Workshop to Investigate the California
Consumer Power and Conservation Financing Authority (Power Authority)
Proposal to Use Utility Bills to Collect Loan Repayments
June 19, 2002 San Francisco, CA

Power Authority Handout on CPUC Posed Questions

I. Mission of Power Authority Relative to Customer Loans

The Mission:

To furnish the citizens of California with reliable and affordable electrical power, ensure sufficient power reserves, assure stability and rationality in California's energy market, and encourage energy efficiency, conservation and renewable energy resources.

The Financing Role:

The Power Authority proposes to provide three general types of financing services – Brokering Public Energy Transactions, Procurement of Energy Technologies, and Targeted Energy Project Ownership**.**

The Investment Plan:

The Power Authority's Energy Resource Investment Plan (February 2002) laid out three strategies to achieve a 3500 MW goal using its $5 billion in revenue bonding authority.

1) Strategic Reserves: Resources to help meet peak demand and system or local reserve needs
2) Clean Energy Financing: Renewable and Customer Efficiency Projects
3) Greening Public Buildings: Facilitating installation of efficiency and clean technologies including Distributed Generation in public facilities

Included in this Investment Plan is lending for up to $1 billion in efficiency loans and up to $1 billion for distributed generation on customer premises.

II. Summary of Power Authority's Proposal

- State statute permits Power Authority to make energy efficiency or renewable energy loans to businesses and consumers, via third parties.
- State statute permits Power Authority, and third parties making loans, to provide security for repayment of the loan, including "without limitation, a pledge to the authority of consumer and business loan repayments collected through utility bills".
- The Power Authority proposal to the CPUC is to use this authorization only for non-residential loans. (This is due to advice of others that consumer loans have a poor history of repayment via utility bills, and require more complex and specialized federal and state lending and reporting regulations best left to lenders specializing in consumer finance).
- The Power Authority proposed that utilities identify the administrative & billing costs to carry out this legislative directive for CPA loans.
- The Power Authority requested the CPUC to allocate Public Goods Charge (PGC) or other ratepayer funds to support the utilities' loan billing costs. CPA argued that these costs are similar to activities and expenses already paid from ratepayer funds for customer energy efficiency and self-generation programs, and should be viewed as an element of the CPUC's overall programs to encourage customer adoption of energy efficiency and renewable energy systems.

III. Responses to Questions in CPUC Workshop Notice

1. a. Purpose and Expected Benefits of Proposal

Purpose:
Offer convenience of repaying energy improvement loans using same payment mechanism as when buying commercial energy, in order to increase non-residential customer willingness to undertake energy efficiency and clean energy improvements.

1. Some representatives of the capital markets have indicated to the CPA that use of a utility bill collection mechanism may improve financial market perception of loan security. This would contribute to a lower cost of capital for borrowers, as well as higher expected loan collections (a fact that also lowers a financing program's effective interest rate to borrowers).
2. CPA investigation reveals that for commercial, light industrial, and some public institutional end users, a utility bill repayment mechanism allows decision-makers to effectively view financing efficiency via annual operating budgets, thus avoiding the internal competition for capital within organizations – a competition that is often unsuccessful for energy and related facility improvements.

Expected Benefits:

- Easier internal "sell" within customer organizations, when energy savings on utility bill mirror/offset loan repayment for the energy improvements
- Greater participation from broader non-residential market segments than participating in utility incentive programs that do not include financing
- Reduction in commercial energy purchases and consumption
- Less expensive financing than alternatives typically available to or used by these customer segments to finance energy improvements
- The mechanism can be attractive to small businesses that lack lines of credit or who have topped out on their credit from conventional banks.
- Ability to overcome "split incentives" problem (e.g. owner/ lessee) by directly matching party repaying capital improvements to party receiving reduced utility bills
- Potential to reduce size of PGC-funded cash incentives, when financing can enable positive cash flow from energy savings exceeding loan payments

Others' Experience:

- SMUD's experience with lease/purchase and loan mechanisms for business and institutional customers revealed that the utility billing/loan repayment mechanism was the "only way to get something going" with some non-residential facilities.
- The Northwest Energy Efficiency Alliance (NWEEA) and Northwest Power Planning Council (NWPPC) report substantial value in offering commercial and industrial customers financing pegged to businesses' operating budgets (e.g. budgets for energy expenditures).
- PacifiCorp (a Northwest utility headquartered in Oregon) reports that utility bill payment was very attractive to non-residential customers who "loved it".
    - Owners of leased commercial space used this mechanism to pass building improvement costs on to tenants, solving a long-standing problem where property owners are hesitant to make energy improvements when tenants reap the benefit of lower utility bills.
    - PacificCorp reported that the utility already had the ability to show energy service line items on its bills (e.g. for engineering or special services), and had little difficulty in adapting its billing system to include a line for energy efficiency loan repayments.

1. b. and c. Why Loan Repayment Via Utility Bills is Preferred to Other Options

Loan Repayment Options	Pros	Cons	Comments
1. Line item on utility bill	Convenient to non-residential facility mangers. Potential to gain new participants in energy measure adoption. Potential for lower interest rates.	Incurs expense to modify utility billing computers and support line item on loan customer bills.	Telecom companies routinely bill for other parties. PacifiCorp found easy to administer; already had line item billing for special services.
2. Utility sends separate loan bill	May cost less than re-programming primary billing systems	Does not permit direct comparison of bill reduction to loan payment, so offset not as apparent to management	Practical effectiveness of this option should be vetted with non-residential building owners & property managers for acceptability, and finance industry for impact on security and interest rates
3. CPA contracts for commercial loan service by 3rd party program implementers	May have cheapest per loan service costs	Would lose some market participation, and potential discounts on finance interest rates	Default loan service plan by CPA
4. CPA handles own loan servicing	None	More costly to start loan service from scratch; CPA limited by Legislature in staffing and operating budget.	No economies of scale in CPA billing operations

1. d. Expected Participants in CPA Financing Programs (envisioned for 2002-2003)

Type Loan	Loan Term	Customer Class	Expected Loan Volume	Loan Size	Projected Number of Loans
Industrial development bonds	Life of technology (7-20+ years)	Manufacturing	$30 million in 2002; 2003 tbd	$500 K to $10 million	4-30/year
Public Agency Energy Loan Fund	Life of technology (7-20+ years)	Public agencies, including schools, state & local government facilities, special districts	$50-200 million/year, based on demand	$2 million minimum	25-100/year
Third-party distributed generation loans	Life of technology (10-20+ years)	commercial & industrial facilities	$50 million initial round	$40,000 - $2+ million	50-200/round
"Cool Roofs" loans	5-10 years	Non-residential facilities	$30 million initial round	Tbd (up to $x/sq. foot of roof)	Assume 1,000 – 2,000 /year
Direct energy loans to businesses	Life of technology (7-20+ years)	Private non-residential	$140 million per year, starting Q3 2003	TBD, est. $10,000 - $2+ million	TBD, est. 70-5,000
Real-Time Meter loans	5-10 years	Non-residential users <200 kW demand	$10 - $200 million, depending on CPUC OIR	Assume $1,000	3,000 to 50,000 per year

1. e. Anticipated Program Administration

Responsibilities of CPA

- Solicit and negotiate financing program details between CPA and Participating Parties (program administrators)
- Assign credit risk between CPA and Participating Parties
- Obtain program approvals from CEC, CPUC, and/or municipal utility boards
- Secure loan capital from financial markets

Responsibilities of "Participating Parties" in Loan Programs

- Market and deliver program, including handling participant complaints and/or installation problems
- Establish communications/accounting protocol to inform utilities of loan amounts to reflect on customer bills, and obtain necessary customer authorization for this payment mechanism
- Handle all collection problems, defaults, and early-pay off arrangements with individual customers who entered into loans

Responsibilities of Utilities

- Include information about the program in any relevant utility customer and energy management services, and refer interested consumers to the available loan programs.
- Establish billing program to permit authorized third-party billing of loan repayments via utility bill
- Place loan repayment on monthly bills, using data from Program Administrator
- Remit collections with necessary customer accounting to the Program Administrator, using protocols mutually agreed upon by the utilities and Program Administrator(s)

Information to go on bill: -Assume recurring, fixed monthly payments, and identifying name or type of energy loan

Number of billing agents interacting with utilities: There will be multiple lending program administrators (averaging one per program in table above). Need to discuss if each is a billing agent, of if CPA must contract with a single billing agent to aggregate all loans requiring utility billing.

How Billing Costs (Set-Up and Ongoing) Could be Funded

Principle: CPA proposes that reimbursement of all utility billing costs be treated identically to expenses supported for efficiency, renewable, and self-generation programs, with billing mechanism an additional expense in implementing these programs

Set-up costs: CPA proposes use of ratepayer funds, as above

Ongoing costs: CPA proposes either ratepayer funds (see above), of if not acceptable to CPUC, then reasonable monthly fee to borrowers using this payment mechanism

Source of ratepayer funds: Accounts currently paying for efficiency, renewable, or self-generation programs, but limited to non-residential class of customers