Hawaii Targeting November for Green Energy Securitization

BY **KEELEY WEBSTER**
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LOS ANGELES — Hawaii plans to sell $150 million in taxable bonds in November to fund a program to provide low-interest loans targeting residents with poor credit or low income who want to install energy savings devices like solar panels on their homes.

While somewhat similar in concept to PACE (Property Assessed Clean Energy), the bonds would be repaid from a surcharge on the bills of Hawaii Electric customers, not added to the property tax bill.

The Green Energy Market Securitization takes a proven rate-reduction bond structure and uses it to provide low-cost financing to utility customers, its backers say.

Officials at the state's Department of Business, Economic Development and Tourism, who will facilitate the program, said they are anticipating triple-A ratings from the three major rating agencies.

Hawaii Gov. Neil Abercrombie in June 2013 signed the legislation establishing the green infrastructure financing program named GEMS.

The financing model is designed to make clean energy improvements, such as solar panels, "affordable and accessible to underserved community members, including low-and moderate-income homeowners, renters and non-profits," according to a news release.

The bond structure employed through GEMS was modeled after stranded-asset bonds and rate reduction bonds utilities have used for decades.

Traditionally, this type of financing was used to pay for large power plants or centralized systems, said Tan Yan Chen, an energy planning strategist with Hawaii DBEDT.

"What GEMS does is create a large pool of capital to support financing products for clean energy and energy efficiency," said Cisco DeVries, chief executive officer of Renewable Funding.

GEMS takes an existing financing mechanism and applies it to a new challenge, DeVries said.

Hawaii Electric agreed to put the surcharge that backs the bonds on its bills.

In a separate agreement, homeowners or businesses would borrow money from the $150 million pool created through the bond issuance to pay off for renewable energy improvements to their homes like solar panels.

DeVries' firm acts as an outside consultant to help DBEDT run the program.

The bond proceeds will be a one-time transfer to a green infrastructure central fund. The repayment of the bonds is through a green infrastructure bond fund that is a separate fund with a separate trustee from the loan program, Chen said.

"Hawaii's innovation is to provide the same types of low-cost capital that was previously used for power plants and make it available to homeowners and businesses to install solar on their properties," DeVries said.

According to DeVries, the idea has been kicking around for a while, but getting all the pieces right, to work for consumers, regulators, and utilities, was quite an undertaking.

"My hat is off to the folks at the state, who championed this idea," DeVries said. "It is a great idea, but it took a long time to get to this point."

Hawaii would be the first state to employ such a concept to pay for such projects.

The state chose to create GEMS, rather than a PACE program, because of the issues with the mortgage lender, Chen said.

The Federal Housing Administration forbade Fannie Mae and Freddie Mac from purchasing mortgages with a PACE lien, arguing that the lien would have been senior to the mortgage.

The FHA's decision ultimately stalled many residential PACE programs, although it has taken off on the commercial side in California, DeVries said.

PACE residential also has gained ground in the state, because several organizations in the state have worked directly with lenders to provide assurances through their programs.

"We wanted something equivalent to PACE that would not be as hard to get stakeholder agreement on," Chen said. "We looked at the utility securization and saw that other states have received triple-A ratings" using the financing mechanism in the more traditional method of paying off power plants.

The higher rating means the availability of lower-cost financing, Chen said.

She ticked off several reasons that she thinks the program will achieve triple-A ratings. It would have a non-bypassable surcharge applicable to all current and future electric utility ratepayers, a true-up mechanism providing the ability to adjust the surcharge to meet the bond obligation debt service payments, utility successor provisions to ensure bond structure will not be impacted by actions of the utility or any potential successor, the state's pledge against future impairment and the establishment of an irrevocable financing order to be issued by the public utilities commission ensuring there are no changes in the enabling framework.

The program is currently being reviewed by the Public Utilities Commission. DBEDT will facilitate the GEMS financing program via the Hawaii State Energy Office.

Plans to issue the bonds in November are predicated on approval from PUC, which has to approve the financing mechanism because the surcharge that backs the bonds is paid by the utility's ratepayers, Chen said.

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