CHAIRMAN

COMMISSIONERS
Kathryn M. Bailey
Michael S. Giaimo

EXECUTIVE DIRECTOR
Debra A. Howland

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

TDD Access: Relay NH
1-800-735-2964

Tel. (603) 271-2431

FAX No. 271-3878

Website:
www.puc.nh.gov

NHPUC 7NOV'19PM1:06

November 7, 2019

Debra A. Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street
Concord, NH 03301

Re: DE 14-238 and DE 11-250 Commission Staff and Staff of the Office of Strategic Initiatives Joint Proposal for Use of the Clean Energy Fund

Dear Ms. Howland:

The Clean Energy Fund (Fund) was established in the Settlement Agreement filed June 10, 2015, in DE 14-238 and DE 11-250. The Fund was approved by the New Hampshire Public Utilities Commission on July 1, 2016, in Order No. 25,920.

Pursuant to the terms of the Settlement, Commission Staff (Staff) has met with staff of the Office of Strategic Initiatives (OSI)[1] several times following funding of the revenue reduction bonds by Public Service Company of New Hampshire d/b/a Eversource Energy in May of 2018. As a result of those meetings, Staff and OSI recommend the use of the Clean Energy Fund as described in the attached joint proposal.

Staff and OSI request that the Commission establish a collaborative and non-adjudicative process as directed by Order No. 25,920, in order to allow stakeholders to respond to the proposal and to suggest alternative proposals.

Very truly yours,

F. Anne Ross

F. Anne Ross
Staff Attorney

cc: Service Lists
DE 14-238 and DE 11-250

---

[1] At the time the 2015 Settlement Agreement was finalized the State Department with OSI's duties was known as the Office of Energy and Planning (OEP).

November 7, 2019

Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire, 03301-2429

Office of Strategic Initiatives
107 Pleasant Street
Concord, NH 03301

Recommendations for the Clean Energy Fund

1. Introduction

Authority for Clean Energy Fund

The Settlement Agreement filed June 10, 2015 in DE 14-238 and DE 11-250 established a Clean Energy Fund (Fund). The Fund was approved by the New Hampshire Public Utilities Commission on July 1, 2016 in Order No. 25,920.

> *Section V of the 2015 Settlement Agreement outlines Eversource's clean energy and energy efficiency commitments, specifically; the creation of a Clean Energy Fund with $5 million in Eversource shareholder monies (not to be recovered from Eversource customers), to be administered in a collaborative process involving Eversource, OEP, and Commission Staff, to be applied to a range of potential clean-energy initiatives. Order No. 25,920, at July 1, 2016, page 41.*

The relevant provision of the Clean Energy Fund provided that:

> *Upon closing on the RRB's, PSNH agrees to provide $5.0 million to capitalize a Clean Energy Fund, such amount not to be recovered from customers. Details regarding the Clean Energy Fund will be established via a collaborative process overseen by Commission Staff and the Office of Energy and Planning. General principles governing the uses of the Clean Energy Fund and any programs supported by the Fund will include but not be limited to: innovation in achieving clean energy benefits; leveraging of various sources of funds including attracting private capital to the fund and to programs supported by the fund; expanding access to clean energy across customer classes in a cost effective manner; and avoiding undue administrative costs. Settlement Agreement at June 10, 2015, page 25.*

2. Guiding Principles

Public Utilities Commission (PUC) Staff and Office of Strategic Initiatives (OSI) Staff have considered the State Energy Plan, recently enacted legislation, and letters received from

Legislators and Stakeholders, to develop the following guiding principles for the Clean Energy Fund (Fund). These guiding principles support cost effective and efficient use of the Fund to develop and expand clean energy initiatives in New Hampshire:

(a) Fund monies should be used to promote clean energy projects in New Hampshire, including energy efficiency, renewable energy, and renewable energy paired with storage projects.
(b) Fund monies should support innovation in achieving clean energy benefits.
(c) Fund monies should be available to all Eversource customers without discrimination.
(d) Fund monies should be leveraged, where possible, with the use of private and/or other public funding sources.
(e) Fund monies should be used in ways that extend and/or expand existing energy efficiency and renewable energy programs.
(f) Fund monies should cover all administrative costs associated with the management of the Clean Energy Fund and associated financial instruments/programs (Instruments). Additionally, all necessary marketing and technical assistance efforts should be supported by the Fund. The Fund and Instruments should be administered in a cost-effective manner.
(g) The Fund and its Instruments should be managed by an experienced entity or entities in a cost-effective manner and avoid undue administrative costs.
(h) All interest earned by the Fund and its Instruments should be kept in the Fund and used to support its purposes.

3. Recommendations and Benefits

PUC and OSI Staff, mindful of the guiding principles outlined above and the Settlement provisions, recommend that the $5 million Clean Energy Fund monies support the proposed clean energy initiative summarized below.

<u>Establishment of a Loan Loss Reserve and Funding for Interest Rate Buy-downs</u>

Funding in the amount of $4,000,000 would be dedicated to the establishment of a loan loss reserve (LLR) for the purposes of leveraging private capital, broadening access to financing for more borrowers, and supporting clean energy initiatives. A LLR is a credit enhancement mechanism used to provide partial risk coverage to lenders, meaning that the reserve will cover a pre-specified amount of loan losses. LLRs can be used in any market, from residential to commercial lending, multifamily housing lending, and nonprofit lending. With a LLR, participating financial institutions gain experience with clean energy technologies and new financing products.

A LLR is a common financial mechanism used to increase loan access for more risky market segments (e.g., low and moderate income customers, customers with low FICO scores, customers with high debt/income ratios, and customers that do not meet other lending criteria). LLRs encourage lending institutions to modify underwriting criteria while reducing the financial institutions' risk associated with underwriting higher-risk loans. LLRs also may enable financial institutions to offer more attractive interest rates, reflecting the lower risk associated with the LLR coverage, and to support longer loan terms.

Loans supported by the Fund's LLR(s) must be used for the following purposes: installation of new renewable energy systems, including solar and biomass central heating systems; energy efficiency measures; and storage when paired with renewable energy. Staff suggests that the LLR support loans up to $30,000, with terms ranging from 5 to 12 years. Staff also recommends a minimum loan amount of $3,000.

To encourage consumer demand for clean energy initiative loans, the balance of the Fund, after administrative expenses, should be allocated to lower the interest rate that borrowers will have to pay on loans to such a point that financing becomes an attractive option. Fund monies should be used to buy down the interest rate by making an upfront payment to the LLR financial institution. "This upfront payment is based on the difference between: the sum of all principal and interest payments that a lender would be projected to receive at the market-based interest rate, and the sum of payments that the lender would receive from the target (incentivized) interest rate, adjusted for the time value of money. Interest rate buy-downs (IRBs) can be a way to gain more attention for the financing program, reward early participants in a newly launched program, and build market demand."[1]

The state agency administering the Clean Energy Fund should issue a request for proposals to contract with one or more financial institutions to establish a LLR(s). The state agency should also work with clean energy program administrators and stakeholders to encourage the use of LLRs and IRBs in coordination with existing programs. The state agency should also monitor and annually audit the Clean Energy Fund, its Instruments, and any outside administrator(s), to ensure funds are used appropriately, loans are repaid, and goals are achieved.

The benefits of an LLR financial instrument include:

(a) A LLR enables financial institution(s) to offer loans to more risky market segments and new technologies and potentially to offer more attractive interest rates.
(b) LLR-backed loans may be used in conjunction with other programs, such as energy efficiency and renewable energy rebates, loans, and grants. This will

[1] https://www.energy.gov/eere/slsc/loan-loss-reserve-funds-and-other-credit-enhancements

allow the Fund to leverage its monies through participatory lending supporting the State's energy efficiency (EERS) and renewable energy (RPS) goals.

(c) LLR-backed loans provide access to energy efficiency upgrades and clean energy across various customer classes.

(d) A LLR can be paired with other targeted incentives such as IRBs.

(e) While the LLR funds would be set aside and unusable while serving their purpose of providing lending support, the funds would not be depleted, except in the event of non-payments or defaults by borrowers. Some loss to the LLR funds would be expected, but much of the funding will become available for re-investment after the LLR-supported loans have been paid in full by the borrowers.

(f) Loans for clean energy investments may prove to have a lower default rate than a typical unsecured loan because clean energy technologies often provide ongoing financial returns or savings to the borrower, which can mitigate or offset the loan payment.

4. Next Steps

PUC and OSI Staff recommend that the Commission schedule a stakeholder session to discuss this recommended use of the Fund, and any other proposal that includes, but is not limited to, the allocation of funds between customer segments, allocation of funds between clean energy segments and technologies, and the allocation of funds for technical assistance, marketing and administration.

Executive.Director@puc.nh.gov
alexander.speidel@puc.nh.gov
allen.desbiens@eversource.com
amanda.noonan@puc.nh.gov
andrew.weisel@macquarie.com
anne.pardo@mclane.com
barry.needleman@mclane.com
bill.glahn@mclane.com
catherine.corkery@sierraclub.org
christine.vaughan@eversource.com
christopher.goulding@eversource.com
dan.feltes@leg.state.nh.us
david.shulock@puc.nh.gov
donald.kreis@oca.nh.gov
dpatch@orr-reno.com
dsolomon@unionleader.com
elizabeth.tillotson@graniteshorepower.com
eric.chung@eversource.com
eversourceenergy.legal@nu.com
F.Ross@puc.nh.gov
gilfavor@comcast.net
heather.tebbetts@nu.com
james.brennan@oca.nh.gov
james.ward@macquarie.com
jeb.bradley@leg.state.nh.us
jim@dannis.net
jody.carmody@puc.nh.gov
josh.stebbins@sierraclub.org
jrodier@mbtu-co2.com
jvanrossum@clf.org
kristi.davie@eversource.com
linda.landis@psnh.com
matthew.fossum@eversource.com
mayoac@nu.com
mkahal@exeterassociates.com
MSmith@orr-reno.com
ocalitigation@oca.nh.gov
regulatorycompliance.nh@unitil.com
rick.white@eversource.com
robert.bersak@eversource.com
sarah.knowlton@libertyutilities.com
sevans-brown@nhpr.org
Stephen.Eckberg@puc.nh.gov
Stephen.Hall@libertyutilities.com
suzanne.amidon@puc.nh.gov
tcatlin@exeterassociates.com
terry.cronin@tds.net
tirwin@clf.org
tom.frantz@puc.nh.gov
william.smagula@eversource.com
zachary.fabish@sierraclub.org