DEPLOYMENT COMMITTEE OF THE
CLEAN ENERGY FINANCE AND INVESTMENT AUTHORITY
Minutes – Special Meeting
Friday, May 11, 2012

A special meeting of the Deployment Committee of the Board of Directors of the **Clean Energy Finance and Investment Authority ("CEFIA")** was held on May 11, 2012, at the office of CEFIA, 865 Brook Street, Rocky Hill, CT.

1. Call to Order: Noting the presence of a quorum, Reed Hundt, Chairperson of the Deployment Committee, called the meeting to order at 1:00 p.m. Deployment Committee members participating: Reed Hundt (by phone); Donald Kirshbaum representing Denise Nappier, State Treasurer (by phone); Matthew Ranelli (by phone); and Patricia Wrice (by phone).

Staff Attending: Mackey Dykes, Brian Farnen, Bryan Garcia, Dale Hedman, and Shelly Mondo.

2. Public Comments:

There were no public comments.

3. Approval of Meeting Minutes:

Mr. Hundt asked the Deployment Committee members to consider the minutes from the May 2, 2012 meeting.

> **Upon a motion made by Mr. Kirshbaum, seconded by Ms. Wrice, the Deployment Committee members voted unanimously in favor of adopting the minutes from the May 2, 2012 meeting as presented.**

3. Update, Review and Recommend Approval of Modifications to the Residential Solar Investment Program:

Mr. Hundt noted that the purpose of the special meeting is to have further discussion about the recommended modifications to the Residential Solar Investment Program (the "Program"). The Deployment Committee members asked that the additional information provided by staff be attached to the minutes—*Exhibit 1: Market Watch Report; Exhibit 2: Press Analysis (two-month assessment of the press coverage on the program from February 7, 2012 through April 11, 2012); Exhibit 3: Power Point Presentation comparing the Net Present Value of the Incentive Analysis; and Exhibit 4: Memorandum dated May 10, 2012 explaining the proposal to modify the incentive and increase funding for Step 2 of the Residential Solar Investment Program.* Mr. Garcia explained that the Market Watch Report is a weekly analysis of how the Program has performed through May 8. He summarized that only 10 percent of the applications received through May 8 are from the Performance Based Initiative ("PBI") model of the

Program and 90 percent are from the rebate model under Step 1. Mr. Garcia stated that staff had hoped to see an equal distribution of funding under the Program. He noted that the data shows that the PBI projects thus far are more cost competitive than the rebate model.

Mr. Garcia summarized the press analysis about the development of the solar market in Connecticut. Prior to the February 2012 Board meeting when the program was approved, there was positive coverage about the development of the solar market in Connecticut. Following the February 2012 Board meeting, there was negative coverage because the contractors did not feel that the program was meeting the requirements set forth in the statutes. More recently the coverage has been positive as a result of the performance of the Program. Mr. Garcia noted, however, that the decision of the Deployment Committee and Board should not be driven by press coverage of the Program.

Mr. Garcia stated that the Power Point presentation prepared by staff is an attempt to lay out the legislative and quantitative rationale for providing the proposed rebate levels.

Mr. Garcia explained that staff proposed to modify Step 2 of the program in two ways. The first is to separate the two competing business models—rebate and PBI (i.e. lease) and to have the firms participating within each model aimed for fixed volumes of installation by a certain date. Whichever is reached first will define the end of the step. Mr. Garcia stated that given the limited participation of the third-party financing model, the second modification to the program is to maintain the PBI incentive for Step 2 at the current Step 1 incentive. For the rebate model, staff proposed a Step 2 incentive at $2.275/W for systems up to 5 kW and an additional incentive of $1.075/W for systems 5-10 kW. Mr. Garcia explained that the reduction of the rebate to $2.275/W rather than the originally proposed $2.10/W will help to maintain economically comparable incentives between the rebate and PBI models.

Mr. Garcia stated that in accordance with Section 2 of Public Act 11-80 CEFIA has the ability to create comparable incentives between rebate and PBI models. He stated that CEFIA has experience with rebate incentives but the PBI model is new. Mr. Garcia explained that third-party leasing models have other economic advantages that rebate model does not.

Mr. Hedman explained the analysis of the comparison of the rebate and the PBI models at step 1 at $2.45/W up to 5 kW and anything over 5 kW at $1.25/W. He stated that once the rebate is taken into the second tranch, the total costs of the system on a per watt basis declines, and the PBI for systems between 1 and 10 kW would always be 30 cents per kilowatt hour.

Mr. Hedman explained that the difference between the rebate and PBI models for first 5 kilowatts takes into account the federal tax advantages under the lease model, and for fairness provide more incentives for the rebate model. As a result of depreciation advantages in most lease models, Mr. Hedman indicated that leasing companies can add on additional dollars to installed costs to derive more tax credit revenue than a homeowner can in applying for federal tax credits.

Mr. Hedman stated that the break even or average system sizes is 5.9 kW for the rebate and 7.2 kW for the PBI for Step 1 based on the history to date. The PBI systems are larger than the systems under the rebate model. Mr. Hedman indicated that the second chart shows the net present value comparison of the proposed and approved rebate at Step 2 and the PBI Step 1 incentives. He explained that the analysis shows the disadvantage for all systems 1 to 10 kW with the incentive for the rebate at $2.10/W and $.90/W. Mr. Hedman stated that the proposed range of $2.275/W and $1.075/W would bring the rebate closer to the incentive amount for the PBI for the first 5 kW.

In response to a question about projections for future steps, Mr. Garcia stated that Step 2 should send a message to the contractors that CEFIA supports the long-term development of the industry and that it is in the process of developing a loan/rebate program to complement the incentives. It is anticipated that in subsequent steps, the step down will be in conjunction with loan financing and eventually overtime transition to a pure financing model. Mr. Garcia mentioned that Mr. Hedman is in the process of developing a financing program. Mr. Hundt stated that he has seen the proposed model for a loan program; and while the model is a good working document, he urged staff to proceed with caution while finalizing the program details.

Mr. Garcia acknowledged the work done by Mr. Hedman to create the first state-supported lease program in 2008. It was noted by Mr. Ranelli that other states have modeled programs after Connecticut's program.

A question arose as to how CEFIA's incentives compare with incentives of similar programs in other states. Mr. Hedman mentioned that it is difficult to compare Connecticut with other states. He stated that Massachusetts has a Solar Renewable Energy Certificates ("SREC"), rebate and tax credits. Mr. Hedman indicated that considering the SREC, rebate and tax credits, Connecticut's incentives would be similar to Massachusetts. Mr. Hedman indicated that residential installed costs are about the same. However, Massachusetts has more installers to provide clearer data. He stated that once CEFIA is through step 2, there should be sufficient information to do a more thorough comparison.

In response to a question, Mr. Hedman indicated that there has been an uptick with PBI applications and that CEFIA is now seeing more eligible PBI firms. With more marketing, it is anticipated that the PBI applications will increase.

Mr. Garcia reviewed the proposed resolution for consideration by the Deployment Committee to recommend changes to the Program to the Board. There was consensus that having staff present additional information was very helpful. The Deployment Committee members asked staff to provide updates on the program at least monthly, regardless of whether there is a meeting scheduled.

A majority of the Deployment Committee members stated that they are in support of management's recommended changes, especially with the additional supporting documentation and explanation. Mr. Ranelli thanked Mr. Garcia and Mr. Hedman but indicated he is still concerned with the revised subsidy for the rebate model. He stated that since the responses to the rebate model exceeded the projected amounts of the plan, there is no need to over-incent the market. He indicated that he is not opposed to leaving the PBI incentive at the Step 1 level and expanding the runway because the applications are not to the level projected or desired. Mr. Ranelli stated that he regrettably cannot support the recommended changes with respect to the rebate model. He clarified that he supports much of what staff is suggesting but cannot support increasing the Step 2 incentive amount.

Mr. Hedman reiterated some of the advantages of the PBI because of the tax advantages and stated that there is some element of fairness that needs to be considered when adjusting one model without the other. CEFIA does not want to create too much of an advantage to one business model over the other when it is the legislatures desire for the models to be reasonably close before taking the next step in the market.

There was a discussion on the Board's responsibilities, the judgment of management and policy issues. The Deployment Committee asked management in the future to provide more detailed explanations about proposals for consideration.

> **Upon a motion made by Ms. Wrice, seconded by Mr. Kirshbaum, the Deployment Committee members voted in favor of adopting the following resolution to modify the incentive and increase funding for Step 2 of the Residential Solar Investment Program (Mr. Ranelli was opposed to the motion). VOTE: 3-1-0; motion carried.**

RESOLUTION:

WHEREAS, Section 106 of Public Act 11-80 "An Act Concerning the Establishment of the Department of Energy and Environmental Protection and Planning for Connecticut's Energy Future" (the "Act") requires CEFIA to design and implement a Residential Solar Photovoltaic Investment Program ("Program Plan") that results in a minimum of thirty (30) megawatts of new residential PV installation in Connecticut before December 31, 2022.

WHEREAS, pursuant to Section 106 of the Act, CEFIA has prepared a Program Plan to offer direct financial incentives, in the form of performance-based incentives or expected performance-based buydowns, for the purchase of lease of qualifying residential solar photovoltaic systems.

WHEREAS, CEFIA has prepared a declining incentive block schedule ("Schedule") that: (1) provides for a series of solar capacity blocks, the combined total of which shall be a minimum of thirty megawatts and projected incentive levels for each such block, (2) provides incentives that are sufficient to meet reasonable payback expectations of the residential consumer, (3) provides incentives that decline over time and will foster the sustained, orderly development of a state-based solar industry, (4) automatically adjusts to the next block, and (5) provides comparable economic incentives for the purchase or lease of qualifying residential solar photovoltaic systems.

WHEREAS, the Deployment Committee seeks to revise the Schedule to (1) address the findings from the program data obtained since approval of the original incentive schedule, (2) address changes in the solar market ascertained since approval of the original incentive schedule which would affect the expected return on investment for a typical residential solar photovoltaic system under the performance based incentive model by twenty percent or more, and (3) ensure that third party financing companies enter the market to help serve the low and middle income markets.

NOW, therefore, be it:

RESOLVED, that the Deployment Committee hereby recommends to the Board of Directors for approval the revised Schedule of Incentives.

RESOLVED, that the Deployment Committee hereby recommends to the Board of Directors a Step 2 budget increase of $5,000,000 to a total of $10,000,000.

RESOLVED, that this Board action is consistent with Section 106 of the Act.

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4. **Adjournment**: Upon a motion made by Mr. Kirshbaum, seconded by Ms. Wrice, the Deployment Committee members voted unanimously in favor of adjourning the May 11, 2012 meeting at 2:03 p.m.

Respectfully submitted,

Reed Hundt, Chairperson of the
Deployment Committee

Attachments:

Exhibit *1: Market Watch Report;*
Exhibit 2: Press Analysis (two-month assessment of the press coverage on the program from February 7, 2012 through April 11, 2012;
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