

Recommendation
***Strategic Review of
Small-Scale Energy Loan Program***

Recommendation: The Small-Scale Energy Loan Program Advisory Committee (SELPAC) recommends that ODOE undertake a comprehensive “strategic review” of the Small-Scale Energy Loan Program (SELP). The objective of this strategic review is to identify necessary changes and desirable improvements to SELP to ensure that it is an effective and robust energy projects loan program.

Background

Over its 37 year history, SELP has made loans of \$612 million to a wide range of borrowers. In aggregate SELP loans are estimated, at the time of loan underwriting, to have saved or generated over 9 million MBTU of energy for borrowers annually which represents over \$176 million in current energy costs. However primarily due to two large loan defaults on loans made between 2007 and 2010, the program currently has a projected cash flow deficit of \$9 million. Despite the negative impacts and repercussions of the deficit, ODOE believes the SELP program has value to the state and is committed to improving the program; conversations at the Oregon Legislature show a similar sentiment. There have been recent discussions as to the best long-term departmental “fit” for SELP. In the 2017 legislative session, a bill was considered that would have transferred the program from ODOE to Business Oregon.

SELP is somewhat unique in that it serves a “niche” energy services market. There are two reasons for this. First, the majority of SELP loans are made to entities whose primary business is *not* energy – for example, Rogue Creamery or school districts. Second, the energy projects funded by SELP tend to be capital-intensive, such as energy efficiency measures and renewable resources, and can be challenging to finance conventionally. The terms and conditions of financing are a primary factor in “GO/NO GO” decisions for these types of energy projects. *(NOTE: Traditional energy providers, such as electric utilities and established independent power producers, are generally experienced with capital-intensive projects and have established project financing mechanisms.)*

From a broader perspective, there are some relatively recent trends in energy project development that should shape SELP’s future. This includes markets forces; state regulations regarding greenhouse gas emissions and renewable resource goals; the emergence of new technologies for energy generation and storage; and actions that support greater physical and cyber security standards. For SELP to be an effective and robust energy projects loan program, it should accommodate both technologies and actions not specifically envisioned when the program was initiated.

Framework for Strategic Review

SELPAC recommends that ODOE seek out a third party or a state of Oregon resource with significant strategic planning experience to facilitate the development of a prospective strategic plan for the SELP program. The developed strategic plan should serve as a resource to inform recommendations to program stakeholders on the future of SELP.

The development of the plan should include input from a broad range of stakeholders, including SELPAC members, ODOE staff, Business Oregon, an appointee from the Governor's Office, Energy Trust of Oregon, other organizations/companies involved with renewable energy projects and energy efficiency projects, electric and gas utilities, consultants/specialists from both the energy sector and building sector, community partners, and interested citizens. Ultimately, the plan should propose a broad 10-year vision for the future direction of SELP that builds on lessons learned from the program's extensive history and current trends in energy and finance. The proposed plan should address, at a minimum, the following topics:

- **Review of program history** – summary of program legislative history, accomplishments and lessons learned.
- **Overall mission** – clear definition of program goals and objectives, proposed initiatives, and metrics for success.
- **Financial models** – proposed financing mechanism should evidence the flexibility to address emerging technologies (e.g., distributed generation, energy storage) and critical energy infrastructure (e.g., cyber security, seismic protection).
- **Loan guidelines** – discuss the adequacy of existing administrative rules to ensure program safety and soundness.
- **Role of SELPAC** – update functions, responsibilities, and makeup of committee if warranted.

Additionally, SELPAC encourages ODOE to (1) survey past SELP loan recipients for their views and assessments of the program and (2) contact prospective loan recipients regarding their perspectives on energy lending and state assistance.

Offer of Assistance

Please contact SELPAC officers if there are any questions or if assistance/support is needed.

Sincerely,

Jack Flug
Chair, SELPAC