



## **BDC Presents: Inclusive Utility Investment Financing**

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### **Summary:**

For low-income homeowners and renters, access to capital to upgrade homes and access electric appliances can be out of reach. A new financing model, inclusive utility investment (also called tariffed on bill financing), is on the horizon for residential customers in California and can improve accessibility to capital for clean energy projects. The California Public Utilities Commission is voting on August 10 on a proposed decision involving pilots to expand this financing strategy, which could become available to millions of Californians.

Join experts and designers of these pilot programs and learn how inclusive utility financing can help scale building electrification in a new report by The Climate Center, Building Decarbonization Coalition, and AECOM.

### **Resources:**

- **Slides:** [BDC Presents IUI.pdf](#)
- **Youtube Recording:** [BDC Presents: Inclusive Utility Investment Financing](#)
- [Financing a Climate-Safe Future: Low- and Moderate-Income Residential Building Decarbonization Report](#) by the Climate Center, BDC, and AECOM
- Blog: [How a New Financing Program Will Help Millions of Californians Stay Safe in Extreme Weather](#)
- Next **BDC Presents:** September 14 at 10am PT/ 1 pm ET: [Register HERE!](#)
- **California Policy Call:** September 19 at 10am PT, [Register HERE!](#)
- [BDC newsletter sign up](#)

### **Key Takeaways**

- California currently has a wide variety of programs to help Californians decarbonization:
  - Rebates
  - Low-income programs
  - Lending and credit enhancement programs
  - And nonfinancial interventions such as education on energy efficiency upgrades.
- Though these programs exist, they do not provide a comprehensive framework for electrification. This is where Inclusive Utility Investment can help.
- Inclusive Utility Investment (IUI), also called Tariffed on-bill financing (TOBF), is a form of investment used to finance clean energy improvements that are then recovered through utility rates. The benefit of IUI is it:
  - Expands access to financing because the upgrades are tied to the meter and not the customer (evaluating a project vs. a borrower)

- Overcomes landlord/tenant “split incentive”
- Allows for the transfer of repayment obligation if the tenant moves out
- Helps address historic patterns of financial discrimination (e.g. redlining)
- Addresses a general lack of access to traditional forms of capital and credit
- Is a feasible solution for renters.
- And is pairable with third party capital to scale up investments beyond public subsidies.
- IUI is currently being paved by the California Public Utilities Commission (CPUC) approved [Decision 23-08-026](#) 4-0. This decision establishes a working group with PG&E as lead with other Californian investor-owned utilities (IOU) and [Silicon Valley Clean Energy](#) (SVCE) to deliver a proposal for IUI within 270 days. IUI may roll out sometime next year.
- IUI needs to be paired with robust incentives, rate reform, and regulatory policies that address costs that limit widespread electrification.

### **[SVCE](#) and [TECH Clean California](#) Pilot Program**

- The program was created to show that IUI is feasible for building decarbonization, is a compelling customer offer, and is scalable.
- The Pilot proposal was shaped by estimations and analysis to guide its strategy. A couple of key notes from the pilot program:
  - **Eligible technology**: Any technology that helps customers save money and reduce greenhouse gas emissions can be considered (including service panel upgrades)
  - **Customer Identification**: Since the IUI model only allows for the utility to charge up to 80% of the bill saving, SVCE will identify customers for this pilot by analyzing customer energy consumption with the highest bill saving opportunities. This helps ensure that the basis for cost recovery is reasonable for SVCE.
  - **Customer Protection**:
    - The program operator (SVCE or a third party) handles all functions that could create installer conflict of interest such as unethical sales practices (e.g. upselling to get bigger returns).
    - If equipment fails, charges stop until the equipment is repaired and working again.
    - The landlord must consent for upgrades and SVCE has a couple of recommendations to ensure tenant protection including requiring the landlord to make copayments for upgrades.
    - Clear notification for successor customers because IUI payment is tied to the site. This ensures the successor customer knows the charges associated with the location.
    - Integrates evaluation in many steps to ensure mispredictions on costs are corrected, equipment performance and any suspect cases as appropriate.

## Q & A

### 1. How do we determine if a home or neighborhood is considered low income?

- For SVCE's pilot program, they ideally do not want to ask for people's income, they want to make a solution that works for low to middle income customers without requiring customers to identify themselves.
- In addition, for the pilot, they want to focus on customers who do not qualify for all the free upgrades that are offered and do not have thousands of dollars for home improvements. This ensures that the pilot is not experimenting on households that may fall into predatory situations and it allows the pilot to truly test the benefits and costs of IUI.

### 2. Can IUI guarantee bill neutrality?

- If IUI includes rigorous customer protections. The SVCE pilot is currently designed so that monthly repayment is no more than 80% of the expected energy saving. To make sure payment
- Focus on the performance of the measure and still testing and see how the impact of their work and confounding effects, maybe tapping into smart thermostat
- What is our financial disclosure and how big do we expect these changes to be, need to absorb the risk

### 3. On slide 21, Who is the "Program" in this flow chart? What organization?

- For the chart, the program is the utility and the entity that is implementing IUI, in this case, SVCE and the hired program operator are the program.

### 4. Can you explain more about why notifying the successor tenant is necessary? How are these improvements different from other improvements that might be made that are just improvements and maintenance done in the normal course of owning a property? (Asking because any added friction and complexity invariably raises the costs, and potentially lowers the efficacy and scale of programs)

- For IUI, the charge will show up on the utility bill as a line item and the customer may assume that this cost is raising their utility bill. It might not be obvious to the successor tenant that their utility bill would be higher without the investment so notifying the successor tenant provides the tenant with all applicable information to renting in this location.

5. Can you share a little bit about how you balance concerns around landlords taking advantage of on-bill programs - i.e. **they will defer basic upgrades to apartments because they just want the renter to have to shoulder the costs? On the other side of the coin, do you have some recommendations around how to achieve landlord buy-in for projects?** I'd imagine they'd be hesitant to allow a renter to enter into an agreement like this with the expectation that they'll just move in a couple of years and the next tenant may not want to assume the payments.
- Landlords have a fiduciary duty to provide heating and cooling for a unit so they legally would have to provide it in some way. To combat this concern, landlord copayment might be an option, but there are still many unknowns.

6. **Do you / can you provide a section on the utility bill that shows what their bill "would have been" without the charge and show them the delta - so it is clear to them how the program is saving them money?**
  - Billing systems are notoriously not flexible, so adding this in might not be feasible right now. However, SVCE has considered sending a welcome letter that includes what they can expect from IUI and what their bill would have been.
  
7. **Could an IUI program be structured to leverage federal tax credits?** Perhaps extending access to those tax credits for residents who may not have sufficient tax liability.
  - It is an option that they have been looking into with the Greenhouse Gas Reduction Fund. However, building tax credits into the deal will likely require a third party that has tax liability to own the physical upgrades (e.g. the heat pumps) to sell in the tax credit market. This is not a simple solution and would require evaluation into the other issues and concerns it may bring up (e.g. what does it mean to have an entity own your heating and cooling).
  
8. A lot of upgrades are a result of something breaking. **The contractor is usually the first point of contact for a consumer and financing/money decisions are presented at the kitchen table with them. What do you think about outreach to these consumers?** Especially if you're removing the contractor from the sales step. The flow seems to be tailored towards proactive replacements.
  - The pilot is currently designed for SVCE to reach out to particular customers and not the other way around. This pilot still needs to prove that it is a scalable financing mechanism and right now the current solution is not well suited for this approach.
  
9. **Is there any action attendees can take to help encourage the actual implementation of IUI now that CPUC has green lighted the concept?**
  - If interested, the working groups are still established to follow and track the outcomes of how the proposal gets shaped.
  - Follow the other CPUC proceedings. IUI in conjunction with other proceedings currently in the CPUC can make IUI more effective and scalable.
  - Help grow this market across the board. With more states/cities implementing IUI, the more learning and better developed this financing mechanism can be.