

The Pennsylvania Energy Development Plan

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Tom Corbett, Governor
Dana K. Aunkst, Acting Secretary of Environmental Protection & Chairman of the Board

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Introduction

Ensuring access to abundant, affordable, diverse and domestic energy resources for our citizens and businesses is a top priority for the Commonwealth of Pennsylvania. Rapidly increasing worldwide demand for energy and growing political tensions associated with foreign energy resources require Pennsylvania to take aggressive steps to develop and use its plentiful indigenous energy resources. Such steps will help move Pennsylvania toward energy price stability, a more diverse and secure energy supply and a cleaner environment. In addition, development of a robust, clean, advanced energy sector presents tremendous economic growth opportunities for Pennsylvania. New, advanced energy companies and projects will garner new investment to Pennsylvania, create high-tech jobs that are attractive to young people and stimulate technological innovation in the state. The Pennsylvania Energy Development Authority (PEDA or the authority) is one of the commonwealth's most versatile tools to help build this growing sector of the economy.

Among other things, PEDA is charged with developing an Energy Development Plan (plan), which will serve as an articulation of its own energy policy goals and set out a plan for the allocation and distribution of financial and technical assistance. PEDA also is a part of the commonwealth's broader energy strategy, as articulated in Governor Corbett's State Energy Plan that was released in January 2014, and the PEDA Energy Development Plan must be viewed in that broader context. The board issued its first Energy Development Plan for public comment on Sept. 26, 1984. After reassessing its mission and objectives, in 2008, the board issued an updated Energy Development Plan.

Mission

The authority's mission is to expand the market for Pennsylvania's clean, indigenous energy resources, to enhance Pennsylvania's energy independence and energy security through greater energy diversity, and to stimulate economic development and job creation in Pennsylvania, all in an environmentally beneficial manner.

Background

Authority Structure and Governance

The authority is a public corporation exercising public powers of the commonwealth. The authority is empowered to use a variety of financial tools to provide assistance to clean, advanced energy projects. The authority may award grants, loans and loan guarantees, issue revenue bonds or notes and enter into contracts to help finance worthwhile projects.

The authority is governed by a 19-member Board of Directors and managed by an Executive Director and staff. The authority was created by the Pennsylvania Energy Development Authority and Emergency Powers Act of 1982 (the "act") for the purpose of providing financial and technical assistance to energy projects within the state.

Its first board of directors convened in 1984 and the authority remained active until 1995. On April 8, 2004, Governor Rendell signed Executive Order 2004-5 revitalizing the inactive authority and transferring it to the Department of Environmental Protection (DEP) for staffing. On March 2, 2005, the newly reconstituted board met for the first time to consider draft bylaws and guidelines, elect officers, confirm a new Executive Director, and consider its mission and goals.

The authority is governed by the act and its bylaws as well as several statutes generally governing authorities and similar entities, including the Adverse Interest Act, 71 P.S. §§ 776.1 *et seq.*; the Ethics Act, 65 P.S. §§ 401 *et seq.*; and the Governor's Code of Conduct, 4 Pa. Code §§ 7.151. *et seq.* In addition, each solicitation may have additional restrictions arising from the source of the funds being offered.

The authority's 19 board members include nine members appointed by the Governor, four members of the state Legislature or their designees (two from the Senate and two from the House) and six *ex-officio* members, including the Secretaries of DEP, departments of Community and Economic Development (DCED), Agriculture (PDA), and Banking and Securities (BAS); the Chairman of the Public Utility Commission (PUC); and the Consumer Advocate. The Governor has named the Secretary of DEP Chairman of the authority. This board exercises all powers of the authority, including the power to award financial assistance to energy projects.

Defining Clean, Advanced Energy

The authority recognizes that the clean, advanced energy sector consists of many different kinds of companies, fuels and technologies. Although, as discussed below, all of these technologies may not be included in every solicitation, each must be considered a part of this sector and any may be included in some future PEDDA solicitation, subject to funding restrictions and board approval.

Advanced energy includes alternative energy sources as defined in the Alternative Energy Portfolio Standards Act (AEPS), 73 P.S. §§1648.1 - 1648.8, such as solar energy, wind, low-impact hydropower, geothermal, biomass, biologically derived methane gas, including landfill gas; fuel cells; coal-mine methane; waste coal; coal liquefaction; coal polygeneration; integrated gasification combined cycle; and demand management measures, including recycled energy and energy recovery, energy efficiency and load management. In addition, clean, alternative fuels for transportation, including but not limited to bio-diesel, ethanol, hydrogen and electricity, are also part of the advanced energy sector. Included in this sector are companies and technologies that manufacture component parts of the foregoing technologies; universities, colleges and companies that perform research to advance or commercialize these technologies or create new clean energy technologies; and companies that install and service these technologies.

Pennsylvania's Indigenous Resources

Pennsylvania is fortunate to have abundant energy resources within its borders. Yet it exports approximately \$30 billion annually to procure energy resources from outside our borders.

Pennsylvania's resources include:

- 27 billion tons of known coal reserves¹ – enough to supply Pennsylvania's coal needs for 250 years;
- Expansive natural gas reserves, ranking Pennsylvania second in the nation in natural gas production in 2013;
- A significant portion of the 61 trillion cubic feet of the Northern Appalachian Coal Basin's supply of coal-bed methane²;
- An annual production of over 3.6 million barrels of Pennsylvania grade crude oil³, which ranks Pennsylvania 19th in the nation for crude oil production in 2013;
- 3,307 megawatts of potential wind capacity⁴ - enough to power more than 4 million Pennsylvania homes;
- The first commercial wind farm east of the Mississippi River and over 660 wind turbines ranking 15th in the nation for total installed wind capacity⁵;
- An 850 MW solar energy requirement, one of the nations' largest;
- 42 active landfill gas processing plants which exceed 37 billion cubic feet of annual production⁶;
- Nearly 5,000 megawatts of long-term biomass co-firing potential⁷; and
- Significant opportunities for incremental hydropower, combined heat and power and energy efficiency.

To determine its investment priorities, PEDAs must consider the likelihood of success, the sustainability and the replicability of each project in light of the availability of those indigenous resources.

¹ Pennsylvania Coal Association, 2011 Coal Data Book

² EPA 816-R-04-003 (Kelafant et al., 1988).

³ U.S. Energy Information Administration. <http://www.eia.gov/state/rankings/?sid=PA#series/51>

⁴ NREL, 2011 Estimates of windy land area and wind energy potential by state.

⁵ American Wind Energy Association, 3rd Quarter 2012 Market Report (2012).

⁶ Pennsylvania Department of Environmental Protection. "2010 Landfill methane summary statistics."

⁷ Black & Veatch, 2004, "Economic Impact of Renewable Energy in Pennsylvania"

Pennsylvania Energy Policy

Financial tools like PEDA are important to develop a diverse and domestic energy sector. Pennsylvania has already taken several important steps to create such a sector. In 2004, Pennsylvania enacted AEPS, which requires that, within 15 years, 18 percent of Pennsylvania's retail electricity must be generated from alternative energy resources. Eight percent of that total (tier I) must be met through solar energy, wind power, LIHI certified low-impact hydropower, geothermal energy, biologically derived methane gas fuel cells, biomass energy or coalmine methane. Ten percent of that total (tier II) must be met through any of the following resources: waste coal, distributed generation systems, demand-side management, large scale hydropower; Municipal Solid Waste; generation from wood byproducts, or IGCC. AEPS also required promulgation of statewide net-metering and interconnection standards. Those standards were further strengthened in the 2007 amendments to AEPS. Act 129 of 2008 defined energy efficiency and demand response obligations for electric public utilities in the state, with phase two requirements adopted by the Pennsylvania PUC that will require additional energy efficiency requirements phased in through May 2016.

In addition, DEP, DCED and PDA each have programs that can be used to help finance advanced energy projects. These programs offer various financing options, including low-interest loans, taxable and tax-exempt bond financing and grant programs. These departments meet periodically to coordinate various projects and programs. PEDA is a participant in those efforts.

More recently, in January 2014 Governor Tom Corbett released Pennsylvania's first ever State Energy Plan. This comprehensive plan lays out the impressive energy resources of the state, and how these resources are being marshaled to create jobs, diversify and lower energy costs, and increase the energy independence and security of the state. The plan is available online at governor.pa.gov/energy.

PEDA's Energy Policy

Policy Objectives

The Board of Directors has identified several overarching policy objectives for the authority. These are the enhancement of energy security and energy diversity in the state; the promotion of cleaner, more environmentally beneficial energy production; increased economic growth for the alternative and renewable energy sector, including the greater utilization of indigenous energy resources; the furtherance of technological innovation in critical areas, the promotion of energy conservation and energy efficiency in all sectors; and the need for increased public confidence in, and support of, clean energy technologies. Each of these policy objectives is discussed below.

Disruptions in the energy supply caused by extreme weather conditions, as well as potential disruptions from security threats abroad, have clearly demonstrated the vulnerability of the U.S. energy supply. PEDA seeks to promote increased energy security in three ways.

- PEDA will promote the development of energy resources indigenous to Pennsylvania. Pennsylvania has an abundance of natural resources within its borders, including natural gas from the Marcellus, Utica and other unconventional shale formations, coal and waste

coal found in the western and northeastern portions of the state and biomass associated with agricultural operations. Using these resources will lessen Pennsylvania's reliance on foreign sources of energy.

- PEDA will promote the diversification of energy generation by supporting a broad cross-section of clean energy technologies.
- PEDA will encourage the deployment of distributed generation projects for critical public infrastructure around the state.

The promotion of alternative and renewable energy resources and technologies is critically important to protecting the environment. Thus, every project seeking PEDA funding must demonstrate its contribution to energy conservation or renewable energy, or its ability to significantly improve upon the environmental performance of more traditional resources. Every deployment project will also be required to provide a one year Project Results Report, which will include environmental performance data, to help guide future funding decisions.

PEDA will consider the economic development potential of each proposed project as it fits into the larger context of Pennsylvania's advanced energy market. On the project level, PEDA will consider the project's potential to create new jobs, retain existing jobs, attract new investment to the state or result in savings to consumers or revenue generation for other beneficiaries such as farmers or other landowners. In a broader sense, PEDA's goal is to expand the market for clean, advanced energy technologies, services and fuels.

PEDA will promote the development of technological advances in alternative and advanced energy. For example, with respect to solar photovoltaics, advances that enable increased efficiency and lower costs are desperately needed. In the areas of energy efficiency and demand management, technologies that can respond faster and more directly to changing market prices are needed. For fuel cells, advances in the areas of power density and cell efficiency are needed. PEDA has already funded several research projects focused on these technologies and will continue to look for technological and commercial innovation in these and other areas.

PEDA will make energy conservation and efficiency technologies and practices a high priority. PEDA will seek to invest in projects that showcase the extraordinary financial opportunities energy efficient technologies can present and the potential for significant savings to entities that institute energy efficiency and energy conservation measures.

PEDA recognizes that, in order for this sector to be successful, the public must support, and have confidence in, alternative energy technologies. Although PEDA does not anticipate funding projects designed solely for educational purposes, PEDA will look for projects that are highly visible and have strong potential to demonstrate to significant numbers of Pennsylvanians the reliability and economic benefits of these technologies.

Operational Guiding Principles

The board has identified flexibility and responsiveness to the energy markets, transparency, maximization of capital, and sound financial decision-making as guiding principles for all of the authority's activities.

In order to be responsive to the constantly changing energy marketplace, PEDDA will bring the most flexibility possible to the design of its financing vehicles and to the focus of its solicitations. Financing vehicles such as loan guarantees, insurance products, and flex-loans, which can have delayed repayment schedules or very low interest rates, may be more helpful than traditional financing for some types of projects. Similarly, PEDDA will emphasize flexibility in the focus of its solicitations, which may be broadly targeted to the general advanced energy community or narrowly targeted toward specific areas where market gaps exist. For example, PEDDA may make specific offerings targeted at projects that can help fulfill the ambitious solar requirements of the AEPS or distributed generation projects to ensure that first responders have power in the event of grid failure. Also, PEDDA receives funding from a variety of sources, many of which contain additional restrictions on fund use, which will require PEDDA to adapt its programs to work within those restrictions. Thus, PEDDA recognizes that its application criteria and procedures will vary with different solicitations and funding sources. However, each solicitation will be structured to further the policy objectives and operational guidelines set forth in this plan.

The board also believes that transparency is critical to the effective operation of the authority. By statute, all funding decisions on projects are made by vote of the board at public meetings and PEDDA financials may be audited every two years by the Pennsylvania Auditor General. In addition to those statutory requirements for transparency, PEDDA also intends to offer much of its financing on a competitive basis, through publicly announced solicitations, so that all qualified projects will have a chance to secure funding.

PEDDA will seek to leverage its capital to the maximum extent possible in order to stretch the taxpayers' funds as far as possible. PEDDA intends to do so by working with the investment and developer community to leverage its funds to the extent possible, by requiring significant matching funds for all projects, except in very rare circumstances, when allowable, by investing in projects that are likely to yield significant returns and, in appropriate situations, by requiring successful funding recipients to provide a return on investment to PEDDA. In considering ways to manage and increase its own funding, the board and staff will explore a variety of options. Federal grants, private foundation grants and legislative appropriations are all options for fund raising.

Finally, sound financial decision-making is critical to PEDDA's future. PEDDA intends to leverage all funding to the extent possible by requiring all projects to demonstrate that they have obtained significant matching funds, except in rare cases. Appropriate matching funds can come from federal, state, local or private sources. PEDDA particularly notes the desirability of a private funding component in evaluating proposed projects since private participation can be a strong indication of economic viability. When evaluating proposed projects, PEDDA will attempt to identify whether projects have sufficient funding to enable project completion. In the case of loans and loan guarantees, PEDDA, in partnership with the DCED, will ensure that the credit of all borrowers is thoroughly evaluated and that all financing is awarded to borrowers who evidence a reasonable likelihood of being able to repay such loans.

Criteria for Evaluating Proposed Projects

As explained above, criteria for specific solicitations will vary to some extent according to a variety of factors, including the restrictions on the funding source. However, the following criteria will generally be considered for all deployment projects:

- Potential to expand the market for Pennsylvania's indigenous energy resources;
- Potential to enhance Pennsylvania's energy independence and energy security through greater energy diversity;
- Ability to demonstrate significant environmental benefits, including mitigation of greenhouse gas emissions;
- Potential either to promote energy efficiency or to increase energy production from alternative and renewable energy sources;
- Support to a new business or venture engaging in the demonstration of new applications of or next phase clean advanced energy technology deployment with potential for wide scale applicability in the state;
- Potential economic benefits for the state, which may be in the form of job creation, future growth potential, new investment, savings to consumers and/or revenue generation for other beneficiaries such as agricultural businesses, local governments or other landowners;
- Technical feasibility and cost-effectiveness of the project; and
- Whether any land use decisions by the project are consistent with local zoning and planning and the commonwealth's Keystone Principles.

Similarly, criteria for research projects will necessarily require some flexibility; however, PEDAs will generally consider the following criteria for research projects:

- Potential of the proposed technology to make a significant contribution to alternative energy resource development or use;
- Consistency of research objectives with the goals of PEDAs;
- Potential for significant environmental benefits;
- Potential for the proposed technology to be practically applied;
- Soundness of the research methodology;
- Qualifications of the research project director and staff;
- Potential for the technology to be economically competitive;
- Applicability to state energy resource development or use;
- Likelihood that the research will lead to greater energy independence and energy security through the development of greater energy diversity in Pennsylvania's energy resources; and
- Favorable comparison of the cost of the research versus the potential benefits.

Procedures for Reevaluation and Updating of Plan

At least once every three years, the board will undertake a review of the plan and will make whatever modifications are appropriate to respond to changing times and changing energy markets. The Executive Director will ensure that the plan is distributed to the board at the first meeting of every third year, beginning with 2015, or more often, if appropriate. Upon distribution of the plan, the Executive Director will make any recommendations for additions or changes to the plan that he or she deems appropriate. In the event that the board chooses to make any revisions, the revised plan shall be issued in draft for public comment and all public comments considered before the revised plan is finalized.