

Delaware Sustainable Energy Utility
Meeting of the Oversight Board
391 Lukens Drive, DNREC, New Castle, DE 19702
January 20, 2017 - 9:00 A.M.

Welcome

Senator McDowell called the meeting to order at 9:00 AM. Members present were Trey Paradee (teleconference), Dave Bonar (teleconference), Robert Underwood, Richard Jones, Kristopher Knight (teleconference), Pam Bakerian (teleconference), Sean Finnigan (teleconference), and Joseph Schorah. Also present were Frank Murphy, SEU General Counsel, Anthony DePrima, Suzanne Sebastian, Kate Bayard, and Lisa Gardner.

Members Absent: None; note that Andrew Slater, Michael Chajes, and Robert Cameron were newly appointed members that were unaware of the meeting.

1. Approval of Minutes – Mr. Bonar moved for approval of the Loan Committee minutes listed below, seconded by Mr. Knight and unanimously carried. Mr. Underwood moved for approval of the Oversight Board minutes, seconded by Mr. Schorah and carried with one abstention (Mr. Jones).

- a.i. Loan Committee – November 15, 2016
- a.ii. Loan Committee – December 2, 2016
- b. Oversight Board – November 17, 2016

2. SEU Business

a. Purchasing Policy Amendment – Contract Extensions - 2015-2016 Financial Statement and Audit – As a result of November’s Oversight Board meeting, Mr. DePrima presented an amendment (7.3 Contract Extensions) to the Purchasing and Contracting Policy to include the following language “If, after a purchase contract has been awarded, it becomes necessary to extend the time of a contract because of unforeseen circumstances the Oversight Board members may extend contract time limits up to one year when it finds that it is in the interest of the SEU and under the same terms and conditions of the original contract”.

Mr. Schorah moved to approve the amendment as presented, seconded by Mr. Jones and unanimously carried.

b. Upfront SREC Program – Recommendation to Replace with Solar Loan Program – Mr. DePrima provided the following information to the Board:

Background

The Joint Green Energy Fund Program was originally approved by the Board at its January 2014 meeting. The concept envisioned was to have the SEU support and enhance the existing Green Energy Fund (GEF) programs by using RGGI money to incent and increase small solar installations. SEU and DNREC staff developed the program design where DNREC would first reduce its Green Energy Fund grant levels allowing for more systems to participate and in turn, the SEU would purchase SREC’s from the system owners upfront in exchange for their SREC’s over 20 years. The SEU’s part of the program added two important enhancements; first systems anywhere in Delaware could participate versus the GEF program which was principally available in DPL territory; and secondly, cash would be available year round and in one lump sum versus the alternate SREC auction which is awarded annually, and payments are monthly over 20 years.

The Board approved the program and allocated \$1.5 million per year for two (2) years to fund the SREC purchases at a cost of \$450 per Kilowatt of name plate capacity. In 2016, the board budgeted an additional

\$750,000 for the program to extend through June 2017. In addition to the purchase of the SREC's, the SEU pays InClimate Inc. for administrative services including the operation of the on-line application portal. Our overall administration cost is \$60,000 annually for administration which includes the online application website, and \$60 per system per year to manage the transfer of SREC's.

Current Situation

To date, \$2,833,022.70 has been expended in purchasing SRECs upfront, another \$905,879.50 has been requested by systems not yet completed, and \$11,097.80 is unallocated. At current rates, we expect all of the funds to be expended by May/June 2017. To date, we have had 8,000 SREC's transferred into our accounts, and we estimate that we will be receiving 10,000 annually if all systems transfer SREC's as planned. It is important to point out that this program was particularly popular with the solar leasing companies; approximately 57% of our upfront purchases have been going to solar leasing companies.

Currently, we are in discussions with DPL about selling our SREC's to them; however, we do not have an agreement. We can sell our SREC's in Delaware or Pennsylvania spot markets where prices are low.

The Future – Solar Loans

At this time, staff is not recommending extending the Upfront SREC Purchase Program any further and instead replacing it with a low-interest solar loan program for residential, non-profits and small businesses for the following reasons:

1. Our program competes with the annual solar auction where a system owner can choose the auction route to sell their SREC's. Originally, it was believed that there was enough demand for both programs. However, after two years, there does not appear to be enough demand for our program and the SREC Auction. During the 2016 SREC auction, there was not enough participation from smaller systems, so Tier I was undersubscribed, and DPL bought SREC's from larger systems to fill the void. By offering a low-interest loan program, we can still provide the capital needed for year round funding that will serve as a bridge to the annual auction where systems can still sell their SREC's.
2. Our program was heavily used by solar leasing companies, and it is unclear whether the value of the SREC's is being passed down to the system owners. The situation will only get worse because the GEF is now closed to solar leasing companies.
3. Purchasing SREC's upfront does not encourage efficient solar design. For example, two 30 kW systems could have very different outputs because one is partially shaded and the other is not, yet we are providing them both with the same payment.
4. We do not have a firm outlet for selling our SREC's, continuing the program would cause us to accumulate a significant number of SREC's. In a loan program, the SEU would get the principal investment and interest back assuming our default rates are low.
5. The Upfront SREC Purchase Program administrative expenses are paid by the SEU; whereas, the loan program's administrative expenses would be paid through the borrower's interest payments.

A solar loan program would work similarly to our Home Performance Loan Program where the SEU would put up the capital and our third party administrator would underwrite and service the loans, and SEU principal and interest would be returned to the SEU from the administrator once the borrower makes their payment. Loans would be made under guidelines established by the SEU, but the loan would be in the name of the third party administrator.

InClimate, Inc. who is our third party administrator for the SREC auction and for the Upfront SREC Purchase Program already administers one energy efficiency loan program that includes solar and runs the low income verification portion of another. They can work with us to smoothly transition from an upfront purchasing

program to a loan program. InClime administers loan programs for the City of St. Louis Green HELP energy efficiency loan program and provides income verification for the Massachusetts Clean Energy Center (MassCEC) solar loan program. The City of St. Louis program is a \$1.5M program that provides 3-10 year loans of up to \$10,000 for a number of energy efficiency upgrades including the installation of solar. InClime is responsible for processing applications for these loans, underwriting the loans, and collecting payments throughout the loan term. InClime has built a platform specifically designed to run renewable energy and energy efficiency loan programs which is a derivation of the same platform used to run the Delaware Upfront SREC program, and InClime's staff are experts in both the financial aspect of the loans and the Delaware solar ecosystem. InClime additionally runs the low income verification portion of the MassCEC's solar loan program, providing additional expertise in the low-income loan area.

Based on discussions and research, we believe that a low-interest loan program with an interest rate of 3.9% (1% to SEU, 2.9% to InClime for administration) and maximum 15 year term would be marketable and encourage further solar development in Delaware. Staff recommends a two million dollar allocation for the program over two years.

Mr. Jones moved to authorize the Executive Director to end the Upfront SREC Purchase Program once funding is expended and to develop, with InClime, program design and administration contracts for a solar loan program. Both the design and the administration contracts would be brought back to the board for approval; the motion was seconded by Mr. Schorah and unanimously carried.

c. Pathways to Green Schools Program – Request to Add Additional School – Mr. DePrima stated that the original budget for the Pathways to Green Schools program was \$105,000; the budget included energy audits for five (5) schools that were new to the program, as well as continued technical and education assistance to nine (9) returning schools.

With a successful push to enroll downstate schools, Smyrna High School, Milford High School, and the Jefferson School in Gerogetown are currently enlisted. North Dover Elementary had been enrolled in the program, but dropped out due to a change in staffing; their slot was filled Christina High School.

Unfortunately, shortly thereafter, an application was recieved from East Dover Elementary but all slots were filled. Mr. DePrima stated that he would like to include East Dover; it would be ideal to have three (3) down state school districts participating in this program. To include East Dover, the budget for this program would have to increase by \$7,370 for the energy audit, follow up audit, enrolling the school in ENERGY STAR Portfolio Manager, establishment of Eco-action teams, and support in implementing new energy initiatives.

Senator McDowell expressed concerns regarding how the overall program was initiated; hence his concerns on “expanding”. Mr. DePrima clarified by stating their contract was selected as a Sole Vendor Contract under the Purchacing Policy due to their uniqueness and furhter explained their mission.

Mr. Underwood stated that not only is there energy savings associated with the upgrades, the value of the education and outreach at the student level is immeasurable and interconnects with the misison of the DESEU.

Mr. Underwood moved to increase the budget to \$112,370 to support inclusion of East Dover Elementary School, seconded by Mr. Schorah and unanimously carried.

d. Consideration of Statements - Mr. Bonar motioned to approve the following statements, seconded by Mrs. Bakerian and unanimously carried.

- i. Murphy & Landon – November/December 2016 (\$1,829)
- ii. NW Financial Group, LLC – October/November 2016 (\$2,970)

3. Delaware Energy Directory – Presentation – Mr. DePrima distributed the Delaware Energy Directories to Board members. To date, a total of four (4) Community Energy Centers have opened in Newark, Wilmington, Georgetown, and Dover. The directories will serve as a great reference and will greatly assist counselors and organizations in helping residents find relief on reducing their energy bills.

4. Reports – November/December 2016 – The following reports were presented to the Board:

- a. Executive Director’s Activity Report
- b. Program Activity Report
- c. Communications & Marketing Manager
- d. Budget Report – Ending December 31, 2016

5. New Business/Old Business – None.

A motion to adjourn was passed unanimously at 10:45 AM.