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OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for Approval of 2013-2014 Energy Efficiency Programs and Budget (U 39 M)	Application 12-07-001 (Filed July 2, 2012)
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Application of Southern California Edison Company (U338E) for Approval of Energy Efficiency and Demand Response Integrated Demand Side Management Programs and Budgets for 2013-2014.	Application 12-07-004 (Filed July 2, 2012)

OPENING COMMENTS OF THE GREENLINING INSTITUTE ON PROPOSED DECISION IMPLEMENTING 2013 – 2014 ENERGY EFFICIENCY FINANCING PILOT PROGRAMS

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I. INTRODUCTION

On June 25, 2013, the Commission issued its Proposed Decision Implementing 2013-2014 Energy Efficiency Financing Pilot Programs (PD). Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, The Greenlining Institute (Greenlining) offers the following comments on the PD.

We are supportive of the Commission's efforts to start on-bill repayment pilots. We are encouraged that the Commission will scale up successful models in future years. We are generally supportive of the HUB structure and the pilot programs for both residential and non-residential participants.

We continue to ask, however, that the Commission:

- Provide programs accessible to low-and-moderate income households;
- Modify the multifamily pilot to provide for greater flexibility and fit with the needs of the affordable housing sector, as detailed below;
- Direct on-bill financing opportunities to public entities and small businesses in underserved areas;
- Include transferability of loan obligations as an essential component of a commercial on-bill repayment (OBR) program;
- Coordinate data collection with the broader workforce data collection efforts currently underway in the Energy Savings Assistance (ESA) program and Energy Efficiency portfolio; and
- Ensure that marketing strategies include community-based organizations with outreach experience to under-served communities.

II. DISCUSSION

a. Energy Efficiency Financing Pilot Programs

i. We Support Credit Enhancement Programs for Residential Customers.

We support the Commission's use of credit enhancements for single family and multifamily programs. The PD should, however, make explicit that the loan loss reserve for single family and the debt service reserve fund for multifamily can be leveraged and coordinated with philanthropic funds and other sources.

ii. <u>We Support Eligible Energy Efficiency Measures to Include Non-Energy Investments.</u>

We agree with the Commission that there should be some flexibility in the use of funds. Allowing 30% of funds to be used for non-energy improvements will allow participants to finance the necessary improvements (e.g. health and safety improvements) that accompany and enable energy efficiency upgrades.

b. <u>Residential Pilot Programs Should Emphasize Underserved Families.</u>

i. <u>Ensuring that the Energy Financing Line Item Charge (EFLIC) be Accessible to Low- and Moderate-Income Families</u>

We support the Energy Financing Line Item Charge (ELIC) and the value of line-item billing in general. This is an important program to ensuring that we grow energy efficiency in California. However, we question whether and how the Energy Efficiency Financing Entity will target the underserved residential market. EFLIC should be intended, at least in part, to be accessible to underserved communities. Serving low- and moderate-income households should be made an explicit goal of the program. We believe that at least half of the combined EFLIC/Single-Family Direct Loan Program (SFDLP) effort should fund the targeting of low- and moderate-income households.

ii. <u>We Request that a Sub-Pilot be Created for Middle Income Families</u>

The Proposed Decision without justification fails to provide a sub-pilot for low-to-moderate income households. We must have energy efficiency financing programs for working families if we are to meet statewide energy efficiency and environmental goals. Low- and moderate-income families often need access to financing programs to install energy upgrades. As HB&C finds, "energy efficiency programs using conforming underwriting standards typically rejects 40-50% of program applicants. For residential energy efficiency markets to move to a larger scale, it is important to test new ways to identify additional creditworthy borrowers and deliver capital to them."[1] HB&C recommended within the line item billing pilots, a sub-pilot be created to test the "extent to which financing can responsibly enable investment in energy efficiency among traditional underserved households."[2]

Many Californians live on the edge of economic distress – 21% of households have mortgages that are underwater; 44.6% of households are "liquid-asset poor" and do not have the savings to survive more than 3 months without income (approximately $5763).[3] Many of these families have incomes too high to qualify for free weatherization upgrades but too low to invest in home improvements. If California hopes to achieve 40% energy efficiency reductions in the residential sector, the SFDLP and EFLIC pilot must be targeted, at least in part, to eligible low- and moderate-income families.

The Commission's consultant, along with many parties to this proceeding, found that a low- and moderate-income program is a distinct need.[4] Indeed, the very second sentence of the Commission's Proposed Decision states that "lowering the barriers to energy efficiency retrofits and financing in under-served market sectors is critical to reaching the State's goals." Further, the proposed pilot phase would only cost $1 million, a small amount to test the program. The use of

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[1] Harcourt, Brown & Carey. *Recommendations for Energy Efficiency Finance Pilot Programs.* 10/19/12 p. 38

[2] *Id.*

[3] http://scorecard.assetsandopportunity.org/2013/measure/liquid-asset-poverty-rate?state=ca

[4] In *Energy Efficiency Financing in California: Needs and Gaps,* HB&C finds that the lack of available or affordable financing impairs energy efficiency adoption, including by "low-moderate income households are not served by current lending programs." HB&C also describes the potential loans or financing tools that could be created to fill these needs. P. 19

ratepayer dollars to leverage private capital – and especially in the EFLIC pilot – should prioritize underserved low- and moderate-income populations residing in single-family homes.

Testing innovative methods of serving this market is absolutely critical to creating a scaled up program in the following program cycle. We reiterate that one such approach could include alternative underwriting approaches such as utility bill repayment history to provide access to families whose traditional creditworthiness measures are still recovering from the economic crisis. As such, we ask that the Commission include these pilots as part of the energy efficiency financing pilot portfolio.

c. Support the Multi-Family Pilot

We are pleased to see that the Commission is creating an opportunity for master-metered low-income multifamily buildings. This pilot will provide the Commission with the necessary data to expand into market rate housing.

The definition of "low-income" properties eligible for the pilot should be narrowly defined.

For the multifamily segment, lenders should have full discretion to negotiate the terms of the loan with the borrower, with the EEFE's role limited to approvals. It may also be helpful for credit enhancements to be available at the close of the loan rather than at project completion.

Guidelines for energy audits should be made available as soon as possible. Eligible energy efficiency measures should include any measure recommended by the property's energy audit that produces electricity, gas or water savings, including solar domestic hot water systems and water conservation measures. The pilot should provide flexibility to allow properties that are primarily master-metered, not exclusively master-metered, to participate in the master-metered multifamily financing pilot, with only the master-metered services being eligible for pilot support.

d. Pilot Programs – Non-Residential

i. Direct On-bill Financing Investments to Underserved Areas

We support the Commission's continuation of the on-bill financing program. This no-interest loan for non-residential customers to complete comprehensive projects provides great opportunities for growing energy efficiency demand. We believe that on-bill financing might provide a good opportunity for public entities and small businesses in underserved areas. We ask that the Commission prioritize on-bill financing participation in underserved communities. We can envision this done by overlaying program participation with areas identified by the Office of Environmental Health Hazard Assessment's newly created CalEnviroScreen[5] tool, which is in part designed to guide statewide environmental and economic efforts.

ii. Transferability of the Loan Obligation is an Important OBR Program Feature

We support the Commission's efforts to launch a commercial on-bill repayment program as increased demand in the commercial sector offers the promise of high-quality job creation for disadvantaged communities. Commercial OBR, however, will not attract sufficient third party private capital if the risk of underwriting is uncertain. Greater certainty requires that a lender's investment must not be impaired, voided or subordinated if landlords or property owners do not live up to their obligations. This will be particularly important in instances of foreclosure. We fully support strong disclosure requirements so that prospective tenants and buyers of commercial properties can make informed decisions, but if sellers or landlords do not live up their obligations on disclosure they must provide appropriate remedies to the aggrieved parties.

[5] http://oehha.ca.gov/ej/index.html.

e. **Data Collection**

We agree with the Commission in its findings that it is key for the EEFE to coordinate ongoing data collection on program participants, project characteristics, and repayment results.[6] The data will be important in determining the success of the pilot programs. We ask that the EEFE manager coordinate data collection with the broader workforce data collection efforts currently underway in the Energy Savings Assistance (ESA) program and mainstream Energy Efficiency portfolio.

f. **Quality Assurance**

We support the Commission decision to require minimum contractor qualifications. We believe that the existing minimums could be strengthened to better ensure quality work product and ensure energy savings are realized. Additional criteria would include ensuring that contractors have all the proper licensing, certifications, necessary experience, and demonstrated compliance with existing laws. Similarly, we continue to recommend that the Commission require best value contracting standards that incentivize high road standards which in turn facilitate greater energy savings. As such, we recommend that Appendix I of the PD be modified as follows:

- Change #1 to "*Current state* licensing *and certifications* to perform all aspects of the scope of work, *both for the contractor and the contractor's workforce*"
- Change #7 to "Hold OSHA-10 *and OSHA-30 certifications*"
- Add #9: "*Demonstrated utilization of registered apprentices in accordance with California Labor Code Section 1777.5*"

g. **Marketing**

We support the Commission's funding allocation for marketing the pilots. The success of these programs will depend on consumer interest and demand. Programs across the country have shown that marketing strategies are most effective through direct outreach and education. We have

[6] PD at p. 54

also seen that contractors and community based organizations are among the best promoters and advocates for the program. We suggest that the Commission support marketing strategies that include contractors and community-based organizations.

Contractors have a built-in incentive to market these programs. The Commission should build on this inherent incentive and support it. This is especially important to generate consumer awareness for the SFDLP and EFLIC single family residential pilots.

Within the allocated $10 million Marketing Education & Outreach budget, the Commission should require that a significant portion of the funding be allocated to partnerships with community based organizations to spearhead ME&O efforts in hard-to-reach and underserved communities. In addition, such ME&O should be conducted in-language to ensure the broadest possible participation. Underserved and hard-to-reach communities are those most in need of energy upgrade services and programs for environmental, economic, and public health reasons – and are among the populations with the least access to upfront capital.

III. **Conclusion**

We thank the Commission for taking this important first step to growing financing programs in California. Strong financing programs are critical to overcoming upfront cost barriers and preventing us from meeting our energy efficiency goals.

The Commissions efforts to scale up energy efficiency financing programs are dependent on successful pilots that provide useful information on what is and is not working. If we are to create energy efficiency programs for low- and moderate-income households, we must have pilot programs in place now that test what program features actually drive demand for underserved market segments. As such, we ask that the Commission adopt and implement a low-to-moderate income focused pilot program.

We also ask that marketing strategies include working with community based organizations that serve diverse populations and underserved communities. Consumer demand is pivotal for program success. The programs underway in Oregon and New York have shown the importance of working with organizations with experience and relationships in the community to do the marketing, education, and outreach for the programs.

Finally, we also ask that the on-bill financing products be directed to entities that serve underserved areas.

We look forward to seeing the results of the pilot programs. The data and findings will be critical to ongoing program design that meets the needs of California's underserved markets.

Respectfully submitted,

Dated August 5, 2013

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APPENDIX A

Proposed Findings of Fact (FOF), Conclusions of Law (COL), and Ordering Paragraphs (OP)

Findings of Fact

[NEW] Testing innovative methods of serving the low-to-moderate-income single family residential market is critical to increasing demand for energy efficiency upgrades and meeting California's energy efficiency goals.

FOF 18. The Single Family Direct Loan Program pilot program will advance the Commission's goals of leveraging private capital with ratepayer funds to expand access to energy efficiency financing in the Single Family residential sector, particularly for low-to moderate income households and credit challenged populations.

[NEW] Partnering with Community Based Organizations (CBOs) remains the most effective marketing, education, and outreach (ME&O) method for reaching underserved and hard-to-reach communities.

[NEW] The Office of Environmental Hazard Heath Assessment's CalEnviroScreen tool is a useful tool in the Commissions future efforts to target underserved and hard-to-reach businesses and households.

Conclusions of Law

[NEW] It is reasonable to test the ability of alternative underwriting standards, such as utility bill repayment history, to provide underserved households with greater access to capital on favorable terms.

[NEW] It is reasonable to allow credit enhancements to be leveraged alongside foundation funding and other sources of funding aimed at providing customers with lower interest rates and more favorable loan terms.

[NEW] It is reasonable for the EEFE manager to coordinate data collection with the broader workforce data collection efforts currently underway in the Energy Savings Assistance (ESA) program and mainstream Energy Efficiency portfolio.

[NEW] A significant portion of ME&O funding should be allocated to partnerships with community based organizations to spearhead marketing efforts in hard-to-reach and underserved communities. ME&O should be conducted in-language to ensure the broadest possible participation.