

The Pennsylvania Sustainable Energy Finance (*PennSEF*) Program

PennSEF Webinar for Interested ESCOs

November 19, 2014



PENNSYLVANIA
TREASURY
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ee 
Foundation for Renewable
Energy & Environment
<http://freefutures.org/>

Drinker Biddle



ESCO Pre- Qualification Purpose & Evaluation Criteria

Pre-qualification provides an independent screening process for the participants in the program to know they are working with an ESCO that is financially strong and is governed by sound business practices.

Evaluation Criteria

Financial Strength

Experience

Past history with
performance guarantees

Financial ability to honor
guarantee commitments

Degree to which ESCO is vendor
neutral for technology selection

Project management approach to
Investment Grade Audit and M&V

Local presence (including local
vendor and employment linkages)

Strength of public sector
references

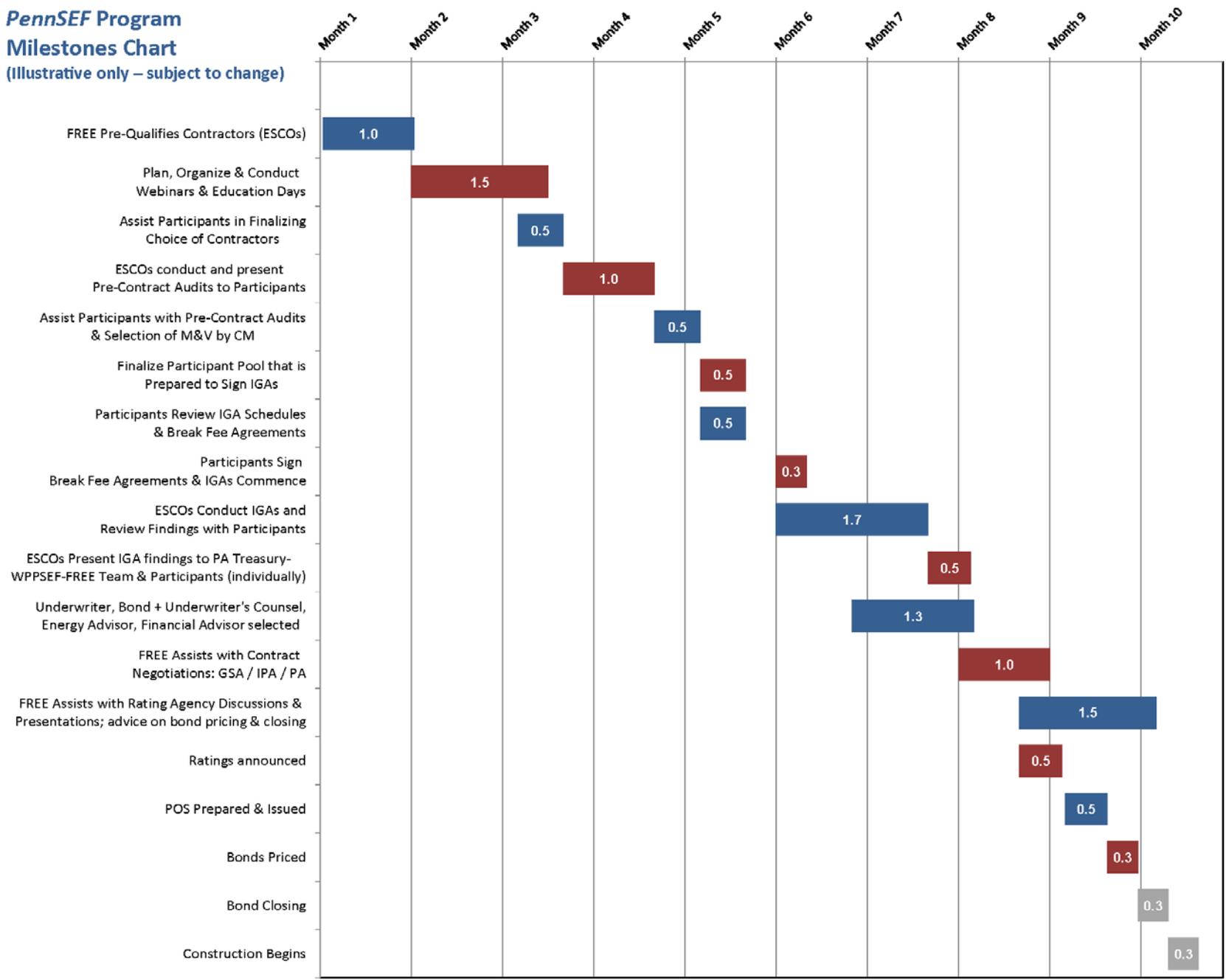
ESCO Pre- Qualification Timetable

- ✓ Rolling process of pre-qualification
- ✓ Initial round of pre-qualification:
RFQ Issued: November 6, 2014
ESCO Response Date: December 5, 2014
Program Response Date: December 12, 2014
- ✓ ESCOs can apply at any time after
November 6, 2014
- ✓ Program decision will be issued within 15
business days after the initial round

PennSEF Program

Milestones Chart

(Illustrative only – subject to change)



Key ESCO Roles

- ✓ ESCOs furnish a pre-contract audit at no cost
- ✓ ESCOs agree to deliver Investment Grade Audits (IGAs) identifying self-financing measures based on participant priorities which provide at least 90% of savings quoted in pre-contract audits
- ✓ ESCOs help program participants to identify best-performing energy/water conservation and onsite generation investments, complete construction and provide M&V to fulfill self-funding guarantee
- ✓ We welcome the opportunity to co-market *PennSEF* with the ESCO community and will identify pre-qualified companies in Program marketing

PennSEF **Benefits**

- ✓ Low financing rates available in the bond market which allow deep retrofit projects to pencil out
- ✓ Pooled financing saves on average financing costs and permits smaller projects to take advantage of bond financing
- ✓ No cross collateralization or risk associated with involvement of other participants
- ✓ Customized and serialized financing to optimize investment
- ✓ Significant Pennsylvania job creation expected

Indicative Borrowing Rates

PA Tax-Exempt Revenue Curve 10/20/14					PA Taxable Curve 10/20/14				
Term	AAA	AA	A	BAA	Term	AAA	AA	A	BAA
1	0.15	0.16	0.28	0.67	1	0.13	0.19	0.34	1.22
5	1.18	1.26	1.49	2.02	5	1.67	1.74	2.00	3.44
10	2.12	2.32	2.67	3.18	10	2.80	2.88	3.39	4.61
15	2.47	2.69	3.04	3.55	15	3.41	3.49	3.92	5.01
20	2.73	2.95	3.30	3.76	20	3.57	3.66	4.09	5.10

Rates are *indicative only* and are quoted for general category ratings and not for sub-categories such as Aa3.

Rates are as close of the market on October 20, 2014.

Rates are generalized for a category rating and do not reflect the various nuances in the market in terms of the way investors see credits. For instance hospital credits are not seen in as positive a light as school district credits, and even within those credit categories it depends on the name of the hospital or school district. In addition, it does not account for various possible increases in ratings due to things like Pennsylvania's Intercept Program if that can back a school district's bonds.

Rates in the Revenue Curve table are quoted as trading off the same GO category. The amount they trade off will depend on the borrower and the perception in the market of that borrower. The same rates may or may not apply for Lease Revenue Bonds or Certificates of Participation.

Who Can Participate?

Program assists governmental and non-profit entities to procure and finance sustainable energy improvements

This includes:

Municipalities
Community Colleges
Counties
Water/
Wastewater Authorities
School Districts

Correctional Institutions
Universities
Hospitals
Private Schools
Large Non-profit Agencies

What Measures Are Included?

Many! A wide range of energy & water conservation measures (electrical **and** thermal) can be financed

Distributed generation (including solar PV and combined heat and power), microgrids, smart energy management are important candidates for this Program

Major lighting upgrades, HVAC improvements (including boiler and chiller replacement), process and steam redesigns, building envelope upgrades, & motor drive/pumping systems overhauls are examples – ***the key is that the new equipment creates energy and water bill savings sufficient to finance the investment***

The most attractive projects integrate ***deep retrofits*** with ‘low hanging fruit’

Procurement Process

Pennsylvania government units can procure using a flexible process under the Guaranteed Energy Savings Act.

The government unit issues an RFP that permits selection on the basis of multiple criteria to meet its needs. Criteria can include being a qualified ESCO under the program.

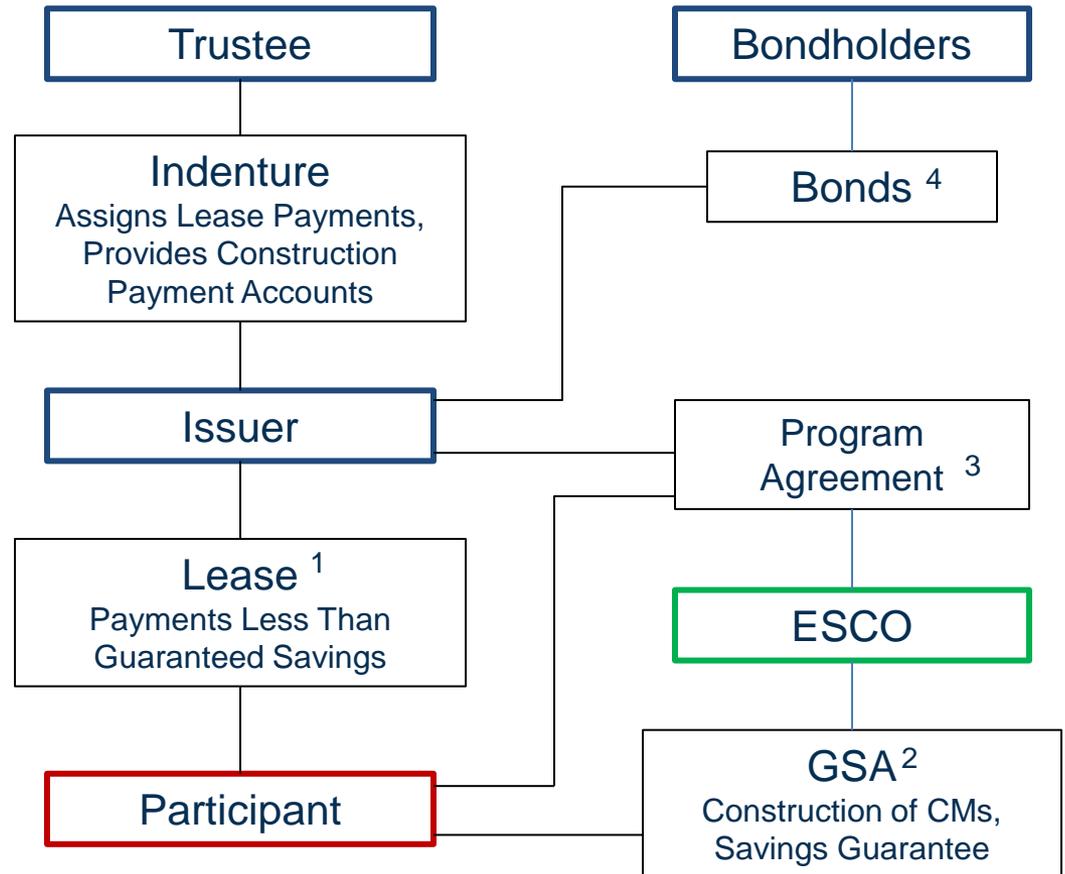
The government unit selects one ESCO to prepare a preliminary audit.

If satisfied with the preliminary audit, the government unit makes a final selection of the ESCO and signs a Guaranteed Savings Agreement.

If not satisfied the government unit can exit the program at no cost or engage another ESCO.

Financing Structure

1. Participant enters into Lease with the Issuer in which it agrees to make quarterly payments for installation of energy/water conservation measures (“CMs”).
2. Participant enters into a Guaranteed Savings Agreement (“GSA”) with an Energy Service Company (“ESCO”), which constructs CMs and guarantees annual savings for the life of the agreement.
3. Participant and ESCO enter into Program Agreement and agree to report performance of the CMs and job creation.
4. Issuer issues bonds secured by payments under the Participants’ Leases.



Guaranteed Energy Savings Agreement



Purpose

-Agreement between ESCO and Participant to undertake implementation of one or more conservation measures at the host's facility.



Mechanism

-ESCO agrees to design, construct and install conservation measures selected by Participant

-ESCO guarantees that the amount of savings (after payment of operation and maintenance costs) will exceed the payments due under the Lease.

-The Participant assumes operating responsibility, starting at the project's time of completion.



Measurement & Verification Baseline Calculation, Included Savings

Fixed escalation of energy and water rates determined by the Program

Dollar savings are guaranteed as technical performance times escalated energy/water rates

Only energy/water savings are counted, not operational and maintenance savings

Internationally recognized Monitoring and Verification (M&V) protocols are used

Contact



PAM HAGUE

Foundation for Renewable Energy &
Environment (FREE)

pam@freefutures.org

215.494.7383



PATRICK SHAUGHNESSY

Pennsylvania Treasury

pshaughnessy@patreasury.gov

717.705.7860

If Pam or Pat cannot answer your question, they will find the person who can!



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630 5th Avenue
Suite 2000
New York, NY 10111
www.freefutures.org
Program Manager: Pam Hague
pam@freefutures.org
(212) 705-8758 / (215) 494-7383

Drinker Biddle

One Logan Square
Philadelphia PA 19103
C. Baird Brown
Baird.Brown@dbr.com
(215) 988-3338



BECKER CAPITAL & FINANCE

Suite 134, The Sanctuary
100 Riversedge Drive
Atlanta, GA 30339-2949
Kenneth Becker
kbecker@beckercf.com
(302) 740-6795