

Defining an Asset: Exploring a Secondary Market for Energy Efficiency Finance

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CLEAN ENERGY
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Clean Energy Finance Center – Overview

- **At a glance:**

- 501(c)(3) non-profit
- Mission: dramatically expand investment in energy efficiency and small-scale renewable energy.
- Work with governments, investors and other stakeholders to develop policies and programs at the state/local level

- **Initiatives:**

- Green banks
- Energy use and loan performance data
- News/information (*Clean Energy Finance Source*)
- Education/training
- Energy savings performance contracting
- Solar financing



Table Stakes for Secondary Market

Standardization

Transparency – *this means lots of data*

Volume



Standardization

- Secondary market players DEMAND consistency
- It is critical for industry stakeholders to bring their loans through the underwriting process in a technically sound, consistent and fully-transparent manner to enable the secondary market
 - Stakeholders: Program sponsors, Auditors, ESCOs/ Contractors, Lenders, Insurers, Owners
- We need to work together across states/programs!

Standardization – Promising Developments

- WHEEL – PA Treasury’s Warehouse for Energy Efficiency Loans
 - Partners: PA Treasury, Energy Program Consortium, Renewable Funding, Citi
 - States/programs can join this program to access secondary market for residential unsecured loans
 - States/program would offer consistent underwriting standards, loan terms, credit enhancements
- Commercial PACE
 - Active community sharing program/underwriting guidelines et al



Standardization – Promising Developments

- Commercial industry best practice standards/guides on the energy side:
 - ASTM BEPA Standard for baseline energy use & cost calculation methodology
 - ASHRAE energy audit guidelines to determine optimized bundle of ECMs & key financial metrics
 - IPMVP protocol to confidently project energy savings in the project development phase and post-ECM installation measure & verify actual vs. projected energy savings



Transparency

- Secondary market players DEMAND access to data
 - This is an area our industry has not done enough to address!
- Energy data
 - Audit data/projected energy savings
 - Energy usage data ongoing
 - ECM data
- Loan performance data
 - Underwriting terms
 - Ongoing payment data
- Need to “bake in” data collection and third party access to energy and loan data in all your program/loan docs

In the absence of data (and even with it, because it won't have enough history) be prepared to mitigate risk in a variety of ways



Risk Mitigation

- Need to get rated if selling to institutional investors
- What is your strategy for shoring up repayment to the secondary market investor?
 - “Insurance” on the energy savings:
 - Guaranteed Energy Savings Agreements
 - energi
 - Pledges of repayment
 - DE’s inclusion of a pledge that state agencies would pay their electric bills
 - Credit enhancements (LLRs et al)
- Is your servicer rated?



Volume

- Secondary market players REQUIRE scale
 - \$25MM min? high transaction costs in these deals
- What are you doing to drive consumer demand of high quality EE financings?
 - What's your marketing plan?
 - Who is managing your contractors
- Are you going to hold or warehouse the loans until you've reached scale?
 - If so, and then you want to access the secondary market, are you offering a product that is recognizable to the market?



Role of Regulators

- Are regulators going to be comfortable with standardization?
 - Still seeing regulators issuing orders on interest rates offered to consumers
- What will regulators do to support data access?
 - Need to support data collection requirements for energy and loan performance data
 - Third party access to utility usage data



National Energy & Loan Performance Data/Analytics

- States/Programs need to BRING THEIR “A GAME” to Wall Street
 - Wall St. is all about pricing risk and it does this with data and analytics
- Need large data sets on actual performance of loans and energy savings of efficiency upgrades to:
 1. Support development of secondary market
 2. Allow underwriters to give credit to increased cash flow from ECMs during loan origination
- One model: a nonprofit to house energy/loan data from participating programs
 - Could produce analytic snapshots on industry performance
 - Advantage of spreading technology investment across many programs
- Positive Developments:
 - DOE’s Building Performance Database
 - SEE Action Network’s Finance sub-group focus on data
 - CA’s financing initiatives that build in energy/finance data collection



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