

# **CONNECTICUT GREEN BANK**

Board of Directors

Minutes

Friday, December 1, 2017

A special meeting of the Board of Directors of the Connecticut Green Bank (the “Green Bank”) was held on December 1, 2017 at the office of the Green Bank, 845 Brook Street, Rocky Hill, CT, in the Colonel Albert Pope board room.

## **1. Call to Order**

Commissioner Smith called the meeting to order at 2:02 p.m.

Catherine Smith, Chairperson of the Green Bank, called the meeting to order at 2:02 p.m. Board members participating: Rob Klee, John Harrity, Reed Hundt (by phone), Matt Ranelli, Eric Brown Bettina Bronisz, and Tom Flynn (by phone).

Members Absent: Kevin Walsh, Betsy Crum, and Gina McCarthy

Others Attending:

Staff Attending: Bryan Garcia, Eric Shrago, Mackey Dykes, Kerry O’Neill, Brian Farnen, Bert Hunter, George Bellas, Cheryl Samuels, Kim Stevenson, and Dale Hedman

## **2. Public Comments**

There were no public comments.

## **3. Consent Agenda**

**Upon a motion made by Commissioner Klee, and seconded by John Harrity, the Board voted unanimously to approve the Consent Agenda.**

### **Resolution #1**

Motion to approve the minutes of the Board of Directors Meetings for October 20, 2017, November 6, 2017, and November 13, 2017.

## **4. Mitigation Plan to Address the State Budget Sweeps**

Bryan Garcia provided an overview of the Mitigation Plan. He thanked everyone for their continued support. He discussed the requests that the Board had made at the November 13, 2017, meeting regarding the Mitigation Plan. Those requests included restructuring the RSIP and SHREC through a better understanding of their cash flows, further reducing operating expenses, the implications of borrowing, the impact on the Green Bank’s reputation, and the communication strategy. He stated that they need to have constant contact with Legislators. He stated that there is a meeting on December 4, 2017, with OFA and a REEBA Keynote on December 6, 2017. He stated that they are focusing on a strategy to identify pathways towards accelerating sustainability. He stated that as part of this process, staff needed to isolate the incentive side of the business (through the RSIP and SHREC) from their core clean energy financing side of the business. He stated that staff are looking at how they use resources through

investment. He stated that staff are working toward the goal of having overall revenues cover operating expenses.

Bryan Garcia went on to discuss the administration of the RSIP, stating that it provides an incentive grant. He stated that starting on 1/1/2015, program costs are recovered through a 15-year contract with the utilities for the sale and purchase of solar home renewable energy credits (SHRECs). He stated that the RSIP is a self-contained system. He discussed investments, C-PACE, SMART E Loan, and the focus on attracting and deploying private investments. He stated that the challenge is to increase investments while decreasing expenses. He stated that they are looking at how to reduce overall operating expenses by 25% – 35%. He stated that they are not counting RGGI as a revenue source, given the budget sweeps, though they may return.

Commissioner Smith explained that there's a lot of upfront costs associated with RSIP. She stated that they need to solve this as it's the biggest cash demand on the organization.

Bryan Garcia went into how the RSIP policy works. He stated under the SHREC program which started in January 2015, it is designed to generate RECs from Connecticut residential solar projects which are then sold to Eversource and Avangrid (the "Utilities") under a 15 year master purchase agreement ("MPA"). He discussed the goals for the RSIP's 300 MW target. He explained that the goal is to achieve the target by the end of 2022. He stated that the first 50 MW's of the 300 were pre-SHREC policy, stating that everything up to that point the Green Bank does not receive SHRECs for, but does receive the renewable energy credits (RECs) associated with those pre-SHREC PV systems, which the Green Bank sells on the spot market through the Class I RPS policy. He explained that the REC prices vary by supply in the market. He stated that the Board did approve a process about 3 years ago on how they approach the spot market transactions. He explained that the remaining RECs are through the SHREC Program. He discussed the statute on the pricing of those SHRECs.

Bettina Bronisz inquired into the 300 MW target and how much they have achieved to date. Bryan Garcia stated that they are about 200 MWs of the 300 MW target. He stated that they need to manage how they're paying out the cash for the incentives because it is a drain on the core business of the organization. Commissioner Smith stated that all of the cash is upfront or paid out over a 6-year performance based incentive. Brian Farnen stated that the Green Bank was always planning to securitize the 15-year fixed payment per the negotiations with the Utilities concerning the MPA as provided in the statute and subsequently approved by PURA. Commissioner Klee stated that it's a necessity to securitize that.

Bryan Garcia provided an example of how SHRECs are created and monetized. He stated that they have decreased the RSIP incentives by 80% since 2012 – from about \$12,500 per household to \$3,000 in 2015. He discussed the first tranche of approximately 6,800 homes, priced at \$50 per REC. He stated that that is an estimated \$37 million of nominal cash flow is coming back to the Green Bank for the systems over the 15-year period of the SHRECs. He stated that their next step is to securitize future cash flow streams.

Eric Brown questioned if the utilities are required to buy back all of the RECs as they are available. Bryan Garcia stated yes, for all of the facilities in that tranche. Commissioner Smith questioned how much of the 250 MWs they have locked in. Bryan Garcia stated 50 MWs at \$50 each through Tranche 1 of the MPA with the utilities. Bert Hunter stated that they are at 200 MW in the overall program. He stated that they determine the price based on cost recovery, including the incentive, administrative costs, and financing (or securitization) costs.

John Harrity questioned what the Green Bank's investment was on the \$37 million value of the SHRECs. Bryan Garcia stated that they assume \$3,000 per home as an incentive, so the value of the total SHREC proceeds of \$5,300 is what the Green Bank gets paid back over time. Bert Hunter explained that as the incentive goes down, the SHREC price goes down as well.

Bert Hunter discussed the plans for securitization and started with an overview of the quarterly SHREC revenue profile anticipated from the SHREC tranches. He stated that they only have tranche 1 completed and sold to the Utilities, but within the next 3 – 6 months they will begin wrapping up tranche 2. Hunter presented that the graph reflects a quarterly payment stream of SHRECs since they started in January with a 2-month lag. He stated that you can see that they have decreased the price by \$2 to provide a forecast of what it might look like for an annual revenue stream for all SHREC contracts over time. He explained that the problem from a cash perspective is that operating cash from "core" Green Bank operations has been used by the SHREC Program for the first 2-1/2 years without any revenue from the SHRECs. He stated that the revenue delay was a result of the time it took to get the SHREC statute finalized with the legislature and then the need to work through PURA and the utilities on the MPA. He stated that performance incentives are declining as the tranches are worked into the market.

Hunter went on to explain that these initial costs, which approximate \$13 million, need to be recovered for the benefit of "core" Green Bank operations. In explaining the need to monetize the SHRECs and pull some of these future cash flows forward to not only recover these past costs but also to balance cash inflows and outflows associated with the SHREC program, he stated that staff wants to avoid bringing all of the cash back. Doing so would result in what is called a "negative carry" since our interest cost for any idle cash would exceed any interest income we might be able to obtain on liquid, short term investments, like the Treasurer's short term investment fund. He stated that staff will manage cash carefully to bring enough cash back in to fill in the gaps in cash flow they forecast in the future, to provide needed liquidity while seeking to minimize their interest expense. He stated that they will pay on the securitization off over time as the payments for the SHRECs are received from the Utilities.

Tom Flynn questioned the \$37 million revenue over the next 15 years, stating that it's about \$17 million in earnings. Bert Hunter stated that under the statute, the Green Bank recovers its costs, but doesn't make a profit on the program. Commissioner Smith stated that there are still costs over the next 15 years. Bert Hunter stated that there will be additional costs for securitization. Tom Flynn stated that they invest \$20 million over 15 years, but they receive \$37 million back. Bert Hunter stated that the cost recovery is to recover costs that they have expended to date, including incentives that have been paid, the 6-year profile of PBI to be paid over time, and the administration of the program, as well as the cost of securitization (including interest costs). Tom Flynn suggested that they use some of those funds to fund the program in the future. Bert Hunter stated that after 2022 that the cost will tail off dramatically. He stated that there will be no more incentives after 2022, possibly earlier, if the target is hit sooner. Commissioner Smith stated that the securitization effort is to cover the cost of the RSIP. She stated that if they're lucky there will be some additional cash to come back to the Green Bank, but that they can't count on this for extra cash flow over time. Commissioner Klee stated that the Green Bank has been paying for the RSIP through the resources from the core investment side of the business and that through the securitization the Green Bank can recover those costs. He stated that this will be a onetime repayment benefit.

Tom Flynn questioned what the risk was. Bert Hunter stated that as of the present time, staff has not yet securitized any SHRECs, although the Green Bank had collected its first payments from the Utilities for the SHRECs sold to them under tranche 1 of the MPA. He stated that over the

past few months, staff have been in the process of having informal “pre-RFP” discussions with 7 investment banks, including banks from the US, Europe and Australia. He stated that over the next 3 months they will issue a formal RFP. Tom Flynn questioned if they know what the true number of the first tranche is. Bert Hunter stated that they have estimates. Tom Flynn stated that they cannot guarantee if they’re going to get the money back to cover those operating costs. Bert Hunter stated that while there are no guarantees, because this process is similar to what other firms have done to sell contracted cash flows and given the keen interest from the banks, staff is confident the program will be successful. He stated that staff are pulling out the RSIP from the rest of operations and separating the two units. He stated that this is a work in progress. He stated that staff will be refining the estimates that he has presented to the Board, but the figures shown to the Board gives them a good representation of what staff reasonably believes it can recover.

George Bellas discussed the cash flow of the SHREC securitization. He stated that REC sales have been received, but not yet securitized. He stated that they anticipate \$2.5 million as a one-time revenue stream from what will be sold to the Utilities before the securitization. Bert Hunter stated that this has been structured at this time for analysis. He stated that they made the assumption that all revenues had been securitized. He stated that they had to create a schedule that says they get the money today and release it out over time to cover the gaps that were previously discussed. Matt Ranelli questioned if that assumption is based on all tranches. Bert Hunter stated, yes.

Reed Hundt questioned the total securitization and what the revenue was that it was compared to. Bert Hunter stated that it’s roughly \$150 million. Hundt then asked whether the yield from all of the securitizations would be \$106 million. George Bellas confirmed the figure. Hundt expressed concern over the size of the gap between the gross amount of revenue and the net yield. Hunter explained that this is for the purpose of the model right now – that for modeling purposes, given the time available to do the analysis, staff was unable to optimize the cash inflows and outflows as he explained to the Board earlier in the presentation. He stated that they will be minimizing the amount of securitization on the flows, so that the Green Bank securitizes only what is needed to recover past costs and just enough to fill in the gaps. Commissioner Smith stated that this is the worst-case scenario.

George Bellas continued to discuss the SHREC securitization. Bert Hunter stated that there are REC incentives associated with the non-SHREC systems. He stated that they sell those RECs to make up the difference. Commissioner Smith stated that they really only have \$9 million or so to go to the core business from the remaining system benefit fund. Brian Farnen discussed the State Statute regarding the funds from SHREC and that those funds need to be used for the RSIP. Bryan Garcia stated that they really have two separate businesses – an incentive business through the RSIP and cost recovered through the SHREC, and an investment clean energy finance business.

George Bellas continued his discussion stating that reimbursement to the core business would include all payments made to support the RSIP prior to securitization. Matt Ranelli requested that he break down the administrative and incentive costs, asking if it includes the administration of non-SHREC. Bert Hunter stated that it does include the administration of non-SHREC. He stated that expenses associated with non-SHREC systems are very small, probably no more than 5% of the overall cost. Matt Ranelli questioned if there is a way to monetize them for less than 15 years. Bryan Garcia stated that they used what was called Strips by selling them forward 2 to 3 years, but that they don’t want to go out on a Strip today because REC prices are at \$10 versus where they were priced in prior strips in 2014 through 2016 at \$40.

Commissioner Smith stated that the goal is to get the net cash position above zero. She stated that this could be a feeder to the core business. Bert Hunter stated that they have just built up a bit of a buffer.

Eric Brown questioned where the expenses for the securitization were. Bert Hunter stated that they are embedded in net receipts in the securitization. He stated that they don't show up as an administrative cost.

Reed Hundt discussed SHREC. He questioned if the reimbursement to the core business could be any number that they want. Bert Hunter stated that it could be, but that the consequence of making it too high is that the funds left could be inadequate to fund future SHREC expenditures. The objective of staff is to determine through the RFP process the most cost efficient way to recover these costs, provide for future expenditures and while minimizing interest costs.

Reed Hundt questioned why they would take money out of a profitable business and put it into a losing business. Commissioner Smith stated that it is repaying from this business back to the Green Bank, expenses that were already spent. Brian Farnen stated that SHREC is the funding mechanism for the RSIP. Commissioner Klee stated that this is a capped program and that it is only allowed to operate until it ends on the specified date, or the MW target is reached. Bryan Garcia stated that once they reach the 300 MW target the program is over and outside of the Green Bank. He stated that if they hit the target and the industry disappears, the program will have failed to achieve the "sustained orderly development" component of the public policy. He stated that they are working with DEEP to transition from the RSIP to where it makes sense and there is an off-ramp to allow for sustainability moving forward. Commissioner Klee stated that they're working with the Green Bank to get things off of incentives. He stated that DEEP views this phase down as the right path, maintaining the industry, but keeping the costs and incentives down as much as possible. Reed Hundt stated that he's not sure if securitization will produce the outcome in terms of dollars. He stated that he feels that Richard Kauffman could offer some great advice. Bert Hunter agreed and stated that they're casting a wide net and getting a number of opinions on this. Commissioner Smith stated that the numbers do need to be tested. She stated that this process is doable based on the conversations so far.

Tom Flynn stated that he doesn't want them to get a false sense of security to cover their operating costs. Commissioner Smith stated that the team is working diligently on this. She stated that they are on a path to make it work. Commissioner Klee stated that they wanted to make sure they took the time to talk about the SHREC securitization. He stated that they want to make the RSIP a self-sustaining isolated entity.

Commissioner Smith stated that the Green Bank is already working on ways to stretch dollars. Bryan Garcia stated that one of the largest administrative costs is inspections. He stated that they're focused on lowering the inspection budget.

Commissioner Smith commended the team for their hard work.

Eric Brown expressed great support and feels that it's very important to get on a sustainable track, along with looking out for the ratepayers. Matt Ranelli shared the same support stating that it is important to get the burden on the ratepayers down. John Harrity stated that the burden on ratepayers still exists. He stated that he appreciates the work that everyone has been doing. He stated that they need to be planning for the future. He stated that he doesn't believe the Green

Bank should tell the Legislature that they're comfortable with these sweeps. He stated that if the legislature doesn't understand the benefits of what the Green Bank is doing, that they need to enlighten the Legislature. Commissioner Smith agreed. She stated that when they get to the communication phase they need to be able to say that this bank is solvent but to get to that point, it's been very challenging. She stated that they need to let them know that it was a mistake to sweep the funds and that the money needs to get back to the Green Bank.

Commissioner Klee discussed his trip to Virginia where he testified on behalf of Connecticut for the Clean Power Plan. He noted the extraordinary contingent of environmental justice communities that turned out in opposition to the removal of the Clean Power Plan. He stated that these are very hard choices and decisions. He stated that they need to ensure through creative ways on how to keep doing important programs.

Matt Ranelli questioned if they should be defending the Systems Benefit Charge. Commissioner Smith stated that there has been continuing dialogue. Bryan Garcia stated that they had met with Senator Franz for about an hour and a half to discuss the recent information request from Senator Fasano. He stated that they had spoken about the Green Bank. He stated that the conversation was a positive one and the Senator noted at the conclusion of the conversation that he was going to follow-up with Senator Fasano. He stated that the challenge is to inform other legislative leaders about the difference between grants and finance.

Brian Farnen stated that they're trying to claw back the funds that they have lost. He stated that they have a lot of work to do. He stated that they are going to fight for the money back.

**5. Proposed Revisions to FY 2018 Budget**

**Deferred to next Board meeting.**

**6. Executive Session – Personnel Related Matters**

There was no Executive Session.

**7. Adjourn**

**Upon a motion made by John Harrity, and seconded by Bettina Bronisz, the Board voted unanimously to adjourn at 3:45 p.m.**

Respectfully Submitted,

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Catherine Smith, Chairperson