BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Order Instituting Rulemaking to Investigate and Design Clean Energy Financing Options for Electricity and Natural Gas Customers.	Rulemaking 20-08-022

JOINT OPENING COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902-E) ON ORDER INSTITUTING RULEMAKING

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Pursuant to Rule 14.3 of the California Public Utilities Commission (CPUC or Commission) Rules of Practice and Procedure, Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) (together, the Joint IOUs)[1] respectfully file these *Opening Comments on the Proposed Order Instituting Rulemaking (OIR) to Investigate and Design Clean Energy Financing Options for Electricity and Natural Gas Customers* in Rulemaking (R.) 20-08-022 issued on September 4, 2020.

I.

INTRODUCTION

In this proceeding, the Commission seeks to develop a more cohesive and comprehensive strategy to help customers finance energy improvements to further support the State's and Commission's ambitious goals to reduce greenhouse gas (GHG) emissions. The Joint IOUs are committed to the State's decarbonization goals and agree that large scale customer adoption of

[1] Pursuant to Rule 1.8(d) of the Commission's Rules of Practice and Procedure, SDG&E has authorized SCE to file and sign these comments on its behalf.

distributed technologies is likely essential to realizing California's carbon reduction and carbon neutrality goals by 2030 and 2045, respectively.

The Joint IOUs therefore support efforts to streamline financing options in furtherance of those energy and environmental goals. The Joint IOUs appreciate the complexity of the task because there are so many potential options with varying degrees of difficulty to implement and benefits to customers and the grid. The result will have downstream consequences. To strike the appropriate balance, the Joint IOUs recommend that the Commission evaluate each approach based upon the guiding principles of: (1) affordability; (2) maximum impact and uptake; (3) reduced complexity; (4) minimal risk; and (5) equity and inclusion, each of which is discussed in greater detail below.

II.

THE JOINT IOUS SUPPORT THE COMMISSION'S OBJECTIVES AND THE SCOPE OF THE OIR

A. The Joint IOUs Support Streamlining and Expanding Customer Financing Options

The Joint IOUs conceptually support the idea of streamlining various financing options to allow customers to implement GHG reducing technologies in their homes and businesses using a more holistic approach. Expanding financing options for customers is likely to lead to additional and more comprehensive investments in GHG-reducing technologies. Financing options can help customers overcome the barrier of initial upfront costs for these investments and allow a broader range of participation across customer and market segments by attracting hard-to-reach and underserved populations. In other instances, upfront incentives and rebates may be the most effective way to promote widespread adoption of a technology to various market segments and customer groups.

The Joint IOUs and the Commission share invaluable experience and expertise in developing and implementing past financing and subsidy programs for a variety of technologies with varying degrees of success, costs, benefits, efficiency, and complexity. The lessons learned from those experiences will contribute to the success of this OIR. To date, the Joint IOUs have developed and implemented financing programs, typically by technology types, such as financing for Energy Efficiency (EE) upgrades.

The OIR represents a departure from that past approach by proposing a more holistic and cohesive strategy. The Joint IOUs agree the OIR's strategic approach is likely to be more effective at furthering California's GHG-reduction goals. The Joint IOUs therefore agree that the Commission, with stakeholder input, should examine all the options for multiple sources of funding by "combining and leveraging ratepayer funds with private financing" to support deeper customer investments in GHG-reducing technologies.[2] It is unclear, however, whether the Commission intends through this OIR to seek to expand, replace, or merge existing programs with new programs to allow for more holistic financing options for customers, or instead whether the Commission prefers to explore only new programs that would fill current gaps and leave existing programs in place. The Joint IOUs see merit in exploring both strategies, as well as benefits and complications inherent in both, and the Joint IOUs encourage the Commission and stakeholders to consider both approaches in the OIR. Either way, the Joint IOUs recommend that the Commission ensure that the OIR does not result in the creation of new programs that overlap with existing programs or inadvertently create undue additional complexity, rather than streamline and/or expand existing financing structures.

In evaluating all the options, the Commission should employ the guiding principles the Joint IOUs propose below.

B. The Joint IOUs Support the OIR's Discussion of Benefits, Costs, and Barriers but Recommend the Commission Treat Them as a Non-Exhaustive List

In the Joint IOUs' experience, each of the possible financing options or sets of options identified in the OIR comes with its own benefits, challenges, and potential downstream

[2] OIR, at p. 2.

consequences. The Commission's OIR identifies some of the costs, benefits, and barriers. The Joint IOUs agree the list identified by the Commission is a good starting point for vetting, but the Joint IOUs also identify others. Thus, the costs, benefits, and barriers worthy of examination in this OIR should not be limited to the list provided in the OIR. For instance, the Commission should consider other barriers, including but not necessarily limited to: (1) lack of consumer awareness of available financing tools and difficulty navigating lending processes; (2) lack of customer knowledge about the benefits of the technologies; (3) establishing the optimal loan amount required per project to spur technology adoption without over-incentivizing; (4) bill neutrality; (5) maximum loan terms; and (6) limits on utilities' ability to provide financing because the scope of the California Corporation's Commission exemption from the California Finance Lenders Law is limited to providing financing for energy efficiency projects for non-residential customers.

The Joint IOUs therefore recommend that the Commission decline to create a finite set of costs, benefits, and barriers that fall within the scope of the proceeding and instead allow those matters to develop as the parties propose and vet different proposals and options.

III.

THE JOINT IOUS RESPECTFULLY REQUEST THAT THE COMMISSION ADOPT AND APPLY THE JOINT IOUS' PROPOSED GUIDING PRINCIPLES FOR CLEAN ENERGY CUSTOMER FINANCING

A. The Commission Should Adopt and Apply the Guiding Principles to Evaluate and Select from the Various Financing Strategies and Options

While the Joint IOUs take no position on any single or combined approach at this time, all options for customer financing or alternatives to financing should be evaluated by the following guiding principles – GHG reduction being the paramount and overarching lens through which every principle and option is viewed. These proposed guiding principles are: (1) focus on affordability; (2) maximize impact and uptake; (3) reduce complexity; (4) minimize risk; and (5) ensure equity and inclusion. The Joint IOUs recommend that the Commission develop a score card to rank the options considered based on these guidelines to help the Commission assess which financing options best meet the guiding principles and maximize benefits for the customer, the grid, and the State's goals.

1. <u>Focus on Affordability</u>

The Joint IOUs propose that all financing aimed at helping customers obtain technologies that will reduce GHG emissions must be affordable for all customers, whether they are participating in the program or not, as well as the Joint IOUs. Determining affordability requires the Commission to have a bird's eye view that will allow it to compare all available interventions, ranging from financing to rebates, so that it can select the most affordable, *i.e.*, cost-effective taking into account all benefits, option or set of options for participating and non-participating customers. The following factors should be considered when assessing the affordability of any proposed approach:

a) The Commission should try, whenever possible or appropriate, to ensure that participating customers realize overall financial savings (including non-utility bill savings, such as eliminating gasoline costs when purchasing or leasing an electric vehicle) or other quantifiable benefits that equal or exceed the cost of the financing. The cost-effectiveness of a strategy and the expense associated with nonmonetary benefits must be viewed in the context of that strategy's cost to non-participating customers and the sophistication and financial ability of the targeted customer class to make an investment that may not produce financial benefits. The Joint IOUs note that achieving this goal does not require bill neutrality, because the measure may not reduce the customer's energy bill, even though it results in an overall reduction of customer costs. An example of financing that might produce overall financial savings, but not utility bill savings, is financing to lease or purchase an all-electric vehicle. Owning an electric car may be more costly than a non-electric vehicle and will likely increase the customer's electric consumption and bill. However, the customer may be "in the black" because it has eliminated the cost of gasoline, which is far costlier than charging a car from the electric grid. Thus, costs savings should be viewed holistically, and the Commission should not require bill neutrality if other savings are realized.

b) Before the Commission creates a financing program for a technology, the Commission should look at all the current revenues and Commission and non-Commission programs available to customers and determine if there is revenue or cost savings that can be obtained to provide the technology to customers without them having to finance the investment and without causing an increase in rates. For instance, if the Commission properly eliminates or significantly reduces the cost shift associated with Net Energy Metering (NEM), which does not provide meaningful GHG reduction, that program's impact on customers' rates would be reduced, potentially leaving room to create a meaningful subsidy or incentive for customers to invest in technologies while still experiencing some bill reduction from the reduction of the $2-$4 billion NEM subsidy. The uncertainty in available GHG Cap-and-Trade Allowance revenue from year to year causes that potential financing source to be uncertain source for upfront incentive for certain technologies that reduce GHG emissions. The Commission should therefore look across all utility programs and funding, as well as non-utility funded programs, to make the most efficient use of resources other than financing, particularly to support investments by lower income customers.

c) The OIR states, "The most successful long-term strategies are likely to involve the use of a small amount of ratepayer support, coupled with a much larger amount of private capital provided by financial institutions."[3] The Joint IOUs

[3] OIR, at p. 31.

agree that the Commission should adopt affordable options for customers by, whenever possible, prioritizing financing with private capital over investments from other customers. That is the case because the customers who bear the predominant share of the cost burden of subsidy programs are typically lower income and middle-class customers.[4] Because these programs are public purpose in nature, the Commission should also consider broad cost allocation, such that all customers that benefit from cost-effective GHG reductions pay their fair share of the customer costs.

d) The Commission should ensure that the IOUs' shareholders face no financial risk associated with financing these investments. Even if debt is repaid, using the utilities' balance sheets to access capital for customer financing increases costs to customers. If the utility takes on considerable debt, the utility may experience a reduction in its credit rating. If that happens, borrowing becomes harder and more expensive for the utility. The utility passes on those costs to customers. As a result, if those costs increase for the utility, they also increase customers' rates. Thus, the Commission must also assess the risks to the utilities' balance sheets and carefully balance the potentially competing affordability objectives before adopting a proposal or option.

2. Maximize Impact and Uptake

The Commission's final selection of options should ensure that the incentive or financing mechanism maximizes GHG reduction by incenting as much uptake in GHG reducing technologies as possible. Scientific and fact-based empirical data shows that mass adoption and optimized use of these technologies is necessary to achieve meaningful GHG reductions. It is unlikely that the Commission can create financing programs that will generate the many billions

[4] *See* Cal. Pub. Util. Code § 451.

of dollars and investments that are necessary to achieve what is required for massive GHG reductions. Indeed, the Commission should acknowledge in this proceeding that there are limits to the degree to which non-participating customers can help other customers finance such investments, particularly during a time when a pandemic has wreaked havoc on the economy and customers' finances. Given the obvious limits of Commission created financing programs, it is critical that those programs efficiently maximize impact and uptake. One way to do so is to make sure that any incentive or financing is narrowly tailored to each technology type and incentivizes the proper customer groups for maximum uptake.

For instance, with respect to technologies, it is critical that the Commission's program focus on providing financing opportunities for technologies with proven, material GHG reduction capability and for which there are discernable barriers to adoption that can be overcome with financing opportunities. That means that the Commission's program should discourage duplicating Commission financing where other incentives are already available through existing Commission programs or external governmental or private programs, provided that those existing incentives or financing options adequately address barriers to adoption. If existing incentives or financing options do not fully address a barrier, layering and potentially expanding existing programs, to the extent possible, to fill gaps and add complementary benefits may be an incisive and efficient way to maximize impact and uptake.

In addition, to maximize benefits the technologies for which financing is available should, whenever possible, provide discernable grid benefits, such as locational attributes to deploy the technology when needed.

The Commission should also attempt to maximize uptake by, whenever possible, offering financing that will provide more savings over the life of the technology than the financing costs. Maximizing uptake in this way also supports the affordability principle.

3. **Reduce Complexity**

Experience has taught the Joint IOUs and the Commission that complex and/or overlapping programs may be a deterrent to uptake, be time consuming to design and implement, require a high level of funding, oversight, and coordination with third parties, and frustrate affordability. The Commission should thus favor proposals and options that offer customers financing solutions that are easy to use and understand and that can be utilized across different technology types. Simplicity also supports the equity and inclusion principle.

4. **Minimize Risk**

The fourth guiding principle is to minimize risk for the IOUs and all their customers, meaning those who are participating in the financing program and those who are not. To mitigate risk, the Commission should:

a) Assess the legality of options to ensure the utilities are not exposed to unreasonable risk of legal challenges, or be subject to California consumer lending laws, the costs of which are borne by customers.

b) Avoid programs that require utilities to carry substantial risks of the investments, such as programs that require the IOU to be responsible for the purchase, ownership, and maintenance of the equipment installed on customer homes or businesses.

c) Assess and mitigate the risks to the IOUs' balance sheets and tax consequences of any financing option(s).

d) Eliminate perverse incentives and adopt safeguards that prevent the use of predatory lending practices by third parties, by identifying and coordinating with the correct regulatory agencies for oversight of third-party lending. The oversight must be handled by the appropriate regulatory agencies, not by the utilities.[5]

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[5] The Joint IOUs also caution that a tariff-based program – a model that works well for energy efficiency but may not translate to other technologies – may create such perverse incentives.

One way the Commission can protect customers is to exclude Property Assessed Clean Energy (PACE) program financing, or any financing that lack sufficient consumer protections, from the Commission's program. Some jurisdictions in California have ended all participation in PACE programs because they lack consumer protections, are rife with potential fraud, and have been deemed abusive because of the liens the loans impose on customers' properties, causing some people to lose their homes.[6]

e) Discourage programs that saddle customers who would not otherwise qualify for financing with high interest rate debt. Such customers should only qualify for a financing program if the overall financial savings is expected to equal or exceed the costs of the principle and interest. This goal will also support the affordability principle.

5. Ensure Equity and Inclusion

A one-size-fits-all approach will likely not promote equity and inclusion. Instead, diverse sustainability programs tailored to technologies and to different customer needs and qualifications will promote equity and inclusion. For instance, for customers who would not otherwise qualify for a loan, only offering them a program that will serve them with a high interest loan is not reasonable. Instead, those customers should have financing or other options that are expected to result in greater benefits than costs over the life of the financing. Finally, removing or lowering the barrier to affordable financing for residential customers, including considering the problem of "split incentives" where the property owner does not pay the electric bill, is necessary to support equity and inclusion.

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6 *See., e.g.,* https://www.latimes.com/homeless-housing/story/2020-05-21/la-fi-pace-home-improvement-loans-la-county (discussing LA County's ending of PACE program due to fraud and lack of consumer protections); https://www.latimes.com/business/la-fi-pace-bakersfield-20170720-story.html (discussing the City of Bakersfield's decision to end PACE program for same reasons).

IV.

SCHEDULE

The Joint IOUs support the OIR's proposed schedule.

V.

CONCLUSION

The Joint IOUs respectfully request the Commission adopt and apply the guiding principles discussed above in this OIR.

Respectfully submitted of behalf of
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