Status Update
Renewable Pre-Completion Financing Pilot

November 10, 2010

Summary

This paper updates the board on implementation of a pilot that will deploy Energy Trust renewable energy incentives as construction loans, a portion of which would be forgiven at project completion. Since June, staff has developed an implementation plan and guidelines for the pilot, Attachment 1 and 2 to this update.

Background

- At the June 2010 board retreat, staff requested board approval to explore the idea of providing incentives to renewable energy projects earlier in the development process, prior to completion, on a pilot basis.
- The purpose of the pilot is to test whether Energy Trust can increase the volume and pace of projects by providing above-market-cost construction loans to well-conceived projects with capable management.
- Scope:
  - Construction loans with a portion of the loan forgiven on project completion
  - Projects subject to more intensive due diligence review
  - Two projects (each to exceed $1M total cost and 250kW capacity)
  - Any technology
  - Time frame: 2010 - 2011
  - Incentives limited to: (a) above-market-cost ; and (b) 10% of 2010/2011 incentive budgets, $1.2M cap
- Providing funding sooner creates more risk for Energy Trust. To help mitigate that risk, three new elements will be added to our current project review process to support the pilot.
  1. Additional project review criteria including experience with complex financing arrangements and construction experience
  2. Skills of loan origination, negotiation, disbursement, servicing, and contracting provided through a project finance specialist contractor (PFS). The PFS will act as a liaison between Energy Trust program staff and project owners in determining the best suited loan product for the project and Energy Trust.
  3. A loan review committee made up of a subset of the Energy Trust Management Team with an external commercial lending expert.

Update

- Staff has drafted an implementation plan for the pilot outlining roles, implementation schedule, and new aspects of the project review process which support the underwriting and loan execution activities.

- An independent contractor with significant commercial lending experience has been identified to work with us as the Project Finance Specialist to provide loan origination and servicing expertise once participating projects are identified.
- The roles and process for the loan review committee have been defined in the attached loan review committee guidelines.
- Project review criteria have been expanded and formalized with the creation of a review scorecard, designed to capture financial characteristics and team qualification aspects of the project.
- Two projects have shown interest in the pilot but the projects are not ready for above market cost analysis yet, pending acquisition of additional project data.

Attachments

Attachment 1: Loan Product Guidelines

Attachment 2: Loan Review Committee Guidelines

Next Steps

- Projects already engaged with Energy Trust in incentive negotiations will be reviewed for their ability to meet all the program criteria.
- If projects do fit the criteria and are interested in working through this alternative option, they will be given first priority. If no current projects meet the criteria or are not interested in the pilot, projects will be sought through a formal solicitation process.
- All projects participating in the pilot will be brought forward to the board for consideration.