NASEO State Energy Financing Task Force Call Notes
Friday, August 5, 2011; 3:00-4:00pm ET

Attendees

Bill Babington, AL
Bill McShane, Philips Lighting
Bonnie Ziemann, NE
Chuck Guinn, NASEO
Dave Ingram, Philips Lighting
Diana Lin, NASEO
Jeff Genzer, NASEO
Jeff Pitkin, NY
Jim Ploger, NASEO
John Wilson, Energy Foundation
Kathy Hornsby, AL
Lori Collins, Abundant Power
Mark Wolfe, EPC
NC
Dan Weldon, OR
Pat McGuckin, Cadmus

Welcome and Introductions

Jeff Pitkin, chair of the NASEO Financing Task Force and treasurer for NYSERDA, opened the call and welcomed attendees.

Overview of Alabama SAVES

Presentation by Kathy Hornsby, Alabama SEO

Alabama (AL) allocated $25 million of ARRA-SEP funds to capitalize AlabamaSAVES (www.alabamasaves.com) and leveraged it with private capital, for an estimated total of $60 million. This loan program is available for existing industrial, commercial, and institutional buildings. AL selected Abundant Power through an RFP process to be the 3rd party administrator for the program.

One of the first things Abundant Power did for the program was financial modeling to look at available options. In the end, AL decided to put half of the $25 million in direct loans and half in credit enhancements. The interest rate is set very low to start with at 2% in order to get traction in the market. The program may evaluate and adjust the rate over time to make the program sustainable. AL has also made a recent program change, reducing minimum loan size from $250,000 down to $50,000 to get more projects in the door.

Currently, the estimated loan approval process is 30-45 days, and AL is making every effort to streamline that process. Each loan is reviewed by the Alabama SAVES governing board (mix of Abundant Power and AL SEO staff).

Early on in the program design phase, the AL SEO engaged different stakeholders (e.g. utilities, etc.) to get buy-in and input for program marketing and outreach. This included a media launch with state TV and news channels).

Alabama SAVES closed its first loan with a carpet manufacturer in the amount of $2.3m for EE improvements earlier this month.

Implementation of Alabama SAVES

Presentation by Lori Collins, Abundant Power

So far, the two overarching barriers the Alabama SAVES has encountered are:

1. Getting word out/attracting projects
2. Attracting private sector lending partners

At this point, the financing partners include: Philips Lighting Capital, Metrus Energy, and Bank of America, and Efficiency Finance. Metrus Energy uses an energy services financing arrangement, which is innovative, and attractive for businesses because it provides an off-balance sheet financing solution.

Lessons learned include:

1. The program needs flexibility in working with the lending/financing partners. Originally, Abundant Power had planned to structure the credit enhancements in a certain way, but some lenders wanted to modify that. For instance, Bank of America wants to review each project before providing a loan. Flexibility in this area allowed Bank of America to participate. Program partner, Efficiency Finance, also has flexibility to bring in other finance partners.
2. Large projects have a long development and slow sales cycle. For projects in the \$1-2m range, the cycle can take 6-12 months. To help move things along, Abundant Power and the SEO considered a few program adjustments, while balancing the desire to tighten up this process without degrading quality and ensuring good energy savings. Some of these changes are:
    a. Simplified technical requirements: The program is now allowing documentation of energy savings to come from multiple places and not just a third-party engineer.
    b. Increased payback requirement to 10-years. This is still a very strong payback, but simplifies the approach. The project owner can himself determine if the savings have to service the debt each year or over the 10-year period.
    c. Launching a new loan product at the \$50,000 level. The program expects this will get a lot of use, especially in new lighting projects.
3. The partnership with Efficiency Finance has helped in uptake because of their existing networks in the state. As a result of their work, we expect 3 additional loans this month. Efficiency Finance provides credit pre-screenings, walk-throughs, and working with the contractor community. Their unique combination of energy engineering and financing expertise has been a big asset to the program.
4. Other financing partners, such as Philips Lighting, are also driving uptake. They are in the market actively sourcing projects. We think these new partnerships will continue to drive and ramp-up the program.

Currently, Alabama SAVES has ~\$40m in the project pipeline, ranging from early on in the process (just interested) through varying levels of also walk-throughs, audits, etc.

Please also reference the Abundant Power ppt.

Public-Private Partnership in Alabama SAVES
Presentation by Bill McShane, Philips Lighting and Dave Ingram, Philips Lighting Capital

Philips Lighting received \$2m in a LLR from Alabama SAVES, and Philips will leverage an additional \$9m at an interest rate of 2% for the program to implement lighting upgrade projects. Minimum loan size is \$50,000, and Philips expects to conclude the project by the end of June 2012. Please refer to the Philips presentation slides for more details on loan terms and eligible projects.

Philips' sales staff, technical expertise, construction management business, and financing arm are all integrated in a one-stop-shop to help develop projects. Philips has the ability to do walkthroughs with facility managers and to sit down to discuss project financing with company CEOs.

In terms of marketing and outreach to increase uptake in the program, Philips is employing the following:

- Direct on-the-ground sales force
- Leveraging partnerships, e.g. collaborated on a press release with AL SEO
- Engaging chambers of commerce, utilities, state governments, and other channel partners

- Other media outlets (websites, radio, etc.)
- Holding LED roadshows throughout the state

Philips is excited about this collaboration with Alabama, and is open to exploring other public-private partnerships in other states.

Please also reference the Philips Lighting ppt.

Q&A Session
Q: In terms of whole building retrofits, lighting often helps fund deeper retrofits for other technologies because of its shorter payback. Is Philips incorporating any other technologies in projects?
A: Dave Ingram: The Philips project within Alabama SAVES focuses on lighting. However, Philips does offer another turnkey program for warehouses that combine lighting and HVAC. For other facility types, these are addressed more of on a case-by-case basis.

Update on New York's On-Bill Financing Legislation
Presentation by Jeff Pitkin, NYSERDA

In NY, Governor Cuomo recently signed new on-bill financing legislation. Some specifics of the NY legislation differ from other programs in the country. The legislation:
- Establishes on-bill recovery charge that is a tariff obligation (same as electric or gas service).
- Debt stays with the meter to match lifetime of energy savings and requires that financing is recorded through a mortgage to provide notice to subsequent owners of the property.
- Financing is not a utility obligation. NYSERDA will be providing the financing, and the utility bill is just serving as a repayment mechanism.
- NYSERDA intends to ultimately finance these through the capital markets. NY hopes to prove this method will work and work with secondary markets.
- Eligible parties include residential, small businesses, and multi-family.
- Six NY IOUs and the Long Island Power Authority are required to be involved.
- Covers all heating fuel measures.
- Recovery charge is to be placed of the electric bill, unless more energy savings are in the gas area. This allows those who use heating oil to participate.
- To address utilities' concern about the modification for their billing systems, they can recover a small fee, and NYSERDA is using some of their Better Buildings funding to help out with that.

To begin with, NYSERDA will focus on the residential sector.

Please also reference the NYSERDA ppt.

Q&A Session
Q: Can heating oil customers replace heating oil equipment?
A: Jeff Pitkin: Yes, and if they are customers of a participating electric utility, they could repay on that bill.

Q: What kind of information is provided to homeowners to guide them in those choices?
A: Jeff Pitkin: Part of the program requires a BPI-audit and recommendation report. From that report, homeowners can select eligible measures.

Q: What will the interest rate be? And other fees?

A: Jeff Pitkin: On the residential side, we hope it will be at 2.5-3%, and this rate is low because we are using a QECB to buy that down. Once that subsidy is exhausted, we think the rate would increase to 5-6%.

Update on WHEEL

Mark Wolfe, executive director of the Energy Program Consortium (EPC) provided an update on WHEEL. The due diligence piece is done. In a few weeks, we should be able to share pricing information with interested parties. One new development—Fannie Mae is currently the only national purchaser of unsecured energy efficiency loans, and they have signaled that they do not want to stay in this business anymore. The rate used to be around 12-15% but has climbed to 15-19%. This increase will make states who are interested in working with Fannie Mae unsustainable. Hopefully WHEEL can fill this gap.

Upcoming NASEO Calls & Events

- NASEO Annual Meeting; September 11-14, 2011 in San Antonio, TX

The September financing task force call is cancelled due to the Annual Meeting. Calls will resume again in October.