CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Board of Directors
Minutes –Special Meeting
Friday, July 27, 2012

A special meeting of the Board of Directors of the **Clean Energy Finance and Investment Authority ("CEFIA")** was held on July 27, 2012, at the office of CEFIA, 865 Brook Street, Rocky Hill, CT.

1. <u>Call to Order</u>: Catherine Smith, Chairperson of CEFIA, called the meeting to order at 8:37a.m. Board members participating: Mun Choi; Daniel Esty, Vice Chairperson of CEFIA and Commissioner of the Department of Energy and Environmental Protection ("DEEP"); Tom Flynn; Norma Glover; Donald Kirshbaum, State Treasurer's Office; John Olsen; Matthew Ranelli (by phone); Catherine Smith, Chairperson of CEFIA and Commissioner of the Department of Economic and Community Development ("DECD"); and Patricia Wrice.

Member Absent: Reed Hundt.

Staff Attending: George Bellas, Mackey Dykes, Brian Farnen, Bryan Garcia, David Goldberg (by phone), Dale Hedman, Bert Hunter, Dave Ljungquist, Shelly Mondo, Kimberly Stevenson, Cheryl Samuels and Bob Wall.

Others Attending: Jessica Bailey, the Rockefeller Brothers Fund; Chris Bernard, Northeast Utilities; Katie Dykes, DEEP; Alex Kragie, DEEP; Frank Owens, Steven Hall, and Frank Wolak (Fuel Cell Energy).

2. <u>Public Comments</u>:

There were no public comments.

3. <u>Approval of Minutes of Meeting of June 20, 2012</u>:

Ms. Smith asked the Board to consider the minutes from the June 20, 2012 meeting.

> **Upon a motion made by Ms. Glover, seconded by Mr. Esty, the Board members voted in favor of adopting the minutes from the June 20, 2012 meeting as presented (Mr. Flynn abstained from the vote).**

Mr. Dykes distributed the attachment to the minutes, which are copies of the budget that was adopted at the June 20, 2012 meeting. Ms. Smith noted that the Board recognizes that the budget that was adopted was a preliminary budget, and staff will be coming back as soon as possible with a revised budget that includes a financial plan and metrics. Mr. Esty noted that the Budget Committee intends to review a modified budget in more detail within the next several months and make a presentation to the Board.

4. Update from the President:

Mr. Garcia introduced and welcomed Mr. Flynn as a member of the CEFIA Board appointed by Senator McKinney. He mentioned that Mr. Flynn has already been sworn in as a member of the Board by Brian Farnen.

Mr. Garcia stated that with the support of Reed Hundt, CEFIA staff had met with Richard Kauffman, Senior Advisor of Finance to Secretary Chu of the U.S. Department of Energy ("DOE"). Staff was able to get feedback from Mr. Kauffman on the proposed financing programs being developed by CEFIA. It is hopeful that CEFIA can meet with DOE quarterly to get feedback and best practices, which are important for the design and implementation of successful programs.

Mr. Garcia reported on the joint CEFIA and Energy Efficiency Fund ("EEF") Committee. Mr. Garcia and Ms. Dykes are co-chairs of the Joint Committee. Mr. Garcia mentioned that CEFIA staff members have been assigned to serve on and participate on various committees of the EEF Board (i.e. marketing and outreach; residential; commercial and residential; evaluation, measurement and verification; and research, development and demonstration) in an effort to ensure collaboration and coordination of programs.

Mr. Garcia provided an update on the residential Solar Investment Program. He mentioned that staff has met with 25 solar installer companies to discuss program performance, CEFIA's intention to launch a solar-lease/loan financing program and to obtain feedback. Mr. Garcia noted that the message from installer companies was that they are very eager about CEFIA launching the financing program as soon as possible. He mentioned that the *Market Watch Report* is published weekly to provide a status report on the incentives so that the market can gauge funding available and timing for moving to the next step.

5. Presentation of the Comprehensive Energy Strategy:

Noting that the State's Comprehensive Energy Strategy ("CES") is still in a preliminary draft, Ms. Dykes and Mr. Kragie provided an overview of the CES and highlighted some of the things CEFIA can do to help achieve the goals of the CES. Even though the CES has not been completed and finalized, Ms. Dykes noted that it will be helpful for CEFIA to have the preliminary information while developing the CEFIA Comprehensive Plan so that CEFIA's Comprehensive Plan can align with the CES. She stated that Public Act 11-80 created for the first time the Department of Energy and Environmental Protection ("DEEP") and gave legal authority to and capacity for DEEP to identify energy opportunities for the State of Connecticut through the CES. DEEP is required to prepare the CES every three years, and DEEP intends to release the draft CES late in August. The CES will set forth a plan for all of the energy needs of the State of Connecticut, addressing all fuels and sectors to 2050. Ms. Dykes stated that public meetings will be held throughout the state to obtain feedback and input on the CES. It is hopeful that the draft CES will be finalized in the fall.

Mr. Kragie discussed the overarching policy framework. He stated that the goal is to create a “Malloy Energy Model” and to bring Connecticut closer to cheaper, cleaner and a more reliable energy future. Mr. Kragie stated that all energy policies should reflect this focus. He noted that the CES is written for the general public but is intended for the regulators and legislators.

Some of the goals of the “Malloy Energy Model” include helping residents reduce their energy bills, making Connecticut businesses more competitive, moving away from the “subsidy” approach to a clean energy “finance” model, creating a policy framework in which the marketplace picks winners and losers and not the government, focusing on deployment at scale to drive down costs, harnessing market forces to drive down rates, leveraging private capital to extend the reach of programs, and positioning Connecticut to gain jobs in the growing clean energy sector.

Ms. Dykes and Mr. Kragie reviewed the five sectors being addressed in the CES which include: 1) transportation; 2) electricity; 3) buildings; 4) industry and 5) natural gas. They explained some of the complexities, issues, goals and commitments to each of the sectors and how CEFIA is expected to help. It was noted that CEFIA will be asked to attract capital and provide financing to help achieve the state’s goal to reduce energy consumption. CEFIA will be asked to foster the sustained commitment to long-term efficiency goals identified in the CES. Ms. Dykes explained that CEFIA can also assist by providing support to helping bring down the business energy costs and making the state more competitive. She noted that CEFIA may be able to play a role in financing programs for fuel switches and energy efficiency and can help identify strategies to drive down the costs of renewable energy supply options.

A discussion ensued on the costs for natural gas. It was noted that very conservative estimates were used to make the determination that natural gas costs will remain cheaper than oil. Ms. Dykes explained the benefits to Connecticut by expanding natural gas throughout the state. Some of the barriers of expanding the infrastructure for natural gas were discussed. A suggestion was made to add in the CES a requirement that the conduit for gas, electricity, water, communications and sewer be a coordinated effort.

It was noted that CEFIA staff has been involved in the development process of the CES.

Mr. Garcia assured the Board that the CEFIA Comprehensive Plan being developed is consistent with the CES as well as the Integrated Resource Plan. He noted that CEFIA is taking steps to attract and deploy capital to help finance the clean energy goals for the state, to make clean energy more affordable and accessible to ratepayers, and to transition away from grants and subsidies to innovative low-cost financing Ms. Smith recognized that CEFIA is aligned with the energy policies and strategies that have come from the Governor and DEEP.

Questions arose as to how to deal with technology and other changes. Mr. Esty noted that flexibility is very important and should be embedded in the CES. He noted that the CES provides flexibility and offers a portfolio approach to customers to choose technologies rather than having the government try to steer customers in a certain direction or technology. Mr. Esty stated that the CES has to be evolving based on changing technologies and scenarios.

6. Overview of Clean Energy Financing Programs in Development:

Mr. Garcia noted that in June, the Board approved a 2013 budget which included three broad areas of planning: 1) transitional programs, 2) statutory required programs, and 3) financing programs. He asked Mr. Hunter to provide an overview of the financing programs being developed by CEFIA. Mr. Hunter stated that attracting more capital in Connecticut is essential to achieving CEFIA's mission; and having the appropriate overall program design is essential to CEFIA achieving the objectives of the Governor and legislators. He discussed the importance of designing and marketing a good program. Mr. Hunter noted the need to look at customer segmentation, acquisition and conversion to ensure clean energy goals of the state can be addressed and satisfied.

Mr. Hunter talked about some of the potential challenges with the financing programs, especially with interest rates varying significantly. He noted that the key to success is trying to bring down the real cost of borrowing to consumers. Mr. Hunter explained how using methods like Commercial and Industrial Property Assessed Clean Energy ("C-PACE"), on-bill financing, solar lease and loans, and bonding with the Special Capital Reserve Fund ("SCRF") can give the capital markets more comfort and security, reduce their risk and interest rates, and enable lending and investment for longer periods of time. A discussion ensued on having a parallel program for low-income customers. Some concern was expressed with being able to structure a successful program since it may be difficult to provide incentives for landlords. The Board discussed the need to work with landlords and to market to low-income homeowners. A suggestion was made to consider pursuing better building codes (not just minimum standards) for both new buildings and retrofits in addition to appliance standards.

Mr. Hunter mentioned that staff has met with solar installers over the last several weeks, and the message has been consistent that they want help with financing and requested that CEFIA bring back the solar lease program similar to what was developed in 2008-2009. Mr. Hunter stated that staff is trying to address the need with the development of the Solar Lease II Program. Under the original program, Mr. Hunter mentioned that US Bank provided tax equity payments and AFC First coordinated the installer network and front end of the activity which resulted in approximately 850 leases with only 2 defaults. Mr. Hedman clarified that one of the leases in default has been worked out and the other is in the process of being worked out. Mr. Hunter noted that the success of the program can be attributed to the design and marketing of the program. He explained some of the differences between the original Solar Lease Program and the proposed new program. Mr. Hunter mentioned that CEFIA will be participating in the debt but on a subordinated basis, providing credit enhancements from the repurposed American Recovery and Reinvestment Act funds and direct subsidies if needed. In response to a question, Mr. Hunter stated that CEFIA is trying to test the market and hopefully ramp down the subsidies in the CEFIA Solar Lease II program as close to zero as possible.

Mr. Garcia described the consumer view of the product and the efforts being made to increase the financing and decreasing subsidies. Through this financing structure, Mr. Garcia stated that the consumers will recognize stabilized electricity pricing.

A suggestion was made to look at partnering with institutional lenders, insurance companies, foundations or other institutions that have energy components. Mr. Hunter explained that one of the issues with using institutions with energy components is that CEFIA wants to avoid constraining installers from using the equipment of their choice, but that institutional money is being carefully considered. Mr. Hunter described the steps necessary and proposed timeline for launching the various residential programs.

Mr. Garcia discussed the Clean Energy Solutions Program. He stated that staff is in the process of developing a clean energy financing program with DECD and CI to support their economic development objectives. Ms. Smith suggested expanding the program to larger size businesses that have a strategic importance for the state in addition to targeting to the small business level.

Ms. Bailey discussed the development of the C-PACE Program. She noted that the program structured by CEFIA, as administrator of the program, will be based on lessons learned from other policies across the country. Ms. Bailey stated that C-PACE enables commercial and industrial property owners to access low-cost, long-term upfront financing for qualified building energy upgrades and repay the loan through a benefit assessment on their property tax. She indicated that municipalities can opt-in, establish a C-PACE district and enter into a Memorandum of Understanding (“MOU”) with CEFIA. Ms. Bailey stated that several municipalities will be ready in the next several months. She explained that local commercial and industrial companies engage contractors who would recommend energy upgrades. The interested property owner would seek approval for energy upgrades from CEFIA; and CEFIA, utilizing its tools of project aggregation and credit enhancement, would arrange the low-cost long-term financing for the energy upgrades. Repayment of the upgrades would be made through an assessment on the property taxes. Ms. Bailey explained that aggregating diversifies the risks for the investors. Through this model, there are no upfront costs to the property owners. Mr. Hunter noted the opportunity to utilize bonding authority and the Special Capital Reserve Fund. Questions arose regarding the potential increased value of a building as a result of the energy efficiencies. A suggestion was made to negotiate with the municipalities an agreement about a phase-in of added value to the building over time. Attorney Farnen indicated that it may be possible to abate the tax increase or add language into the MOU with the municipalities. Mr. Ranelli suggested that this issue be looked into because it may also require enabling legislation.

Ms. Bailey described the groups formed to help design the program, including a municipal working group, a program guidelines working group, a capital sourcing working group and a marketing, education and outreach working group.

Mr. Hunter explained the flow of the project funds and noted that CEFIA is the focal point. The municipalities will be involved with CEFIA in its role as Program Administrator, and not the lenders. He noted that it is hopeful that the program will be launched in January 2013.

In response to a question, staff indicated that C-PACE is for existing structures and not new construction. Staff was asked to look into whether C-PACE can apply to help fund incremental efficiencies on new construction.

7. <u>Deployment Committee Updates and Recommendations for Approval: Campus Efficiency Now Proposal</u>:

Mr. Garcia stated that the Deployment Committee met on July 23 and recommends the approval of CEFIA's first financing program for Campus Efficiency Now. He mentioned that the program is consistent with the public policy direction of Public Act 11-80, supportive of the Integrated Resource Plan and an integral component of CEFIA's Comprehensive Plan. CEFIA has developed a pilot program to work with the Connecticut Conference of Independent Colleges ("CCIC") and GreenerU, Inc. ("GreenerU") to attract and build demand for energy efficiency measures and demonstrate the use of an energy savings agreement to finance projects. When this financing model has been proven, CEFIA intends to take the energy savings agreement to other colleges, universities and across other market segments. He explained that the pilot program can help identify opportunities for larger, more extensive capital intensive projects with greater capital investments and allow CEFIA to use other tools such as the Special Capital Reserve Fund in collaboration with the Connecticut Health and Educational Facilities Authority.

It was noted that approximately 16 colleges and universities have been identified but 5 colleges and universities will be participating in the pilot program. Mr. Garcia explained that GreenerU has experience doing these types of projects in the Northeast region. Mr. Hunter discussed some of the benefits of the program, including immediate cash flow, no up-front costs to the universities/colleges, energy efficient programs can be implemented quickly with little staff time involved, and at the end of the 5-year term the colleges own the energy efficiency measures with no further obligations. He reviewed the financing structure of the program. Mr. Hunter stated that the total loan facility will not exceed $1,000,000. The financing for the pilot would cover approximately 3 to 5 projects and is anticipated to generate a 7 percent internal rate of return for CEFIA. Mr. Hunter stated that projects must meet pre-agreed criteria and loan advances will be staged. He indicated that CEFIA will have a security interest in the assets of the to be incorporated subsidiary of GreenerU (the borrower) being established for this pilot program. Mr. Hunter stated that 80 percent of any excess cash flow after paying all expenses will be paid to CEFIA, and the remaining 20 percent will be paid to the GreenerU subsidiary. In response to a question, it was noted that the energy efficiency measures to be funded are things that can be accomplished within a few months.

Mr. Kirshbaum noted that the Deployment Committee discussed and recognized the risks involved while at the same time recognizing that part of CEFIA's mission is to take on more risks and do pilot programs like this. In order to avoid the appearance of a conflict of interest because the firm with which Mr. Ranelli works has done some work on this issue, Mr. Ranelli indicated that he will be abstaining from the vote.

Upon a motion made by Ms. Wrice, seconded by Mr. Olsen, the Board members voted in favor of adopting the following resolution regarding the Campus Efficiency Now Program (Mr. Ranelli abstained from the vote, and Ms. Smith was not present for the vote).

WHEREAS, the Clean Energy Finance and Investment Authority ("CEFIA") and the Connecticut Conference of Independent Colleges ("CCIC") both recognize the benefits of cooperation in accelerating energy efficiency and renewable energy implementation in Connecticut, resulting in cleaner, cheaper and more reliable sources of energy and have engaged in a memorandum of understanding to support such cooperation;

WHEREAS, it is CEFIA's intention to assist CCIC in helping its members to meet goals for clean energy by providing educational opportunities about the clean energy marketplace and tailored financial products for its members to support building upgrades through the work of qualified contractors and service providers to be selected and engaged directly by the CCIC member institutions;

WHEREAS, CEFIA and GreenerU, Inc. ("GreenerU") both recognize the benefits of cooperation in accelerating energy efficiency and renewable energy implementation in Connecticut, resulting in cleaner, cheaper and more reliable sources of energy;

WHEREAS, CEFIA and GreenerU desire to execute a term sheet that will lead to definitive legal documentation for a loan finance arrangement in an amount not to exceed one million dollars ($1,000,000) establishing the pilot Campus Efficiency Now program; and

WHEREAS, the CEFIA Deployment Committee recommends to the CEFIA Board of Directors (1) the selection of GreenerU and a to be established wholly owned Connecticut subsidiary of GreenerU ("OpCo") as program partners for the Campus Efficiency Now pilot program as a Strategic Selection and Award, and (2) approval for GreenerU whereby CEFIA would make loans to OpCo in an aggregate amount not to exceed one million dollars ($1,000,000) for the purpose of enabling OpCo to implement clean energy projects at CCIC member colleges and universities.

NOW, therefore be it:

RESOLVED, that the CEFIA Board of Directors approves the selection of GreenerU and OpCo as program partners for the Campus Efficiency Now pilot program as a Strategic Selection and Award pursuant to the CEFIA Operating Procedures Section XII given the uniqueness, special capabilities and strategic importance of its partners (i.e. CCIC and GreenerU) as well as its timeliness and potential for a multi-phase follow-on investment in clean energy for Connecticut's colleges and universities.

RESOLVED, that the CEFIA Board of Directors grants approval for CEFIA to enter into a Term Sheet (per Attachment 1) and definitive legal documentation with GreenerU whereby CEFIA would make loans to OpCo in an aggregate amount not to exceed one million dollars $1,000,000 (under a loan facility to be available for loan advances for a period of up to 18 months from transaction closing) for the purpose of enabling OpCo to implement clean energy projects for CCIC member colleges and universities. The loans will be repaid to CEFIA with interest over a 5-year term at an annual effective yield of 7.00% utilizing cash flows derived from payments by the CCIC participating college and universities under Energy Savings Agreements ("ESAs") with OpCo of equivalent duration and a target internal rate of return for CEFIA of 7.00%, with such loans being limited in recourse to the cash flows derived from the ESAs as described in the attached Term Sheet.

RESOLVED, that the Board of Directors' action is consistent with CEFIA's purposes as codified in Section 16-245n(d)(1) of the Connecticut General Statutes, its board approved Resolution of Purposes and CEFIA's Comprehensive Plan.

RESOLVED, that the proper CEFIA officers are authorized and empowered to do all other acts and execute and deliver all other documents as they shall deem necessary and desirable to effect this Resolution.

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8. Budget and Operations Committee Updates and Recommendations for Approval: CEFIA Handbook and C-PACE Director Position Description:

Mr. Dykes discussed the recommended revisions to the CEFIA Handbook. He summarized that the changes enable the President and CEO to designate someone to share personnel-related responsibilities. Mr. Dykes explained that the responsibilities that can be designated include all personnel matters with the exception of personnel recommendations to the Board (i.e. merit pools). The Board requested that the President and CEO provide the designation of personnel-related responsibilities in writing. Changes are also being requested to the language for e-mail disclaimers.

Upon a motion made by Mr. Olsen, seconded by Mr. Choi, the Board members voted in favor of adopting the following resolution approving the changes to the CEFIA Employee Handbook (Ms. Smith was not present for the vote):

RESOLVED, that the Board of Directors of the Clean Energy Finance and Investment Authority ("CEFIA") approves the changes to the CEFIA Employee Handbook as presented.

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Mr. Esty stated that in accordance with CEFIA's Operating Procedures, the Board is required to approve new director-level positions, and the Board is being asked to consider the position description for Director of Commercial and Industrial PACE.

Upon a motion made by Mr. Choi, seconded by Mr. Olsen, the Board members voted in favor of adopting the following resolution approving the position description of Director of Commercial and Industrial PACE (Ms. Smith was not present for the vote):

RESOLVED, that the Board of Directors of the Clean Energy Finance and Investment Authority ("CEFIA") as required by the Operating Procedures of CEFIA, approves the new director-level position description for Director of Commercial and Industrial PACE.

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9. <u>Technology Innovations Committee Updates</u>:

Mr. Choi, Chairperson of the Technology Innovations Committee ("Technology Committee"), noted that Supplement One to the Memorandum of Understanding between CI and CEFIA to transfer the administration of the Alpha and Operational Demonstration Programs to CI has been finalized and includes three Alpha program projects and four Operational Demonstration program projects. Mr. Choi mentioned that $2,000,000 of private funding has been leveraged with CEFIA's funds for one of the Alpha projects. He recognized the efforts and work provided by Ms. Price and Stevenson on these programs.

10. <u>Audit Compliance and Governance Committee Updates</u>:

Mr. Olsen, Chairperson of the Audit Compliance and Governance Committee ("Audit Committee"), mentioned that the Audit Committee met on June 6, 2012 and reviewed the fiscal year 2012 plan for auditing CEFIA's financial statements with Marcum, CEFIA's independent auditor. The audited financial statements will be presented to the board in September. The audit from the State Auditors of Public Accounts for fiscal year 2011 has been completed and there were no findings for CEFIA.

11. Adjournment: Upon a motion made by Mr. Choi, seconded by Mr. Olsen, the Board members voted unanimously in favor of adjourning the July 27, 2012 meeting at 10:35 a.m.

Respectfully submitted,

Catherine Smith, Chairperson