Energy Efficiency & Renewable Energy

FINANCING AMERICA'S ENERGY RECOVERY

LEVERAGING ARRA FUNDS FOR ENERGY EFFICIENCY FINANCING

Bret C. Kadison
Financial Market Development Lead
Office of Energy Efficiency & Renewable Energy
U.S. Department of Energy

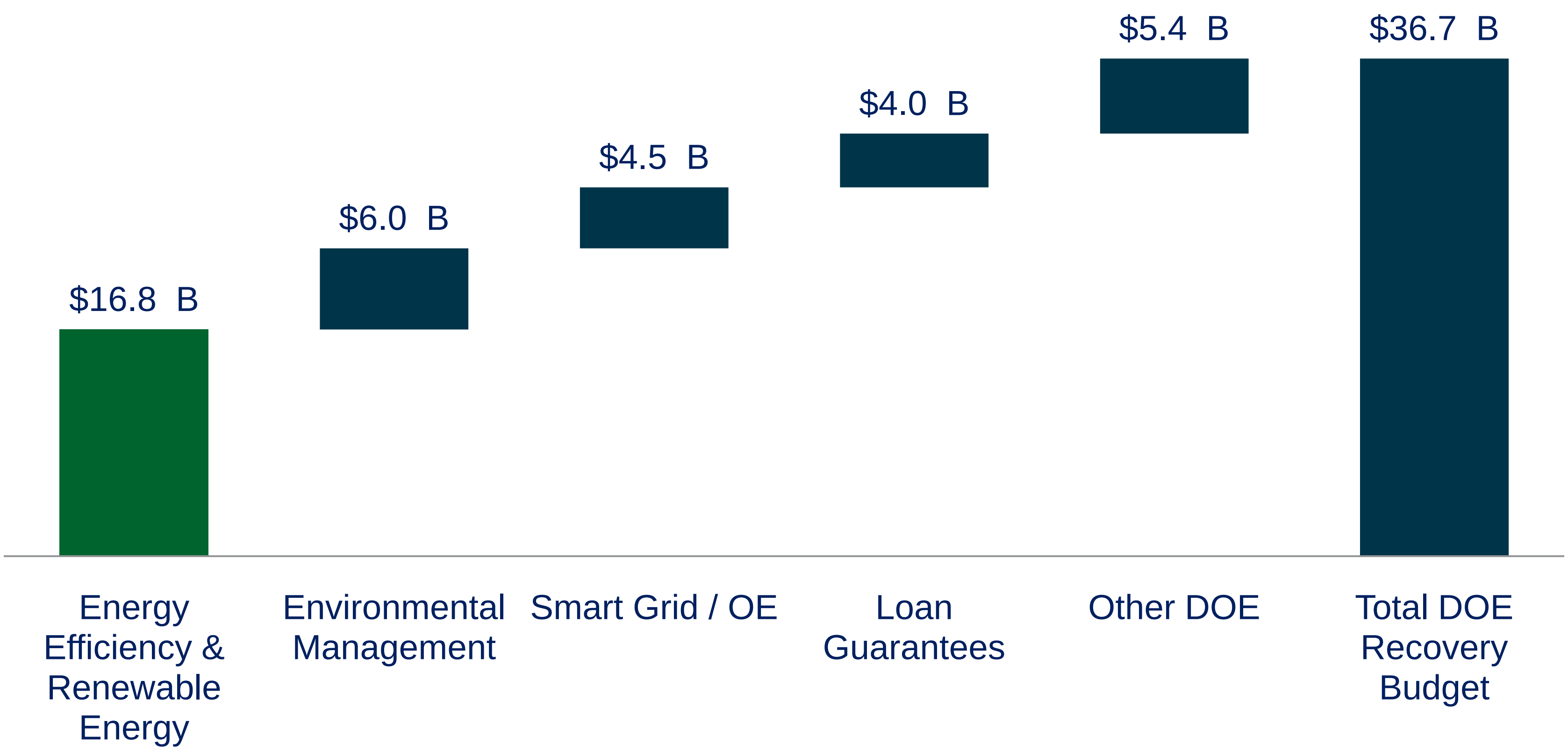
September 8, 2010

Agenda

- The Big Picture
- Sustainable Recovery Programs
- Secondary Market Development
- Financing Technical Assistance

Big Picture
Clean Energy & the Recovery

Department of Energy Recovery Act Budget

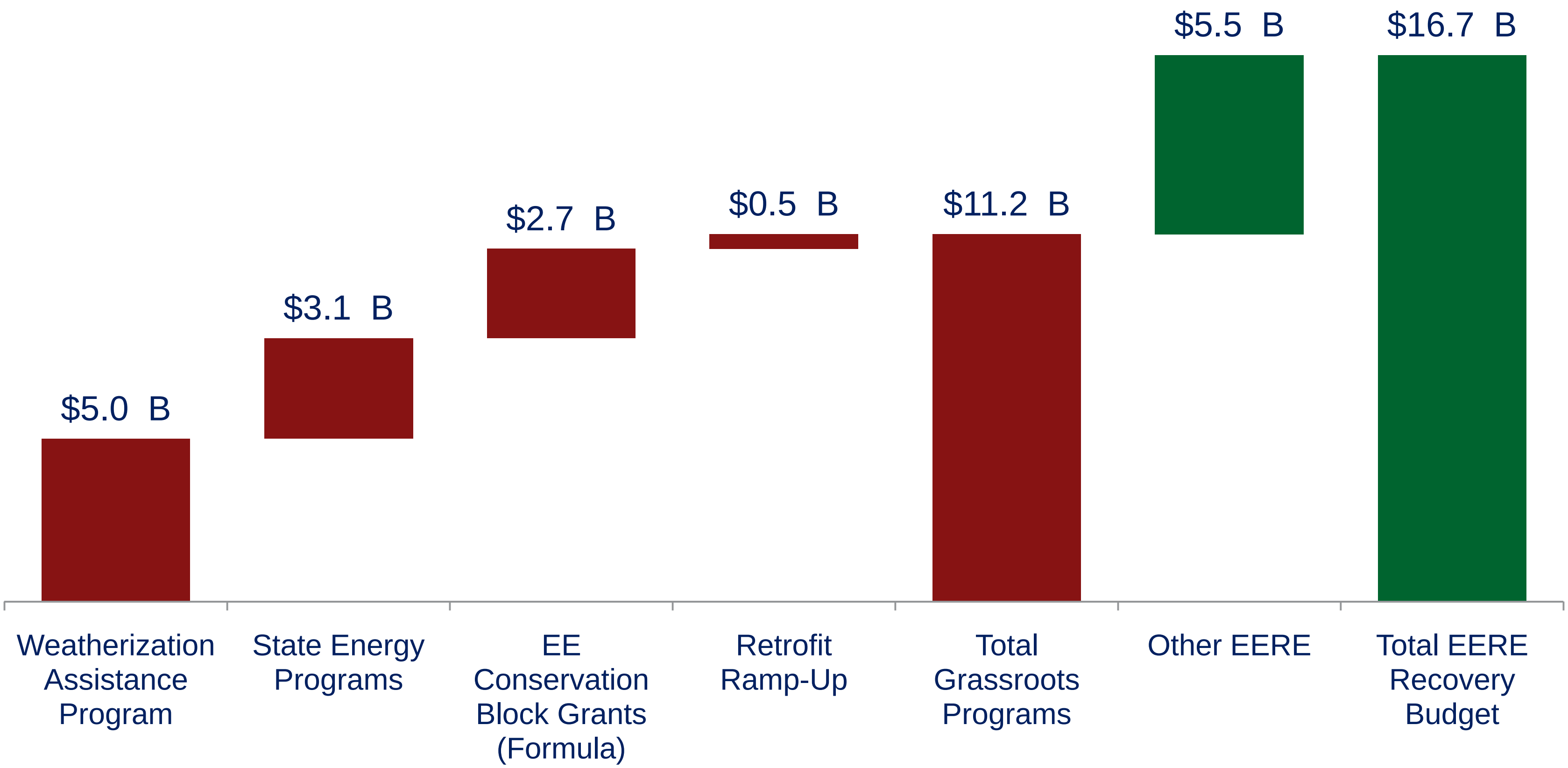


Source: American Recovery and Reinvestment Act of 2009. http://www.energy.gov/recovery/

Big Picture

Energy Efficiency & Clean Energy

Energy Efficiency & Renewable Energy Recovery Act Budget



Source: American Recovery and Reinvestment Act of 2009. http://www.energy.gov/recovery/

U.S. DEPARTMENT OF ENERGY | Energy Efficiency & Renewable Energy

Sustainable Recovery Programs

ARRA-Supported Financing Mechanisms

Mechanism	Description
Revolving Loan Funds	• Loans are made to borrowers consistent with standard prudent lending practices. • As loans are repaid by the borrowers, the money is returned to the RLF to make additional loans. • In that manner, the RLF fund becomes an ongoing or "revolving" financial tool.
Loan Loss Reserves	• Loss reserves provide a liquid, immediately accessible source of cash to offset covered losses incurred by a participant. • Created at the outset or over time by assessing fees and other charges based upon activity level or other metric. • Typically protects a portfolio of loans against a limited amount of potential losses (but insufficient to cover large losses)
QECBs / New CREBs	• Qualified Energy Conservation Bonds (QECBs) may be issued by state, local and tribal governments to finance qualified energy conservation projects. • New Clean Renewable Energy Bonds (New CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and certain lenders to finance renewable energy projects. Bonds must be issued by October 27, 2012. • Issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury.

Revolving Loan Fund

Texas's Loan Star Fund / Building Efficiency Retrofit Program

LoanSTAR Fund

Existing Program

- Finances energy efficient retrofits for state agencies, public schools, county hospitals and local governments
- Created with Oil Overcharge Funds in 1988
- Made 200 loans exceeding $300M over the life of the program
- Has 60 outstanding loans totaling $126M
  - Additional 20 are in the pipeline
- Favorable loan terms
  - Maximum loan amount of $5M
  - 3% Interest Rate
  - 10 year payback

Building Energy Retrofit Program

ARRA-Funded

- Builds on the success of LoanSTAR by doubling funds available to government facilities using $130M of ARRA funds
- Enables state to fund projects on even more favorable terms
  - Increased maximum loan size to $10M
  - Decreased interest rate to 2%
  - Lengthened payback period to 15 years if over 10% is used for renewable DG
- Already received applications for over $60M in loans

As loans revolve, ARRA funds will help Texas continuously fund energy investments that deliver taxpayer value

Loan Loss Reserves
Michigan Saves

- Use of ARRA Funds
  - Michigan Saves provides 5% loss reserve
- Capital Source
  - A local bank provides loan capital
  - The local bank owns the loans and has access to loss reserve.
    - No plans currently to access secondary markets
- Terms
  - Loan terms out to 10 years for larger loans
  - Unsecured loans
  - Generally higher FICO scores
- Administration
  - Central loan origination through a national company that processes all phone and online applications
  - Local bank performs loan servicing and collection.

New CREBs / QECBs
Overview

QECBs	• Qualified Energy Conservation Bonds (QECBs) may be issued by state, local and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes, and the remainder may be used to finance private activity projects. • Qualified projects are defined broadly (detailed discussion to follow). Examples of qualified projects include energy efficiency capital expenditures in public buildings, green communities, renewable energy production, various research and development, efficiency/energy reduction measures for mass transit, and energy efficiency education campaigns. • The United States Treasury (U.S. Treasury) allocated $3.2 billion to states according to population. There is no statutory deadline for eligible public entities to issue QECBs. • QECBs were originally structured as tax credit bonds. However, the March 2010 HIRE Act (H.R. 2847 (Sec. 301)) changed QECBs from tax credit bonds to direct subsidy bonds similar to Build America Bonds (BABs). The QECB issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury.
New CREBs	• New Clean Renewable Energy Bonds (New CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and certain lenders to finance renewable energy projects. • Qualifying technologies are generally the same as those eligible for the federal renewable energy tax credits. (i.e., solar, wind, biomass, solid waste, hydro, etc) • Treasury allocated $2.4 billion on a competitive basis. Bonds must be issued by October 27, 2012. • CREBs were originally structured as tax credit bonds. However, the March 2010 HIRE Act (H.R. 2847 (Sec. 301)) changed CREBs from tax credit bonds to direct subsidy bonds similar to Build America Bonds (BABs). The issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury. • The net coupon payment is the lesser of the actual taxable rate or 70% of the Tax Credit Rate, established daily by the U.S. Treasury.

Financing Infrastructure
Secondary Market Development

- Creation of a secondary market is critical to providing the liquidity needed to attract private lending

- Lending to low-risk consumers yields in a more favorable risk-return profile and drives lower interest rates

- Successful deployment of this market can drive secondary markets for other segments and risk tiers

Implementation Partnership
Financing Technical Assistance

- Over 100 Grantees engaged in tailored technical assistance on financing programs

- Webinars produced and shared on developing finance, marketing, and workforce development programs

- Playbook for Finance Programs developed for grantees to access the latest information