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Pittsburgh Post-Gazette

Looking for loans with an energy angle

October 6, 2014 5:01 PM

By Anya Litvak / Pittsburgh Post-Gazette

Rob McCord is in the business of making you money and paying your bills. He's in the market for low-risk, steady return investments, and if there's a clean energy angle, all the better, according to the state treasurer.

In 2006, Pennsylvania rolled out the Keystone Home Energy Loan Program, which gives low-interest loans to homeowners for energy efficiency improvements.

With a bunch of energy efficiency loans in hand, Mr. McCord sold the portfolio of these loans to a consortium of banks last year, helping to establish a trading market for such products, similar to a mortgage security market.

Last week, the treasurer and his deputy, Keith Welks, announced a new initiative called the Sustainable Energy Bond Program, which will aid municipalities, school districts, hospitals and universities in figuring out what energy improvements make sense for them, then bundle all those projects into a bond issue and serve as the lead, albeit minority, investor on the issue.

The Foundation for Renewable Energy and Environment, a New York-headquartered international non-profit organization, will partner with Philadelphia law firm Drinker Biddle & Reath to provide legal and technical assistance.

As with Keystone HELP, the bond program will assist in finding and financing energy efficiency improvement projects that pay for themselves.

Q: Municipalities and school districts can issue their own bonds. Why do they need you?

McCord: We have a record-breaking number of municipalities in Pennsylvania that don't really issue bonds. So what you get is sort of stranded assets that are community assets but are, bit by bit, turning into community liabilities. What we're doing is coming along, saying, "Look, you can improve

your energy efficiency, and we'll come up with upfront money." We aggregate a whole bunch of projects.

Welks: The key here is that we're offering more than just the financing. We like to talk about both financing and philosophy. In this context, the financing is important, but we think the special sauce is [the support]. A lot of these municipalities may be small. They may not feel confident engaging with some of these large energy service companies or making sure guarantees are in place.

Q: Where is the private sector in all this?

Welks: We're hoping ultimately to have between \$30 [million] and \$70 million in projects that go forward with the Sustainable Energy Bond Fund. We would be a lead investor, but not the sole investor. At the end of the day we would not expect to be more than 5 [percent] to 10 percent of the total portfolio uptake. So our judgement about this being a good idea gets ratified by the other 90 percent of private institutional investors.

Q: As the custodian of the assets of Pennsylvania's two large public pension funds, has the treasurer used the considerable weight of those funds to encourage clean energy investments?

McCord: The short answer, I think, is not yet. Right now I'm just one board member among many. I think there's always this obsession with getting the high-risk adjusted returns and the bias towards staying out of controversy. Over time, we will have more conversations about what's called double bottom line investments.

If my overall goal is to fund investments for pensioners, I should be looking at things that not only give them the highest returns but also improve my economy. It's a nuanced argument. It sometimes can be a little bit partisan.

In the wake of the [2008 financial] crash, really, people have been so obsessed with liquidity and risk mitigation that they sort of set aside the double bottom line investments, which is something that gets more attention when people are sort of humming, "The good times are here again."

Q: Do you think Pennsylvania is doing a good job finding a balance between its fossil fuel resources and its clean energy potential?

McCord: I think we can do much much better in that balance. A lot of people were surprised that I was aggressively for a 10 percent severance tax. The cost of transporting the natural gas and getting it out of the ground is much higher than state and local taxes. This politically manufactured fiction that having a tax will drive down jobs is entirely [false].

Welks: Pennsylvania, in prior years, was much more aggressive in pursuing renewable resources. That seems not to be the current focus. I think that's a mistake. Government can and should play a role in increasing early adoption [of renewable energy technology] because we can absorb those early costs.

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