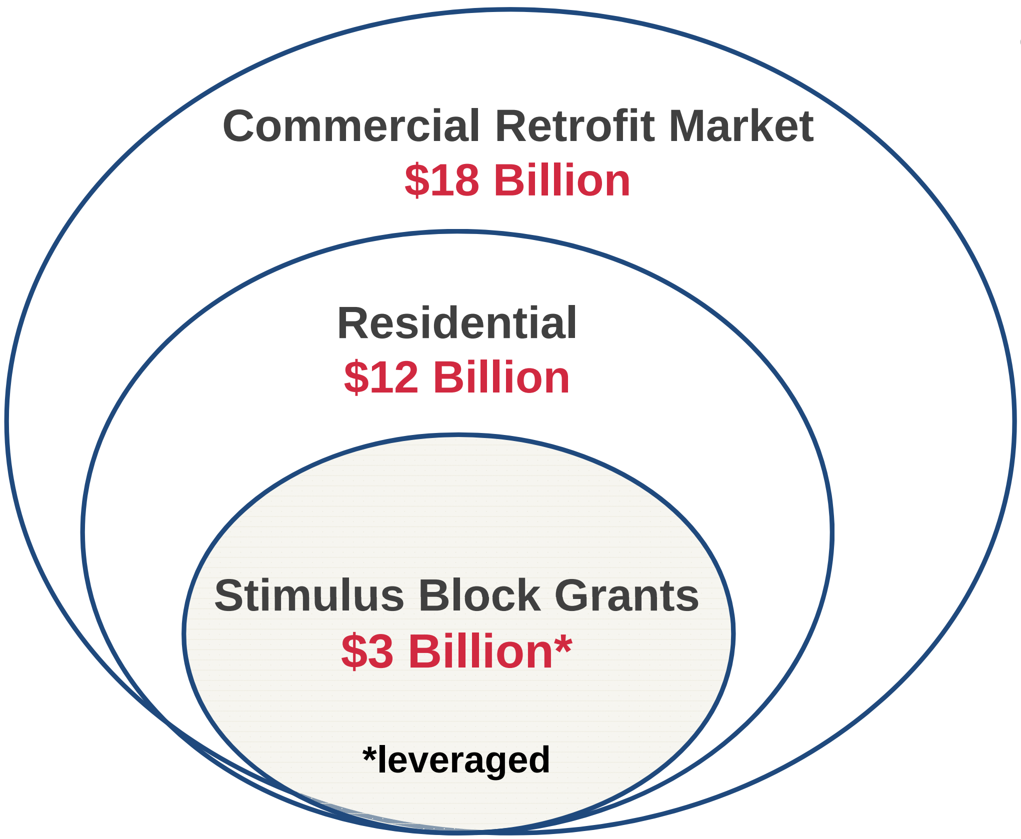
Presentation for
Minnesota Regional Council of Mayors

September 13, 2010

ABUNDANT POWER

Energy Efficiency Market Dynamics

Explosive growth and dollars to deploy



300% growth in commercial retrofit market expected over next 10 years

6x leverage on Stimulus Block Grants from Loan Loss Reserves

$500 billion market projected by 2030 for residential alone

Financing Options

PACE Update

- On July 6, 2010, the FHFA effectively eliminated the market for property assessed clean energy (PACE) financing programs that utilize a senior priority tax lien to secure loans on residential properties.
- In addressing PACE programs with first liens, Fannie Mae and Freddie Mac should undertake actions that protect their safe and sound operations. These include, but are not limited to:
  - Adjusting loan-to-value ratios to reflect the maximum permissible PACE loan amount available to borrowers in PACE jurisdictions;
  - Ensuring that loan covenants require approval/consent for any PACE loan;
  - Tightening borrower debt-to-income ratios to account for additional obligations associated <u>with possible future PACE loans</u>.
- FHFA's actions, however, may not affect <u>commercial</u> property programs.

Alternative Financing Options

Private sector loans with public capital:

- third party lender originates and services loans, often with government capital
- example: Keystone Home Energy Loan Program (HELP) in Pennsylvania

On-bill utility loans:

- utilities pay for energy efficiency retrofits
- contractors install efficiency measures
- costs recovered through an itemized charge on participants' utility bills
- examples: United Illuminating Company (CT); Sempra Energy Utilities (CA)

On-bill utility tariffs:

- on-bill energy service charge on a consumer's bill
- stays with the property in the event the property owner moves
- example: Midwest Energy (KS)

Revolving Loan Fund:

- federal or state subsidized low interest rate
- typically run by State Energy Offices
- may leverage public funds with private capital through a "blend and extend" structure
- often unsecured or secured by a contractual junior lien

Factors Influencing Interest Rate

Lower **Interest Rate** Higher

Senior Lien	Junior Lien	Springing Lien	UCC1 Lien	Unsecured
Property Attached				Borrower Attached
Multiple Credit Enhancements				No Credit Enhancements

Funding Strategies

Sources of funds

- Local banks
- Regional banks
- Credit unions
- Community Development Financing Institutions
- Other private capital

Maintain reasonable interest rates

- Corporate sponsors
- Grants – EECBG (stimulus funds) and private foundations
- Other Federal and State programs – e.g., Qualified Energy Conservation Bonds

Benefits

Stakeholder Benefits

Local Governments

- Economic development through local capital investment
- Significant job creation
- Reduction in pollution
- Ability to include lower income demographic
- Potential contribution to future RPS
- Increased tax revenues

Property Owners

- No upfront payment
- Saves money on utility bills
- Loan-to-cash flow positive
- Low interest rate
- Payment transfers to new property owner (meter attached/*PACE*)
- Possible tax benefits
- More resource-efficient and valuable property

Options for Minnesota Cities

Key Elements

To achieve the desired goals, the loans from these programs must be attractive to the capital markets.

- Reduced interest rates and benefits to the consumers
- Scalability and sustainability of the Program

Key Elements:

- Stringent credit standards with full consumer protection and loan covenants
- Defined energy performance standards
- Robust measurement and verification protocols
- “Gold plated” loan servicing

Immediate Financing Options

City Level - Launch of Financing Program:

- Qualified Energy Conservation Bonds and similar structures can provide initial capital
- Any available public or private funds available to support the Program can reduce interest rates by funding loan loss reserves
- Local lenders provide growth capital (e.g., MichiganSAVES)

State Support:

- Bond issuance at State level for further interest rate reduction
- Other options to be explored

Launching a Program this Fall

Designing a Program that Works

Each program should have the key elements required by capital markets but can be significantly customized to meet the needs of each local government

Customized aspects of the program could include:

- Residential vs. commercial or other sectors
- Eligible improvements/projects (balance between renewables and energy efficiency)
- Local job creation
- Target interest rates
- Demographic availability
- Environmental benefits
- Workforce development
- Scalability and sustainability

Customized Deliverables

Goals Assessment

- Residential vs. commercial or other sectors

Structure Determination – Legal

- Unsecured, on-bill, property attached, etc.

Structure Determination – Financial

- Interest rates
- Repayment mechanisms
- Leveraged capital

Structure Determination – Technical and Administrative

- Eligible projects
- Vendor standards
- Measurement and verification protocols

Financing Services

Attract local lenders

- Local and regional banks, credit unions, others

Manage Loan Loss Reserve Account

- Reduces interest rate to consumers

Train lenders

- Provide protocols for credit, energy performance, M&V and servicing to match national standards for secondary markets

Provide liquidity to grow the Program

- Provide liquidity to the Program by purchasing loans from local lenders based on qualified criteria
- Allows capital to recycle through the Program and into the community

Conclusion

Summary

Total market estimate for energy financing over $500 billion by 2030.

Demand for these programs is growing rapidly as energy efficiency is a primary call to action for governments, home owners and businesses.

Minnesota cities could benefit from immediate and long-lasting job, energy independence and environmental benefits and provide leadership model for the State.

Third party administrators are needed to provide scalable loan origination infrastructure:

- Design
- Administration
- Financing and loan underwriting with emphasis on **standardization**

Abundant Power Solutions brings unique advantages:

- Financial expertise – a proven, experienced management team
- Engineering & Data Management – to ensure cash flow positive loans
- Measurement & Verification – leads to sustainability and lower cost of capital
- Flexibility – can support a range of program and financial structures
- Early mover – awarded first two programs in the Southeast

Abundant Power's Experience

Abundant Power is currently designing, administering and financing the following programs:

• *City of Charleston, South Carolina*. Abundant Power is providing a full set of design, marketing, administration and finance services for an "on-bill" energy efficiency financing program, which will be one of the first such programs in the Southeast.

• *State of Alabama, Alabama Department of Economic and Community Affairs*. Abundant Power is designing and managing a statewide clean energy revolving loan fund in Alabama for commercial and industrial properties. The fund will be initially capitalized with $25 million through the federally supported State Energy Program. We will be structuring the program to bring in over $100 million of additional private capital.

Abundant Power is also providing financial advisory to numerous city, county and utility programs.

Contact Information

Abundant Power Solutions
1355 Greenwood Cliff, Suite 300
Charlotte, NC 28204
www.abundantpower.com

Shannon Smith
CEO
ssmith@abundantpower.com
704-271-9884

Larry Ostema
President
lostema@abundantpower.com
704-271-9887

Lori Collins
Director of Program Strategy
lcollings@abundantpower.com
704-271-9890