

**ATTACHMENT A**

**CALIFORNIA HUB FOR EE FINANCING**

**PROGRAM IMPLEMENTATION PLAN**

# California Hub for Energy Efficiency Financing Program Implementation Plan

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*2013 – 2015 Energy Efficiency Statewide Finance Pilot Programs*

**Contents**

- I. Summary ..... 3
- II. Background & Overview ..... 4
  - A. Role of Financing ..... 4
  - B. Credit Enhancements..... 5
  - C. Authorized Pilots..... 5
    - 1. Single Family Loan Program (“SFLP”). ..... 5
    - Energy Financing Line Item Charge (“EFLIC”). ..... 5
    - 2. Master-Metered Multifamily Financing Program (“MMMFP”). ..... 6
    - 3. Small Business OBR with Credit Enhancements Pilot. .... 6
    - 4. Small Business Lease Provider Pilots: On-Bill Repayment and Off-Bill Repayment. 6
    - 5. Non-Residential OBR without Credit Enhancements Pilot..... 7
  - D. Program Participants ..... 7
- III. The California Hub for Energy Efficiency Financing (CHEEF or Hub)..... 8
  - A. Responsibilities of the CHEEF ..... 9
  - B. Structure of the CHEEF ..... 9
    - 1. CAEATFA..... 9
    - 2. Trustee ..... 15
    - 3. Master Servicer..... 17
    - 4. Data Manager ..... 22
- IV. Development of Program Structures and Governance – The Regulatory Process ..... 25
  - A. Emergency Rulemaking Process ..... 27
  - B. Regular Rulemaking Process ..... 28
  - C. Regulatory Provisions ..... 29
- V. Education and Outreach ..... 31
  - A. Objectives..... 31

B.	Target Audiences.....	31
C.	Key Messaging.....	31
D.	Promotion Channels.....	31
E.	Keys to Success.....	32
VI.	Servicing Program Commitments Beyond the Pilots .....	32
VII.	Reporting.....	32
A.	Quarterly Reports to the CPUC.....	32
B.	Reports from Financial Institutions.....	33
C.	Reports from the Master Servicer .....	33
D.	Reports from the Data Manager .....	33
E.	Reports from the Trustee.....	33
VIII.	Other Required Pilot Criteria .....	33

## I. Summary

On September 20, 2013, the California Public Utilities Commission (“CPUC” or “Commission”) issued the *Decision Implementing 2013-14 Energy Efficiency Pilot Programs* (“D.13-09-044” or “Decision”). Through these pilots (“Financing Pilots” or “Pilot Programs”), the CPUC seeks to develop “scalable and leveraged financing products to stimulate deeper energy efficiency (“EE”) projects than previously achieved through traditional program approaches”.<sup>1</sup> The pilots will include various forms of credit enhancements (“CEs”) for eligible improvements made on residential properties and small businesses. The CEs are expected to provide additional security to third-party lenders and private capital providers, thereby resulting in increased consumer access to enhanced financing terms. The pilots will also include On-Bill Repayment (“OBR”) mechanisms for borrowers that finance projects on master-metered multifamily and non-residential properties. For borrowers with projects on single family properties in Pacific Gas & Electric Company territory, the pilots will include an optional line item charge to collect financing charges on the utility bill. Both OBR and the line item charge are intended to “test whether payment on the utility bill increases debt service performance across market sectors.”<sup>2</sup>

The Decision also authorized the creation of the California Hub for Energy Efficiency Financing (“CHEEF”) to help increase the flow of private capital to EE projects. The Commission requested that the California Alternative Energy & Advanced Transportation Financing Authority (“CAEATFA”) assume the CHEEF functions. In assuming this role, CAEATFA would, among other things, (1) manage the flow of funds and data for the pilots, and (2) provide a simple, streamlined structure through which energy users, financial institutions (“FIs”), EE providers and the investor-owned utilities (“IOUs”) can participate in a standardized “open market” that facilitates financing of EE projects in California, as more specifically set forth in the Decision and the IOUs’ Program Implementation Plans (“PIPs”) developed for each Financing Pilot.

Pursuant to the Decision, CAEATFA intends to perform various functions to implement the CHEEF, including promulgating rules for the Pilot Programs through a public rulemaking process, developing structures and processes for participating FIs and retaining third party service providers through competitive selection processes to perform certain CHEEF functions.

The CHEEF PIP provides a description of the major tasks and anticipated timeline for the administrative hub to become fully operational.<sup>3</sup> Please see the IOUs’ PIPs for each of the Pilot Programs for additional detailed information.

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<sup>1</sup>D. 13-09-044, pg. 3

<sup>2</sup> D.13-09-044, pg. 5

<sup>3</sup> Ordering Paragraph 8 of D.13-09-044 sets forth this scope for the CHEEF PIP. Also see §13, p. 89.

## II. Background & Overview

Assembly Bill 758 (2009) specifically directed the CPUC to investigate the potential role for utility ratepayer-supported mechanisms to finance EE investments. The CPUC advanced such mechanisms in several decisions and formal actions<sup>4</sup>, notably D.13-09-044<sup>5</sup> which directed the IOUs to implement pilot programs designed to test market channels for attracting private capital to the EE market through investment of limited and leveraged ratepayer funds. The CPUC directed the IOUs to allocate \$65.9 million (with approximately a \$9.3 million reserve for potential later allocation) for these pilots. The CPUC's goals include:

- Broadening market eligibility and participation by funding credit enhancements designed to make financing options for EE improvements more attractive to both consumers and financing institutions;
- Encouraging customers to undertake larger and more in-depth EE projects;
- Obtaining lower interest rates, longer financing periods and/or other desirable financing terms for EE projects;
- Streamlining financing repayments and allowing transferring of payment responsibility to the subsequent utility customer – if both parties and the FI consent – through an OBR program;
- Enabling non-residential customers to pay their EE financing payment as part of the monthly utility bill, with the funds transmitted to the financial institution; and
- Developing a meaningful and privacy-protected database of financing repayment and EE project performance information to attract new EE finance products into the California market.

### A. Role of Financing

The CPUC recognizes that a key challenge to adoption of EE improvements by California residential and non-residential energy consumers in existing buildings is often the lack of available financing to overcome the first cost barrier. This barrier can often stop EE projects in their tracks, even when there is a compelling return on investment.

Although various financing tools are already available in the market to customers, these existing instruments may not be well-suited for financing EE projects. For example, credit card-based revolving products are convenient and inexpensive to originate but generally come at a high cost to the consumer (homeowner or business owner). Some consumers may have access to lines of credit through their banks, or to other bank-based lending products; however, those financial instruments do not tend to include EE projects as a broadly recognized asset class for financing. As a result, these basic finance products are often not effective and/or are too costly to incent customers to invest in EE.

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<sup>4</sup> Including “Decision Providing Guidance on 2013-2014 Energy Efficiency Portfolios and 2012 Marketing, Education, and Outreach” (D. 12-05-015) and “Decision Approving 2013-2014 Energy Efficiency Programs and Budgets” (D. 12-11-015).

<sup>5</sup> “Decision Implementing 2013-2014 Energy Efficiency Financing Pilot Programs”, September 19, 2013.

## B. Credit Enhancements

The Pilot Programs are designed to measure the impacts of two approaches to financing energy efficiency improvements: credit enhancements and OBR. The Decision specifically calls out two types of credit enhancement structures that may be used in the Pilot Programs:

1. **Loan Loss Reserve.** A loan loss reserve (“LLR”) sets aside a certain amount of money (reserve) for each eligible loan into a pool to cover potential losses in case the lender ultimately charges off a loan for non-payment. The lender’s loss share (an agreed percentage of the loss) of the total loan may be recovered by the lender from its total LLR portfolio. The LLR mitigates lenders’ risks on financing energy efficiency improvements, and could thus enable lenders to offer better financial terms (lower interest rates and broader access) than they would otherwise provide. However, the lender remains at risk for the remainder, as well as for aggregate losses in excess of its pool limit.
2. **Debt Service Reserve Fund.** The debt service reserve fund (“DSRF”) mechanism is designed to cover partial- or delinquent payment of monthly financing charges. Funds drawn from the DSRF are replenished when the FI receives the corresponding monthly payment.

The Decision provides general guidance on credit enhancement structures, but allows CAEATFA flexibility to further define program design through its public rulemaking process.

## C. Authorized Pilots

Three residential EE Financing Pilots were approved, all of which have a component to reach low-to-moderate income households currently underserved by the capital markets. None will permit shut-off of utility electric or natural gas service as a result of non-payment of EE financing obligations.

1. **Single Family Loan Program (“SFLP”).** This pilot will provide CEs for lenders that issue loans for eligible energy efficiency improvements to owners or occupants of single family homes. The Decision requires that approximately one-third of the allocated SFLP credit enhancement funds be targeted to low- and moderate-income households to provide higher credit enhancement, as needed, for these borrowers. The Decision authorizes up to \$25 million to implement this pilot.

**Energy Financing Line Item Charge (“EFLIC”).** EFLIC is a sub-program or enhancement to the SFLP, and will be implemented only in the Pacific Gas and Electric Company (“PG&E”) service area. The pilot will provide an infrastructure for lenders to offer EE loans that will be repaid through a line item charge on the residential borrower’s utility bill (without a shut-off provision). EFLIC will initially be launched by PG&E as an early-phase pilot, which will

later be “transferred” to administration under the CHEEF as defined in the EFLIC Program Implementation Plan which is pending approval by the CPUC, and opened to additional lenders for participation within the PG&E service area. This pilot will examine whether loan repayment through a line item charge on the utility bill is a desirable feature for residential borrowers (i.e. to simplify the repayment process) and for lenders. Once EFLIC is transferred to the CHEEF, EFLIC lenders will have access to PG&E’s allocation of the \$25 million in credit enhancement funds available through the SFLP.

2. **Master-Metered Multifamily Financing Program (“MMMFP”).** This pilot is designed to provide a new way to finance EE in the multifamily sector. The credit enhancement, in the form of a DSRF, will cover non- or partial-payment of a customer’s monthly financing charges. The MMMFP is targeted to the affordable housing market segment, and will use OBR (without a shut-off provision) supported by an OBR tariff, with an option to transfer the repayment obligation to a subsequent customer when there is consent from all appropriate parties. The pilot focuses specifically on the sub-set of the affordable housing sector that is substantially master-metered – meaning that only properties for which the property owner pays a utility bill for energy usage throughout the building are eligible to participate.<sup>6</sup> More specifically, only properties with deed restrictions that require the owner to keep rents affordable with income-qualifying households occupying at least 50 percent of units will be eligible. This pilot will initially be launched by the Southern California Gas Company (“SCG”), and will later be “transferred” for administration by the CHEEF when it is fully operational (specifically when both a master servicer and a trustee bank are under contract with CAEATFA and regulations are enacted). The Decision authorizes up to \$2.9 million to implement the MMMFP and provide credit enhancement funds and limited support for post-project technical assistance under this pilot.

The CPUC also authorized four non-residential EE Financing Pilots: one for small business financing agreements that utilize OBR, two for small business leases (off-bill and On-Bill Repayment), and a fourth that offers OBR without CEs for non-residential customers (of any size). Borrowers participating in the non-residential OBR program without CEs may finance distributed generation (including solar energy) and demand response projects, as well as energy efficiency improvements.

3. **Small Business OBR with Credit Enhancements Pilot.** This pilot will provide CEs for lenders that issue eligible loans to small businesses. The Decision authorizes up to \$14 million to implement all of the small business pilots including CEs. As described in the OBR Tariff, program participants may be subject to utility disconnection in the event of non-payment of financing charges.
4. **Small Business Lease Provider Pilots: On-Bill Repayment and Off-Bill Repayment.** The small business lease provider pilots are designed to encourage

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<sup>6</sup>To qualify for this pilot, owners cannot live on-site.

lease originators to offer attractively priced, fast-origination capital leases that are appropriate for the small business market. At least two lease originators will be competitively selected by CAEATFA through the state contracting process to participate. The selected lease originators will have the option to have borrowers' lease payments repaid either on-bill or off-bill.<sup>7</sup> The Decision authorizes up to \$14 million to implement all of the small business pilots. As described in the OBR Tariff, non-residential program participants may be subject to utility disconnection in the event of non-payment of lease charges.

5. **Non-Residential OBR without Credit Enhancements Pilot.** This pilot serves as an opportunity to evaluate the effects of OBR as a single feature; and, therefore, no credit enhancements will be made available through this pilot. The pilot targets medium and large businesses, but does not preclude small businesses from participating. Projects may consist of EE, demand response, and/or distributed generation measures. As described in the OBR Tariff, program participants may be subject to utility disconnection in the event of non-payment of financing charges.

#### D. Program Participants

The successful development and implementation of these innovative Pilot Programs requires the engagement of multiple program participants and developers:

- **Investor Owned Utilities (IOUs).** The California IOUs (PG&E, SCG, Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E")) will allocate ratepayer funds to be used as credit enhancements and provide direct implementation and administrative roles for the Pilot Programs. The IOUs will also implement the billing and repayment of financing for the "on-bill" pilots. CAEATFA will develop program regulations based upon D.13-09-044, Resolution E-4663, and the IOUs' Program Implementation Plans for the Financing Pilots, and will closely coordinate with the IOUs to leverage existing rebate and incentive program infrastructure, as appropriate. CAEATFA and the IOUs will also coordinate to ensure the required reporting is submitted to the CPUC.
- **Financial Institutions (FIs).** The FIs will originate and service financing (loans or leases, as applicable) under the programs once they are launched under the CHEEF; FIs include banks, community banks, credit unions, community development financial institutions ("CDFIs"), indirect lenders, and lease originators. CAEATFA will establish qualifications for FIs to participate as lenders, which will include conforming with CE protocols, as well as data collection and other Pilot Program requirements.

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<sup>7</sup> Pursuant to the Decision, CAEATFA will select at least two lease originators through a Request for Proposals (RFP) process. The anticipated schedule for the lease originator RFP is provided within the Program Implementation Plans for the two small business lease pilots. Additional eligibility and evaluation criteria will be included in the RFP.

- California Hub for Energy Efficiency Financing (CHEEF). The CHEEF will consist of CAEATFA and its subcontractors for the pilots, including a trustee bank, master servicer, data manager, and financial advisor/technical consultant. The CHEEF will serve as a central enabling entity to streamline the structure through which utility customers, FIs, EE providers, and IOUs can participate in an open market for EE financing.<sup>8</sup> One of the most significant functions of the CHEEF will be to provide a “reliable and transparent conduit for transfer of ratepayer debt repayments from the IOUs to the lenders, and maintenance of managed pooled credit enhancement funds through trust accounts.”<sup>9</sup>
- Contractors. Various types of contractors will participate in the Pilot Programs including, but not limited to: HVAC, insulation, mechanical, electrical, and plumbing contractors. Each contractor will propose a scope of work to customers, and will provide an understanding of the available payment options, including financing options. CAEATFA will establish requirements for contractors to participate in the Pilot Programs through its regulations.
- Ratepayers and Borrowers. Ratepayer funds will be collected by the IOUs and made available for use as credit enhancements and to cover other pilot implementation costs. Only IOU ratepayers are eligible to participate as borrowers in these pilots and, as such, their participation is at the heart of the pilots’ performance, and the broader goal of increasing California’s uptake of EE.
- Center for Sustainable Energy (CSE). CAEATFA will coordinate with CSE and the IOUs to assist with efforts for local and statewide marketing of the financial products in coordination with the Energy Upgrade California statewide brand marketing campaign.
- Data Working Group (DWG). The DWG submitted the “Data Working Group Final Report” to the CPUC on December 16, 2013.<sup>10</sup> CAEATFA or its subcontractors will develop a database and collect information on projects that go through the Pilot Programs. CAEATFA will consider the data points identified in the DWG Final Report and will also seek input from stakeholders to determine which information will be collected.

### **III. The California Hub for Energy Efficiency Financing (CHEEF or Hub)**

The CHEEF structure is designed to increase the flow of capital to EE projects in California. Harcourt Brown and Carey states that:

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<sup>8</sup> D.13-09-044, pg. 65

<sup>9</sup> D.13-09-044, pg. 66

<sup>10</sup> “Data Working Group – Final Report”, submitted by SCG via Advice Letter 4579, December 16, 2013.

The existence of the Hub, and the transparent market it creates, will allow the contracting community to understand the scope and breadth of the [EE] opportunity and provide clear guidelines on how to participate. The resulting increase in project activity, the credit enhancements and the uniformity provided by the Hub ***will give capital providers the assurances they need that the [EE] market has the volume, data and risk management tools they need to invest.*** Finally, the Hub will enable a streamlined way for utilities to manage capital flows through OBR while also providing mechanisms for appropriate levels of data collection for multiple audiences.<sup>11</sup>

## A. Responsibilities of the CHEEF

The Financing Pilots require complex coordination of many financial and payment elements across multiple participants. To assure execution, the CPUC authorized the creation of an administrative hub, identified as the CHEEF, to facilitate the flow of private capital to EE projects. The CPUC requested that the CAEATFA, a public entity housed within the State Treasurer’s Office that provides financing mechanisms, assume the CHEEF functions and directed SCG, in coordination with the IOUs, to assist CAEATFA with implementation.

The CHEEF will:

- Develop and implement processes to manage the various CE protocols for the approved Pilot Programs.
- Establish Pilot Program rules and requirements for FIs, projects, and contractors.
- Coordinate and track deal flow—cash and data transfers—between qualified FIs and IOUs.
- Provide a data management role that includes data collection, storage, and dissemination.
- Provide transparency and monitor compliance.

## B. Structure of the CHEEF

### 1. CAEATFA

As noted in the Decision, the CPUC requested that CAEATFA assume the CHEEF functions. The CPUC directed SCG, in coordination with the IOUs, 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.

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<sup>11</sup>Brown, Matthew H., David S. Carey, David Nemetzow, Aaron Berg, and Mark Zimring. *Recommendations on Energy Efficiency Financing Pilot Programs*. Report, pg. 17. 19 Oct. 2012. <<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K735/31735747.PDF>> .

Specifically, CAEATFA will provide the necessary infrastructure to act as manager of the CHEEF, establishing and providing the fiscal oversight for various subcontractors as well as:

- Establish the necessary procedures, protocols and functions for various CHEEF responsibilities, including the transfer and reconciliation of funds and data, financial institution protocols and data sharing.
- Promulgate and implement the various regulations for the CEs for the approved Pilot Programs through its public rulemaking process, which will establish processes and procedures for compliance with program rules for FIs, projects, and contractors. Program regulations will include:
  - Specifications for, among others, participating FIs, eligible improvements, and loss reserve contribution structures;
  - Process for becoming a participating FI and provisions for the lender services agreements and reporting requirements;
  - Contractor requirements and required quality assurance provisions;
  - Credit enhancement provisions and requirements; and
  - OBR provisions and requirements that are not outlined in the OBR Tariffs, but are necessary to facilitate FI participation.
- Coordinate with a multitude of stakeholders, including the CPUC, IOUs, FIs, CSE, EE contractors, and customers.

CAEATFA will need to maintain contracts and agreements for several key roles and functions that are essential to implementing the Pilot Programs successfully.

Memorandum of Agreement between CAEATFA and the CPUC. CAEATFA and the CPUC will enter into a Memorandum of Agreement (MOA) to identify the terms by which CAEATFA will provide the CHEEF services. No funds will be tied to the MOA.

Contract with the IOUs. CAEATFA and the IOUs will enter into an agreement to facilitate the flow of ratepayer funds for the Pilot Programs. CAEATFA will use such funds to (1) cover its administrative and contracting costs and (2) direct funds to the trustee for use as CEs. This agreement will also provide the terms and conditions the IOUs require as third-party beneficiaries of the various agreements CAEATFA will enter into to implement the CHEEF role (i.e., agreements with the Master Servicer, Trustee, etc.).

Trustee. CAEATFA will enter into and manage a contract with a trustee bank (“Trustee”). The Trustee will hold the ratepayer funds that will make up the credit enhancements, and establish accounts for specific programs and FIs.

Master Servicer. CAEATFA will enter into and manage a contract with a loan servicing firm (“Master Servicer” or “MS”). The Master Servicer will collect and transmit funds and data among the IOUs, Trustee, and FIs.

Data Manager. CAEATFA will enter into and manage a contract with an information services firm (“Data Manager” or “DM”). The Data Manager will compile and prepare data from the Pilot Programs for public sharing. The Data Manager may also collect data from additional EE financing programs under the CPUC’s purview, including On-Bill Financing (“OBF”) programs, other ratepayer-funded financing programs, and certain financing programs established under the American Recovery and Reinvestment Act of 2009 (ARRA). The CPUC directed the establishment of a Data Working Group to address the data concerns regarding compatibility, security, and legality of data sharing. CAEATFA will work with the CPUC, IOUs, and stakeholders to require that the Data Manager only release public data which meets all applicable laws and security requirements.

Technical Assistance/Financial Advisor.<sup>12</sup> CAEATFA will require additional services from a financial/technical advisor to assist in developing and establishing the necessary parameters and appropriate structures for the Pilot Programs. This will include assistance with the design and monitoring of program structures, and evaluation of the financing pilots.

CAEATFA’s role as the CHEEF will be governed by the Decision, Resolution E-4663, and the MOA between the CPUC and CAEATFA, and the contract between the IOUs and CAEATFA. CAEATFA has existing statutory authority to carry out the functions of the CHEEF; however, it requires annual legislative budgetary authority<sup>13</sup> to receive and spend funds required to carry out the function of the CHEEF.

### *Memorandum of Agreement (“MOA”) between CAEATFA and the CPUC*

CAEATFA will enter into an MOA with the CPUC. The MOA will outline the joint goals and responsibilities to implement the above-mentioned EE financing Pilot Programs and to ensure that IOU ratepayer funds to start up and support the Pilot Programs are properly used, accounted for, and protected. In addition, the MOA will set forth the following:

1. The common objectives of the CHEEF, as they relate to the implementation of the EE financing Pilot Programs subject to the joint oversight and regulation by CAEATFA and the CPUC;
2. A general description of the roles and responsibilities of each of the respective agencies relating to the EE financing Pilot Programs;
3. Processes by which the agencies will communicate with one another, and jointly coordinate program implementation and resolve conflicts;

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<sup>12</sup> CAEATFA will issue an RFP to select a contractor for these services. The RFP will include the scope of work, evaluation criteria, and expected schedule for selecting a contractor. All information related to the RFP will be distributed to the public and made available online.

<sup>13</sup> CAEATFA received this authorization on July 1, 2014, as part of the State’s 2014-2015 legislative budget process.

4. The term period of the MOA, which extends to December 31, 2015, unless CAEATFA and the CPUC mutually agree to extend the term in writing.

Upon the expiration of the term of the MOA, unless otherwise agreed upon by the parties, CAEATFA will cease to carry out the CHEEF obligations, including long-term maintenance of the encumbered CEs.

If the CPUC and CAEATFA agree that CAEATFA is to continue the CHEEF functions beyond December 2015, CAEATFA requests to be notified no later than September 2014 to request corresponding budgetary authority through the regular state budget process for funding through the 2015–2016 fiscal year and/or subsequent years.<sup>14</sup>

<b>Anticipated Timeline for Executing the Memorandum of Agreement Between CAEATFA and CPUC</b>	
<b>Task</b>	<b>Timeframe for Completion</b>
MOA Approved by CAEATFA Board	November 19, 2013
FY 14-15 Budget Becomes Effective, Including CAEATFA’s Legislative Budgetary Authority	July 1, 2014
MOA Executed	Mid-July 2014

Note: Dates subject to change.

### *Contract between CAEATFA and the IOUs*

The contract between CAEATFA and the IOUs will facilitate the flow of ratepayer funds for the Pilot Programs to (1) cover CAEATFA’s administrative and contracting costs and (2) direct funds to the trustee for use as credit enhancements.

Among other things, the contract will set forth the following:

1. Provisions governing the administrative costs of serving as the CHEEF, including periodic funding from the IOUs to CAEATFA, funding limits, and reporting from CAEATFA to the IOUs on use of funds, among other things. The funding limit of the contract is \$7 million through calendar year 2015, of which no more than \$5 million is for personnel, contracted services, office equipment, etc., and no more than \$2 million is for education and outreach efforts.<sup>15</sup>

<sup>14</sup> The state fiscal year is the twelve months starting July 1 and ending June 30.

<sup>15</sup> Per D.13-09-044, CAEATFA will conduct non-duplicative education and outreach efforts for FIs and contractors. In June 2014, the CPUC approved Resolution E-4663. The Resolution requires CSE to hold stakeholder meetings and prepare a marketing plan to determine the allocation of responsibilities. The Resolution states that a portion of

2. Provisions governing the establishment and operation of trust accounts for CEs, including the creation of segregated accounts for each IOU and participating FIs, and the transfer of funds amongst these accounts, among other things.
3. Provisions outlining the representations and warranties provided by CAEATFA and the IOUs.
4. Provisions governing the establishment of CHEEF operational agreements with third parties, such as contracts with a Trustee, Master Servicer, Data Manager, and financial/technical advisor.
5. Provisions governing the confidentiality and data protection of financial and energy usage information of customers with financing enrolled in any of the Pilot Programs.
6. Provisions governing the interactions of the IOUs with CAEATFA, including identifying SCG as the IOU administrator of this contract with CAEATFA on behalf of the IOUs, among other things.
7. Provisions governing the termination of the contract and disengagement procedures.

Upon the expiration of the term of the contract, unless otherwise agreed upon by the parties, CAEATFA will cease to carry out the CHEEF obligations, including the long-term maintenance of the encumbered CEs. The parties have agreed that upon termination, they will cooperate in developing disengagement procedures to transfer responsibility of the CHEEF to another entity.

<b>Anticipated Timeline for Executing the Contract Between CAEATFA and the IOUs</b>	
Task	Timeframe for Completion
Contract Approved by CAEATFA Board	November 19, 2013
FY 14-15 Budget Becomes Effective, Including CAEATFA's Legislative Budgetary Authority	July 1, 2014
Contract Executed	Late July / Early August 2014
CAEATFA Submits Contract to the California Department of General Services (DGS) for Final Approval	Late July / Early August 2014
DGS Approves Contract	Late August / Early September 2014
Contract Effective	September 2014

Note: Dates subject to change.

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the \$2 million previously allocated to CAEATFA for lender and contractor education and outreach may be reallocated to a different entity, pending the outcome of the marketing plan. CAEATFA will collaborate with others to implement the Resolution.

### *Legislative Budget Authority*

CAEATFA has existing statutory authority to carry out the functions of the CHEEF; however, it requires annual legislative budgetary authority to receive and spend the funds required to carry out the CHEEF functions. CAEATFA, similar to other State entities, receives reimbursement and expenditure authority on an annual basis through the standard state budgetary process.

This reimbursement and expenditure authority is specific to CAEATFA’s administrative costs, which includes its internal staffing and contracting costs. In September 2013, CAEATFA requested approval of \$2.6 million for the current 2013-2014 fiscal year (FY 13-14), \$3.2 million for the 2014-2015 fiscal year (FY 14-15, budget year), and \$1.2 million for the 2015-2016 fiscal year (FY 15-16) through December 31, 2015. Upon review of CAEATFA’s request, the Joint Legislative Budget Committee (“JLBC”), without prejudice to the activities proposed, expressed concern that the request for funding in FY 13-14 was being made under an alternative budgetary process. The JLBC recommended that CAEATFA submit its request through the regular state budget process for FY 14-15.

CAEATFA’s request for legislative budget authority for FY\_14-15 is included in the California State Budget, which becomes effective on July 1, 2014. Please note that budget allocations for FY 13-14 are currently included in the table below to reflect requested budget authority, but will not be expended. Due to the ultimate timing of the pilot programs launch, CAEATFA anticipates that it may need to augment its future requests to include funds previously requested for FY 13-14. Such modifications would be submitted through the standard state budget process.

The table below shows a breakdown of the CHEEF budget for FY 13-14, FY 14-15, and FY 15-16, as requested by CAEATFA to the Legislature.

<b>Proposed CHEEF Budget</b>				
<b>Cost Category</b>	<b>FY 13-14</b>	<b>FY 14-15</b>	<b>FY 15-16<sup>16</sup></b>	<b>Total</b>
<b>Administrative (Staffing and contracts)</b>	\$2,000,000	\$2,200,000	\$800,000	\$5,000,000
<b>Education &amp; Outreach</b>	\$600,000	\$1,000,000	\$400,000	\$2,000,000
<b>Total Reimbursement &amp; Corresponding Expenditure Authority Requested</b>	\$2,600,000	\$3,200,000	\$1,200,000	\$7,000,000

<sup>16</sup> Through December 31, 2015.

Note: Allocations are subject to change, as determined through state budget processes.

If the CPUC determines it would like CAEATFA to continue the CHEEF functions beyond December 2015, CAEATFA requests that it be notified by September 2014 to align with the State’s standard timeline for submitting budget requests for subsequent years.<sup>17</sup>

<b>Anticipated Timeline for CAEATFA to Receive Future Budgetary Authority to Receive and Expend Funds to Implement the Programs</b>	
<b>Task</b>	<b>Timeframe for Completion</b>
<b>FY 14-15: \$3.2 million for CAEATFA administrative costs</b>	
CAEATFA Submitted Request to DOF via a Budget Change Proposal	September / October 2013
Budget Request Included in the 2014-15 Budget Act (Governor’s January Budget Proposal and May Revision)	January 2014
Budget Considered and Approved by Legislature	June 2014
FY 14-15 Budget Becomes Effective, Including CAEATFA’s Legislative Budgetary Authority	July 1, 2014
<b>FY 15-16: \$1.2 million for CAEATFA administrative costs</b>	
CAEATFA Submits Request to DOF via a Budget Change Proposal	September / October 2014
Budget Request Included in the 2015-16 Budget Act (Governor’s January Budget Proposal and May Revision)	January 2015
Budget Considered and Approved by Legislature	June 2015
FY 15-16 Budget Becomes Effective	July 1, 2015

Note: Dates subject to change.

## **2. Trustee**

The bank selected as the trustee (“Trustee”) will hold the credit enhancement funds on behalf of each IOU and participating FI. The funds will be separately accounted to facilitate tracking across each IOU territory, participating FIs, and Pilot Programs.

Under the direction of CAEATFA, the Trustee will:

- accept and receive ratepayer funds from the IOUs and hold them in separate accounts;
- transfer funds to accounts held on behalf of participating FIs;

<sup>17</sup> This is the administrative deadline for state entities to submit initial budget requests for the following fiscal year.

- fund participating FIs in the event of a charge-off, claim or debt service reserve payment, as applicable;
- receive funds from participating FIs for reimbursed charge-offs, claim or debt service reserve reimbursement, as applicable;
- establish point of contact and provide account statements to CAEATFA, IOUs and participating FIs;
- invest deposited funds pursuant to direction provided to CAEATFA by the IOUs and the CPUC, to ensure the fiduciary responsibility of the ratepayer funds and funds held on behalf of IOUs; and
- provide reports to CAEATFA and other parties as directed by CAEATFA.

Pursuant to the California Public Contract Code, CAEATFA will issue a Request for Proposals (“RFP”) from which to select the Trustee. The contract term is anticipated to align with the CPUC’s authorization of the pilots, through December 2015, with the possibility of extension. If trustee services are required beyond the term of the original contract, California Public Contract Code requires that CAEATFA issue subsequent RFPs to select a Trustee through the State public procurement process. The payment structure is anticipated to be based on a portion of the amount of funds held at the Trustee and the volume of transactions. CAEATFA is not required to take the lowest-cost bidder in its contracting process; cost will account for one-third of the evaluation criteria.

Evaluation criteria for firms competing to be selected as the Trustee will include:

- Qualifications of the Firm. CAEATFA will evaluate the firm’s overall experience demonstrating its ability to successfully complete the scope of services.
- Qualifications of Key Personnel. CAEATFA will evaluate the individuals to be assigned to the contract on the basis of background and experience in related work including experience as a trustee and with similar types of programs.
- Understanding of Funding Flow. CAEATFA will evaluate the firm’s understanding of the process flow and the Trustee’s role in the transfer of CEs under the Pilot Programs.
- Firm’s Reporting Capability. CAEATFA will evaluate the firm’s ability to demonstrate it can provide the reporting and monitoring activities for the accounts.
- Cost. Cost will be one-third of the evaluation criteria and total points earned. The greatest number of points in this category will go to the lowest-cost bidder.

Anticipated Timeline for Executing Contract with Trustee	
Task	Timeframe for Completion
CAEATFA Advertises RFP (Potential Bidders Conference)	August 2014

Proposals Due	August / September 2014
Firm Selected and Approved by the CAEATFA Board	October 21, 2014
Parties Sign Contract	October 2014
DGS Reviews and Approves Contract	November 2014
Contract Executed	November 2014
Accounts Established and Funds Transferred	November / December 2014

Note: Dates subject to change.

### 3. Master Servicer

The Master Servicer (“MS”) will be charged with receiving, normalizing, and securely storing and transmitting several unique data file types and formats to and from participating FIs, IOUs (and their unique IT systems), the Data Manager, the Trustee, and CAEATFA per the protocols and procedures established in the program regulations.

The anticipated scope of work of the MS, as currently envisioned, is described below. However, the specific details of these functions may change as the Pilot Programs are further developed. Ultimately, the scope of work and required functions for the Master Servicer will be enumerated in the RFP and resulting contract.

#### a) Develop Systems

Prior to commencing operations, the Master Servicer will be required to develop systems and the policies and procedures necessary to perform the functions laid out below. Note that each system should be automated to the maximum extent possible. All functions will be conducted in close coordination with the IOUs and with CAEATFA. The Master Servicer will develop systems that are capable of at least the following:

1. FI application process
  - a. Reviewing FI applications for completeness based on program regulations to determine initial eligibility.
  - b. Notifying FIs and CAEATFA of complete enrollment applications to be considered for approval by CAEATFA’s Executive Director.
2. Customer payment and billing cycle data
  - a. Working with FIs and IOUs to process or route requests for customer utility billing history.

- b. Confirming customer eligibility as defined in CAEATFA's regulations
  - c. Coordinating IOU and FI billing cycles and communicating first payment due dates to the FI.
  - d. Establishing a unique identifier for each loan or lease, and customer; transmitting the unique identifier to the appropriate FI and IOU.
- 3. Customer account boarding and invoice processing
  - a. Receiving loan or lease origination files from an FI and boarding that new customer file on to an account servicing system.
  - b. Receiving monthly servicing data from FI and transmitting such data to the appropriate IOU.
  - c. Receiving confirmation of loan or lease charge placement on the utility bill from IOUs and transmitting to FIs.
  - d. Receiving other relevant data from FIs for transmission to IOUs.
- 4. Cash remittance processing
  - a. Receiving cash remittances from IOUs for customer payments for OBR.
  - b. Forwarding cash payments to FIs along with associated data file that links the cash transfer with a specific loan or lease.
  - c. Reconciling cash received compared to an FI-provided schedule of cash payments due, with ability to provide appropriate notifications to FI or IOU so that actions may be taken, at the discretion of the FI or IOU as necessary (e.g. service disconnection, removal from utility bill collection, etc.).
- 5. Credit enhancement management
  - a. Receiving FI requests to enroll a loan or lease for a credit enhancement, including verification that FI-submitted project information matches program eligibility requirements (e.g. that proposed project measures are on list of eligible measures).
  - b. Receiving and reviewing requests from FIs for disbursement of credit enhancement funds.
  - c. Notifying CAEATFA of FI requests to enroll a loan or lease or to disburse credit enhancement funds (in the event of charge-off or DSRF claim).
- 6. Project database management
  - a. Developing a data interface with the Data Manager.
  - b. Extracting financial instrument origination and project installation data from files provided by the FI for later transmission to the Data Manager.

- c. Storing relevant financial documents – origination and servicing files – in a secure manner that protects all Personally Identifiable Information (PII) in accordance with applicable laws and regulations prior to submitting to Data Manager.

7. Reporting

- a. Tracking and reporting to CAEATFA on activity, as described below.
  - Summary of Monthly Transaction Activity
  - Monthly Cash Transactions
  - New Loan/Lease Transactions
  - Summary Delinquency Report
  - Detail Delinquency Report
  - Additional reporting per CAEATFA requirements
- b. Tracking and reporting to IOUs on program activity.
- c. Tracking and reporting to FIs on corresponding customer activity.

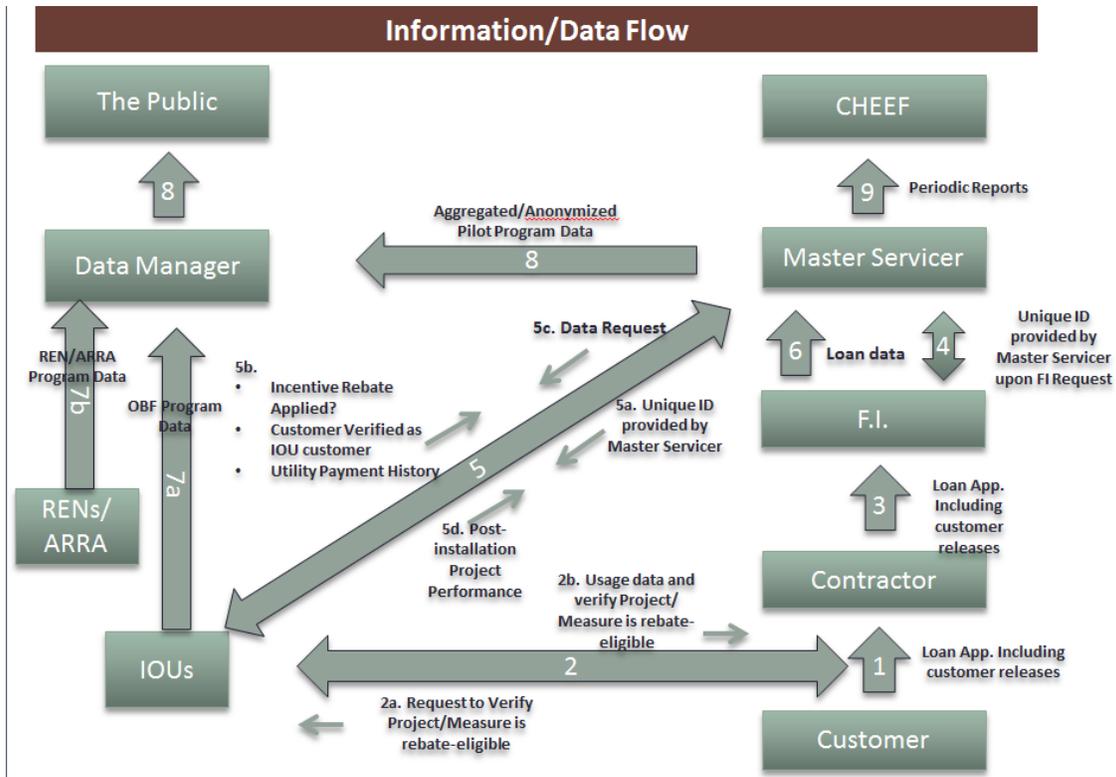
**b) Operational Functionality**

The Master Servicer will be required to use the systems described above to perform at least the following related tasks:

- 1. FI application process
  - a. Receiving FI enrollment applications and evaluating completeness based on eligibility requirements set forth in CAEATFA’s program regulations.
  - b. Notifying FIs of incomplete submissions and communicating missing information; reviewing supplemental documentation from FIs
  - c. Notifying CAEATFA of receipt of complete FI enrollment applications.
  - d. Notifying FI of CAEATFA’s approval of its enrollment application, and providing program documentation.
  - e. Establishing accounts for approved FIs to track future submissions of customer files.
- 2. FI credit enhancement commitment process
  - a. Collecting information from FIs regarding expected draw-downs of credit enhancement funds to assist in maintaining appropriate funding levels in all credit enhancement accounts.
- 3. Credit enhancement management
  - a. Receiving applications from FIs to 1) reserve credit enhancement funds at the pre-loan or pre-lease origination phase; 2) enroll a funded

- qualified loan or lease; or 3) make a claim for reimbursement for an enrolled loan or lease from the loss reserve or debt service reserve fund.
- b. Reviewing applications for completeness and compliance with program regulations.
  - c. Notifying FIs of incomplete applications.
  - d. Notifying CAEATFA of complete applications and awaiting confirmation from CAEATFA that the requested action (i.e., movement of credit enhancement funds) has been completed. Subsequently, informing the FI that CAEATFA has taken action.
  - e. Upon submission of a claim by a FI for a charged-off loan or for DSRF recovery, reviewing FI requests for reimbursement from the credit enhancement funds to determine completeness and to verify that the FI's representations are consistent with requirements set forth in regulations for the corresponding pilot.
4. Customer payment and billing cycle data collection from IOU
    - a. Processing or routing of FI requests to obtain customer billing history and billing cycle data.
  5. Customer account boarding and invoice processing
    - a. Upon notification from an FI that it has closed a qualified financial instrument with a new customer, establishing a new customer account.
  6. Cash remittance processing
    - a. Performing cash management and reconciliation (and delivering notifications to IOUs, CAEATFA, and FIs).
    - b. Processing invoice data received from FIs and transmitting the data to the appropriate IOU.
    - c. Receiving and reviewing cash transfers from IOUs (for customer OBR) for accuracy; remitting cash to the appropriate FI.
  7. Project database management
    - a. Storing relevant financial documents – origination and servicing files – in a secure manner that protects all Personally Identifiable Information (PII) in accordance with applicable laws and regulations prior to submitting to Data Manager.
  8. Reporting
    - a. Transmitting data to Data Manager. Providing regular reports to FIs, IOUs, and CAEATFA.

- b. Upon receiving notification from an FI that a borrower participating in one of the pilots has filed for bankruptcy, notifying the relevant IOU and CAEATFA.



Pursuant to California Public Contract Code, CAEATFA will issue an RFP from which to select the Master Servicer. The contract term is anticipated to align with the CPUC’s authorization of the pilots, through December 2015, with the possibility of extension.. However, if the duties of a Master Servicer are required beyond the term of the original contract, California Public Contract Code requires that CAEATFA issue subsequent RFPs to select a Master Servicer through a public procurement process. While CAEATFA is not required to select the lowest-cost bidder, cost will account for one-third of the evaluation criteria.

General requirements and evaluation criteria for firms competing to be selected as the Master Servicer will include:

- Qualifications of the Firm. CAEATFA will evaluate the firm’s overall experience demonstrating its ability to successfully complete the scope of services.
- Qualifications of Key Personnel. CAEATFA will evaluate the individuals to be assigned to the contract on the basis of background and experience in related work including experience with similar types of programs.

- Understanding of Funding Flow. CAEATFA will evaluate the firm’s understanding of the process flow for funding and data, and its role in the CHEEF infrastructure.
- Firm’s Reporting Capabilities. CAEATFA will evaluate the firm’s ability to demonstrate it can provide the reporting and monitoring activities.
- Cost. Cost will be one-third of the evaluation criteria and total points earned. The greatest number of points in this category will go to the lowest-cost bidder.

Anticipated Timeline for Executing Contract with Master Servicer	
Task	Timeframe for Completion
CAEATFA Advertises RFP	September 2014
Bidders Conference	September / October 2014
Proposals Due	October 2014
Proposals reviewed; Master Servicer selected; and approved by the CAEATFA Board	November 18, 2014
Parties Sign Contract	November 2014
DGS Reviews and Approves Master Servicer Contract	December 2014 / January 2015
Contract Effective	December 2014 / January 2015
Master Servicer Begins Work	December 2014 / January 2015

Note: Dates subject to change.

#### 4. Data Manager

A predominant feature of the Financing Pilots is the development of a database that includes project performance and financing repayment history to inform what may become a new mainstream financial asset class – EE financing. The database will collect the necessary financial and energy data to better ascertain the value of EE improvements and repayment performance.

The Data Manager will receive data from the Master Servicer and several other non-pilot programs identified by the CPUC, subject to all laws and regulations protecting personal identifying information – both from a utility/energy usage perspective and a lender perspective – and aggregate it to provide analytics to CAEATFA, the IOUs, the CPUC, FIs and stakeholders.

A website will be created by the Data Manager to enable public access to the appropriate data collected from the pilots in accordance with applicable laws and regulations. The information accessible on the website will include ongoing data collection on program participants, project characteristics, project outcomes, and repayment results. The CPUC has expressed interest in having the Data Manager be a repository of data from other EE financing programs operating in California outside of the Pilot Programs identified in the Decision.

The CPUC previously instructed the IOUs to “collect data on the performance of loans receiving credit enhancements and OBF through current programs and build a database of California loan payment history from all sources of energy project loans.”<sup>18</sup> The CPUC also ordered the IOUs, through a working group, to “develop a larger-scale database or databases of financing related data and information that could be shared publicly.”<sup>19</sup> Pursuant to D.13-09-044, the data protocols subject to the WG report were submitted in a final report and approved by the Commission with an effective date of December 16, 2013. The report is available in SoCalGas Advice Letter (AL) 4579, SDG&E AL 2557-E / 2252-G, PG&E AL 3440-G / 4330-E, and SCE AL 2998-E. The CHEEF may also establish regulations regarding data collection and reporting to implement the working group report. Sharing of collected customer data is deferred until a Master Servicer and a Data Manager are in place.

The results of the Data Working Group process will be encompassed into the scope of work that CAEATFA develops for the selected Data Manager. The Data Manager will at a minimum be responsible for:

- Receiving data from the Master Servicer and other relevant sources identified by the CPUC
- Establishing and maintaining databases for data received from the Master Servicer and other relevant sources
- Developing and maintaining systems for manipulation and release of appropriate anonymized and aggregated data
- Establishing and maintaining public portal of EE finance data
- Monthly/Quarterly reporting to CAEATFA
- Reports to others as directed by CAEATFA

The process and procedures for data may draw from or be outlined in several documents, including the following:

- “Data Working Group: Final Report”
- Program Regulations
- OBR Tariff

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<sup>18</sup> D.12-05-015, page 126.

<sup>19</sup> D.13-09-044, page 74

- Data Manager Contract
- Master Servicer Contract

Pursuant to the California Public Contract Code, CAEATFA will issue an RFP from which to select the Data Manager. The contract term is anticipated to align with the CPUC’s authorization of the pilots, through December 2015, with the possibility of extension.. However, if the services of the Data Manager are required beyond the term of the original contract, California Public Contract Code requires that CAEATFA issue subsequent RFPs to select a Data Manager through the State’s public procurement process. While CAEATFA is not required to select the lowest-cost bidder, cost will account for one-third of the evaluation criteria.

General requirements and evaluation criteria for firms competing to be selected as the Data Manager will include:

- Qualifications of the Firm. CAEATFA will evaluate the firm’s overall experience demonstrating its ability to successfully complete the scope of services.
- Qualifications of Key Personnel. CAEATFA will evaluate the individuals to be assigned to the contract on the basis of background and experience in related work including experience similar types of programs.
- Firm’s Reporting Capabilities. CAEATFA will evaluate the firm’s ability to demonstrate it can provide the reporting activities.
- Cost. Cost will be one-third of the evaluation criteria and total points earned. The greatest number of points in this category will go to the lowest-cost bidder.

<b>Anticipated Timeline for Executing Contract with Data Manager</b>	
<b>Task – Milestone</b>	<b>Timeframe for Completion</b>
Data Working Group Report is finalized and submitted	December 16, 2013
Data Working Group Final Report is approved by the CPUC	February 7, 2014
CAEATFA Advertises RFP	September 2014
Bidders Conference	September / October 2014
Proposals Due	October 2014
Data Manager Selected and Approved by the CAEATFA Board	November 18, 2014
Parties Sign Contract	November 2014
DGS Reviews and Approves Data Manager Contract	December 2014 / January 2015
Contract Effective	December 2014 / January 2015
Data Manager Begins Work	December 2014 / January 2015

Note: Dates subject to change.

#### **IV. Development of Program Structures and Governance - The Regulatory Process**

As noted in the Decision, CAEATFA's role as the CHEEF provides transparency and accountability for finance program operations through the State's public rulemaking and procurement processes. The governance, structures and rules of the Pilot Programs will be consistent with the Decision and the IOUs' PIPs, and will be further defined in the various contracts described above as well as in the regulations established through the public rulemaking process. Below are several key milestones in CAEATFA's process for developing the necessary infrastructure and program regulations to implement the pilots.

## Anticipated Timeline for Developing CHEEF Infrastructure and Program Rules

Milestone	Date
FY 2014 – 15 Budget takes effect	July 1, 2014
Memorandum of Agreement with CPUC executed	Mid-July 2014
IOU-CAEATFA Contract executed	Late July / Early August 2014
Trustee RFP issued	August 2014
Single Family Loan Program rulemaking process	August - October 2014
Small Business Off-Bill Lease Pilot rulemaking process	August - October 2014
DGS approves IOU-CAEATFA contract. CAEATFA may begin operating as the CHEEF.	August / September 2014
Master Servicer and Data Manager RFPs issued	September 2014
Lease Originator RFP issued	September 2014
CSE Marketing Plan submitted via Tier I Advice Letter	October 20, 2014
CAEATFA Board Meeting to approve Trustee contract	October 21, 2014
Non-residential OBR, Small Business OBR, MMMFP, and Small Business OBR Lease rulemaking processes	October - December 2014
EFLIC rulemaking process (revision to SFLP regulations)	October - December 2014
DGS approves Trustee contract	November 2014
CAEATFA Board Meeting to approve Master Servicer, Data Manager, and Lease Originator contracts	November 18, 2014
Implementation of Marketing Plan begins	November / December 2014
DGS approves Master Servicer, Data Manager, and Lease Originator contracts	December 2014 / January 2015
Single Family Loan Program launches (with MS support)	January / February 2015 <sup>20</sup>
Small Business Off-Bill Lease Pilot launches (with MS support)	January / February 2015
IOUs submit IT Advice Letter to CPUC	January / February 2015 (30 days after DGS approves MS contract)
OBR functionality established between MS and IOUs	Late Q2 / early Q3 2015 <sup>21</sup>
Non-residential OBR, Small Business OBR, and Small Business OBR Lease pilots launch	Late Q2 / early Q3 2015 (after OBR is functional)
MMMFP and EFLIC transferred to MS, and CHEEF version of pilots launch	Late Q2 / early Q3 2015 (after OBR is functional)
End of pilot period	December 31, 2015

<sup>20</sup> If CSE's Marketing Plan has not been approved by the CPUC at this time, the Single Family Loan and Small Business Off-Bill Lease pilots may benefit from a "soft-launch". Once the Marketing Plan is approved and implemented, there may be a more substantial and publicized effort to launch the programs.

<sup>21</sup> The late Q2 / early Q3 2015 estimate for having the Master Servicer operational, and subsequently launching the OBR pilots, assumes both expeditious approval of the IT Advice Letter and expeditious processing of required changes to IOU IT systems. Delays in IT Advice Letter approval or increases/changes in IT scope may lead to a delay in the launch of pilots until mid-2015.

Note: Dates are subject to change.

The Administrative Procedure Act (“APA”) governs and establishes the rulemaking procedures and standards for state agencies in California (California Government Code, section 11340, et seq). The Office of Administrative Law (“OAL”) administers the process, which was designed to provide the public with a meaningful opportunity to participate in the adoption of state regulations and to ensure that regulations are clear, necessary and legally valid.<sup>22</sup>

In general, there are two types of rulemaking processes that a state agency can pursue: regular or emergency. Both processes require that certain public hearing and notice requirements be met. The emergency rulemaking process can allow a program to be developed and modified within an expedited time period. In addition, each emergency rulemaking must ultimately be implemented through the regular rulemaking process for the regulations to be effective beyond the initial 180 days (and any allowable extensions). CAEATFA is authorized by its statute to undertake the emergency rulemaking process.

### **A. Emergency Rulemaking Process**

Below is a general description of the steps that CAEATFA will undertake for the emergency rulemaking process. The exact process will vary per pilot and may differ based on the various stages of program development, as outlined in each of the PIPs. Several stages in both the emergency and regular rulemaking processes, such as timelines for public notice, are required by law or regulation.

1. Initial draft of program structure/draft regulations provided to the public for review and comment. Notice distributed to CAEATFA email list and website, as well as the CPUC’s Service List for the EE proceeding.
2. Workshop to obtain public comment – interested parties may participate in person or via teleconference.
3. Written public comments. Typically, written public comment is due no sooner than seven calendar days after draft is publically provided.
4. CAEATFA redrafts program regulations.
5. Repeat Steps 1 through 4 as needed.
6. 10-day public notice that regulations will be considered by the CAEATFA Board (standard notice process for all board meetings).
7. CAEATFA board considers and approves regulatory action.
8. Day -5: Five business days before CAEATFA submits regulation package to OAL, CAEATFA provides notice and copies of rulemaking documents to the public, including:

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<sup>22</sup> OAL is responsible for reviewing administrative regulations proposed by over 200 state agencies for compliance with the standards set forth in the APA, for transmitting these regulations to the Secretary of State and for publishing regulations in the California Code of Regulations.

- Notice of Emergency Regulations
  - Finding of Emergency
  - Regulation Text
9. Day 0: Regulations and rulemaking documents submitted to the Office of Administrative Law (OAL) for its posting.
  10. 5-day (calendar day) public comment period subsequent to OAL's posting of emergency regulations.
  11. OAL determines validity of regulations, 10 days (calendar days) after CAEATFA submittal (step 9).

Emergency regulations are effective for 180 days unless extended by the agency through the filing of a completed rulemaking action (regular process) with OAL, or if OAL approves a re-adoption of the emergency regulation during that time period. The initial emergency regulations can be re-adopted no more than two times, for a period of 90 days each.

## **B. Regular Rulemaking Process**

As noted above, CAEATFA will be required to undergo regular rulemaking processes for each of the Pilot Programs before the emergency regulations expire. Below is a general description of the steps that CAEATFA will undertake for the regular rulemaking process. The exact process will vary per pilot and may differ based on the various stages of program development, as outlined in each of the PIPs. Several stages in both rulemaking processes, such as timelines for public notice, are required by law or regulation.

1. Initial draft of program structure/draft regulations provided to the public for review and comment. Notice distributed to CAEATFA email list and website, as well as the CPUC's Service List for the EE proceeding (i.e. A.12-07-001, et al).
2. Workshop to obtain public comment – interested parties may participate in person or via teleconference.
3. Written public comments. Generally, written public comment is requested at least seven calendar days after draft is publically provided.
4. CAEATFA redrafts program regulations as needed.
5. Repeat Steps 1 through 4 as needed.
6. CAEATFA provides notice of proposed regulations, and begins a 45-day public comment period.
7. Workshop to discuss proposed regulations and/or comment period to 45-day notice closed.
8. If modifications to the proposed regulations are necessary,
  - And modifications are substantially and sufficiently related, CAEATFA will re-draft and publically notice for a subsequent 15-day (calendar day) public comment period.

- And modifications are substantially different from previous text, CAEATFA will publically notice for a subsequent 45-day (calendar day) public comment period.
9. Repeat Step 8 as necessary.
  10. 10-day public notice that regulations will be considered by the CAEATFA Board (standard public notice provision for board meetings).
  11. CAEATFA board considers and approves regulatory action.
  12. CAEATFA submits regulations to OAL for approval.
  13. OAL considers regulations for 30 business days
  14. Regulations approved.

To receive email notices of CAEATFA’s business items and regulatory actions, interested parties are directed to sign-up for CAEATFA’s electronic notifications on its [website](http://treasurer.ca.gov/caeatfa/), at <http://treasurer.ca.gov/caeatfa/>.

### C. Regulatory Provisions

The regulations, in combination with the Decision, PIPs, and the various contracts discussed above, will structure and govern the Pilot Programs. The regulations will provide further clarification and definition of the eligibility requirements, process, and procedures for the Pilot Programs. Examples of elements that are anticipated to be addressed within the regulatory provisions are identified below. Please note that the definitions provided below are not an exhaustive list of those to be included in the program regulations. The examples below may change as CAEATFA undergoes the State’s public rulemaking process to further develop the Pilot Programs.

- Definitions:
  - Credit Enhancements (CEs). The amount and structure of credit enhancements, including the terms of availability, will be identified in the regulations.
    - There will be additional definitions for loan loss reserve, as well as any other credit enhancements (e.g. Debt Service Reserve Fund). These definitions will describe the level and amount of credit enhancement that an FI may receive under its participation in the various Pilot Programs as well as how the FI will be able to access the credit enhancements.
  - Financial Institutions (FIs). The definition will outline the requirements for an entity to be eligible to participate in the Pilot Programs. The definition will be broad enough to encompass all of the Pilot Programs, including direct lenders, indirect lenders, and lease companies.
  - Eligible Measures. The regulations will include a definition of measures that are eligible for financing under each of the Pilot Programs (eligible energy

efficiency measures (“EEEMs”) will be defined by reference). The regulations may also clarify which costs related to Eligible Measures are permissible to finance with a credit-enhanced loan or lease.

- Borrower. The definition of Borrower will include those eligible to apply for financing under the SFLP, MMMFP, Small Businesses OBR with Credit Enhancements Pilot, Small Businesses Lease Provider Pilots with On-Bill and Off-Bill Repayment options, and Non-Residential OBR without Credit Enhancements Pilot. Borrowers will be limited to IOU customers.
- Minimum Underwriting Criteria. The regulations will identify the minimum underwriting criteria a FI will be required to adopt to participate in the program. These provisions, together with other requirements identified in the regulations, will make up the lender service agreements (“LSAs”) that are referred to in the Decision.
- Qualified Contractors. The regulations will describe the licenses and requirements that will be required of the contractors who wish to participate in the program. CAEATFA will reference the applicable IOU requirements when applicable, and will also identify requirements for those projects/Borrowers that are not participating in an IOU rebate or incentive program.
- Quality Assurance / Quality Control (“QA/QC”) Standards. The regulations will outline specific quality assurance requirements for each project to assist in ensuring projects are completed appropriately and consistently with the Decision’s goals. These may include:
  - Reference to the IOUs’ existing requirements for rebate and incentive programs.
  - Requirements for projects of Borrowers that are not participating in an IOU rebate or incentive program.
  - Pre-project and post-project assessments, if applicable.
  - Requirements for distributed generation and other non-EEEMs.
- Requirements and process for FIs to enroll in the programs, including audit and certification requirements.
- Certification requirements for Borrowers, Contractors, and FIs.
- Requirements, process, and flow of funds for credit enhancements:
  - Enrollment of a specific loan or lease in the program(s).
  - Claim on credit enhancement pool.
- Requirements, process, and flow of funds for OBR.
- Reporting and notification requirements for FIs.

## **V. Education and Outreach**

The Decision includes up to \$2 million in funding to the CHEEF for non-duplicative education and outreach efforts to FIs and contractors. CAEATFA is currently working with the IOUs and CSE to identify existing Marketing, Education, and Outreach (ME&O) plans targeting contractors, and identifying where it can conduct value-added education and outreach that leverages the funds. CAEATFA will work with the IOUs and CSE to coordinate efforts with the statewide and local ME&O efforts. Its efforts will primarily be focused on education and training for FIs.

The education and outreach component of the Pilot Programs will include training events and materials for FIs that will assist them in understanding and becoming interested in participating. The education and outreach efforts will promote lender comprehension of the potential market, EE investments, project QA/QC requirements, and data on project performance. The CPUC approved Resolution E-4663 in June 2014. CAEATFA will collaborate with CSE, the IOUs, and other stakeholders to implement education and outreach efforts accordingly.

### **A. Objectives**

1. Generate awareness, understanding of financing options available
2. Drive participation in EE investments
3. Coordinate with statewide ME&O effort

### **B. Target Audiences**

1. Financial Institutions

### **C. Key Messaging**

1. Develop a standardized Financing messaging framework
  - a. Enable Financing promotion through a messaging framework for use by internal and external partners
  - b. Messaging will focus on clear benefit statements, consistent copy and ease of use (i.e. convenient financing options are available to qualified applicants for a limited time)

### **D. Promotion Channels**

1. Trade professional alliances and third party program administrators
2. Lender associations and regional networks
3. Participating FIs (including Lease Originators)
4. Utility and Lease Originator/Financial Institution Websites

5. Community Based Organization (CBOs)
6. Direct (i.e. email, workshops, roundtables, and online)

## **E. Keys to Success**

1. Messaging within relevant IOU integrated campaigns and program-specific marketing and outreach
2. Coordination with existing relevant marketing and outreach activities
3. Coordination with other market actors such as contractors, FIs, and the IOUs
4. Coordination with CSE for messaging in regards to Energy Upgrade California to ensure coordination with the statewide ME&O effort

## **VI. Servicing Program Commitments Beyond the Pilots**

CAEATFA anticipates that the CPUC and IOU obligation to the CEs will extend beyond the contracts with CAEATFA and the term of the pilots outlined in D.13-09-044. For example, a common term for a loan loss reserve in the residential market is 10 years. Based on this assumption, CAEATFA has agreed to cooperate with the parties to develop disengagement procedures in the event that it does not continue in the CHEEF role after the expiration of the initial term of the MOA and the contract with the IOUs.

## **VII. Reporting**

### **A. Quarterly Reports to the CPUC**

Pursuant to the Decision, the IOUs and SCG in particular will assist CAEATFA in filing and serving quarterly reports on program uptake for each pilot and on CAEATFA's operational expenses. With assistance from SCG, CAEATFA will submit the reports within 30 days of the end of the preceding quarter. The reports shall notify the Commission of implementation progress, including any previously unidentified significant program details, and any problems or obstacles encountered in the implementation of the authorized programs. Details to be submitted include:

- The platform and space within which CHEEF functions take place;
- Accounts and account managers associated with CHEEF;
- Database permission (and levels therein) criteria and platforms;
- Customer-facing products (such as websites/informational charts);
- Transactions of various financial products administered by CHEEF and certain aggregate profile information about Borrowers, project purposes/scope, financed amounts, etc.; and
- Overview of participating FIs

## **B. Reports from Financial Institutions**

CAEATFA will include reporting requirements for participating FIs within its program regulations. The regulations will identify (1) information to be reported, (2) frequency of reporting, and (3) methods for submitting reports to CAEATFA.

## **C. Reports from the Master Servicer**

Master Servicer reporting requirements will be identified within CAEATFA's contract with the selected Master Servicer. Because it is anticipated that the Master Servicer will be collecting PII, the Master Servicer's reporting requirements may be limited to providing specific types of information to the Data Manager and to participating FIs.

## **D. Reports from the Data Manager**

Data Manager reporting requirements will be identified within CAEATFA's contract with the selected Data Manager. (Because it is anticipated that the Data Manager may be collecting PII, the Data Manager's reporting requirements may include public and non-public versions.)

## **E. Reports from the Trustee**

Trustee reporting requirements will be identified within CAEATFA's contract with the selected trustee bank.

## **VIII. Other Required Pilot Criteria**

Decision 09-09-047, pp. 48 – 49 provides instruction regarding information to be submitted for pilot programs. The 10 criteria required for pilot programs are addressed in each Pilot Program PIP, Section 12.

### **Decision 13-09-044, Appendix F – The CHEEF Program Implementation Plan**

Appendix F of the Decision identifies several criteria the Commission recommended including in the CHEEF PIP. The criteria are listed below, with references to where the subject is addressed within this PIP.

1. Competitive solicitation/ RFP process for a Master Servicer, lease originators, and other technical assistance as identified (e.g., information technology, financial, data management).

The general RFP process is described in Section III.B above. This section also includes information specific to each RFP, such as anticipated schedules for releasing the RFP and approving contracts once awardees have been identified.

2. Creation of an IT-driven platform designed to support the core processes and functions that make OBR possible and facilitate data collection.

The Data Manager and Master Servicer will collaborate with the IOUs to establish an IT platform that facilitates the functions of OBR. This issue is addressed in Sections III.B.3 and III.B.4 above. Further elaboration may be included in CAEATFA's Master Servicer and Data Manager RFPs.

3. Development of procedures for various CHEEF responsibilities
  - a. For all financing types:
    - i. Approval of forms and protocols for data transfer between utilities and FIs, as proposed by Master Servicer.
    - ii. Development of LSAs.

CAEATFA's program regulations will include program requirements (including necessary forms), definitions, and procedures that FIs will be required to comply with in order to participate in the Pilot Programs. D.13-09-044 refers to Lender Service Agreements (LSAs). To clarify, CAEATFA's regulations will include provisions that address the LSA requirements contemplated in the Decision.

Information about the content and timeline for regulation development is included in Section IV above.

- b. For OBR:
      - i. Manage, with Master Servicer input, the process for transmission of information between utilities and FIs.

This issue will be addressed in CAEATFA's RFP for the Master Servicer, and also in the resulting contract. Information about the content and timeline for the Master Servicer RFP is included in Section III.B.3 above.

4. Develop standards for approving FIs for pilot participation and for objective evaluation of FI qualifications.

Requirements for FI participation will be addressed in program regulations. See Section IV regarding the setting of regulatory provisions. For the lease pilots, FIs will be limited to the lease originators selected through CAEATFA's competitive process.

5. Work with Master Servicer, Commission, and the data working group to implement Commission-approved protocols for collection of energy project, customer energy use, and Borrower financial data, for sharing of data, and for third party access to aggregated, anonymous data.

Collection of customer and project-related data from FIs, the Trustee, Master Servicer, and Data Manager is addressed in Section VII above. Also see Section III.B.4 for more detail regarding the involvement of the Data Manager in the reporting process. Data

collection requirements for the contractors are addressed as part of the CHEEF's responsibilities, which are described in Section III.A.

6. Develop framework for type and frequency of reporting to CHEEF by IOUs and FIs; ensure quarterly information reports on pilots' progress by CHEEF to Commission as requested by Energy Division.

Reporting is addressed in Section VII above.

7. Coordinate with existing customer and contractor facing tools such as Energy Upgrade California.

Education and outreach efforts are addressed in Section V above. Additionally, as identified in the PIPs, contractors are required to provide, in writing, a bill impact estimate for the proposed EE project to the customer before the customer makes a decision about whether to pursue the project. Contractors with a customer participating in an IOU program will be required to use the software and additional tools of that program when applicable. Software and tool requirements for customers not participating in an IOU/Regional Energy Network ("REN") incentive program will be identified during CAEATFA's rulemaking process.

8. Provide a mechanism to make minor, mid-course modifications to the pilot programs as needed to better meet the individual objectives of a particular program; material and/or substantive changes to pilot programs should be authorized by Assigned Commissioner Ruling, if needed.

CAEATFA may make mid-course modifications to the Pilot Programs pursuant to the emergency rulemaking public process. In the event such modifications are necessary, CAEATFA will coordinate with the Commission and the IOUs to ensure the changes support the development of the Pilot Programs and the proper use of ratepayer funds.

9. Develop a proposed start-up budget, not to exceed \$5 million for 2013-2014 for all CHEEF administrative costs, including contract agents such as the MS

CAEATFA's administrative costs and contracting budget are addressed in Section III.B.1 above.