

Delaware Sustainable Energy Utility
Meeting of the Oversight Board
DNREC – 89 Kings Highway – Dover, DE 19901
January 16, 2014 – 9:30 A.M.

1. Welcome

Board Chair Senator Harris McDowell called the meeting to order at 9:30 AM. Present were Pam Bakerian, Sean Finnigan (teleconference), Joseph Schorah (teleconference), Dennis Williams (teleconference), Charles Wagner (teleconference), Secretary Collin O'Mara, Kristopher Knight, and David Bonar. Also present were Tony DePrima, SEU Executive Director, Frank Murphy, Robert Underwood, and Lisa Gardner.

2. Approval of Minutes – November 21, 2013 – Oversight Board – Mr. Bonar motioned to adopt the minutes, seconded by Mr. Knight and unanimously carried.

3. SEU Business

a. Home Performance Program Financing Strategy – Mr. DePrima announced that as well as the Home Performance Program, the SEU is offering a low interest loans to homeowners wishing to make energy saving improvements. However, the last piece of business is to determine the source of capital necessary to finance the loans homeowners would use. In the original proposal, two scenarios were proposed; both involve obtaining capital through AFC First (our loan servicing contractor) from secondary markets. To make these loans attractive, the SEU would spend \$300,000 in the first year to buy down interest rates, which would set interest rates between 4.99% and 7.99%. An alternate strategy that has been developed through discussions with AFC First and ICF is for the SEU to use its own capital (RGGI funds) to finance the loans. Under this scenario, the SEU would receive a 2% Return on Investment (ROI) and the consumer would receive a 5.99% interest rate. The difference between the two rates is the cost of servicing the loan, which AFC First collects. These loans generally range between \$5,000 and \$15,000 with terms between 5 and 10 years. A FICO score of 640+ is required. By using SEU funds with a low 2% ROI, the estimated \$300,000 would not be needed to buy down the interest rate. It is estimated that \$50,000 would be needed for a loan loss reserve to protect the ROI. The remaining funds could be used to increase the projected number of rebate incentives. It is projected that \$1,000,000 may be needed annually for the loan program, or \$500,000 for the last half of this fiscal year. If funds are not used they will roll into the second year of the program. The SEU Board has already set aside \$3,747,847 for low interest loans for this fiscal year. The funds for this Home Performance loan pool can come from that line item.

Mr. DePrima recommended that the Board adopt the strategy of using the SEU's own capital. Using the SEU's own capital would demonstrate that RGGI dollars are being put to work for Delawareans. Additionally, by using the SEU's own capital, the principal and interest is returned to the SEU for future reinvestment; a SEU core strategy.

Mr. DePrima introduced Mr. John Hayes, AFC First Financial Corporation; Mr. Hayes provided members background of his company and past performances.

Responding to Secretary O'Mara and Representative Williams, Mr. Hayes stated that a 5.99%, unsecured rate to a consumer for a term up to ten (10) years is very attractive rate.

After much discussion, Mr. Bonar moved to accept the proposal that would use SEU's own capital (RGGI funds) to finance the loans. Secretary O'Mara suggested that the motion be amended to include flexibility of exploring an alternative fee structure with AFC. Mr. Bonar accepted the amended motion, seconded by Mr. Knight and unanimously carried.

b. Enhanced Green Energy Grant Proposal – Secretary O’Mara explained that for some time now, DNREC has been exploring ways to increase the number of solar installations in the state of Delaware, more cost effectively, and in a way that did not require legislative changes. The Renewable Energy Taskforce recommends implementing a joint DNREC - SEU grant program where reduced grant levels are offered with upfront payment of SRECs. The Renewable Energy Taskforce recommends implementing a smaller grant program that purchases the SRECs up front. By doing so, it would expand the growth of small scale solar photovoltaic (PV) by up to 3.3 MW per year over the Renewable Portfolio Standard (RPS) requirement-an increase of 12 percent over the 2013 installed capacity of roughly 50 MW and stabilize the SREC market.

Mr. Underwood stated that this program would reduce DNREC’s Green Energy Fund (GEF) grant levels and add a matching commitment of \$1.5 million per year for a period of two (2) years of SEU’s Regional Greenhouse Gas Initiative (RGGI) funds. The SEU-RGGI funds would be used to purchase SRECs in a single payment instead of over a 20 year contractual period used in the annual SREC auction. The new GEF grant level of \$0.85/watt (up to 5 kW) is \$0.40 lower than the current GEF grant level of \$1.25.

The proposed program is designed to start after the next SREC auction is concluded (April 2014). New smaller system owners would be encouraged to use this program instead of the annual auction. The program would be reviewed on a quarterly basis and adjusted, if needed, to ensure it reflects the current market conditions, program demand, and the level of participation from all service territories.

Mr. DePrima informed members that administration details need to be formulated.

Secretary O’Mara moved to approve the proposal as discussed, pending an analysis of how the program would impact both DEMEC and Delaware Electric Cooperative customers, as well as analyzing any potential unattended consequences on SREC price stability. The motion was seconded by Mr. Bonar and unanimously carried.

c. Amendment to Cash Management Plan and Investment Policy – Mr. DePrima introduced William Dinon (PNC Capital Advisors), Matt McKenzie (PNC Advisors), Dianna Geist (NW Financial), and joining via teleconference, John Tracey (PNC Capital Advisors).

In order to improve the SEU’s investment opportunities and project interest rate returns, PNC Capital Advisors is recommending the addition of the following to the list of approved investments:

- Agency and non-agency mortgage-backed securities backed by loans secured by residential, multi-family and commercial properties including, but not limited to pass-throughs, CMOs, REMICs, project loans, construction loans, and adjustable rate mortgages
- Asset-backed securities
- U.S.-dollar denominated obligations of domestic and foreign corporations
- U.S.-dollar denominated obligations of foreign governments and supranational organizations

These recommendations have been reviewed by NW Financial Services.

Responding to Mr. Knight, Mr. McKenzie explained the non-agency mortgage-backed securities. After much discussion, the board recommended eliminating “non-agency mortgage-backed securities.

The securities must be rated investment grade or better by a Nationally Recognized Statistical Rating Organization (NRSRO) at the time of purchase. Securities with split rated credit ratings will be considered to have the lower credit rating. The Portfolio’s dollar-weighted average maturity will be eighteen (18) months or

less. The objective of the Portfolio is to seek current income and a relatively stable market value as measured by the volatility of the Merrill Lynch 1-Year Treasury Index.

Secretary O'Mara moved to approve the addition of the recommendations to the Cash Management Plan and Investment Policy, striking "non-agency mortgage-backed" from the first bullet. The motion was seconded Mr. Bonar and unanimously carried.

Additionally, Secretary O'Mara moved to direct the Executive Director and the Audit and Finance Committee to investigate how to improve the security of existing assets. The motion was seconded Mr. Bonar and unanimously carried.

d. Assignment of SREC Trade Contracts – Incline, LLC – Mr. DePrima informed members that SRECTrade began a utility procurement business division in 2012 with management of the Delaware SREC Procurement Pilot Program. While this business line borrowed heavily from SRECTrade's existing software engine and SREC market knowledge, it has grown to become its own independent division within the company. The Delaware program has been very successful and the utility procurement division has been actively pursuing several other contracts to run similar programs. Unfortunately several of these procurement opportunities preclude SRECTrade from bidding or have discounted SRECTrade's bid because of perceived or actual conflicts of interest with SRECTrade's core business of transacting SRECs. As a result, SRECTrade is planning to spin off the utility procurement division into an independent company unaffiliated with SRECTrade. This will allow the new company to pursue all potential contracts for administering solar renewable energy credit, grant, or rebate programs, allowing the company to replicate the success of the Delaware program in adjacent states.

SRECTrade will form a separate company, InClime, Inc., which will focus on utility and public agency renewable procurement programs. The new company will be led by Kevin Quilliam, who currently leads SRECTrade's procurement program business, and some SRECTrade employees who currently support the procurement programs will become InClime employees. After the spin-off, both Kevin Quilliam and InClime's employees will no longer be employed by or associated with SRECTrade. The software, websites, and GATS accounts currently used to support the Delaware Procurement Program will continue to be used by InClime. The new company will be based in Annapolis, MD.

Mr. Frank Murphy has reviewed and approved the assignment documents.

Secretary O'Mara moved to adopt assignment of SREC Trade contracts and authorize the Executive Director to execute the assignment documents. The motion was seconded by Mr. Knight, and unanimously carried.

e. DEMEC – SEU LED Street Light Program – Mr. DePrima stated he has been in discussions for over a year with DEMEC (Delaware Municipal Electric Corporation) to pilot a comprehensive LED Street Light Conversation Program. DEMEC would be the principle administrator of the program and SEU would finance the conversion with a low interest loans. The program has the potential of creating loans between \$500,000 and \$1,500,000 depending on the number of towns that participate. If the program proves successful there is a potential for future phases. Additionally, what is learned in this pilot can be useful to the SEU in working with other utilities.

The first stage of this program involves DEMEC hiring an electric engineering firm to scope the project, develop specifications for an RFP, review proposals, and monitor installation. It is estimated that the range for this service will between \$20,000 and \$30,000.

Mr. DePrima recommended that the Board that the SEU reimburse DEMEC for 50% of these initial engineering costs up to \$15,000. This reimbursement would include a signed agreement that the SEU could recover its

costs through the financing of the project, or will be fully reimbursed if the project moves forward without SEU financing.

The money for this reimbursement is budgeted in the engineering services line item; therefore there is no change in our budget.

Responding to Dr. Wagner, Mr. DePrima stated that the SEU belongs to the National Municipal Street Light Consortium, and through that resource, we have reviewed similar programs from neighboring states. Mr. Bonar and Secretary O'Mara echoed significant savings that can be utilized through this program.

Mr. Bonar motioned to move forward with the LED Street Light Program as a pilot program, seconded by Ms. Bakerian and unanimously carried.

f. Election of Vice Chairperson – Senator McDowell opened the nominations for Vice Chairperson. Senator McDowell nominated Dr. Charles Wagner. There were no other nominations. Mr. Bonar moved to close nominations, seconded by Mr. Knight. Senator McDowell moved to nominate Dr. Charles Wagner as Vice Chairperson, seconded by Secretary O'Mara and unanimously carried.

g. Consideration of Statements – A motion was made by Secretary O'Mara to pay the following statements, seconded by Mr. Bonar and unanimously carried.

- i. Faw Casson – November 2013, in the amount of \$ 6,935.**
- ii. NW Financial Group, LLC – October 2013, in the amount of \$1,932.50, and November 2013 in the amount of \$2,023.75.**
- iii. F. Murphy Legal Services – November 2013, in the amount of \$3,394.**

h. Conflict of Interest Disclosure Statement – Mr. DePrima reminded members that according to the SEU's By-Laws, it is necessary for all board members to sign a 2014 Conflict of Interest Disclosure Statement.

4. Reports - Executive Director's Reports – Mr. DePrima reviewed the following reports:

- i. Budget**
- ii. Balance Sheet**
- iii. Activity – September and October 2013**

5. New Business/Old Business

Mr. Schorah stated that there are several entities that are not aware of the SEU and suggested that SEU begin advertising more via county, state, and municipal websites. He also indicated that ESCO's and several end users would like an opportunity to present to the SEU to promote additional financing and bonding opportunities.

Responding to Senator McDowell, Mr. Schorah requested that the SEU begin exploring the need for independent Engineering Services. Mr. DePrima agreed, and suggested that the board take action now. Secretary O'Mara motioned that the Executive Director advertises for a RFP for independent for Engineering Services and bring forward at the next meeting. Seconded by Mr. Knight and unanimously carried.

6. Public Comment

The Board received public comments by various members of the public.

7. Adjourn

A motion to adjourn was passed unanimously at 11:55 AM.