



Oregon

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To: House Committee on Energy and Environment

From: Michael Kaplan, Director
Oregon Department of Energy

Date: April 3, 2017

Subject: HB 2756–1 Small Scale Local Energy Loan Program

Introduction

HB 2756-1 transfers the Small Scale Local Energy Loan Program from the Department of Energy to the Oregon Business Development Department effective January 1, 2018.

Background

The Small Scale Local Energy Loan Program (SELP) supports energy project development in Oregon by providing public, private and tribal stakeholders access to capital for eligible projects. SELP relies on Article XI-J general obligation bonds issued through the Oregon Treasury to originate fixed-rate long-term loans for qualified energy projects that invest in energy conservation, renewable energy, and alternative fuels, or that create products from recycled materials. SELP is intended to operate as an enterprise fund, utilizing loan revenue to meet all program expenses and the program has operated autonomously without general fund support since the program was established by SB 611 in 1979.

The program has contributed to the successful implementation of energy projects in the state; SELP has issued more than 900 loans representing over \$600 million in loan proceeds to borrowers in all 36 Oregon counties. However, as part of a broader state effort to cultivate clean energy manufacturing in Oregon, between the years 2007- 2010 SELP made three high-risk loans that subsequently defaulted resulting in \$30 million in losses. The 2017 annual report for the State Debt Policy Advisory Commission recommended that the Department of Energy hold off making new loans under SELP.

The Department of Energy recently completed refinancing a portion of the bond debt in order to reduce the SELP program's interest expense by around \$3 million. Despite these savings there remains a significant deficit in the SELP bond sinking fund that will need to be resolved prior to the projected first short fall date of 2021.

Bill Summary

Consistent with public statements issued by the Governor's Office and discussions held during the 2016 Joint Interim Committee on Department of Energy Oversight, HB 2756-1 would transfer the Small Scale Local Energy Loan Program from the Department of Energy to the Oregon Business Development Department (OBDD). All SELP resources and positions would be placed under the direction of the Director of OBDD on the bills' effective date of January 1, 2018. The bill envisions the transfer of administrative responsibilities as a "lift and drop" of the program with all existing Department of Energy rules for SELP remaining in effect until repealed or superseded by future OBDD rulemaking.

The bill makes operational changes to SELP. The first and second are related to the Small Scale Local Energy Advisory Committee (SELPAC), a board created to provide approval recommendations to the director on loan applications. OBDD has the Oregon Infrastructure Finance Authority Board, and it is envisioned that this board will provide oversight over SELP loan decisions allowing for the removal of SELPAC. In addition, a provision, ORS 470.100, which allows declined loan applicants to appeal a credit decision to the Governor through SELPAC has been removed in HB 2756-1 in order to centralize accountability for loan decisions within OBDD. Finally, HB 2756-1 would direct OBDD to require SELP loans be paid in full in the event the agency makes a formal declaration of default or the financed project fails to meet established program standards and criteria.

In addition to the operational changes, HB 2756-1 requires OBDD to conduct a study to determine the commercial need for small scale local energy loans in Oregon to identify the highest and best use of SELP loan funds. The findings of the needs study are to be used to inform program rulemaking carried out by OBDD. A report on the needs study findings is due to the Governor and the Legislature no later than September 15, 2018. OBDD may periodically update the information developed through the study to account for changes in the commercial needs for small scale local energy loans in Oregon.

HB 2756-1 repeals the Energy Efficiency and Sustainable Technology Loan Program (EEAST), an idle energy lending program administered by the Department of Energy. The bill would close certain dormant EEAST program accounts and transfer money, representing approximately \$150,000 held in the Jobs, Energy and Schools Fund to the Clean Energy Deployment Fund. These funds are used to provide grants in support of energy conservation work in Public Schools. That work is ongoing and is envisioned to continue under the Clean Energy Deployment Program administered by the Department of Energy.

The bill also directs the transfer of all funds, representing approximately \$3 million from the Alternative Fuel Vehicle Revolving Loan program, an idle energy lending program administered by the Department of Energy, to the SELP Administration and Bond Sinking Fund. Lastly, the bill appropriates to OBDD \$3 million from the General Fund, for the biennium beginning July 1, 2017, for the purposes of administering the SELP program.

Summary

Consistent with public statements issued by the Governor's Office and discussions held during the 2016 Joint Interim Committee on Department of Energy Oversight, HB 2756-1 would transfer the Small Scale Local Energy Loan Program and all of the program's resources to the Oregon Business Development Department, eliminate the Small Scale Local Energy Project Advisory Committee and direct the loan program to require full payment of outstanding loan balances in the event financed projects fail to perform as agreed. The bill requires the Oregon Business Development Department to conduct a study of the commercial need for small scale local energy projects in Oregon and report the findings to the Governor and the Legislature. The bill also repeals the Energy Efficiency and Sustainable Technology Loan Program and transfers funds to the Clean Energy Deployment Fund to support ongoing energy conservation work in Public Schools by the Department of Energy. Lastly, the bill transfers all funds in the Alternative Fuel Vehicle Revolving Loan program to the SELP Administration and Bond Sinking Fund and appropriates \$3 million from the General Fund for Oregon Business Development Department to administer the SELP program.

The Department of Energy anticipates no issues that would preclude the successful transfer of program authority and looks forward to working with Oregon Business Development Department to carry out the provisions of this bill.