUs adopt the ARRA-piloted “Funding Finder” tool.<sup>47</sup>

Regarding coordination of funding sources and easing participation in multiple programs, the lessons learned from 2010-2012 suggest this is still an uphill battle. The Consultant recommendation states that MF projects will need to take advantage of the Energy Savings

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<sup>43</sup> Cadmus Group, *Final Report: Energy Efficiency and Sustainable Technology (EEAST) Program Evaluation*, #10-122, June 30, 2011, p. 27.

<sup>44</sup> Harcourt, Brown and Carey, *Recommendations for Energy Efficiency Pilot Programs*, Report to the California Investor Owned Utilities, October 19, 2012, p. 6 footnote 4.

<sup>45</sup> *Final Report for The Affordable Multifamily Retrofit Initiative (ARRA SEP Final Report)*, May 11, 2012, p. 2.

<sup>46</sup> 2012-05-11\_ARRA\_SFMOH\_Contract\_400-09-019\_Final\_Report, p. 9.

<sup>47</sup> *ARRA EECBG Final Report*, June 24, 2012, pp. 17-19.

Assistance program but does not address the difficulties in implementing this plan as laid out in the San Diego ARRA SEP Final Report.<sup>48</sup>

- **Q7.** *Should the economic benefits of water savings be included in the calculation of "bill neutrality" and the net eligible financeable project amount during the pilot period, as recommended in the report? Explain.*

Yes, water savings should be included in calculating the net eligible financeable project. Water savings are described as critical in several ARRA SEP final reports.<sup>49</sup> Even with the inclusion of these water savings measures in projects, Lesson 1 from the Bay Area ARRA SEP pilot states, "Linking debt to savings in the Bay Area results in very small loans."<sup>50</sup> If the Commission were not to include water savings in the calculation to create a "bill neutral" loan, loans will be smaller still.

However, DRA does not recommend a bill neutral approach be required for financing multifamily retrofit and rehabilitations. If a conservative approach is taken to estimate bill savings, loan amounts in all but the coolest climates are likely to be limited. As benefits to building owners (and tenants) appear to extend well beyond the actual bill savings, a low-credit-risk property owner may well be motivated to fold non-energy related work into the loan. It is too restrictive to limit financing only to bill neutral Energy Efficiency retrofits.

- **Q8.** *Do you see sufficient justification for piloting credit enhancements for medium and large commercial customers? Explain*

No, medium and large customers already have 56% of financing dollars via OBF and at the highest ratepayer-subsidized levels (0% interest), despite constituting X % of ratepayers and X% of utility energy consumption and paying the utility rates among customer classes. No further subsidization of this industry should be pursued, unless it can be found that energy efficiency dollars are *reducing consumption* cost effectively and at levels that are significant and targeted enough to offset distribution/generation and other infrastructural costs. Otherwise, it is simply a wealth transfer from residential and small commercial customers to medium and large

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<sup>48</sup> *Energy Upgrade California™ in San Diego County Final Report (ARRA EECBG Final Report)*, June 24, 2012 p. 29.

<sup>49</sup> *ARRA SEP Final Report*, May 11, 2012, p. 8 lists Low Flow Toilets among the seven Efficiency measures resulting in the highest Savings to Investment Ratio, description of projects on pp. 8-10 include water savings in nearly each project.

<sup>50</sup> *ARRA SEP Final Report*, May 11, 2012, p. 13.

commercial customers on top of the low rates this sector currently enjoys. Furthermore, the medium and large commercial sector has other sources of financing that the residential and small commercial customers do not. These credit enhancement dollars should be reserved for the residential and small commercial sector, which represent a large portion of energy efficiency potential and are harder-to-reach markets.

- **Q9.** *The consultant report recommends limiting lighting measures in the on-bill financing programs and assigning lighting-centric projects to the on-bill repayment mechanism. Do you agree with this approach? Explain your rationale.*

DRA reserves the right to respond to this commercial sector question in its reply comments.

- **Q10.** *Are the pilot proposal budgets sufficiently detailed to warrant moving forward with approval? Explain your rationale and any alternative proposals.*

HUB: See above.

WHEEL: The detail provided in the proposal for the WHEEL does not provide sufficient evidence to warrant an additional expenditure on (1) developing a structure to engage secondary capital markets and (2) doubling the standard credit enhancement (20% versus the 5-10% standard), as described in Section II. B. of these comments.

10% LLR. It may be risky to allocate a *statewide* budget for a 10% LLR, without establishing lender management roles that would serve to negotiate interest rates and loan terms in a consistent, centralized fashion.

- **Q11.** *Would you recommend any additional objectives to be tested in the recommended pilots? Specify.*

Yes, the financing pilot should test the ability of the local bank and credit union market's ability to serve the needs of reactive customers. If the secondary market is engaged in the financing pilots, the pilots should test the ability of the secondary market to compete with local institutional offerings (and vice versa).

The financing pilots should also test the ability of tailored (tailored to geographic need, housing vintage and high impact measures) to increase program uptake *and* reduce energy consumption. During the pilot period, the pilot should identify ways to narrow the variety of loan offerings based on market segmentation so as to minimize customer confusion around loan offerings.

- **Q12.** *How do you recommend balancing the goals of “keeping it simple and fast” compared with addressing the complexity of market issues in the sectors targeted and with the pilot features proposed?*

The proposal recommends delaying approaches to centralize local financing programs (p. 33) in its objective to execute this pilot in a fast manner and minimize disruption to existing loan programs. DRA is not opposed to this approach, but recommends adding to two functions to address the complexity of market issues and one to ensure the pilot is useful. During the pilot period, the pilot should identify ways to narrow the variety of loan offerings based on market segmentation so as to minimize customer confusion around loan offerings. The pilot should also hire lender managers (see response to Q3) (in place of WHEEL structural developments) that can negotiate the best interest rate and terms among new lenders. If this becomes too burdensome, the hub should create, at the very least, a quick reference chart such that consumers can easily evaluate and compare loan offerings, which will help to keep interest rates and terms competitive (this approach does not remove the potential for hidden costs and misrepresentations).<sup>51</sup>

Lastly, evaluation of the pilots should be designed concurrently with the pilot design and should gauge the influence of interest rates and program tailoring on program uptake. Generally the EM&V should determine the influence of financing on closing the energy efficiency gap. This may take time to develop but will be essential in meeting some of the data needs of energy efficiency planning.

- **Q13.** *Are there general criteria or participation agreements that participating financial institutions should adhere to in order to access credit support and/or on-bill repayment mechanisms?*

See response to Question 3.

- **Q14.** *Similarly, are there quality assurance or project economics disclosure requirements that should apply to projects financed via the pilots?*

It may be serve the Commission and proposal development better to reserve detailed discussions on Question 13 and 14 for a “next step” in the development of the pilot. DRA

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<sup>51</sup> Fannie Mae has noted for example that there are programs that make up for low interest rates by allowing associated contractors to increase their contracting costs to the consumer. Fannie Mae considers this a violation of truth-in-lending laws (*Borrowing to Save Energy: An Assessment of Energy Efficiency Financing Programs*, by Palmer, Walls, and Gerarden, Resources for the Future, 2012, p. 12).

reserves the right to respond to these questions in either it reply comments or this next step, should the ALJ deem this path appropriate.

- ***Q15.*** *Is the recommended 20% limit on financing of non-energy related project costs reasonable? Explain.*

This approach is fairly standard (CEWO and Keystone Help employ similar approaches) and one way to address the fact that consumers rarely look for energy efficiency financing unless they seek out related products that are useful to them.

- ***Q16:*** *Should any of the pilot programs (on-bill repayment, for example, for any specific sectors) be designed to help or allow bringing buildings only up to code compliance rather than exceeding minimum requirements an encouraging high efficiency? Explain.*

No comment at this time.

- ***Q.17.*** *Interested parties should also feel free to comment on the reasonableness of any of the pilot design features including:*
  - *Key objectives to be tested by the pilots*
  - *Definition of eligible pilot market segments relative to the total sector populations*
  - *Budgets*
  - *Anticipated leverage of total ratepayer dollars and overall cost-effectiveness of the combined programmatic and financing costs*
  - *Anticipated functions, roles, and responsibilities to be performed.*

DRA believes the key objectives of the pilot should be to (1) narrow the energy efficiency gap (i.e., the underinvestment in energy efficiency), (2) test various ways to narrow this gap and measure each method's contribution to program uptake and energy consumption reduction, (3) to achieve maximum reductions in energy consumption.

- ***Q18.*** *Do you believe the pilot proposals can reasonably be rolled out in the first quarter of 2013? Describe any alternative proposals.*

No comment at this time.

- ***Q19.*** *Are there particular milestones that each pilot should be required to achieve to measure performance? If so, how should those be determined?*

*Should achievement of milestones be used to trigger ramping up larger-scale rollout, rather than a defined pilot period?*

Yes. The following are milestones that the financing pilot should achieve before the secondary market is engaged:

Milestone 1: a minimum amount of volume in financing uptake that challenges the boundaries of existing funding resources.

Milestone 2: Cost effective reductions in energy consumption. Pilots should be evaluated and shown to have significant, cost effective reduction impacts to energy use.

Milestone 3: A determination of whether that level of volume that can produce cost effective energy consumption reduction can be served by local lending institutions. If not, considering engaging the secondary lender market.

Milestone 4: Determine through pilots what level of targeting and tailoring is needed to serve California's diverse markets (inland/coastal, housing vintage, income ranges). If the Commission determines that the volume of loans produced by financing are achieving cost effective consumption reductions and that volume is moving in a direction that will surpass local lending capacity *and* it is sufficient and standardized enough to attract the secondary market, the Commission should pursue the secondary lending market option. Similar principles should be used to determine ramp up of large industrial sector OBF and OBR programs.

- ***Q20.** Should the Commission allow the Regional Energy Networks (RENs) to move forward with their pilot proposals for which funds were reserved? Explain any concerns with any of the pilots. How should the REN pilots be coordinated with those proposed in the consultant report?*

No comment at this time.

### **III. CONCLUSION**

DRA respectfully submits these comments for Commission consideration.

Respectfully submitted,

/s/ MITCHELL SHAPSON

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