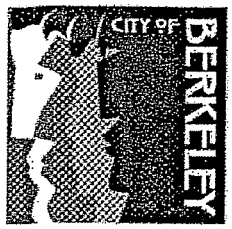

Office of the Mayor

Background Information
$100 Million Clean Energy Fund
Cities of Berkeley and Oakland

The Cities of Berkeley and Oakland have partnered with a group of private sector finance professionals to design the Berkeley/Oakland Clean Energy Fund (the Fund) that would finance $50-100 million in clean energy projects, including solar, combined heat and power, and energy efficiency.

The private sector partners have proposed that this method of financing projects be tested in the East Bay and rolled out statewide to dramatically increase the level of clean energy generation. This unique plan would leverage Federal tax credits, bond financing, State incentives, and combined projects to reduce the costs of the individual projects, the cost of financing, and the cost of transactions. At the $50 million minimum level, it is anticipated that approximately 10 megawatts of clean energy generation will be added along with 5 megawatts of energy reduction.

The Fund will be comprised of both private equity and public bond financing. The bond financing will not be supported by the credit/financial backing of either the City of Berkeley or the City of Oakland, but will instead be based on the credit of the end users of the clean energy and energy efficiency systems, along with a unique credit enhancement facility.

The Fund anticipates the availability of $20 to $40 million in self-generation incentives for renewable energy.

2180 Milvia Street, Berkeley, CA 94704 • Tel: (510) 981-7100 • TDD: (510) 981-6903 • Fax: (510) 981-7199
E-Mail: mayor@ci.berkeley.ca.us Website: http://www.ci.berkeley.ca.us/mayor

EAST BAY

Fund would pay to install clean-energy systems

Berkeley, Oakland plan to aid agencies, small businesses

By Patrick Hoge
CHRONICLE STAFF WRITER

Berkeley and Oakland are poised to become the first cities in the nation to help create an innovative fund that would allow small businesses and public agencies to install solar and other clean-energy systems.

The fund would act like a community development bank by advancing money to install energy-efficient electricity generation and conservation equipment that local businesses would lease and could ultimately buy.

If hired by the cities, a Berkeley firm called Power Factors would create an action plan for raising $50 million to $100 million through sales of insurance-backed public bonds and from private investors.

A $50 million investment would produce about 10 megawatts of clean energy generation and five megawatts of decreased energy consumption, according to a city estimate. One megawatt is enough to power about 750 homes.

Berkeley's City Council on Tuesday approved paying Power Factors $52,500 to identify potential commercial customers and vendors this year. The Oakland City Council has agreed to pay $97,500 but has not approved a contract with the firm.

Both cities must agree to participate for work to begin, and both will get their money back when bonds are issued.

"It seems like a giant step in a positive direction," said Berkeley Mayor Tom Bates, who would like to see the program expanded from commercial to residential customers if it proves viable.

The cost of setting up the program is estimated at $450,000, most of which will be private money.

Power Factors has been working for 15 months on the funding concept, said Dwight Kuhns, the company's managing director. The partnership of energy entrepreneurs intends only to set up the energy fund without making a profit, he said.

> "We're trying to bring the benefits of clean energy to smaller enterprises, which are important to our employment base."
>
> NEAL DE SNOO, *Berkeley energy officer*

The firm has started a nonprofit company, Clean EnGen Group, to conduct the feasibility study and develop the financing structure. The issuing of bonds and administration of the energy fund would be left to an as yet unidentified firm, Kuhns said.

The advantage for Power Factors of having Berkeley and Oakland act as sponsors would be in getting city organizational help and credibility to help with financing and to show that the fund idea is practical and would work elsewhere, he said.

"We believe that this is eminently repeatable with all charter cities in the state of California, and we would love to speak to the state about it," Kuhns said. He estimated that 15 to 25 percent of the fund would come from private investors, with the rest coming from bonds.

Kuhns promised that the fund would cost taxpayers little or nothing. Unlike municipal bonds, it would involve no risk to the credit ratings of Berkeley or Oakland because it would be backed by an insurance program.

That is a key difference from the concept behind a 2001 ballot initiative approved by San Francisco voters that authorized $100 million in revenue bonds to pay for renewable energy production and efficiency projects on city-owned buildings.

None of those bonds has been issued because no financially practical projects have been identified, although the city has pursued large projects — such as a solar field on top of Moscone Center — with other funding mechanisms, said Barbara Hale, assistant general manager for power at the San Francisco Public Utility Commission.

Berkeley Energy Officer Neal De Snoo said the clean-energy fund would benefit smaller companies that don't have the negotiating clout of big corporations.

"We're trying to bring the benefits of clean energy to smaller enterprises, which are really important to our employment base," he said.

E-mail Patrick Hoge at phoge@sfchronicle.com.

Office of the City Manager

CONSENT CALENDAR
April 26, 2005

To: Honorable Mayor and
Members of the City Council

From: Phil Kamlarz, City Manager

Subject: Contract: Clean Energy Fund Development

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to execute a sole source contract and any amendments with the Power Factors, LLC for the development of a clean energy fund in the amount of $52,500 for the period April 27, 2005 through December 31, 2005.

FISCAL IMPACTS OF RECOMMENDATION

The total cost of this development project is estimated at $450,000. The City's cost of this effort is limited to $52,500. The City of Oakland is contributing $97,500. The contractor will raise the balance of the funds. These costs will be reimbursed out of the operating revenues of the fund, if it is successful.

It is anticipated that the project will generate a fund of at least $50 million for the development of clean energy projects at public and private facilities in Berkeley and Oakland. The fund, which will include bond and equity financing, will be secured by revenues from the energy projects. The City would not secure any of the financing except for financing related to projects at municipal sites.

The contract will be paid from the General Fund 010-8202-463-30-38. These funds are in the current budget. The CMS number is GX47D.

CURRENT SITUATION AND ITS EFFECTS

Utility customers who wish to install clean energy projects (e.g., cogeneration, energy efficiency, and solar) are eligible for utility and/or state incentives and tax credits. However, the uptake of new clean energy projects has been slow in the community. This is in part due to the lack of adequate financing, the costs of individual projects, and the complexities of the project transactions.

BACKGROUND

Power Factors, LLC approached the City with a unique method of grouping clean energy projects to reduce the costs of the projects, the cost of financing, and the cost of transactions. The Berkeley/Oakland Clean Energy Fund is a financing vehicle designed to promote the installation of cleaner on-site energy and energy efficiency. The Fund will provide a minimum of $50 million for businesses and facilities in Berkeley and Oakland to finance the procurement

cogeneration (or combined heat and power, or CHP), and energy efficiency systems. Some solar may also be developed depending upon site-specific project economics and the availability of additional State incentive funds. At the $50 million minimum level, we anticipate that approximately 10MW of clean energy generation will be added along with 5MW of energy reduction. The Fund will be comprised of both private equity and bond financing. The bond financing will not be supported by the credit/financial backing of either Berkeley or Oakland, but will instead be based on the credit of the end users of the clean energy and energy efficiency systems along with a unique credit enhancement facility.

The Fund will offer the benefits of aggregation. The cost of equipment, installation, and ongoing maintenance will be optimized by grouping the projects, thereby, lowering the individual project costs. The same will be true for the financing costs. The benefit of the reduced cost of equipment and finance will be passed on to the Berkeley and Oakland businesses who choose to participate in the Fund, offering them clean energy at prices comparable to or less than their current energy costs. The systems will be leased to the Berkeley and Oakland end-users, with the option for them to buy-out the systems during the term of the lease or at the conclusion of the lease.

On April 12, 2005 Council received an information report on this topic, which noted that incentives for renewable energy that are needed to make solar a significant part of this project, have been fully subscribed. That report also stated that the project would not be considered until additional State incentives became available. Upon further consideration, staff recommends that the project proceed without the renewable incentives since incentives for combined heat and power and energy efficiency are still available. The project will still result in energy savings and greenhouse gas emissions. Furthermore, if additional renewable incentives become available, through Senate Bill 1, for example, these could be immediately incorporated into the project.

RATIONALE FOR RECOMMENDATION

After extensive meetings with City staff and the City's financial advisor, staff has concluded that despite the loss of part of the incentives, the proposed method is sound and has good promise of succeeding. The program would leverage ratepayer funds and private equity to reduce the communities' exposure to volatile energy markets and reduce contributions to global warming.

Power Factors, LLC is uniquely qualified to carry out this program due to the fact that they have conceived of this new method and have invested considerable time and effort into the program. It is staff's opinion that no other firm would be able to launch the program in time to secure the required existing subsidies.

ALTERNATIVE ACTIONS CONSIDERED

The City considered other financing methods, such as the San Francisco-type solar bonds, project specific lease financing, and business equity financing, but these methods would be more costly and would have much less chance of success.

The City also considered postponing the project pending the availability of additional incentives for renewable energy. However, such incentives are uncertain and the project is still feasible without a major renewable component.

Clean Energy (CEP)

- **COUNCIL STUDY SESSION**

CEP Focus

- **Distributed Generation**
  - **Combined heat and power (CHP)**
    - **Clean burning natural gas plants that simultaneously generate heat and electricity**
  - **Photovoltaic solar power (Solar)**
- **Energy Efficiency**
  - **Plant and equipment upgrades and retrofits**

CEP Goals

- Save 300,000 million BTUs annually = energy use of approximately 4,000 households
- Provide clean power at competitive and stable prices
- Create installation and service jobs in Berkeley related to energy

CEP Structure

- Partnership with Oakland
- Contract with Power Factors
- Administered by third party
- Grouped projects and pooled financing reduces costs
- Projects are "pre-sold"
- Creative use of private equity, solar tax credits, and cash flows

CEP Target Customers

- Large/medium manufacturing or industrial facilities
  - CHP
  - Solar
  - Energy Efficiency
- Why not residential?

CEP Financing & Risk

- $150,000 start-up
  - $52,500 from City of Berkeley
  - $97,500 from City of Oakland
  - Costs recovered if project/financing are successful
- $50 million bond
  - Not a City bond
  - Guaranteed by financial institutions and insurers
- Risk for CoB limited to $52,500

Comparison to Other Cities

Other Solar Bonds do not provide the same advantages Berkeley/Oakland's does

San Francisco	Honolulu	New Mexico	Berkeley/Oakland
City buildings	City buildings	State buildings	*City & Private Bldgs.*
Payment-savings	Payment-savings	Payment-savings	*Payment-projects*
Limited jobs	Limited jobs	Limited jobs	*Permanent jobs*
Lien on Revenues[1]	No liens	No liens	*No liens*
No tax credits	No tax credits	No Tax Credits	**Tax credits**[2]
			Extra CASH[2]

[1] SF bonds are secured by a pledge of the revenues from Hetch-Hetchy water system
[2] Sale of tax credits makes more cash available to project, enabling lower debt service on bond/ MW installed

Investor equity monetizes the tax credits, reducing the debt service on the Clean Energy Bond: guaranteeing lower electricity pricing to all end users

CEP Next Steps

- **Complete contract w/Power Factors (PF)**
- **Pre-sell projects**
- **Secure additional funding to complete the development plan**
- **Assembles project team**
- **Prepare financing plan and solicit private equity and the company to administer it**
- **Issue bond – target date of 7/1/06**
- **Vendors construct projects**
- **Implement leases and loan payments**
- **Monitor& maintain projects**