PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 19, 2013

The Honorable Mark Leno
California State Legislature - State Capitol
Sacramento, CA 95814

Dear Senator Leno,

I am writing to request that the Joint Legislative Budget Committee revisit its decision concerning the California Alternative Energy and Advanced Technology Financing Authority (CAEATFA) request for budget authority to act as the Hub for Energy Efficiency Financing activities as part of the Section 28 process. I believe that Section 28 is not only warranted but necessary because these previously unavailable non-state funds are needed in the near term to accomplish critical policy objectives that would be substantially harmed by any delay.

First, I want to clarify a few points regarding the applicability of Section 28. I agree that the Section 28 should only be used in the event of previously unavailable non-state funds. This is entirely applicable to the current circumstances, and is precisely the reason section 28 was utilized. In this instance, the funding or CAEATFA's new activities is being provided by electric and gas ratepayers, under direction of the California Public Utilities Commission (CPUC), and is not derived from the General Fund or other state monies. In addition, these funds were not available in time to be considered during the normal 2013-14 budget process.

I note that the CPUC has authorized multiple decisions and conducted extensive review to get to this point. However, until there was an official decision on September 19, there was no basis to make a budget request – so CAEATFA could not ask for the authority in January 2013 or any other time during the regular 2013-14 budget process. So for the purposes of the 13-14 budget, these are "unanticipated non-state funds". The CPUC and CAEATFA, in collaboration with the Governor's Office and consultation with Department of Finance, conferred with both Senate and Assembly leadership staff on the timing, and were given the guidance to use the Section 28 process as soon as the CPUC adopted its decision.

Secondly, there is a compelling urgency why this cannot wait to the 14-15 budget.

- **Any delay could yield a serious blow to California's credibility with financial institutions and to the legislature's overall goals on financing energy efficiency retrofits.** It has taken nearly two years to align the interests of the investor-owned utilities, contractors, affordable housing organizations and others in California to support using on-bill financing as a vehicle to promote energy efficiency through building retrofits. It has also taken several months and considerable effort to persuade banks, leasing companies, and other financial institutions to participate in the creation of this new market by providing capital to California instead of competing markets around the country. All parties have been patient with the long and complex process leading to official approval of these programs, and the January 15th start date has been eagerly anticipated. At this stage, any delay, even for a few months, runs the risk of damaging the credibility of this effort and could severely hinder California's ability to attract capital and establish this new market.

- **Delay means higher cost.** Delay in the implementation of the programs will increase the perceived "riskiness" of the market for Energy Efficiency loans in California and hence will increase the cost to borrowers or to ratepayers or to both. The state's overall policy goal should be to have a self-sustaining access to capital market, so that ratepayer funds are not the sole source of energy efficiency retrofits.
- **We are already overdue implementing Legislative direction.** These activities were all directed by the enactment of Assembly Bill 758 (Skinner, 2009) that directed the CPUC to identify methods to use ratepayer funds to support efficiency investments. Considerable effort has been devoted to getting to this point. The CPUC has implemented a successful On-Bill Financing program (with a revolving loan fund using 100% ratepayer-funded capital), held multiple workshops, commissioned two rounds of consultant reports and convened extensive consensus building. Having this financing hub available at CAEATFA is a key step as the CPUC develops its next portfolio of efficiency programs and its reliance of financing solutions and as the California Energy Commission implements its AB 758 efficiency retrofit action plan.
- **Delay means lost benefit.** These funds are authorized from the 2013-14 energy efficiency funds. If they do not commence in early 2014, we do not get to simply hit the 'pause' button. Investment decisions will be made now at natural trigger points for homeowner and commercial building improvements; significant deep retrofit savings not realized during this 6-9 month delay will be "lost opportunities" for another 15 years. Since EE is a cumulative, compounding effect (we can't just throw more money at it next year to make up for efficiency not achieved this year), this represents real efficiency and consumer benefit permanently lost. I note that the IOUs and the other energy efficiency program administrators, consumer advocates, environmental advocacy organizations, financial institutions, and the broader efficiency marketplace itself have all had opportunity to weigh in to fulfill this legislative intent. A delay would create significant harm to the supply chain that is waiting to deliver these services.

If CAEATFA does not have budget authority to serve as financing hub by January 15, it is not at all clear what is the way forward. The September 2013 Decision states that if CAEATFA does not receive authority by January 15, the CPUC would seek other options. Our legal analysis has established that these funds could only be managed by a state agency or an IOU. A state agency provides substantially more transparency and accountability than an IOU. And among state agencies, the Treasurer's Office has unparalleled in-house finance and accounting expertise. If the Legislature would like to offer additional direction to how CAEATFA implements the program (e.g. via policy direction or implementing regulations), it can still do so in the 14-15 budget cycle. I understand that CAEATFA will submit a 14-15 budget request for its funding requirements explicitly for the "hub" or CHEEF functions getting back in sync with the state's budget schedule.

Finally, and on a personal note, my term at the CPUC is up at the end of 2014, and I would like to be able to use my 25 years of experience in finance to help guide and build upon the initial results of these pilots. If these programs are delayed until the next cycle, I may not be able to help ensure their success. I have attached to this letter our press release from September 2013 which illustrates the compelling innovation and power of these programs to transform the energy efficiency marketplace in California.

Given these compelling reasons of why a delay is not in the public's best interest, I ask that you take this new information into account. If you have any additional concerns, either the CPUC or CAEATFA can directly answer any additional questions you may have. I thank you for your timely consideration.

Sincerely,

Mark J. Ferron
Commissioner

California Public Utilities Commission
505 Van Ness Ave., San Francisco

FOR IMMEDIATE RELEASE **PRESS RELEASE**

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CPUC APPROVES INNOVATIVE FINANCE PILOTS TO ACHIEVE AMBITIOUS ENERGY EFFICIENCY AND CLIMATE GOALS

SAN FRANCISCO, Sept. 19, 2013 -- The California Public Utilities Commission (CPUC) today launched innovative programs to expand residential and non-residential investment in energy efficiency improvements. The CPUC's suite of energy efficiency financing pilot programs includes an On-Bill Repayment pilot under which the energy efficiency loan repayment obligation could transfer to the next utility customer benefiting from the upgraded structure.

Assembly Bill 758 (2009) specifically directed the CPUC to investigate the potential role for utility ratepayer-supported mechanisms to finance energy efficiency. Today, the CPUC allocated $65.9 million to launch selected pilot programs designed to test market channels for attracting private capital to the energy efficiency market through investment of limited and leveraged ratepayer funds. The CPUC's goals include:

- Broadening market eligibility and participation by funding credit enhancements designed to make energy efficiency improvement loans more attractive to both consumers and financing institutions;
- Deepening the level of energy efficiency improvements being taken through larger project sizes;
- Obtaining lower interest rates and/or longer loan periods for energy efficiency projects;
- Streamlining payments and transferring the payment responsibility to the next utility customer with their consent through an On Bill Repayment program to enable non-residential customers to pay their energy loan payment as part of the monthly utility bill, with the funds passed along to the lender; and,
- Developing a meaningful and privacy protected database of loan repayment and energy project performance information necessary to attract new energy finance products in the California market, as well as across the country.

Three residential energy efficiency financing pilot programs were approved, all of which have a component to reach low-to-moderate income households currently overlooked by the capital markets. None would permit shut off of utility electric or natural gas service as a result of non-payment of energy efficiency financing obligations. One program supports lending to the single family market sector, complemented by a pilot in Pacific Gas and Electric Company's service area that allows the loan payment to appear as an itemized charge on the electric bill. A third pilot program targets master-metered multifamily buildings that house primarily low and moderate income households.

The CPUC also authorized three non-residential energy efficiency financing pilot programs, two (loans or leasing) for small businesses, and expanded on-bill utility collection of privately arranged finance for all-sized non-residential customers undertaking distributed generation including solar and Demand Response, as well as energy efficiency.

A core feature of the residential and small business pilots is the leverage of limited ratepayer funds for "credit enhancements," or partial loan guarantee, to provide incentives to lenders to extend or improve credit terms for energy efficiency projects. A key objective is to test whether transitional ratepayer support for credit enhancements can lead to the performance data necessary for self-supporting energy efficiency finance programs in the future.

The innovative energy efficiency financing pilots authorized today require complex coordination of many financial and payment elements across multiple participants. To assure execution, the CPUC created an administrative hub, identified as the California Hub for Energy Efficiency Financing (CHEEF), to facilitate the flow of private capital to energy efficiency projects. The CPUC requested that the California Alternative Energy & Alternative Transportation Financing Authority (CAEATFA), a public entity within the State Treasurer's Office that provides financing mechanisms, assume the CHEEF functions and directed the state's investor-owned utilities to assist CAEATFA with implementation. As a state agency, CAEATFA provides transparency and accountability to finance program operations through public rulemaking and procurement processes, and benefits from its association with the financial acumen of the State Treasurer's Office and its finance entities. CAEATFA must obtain legislative budgetary authority before undertaking the CHEEF duties.

California's Energy Action Plan supports energy efficiency and Demand Response as the preferred ways to meet energy demand. It is widely accepted that energy efficiency measures are the most important tool for addressing greenhouse gas emissions, a desirable outcome for all utility customers in California, the nation, and internationally. Lowering the barriers to energy efficiency retrofits and financing, particularly in under-served market sectors, is also critical to reaching the state's goals of reduced energy consumption.

While some states (New York, Pennsylvania, Oregon, as well as California via CAEATFA and the American Recovery and Reinvestment Act stimulus-funded pilots) already have initiated financing targeted at single-family homes, California will pioneer techniques to unleash private capital to four markets (single family, multi-family, small business, and larger businesses).

"The pilot programs approved today advance overall state and CPUC policies to reduce energy consumption. We are taking a bold step toward opening financing to more California energy customers than ever before," said Commissioner Mark J. Ferron, the lead Commissioner for this proceeding. "To meet California's ambitious energy efficiency and greenhouse gas emissions reduction targets, California must mobilize an estimated $50 billion of investment in energy efficiency improvements, and up to $80 billion if we include distributed generation and other demand management abilities in our existing buildings, homes, and industries. Today's decision provides a powerful tool to help meet our policy goals for energy savings. This represents an opportunity to all major stakeholders – sources of capital, contractors and other implementers of efficiency programs, and building owners and occupants."

Said Commissioner Catherine J.K. Sandoval, "I am confident that the new and innovative energy efficiency financing pilot programs adopted today will leverage ratepayer funds to encourage energy efficiency investment throughout the state."

Implementation of both the CHEEF and the pilots will be phased in beginning in the fourth quarter of 2013, and all pilots should be online by mid-2014. Therefore, today's decision extends the CPUC's 2013-2014 authorized funding and pilot programs through 2015.

The proposal voted on is available at

http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M077/K122/77122761.pdf.

For more information on the CPUC, please visit www.cpuc.ca.gov.

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