

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the
Commission's Post-2008 Energy Efficiency Policies,
Programs, Evaluation, Measurement, and Verification, and
Related Issues.

Rulemaking 09-11-014
(Filed November 20, 2009)

**COMMENTS OF METRUS ENERGY, INC.
IN RESPONSE TO SECTION 6(A) OF THE ADMINISTRATIVE LAW JUDGE'S
RULING REGARDING ENERGY EFFICIENCY FINANCING**

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I. INTRODUCTION

Metrus Energy, Inc. (Metrus) respectfully submits these comments pursuant to the Administrative Law Judge's Ruling Regarding Energy Efficiency Financing (ALJ Ruling), dated January 10, 2012.¹ These comments are submitted in accordance with Rules 1.9, 1.10, and 1.13 of the California Public Utilities Commission's (CPUC or Commission) Rules of Practice and Procedure.

Metrus develops and finances energy efficiency retrofit and building upgrade projects at commercial, industrial, and institutional facilities. Through its comprehensive financing solutions, Metrus pays for all upfront and ongoing project costs, providing facilities with the immediate operational and environmental benefits of large-scale energy efficiency measures without the capital expense. Metrus enables customers to treat energy efficiency as a resource that improves their bottom line and achieves corporate sustainability. Metrus' Efficiency

¹ Metrus is filing a late-filed Motion for Party Status concurrently with the filing of these comments.

Services Agreement (ESA) is an arrangement under which Metrus pays for one hundred percent of the upfront costs of a project using a mix of its own equity and debt. ESA payments to Metrus are based on a measured quantity of energy units that are saved (e.g., a “negawatt” charge based on avoided kilowatt-hours of electricity or therms of natural gas). The price per unit of energy savings under Metrus’ ESA is a fixed, output-based charge that is set at or below a customer’s existing utility price, resulting in immediate reduced operating expenses. Customers benefit both from reduced overall energy consumption (volume) and a lower unit cost of energy (price). Metrus’ ESA is a proven financing solution that has been utilized to implement large-scale energy efficiency retrofit projects for private commercial and industrial (C&I) customers. Metrus is also an inaugural partner under the White House and U.S. Department of Energy-led Better Buildings Challenge program. Metrus views the ALJ Ruling as a positive step that will attract an increased level of investment by third-party sources of financing, thereby making the implementation of integrated energy efficiency projects feasible to a greater number of customers in California.

II. DISCUSSION

Metrus strongly supports the direction of the Energy Division (ED) Staff Proposal set forth in Attachment A to the ALJ Ruling (Staff Proposal) and encourages the Commission to continue to develop more specific steps to make energy efficiency financing widely available in the 2013-2014 program period. Specifically, pursuant to the questions set forth in Section 6A of the ruling, Metrus encourages the Commission to further evaluate the issues set forth in these comments during the workshop process and as it develops financing programs for the 2013-2014 program portfolio. Metrus’ comments below focus primarily on the large commercial, industrial,

and institutional customer market segments and make reference to specific question numbers within Section 6A:

A. Section 6A(2)(3)

Metrus supports the Staff Proposal to implement an on-bill repayment (OBR) system and other financing products that utilize third-party capital for energy efficiency retrofit projects. In the development of its energy efficiency finance program, Metrus recommends that the Commission evaluate the merits of different financing products and programs by their ability to: 1) foster the implementation of multi-measure, integrated retrofit projects with longer-term simple payback period horizons, and 2) reduce customer credit-related barriers in key market segments (i.e., commercial real estate) that have significant potential for energy savings but that often fall below the “investment-grade” credit rating threshold that is typically required to receive financing. To have a meaningful impact in the California market, OBR (and the other potential financial products being considered by the Commission) should both expand access to energy efficiency financing options for customers as well as actively promote the development of integrated efficiency projects that achieve deeper levels of energy savings.

In addition, Metrus strongly supports the further evaluation by the Commission of other forms of credit enhancement not currently examined in the Staff Proposal. While Metrus agrees that OBR could extend credit to a larger portion of the C&I market, further credit support is likely needed in the form of loan loss reserves, loan guarantees, or subordinated debt products that enhance security for energy efficiency financing in certain challenging customer market segments.

B. Section 6A(2)(4)

The Staff Proposal referenced “third-party lenders” and “financial institutions” as entities that would provide capital for energy efficiency projects. Metrus encourages the Commission to recognize in the development of its energy efficiency financing program that there is a wide range of energy efficiency financing solutions that are not “loans” but rather that involve the development, financing, and selling of energy efficiency as a service. This broader group of financing solutions includes third-party project developers, efficiency services agreement providers, and equity investors. Metrus requests that the Commission design any OBR or other financing program in a manner that incorporates the full spectrum of third-party energy efficiency financing solutions.

In addition to elements contained in the Staff Proposal, Metrus recommends that the Commission consider other options for the 2013-2014 program cycle that can help to actively integrate third-party financing solutions into the statewide utility energy efficiency portfolio. Specifically, traditional utility programs that provide customers with technical assistance (e.g., integrated energy assessments) and incentives should be expanded to include components that directly offer customers one hundred percent financing solutions that utilize third-party capital. Metrus recommends that the Commission include this type of third-party financing support for utility program offerings that promote customer implementation of multi-measure projects. The addition of third-party financing solutions to utility programs can demonstrate how financing barriers to energy efficiency can be reduced, thereby lowering overall costs to non-participant ratepayers.

C. **Section 6A(2)(6)**

While Metrus views the Commission’s efforts on OBR as a highly positive development, the success of any OBR program will be directly linked to its ability to provide meaningful credit enhancement that encourages private capital to flow to projects which would otherwise face customer credit related financing hurdles. Specifically, Metrus’ ESA finances energy efficiency projects with a combination of Metrus equity and third-party debt. Given the conservative nature of third-party debt providers (e.g., commercial banks, insurance companies, pension funds, and impact-oriented investors) when it comes to customer credit quality, the success of any OBR program will be based on its ability to mitigate customer payment and default risk in the eyes of debt providers.

During its upcoming workshops on OBR and energy efficiency finance, Metrus encourages the Commission to evaluate the mechanics of how third-party financing sources (e.g., lenders, efficiency service agreement providers, equity investors) would be repaid under both customer partial payment and default situations. Understanding whether the utility portion of a customer’s bill is senior, “pari passu” or subordinate to the energy efficiency financing portion of the bill has a significant bearing on the credit enhancement value of OBR and its ability to stimulate third-party financing. For example, while making the energy efficiency financing portion of the bill pari passu to the utility portion will be beneficial, in some key customer market segments this will likely only have a modest incremental impact. At the other end of the value spectrum, an OBR program in which the energy efficiency financing portion of the bill is senior to the utility portion in current and arrears payment scenarios as well as in default would provide considerable value and security to potential sources of financing. This more robust version of an OBR program would likely have the most meaningful impact in terms of growing

the pool of private capital investing in energy efficiency and removing customer credit as a primary concern, effectively broadening the types and sizes of customers who will have access to private financing for efficiency projects.

Metrus recommends that the Commission solicit further direct feedback of third-party financing sources on how an OBR program could ideally be structured to maximize the flow of third-party capital for energy efficiency projects, particularly in the large commercial customer market segments.

D. Section 6A(2)(8)

In the development of policy, Metrus encourages the Commission to consider the needs of individual customer market segments as they relate to different financing products and solutions. For example, commercial real estate properties (which are often set up as stand-alone investment companies with limited balance sheet strength) will likely require a high level of credit support. OBR, and the other financing products considered in the ED's proposal, should be structured to take into account the specific barriers and needs of individual customer market segments.

III. CONCLUSION

In summary, Metrus reiterates its support for the Staff Proposal, and looks forward to submitting further comments during the subsequent comment period on Sections 6(B) and 6(C) of the ALJ Ruling. While Metrus understands that financing is not a silver bullet for energy efficiency, and that other programs are needed to continue to promote these projects during the 2013-2014 program cycle, financing has been identified as one of the greatest barriers to expanded investment, and new programs are needed. Metrus appreciates this opportunity to

