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CASE STUDIES OF STATE SUPPORT FOR RENEWABLE ENERGY

Competitive Solicitations and Unsolicited Proposals: Examples from Several State Funds on How to Balance and Refine the Process

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CASE SUMMARY

Case Description

How can the state clean energy funds balance a preference for competitive solicitations with the flexibility to consider unsolicited applications? How other funds have successfully balanced these approaches is a key administrative practice. Fund managers in most states have developed a range of competitive solicitations, from highly structured to more open competitive solicitations. Funds have also developed guidelines for unsolicited applications. Examples of how these administrative processes work are discussed in this case study.

Innovative Features

- While openly stating its preference for making funding decisions through formal solicitation processes, the Massachusetts Technology Collaborative (MTC), which administers the Commonwealth's Renewable Energy Trust (RET), has acknowledged that from time to time there are extraordinary

opportunities where the best interest of the Commonwealth ratepayers may warrant consideration of unsolicited proposals. As a result, MTC has developed a set of published guidelines for reviewing and recommending funding decisions related to proposals received that do not comply with formal solicitations.

- For competitive solicitations, the range of offerings and features varies from state to state. Some innovative features of these solicitations include:
 - A highly structured wind production incentive in Pennsylvania (Phase I).
 - A less-structured wind incentive offering in Pennsylvania where a wide range of debt and other project financing options are encouraged (PA Phase III).
 - A less-structured solicitation where the fund did not rule out direct

- subsidy support for projects, but heavily favored more creative financing offerings by project proponents (CT fuel cell RFP).
- A structured series of solicitations that offered to pay for both feasibility studies and up to 25% of the capital costs of the project installation (MTC premium power (i.e. fuel cell) RFPs).

Results

While no single ideal practice seems to have emerged from state experience so far, the examples offered in this case study suggest that highly structured competitive solicitations, less-structured solicitations, and a willingness to accept certain unsolicited applications all have merit in certain circumstances.

- The MTC guidelines for unsolicited proposals have brought more order to the evaluation and discretionary funding process.
- The PA Phase I structured solicitation produced several wind projects.

- The PA Phase III finance offering was issued in July 2002, with proposals due in September.
- The CT fuel cell “bonus” financing produced 31 project proposals.
- The MTC fuel cell feasibility study program has provided a valuable opportunity for a variety of organizations to explore their interest in and the viability of fuel cell applications. It has also provided MTC with the opportunity to better understand the costs and technical requirements for such projects. The capital cost buy-down program has not produced significant program results as of yet. Some program managers believe that it would have been more beneficial to phase the feasibility and capital costs programs, rather than issuing the solicitations simultaneously. However, in Connecticut’s fuel cell program, greater outreach with targeted efforts to reach specific industry sectors resulted in more high-quality applicants; this approach might also have produced greater results in Massachusetts.

CASE STUDY DETAILS

How clean energy funds have successfully balanced the desire for competitive solicitations with the flexibility of unsolicited proposals is a key administrative practice. The benefits of defined competitive solicitations should be clear: (1) they help focus fund activities and, as a result, can assist the fund in achieving its goals in a more orderly and prudent fashion, (2) they encourage competition for funds, potentially lowering costs while increasing quality and likelihood of success, (3) they result in an open and less politically sensitive proposal selection process, and (4) they reduce administrative burdens and complications. Nonetheless, some funds have found that unsolicited proposals should also be accepted for new endeavors, for non-grant awards, and to encourage a breadth of innovative proposals. Other funds have found that some of the benefits of unsolicited

proposals can be generated through less structured competitive solicitations.

Fund managers in most states have therefore developed a range of competitive solicitations, from highly structured (the Pennsylvania wind energy production incentive) to more open competitive solicitations (fuel cell solicitations in Connecticut and Massachusetts). Some funds have also developed guidelines for unsolicited applications. Examples of how these administrative processes work in specific states are discussed below. While no single ideal practice seems to have emerged from state experience so far, the examples offered below suggest that highly structured competitive solicitations, less-structured solicitations, and a willingness to accept some unsolicited applications all have merit in certain circumstances.

Unsolicited Proposals: Guidelines and Process in Massachusetts

Massachusetts has had perhaps the most experience with an initial, open-ended process that had serious shortcomings and that evolved into a preference for competitive solicitations with an accompanying recognition of (and procedure for considering) the potential merits of unsolicited proposals. During its first two years of existence, the Massachusetts Technology Collaborative (MTC) did not have any specific programs in place, and as a result received more than 150 unsolicited proposals totaling over \$200 million. Unable to address this high volume of proposals effectively, MTC established two main directions for its programs: (1) it developed distinct program areas (green power, premium power (which has now been rolled into the green power program), green buildings, and, most recently, industry support) involving formal competitive solicitations (RFPs), and (2) it established formal procedures for considering unsolicited proposals. This change reflects the belief that unsolicited proposals may have merit, but that competitive solicitations are preferred and hold a number of advantages.

Specifically, MTC has established guidelines for the review of unsolicited proposals, which are published on its web site. These guidelines contain several criteria by which an unsolicited proposal will be judged:

- the impact of the proposal on the renewable marketplace;
- the visibility of the project;
- the financial assuredness of the proposal;
- the potential for securing private financing;
- the time-sensitive nature of the proposal; and
- any emergency or disaster relief element of the proposal.

Initially, MTC established a standing committee of staff and advisers to review unsolicited proposals. Over time it was determined that this committee was administratively burdensome and was not the appropriate procedure to allow MTC to

effectively recognize and respond to extraordinary opportunities for which the procedures had been established. As a result, MTC is testing more of a triage approach to considering such proposals. Keys to the effectiveness of this approach appear to be: (1) establishing a single point of initial contact; (2) expediting identification and assignment of the proposal review to the appropriate individuals – which can include both internal and external resources; and (3) articulating and preserving MTC's flexibility in terms of the time involved and process used for the initial review.

Unsolicited proposals are to initially be in the form of short, concept papers. If the unsolicited proposal merits further consideration, the proposing party is directed to prepare a formal proposal package. The content of the formal proposal package, the time frame for submittal, and the process that will be used for review will be determined by the standing committee and communicated to the proposer at the time of notification of merit. Staff decisions to reject a project are final, while decisions to proceed are subject to normal board approval of project funding.

Other funds have developed a range of competitive solicitations that run the gamut from highly structured to highly unstructured. Below we briefly discuss a reasonably structured offering in Pennsylvania, and then discuss less structured alternatives used in Pennsylvania, Massachusetts, and Connecticut.

Competitive Solicitation: Structured Wind Incentive for Project Finance (PA Phase I)

In the fall of 2000, the Pennsylvania Sustainable Development Fund (SDF) released a \$6 million Phase I competitive solicitation for a structured wind production incentive of up to 1.5¢/kWh for the first five years of operation. The solicitation was highly structured with dates certain for obtaining permits and financing, and for producing electricity from the facilities. A structured solicitation of this nature was used, in part, because, the solicitation was designed

to get projects on line before the scheduled expiration of the federal production tax credit (PTC) at the end of 2001. The application for funding contained extremely detailed questions so that SDF staff could judge the merits of the projects without undue delay. The materials provide an excellent starting point for a state fund that wants to develop wind projects in a short time frame. More details on this solicitation can be found in a separate case study on production incentive auctions.

Competitive Solicitations: Negotiable Options for Project Finance (PA Phase III)

Following on the heels of the successful use of low-cost subordinated debt financing for another Pennsylvania wind project (Phase II, described in a separate case study on subordinated debt financing), the SDF opted to pursue a wider set of possible financial tools for the remaining \$6 million of dedicated wind funds (Phase III). In July 2002, the SDF issued an RFP for new wind projects that allowed respondents to choose from among the following types of incentives: subordinated debt or other debt financing, production incentives, green power price insurance or guarantees, credit enhancement (e.g., through letters of credit), and equity investment. The wide range of eligible incentives reflects the outcome of collaborative discussions with the wind industry to determine its preferences (which will be further revealed through actual project proposals and incentive requests). Though more open than the Phase I solicitation in terms of the types of incentives offered, the Phase III application still contains detailed questions in the realm of due diligence to enable the SDF to move swiftly in choosing projects that are most likely to come on line prior to the scheduled expiration of the PTC at the end of 2003.

Competitive Solicitations: Preference for Non-Subsidies

The Connecticut Clean Energy Fund (CCEF) issued an open-ended competitive solicitation to provide up to \$5 million per year to fund both commercial and demonstration fuel cell

projects in the state. Instead of simply offering a defined fixed production incentive or capital cost subsidy payment, however, CCEF proposed a wider and more flexible set of financing options, including debt financing, leasing, renewable energy credits, air emissions credits, efficiency credits, and arrangements that would provide CCEF a return on its investment. While proposals seeking direct subsidies were not explicitly forbidden, CCEF heavily favored (through the award of “bonus points”) proposals willing to negotiate non-subsidy financing arrangements. The solicitation received a strong response: more than 31 projects are considered eligible for funding. Most contain some form of private funding or co-funding to reduce the level of CCEF contribution. As of May 2002, final selection decisions have not been announced; however, it appears that this unstructured solicitation garnered a number of good, innovative proposals that might not have been generated if a highly structured solicitation process had been used.

Competitive Solicitations: Analytical Costs and Explicit Capital Cost Buy-Down

MTC developed two competitive fuel cell solicitations: (1) MTC would pay for the analytical costs of determining the economic and engineering costs of a fuel cell installation, and (2) MTC would pay up to 25% or \$2 million of the capital costs of a fuel cell system used for premium power applications.

As of June 2002, MTC had made installation grants totaling \$1.9 million for two fuel cell projects: a Nuvera fuel cell system at a telecommunications center and a Fuel Cell Energy system at a Coast Guard facility. MTC also awarded or has commitments to award feasibility study grant awards totaling \$400,000 to study the feasibility of fuel cells for premium power at several institutions, including a research laboratory, a financial institution, a multi-family residential complex, and an internet data center. MTC also rejected four applications for fuel cell feasibility studies at two schools, an assisted living community and a telephone company.

The notion of providing competitive offerings for analytical expenses has proven to be problematic – fewer interested institutions than anticipated have applied for funding at MTC. These results can be attributed to different factors. Based on our review of all these programs, it does not appear that the lack of response to the MTC analytical offering should be read to mean that institutions do not want funding for analytical expenses. Experience with high capital cost installations suggests that institutions lack the skill and expertise to evaluate installations, and that information barriers are an obstacle to more widespread adoption of clean energy technologies. Therefore, providing a cost share for analytical costs is worth considering in any program.

One difference between the results from the CCEF solicitation and that of the MTC may be the fact that CCEF engaged in significant targeted, industry-specific outreach efforts to inform institutions of the availability of funding, and worked with them intensively, including developing financial packages, to develop projects. As a result, many institutions applied for financial support in Connecticut. Conversely, in the first round of solicitations, MTC did not engage in any industry-specific outreach effort.

In contrast to this conclusion about the role of more intensive outreach, program directors at MTC believe that the results from this program can be attributed to how the analytical and capital cost solicitations were phased. They believe the capital solicitation should have been phased to follow the feasibility projects. This would have allowed MTC to insist that a specific level of analytical work be done, either using funds available from MTC or through other previously completed work, prior to considering funding of capital investments. Without this type of a prerequisite, it was difficult for MTC to fully evaluate the technical, financial and managerial merits of proposals for capital cost funding.

These differences in interpretation do not affect the main conclusions reached here: (1) targeted outreach to specific industries, each of which has different power needs, and (2) the availability of funding to engage in project analysis are both critical to the success of any fuel cell funding program.

Finally, both Massachusetts and Connecticut have expressed an interest in working together to improve the quantity and quality of fuel cell projects for both programs. Such collaborative efforts are also an important way to improve administration of these programs.

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INFORMATION SOURCES

MTC unsolicited proposals guidelines:
<http://www.mtpc.org/massrenew/submit.htm>

PA SDF Phase I wind production incentive solicitation and instructions:
http://www.trfund.com/sdf/pdf_docs/Wind_Phase_I_Instructions.pdf

PA SDF Phase I wind production incentive application:
http://www.trfund.com/sdf/pdf_docs/Wind_Phase_I_Application.pdf

PA SDF Phase III wind production incentive solicitation and instructions:
http://www.trfund.com/sdf/pdf_docs/Wind_Phase_III_Instructions.pdf

PA SDF Phase III wind production incentive application:
http://www.trfund.com/sdf/pdf_docs/Wind_Phase_III_Application.pdf

Connecticut fuel cell solicitation:
<http://www.ctcleanenergy.com/rfp/Full%20RFP%20Document.pdf>

MTC Premium Power Installation Grants solicitation:
<http://www.mtpc.org/massrenew/solicitations/PP%20Installation%20Solicitation%20v9.pdf>

MTC Premium Power Planning Grants solicitation:
<http://www.mtpc.org/massrenew/solicitations/PP%20Planning%20Solicitation%20v71.pdf>

Personal communications with: various fund officials

Comments provided by: Deanna Ruffer
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ABOUT THIS CASE STUDY SERIES

A number of U.S. states have recently established clean energy funds to support renewable and clean forms of electricity production. This represents a new trend towards aggressive state support for clean energy, but few efforts have been made to report and share the early experiences of these funds.

This paper is part of a series of clean energy fund case studies prepared by Lawrence Berkeley National Laboratory and the Clean Energy Group, under the auspices of the Clean Energy Funds Network. The primary purpose of this case study series is to report on the innovative programs and administrative practices of state (and some international) clean energy funds, to highlight additional sources of information, and to identify contacts. Our hope is that these brief case studies will be useful for clean energy funds and other stakeholders that are interested in learning about the pioneering renewable energy efforts of newly established clean energy funds.

Twenty-one total case studies have now been completed. Additional case studies will be distributed in the future. For copies of all of the case studies, see:

<http://eetd.lbl.gov/ea/ems/cases/> or <http://www.cleanenergyfunds.org/>

ABOUT THE CLEAN ENERGY FUNDS NETWORK

The Clean Energy Funds Network (CEFN) is a foundation-funded, non-profit initiative to support the state clean energy funds. CEFN collects and disseminates information and analysis, conducts original research, and helps to coordinate activities of the state funds. The main purpose of CEFN is to help states increase the quality and quantity of clean energy investments and to expand the clean energy market. The Clean Energy Group manages CEFN, while Berkeley Lab provides CEFN analytic support.

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