

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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In the Matter of the Application of)
)
THE STATE OF HAWAII)
DEPARTMENT OF BUSINESS,)
ECONOMIC DEVELOPMENT,)
AND TOURISM)
)
For an Order Approving the Green)
Infrastructure Loan Program.)
)

PUBLIC UTILITIES
COMMISSION

Docket No. 2014-0135

**PROGRAM NOTIFICATION No. 6 FOR
THE GREEN INFRASTRUCTURE LOAN PROGRAM,
ATTACHMENTS A AND B
AND
CERTIFICATE OF SERVICE**

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**PROGRAM NOTIFICATION No. 6 FOR
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TO THE HONORABLE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII:

The Hawaii Green Infrastructure Authority (“HGIA” or “Authority”) of the State of Hawaii¹ submits this Program Notification through its Deputy Attorney General.

I. Background

Decision and Order No. 32318, filed on September 30, 2014 in Docket No. 2014-0135 (the “Program Order”) approved the “Application of the Department of Business, Economic Development, and Tourism for an Order Approving the Green Infrastructure Loan Program,” filed on June 6, 2014 (“Application”) for the use of funds deposited in the Green Infrastructure Special Fund to establish and institute the Green Infrastructure Loan Program (“GEMS

¹ HRS §196-63 provides that until the Authority is duly constituted, the Department of Business, Economic Development, and Tourism of the State of Hawaii (DBEDT) may exercise all powers reserved to the Authority pursuant to HRS §196-64, and shall perform all responsibilities of the Authority. As the Authority has now been duly constituted, the Authority assumes in its own right, pursuant to statute, all of the functions, powers, and obligations, including responsive or informational submissions in this Docket, which had heretofore been assigned to DBEDT.

Program”), subject to the modifications described within the Program Order.² Within the Application, a governance process was proposed for the GEMS Program that used mechanisms for updates to or modifications from the approved GEMS Program guidelines. In this process, Program Notifications are used to provide additional details on GEMS Program components including *project, program, financing, or other arrangements (clean energy technology, parties intended to benefit, loan program or other arrangements, and credit sources and funding); minimum lending, credit or investing criteria; and repayment mechanisms and processes.*³ The Application stated that DBEDT or the Authority⁴ will use Program Notifications to report and certify information on implementation of key GEMS Program components that are within the scope of the Program Order parameters and exhibits issued by the Public Utilities Commission (“Commission”).⁵

The Program Order approved the Program Notification process with a modification requiring that the Authority file any GEMS Program Notification with the Commission no less than fifteen (15) business days prior to implementation instead of the proposed ten (10) days stated in the Application.⁶

The Division of Consumer Advocacy (“Consumer Advocate” or “CA”) recommended that DBEDT submit market assessments and cost-benefit analyses for the financing of technologies related to solar PV that will mitigate grid saturation prior to DBEDT’s submission of a Program

² See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 1.

³ Paraphrased from HRS §269-170 and 269-171, as referenced in “Application of Department of Business, Economic Development, and Tourism; Verification; Exhibits; and Certificate of Service,” filed in Docket No. 2014-0135 on June 6, 2014 at p. 15. Emphasis added.

⁴ Prior to the Authority’s establishment, DBEDT is authorized to exercise the Authority’s powers and is required to effectuate the Authority’s responsibilities (see HRS §196-63). Accordingly, references to the “Authority” and “HGIA” in this Program Notification include DBEDT acting on behalf of the Authority, as explained in footnote 1 above.

⁵ See “Application of Department of Business, Economic Development, and Tourism; Verification; Exhibits; and Certificate of Service,” filed in Docket No. 2014-0135 on June 6, 2014 at p. 15.

⁶ See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 84.

Notification,⁷ and the Commission then directed DBEDT “to provide the information identified by the Consumer Advocate concerning market assessments and cost-benefit analyses for approved non-Solar PV clean energy technology with any Program Notification that is submitted to finance those technologies.”⁸

II. Program Notification

The purpose of this Program Notification is to provide additional information on the deployment of capital to government agencies for commercial energy efficiency (“EE”), consistent with the Annual Plan submitted to the Commission⁹ and Exhibit 9 of the Application as amended in the Annual Plan.¹⁰ Commercial EE was proposed as an eligible technology in DBEDT’s Statement of Position¹¹ and approved in the Program Order.¹² Using GEMS capital for commercial EE is consistent with the core tenets of the GEMS Program since the use of GEMS funds for commercial EE will help to remove financing market barriers in the current commercial EE financing market, broaden access to EE and enable more ratepayers to reduce their energy costs.

To satisfy requirements for the financing of “approved non-Solar PV clean energy technology” stated above, the Authority is providing a market assessment for commercial EE financing and parameters around bill savings targets to serve as a cost-benefit analysis, as

⁷ See “Division of Consumer Advocacy’s Statement of Position,” filed in Docket No. 2014-0135 on August 7, 2014, at p. 13.

⁸ See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 85.

⁹ See “Annual Plan Fiscal Year 2016: July 1, 2015-June 30, 2016,” filed in Docket No. 2014-0135 on March 31, 2015, herein referred to as “Annual Plan,” at p. 15-16.

¹⁰ See Annual Plan at Attachment 2.

¹¹ See “The State of Hawaii Department of Business Economic Development and Tourism’s Statement of Position on its Request for a Program Order, and Certificate of Service,” filed in Docket No. 2014-0135 on August 7, 2014, at p. 6.

¹² See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 46.

consistent with the steps taken in the Application and Program Order to approve Solar PV as an eligible technology.

The Commission allowed the Authority flexibility in allocating funds between customer types and did not restrict funding to the underserved¹³ so that the long-term viability of the GEMS Program is addressed.¹⁴ The Commission also did not oppose the Authority operating with flexibility in the finalization of details as long as sufficient oversight and reporting is established.¹⁵

Though government agencies were not named as underserved, the Authority notes here that:

(1) access to cash or market-competitive financing is limited by appropriation policies and rules;

(2) State agencies constitute a significant component of energy consumption in Hawaii; and

(3) Investment in renewable energy infrastructure and efficiency improvements by government agencies has been limited.

Though the Authority does not intend to add government agencies to the critical underserved groups as identified in the Application¹⁶ or modify the metrics for “underserved” through this notification, as this notification serves to provide information about the GEMS Program as approved, the Authority may choose to address the classification through other docket-related

¹³ The Application named underserved homeowners, renters and non-profit customers as the underserved market. See “Application of Department of Business, Economic Development, and Tourism; Verification; Exhibits; and Certificate of Service,” filed in Docket No. 2014-0135 on June 6, 2014 at p. 3.

¹⁴ See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 55.

¹⁵ See “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 76.

¹⁶ See “Application of Department of Business, Economic Development, and Tourism; Verification; Exhibits; and Certificate of Service,” filed in Docket No. 2014-0135 on June 6, 2014, “Exhibit 6” as referenced by “Decision and Order No. 32318,” filed in Docket No. 2014-0135 on September 30, 2014, at p. 8.

filings in the future. The Authority indicates that the Program Order did not restrict the GEMS Program from providing government agencies access to eligible clean energy technologies in its approval.

A. GEMS Commercial EE Loan Product

Commercial EE financed in the GEMS Program for government agencies will be a form of unleveraged debt. Deployment of GEMS capital will be through a term loan to the borrower for approved purposes (specified in this Program Notification Attachment A).

As with all GEMS loans and the GEMS portfolio, any commercial EE loan will be priced to ensure the costs and risks of lending are recovered while evidencing compliance with the cost-benefit analysis parameters mentioned herein and in Attachment A. In addition, the energy efficiency projects will be reviewed for compliance with Attachment A: Commercial Energy Efficiency Project Deployment Guidelines before providing GEMS capital for the project.

Reporting Information – EE-related metrics will be reported pursuant to the GEMS Program Metrics.

Development and Finalization of Terms – The Authority assures the Commission that the terms for GEMS products are defined to protect GEMS participants and ratepayer capital. The Authority is responsible for the rapid deployment of bond proceeds in a way that assures repayment of GEMS funds. This requires that any GEMS product be designed in a way that encourages uptake by the market, including providing attractive terms, while accounting for risks associated with lending to those who were unable to receive financing previously. The Authority expects that ongoing flexibility will be necessary to allow for program adjustments based on product performance and evaluation of the GEMS Program.

B. Market Assessment

The Authority does not have expertise on the technical specifications of energy conservation measures (“ECM”). Rather, the Authority is providing financing for equipment to be purchased and installed by government agencies through commercial EE contractors selected in accordance with the State’s procurement statutes. The GEMS Program is a financing initiative that increases access to clean energy through market-driven public-private partnerships. Energy efficiency in the GEMS Program aims at expanding the access to energy efficiency projects for a part of the commercial market that was not easily able to access financing. This market assessment is agnostic to specific ECM and instead attempts to analyze the market for access to financing for ECM.

EnerNoc Utility Solutions Consulting Inc. prepared and presented the STATE OF HAWAII ENERGY EFFICIENCY POTENTIAL STUDY FINAL, Project #1448 (the “Study”)¹⁷ to the Commission on January 15, 2014. The Study divides the Hawaii energy market into five sectors: residential, military, water/ wastewater, street lighting and commercial. According to the Study, the commercial sector makes up 52% of statewide electricity use,¹⁸ and [t]he majority of the statewide EE savings potential is found in the commercial sector”.¹⁹ The energy efficiency loan program targets commercial users which account for the largest statewide energy savings potential identified in the Study. Government agencies fall into the “commercial” sector described above in the Study. Government agencies constitute a significant component of energy consumption in Hawaii and investment in renewable energy infrastructure and efficiency

¹⁷ The Study can be found at: http://puc.hawaii.gov/wp-content/uploads/2013/04/State_of_HI_Potential_Study_Final.pdf

¹⁸ See Figure ES-2 in the Study on p. v.

¹⁹ See Study, Executive Summary, page xiii.

improvements by government agencies has been limited. Therefore, these government agencies are a significant sector of the EE potential in Hawaii.

An example of a government agency that may qualify for a commercial EE loan is the Department of Education (“DOE”). Of the 25 State agencies participating in a DBEDT report to the Legislature, LEAD BY EXAMPLE STATE OF HAWAII AGENCIES’ ENERGY INITIATIVES FY 2013-2014, the DOE is the second largest consumer of electricity, consuming 163.8 million kWh in FY2014.²⁰ A 10% savings (or approximately \$4.3 million per year) achieved by one of the largest consumers of electricity in the State will positively impact the achievement of Hawaii’s Energy Efficiency Portfolio Standard requirements. The DOE is tasked with undertaking sustainable measures based on BOE Policy 6170. Thus, commercial EE projects at DOE locations served by Hawaiian Electric Company or its affiliates and financed through GEMS would enable the state agency to meet this directive. The DOE has the capability and expertise to execute the requirements of the program quickly. The DOE oversees one of the five largest design and construction programs in the State and has the capability to bring the appropriate resources and expertise to bear quickly. The savings accrued and the improvements made will have a significant societal benefit to students, teachers and taxpayers.

²⁰ The report can be found at: <http://files.hawaii.gov/dbedt/annuals/2014/2014-seo-lbe.pdf>

The Authority will coordinate with Hawaii Energy and the Public Benefits Fund Administrator to ensure that resources are allocated efficiently in the pursuit of commercial EE projects.²¹

C. Cost-Benefit Analysis

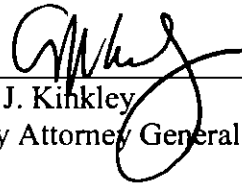
The Authority requires that borrowers receive monetary benefits from the financing of energy efficiency projects under the GEMS Program. To accomplish this, the GEMS Program will target projects that can provide borrowers with a projected annual electrical consumption (as measured in kWh/year) that meets minimum savings requirements compared to their current (baseline) utility consumption (see amended Exhibit 13, Attachment B). This means that borrowers will improve their bottom line by receiving a reduction in their annual energy bill and avoid the capital outlay required to fund efficiency improvements. Actual savings metrics will also be reported as part of the GEMS Program Metrics. In order to ensure that energy savings levels persist throughout the term of the loan, the borrower will be responsible for replacing those assets with useful lives shorter than the term of the loan. In particular, lighting projects will likely require re-lamping with similar energy efficient systems during the term of the loan and will be an operating expense of the borrower.

²¹ The Public Benefits Fund (PBF) surcharge is assessed on residential and commercial customers of the Hawaiian Electric Companies. The residential customer class includes Rate Schedules R, TOU-R, TOU EV, and EV-R. The commercial customer class includes Rate Schedules G, J, DS, P, F, U, TOU-G, TOU-J- SS, EV-C. The underlying goal of the PBF is to procure electric energy savings from efficiency programs at a cost lower than that of avoided generation. Revenues collected from the Public Benefit Fund surcharge pay for the costs of the energy efficiency programs managed by the third-party administrator. Collection strategy results in a split based on revenue contributions by customer class: 45% Residential and 55% Commercial. The Hawaii Energy Program maintains incentive portfolios for both residential and commercial customer classes. Customer eligibility is differentiated by the type of electric service a customer receives. As such, government agencies that are commercial utility customers fall under the PBF commercial customer class and are eligible to take advantage of Hawaii Energy commercial incentive programs.

III. Subsequent Authority Action

Unless informed otherwise by the Commission, upon completion of the fifteen (15) business-day-term of Program Notification, HGIA may implement the deployment of capital to finance commercial energy efficiency. Any subsequent changes to the details described herein will be proposed through the GEMS Annual Plan.

Submitted this 23rd day of February, 2016, in Honolulu, Hawaii.



Gregg J. Kinkley
Deputy Attorney General for the Authority



GEMS Financing Program

ATTACHMENT A: GEMS Commercial EE Loan Product

GEMS Commercial Energy Efficiency Loan Product should expand access and affordability of energy efficiency for commercial entities (government agencies) that do not have cash available or cannot access financing for energy efficiency.

Eligible Technologies	HVAC, Lighting (LED, CFL), Controls and monitoring devices, and Mechanical upgrades, Other Commercial EE.
Allowable Uses	Financing is available for up to 100% of equipment costs. Other financeable cost may include: financing cost; required electrical upgrades to conform to building permits; electrical permits; and other hard cost and structural improvements.
Term	No more than twenty (20) year fixed rate, fully amortizing.
Eligible Contractors	Contractors selected in accordance with the State's procurement statutes.
Interest Rate	Cost of GEMS capital plus margin to recover appropriate administrative costs for program.
Loan Amount	Minimum loan amount of \$1,000,000 as established by GEMS. Exceptions may be granted.
Borrower	Government agencies in the State of Hawaii served by Hawaiian Electric Company or its affiliates (collectively referred to as HECO or the Utility Company).
Eligible Properties	Fee Simple or leasehold properties. Leasehold restrictions may apply.
Credit Criteria	The following credit assessments may apply: financial statement and cash flow assessment, debt service coverage ratio and utility bill assessment.
Savings Requirements	Energy savings required. Savings dependent on system specifications, loan qualification, use of storage, on-bill, and other factors.
Project Design	Project design is dependent on past usage, and must produce energy savings, though exceptions may be allowed after review.

Confidential Information Deleted Pursuant to

Protective Order No. 32142

**ATTACHMENT B: EXHIBIT 13—AMENDED: GEMS PROGRAM GUIDELINES
[REDACTED]**

CERTIFICATE OF SERVICE

I hereby certify that I have this date, in addition to filing an original and three copies with the Commission, served one (1) or two (2) copies of the foregoing GEMS Program Notification, together with this Certificate of Service, by making personal service (P) or service by electronic mail (M), to the following and at the following addresses:

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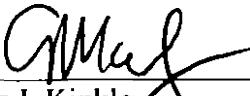
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Dated: Honolulu, Hawaii, February 23, 2016.

HAWAII GREEN INFRASTRUCTURE
AUTHORITY



Gregg J. Kinkley
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