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Green Bank Advocacy Group Stresses State Action Amid Federal Gridlock

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A group committed to expanding U.S. clean energy deployment through low-cost project financing is focusing most of its efforts on establishing state-level green energy banks because the group's broader federal legislative agenda is unlikely to gain any traction in today's political climate, according to a top official with the organization. Still, the group plans to continue pushing for green financing legislation in Congress and hopes opportunities improve in 2013 to move a federal green bank agenda.

In a look at what must happen next to keep clean energy financing moving forward in the face of diminishing federal support and the lack of a federal greenhouse gas law or clean energy standard that would bolster investments, Ken Berlin, General Counsel to the Washington, DC-based Coalition for Green Capital (CGC), describes his group's efforts to work with states, including CGC's success in supporting passage of a new Connecticut law creating a green bank.

The CGC does not hold out any hope for Congress to pass legislation in 2012 creating a national green bank, but has more hope for 2013. "We are, however, working pretty intensively at the state level," Berlin says. "What we're really trying to do is figure out, in the absence of putting a price on carbon, [is] how do you lower the cost of clean energy to make it more competitive?"

Basically, two approaches are available to lower the cost. The first is tax incentives, credits and subsidies, but "a whole series of critical tax provisions are scheduled to sunset either in 2011 or 2012," some of which may not be renewed, or renewed at lower levels, Berlin says. "So we're going to have a financing deficit at the federal level." The second approach, which CGC is trying to advance through its green banks agenda, is "to provide low-cost financing that enables a project to be constructed at a much lower cost."

At the federal level, the group is working on legislation to create public-private partnerships "where we borrow money from the Treasury" and set it up so "we get a zero score" by the Congressional Budget Office (CBO), then match that money with private funding and average the lending rates from the two sources. For example, if CGC could get Treasury funding at 3 percent and private funding at an 8 percent rate of return, averaging the two would enable a loan to a clean energy project developer at 5.5 percent. "We think that's a viable model," with various provisions to protect against risk, Berlin says. CGC hopes to get a zero score or a low score from CBO, but even with such a score, "We still don't think we'll get it through at the federal level [in 2012] even though it makes a lot of sense."

Instead, CGC is primarily working at the state level and this year succeeded in setting up a green bank in Connecticut, where – with support from Gov. Dannel Malloy (D) – the legislature passed the bill 36-0 in the Senate, and 139-8 in the House, with "almost unanimous Democratic and Republican support," Berlin says.

The new Connecticut Clean Energy Finance and Investment Authority took the state Clean Energy Fund – a regular source of funding amounting to \$30 million a year based on a system charge -- and a couple of smaller funds to create a public funding source, and the law allows the funds to be matched by private

capital. The board of directors for the existing entity was replaced with a new board that deals more with financing. The green bank is setting up its first loans and reaching out for private capital. “It’s a very promising beginning” and has strong support in the state from Democrats, Republicans, the governor and Dan Esty, the Connecticut commissioner of environment and energy, who played a major role along with the governor in moving the plan.

CGC is now expanding its efforts to other states using the basic understanding that “you can’t come up with major new financing in the current environment,” Berlin says. But most states have a series of programs to fund clean energy and energy efficiency. CGC is trying to take some of those programs, combine them in one entity, and then use the funds to finance operations of a green bank “so we can leverage the funds and get more out of them than just giving a grant.”

Revolving Loan Funds

A lot of states are using their energy efficiency funding to write down interest rates so they can provide low-interest loans to people and businesses to do energy efficiency programs, Berlin says. But rather than write down the loans, CGC advocates setting up revolving funds that provide a low-cost loan – offering 100 percent upfront capital – so that borrowers can repay the loan with energy savings. That approach makes it attractive to people by reducing upfront costs to near zero and reducing the payments through energy savings, he says. “We’re trying to find a way to take money and use it more efficiently, and leverage it, so we can make scarce dollars go much further in this very difficult environment,” he adds.

“That’s really the only way to deal with these kinds of budget problems that almost every state is having,” he says. It is possible existing funds will be diverted to other purposes, but CGC is trying to maintain as much as possible and leverage it. With public-private partnerships, “You can take a relatively small amount of money and turn it into much more funding for projects.”

Numbers show there is a huge amount of money sitting in corporations and a lot of money to be invested. The challenge is to come up with favorable investment terms. With its goal of low-cost financing for projects, CGC is not saying investors can make a 20 percent rate of return, but that they can receive a long-term, safe investment, especially on projects that have long-term power purchase agreements.

For example, if a private investor can achieve a relatively risk free 8 percent rate of return, that would be attractive in today’s market. “But we still have to convince people to do it. We think there’s a good chance of getting significant funding” and CGC has been speaking with a lot of investment bankers and believes there is “a reasonable shot at getting public-private partnerships set up” through state green banks, he says.

CGC is also working on state renewable portfolio standards (RPSs), which “intersect very closely with green banks because if you have a strong RPS it’s very helpful to have cheap financing so the RPS doesn’t lead to a big increase in utility prices.” If electricity prices climb too much, an RPS program “can start running into trouble,” Berlin says.

The group’s primary emphasis in the next year will be to make sure state RPS programs are implemented and have provisions that enable them to keep going forward. Not all state programs have significant enough enforcement provisions to ensure they will be effective, so CGC will focus on ensuring the RPSs can be enforced and implemented effectively but “don’t raise costs so much that they start losing political support.”

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