

Meeting Minutes – March 28, 2007
Sustainable Energy Utility Task Force
www.seu-de.org

Meeting Date: March 28, 2007

Meeting Location: Senate Hearing Room, Legislative Hall, Dover

Meeting Time: 11:00am

In Attendance:

Task Force members:

Senator Harris McDowell, Chair

Dr. John Byrne, Co-Chair, Center for Energy and Environmental Policy

Senator Charles Copeland

Senator Gary Simpson

Senator Patricia Blevins

Representative Pam Thornburg

Representative Bethany Hall-Long

Representative Terry Schooley

Mr. Charlie Smisson, State Energy Coordinator

Mr. Athur Padmore, Public Advocate

Mr. Andrew Slater, Office of the Delaware State Senate

Presenter:

Trenton J. Allen, Vice President, Public Finance Department, Municipal Securities Division, Citigroup Global Markets

Technical Consultant:

Ralph Nigro, Applied Energy Group

Members of the Public:

Representative John Kowalko

Bo Shen, Division of the Public Advocate

Steve Baccino, Delmarva Power

Paul Sample, Legislative Council

Sally Buttner, Public Service Commission

Bill Condit, Mid-Atlantic Solar Energy Industries Association

Ron Zink, Sierra Club

Brian Gallagher, Delaware Million Solar Roofs Coordinator

Phil Cherry, Pollution Prevention, DNREC

Rob Book, Delaware Electric Cooperative

Gary Patterson

B.J. Vinton, II

Joan Deaver, A Better Sussex

Task Force Staff:

Jason Houck, CEEP

Rebecca Walker, CEEP

Jackson Schreiber, CEEP

Sean Finnigan, Office of the Delaware Senate

MINUTES:

As the meeting began, Staff distributed minutes from the previous meeting, copies of the draft Task Force Final Report, and copies of model legislation discussed in previous Task Force meetings. The Task Force adopted minutes from the previous Task Force meeting. Senator McDowell welcomed the meeting's presenter, Trenton J. Allen.

Presentation:

Trenton J. Allen, Vice President, Public Finance Department, Municipal Securities Division, Citigroup Global Markets, presented to the Task Force a perspective of how bond markets would assess a special purpose tax-exempt bond raised by the SEU. His presentation addressed the following key points:

SEU Strengths

- The SEU pro forma has many sources of revenue, an indication of potential to repay bonds.
- Strengths of the SEU include:
 - Its diversity of revenue sources, notably the Green Energy Fund, energy efficiency shared savings, and renewable energy credits
 - A measured phase-in financing plan
 - Conservative projections, which include appliance turnover rates at or below national averages and conservative participation rates
- Bond rating agencies will question, what if participation rates are lower than expected, what will happen to program revenue?
 - The bulk of SEU expenditure is based on participation in SEU services. If participation is lower than expected, revenue from shared savings and renewable energy certificates will be lower, as will be SEU expenditures. Thus, there will be little negative impact from the perspective of the bond market because bond monies will then be largely unspent.
- Though the SEU pro forma demonstrates \$23 million in bonds may be sufficient to meet projected program needs, a \$30 million bond cap is recommended to ensure bond markets that SEU program activities can be scaled up to meet market demand. (Mr. Allen is an expert in the utility bond market and expressed his opinion that the SEU's work could be greeted positively in general, and specifically in financial markets.)

Importance of the Green Energy Fund

- The SEU can finance its services through the bond market. It can repay bonds solely through revenue. But the Green Energy Fund is helpful to the project.
 - Shared savings have a long-term return, and do not kick in until after several years of SEU operations.
- The Green Energy Fund provides the SEU with early funds for incentives to attract participation; this provides a measure of confidence to a prospective bondholder that support for activity in the early years is present, even without the bond.
- Shared savings costs and revenue are dependent on the energy end-user's choice to participate in the SEU. Without participation the SEU only has administrative expenses to pay, which are buffered by performance contracts. Whether or not

customers opt-in to SEU programs, little risk is borne by bondholders and the State bears no risk since the bond is not being offered as a general obligation instrument.

Rating Standpoint

- The SEU can receive investment-grade credit similar to an A grade rating and possibly higher, due to revenue diversity and programmatic flexibility. Why won't the SEU receive a AAA bond rating? Since the SEU bond is a revenue bond it does not carry the same rating as a general obligation state bond.
- Due to yield compression in the bond markets, AAA and A bonds have virtually the same interest rates. On March 28, 2007, a General Obligation Delaware Bond would carry an interest rate of 4.3%, an insured revenue bond would have a 4.35% rate, and an uninsured revenue bond (similar to the proposed SEU bond series) would carry a 4.55% rate.
- \$30 million is well within the ability of the bond market to absorb. It will be received well. This bond would give local Delawareans the opportunity to participate in the market.

Concluding Remarks

- Citigroup is ready to pursue this project. It is feasible, it involves energy efficiency and renewable energy, and it is innovative. Citigroup has begun to search for initiatives in the energy efficiency and renewables arenas because of anticipated changes in the energy sector.

Discussion

Senator Blevins questioned how SEU money would be spent, and asked why Citigroup gave a presentation on bond finance rather than the Department of Finance.

Senator McDowell responded that the SEU bonds are a source of private capital, not general obligation or state revenue bonds.

Senator Copeland clarified that in previous Task Force meetings the Members and presenters reviewed the SEU finances step-by-step, and he asked Dr. John Byrne, Task Force Co-Chair, to give a brief review of SEU finances.

Dr. Byrne explained that the SEU covers 100% of the incremental cost between regular appliances and energy services, and the highest-efficiency measures and renewable energy technologies, so that, from the perspective of an SEU participant, a sustainable energy option is as affordable as a conventional option. However, the SEU service provides the added benefit of long-term energy savings (average lifetimes for the technologies would be 10 years or so). Because the SEU covers 100% of the incremental cost, SEU customers incur no out-of-pocket expenses. For this service, the SEU then receives 33% of the customer's energy savings for the first three-five years – the customer captures 2/3 of the savings for the period. After the period shared savings ends, the customer has 100% of the savings. The SEU uses 1/3 of the savings to repay its capital expenses.

Senator Simpson asked what would happen if the SEU is oversubscribed. Mr. Allen of Citigroup replied that the SEU model has flexibility if programs are successful. The SEU

could raise bonds until it reaches its \$30 million cap to ensure program continuity and expansion.

Representative Schooley asked about the risks of the Bond. Senator McDowell replied that the State is not at risk. Senator Copeland replied that if SEU participation is low, costs are likewise low and the bond funds are therefore available to significantly repay the difference between the bond requirement and the SEU's program revenue. Mr. Allen explained that if SEU participation is low then bond money may not actually be spent; most of the bond money will remain and can be used to repay the bond. Senator McDowell added that SEU contractors would not receive incentives if they do not achieve results. Charlie Smisson, State Energy Coordinator, noted that the Delaware Energy Office is already oversubscribed for existing Energy Answers programs, and that maintaining participation in the SEU will likely not be a problem.

Senator Blevins asked how savings will be captured, whether on utility bills or as a separate bill. Senator McDowell replied that these types of details are dependent on the strategy of the SEU Contract Administrator.

Final Report

Senator McDowell introduced the Final Report and explained that it represents the Task Force's work from previous meetings.

Charlie Smisson noted that he had spoken to the Director of *Efficiency Vermont*, (Vermont's energy efficiency utility) who had reviewed the SEU website and the SEU model. *Efficiency Vermont* has expressed its strong support for the SEU, and also expressed some jealousy at the scope of the SEU's activities, which further expand the work of Efficiency Vermont beyond electricity. (*Efficiency Vermont's* letter of support is now available on the SEU Task Force website at: http://www.seu-de.org/docs/supporting_letter_VEIC.pdf).

Senator Simpson moved to accept the Final SEU Report. Senator Blevins seconded the motion. Task Force members unanimously voted to approve the Final Report.

Senator McDowell suggested that the Task Force submit four pieces of suggested legislation with the final report. Senator McDowell requested Task Force approval of the proposal that the current Task Force become an interim Oversight Board for the SEU until one is appointed, before the SEU begins operation in January, 2008. All Task Force members agreed to this unanimously.

All Task Force members agreed to have their names listed as sponsors of the four model SEU bills distributed at the meeting:

- Increasing the Renewable Portfolio Standard to 20% with a 2% solar carveout
- Raising the Green Energy Fund mill rate to \$0.000356 (adding 18 cents to the average household monthly electric bill)
- Updating Delaware's net-metering standards to encourage larger customer-sited renewable energy installations
- Enabling the creation of a Delaware Sustainable Energy Utility

Senator Copeland noted that since the substance of the model bills is described in the Final Report, and legislators will have the opportunity to vote on the actual bills when they come to the floor, does the Task Force really need to vote to approve the model bills? All Task Force members agreed that the bills would be presented as model legislation only, not yet voted on by the members. All agreed the model bills should appear in the final Report with the approval of the Task Force.

Representative Schooley suggested that the Task Force prepare a short SEU Fact Sheet to help the public better understand the work of the Task Force. She also suggested that the Task Force create a better name than “SEU.”

Senator McDowell suggested that the Task Force create a scholarship competition for a graduating high school student who can think of the best name for the SEU. Representative Thornburg expressed her support as did all Members.

Senator McDowell ended the meeting by emphasizing the need for Task Force members to begin speaking to their constituents about the Sustainable Energy Utility.