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Financial Solutions

1. **Program Name:** Financial Solutions
   Program ID: SCE-L-002
   Program Type: Core

2. **Projected Program Budget Table 1**

SCE-L-002	Main Program Name / Sub-Programs	Total Administrative Cost (Actual)	Total Marketing & Outreach (Actual)	Total Direct Implementation (Actual)	Integration Budget Allocated to other Programs (If Applicable)	Total Budget By Program (Actual)
	Financial Solutions	$ 1,490,547	$ 1,217,035	$ 18,524,836	$ -	$ 21,232,418

3. **Projected Program Gross Impacts Table – by calendar year**
   Not Applicable, non-resource program.

4. **Program Description**
   a) **Describe program**

SCE's proposed Financial Services program is a non-resource program that provides customers additional options for financing energy efficiency projects. The program will be offered in conjunction with other core SCE programs to stimulate and enable higher levels of customer participation. This program supports the Strategic and complies with CPUC orders[1] on 2010-2012 IOU energy efficiency programs.

Program elements are the following:

- Nonresidential On-bill financing (OBF)
- Nonresidential third-party EE loan program[2]
- Financial Services Working Group

OBF builds upon the experience of SCE's 2006-2008 pilot program, which provided financial assistance through direct installation of energy efficiency measures for small commercial customers (convenience and small grocery stores). OBF will be offered through other SCE programs, thereby facilitating the expansion of OBF in alignment with the Strategic Plan's Commercial Sector Strategy 2-6, (see Section 5.e below).

Note: see footnote 2 above regarding the third party EE loan sub-program.

The Non-residential Third-Party EE Loan Program is a third-party implemented program to provide financial support for leasing or financing of projects costing more than $25,000.

[1] September 17, 2007 Interim order (R-06-04-010).
[2] SCE understands D.09-09-047 did not approve funding for this sub-program; this sub-program is not currently funded or being implemented. However, after Energy Division assessment of energy efficiency financing options is completed, SCE may request authority to implement a new third-party financing program via an Advice Letter.

Financial Solutions

SCE commits to participating in a statewide Financial Services Working Group to assess future options for financing, as well as addressing other financing issues to help transform the market in California. Residential OBF will be evaluated in coordination with the Financial Services Working Group (consistent with Strategic Plan, Section 2 Residential Sector Strategies 1-4 and 2-4, see Section 5.e, below). This also complies with the September 17, 2007 Interim Order for "…an evaluation of prospects for on-bill financing programs for residential customers…"[3]

SCE is also presently seeking qualified consultants and advisors to provide an up-to-date evaluation of best practices in the financing of residential DSM projects, the current market for traditional third- party financing of residential DSM projects, and alternative, creative financing vehicles for residential DSM projects.

Financing can help promote accelerated investment in energy efficiency in several ways:

1. By moving the market: Financing can move the market by both accelerating investment and enabling investment in EE that is cost-effective but that otherwise would be delayed or not made at all;
2. By reducing barriers: Following from above, financing can have the effect of removing barriers that can keep EE from growing from small-scale to more mass-scale; and
3. Adding to a well-rounded portfolio: Financing is a critical element that has the effect of increasing the power and reach of all other program elements.

The Financial Solutions program will be coordinated with the other IOUs, financial institutions, and both the CPUC and CEC. The program is local because the actual offerings will vary by service area, depending on local financial institutions and customer needs.

While SCE intends to gain valuable experience from further evaluation of financing options, there is already local and other experience upon which to call. OBF programs are offered by several utilities throughout North America[4]. While utilities in Canada have consistently offered financing for energy efficiency investments, only a handful in the U.S. are currently offering such an option. In general, the primary operating principles for these utilities include:

- Offering a combination of loan and incentive;
- Structuring the package to result in a relatively short payback period; and
- Restricting participation to customers with very good credit histories.

[3] D.07-10-032, Ordering paragraph 20.
[4] Small Business Energy Advantage, an ENERGY STAR® award winning program offered by United Illuminating (UI); National Grid PAYS® program; other programs offered by BC Hydro, First Electric Cooperative, Manitoba Hydro, NW Natural Gas, Maui Electric Co., Midwest Energy, New Hampshire Electric Cooperative, Efficiency Vermont and NYSERDA (non-exhaustive).

Program Elements

1. The Nonresidential OBF Program will offer zero-interest financing for installation of qualifying energy-efficient lighting, refrigeration, and air conditioning measures by commercial, industrial, agricultural, and governmental & institutions customers. This program is a non-resource program that provides OBF as a tool for other SCE programs offered to individual customers in the commercial, industrial, and agricultural market segments, and through the local government partnership program.

   SCE will also participate with other stakeholders in relevant financial workshops or other forums.

   Participating customers may be eligible for more than one loan based on the customers' utility bill and payment history. Commercial, industrial and agricultural loan terms will be up to five years or the expected useful life of the bundle of efficiency measures proposed, when credit and risk factors support this. Government and institutional loan terms will be up to 10 years, or the expected useful life of the bundled of efficiency measures proposed, whichever is less. In general, however, commercial, industrial, and agricultural loans are typically limited to a 5-year term but may have their terms extended beyond five years and government loans are limited to a 10-year term.

   Commerical, industrial, and agricultural loans have a minimum financed amount of $5,000 and a maximum financed amount of approximately $100,000; government institutions loans will be from $5,000 to $250,000 with potential loans of up to $1 million per facility for unique opportunities to capture large savings. Larger loans may be subject to additional project criteria

   Note: see footnote 2 above regarding the third party EE loan sub-program.

2. The Nonresidential EE Loan Program is a third-party non-resource program that will provide third-party asset-based leasing and/or project financing to customers who are implementing energy efficiency projects for which out-of-pocket costs are greater than $25,000. The financing is in the form of a loan through the third-party, and is not on-bill financing. The program's ultimate objective is to simplify the financing of projects, thus making customer adoption of energy efficiency measures easier. The aim of the program is fundamentally to deal with barriers to investment. Thus, SCE will:
   - Dedicate resources to packaging EE projects (on behalf of customers) in a manner that middle-market lending institutions will be able to easily comprehend and review;
   - Build relationships with third-party financial institutions that not only have an understanding of EE projects, but also have special business

interests and core competency in middle-market and asset-based and leasing; and
- Dedicate resources to leveraging the experience of outstanding public sector and non-government organization financing programs into the Nonresidential EE Loan Program.

The Nonresidential EE Loan program will employ a loan origination and packaging business model. To bring this to full operation, several major short-term action steps will be taken:

- Analysis and characterization of historical EE projects in an effort to establish benchmarks, standard profiles, similarities, project installation terms, and dollar values;
- Outreach to third -party financial institutions to explain the program and to assess and establish level of interest;
- Establishment of formalized relationships with third- party financial institutions to underwrite qualifying EE projects;
- Development of training and collateral materials establishing general standards and requirements for the program; and
- Establishment of needs requirements and development of corresponding infrastructure and internal business processes to:
  - Filter all proposed or new EE projects to assess suitability for the program;
  - Package loan applications; and
  - Provide for ongoing interface with participating financial institutions, and close out the loan origination and application process.

3. <u>Financial Services Working Group</u>
   The Strategic Plan identifies financing as a priority. In several sections, but especially in Section 2, Residential Sector Including Low Income, financing is discussed as an enabler of energy efficiency market transformation. Strategy 1-4 calls for the creation of a task force of financial experts to develop attractive financial products. SCE plans to help establish, and then actively participate in a Financial Services Working Group.

   Similar to the proposed Integrated DSM Task Force, SCE expects a series of regular meetings of IOUs, including their financial staff, as well as representatives from the CPUC, especially the Energy Division. It is anticipated that one commissioner will join the Financial Services Group.

   Since approximately 1981, SCE has gained perspective on financing in the residential market. Some of this experience is discussed in SCE's testimony in this proposal for 2010-2012 programs. The Financial Services Working Group will add to this experience and, potentially, identify new avenues for using financing to move the residential energy efficiency market.

a) List measures: *Not Applicable, as this is a non-resource program. See measure listings in the Commercial, Industrial, Local Government and Institutional Partnership PIPs.*

b) List non-incentive customer services: *Applies to entire Financial Solutions* program.

5. Program Rationale and Expected Outcome

a) <u>Quantitative Baseline and Market Transformation Information</u>

By its nature, market transformation occurs as a result of numerous factors, and cannot be directly attributed to all program efforts. Specific market transformation metrics cannot be readily offered for this program at present.

Table 3 – Quantitative baseline metrics cannot be readily offered for this program

b) <u>Market Transformation Information</u>

By its nature, market transformation occurs as a result of numerous factors, and cannot be directly attributed to all program efforts. Specific market transformation metrics cannot be readily offered for this program at present.

Table 4 – Market transformation metrics cannot be readily offered for this program

c) <u>Program Design to Overcome Barriers</u>

Efforts to develop either on-bill or other residential financing options focus on the following identified barriers:

Barriers:

- Lack of capital funds;
- First-cost financing barriers significantly reduce the participation of residential customers in energy efficiency programs; and
- The high first-costs for long-life mechanical systems (HVAC, water heating, etc.) and building shell measures (windows, insulation, etc.) often limit residential sector participation in energy efficiency programs to low-cost, shot-life measures (for example, CFLs, or thermostats, etc.).

Program Design Elements to eliminate barriers:

- Financing packages tailored to incorporate efficiency measure bill savings and useful life term periods can render overall net reductions in consumer monthly bills.

- Financial solutions would be offered in conjunction with core IOU incentive programs in a manner to remove remaining economic barriers not mitigated through incentive payments.

SCE will coordinate through the Financial Services Working Group to assess various approaches for residential customer energy efficiency financing (see section 5.e, below).

The nonresidential sector financing program element addresses the following priority barriers with program design elements to overcome identified barriers:

Barriers:

- Lack of capital
- Small business cash flow issues
- Small business unwillingness to take out loans
- Paperwork / complicated & invasive loan applications
- Competing use of credit lines (core business operational needs vs. efficiency upgrades)
- Some sectors lack access commercial credit providers (i.e., governmental institutions)

Program Design Elements:

- Non-residential finance offerings described herein are provided to all nonresidential customer segments, including governmental institutional customers.
- Financing through the utility bill is expected to remove these barriers by allowing customers to spread out the efficiency measure first-costs over a period of time.
- Financing packages tailored to incorporate efficiency measure bill savings and useful life term periods can render overall net reductions in consumer monthly bills.
- The Financial Solutions program will be offered in conjunction with core IOU incentive programs in a manner to remove remaining economic barriers not mitigated through incentive payments.
- OBF or third-party asset-based lease financing can constitute off-balance sheet financing, preserving customer credit lines for core business operations

d) Quantitative Program Targets

Table 5 – Targets to be provided when available.

e) Advancing Strategic Plan goals and objectives

The Nonresidential program supports the following Strategic Plan near -term strategies and actions steps:

Section 3 Commercial Sector:

- Strategy 2-6: Develop effective financial tools for EE improvements to existing buildings; Near Term 2009 – 2011 action steps:
  - Continue OBF Program and Third Party Program
  - Explore expanding on-bill financing offerings to other DSM programs as part of Working Group agenda

Through the program, customers are able better able to take advantage of energy-efficient lighting, refrigeration, and air conditioning measures.

6. Program Implementation

a) Statewide IOU Coordination

i. Program name: Financial Solutions

ii. Program delivery mechanisms

In terms of OBF, much of the necessary infrastructure has been created through the 2006 - 2008 pilot program. Thus, program ramp-up time will be brief. The process of billing and updating accounts will be close to being fully automated (in the billing system) by the start of the 2010-2012 program cycle.

The program will maintain a financial account to provide funds for the portion of a project to be financed. The loan pool will be a revolving fund, applying loan repayment to make additional loans in the future. On a monthly basis, customer payments toward the financed amount will be credited back to this account and made available to other customers needing loans. Historically, the default rates of OBF for business customers by other utilities have trended lower than the rates of normal loans. However, defaulted loans amounts will be included in the cost-effectiveness calculations for the program.

iii. Incentive levels: Not Applicable

iv. Marketing and outreach plans

The program will coordinate with other SCE core programs to market OBF to program participants. Marketing materials will be provided to other programs for distribution to customers. Interested customers will be pre-qualified, based on eligibility criteria and the customer's payment history.

v. IOU program interactions with CEC, ARB, Air Quality Management Districts, local government programs, other government programs as applicable: Not directly applicable

vi. Similar IOU and POU programs

The other IOUs plan to offer financing solutions for the 2010-2012 program cycle. SCE and Southern California Gas Company (SCG) are continuing to develop plans to coordinate OBF loans for joint customers and to make the OBF process as seamless as possible. SCE intends to continue to work closely with other IOUs through coordination calls and meetings to ensure as much consistency as possible among different programs.

b) Program delivery and coordination

vii. Emerging Technologies program - NA

viii. Codes and Standards program - NA

ix. WE&T efforts - NA

x. **Program-specific marketing and outreach efforts** - NA
xi. **Non-energy activities of program –** Non-resource
xii. **Non-IOU Programs** - NA
xiii. **CEC work on PIER –** NA except to promote "affordability," a PIER priority
xiv. **CEC work on codes and standards** - NA
xv. **Non-utility market initiatives** - NA

c) Best Practices

Best practices are discussed above in Program Elements. SCE has identified other IOU financing programs to study, and has conducted its own evaluations in best practices. See SCE Testimony for this Application (Local Financial Solutions Program)

d) Innovation

This program supports innovation by introducing new tools to move the market and by investigating additional tools via the Working Group.

e) Integrated/coordinated Demand Side Management

The IOU's have identified integrated Demand Side Management (IDSM) as an important priority. As a result, they have proposed the establishment of a Statewide Integration Task Force (Task Force). The Financial Solutions program plans to work closely with the Task Force to identify comprehensive integration approaches that feed into the overall statewide strategy and to implement best practices as rapidly as practical.

f) Integration across resource types (energy, water, air quality, etc)

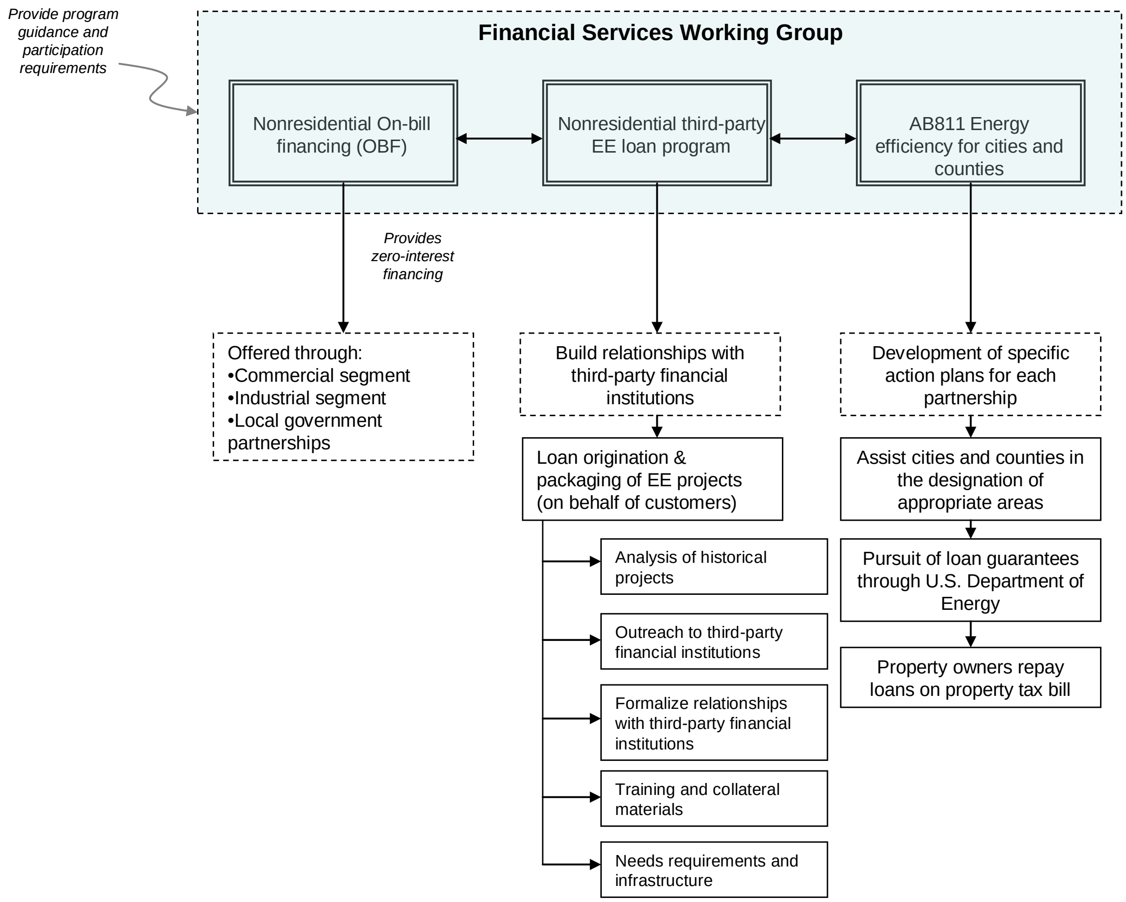
No directly applicable, but opportunities can be discussed to develop tools to capture multiple initiatives through a single loan

g) Pilots Not Applicable

h) EM&V To be developed

7. Diagram of Program

Note: the Program Diagram will be updated as needed based on findings of the Financial Solutions component of SCE's nonresidential process evaluation.



8. Program Logic Model

Note: the logic model will be updated as needed based on findings of the Financial Solutions component of SCE's nonresidential process evaluation.