

SEU Advisory Board

Meeting Minutes

Monday, April, 9, 2012

I. Call to order

Keith Anderson, Chair called to order the meeting of the SEU Advisory Board at 10:20 am Monday, April 9, 2012 at 1200 First Street, N.E., Washington, D.C.

Roll call

SEU Advisory Board: Keith Anderson, Betty Ann Kane, Sandra Mattavous-Frye, Chris Van Arsdale, Larry Martin, Dr. Donna Cooper, Jermaine Brown, Daniel Wedderburn, Allison Archambault, Bernice McIntyre

Absent Board Members: Evan Tyroler, Joseph Andronaco, John Mizroch

Other Attendees: Taresa Lawrence, Lynora Hall, Lance Loncke, Hussain Karim, Dan Cleverdon, Nina Dodge, George Nichols, Daniel White, Loretta Caldwell, Barbara Burton, Rishi Garg, Pamela Nelson, Matt Orlins, Dave Good, Cary Hinton, Kim Katzenbarger, Bill Updike, Marshall Duer-Balkind, Brendan Shane, Michael Yambrach, Theresa Call, Olayinka Kolawole, Marc Battle, Meg Moga, Mohamed Ali, Tatiana Nin, Emil King

Approval of agenda and minutes from the last meeting.

The agenda was approved. The adoption of the March 5, 2012 minutes was unanimously approved with the following change: On page 6, 2nd paragraph should read, Larry Martin stated that the SEU Advisory Board Structure and Finance Committee will schedule a meeting to discuss the constraints as well as issues on bidding efficiencies into the regional forward demand auction.

II. Official Business

Larry Martin gave an overview of the SEU Structure and Finance Subcommittee meeting held on March 19, 2012. There were two objectives for the meeting: 1) to better understand the single budget year limitation for the SEU; and 2) bidding the SEU's efficiency improvements into the PJM forward demand auction.

First, regarding the contract year, there are complications for the contractor in pursuing commercial entities because the contractor cannot make long term commitments. It is a structural constraint under the current statute and contract.

Second, regarding the loan loss reserve issue, the SEU would like to consider developing a loan program for residential retrofits. However, such a program requires a multi-year commitment by the SEU. DDOE and the SEU are looking at ways to structure a multi-year

program within the framework of the District government's fiscal year limitation on funding. Ms. Mattavous-Frye asked whether the funds that are not spent in a particular fiscal year go back to the Sustainable Energy Trust Fund (SETF). Mr. Anderson said that the money would go to the SETF fund balance. Chairman Kane stated that the funds can be redirected but will go to the SEU fund balance, with the ability to spend it in the following year. To redirect it to the general fund would require action by the Council.

Mr. Martin talked about the prospect of the SEU doing larger scale commercial projects. 70% of the energy demand comes from commercial buildings so clearly if the SEU does not have programs for commercial buildings then only 30% of the energy total in the District can be targeted for savings. Commercial building retrofits are very important for program development. Larger buildings are usually multi-year projects so retrofits will be done two to three years from now, which means the SEU cannot be involved because of the fiscal year constraint on the SEU's budget. The first year is the planning phase, when the SEU could provide technical assistance; the second year would focus on finance, followed by program implementation in the third year. Mr. Martin stated that the SEU should focus on small projects which would be most practical since the SEU contract may be terminated at the end of each fiscal year. Mr. Martin stated that the following question was asked: "what are the implications if the contract is not renewed?"

Single year budgeting and annual performance accountability incentives limit the effectiveness of the SEU. Long term loans for small business and residential co-ops or condos are unlikely. A large project such as Walter Reed is implemented over many years, and therefore it is unlikely that the SEU could be involved. SEU staff contracts are on a yearly basis, thus there is no job security at the SEU. This may result in the SEU not hiring the best and the brightest candidates for its positions. It was observed that the SEU may perform on larger multi-year projects in future years once the single year contract issue is resolved.

The Board also discussed the SEU's contractual obligation to strive for a 1% decrease in energy demand. It was stated that DDOE staff indicated that research had been done and the 1% goal is achievable. Mr. Martin requested for more information on this issue.

The SEU bidding energy efficiency improvements into the PJM forward demand auction Reliability Pricing Model (RPM) is a 3 year advance bid, and therefore the SEU cannot bid in any savings prior to 2015. Returns to any bids that clear the auction will be paid over the course of 4 years. Any member of PJM can be an aggregator if the SEU does not itself bid in the savings. Mr. Brown stated that he is starting a project with a local business that involves a user of at least five million KW annually, and that he will finance the energy efficient retrofits. He said that he would be helping the SEU since the energy savings from the program would count towards the SEU's 1% goal.

Chairman Kane talked about the Direct Loan Program for residential customers where they can voluntarily sign-up to cycle air conditioning on and off 100%, 75% and 50% during peak load (2:00pm – 6:00pm) when there is a PJM call for demand cutbacks or local cutbacks. Incentives to customers for signing up are Smart Thermostats installation and

payments credited for the months of June, July, August and September that match the approved onetime payment credit to the customer's bill. PEPCO will pay for credits by

bidding in the demand curtailment into the PJM market; that is how this program will be self-financed, and no ratepayer funds will be required. The credits range from \$45-\$75. PEPCO plans to sign up 12,500 residential customers who have central air conditioning this summer and 20,000-25,000 next summer, which would be predicated on being able to bid that demand response into the PJM market and other retailers. Currently there are 73 retail electric suppliers and marketers who are licensed with the commercial market. There is no limit on the goal.

Mr. Wedderburn wanted to note that Mr. Martin always gives an excellent presentation to the Board. He also inquired about the single year budget cycle, and asked, "how do other District agencies handle this issue" and "are there any alternatives to deal with this issue?" Ms. Mattavous-Frye stated that any contract not completed by the end of the fiscal year has to be renewed. Mr. Wedderburn stated that it is hard to believe that everything stops at the end of the fiscal year. It was stated that contractors need to plan ahead on spending the funds. Ms. McIntyre said that the law would need to be amended to overcome the fiscal year limitation, and that such a change would require congressional approval. A multi-year contract has to be renewed every year. Mr. Martin said that perhaps it is not the budget year that is the issue but the performance period. The SEU has to expend the entire contract amount each year and achieve efficiency gains annually. If the SEU's only incentive is to achieve efficiency gains without any guarantee of contract renewal, why would it consider a project that is longer than a year? Such a project would work against the SEU's incentive structure. Mr. Martin said that rolling over budgets is currently being done in the Federal government.

Ms. Mattavous-Frye asked what the Board's intent was, and what the thinking was behind making certain performance measures within the one year period. She stated that consideration should be given to the intent of the legislation to evaluate the SEU's performance on an annual basis. Her recollection is that if you have a long period of performance measurement you have the tendency of not realizing the real benefit in the foreseeable future. Going back to conservation and DSM where the benefits were touted, were the long term benefits derived in five to ten years? The question becomes what is the immediate benefit. There should be a balance. The balance should not constrain the performance because it is two days outside of the annual year. At the same time the benefit is not so projected. The current ratepayers do not realize the benefit. If a rate payer pays today and he/she may not be here five years from now, what is the benefit to this ratepayer?

Mr. Martin said that renewing the contract every year is based on the performance measurements. Ms. McIntyre said that since the SEU is focusing on low income programs in certain communities, it can realize the benefits within the year. There are benefits of focusing on those sectors in the District.

Mr. Martin will schedule a meeting of the finance and structure subcommittee. It was stated that the group needs to be charged with an objective to be able to make recommendations.

Ms. Archambault asked the question “what is going to be evaluated?” The SEU’s long term engagement lacks a clear objective.

Dave Good presented a PowerPoint Presentation to the group to update them on the status of PACE. The following items were highlighted:

- PACE is on track to complete the design phase this month
- PACE will soon be embarking on the pilot phase of the program
- Anticipate transaction volume of over \$50 million per year within three years
- PACE has addressed the significant barriers to pursuing energy efficiency retrofits. These include: awareness, technical expertise, certainty of savings, financial criteria and available capital
- Timeline of DC PACE - There were previous year timelines but the most recent ones are:
2011- Program design; 2012- Complete program design and issue first PACE assessments in DC
- Program Design – consists of financial structure, project development, marketing and workforce development
- Pilot Program - currently working with leading real estate owners and managers to identify specific properties for energy and water upgrades. The goal is to close \$15 million of PACE assessments by early FY 2013; the delay in the pilot phase is due to difficulty structuring the financial instrument.
- Key goals of program design – Provide competitive pricing to borrowers, protect existing mortgage lenders, address concerns of commercial banks, serve investors in the secondary market, meet real property owners’ needs, ensure benefits to tenants, and economic development.

- Basic PACE DC Model involves 3 tiers of financing: 1st tier – owner-financed; 2nd tier – DC PACE; and 3rd tier – Warehouse Facility/3rd Party Investors
- Design features – The PACE model being implemented in Washington, DC is designed to align the interests of all key stakeholders towards embracing this financial solution.
- DC Market Opportunity – Energy efficiency investment potential in the DC Commercial Sector (chart with details)
- Remaining Challenges – Finalizing term sheet with capital providers, obtaining lender consent, obtaining a rating for the PACE-backed security, and closing PACE deals.¹

Jermaine Browne provided an overview of the green jobs subcommittee meeting that was held in January. He indicated that the calculation of the number of green jobs was explained. No further meetings of the green job subcommittee have been scheduled.²

¹ Due to recorder failure, the discussion with Allison Archambault and the questions that were directed to Mr. Goode were not captured.

² Due to recorder failure, questions directed at Mr. Browne were not captured.

Kimberly Katzenbarger gave a brief presentation on conflicts of interest. She provided a revised financial disclosure form to the Board members and a discussion by the Board members followed. Board members were asked to approve the revised forms.³

Other Issues:

None

New business

The Structure and Finance Subcommittee will meet before the next SEU Advisory Board meeting

Next SEU Board meeting will be on Wednesday, June 6, 2012.

III. Adjournment

Keith Anderson adjourned the meeting at 11:48 pm.

Minutes submitted by: Lynora Hall

³ Due to recorder failure, the discussion held after Ms. Katzenbarger's presentation was not captured.