

**SURVEY OF
SMALL COMMERCIAL ENERGY EFFICIENCY FINANCE
PROGRAMS SPONSORED BY
STATE GOVERNMENTS**

Background of Small Commercial Finance Program Survey



- Includes 20 States (mostly identified from database of state incentives for renewable energy, DSIRE)
- Sponsoring programs for:
 - small commercial (generally defined as 30,000 square feet or less and/or 150 kW or less) or
 - both small and large commercial sectors
- Discussions with program managers
- Creation of a table of program elements
- Identification of commonalities
- Identification of lessons learned

Elements of a Small Commercial Finance Program

- Authority
- Program Sponsor
- Marketing
- Product type and terms
- Eligible borrower, eligible property and security
- Source of Funds
- Operations: underwriting, origination, servicing and collections
- Loan performance, delinquency and defaults
- Reporting

Financing Program Operations

- Application Process
- Underwriting the loan:
 - Borrower
 - Property
 - Energy Project
- Establishing security for the loan
- Documentation and Processing
- Closing and Funding
- Boarding loan to servicing platform
- Invoicing the borrower and processing remittances
- Delinquency and default management

Finance Program Commonalities



- **Authority:** Legislative
- **Sponsor:** Energy Department or Economic Development Agency
- **Source of funds:** ARRA, state bonds, oil over-charge, utility charge
- **Loan type:** Installment
- **Incentive feature:** low interest rate, typically 0% - 5%
- **Underwriter:** bank partner or in-house
- **Max Loan amount:** \$30,000
- **Typical Loan term:** 5 - 10 years
- **Fees:** \$200 or 1% of loan amount
- **Security:** mixed, unsecured, UUC-1, personal guaranteed first or second lien

Lessons Learned by Respondents

- **Extensive Planning is Critical**
 - Finance programs are complex and have many elements
 - Experienced partners can add significant value but can also bring complexity and communications issues
 - Information technology is critical to managing these programs
 - There are numerous ways to reduce the interest rate with sources of funds and credit enhancement

Lessons Learned by Respondents

□ **Underwriting**

- The underwriting needs to be thought-out carefully to limit losses
- Numerous databases can inform the underwriting (FICO, Paydex, D&B)
- A scoring system can make decisions uniform



OREGON
DEPARTMENT OF
ENERGY

Oregon Energy Loan

Financing Oregon Energy Efficiency
and Renewable Energy

Small-Scale Energy Loan Program (SELP)

- Authorized in Oregon Constitution
 - Article XI-J
 - General Obligation (GO) bonding authority limited to 0.5% of the value of non-exempt taxable property
 - 2009-11: SELP authorized to issue \$250 million additional GO bond authority

SELP Loan Uses

- SELP loans provide customers long term fixed rates, supported by specific technical expertise
- SELP projects conserve energy or generate renewable energy, promote alternate fuels and save energy by recycling.
- Loan fees and interest pay for program costs – no cost to taxpayers.

SELP Facts

Benefits other than
energy savings drive
many projects

- Easy to deal with – easy process
- Flexibility on terms and structure
- SELP can use other collateral and work with the existing debt structure
- Can include most costs in the loan, e.g. study, design, engineering, installation, commissioning
- Fuel blind and impartial to equipment brand or specific contractor
- Technical help and second opinion of more complex projects
- Leverage with utility incentives, tax credits and other loans on same project
- Projects required to be fully secured.

SELP Program Accomplishments

- Projects: 828 as of Dec. 31, 2010
- Commitments: \$540,000,000
- Public Sector
– OUS \$84.9M
– Muni \$ 3.4M
– Irrigation \$30.6M
- Private Sector
Solar PV \$2.8M
Comm'l RE \$2.5M
Res. EE \$500K

\$2.1M in net interest earnings FYE 6/30/2010 **

** SELP Biennial Report through 6/30/2010

SELP Projects



EasyStreet Online Services

\$4,500,000

- EasyStreet's data center expansion project
 - incorporates green technology to reduce operating expenses and conserve power.
 - Efficiency measures include
 - more efficient transformers
 - more efficient UPS (uninterruptible power supply),
 - High efficiency efficient cooling system.
 - Savings est. 2,319,648 kWh.



Finley Bio-Energy

\$1,993,876

- Power generation expansion project w/CHP
- 15 landfill gas wells and the purchase and installation of a 3rd 1.6MW Caterpillar engine-generator set with heat recovery.
- Increase power production 2,650 MWh per year
- Recoverable waste heat will dry 10,000 lbs of onions per day at the adjacent processing plant.



\$556,000



PV Array installed on Salem Headquarters

- 99.84 kW system
- Portland General Electric awarded Feed-in tariff



Food for Lane County \$500,000

- Solar electric generation project installed at the non-profit Food for Lane County in Eugene.
- Third Party Ownership with charitable transfer
 - Project owner retains possession of the solar array during the payback period
 - When the SELP loan is paid off, the project and associated energy income to will be donated the charity.
 - The system rated at 85.54 kW and generates about 92,639 kWh of clean energy annually.



Swalley Irrigation District \$217,500

- Serves agricultural customers in Deschutes County
- \$2,090,000 project cost
- SELP loan used to close financing gap

Swalley Irrigation District



Thank you

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Abundant Power Solutions
*ADECA Leveraged
Clean Energy RFL
May 4, 2011*



Goals of the Program

The AlabamaSAVES™ structure is a public/private partnership designed to enhance business-as-usual lending practices for financial institutions in the State of Alabama and offer an attractive benefit to Lenders and their borrower customers

Prescribed Program Elements

Program capitalized with \$25M of SEP funds

Prescribed elements:

Minimum loan size:	\$250,000
Maximum loan size:	\$4,000,000
Funding cap:	Up to 100% of cost of improvement
Interest rate:	2% per annum, fixed, to borrower with quarterly readjustments to subsidized rate after 12 months
Eligible projects:	RE/EE retrofits
Eligible borrowers:	Any Alabama qualified owner of C&I property
Loan term:	Blended useful life of improvements up to 10 years
Loan security:	Security for each loan will include, on a case-by-case basis, (i) any payment obligations of the borrower, (ii) the collateral value of the improvements, (iii) any additional security interest and/or pledge provided by the borrower, including without limitation cash collateral and/or parent guarantees, and (iv) the Loan Loss Reserve
Program goals:	Energy savings and sector and geographically diverse economic development

Leverage Targets and Other Terms

Our services include achieving targeted aggregate loan pool of \$60M while maintaining maximum commercially reasonable principal integrity

Principal Loan Pool:	\$12.5 million of the SEP funds
Leveraged Loan Pool:	Approximately \$48 million committed by the private capital providers based on their participation in the benefits of the \$12.5 million of credit enhancements
Program Lenders:	Capital providers agreeing to lend up to the amount of the Leveraged Loan Pool in accordance with the terms of the Participation Agreement, Loan Loss Reserve Agreement, Interest Rate Buydown Agreements and related agreements
Collateral Agent/Servicer:	Abundant Power for loans from the Principal Loan Pool; the applicable Program Lender for loans from the Leveraged Loan Pool

Credit Enhancements – LLR and IRB

Primary credit enhancements:

Loan Loss Reserve:	10% of the amount of each loan from the Leveraged Loan Pool will be deposited as additional security
Loss Allocation:	The Loan Loss Reserve subaccount held for a Program Lender shall be for the benefit of the Program Lender without regard to a specific Program Loan
Events of Loss:	Defined per relevant loan documents
Net Loss Amount:	Outstanding principal plus three months accrued interest
Reserve Percentage:	Agreed upon percentage of the Net Loss Amount
Withdrawals from Reserve:	Net Loss Amount multiplied by the Reserve Percentage
Interest rate buydown:	Payment from the IRB Account capped at limit defined in Participation Agreement to achieve target interest rate
Principal repayment:	If to Program Lenders, associated Loan Loss Reserve amount released to support a new Program Loan; If to ADECA under Principal Loan Pool, ADECA shall determine whether to relend or transfer to LLR/IRB to support Leveraged Loan Pool

New Partners

Efficiency Savings Finance Partner – Metrus Energy

- Metrus will enter into an Efficiency Savings Agreement (ESA) directly with the customer and fund 100% of all project design, engineering, and construction costs
- First SEP incorporating the ESA structure
- Customers will pay Metrus a price per unit of energy savings that is an output-based charge set at or below existing utility prices, resulting in reduced operating expenses for customers
- Metrus owns and is responsible for ongoing maintenance services for all equipment, with customer buyout options available
- Originating through ESCO channels
- May allow for service contract accounting treatment

Marketing Partner – Efficiency Finance

- “Efficiency University” to qualify and manage eligible contractors
- Driving originations through non-ESCO channels
- Strong presence in market

Additional Elements

The following items may be included in the Program pending final negotiation with other Program partners:

- “Side car” bond pool to fund all or a portion of balance of qualifying project costs
- Hedging mechanism
- Utility loan guarantees
- Loan Purchase Agreements

Program will be managed by:

- Loan Review Committee comprised of ADECA, Abundant Power and appointed representatives

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Upcoming BetterBuildings Webinars



Engaging Small Business Program Participants

May 11, 3:00-4:30 PM ET

Registration: <https://www2.gotomeeting.com/register/547198659>

Getting Useful Real-Time Feedback about your Program

May 25, 3:00-4:30 PM ET

Registration: <https://www2.gotomeeting.com/register/806732827>