Request for Information
on
Finance Program Administrator
Scope of Services for
Hawaii's On-Bill Financing Program

I. Introduction and Purpose

The State of Hawaii Public Utilities Commission ("PUC" or the "Commission") issues this Request for Information to solicit input on the scope of services for a Finance Program Administrator ("FPA") for the statewide On-Bill Financing Program. The Commission seeks input in the following areas:

- Recommendations from stakeholders, financial institutions, assemblers of capital and other similar energy finance program developers ("Interested Parties") about the provision of financial services to support the State's On-Bill Financing ("OBF") Program ("Program");

- Comments on the division of labor within the entities serving administrative roles related to financing in the Program; and

- Identification of potential respondents to a subsequent Request for Proposals ("RFP") that may be issued for some or all of the services outlined herein.

The Commission is currently in the process of designing and developing a Program to implement the Commission's Decision and Order No. 30974 ("D&O") in Docket No. 2011-0186 (**Appendix 1**).

The objectives of the Program are to:

A. Provide residential and small business electric utility customers access to financing for permanently-installed customer-sited renewable energy systems (PV) and energy efficiency equipment or services, including solar water heating;

B. Finance eligible measures that provide enough energy savings to exceed the financing payment (positive cash-flow for participants);

C. Place the financing charges on the utility bill through a utility tariff mechanism that ties the obligation to pay for the eligible measures to the electric meter, rather than the individual customer, to allow for the transfer of the payment obligation with a change in property ownership or tenancy;

D. Target hard-to-reach markets – including renters and their property owners and customers unable to access conventional finance agreements or contracts; and

E. Present a simple and understandable program to potential Participants through coordination between all entities involved in the administration of the Program.

Secondary objectives of the Program are to:

A. Utilize varied sources of private and ratepayer capital;

B. Collect data on obligation repayment to quantify investment risks;

C. Operate in a self-sustaining manner, with participants paying an increasing share of administrative costs; and

D. Be designed with the ability to scale, pending Program success, to include larger commercial customers.

The Program has three main entities ("Program Entities") tasked with collaborating to implement the Program (see **Appendix 2**):

A. The Electric Utilities, the HECO Companies and KIUC, whose general responsibilities include participant billing, collections, disconnection of utility power service in the event of non-payment, transmission of on-bill payments to the FPA and Program participant communication through call center inquiries;

B. The Program Administrator, Hawaii Energy, whose general Program responsibilities include technical certification of projects and participants; contractor coordination, certification, and training; addressing participant inquiries and customer service; and

C. The FPA, who will be responsible for the oversight of the financial aspects of the Program.

The Program will accomplish its overall objectives with two main components relevant to the FPA divided into separate parts for this RFI.

Part A – Provision of Servicing and Origination Services to Establish an On-Bill Mechanism

The On-Bill Mechanism allows customers to repay financing of eligible measures (See **Appendix 3**) through an assessment on the utility bill. The On-Bill Mechanism has the following features:

- Links the payment obligation to the utility meter, thus allowing the transferability of payment obligations to subsequent account holders with service through an obligated utility meter (tariff-based obligation),

- o Utilizes utility collection practices for late payment until completion of the Dunning process including disconnection of utility power service,

- o Provides for pari-passu allocation of partial payments and overpayment, and

- o Allows multiple entities access to the bill for the repayment of financing, including existing market participants and new programs that may result from the Green Energy Market Securitization ("GEMS") program recently enacted by the Hawaii Legislature in Act 211, Session Laws of Hawaii 2013, and the Financing Product(s) established in Part B.

The primary services expected by the FPA under Part A include origination of financial products (for tariff obligations using the capital assembled in Part B) and servicing of participating customers' payment obligations. Performance of Part A services will require collaboration with the other Program Entities and the Commission.

Part B – Establish Fund and Financing Product(s)

Under Part B, the Commission seeks respondents to establish a pool of capital that utilizes ratepayer or public funding to support the financing of customer-sited renewable energy generation, conservation and energy efficiency equipment through the Program. This fund:

- o Must be able to finance products and services as specified in the D&O and as deemed eligible by the Program Administrator as approved by the Commission (See **Appendix 3**), with an emphasis on funding energy efficiency and conservation projects, including solar water heaters.

- o Should attract, assemble and integrate low-cost private capital provided by banks, credit unions or other third-party investors for use in the Program by leveraging ratepayer funds in one or more of the following acceptable uses:

  - Loan loss reserve,
  - Subordinated debt,
  - Debt service or Liquidity reserve, or
  - Other credit enhancement

- o May include tax equity investor capital (to enable monetization of the applicable tax credits and accelerated depreciation benefits), other debt and/or equity capital and ratepayer funds.

The pool of capital could also consist of non-leveraged ratepayer funds deployed directly through the On-Bill Mechanism, in which case, Part B services include supporting the deployment of capital. The Part B Services will also include the recommendation and possible design of suitable financial product(s) that use the assembled pool of capital or non-leveraged funds.

II. Commission Expectations

The following points are a general summary of the Commission's expectations of the FPA role:

A. Services provided under Parts A and B shall comply with all applicable laws, rules, and regulations relevant to the services provided.

B. The Part A Services include:

1. Investment grade servicing (or establishment of an agreement with a backup servicer who is an investment grade servicer) of all payments using the On-Bill Mechanism for financial products totaling over $100,000,000 (roughly and preliminarily estimated to be about $12-14M through 5,000 tariff obligations per year for a fully executed Program);

2. Origination (or other documentation of initiation) of financial products that use the pool of capital created under Part B;

3. Participation in Coordinating Agreements with the utilities and the Program Administrator that clearly identifies responsibilities, collaborative steps to accomplish overall Program administration, methods of communication, and secure data transfer and storage protocols;

4. Approval process for Financial Institutions or other investors who seek to utilize the On Bill Mechanism and thus become "Financing Parties";

5. Data collection, maintenance, storage, transfer and reporting for all financial data services related to the Program;

6. Calculation and tracking of the monthly on-bill charges (e.g., monthly repayments, interest, fees, etc.) and communication of those charges to the utility to meet utility billing cycles;

7. Identification and communication of technical requirements for contractors and equipment based on Financing Parties requirements; and

8. Responsibility for ensuring adherence to Program and Financing Party requirements.

C. The pool of capital and financing product(s) established in Part B should:

1. Assemble low-cost capital based on a contribution of ratepayer capital to deliver a leveraged pool of capital that integrates ratepayer and private capital, including tax equity where applicable;

2. Have the capacity to finance renewable energy, solar water heating, and energy efficiency equipment (See **Appendix 3**), or services from the aforementioned equipment that is permanently installed for approved Program participants;

3. Prioritize the financing of energy efficiency and conservation (including solar water heating) equipment or services above the financing of renewable energy equipment or services to minimize duplication of funding provided through GEMS, which is planning to emphasize financing of solar PV in its initial phase;

4. Maximize benefits of tax credits and depreciation[1] to benefit participants if applicable; and

5. Establish clear underwriting criteria that align with Program objectives

III. Background

On July 8, 2011, the Governor of the State of Hawaii signed into law House Bill 1520, HD2, CD1 as Act 204, Session Laws of Hawaii 2011 ("Act 204")[2]. Act 204 created a new section of Hawaii Revised Statutes, §269-125, that directs the Commission to investigate an on-bill financing program for residential electric utility customers and authorizes the Commission to implement the program by decision and order or by rules if the on-bill financing program is found to be viable. On August 15, 2011, the Commission opened Docket No. 2011-0186, an investigation to examine the implementation of an on-bill financing program for residential electric utility customers in the service territories of HECO, MECO, HELCO, and KIUC in response to Act 204. On February 1, 2013, the Commission issued Decision and Order No. 30974 (**Appendix 1**) which found, among other things, that an on-bill financing program could be viable for the state and formed a working group to address further areas where additional

[1]Because the current tax equity investment market may not be willing to invest in solar water heating at favorable rates and the size of the tax equity component of the fund may inhibit the efficient use of the depreciation, the Commission will consider financial products that maximize tax credits to benefit participants without depreciation, see **Section IV, C, 6**)

[2]http://www.capitol.hawaii.gov/session2011/bills/GM1308_.PDF

investigation, discussion, and development of program design and component details are appropriate and necessary.

In the D&O, the Commission established that (1) the program must be utility tariff-based; (2) there must be a realizable saving for participants (beyond bill-neutral); and (3) procedures for non-payment should follow Commission-approved procedures for utility tariff non-payment including disconnection of utility power service. The low default rates of Hawaii's electric utility ratepayers, partially attributed to the utilities' deposit collection process and the potential for utility power service disconnection, combined with the requirement that participant payments are less than they would be without program participation, imply that the risk of default for repayment of the on-bill financial obligations should be low. Additional information about program markets and potential participants including the repayment performance of utility customers, the collections process of the utilities, and a characterization of the solar thermal water heating market are provided in **Appendix 4** and **Appendix 5**, respectively.

During the 2013 legislative session, the State legislature passed legislation enabling an innovative financing structure to establish a low-cost clean energy financing program currently being referred to as the Green Energy Market Securitization ("GEMS") program through Act 211[3]. This financing structure, though not completely developed yet, will have a governing authority: the Green Infrastructure Authority ("GIA"), which is currently the Department of Business, Economic Development and Tourism until the GIA is duly constituted. The GEMS program plans to have an administrative fund manager to support the deployment of GEMS capital. GEMS can use the On-Bill Mechanism subject to its Program Order, as approved through a docketed Commission review and approval process. See **Appendix 6** for more information about the integration of GEMS into the Program.

IV. Feedback from Interested Parties

The Commission seeks feedback from Interested Parties on any or all of the items listed below related to a potential RFP seeking the services of a FPA for the Program. The topics are divided into three general areas:

A. Program Structure, Administration and Marketing

1. Division of the RFP into Part A and Part B services – Since Part A- and B-type services may not be performed by the same entity, the Commission expects respondents to a RFP will partner or subcontract with another entity or entities to provide Part A and B Services. What are some of the organizational and legal structures that govern the relationship between entities performing Part A services and entities

[3] http://www.capitol.hawaii.gov/session2013/bills/GM1314_.PDF

performing Part B services and what are some of the complications associated with these structures?

2. Methods of compensation for FPA Services – The Commission requests feedback on acceptable methods of compensation for the services provided under the potential RFP. The methods of compensation should be substantiated by explanation as it pertains to fairness and concordance with standard industry practice and should identify compensation terms that address risks associated with the unpredictability of Program size and reliance on other Program Entities.

3. Coordination among Program Entities – The Commission asks Interested Parties to identify coordination agreements with the Electric Utilities and Program Administrator that would be required to perform the scope of services described in this RFI and describe key elements of such agreements.

4. Existing relationships among financial institutions and equipment contractors – The Commission is aware of arrangements between contractors and providers of financial services and products for financing of products. The Commission would like feedback on how to best build upon these existing relationships for integration into the Program.

5. Contractor marketing – The Commission requests feedback from Interested Parties on suggested methods to market the on-bill repayment mechanism and financial products developed through the Program to the existing contractor market in Hawaii, though please note that the Program Administrator is responsible for contractor coordination.

B. Financial Services Standards and Requirements

1. Charge-off standards – The Commission requests feedback on the typical industry standards for financing the eligible measures in this program and comments on using the electric utilities' current disconnection of utility power service procedures to motivate repayment of the financing obligation. In providing industry standards, the sources of such standards should be identified.

2. Warranty and insurance requirements – The Commission seeks input on potential methods to provide warranty and insurance for equipment installed under the Program.

3. Legal requirements – The Commission would like to be informed of any implications of state or federal lending laws that may govern OBF transactions, including potential compliance and reporting requirements. Specifically, the identification of legal differences associated with a tariff

obligation on the meter associated with a financial product and the traditional financial product.

C. Capital Pool Assembly Criteria and Use

1. Underwriting criteria – The Commission requests Interested Parties to provide comments on the ability of the Program to expand the underwriting criteria used to finance program-eligible equipment and better serve the Hard-to-Reach market. Given the acceptable uses of ratepayer funds described above to provide a credit enhancement, please provide feedback on using utility bill payment history as underwriting criteria to finance installation of eligible measures. Further, please provide feedback on the value of the utilities' tariff-governed credit deposit requirements, and their right to disconnect power service as additional security mechanisms. If these criteria are insufficient as the sole underwriting criteria and sources of security, please offer input on how to expand finance eligibility using a range of credit qualification criteria and how to serve the rental market.

2. Potential financial products and equipment ownership – The Commission requests input on the types of financial products that could be offered to achieve Program goals and what form of equipment ownership under the financial product will allow for transferability of the repayment obligation, if property ownership or tenancy should change during the term of the tariff obligation.

3. Leveraging of private capital with ratepayer funds – Given the low default rates of Hawaii electric utility customers (**Appendix 4**), the Commission requests feedback on potential leverage ratios for utilizing ratepayer funds in an investment fund. In reviewing other similar RFPs, the issuing entity provided guidance to respondents of leverage ratios from 10:1 to 20:1. Please provide comments on the suitability of these ratios given the details of the Program described above.

4. The role of the utility deposit – The electric utility already has a loss reserve system that requires account holders deemed high risk to pay a security deposit as part of subscription for utility services (**Appendix 4**). The Commission requests suggestions for how to best integrate an on-bill financing charge deposit into the credit enhancement for the Program.

5. The prioritization of energy efficiency and conservation (including solar water heating) in the fund – Given the expectation that the purpose of the capital pool assembled in Part B is to finance energy efficiency and conservation, the Commission is considering placing a limitation of no more than 40% of the total amount of the total capital assembled to be used to finance the installation of PV equipment. Please provide creative

ways to prioritize the financing of energy efficiency and conservation projects, or offer alternative suggestions on how to meet the Commission's expectation of the Part B fund while still attracting private capital.

6. The inclusion of tax equity investor capital in the fund – The current market for tax equity investors in renewable energy is focused around PV tax benefits. The Commission has expressed interest in limiting the amount allocated to PV in the fund established in Part B; thus solar water heating tax credits may be the basis for tax equity investment in the fund. Please provide comments on the contribution of tax equity investment capital in the fund given the criteria of the Commission, the potential market and fund size (**Appendix 5**), and the cost of acquiring tax equity investors in fund assembly and the subsequent effects on participant financing charges and rates.

7. Securitization of financial products offered under the Program – The Commission seeks input on key elements of the pool of capital assembled in Part B and financial products to facilitate successful securitization, if deemed appropriate in the future.

8. Timing of the establishment of a fund – The Commission would like to factor the assembly of funds into its overall timeline for Program implementation; therefore, it seeks explanations of steps required for fund assembly (given a particular leveraging structure) with time durations associated with each step and an overall estimate of the time it could take between contracting with an entity to establish a fund and the ability to use the fund and its associated financing products in the Program.

V. Instructions for Interested Parties

A. The designated RFI Contact Person is:
Merissa Sakuda, Research Assistant
Public Utilities Commission
465 South King Street, Room 103
Telephone: (808) 586-2020
Email: merissa.h.sakuda@hawaii.gov

B. Submission requirements. Please submit comments and information to Section IV of the RFI as applicable to the expertise of the Interested Party. Interested Parties should provide a company or organization name, contact person, contact telephone number and email address, and information that establishes the Interested Party as a credible source of information, including any information about experience with on-bill financing or experience in the financing business.

C. Due Date. Please submit information by U.S. Mail, or send an electronic copy by email <u>delivered</u> by August 12, 2013.

D. Confidentiality. Clearly and specifically mark any information that Interested Parties request be treated as confidential and not be disclosed under chapter 92F, Hawaii Revised Statutes, or by other law, outside of the Commission, its employees, consultants, and representatives involved with the evaluation of information received in response to this RFI. Blanket and unsupported confidentiality designations shall not be honored by the Commission. Responses shall specifically identify the document and information to be protected and the Interested Party shall have the burden of establishing that the information should be protected. Any statement of condition in any information that attempts to restrict the Commission's rights under this section shall be void.

E. Questions from Interested Parties; Addendum. If an Interested Party needs additional information or clarification regarding any part of the RFI document, or the RFI process outlined in this document, it shall present its questions in writing, by mail or email, to the contact person named above. The Commission may post a response on its website for the benefit of all Interested Parties and/or prepare and distribute an Addendum addressing question(s) received.

VI. Terms and Acronyms Used Herein

"Act 204" means Act 204, Session Laws of Hawaii 2011.
"Act 211" means Act 211, Session Laws of Hawaii 2013.
"Commission" or "PUC" means the Public Utilities Commission of the State of Hawaii.
"D&O" means Decision and Order No. 30974 in Docket No. 2011-0186.
"Electric Utilities" means the HECO Companies and KIUC.
"Financing Parties" means financial institutions that seek to utilize the On-Bill Mechanism.
"Financing Product" means the on-bill financing product offered to ratepayers to fund the installation of or services from qualifying renewable energy and energy efficiency improvements in the Program.
"FPA" means the Finance Program Administrator.
"GEMS" means the Green Energy Market Securitization.
"GIA" means the Green Infrastructure Authority.
"Hard-to-Reach markets" are markets consisting of Electric Utility customers without ready access to financing needed to make cost-effective energy improvements and/or customers that rent or lease the facility or home for which they are responsible for the energy bill and therefore may not have control over the facility for the life of the capital improvement.
"HECO Companies" means the Hawaiian Electric Company, Inc.; the Maui Electric Company, Inc.; and the Hawaii Electric Light Company, Inc.

"Interested Parties" means stakeholders, financial institutions, assemblers of capital, and other on-bill financing program developers who have an interest in the Program.

"KIUC" means Kauai Island Utility Cooperative.

"OBF" means on-bill financing.

"On-Bill Mechanism" means the mechanism that enables repayment of energy savings, installations or services that is placed on the utility bill through the utility tariff, regardless to whether the payment is tied to financing from the Part B fund or not.

"Participant" means an eligible ratepayer who is participating in the tariff obligation that repays a financial obligation using the On-Bill Mechanism.

"Program" means the State of Hawaii's On-Bill Financing Program established as a result of the D&O.

"Program Entities" means the Program's FPA, Program Administrator, and the Electric Utilities.

"PUC" or "Commission" means the Public Utilities Commission of the State of Hawaii.

"PV" means photovoltaic.

"RFI" means Request for Information.

"RFP" means Request for Proposals.

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