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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING COMMENTS ON HARCOURT BROWN & CAREY REVISED RECOMMENDATION REGARDING ENERGY EFFICIENCY EQUIPMENT LEASE FINANCING

Decision (D.) 13-09-044 allocated $65.9 million[1] to launch implementation of pilot programs that use ratepayer funds to attract private capital to energy efficiency investments. The pilots are to develop scalable financing products, which in turn should stimulate deeper energy efficiency projects than achieved through traditional program approaches (e.g., audits, rebates, and information).

On March 9, 2015, the California Alternative Energy and Advanced Transportation Funding Authority (CAEATFA) sent the Energy Division Director a letter (March 9 letter) in which CAEATFA asked for clarifications of and changes to D.13-09-044 and the related advice letter E-4680. The Commission treated the March 9 letter as a petition to modify. On June 19, 2015, the Commission issued Decision (D.) 15-06-008 Partially Modifying D.13-09-044

[1] The balance of authorized funds are held in reserve until after a mid-point review of the implementation efforts and costs. D.13-09-044, at 2.

and Resolution E-4680 Implementing Energy Efficiency Financing Pilot Programs.

D.15-06-008 deferred resolution of some issues from the March 9 letter. One deferred issue related to loans to lessors of energy efficient equipment. In D.13-09-044 we concluded that only a limited number of entities should be eligible to finance leasing of energy-saving equipment:

> HBC[[2]] recommended a limited number (up to four) lease originators be selected by competitive [request for proposal (RFP)] to participate in the pilot. Limiting the number of originators may provide confidence of sufficient deal flow to warrant up-front costs while also creating competition. The financing products and terms for HBC's proposed small business lease pilot would be subject to the competitive proposals, with an LLR as the preferred CE.[3]

In a June 16, 2015 ruling, we noticed a Prehearing Conference (PHC) for July 6, 2015 at 10:00 a.m. and requested PHC statements. On July 1, 2015, Pacific Gas and Electric Company, San Diego Gas and Electric Company (SDG&E), and Southern California Gas Company (collectively, IOUs) and Joule Assets, Inc. filed PHC statements.

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[2] The reference here is to the "Report to the California Investor-Owned Utilities submitted by Harcourt Brown & Carey (HBC) for the California Energy Efficiency Finance Project, dated October 19, 2012." (HBC Report).

[3] D.13-09-044 at 62 (referencing the following from the HBC Report: "Up to four (4) lease originators should be selected by competitive RFP to participate in the pilot. The consultant team initially recommended a single lease originator, but extensive stakeholder feedback convinced us that allowing a limited number of lease originators during the pilot period will: (a) provide lease originators with enough confidence that deal flow will be sufficient to warrant the up-front costs of participating in the initiative while (b) creating competition amongst originators to propose lower rates, thinner spreads or access to deeper credits. If the program is deemed successful at the end of the two year pilot, we recommend allowing all lease companies be eligible to participate if they meet certain requirements." (HBC Report at 65)).

In PHC statements and also at the July 6, 2015 PHC in this matter, the appearing parties as well as CAEATFA unanimously supported eliminating the RFP requirement for lease providers. Parties contend that the lease financing market has changed such the HBC report issued in 2012. According to the parties and CAEATFA, it is no longer necessary to limit the pool of lease originators, and, by extension, no longer necessary to conduct an RFP.

Currently the only evidence on this issue is what is in the HBC Report from 2012. Before the Commission can evaluate parties' claims that the market has materially changed since 2012, the Commission will need to take additional evidence into the record.

Pursuant to Administrative Law Judge direction, SDG&E provided to the Commission a revised set of HBC recommendations relating to lending to lessors of energy efficient equipment. The revised HBC recommendations are attached to this ruling as Attachment A. By this ruling, the Commission is putting these recommendations out for a public comment period.

IT IS RULED that:

1. Parties may file comments on Attachment A by August 3, 2015.
2. In comments, parties are to address the following questions:
    a) Is there still a need for the RFP phase of the commercial lease pilot?
    b) Are criteria listed in Decision 13-09-044, pages 62-63, sufficient for CAEATFA to conduct its rulemaking process for participation in the small business lease program?

3. Non-party CAEATFA may file comments in response to this ruling.

Dated July 23, 2015, at San Francisco, California.

/s/ TODD O. EDMISTER

Todd O. Edmister
Administrative Law Judge

ATTACHMENT A

(Revised HBC Recommendations)

Harcourt Brown & Carey
ENERGY & FINANCE

Summary

HB&C provided recommendations in its October 2012 report that suggested selecting commercial small business lease providers on the basis of a competitive RFP. Since that recommendation of 2.5 years ago, the commercial lease market has changed substantially and a larger number of participants are offering lease products in to this market. As a result, HB&C recommends that CAEATFA consider using an open market approach – based on standard lease company qualifications, much like the REEL program - to qualify lease providers to participate.

Review of October 2012 Recommendation

In the October 2012 Harcourt Brown & Carey (HB&C) report to the California Investor-Owned Utilities "*Recommendations for Energy Efficiency Finance Pilot Programs*", HB&C made recommendations for a sub-pilot small business lease program. HB&C stated, "Equipment lease financing is a mature market with many capital providers – it is the most common method used by the commercial sector (and is also quite popular in the institutional sector) to acquire equipment and has been used extensively to finance energy improvements." At the time of this recommendation from 2.5 years ago, HB&C's assessment was that the equipment lease provider market was mature especially for the municipal market using a tax-exempt municipal lease structure. Most lease providers were not focused on energy efficiency in the <u>commercial</u> sector as a distinct market. Due to this, HB&C recommended the following:

> "Up to four (4) lease originators should be selected by competitive RFP to participate in the pilot. The consultant team initially recommended a single lease originator, but extensive stakeholder feedback convinced us that allowing a limited number of lease originators during the pilot period will (a) provide lease originators with enough confidence that deal flow will be sufficient to warrant the up-front costs of participating in the initiative while (b) creating competition amongst originators to propose lower rates, thinner spreads or access to deeper credits. If the program is deemed successful at the end of the two year pilot, we recommend allowing all lease companies be eligible to participate if they meet certain requirements"

The reasoning behind HB&C's RFP recommendation in October 2012 was that the commercial efficiency finance market was as yet immature; at the time we were aware of only one or two lease providers having made any public commitment to financing for energy efficiency. The lease business as a whole was still very new to commercial efficiency finance, and would have significant start-up costs in order to be able to enter the market and to customize its lease offerings for energy efficiency.

In order to justify these start-up costs and to entice lease companies to participate in the commercial efficiency finance market, HB&C felt that it was important to restrict the total number of market players during the pilot phase – thus providing a stronger incentive for lease providers to participate in the pilot.

Further, the HB&C recommendation was premised on the idea of a two-year pilot that would begin shortly after the Commission Decision. Our assessment at the time was that the approach to stimulating the commercial energy efficiency lease market would need to come in two phases:

- Phase 1 would use an RFP to select lease providers as part of a more restricted, or closed-market, RFP approach that provided an incentive to entice new providers to the market.
- Phase 2 would use an open-market approach to enable lease providers to participate if they met certain requirements, much like the residential energy efficiency (or REEL) program. This second phase would be appropriate once the market had developed further, with a larger number of lease providers than existed at the time.

Revised Recommendation Based on Mature Market Circumstances

Since October, 2012, HB&C has seen a marked increase in the availability of lease financing for energy efficiency for small commercial businesses. This increase has several implications that affect the October, 2012 HB&C recommendation:

- Multiple lease providers have now passed over a learning curve for how to lend to energy efficiency projects (understanding how best to incorporate utility rebates, how to account for projected energy cost savings etc.);
- Lease providers now have built up their internal IT and other systems such that the incremental cost of entering the California market or the energy efficiency market in general is not significant;
- Different lease providers have begun to offer different lease products designed for different types of customers and sub-market sectors -- some providers are more comfortable with greater credit risk than others, other providers take energy cost savings in to greater account than others. As a result of this diversity in product offerings that did not exist in October, 2012, it has become challenging to create effective scoring criteria that compare the benefits of one lease company to another.

The following table describes the general characteristics of each lease provider's product:

Lease Provider	Description of Product(s)	Website
AFC First	• One page Credit application on Projects Size: ~$10,000 to	http://www.afcfirst.com/

	$250,000	
Ascentium Capital	• Project Size: $10,000 to $1.5 million	https://ascentiumcapital.com/Default.aspx
Joule Assets	• Project Size: Minimum $10,000	http://www.jouleassets.com/
Key Bank	• Project Size: Minimum $10,000	https://www.key.com
Sparkfund	• Project Size: $10,000 to $1 million	https://www.sparkfund.co/
TIP Capital	• Project Size: Minimum $10,000	https://www.tipcapital.com
US Bank	• Project Size: Minimum $50,000	https://www.usbank.com

Conclusion

HB&C believes there is no longer a need for the RFP phase of the commercial lease pilot. Not only is there more participation, but the participants provide national products, thus obviating the need to create California-specific platforms that would have warranted significant up-front costs. Our recommendation is therefore to qualify lease providers using the same approach as has been used for the REEL program - establishing a set of criteria that all providers must comply with, but allowing any lease provider that meets these criteria to qualify.

(End of Attachment A)