



The 2006 Annual Report of the Sustainable Development Fund

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I. INTRODUCTION

Since its inception seven years ago, the Sustainable Development Fund (SDF) has played a leading role in accelerating the region's investment in a clean energy economy. SDF has been one of the nation's most creative and effective champions of sustainable energy. Financing projects ranging from wind farms to high energy performance buildings, SDF's efforts have been critical in Pennsylvania's emergence as a leading center for clean and renewable energy.

This 2006 Annual Report was prepared by SDF and is submitted to the Pennsylvania Public Utility Commission and to the Joint Petitioners in the PECO Energy restructuring proceeding. This report discusses the initiatives and accomplishments of SDF in 2006.

II. ACCOMPLISHMENTS

A. Highlights

During 2006, SDF approved \$975,391 in new project funding, which funding leveraged an additional \$11,057,745 from private and public capital sources.

In 2006, SDF's portfolio of projects generated 348,991MWh of wind power and 581 MWh of solar photovoltaic power, and conserved 4,487 MWh of electricity. SDF's cumulative figures since inception are 1,105,688 MWh of wind power and 1,197 MWh of solar photovoltaic power generated, and 12,784 MWh of electricity conserved.

Other highlights for the twelve-month period include:

- The three special initiatives funded with the PECO-Unicom merger settlement funding – wind, solar photovoltaic (“PV”) and public education on renewable energy – have committed virtually all of their funding. In 2007, all of these initiatives will be wrapping up their final projects and coming to a close.
- In the last two years, the wind industry in Pennsylvania has changed from modest-sized local companies to major international players. Gamesa Corp., the second largest wind energy company in the world, has invested \$84 million to create 300 manufacturing jobs at the abandoned Fairless Hills U.S. Steel plant outside of Philadelphia, over 200 manufacturing jobs at a new facility in Ebensburg, PA near Johnstown, PA and 30 more jobs at Gamesa's North American corporate and development headquarters in Philadelphia. Iberdrola, a Spanish company and the largest owner and operator of renewable energy facilities in the world, has acquired two of the independent wind developers that SDF has financed (Atlantic Renewable Energy Corporation and Community Energy, Inc.). These actions bring serious new private capital and project development capacity to Pennsylvania. SDF now believes that large utility-scale wind farms no longer need public subsidy beyond the federal Production Tax Credit, so SDF's wind support will target the smaller community wind projects in the future.
- The solar industry in Pennsylvania is undergoing similar changes. Mesa Energy, a local solar PV integrator for whom SDF provided funds to obtain initial technical training to become an SDF-

qualified Solar PV installer, has merged with SunTechnics, which in turn is owned by Conergy, the world's largest renewable energy system integrator.

- These wind and solar business stories are examples of how SDF addresses the early market risks of high transaction costs and uncertain market demand when other potential market participants are unwilling to. It does so by conducting thorough due diligence, developing technical expertise and establishing relationships with key market participants. This information investment is reinforced with mission-oriented capital that is structured with performance milestones, including monetary penalties for non-performance. These investments of capital and information provide the bridge that conventional investors and creditworthy power purchasers needed before committing their resources. The return on these investments has been not only the interest earned on the SDF project debt, but also the economic and environmental benefits associated with rapidly expanding, self-organizing wind and solar industries in Pennsylvania. These private investments represent some of the most dramatic increases in our domestic capacity to build fuel-less and emission-free electricity generating facilities.
- **Hazleton community wind project.** SDF will be providing a \$193,441 wind energy production incentives grant to the Hazleton wastewater treatment facility to help them install a 600kW wind turbine that will generate approximately 60% of the facility's power needs. The SDF funding will be paid as a production incentive earned at the rate of \$0.075 per kWh. This level was set to pay the incentive in approximately two years. Construction should be completed by late 2007. The project will be net metered.
- **Packaging of SDF solar PV projects for "sale" to PEDA.** To increase the budget of the SDF Solar PV Grant Program beyond the initial \$4 million that was provided in the settlement agreement of the PECO/Unicom merger, SDF applied to the Pennsylvania Energy Development Authority ("PEDA") for funding for applications that had been received by the Solar PV Grant Program but not yet installed. In late 2006, PEDA awarded SDF a total of \$701,366 for 42 solar PV systems that had applied to SDF. SDF worked as a local deployment agent to help PEDA identify good projects and to deploy the PEDA dollars effectively. The PEDA grant allows SDF to expend the program support to PV projects that otherwise could not receive financial support from SDF.
- **PA Clean Energy Communities Campaign.** SDF is working with SmartPower on a campaign to enlist local townships in a clean energy marketing program. Modeled after the Connecticut campaign also conducted by SmartPower, the Pennsylvania campaign had identified 39 communities in southeastern Pennsylvania that are interested in joining the campaign. As of December 31, 2006, nine townships have committed to purchase 20% of their electricity from clean sources by 2010. The campaign has brought together the companies marketing clean energy, a variety of nonprofit environmental groups and SDF to work together to build the market for clean energy.
- **Pennsylvania Advanced Industrial Technology Fund (PA-AIT).** In 2002, SDF and Blue Hill Partners (a venture capital firm focused in the sustainable technology sector) created the Pennsylvania Advanced Industrial Technology Fund (PA-AIT), a \$2,210,000 venture capital and incubator fund for early stage clean energy companies. This fund has provided portfolio companies with both capital and management resources in exchange for equity positions, and

has leveraged SDF's financial and technical resources, while at the same time diversifying SDF's portfolio risk. In 2006, PA-AIT was virtually fully invested in three portfolio companies: Princeton Energy Systems, Encelium Technologies, and Connected Energy.

- ***Clean Energy: Today's Reality. Tomorrow's Opportunity.*** In June, 2006, The Reinvestment Fund used a grant from the Otto Haas Trust to publish *Clean Energy: Today's Reality. Tomorrow's Opportunity*, a report that features the work of the Sustainable Development Fund. This report is available in PDF format at www.trfund.com/resource/downloads/TRF%20Energy-final.pdf.
- SDF has been working hard to recapitalize itself and this will be a major focus of activity in 2007.

B. Company / Project Financing and Core Grants

1) Energy Efficiency Funding in the Fresh Food Financing Initiative

In 2006, The Reinvestment Fund approved \$12.5 million in financing to ten full-service supermarkets in underserved communities under its Fresh Food Financing Initiative program. To encourage the purchase of highly efficient equipment packages, SDF has set aside up to \$1 million in financing for clean energy and energy efficiency measures. It is expected that the equipment packages will be finalized and financing closed on the supermarkets in the second quarter of 2007.

2) SDF Predevelopment Loans – Friends Center

One of the SDF's goals last year was to create a Green Building Pre-Development Loan Fund in conjunction with the Delaware Valley Green Building Council (DVGBC). The goal of this fund would be to incorporate L.E.E.D. (Leadership in Energy and Environmental Design) practices into the planning and design of building projects throughout the tri-state region. This program was launched in 2005. The Friends Center Corporation, a §501(c)(3) organization, was approved for a \$139,500 pre-development loan to fund the design of a Deep Standing Column Well Geothermal Exchange system for the Friends Center at 15th and Cherry Streets and to drill a test hole at the site to prove the efficacy of the full geothermal project (estimated to cost \$580,000). The proposed geothermal heat exchange system is part of a \$10.6 million renovation to the 100,000 square foot Friends Center campus located at 15th & Cherry Streets in Center City Philadelphia. The project combines Pennsylvania's first installation of a Deep (in excess of 1,000 feet) Standing Column Geothermal Exchange system with other clean energy measures which include a 16kW photovoltaic solar array, an improved thermal envelope, efficient daylighting and lighting controls, a power purchase agreement for 100% wind-generated electricity, and tenant conservation policies designed to maximize opportunities for energy efficiency. By using these demand reduction and renewable energy technologies, Friends Center will reduce its heating and cooling energy demand by 47% (a reduction of 3,654 MBtu per year) and its fossil fuel emissions by 100% (a reduction of carbon emissions by 326 tons per year). The Friends Center is an optimal site for demonstrating and promoting the feasibility of this innovative and highly efficient geothermal exchange system that can be replicated in other dense urban settings where other forms of geothermal exchange are not feasible due to the lack of available real estate. Visitors and pedestrians will be educated through

permanent interpretive displays at street level and in the lobby of the Friends Center. Collaborative agreements with the Delaware Valley Green Building Council, the Philadelphia Chapter of the American Institute of Architects, and the Energy Coordinating Agency of Philadelphia will provide educational opportunities on environmentally responsible design for building professionals, school children, visitors and regional Friends Meetings.

In 2006, The Friends Center Corporation elected not to draw down on the SDF pre-development loan commitment of \$139,500, but instead to proceed directly to negotiation with SDF for the construction financing for this project. SDF and The Reinvestment Fund have together proposed a \$6.1 million financing package for this project. Final negotiation and approval of the construction financing is expected to occur in mid-2007.

3) Core Grants

In 2006, the SDF board approved seven new core grants. The total of the grants approved was \$169,500 and the total value of the projects supported by these grants was approximately \$9,655,000.

The core grants approved in 2006 include:

- A grant of \$20,000 to PJM's Mid Atlantic Demand Response Initiative for a multi-state study of value of demand response and localized marginal costs. This work demonstrated the financial value of demand response and will be used to make the case at PJM and the Pennsylvania Public Utility Commission for expanding demand response programs.
- A grant of \$25,000 to the St. Mary Medical Center Foundation for the installation of a green roof and garden at a hospital. This will be one of the largest green roofs in Philadelphia and will serve as a visiting and meditating space for patients and their families.
- A grant of \$30,000 to the Green Building Alliance of Central PA for a post-occupancy analysis of energy consumption and air quality at LEED buildings in PECO service territory. This project will be the first follow-up study of green buildings in Pennsylvania to actually whether the buildings' performance lives up to the promise as far as energy efficiency and air quality.
- A grant of \$2,500 to the National Renewable Energy Lab for support for the 2006 NREL Industry Growth Forum in Philadelphia. This event is described in the following section of this report.
- A grant of \$7,000 to the Pennsylvania Environmental Council to support the Philadelphia Sustainability Awards program. SDF will be on the awards committee and will help nominate and select the award recipients.
- A grant of \$75,000 to Maple Point Developers to support for solar PV measures in 38 new solar townhomes in Juniata Park section of Philadelphia. This will be the largest development of high-performance solar homes in southeastern Pennsylvania.

- A grant of \$10,000 to Penn State College of Engineering to support the Penn State entry in 2007 Solar Decathlon. This is Penn State's first invitation to participate in this exciting event on the mall in Washington D.C. and the faculty and students from the engineering and architectural schools are working together to an extent rarely seen before. The project team has created a website (www.solar.psu.edu/) to share information about their design approach with the public.

As of December 31, 2006, the SDF board had approved a cumulative total of 66 core grants, totaling \$1,515,792 in SDF support. The total value of the 66 projects supported by SDF's core grant is approximately \$95,928,000.

C. SDF Marketing and Networking Activities

In 2006, SDF continued to expand its marketing efforts by both sponsoring and speaking at a number of successful conferences, and meeting with companies, non-profit organizations, major institutions and public entities. During the report period, SDF pursued the following marketing strategies:

1) *TRF/SDF Clean Energy Report*

In June, 2006, The Reinvestment Fund used a grant from the Otto Haas Trust to publish *Clean Energy: Today's Reality. Tomorrow's Opportunity*, a report that features the work of the Sustainable Development Fund. This report is available in PDF format at www.trfund.com/resource/downloads/TRF%20Energy-final.pdf.

2) *Pennsylvania Wind Industry Meeting*

On June 21 and 22, 2006, SDF brought together about 30 high-level representatives of wind developers, utility companies, state government and public organizations to discuss the future of wind in Pennsylvania and how the sustainable energy funds might be most effective in financing future wind projects.

3) *2006 NREL Industry Growth Forum*

On October 24-26, 2006, the National Renewable Energy Lab ("NREL") held the 2006 NREL Industry Growth Forum in Philadelphia. SDF was a sponsor of the event, so was featured on the program signage and materials. SDF staff also appeared as a panelist and participants in the event.

4) *The SDF website* (www.trfund.com/sdf)

The SDF website, which is part of The Reinvestment Fund's website, continues to be an essential means of distributing information regarding SDF. The website contains information about SDF's financial products and program offerings, financing request forms, requests for proposals, SDF documents and reports, background information about SDF, and links to related websites.

5) Conferences and Speaking Engagements

In 2006, SDF continued to participate in numerous conferences and public meetings as speakers and active participants in order to raise awareness of SDF activities among key stakeholder groups, including:

- Brief comments at the dedication of the new PV system that extended Media Borough's micro-grid (January 4, 2006, Media, PA).
- Attended the Pennsylvania Energy Development Authority (PEDA) board meeting (January 11, 2006, Harrisburg).
- Participated in the Philadelphia Million Solar Roofs meeting at U.S. Department of Energy (January 19, 2006, Philadelphia).
- Participated in the CESA manager monthly conference calls (January 20 and every third Friday thereafter).
- Participated in the strategic planning forum for the Ben Franklin Technology Partners (BFTP) (February 16, 2006, Philadelphia)
- Represented SDF at the Pennsylvania Sustainable Energy Board meeting (March 1, 2006, Harrisburg).
- Presentation on clean energy to the board of the Delaware Valley Regional Planning Commission (DVRPC) (March 1, 2006, Philadelphia).
- Participated in the BFTP Investment Committee meetings (March 2 and November 30, 2006, Philadelphia).
- Presented "How Pennsylvania's Sustainable Development Fund Evaluates Wind Projects" at the Community Wind Energy 2006 conference (March 7, Des Moines).
- Presented "TRF Sustainable Development Fund: Incentive Financing for Clean Energy Market Development" to Philadelphia Industrial Development Corporation (PIDC) (March 15, 2006, Philadelphia).
- Presented "Thoughts on Promoting Alternative Energy Development in Pennsylvania" to the Pennsylvania House Majority Policy Committee (March 16, 2006, Harrisburg).
- Participated in the meetings of the Joint Leadership Group on Environmental and Community Development (March 22 and July 11, 2006, Washington, DC).
- Presented "TRF Sustainable Development Fund: Incentive Financing for Clean Energy Market Development" to German government officials and German journalists (March 24, 2006, Philadelphia).
- Participated in the RPS Implementation Meeting at the Bloustein School of Rutgers University (March 26, 2006, New Brunswick, NJ).
- Participated as an exhibiter at Globalcon 2006 (March 29, 2006, Philadelphia).
- Participated in two Triple Bottom Line meetings (April 3-4, 2006, Chicago, and July 24-25, 2006, Minneapolis, at no cost to SDF).
- Participated in the Philadelphia premier of *An Inconvenient Truth* and the meeting with Al Gore and Kathleen McGinty (April 27, 2006, Philadelphia).
- Presentation to the Clean Energy States Alliance semi-annual meeting (May 22, 2006, Madison, WI).
- Participated as a panelist at the PennFuture Clean Energy Enterprise Conference (May 25, 2006, Camp Hill, PA).
- Participated in meetings with the Pennsylvania Treasury Department to advise on the creation of the Keystone Green Investment Fund (June 1 and December 20, 2006, Harrisburg)
- Testified before the Maryland General Assembly (June 13, 2006, Annapolis).
- Attended Alliance to Save Energy's luncheon with Governor Rendell (June 15, 2006, Philadelphia).

- Convened a Pennsylvania wind industry meeting on behalf of the PA SEFs (June 21-22, 2006, Hershey).
- Interviewed by Fox News about the solar PV systems at Los Balconies at Norris Square (July 18, 2006, Philadelphia).
- Participated in the Pennsylvania Environmental Council annual meeting (September 13, 2006, Harrisburg)
- Participated in the NJ Clean Energy Conference (September 18, 2006, New Brunswick, NJ).
- Participated at the PennFuture Green Power: Turn It On! awards luncheon (September 21, 2006, Philadelphia).
- Participated in the Pennsylvania Wind Advocates Retreat (September 26-27, 2006, Fallingwater).
- Participated in the DEP Regional Roundtable (southeastern PA) (September 27, 2006, Norristown).
- Participated in a press conference at Lower Makefield Township for the PA Clean Energy Communities Campaign (October 3, 2006, Lower Makefield)
- Participated in PennFuture's Partners Retreat (October 4-5, 2006, Hershey, PA).
- Presented at the United Nations Environmental Programme's Sustainable Energy Finance Initiative meeting (October 9-10, Paris, at no cost to SDF).
- Presented at the Institutional Investors Group on Climate Change meeting (October 11, 2006, Paris, at no cost to SDF).
- Participated as a sponsor and panelist at the NREL Industry Growth Forum (October 24-26, 2006, Philadelphia).
- Participated as a panelist at the annual Opportunity Finance Network conference (November 2, 2006, Washington, DC).
- Presented at the DVRPC conference "The Green Building Boom" (November 2, 2006, Philadelphia).
- Participated in the PA Climate Change Roadmap Work Group Meeting (November 6, 2006, Harrisburg).
- Participated in Governor Rendell's announcement of Conergy's decision to open a Philadelphia office for east coast operations, and luncheon with Secretary McGinty and German company officials (November 9, 2006, Philadelphia).
- Accompanied a delegation from Fujian Province in China to the Gamesa manufacturing facility at Fairless Hills and later spoke about wind development in Pennsylvania (November 13, 2006, Fairless Hills).
- Presented at the German Marshall Fund Sustainable Energy Conference (November 16, 2006, Boston, at no cost to SDF).
- Participated in the meeting of Commission Demand Side Response Working Group (November 16 and December 8, 2006, Harrisburg).
- Presented "Wind Energy in Pennsylvania: An Update for the Consumer Advisory Council" to the PUC Consumer Advisory Council (November 28, 2006, Harrisburg)
- Participated as a sponsor in a planning meeting of the Pennsylvania Environmental Council's Philadelphia Sustainability Awards (December 6, 2006, Philadelphia).
- Presentation to the Clean Energy States Alliance semi-annual meeting (December 3-4, 2006, Yountville, CA).
- Presented at the Pennsylvania Sustainable Energy Board annual meeting (December 11, 2006, Harrisburg).

6) *Marketing to Energy Service Companies*

In 2006, SDF staff continued to market to Energy Service Companies (ESCOs) that are active in the PECO Energy service territory. These marketing activities included joint calls and shared prospecting of area manufacturers and large institutions. In addition, SDF convened an ESCO Roundtable meeting on July 19, 2005, in order to discuss the key issues facing ESCOs and the energy service industry. This meeting included many of the region's largest ESCOs, whose participants met to engage in a lively discussion that recognized shared barriers to energy project implementation, as well as identifying recommendations needed to overcome those barriers.

7) *The Clean Energy States Alliance* (www.cleanenergystates.org)

SDF continues to be an active participant in the programs and activities of the Clean Energy States Alliance (CESA). CESA works to increase communication and coordination among its members, which consist of 16 clean energy funds and two state agencies in 14 states. SDF continues to find this group of professional peers to be an important sounding board and test bed for SDF's programs. SDF staff attended both the spring and fall 2006 meetings of CESA members. SDF staff serves as Secretary/Treasurer of CESA.

8) *The Ben Franklin Technology Partners*

SDF met several times with Ben Franklin Technology Partners (BFTP) portfolio managers in 2006 to discuss prospects and referrals. SDF also participated in interviews to assist BFTP in developing their organization's strategic plan. SDF staff continues to serve on BFTP's investment committee.

9) *Presentations to international policymakers, companies and journalists*

SDF staff was invited to make presentations at a number of international meetings and conferences in 2006. These opportunities, which were arranged and funded at no cost to SDF by the Clean Energy Group, included:

- Presented "TRF Sustainable Development Fund: Incentive Financing for Clean Energy Market Development" to German government officials and German journalists, March 24, 2006, Philadelphia.
- Presented "TRF Sustainable Development Fund: Incentive Financing for Clean Energy Market Development" at the United Nations Environmental Program's Sustainable Energy Finance Initiative meeting, October 9-10, 2006, Paris.
- Presented "TRF Sustainable Development Fund: "Discovery-driven Expeditions into the Clean Energy Marketplace" at the Institutional Investors Group on Climate Change conference, October 11, 2006, Paris.
- Presented "Wind Energy in Pennsylvania: An Update" to a delegation from Fujian Province in China November 13, 2006, Fairless Hills.
- Presented at the German Marshall Fund Sustainable Energy Conference, November 16, 2006, Boston.

10) *Other SDF networking*

During 2006, SDF staff participated in meetings or other events with a large number of regional companies and organizations, including:

- Aeroenvironment
- AFC First Financial
- Air Products
- Albert Einstein Health Network
- Alliant Integrated Services
- American Bar Association Renewable Energy Committee
- American Council on Renewable Energy
- American Wind Energy Association
- Association of Energy Engineers
- Babcock & Brown
- Ben Franklin Technology Partners
- Blue Hill Partners
- BP Solar
- Brown Super Stores
- CERES
- CESA Fuel Cell Consortium
- Chicago Climate Exchange
- Cinergy Corp.
- Citizens for Pennsylvania's Future (PennFuture)
- Clean Air Council
- Clean Airport Partnership
- Clean Energy Group
- Clean Energy States Alliance
- Cold Technology
- Commerce Bank
- Community Energy, Inc.
- Connecticut Clean Energy Fund
- Constellation Energy Services
- Delaware Valley Green Building Council
- Delaware Valley Industrial Resource Center
- Delaware Valley Regional Planning Council
- DEP/SEFs Fuel Cell Alliance
- Energy Cooperative Association of Pennsylvania
- Energy Coordinating Agency
- Energy Trust of Oregon
- Enertech Capital Partners
- Environmental Law and Policy Center
- Enterprise Foundation
- Entre Advisors
- Exel Energy
- Exelon Power Team
- Food Trust
- FPL Energy
- Gamesa USA
- GE Energy
- Gemstone Group
- Green Mountain Energy
- Green Plains Energy, Inc.
- Greentech
- Gridpoint
- Innovation Philadelphia
- Invensys Energy Services
- Johnson Controls, Inc.
- Johnson Matthey
- Liberty Property Trust
- Lincoln Financial Field
- Maryland General Assembly
- Massachusetts Renewable Energy Trust
- McConnell Development
- Merrill Lynch
- Mid Atlantic Renewable Energy Coalition
- National Community Capital Association
- National Council on Electricity Policy
- National Renewable Energy Laboratory
- Natural Resources Defense Council
- Networked Energy
- New Jersey Board of Public Utilities
- Ohio Department of Development
- Orion Energy Corporation
- PECO
- Pennsylvania Climate Change Working Group
- Pennsylvania Department of Conservation and Natural Resources
- Pennsylvania Department of Environmental Protection
- Pennsylvania Energy Advisory Board
- Pennsylvania Energy Development Authority
- Pennsylvania Environmental Council
- Pennsylvania Governor's Action Team

- Pennsylvania Housing Finance Agency
- Pennsylvania Office of the Consumer Advocate
- Pennsylvania Office of the Small Business Advocate
- Pennsylvania Public Utility Commission
- Pennsylvania Public Utility Commission's Consumer Advisory Council
- Pennsylvania Public Utility Commission's Office of Trial Staff
- Pennsylvania Sustainable Energy Board
- Pennsylvania Treasurer
- Philadelphia Area Industrial Energy Users Group
- Philadelphia Gas Works
- Philadelphia Million Solar Roofs Program
- Philadelphia Municipal Energy Office
- PJM
- PJM Generation Attributes Tracking System
- PJM's MADRI group
- PowerLight
- PPL Energy Services
- PPM Energy
- PV Now
- Rutgers Center for Energy, Economic and Environmental Policy
- ShoreBank
- Siemens Building Technology
- SmartPower
- Solar Energy Industries Association
- Solar Roofing Systems, Inc.
- Sovereign Bank
- Stellar Energy Solutions
- Sun Farm Network
- SunEdison
- Sustainable Business Network
- Sustainable Design Resource Center
- Sustainable Energy Fund of Central Eastern Pennsylvania
- Sustainable Jobs Fund
- Swiss Re
- Thomas Jefferson University
- Tri-State Light and Energy, Inc.
- U.S. Department of Energy
- U.S. Environmental Protection Agency
- UK Carbon Trust
- University of Pennsylvania, Center for Technology Transfer
- US Department of Energy
- US Fish and Wildlife Service
- US MicroGrid
- William Penn Foundation
- Wilmington Trust
- Wissihickon Charter School

III. ORGANIZATIONAL ISSUES

A. Capitalization

1) *Exelon / PSEG Merger Proceedings*

Under the terms of the settlement agreement of the proposed merger of Exelon and PSEG that was executed by the parties and approved by the Commission in 2005, TRF was to receive \$7.2 million to continue the clean energy work of the Sustainable Development Fund. However, Exelon and PSEG withdrew their application for the merger before the New Jersey Board of Public Utilities on September 14, 2006, rendering the Pennsylvania settlement void. No SDF dollars were used in this intervention, only TRF funding from non-SDF sources.

2) *Keystone Green Fund*

In 2006, SDF worked closely with the Pennsylvania Treasury Department, as well as the other Pennsylvania sustainable energy funds and other financial intermediaries, to create a new fund to lend and invest in clean tech companies and projects. In September, 2006, the Treasurer announced its new \$90 million Keystone Green Investment Strategy, which includes the \$40 million Keystone Green Fund, a fund established to attract and leverage private sector investments in clean technology products, companies and projects that will benefit Pennsylvania's economy. SDF provided a concept paper on how the Keystone Green Investment Fund might be structured and late in 2006, issued a \$3 million term sheet to the Pennsylvania Treasury Department to leverage Treasury funds for clean energy and energy efficiency project financing. This proposal remains under consideration as of this report's writing.

3) *Constellation / FPL Merger Proceedings*

On February 22, 2006, TRF filed a petition to intervene in the merger proceeding of Constellation Energy and the FPL Group before the Maryland Public Service Commission. TRF sponsored the direct testimony of Lewis Milford, the president of the Clean Energy States Alliance. However, following the utility legislation passed by the Maryland General Assembly in special session in July 2006, Constellation and FPL Group withdrew their merger application. No SDF dollars were used in this intervention, only TRF funding from non-SDF sources.

B. Board Membership

The SDF board is comprised of seven members, whose two-year terms are staggered so that the terms of an approximately equal number of directors end each year. Current board members may serve two consecutive full terms.

Board members whose terms expired as of December 31, 2006 are Charlotte Arnold, Randy Haines, Al Koenig and Richard Webster. The SDF Board appointed a Nominations Committee comprised of Board members Sharon Barr and Al Koenig and SDF staff Roger Clark and Rob Sanders. The SDF Board also approved selection criteria for new candidates to be recommended to the Board. Public notice regarding the seeking of nominations to the SDF Board was given by a variety of means including:

- A written notice to the PUC and the original parties to the PUC settlement order creating SDF (October 20, 2006);
- An e-mail notice to SDF's e-mailing list (October 23, 2006); and
- A notice posted on SDF's website (October 23, 2006).

The following individuals requested nomination to the SDF Board:

- Charlotte Arnold, Meridian Venture Funds (self-nominated)
- Randy Haines, Thomas Jefferson University (self-nominated)
- Richard Webster, PECO Energy (self-nominated)
- Peter Alyanakian, Pennsylvania Utility Company, Pike County (self-nominated)

- Richard Barkley, U.S. Nuclear Regulatory Commission (self-nominated)
- Baird Brown, Ballard Spahr (self-nominated)
- John J. Kenney, Jr., Hangley Aronchick Segal & Pudlin (nominated by Joseph Dworetzky)

The Nominations Committee recommended the following nominees for election to the Board, which the Board unanimously approved at its December 19, 2006 meeting. A brief bio for each follows:

Charlotte Arnold - Ms. Arnold, a Vice President of the Meridian Venture Funds, has over 10 years of financial and operational experience. Most recently, Ms. Arnold was a Director with the Ben Franklin Technology Partners, a Pennsylvania economic development organization that makes investments in early-stage technology companies. In her four years at Ben Franklin, Ms. Arnold supervised numerous due diligence engagements leading to investments in 50 early stage companies. In addition, Ms. Arnold directly managed a portfolio of 75 firms focused on information services, manufacturing, biotechnology, and other industries. In this capacity, she was responsible for assisting portfolio companies with raising capital, securing strategic partnerships, commercializing products, and hiring management teams. Her experience also includes a position with Coopers & Lybrand's Entrepreneurial Services practice in Philadelphia. Ms. Arnold began her career in California working for UCLA and other nonprofit organizations. At MVP, Ms. Arnold has investment responsibility for ANI Pharmaceuticals, ExpertPlan, Inc., and Keystone Ranger Holdings. Ms. Arnold is a graduate of UCLA and holds an MBA from the Wharton School, where she was a Palmer Scholar. She is also a Certified Public Accountant.

Randy Haines - Since 1997, Mr. Haines has held the position of Energy Manager for the Jefferson Health System, an alliance of hospitals and research buildings in the Philadelphia region covering more than 10 million square feet and 20,000 employees. This position was created due to the complexities created from the deregulation of energy in Pennsylvania and to save utility consumption and costs. A University of Pittsburgh Industrial Engineer graduate, Randy has worked at Eaton Corporation, Mitchell Industries, Delaval Condenser Division and Thomas Jefferson University. He is past President of the Delaware Valley Chapter (Philadelphia region) of the Association of Energy Engineers, past President of the Trenton – Princeton Chapter of the Association for Facilities Engineering and a member of ASHRAE and the Hospital Engineers. Mr. Haines was named the 2004 International Energy Manager of the Year by the Association of Energy Engineers.

Richard Webster - Mr. Webster has worked with PECO Energy since 1984, most recently in Regulatory and External Strategy managing the proposed merger integration of Exelon and PSEG. His experience has focused primarily in the area of Rates and Regulatory Affairs, but has also included senior management responsibility in Finance, Customer Service, and Information Systems. He has led or participated in a variety of environmental policy initiatives over the years including Demand Side Management, Clean Air Act Implementation as well as the environmental provisions of the PECO Restructuring Settlement. Dick was a member of the team that established the SDF as part of the PECO Restructuring Settlement. Mr. Webster has a B.S. in Civil Engineering from the University of Delaware and his MBA from Villanova University.

C. Baird Brown – Mr. Brown is a partner in the Ballard Spahr law firm, working in its Business and Finance Department. As Co-head of the Energy and Project Finance Group, his practice includes the development and financing of power plants as well as mergers and acquisitions of energy and environmental companies, including restructuring and workouts of troubled projects. He has counseled clients in connection with taxable and tax-exempt, rated and unrated, and registered and unregistered financings, credit enhancements, and leveraged leases. He has worked extensively on public/private partnerships. Mr. Brown's current practice is largely focused on renewable energy. Mr. Brown currently serves as a Vice Chair of the American Bar Association's Renewable Energy Resources committee and the Energy and Environmental Finance committee. He is also Co-chair of the International Bar Association's Power Law Committee. Mr. Brown received his B.A degree from the State University of New York at Buffalo and his law degree from the University of Pennsylvania Law School.

SDF submitted to the Commission these four individuals for Commission review and approval. Assuming the Commission's approval, the SDF board members for 2006, together with the expiration dates of their terms, are as follows:

- Charlotte Arnold, Meridian Venture Funds (12/31/08)
- Sharon Barr, attorney and development consultant (12/31/07)
- Baird Brown, attorney (12/31/08)
- Randy Haines, Thomas Jefferson University (12/31/08)
- Ellen Lutz, Gamesa Energy USA (12/31/07)
- Peter Shaw, Navigant Consulting (12/31/07)
- Richard Webster, PECO Energy (12/31/08)

C. SDF Board Meetings

During this reporting period, meetings of the board were held on March 21, June 20, September 19 and December 19, 2006.

D. Coordination with the Other Pennsylvania Sustainable Energy Funds

In addition to the Pennsylvania Sustainable Energy Board meetings discussed below, the regional sustainable energy funds met as a group on January 27 at Franklin Fuel Cells in Malvern, May 1 in Carlisle, and June 21-22 in Hershey. These meetings are an essential means of discussing projects of mutual interest and better coordinating future activities.

E. Pennsylvania Sustainable Energy Board

In 2006, SDF continued to play an active role in the Pennsylvania Sustainable Energy Board (PASEB). SDF staff participated in the March 1 PASEB meeting and the December 11 PASEB annual meeting. SDF staff assisted Commission staff in the preparation of the final versions of the best practices documents and drafted proposed language for changes to the PASEB bylaws.

IV. THE PECO / UNICOM MERGER PROGRAMS

A. The Pennsylvania Wind Development Program

1) Introduction

In the 2000 settlement of the PECO Unicom merger proceeding, SDF received \$12 million in the settlement of the PECO/Unicom merger for the purpose of developing new Pennsylvania wind projects. At the end of 2006, Pennsylvania had five utility-scale wind farms operating, for a total of 142.5 MW and an annual generation of 312,895 MWh. As of December 31, 2006, there were five utility-scale wind farms operating in Pennsylvania that had received financial support from SDF. These five wind farms have a total generating capacity of 142.5 MWs and a yearly output of 312,895 MWh. The cumulative power generated by these five wind farms totaled 1,105,688 MWh of electricity as of the end of 2006. Two additional wind projects supported by SDF, totaling 114.5 MW, are scheduled to come on line in 2007.

Wind development in Pennsylvania has changed and is now the work of very large companies. Atlantic Renewable, the developer of the Mill Run, Somerset and Meyersdale projects, was purchased by PPM Energy, which in turn was purchased in 2006 by Iberdrola. Community Energy, the developer of Bear Creek, was also purchased by Iberdrola in 2006. Gamesa is now developing wind projects in Pennsylvania as well as manufacturing wind towers blades and nacelles in Fairless Hills and Ebensburg. The deep pockets of these entities, and the rising wholesale cost of electricity, has meant that utility scale wind projects can now be developed in Pennsylvania without public subsidy beyond the federal production tax credit. This is a fundamental change in the Pennsylvania wind industry. Locust Ridge, a 26 MW wind project constructed by Iberdrola in 2006, is proof of this new reality.

2) Wind park Bear Creek

The Bear Creek project achieved commercial operation on February 15, 2006. On-site construction of the Bear Creek project began as scheduled in the summer of 2005, but delays in securing permits to transport the turbine components to the site resulted in a delay of the commercial operation date past the original December 31, 2005 milestone. SDF amended the agreement to extend the final milestone. As of the end of 2006, Wind park Bear Creek had earned and was paid \$276,148.64 of its SDF wind energy production incentive grant of \$2,000,000.

3) Casselman

SDF executed a \$1,000,000 wind energy production incentive grant with PPM Energy for the Casselman project on February 1, 2006. Casselman is a 34.5 MW wind project in Somerset County. Because of the shortage of turbines, the grant amendment was amended to reflect a commercial operation date in the fourth quarter of 2007.

4) Allegheny Ridge

SDF executed a \$750,000 wind energy production incentive grant with Gamesa for the Allegheny Ridge project on March 1, 2006. This 80 MW project in Blair and Cambria Counties was scheduled

to come on line by December 31, 2006, but construction delays required the project to negotiate a milestone amendment to the grant agreement that moved the date of commercial operation to February 15, 2007.

5) *Community Wind*

SDF defines community wind as projects between 500 kW and 5 MW that are substantially owned by local interests. Like utility-scale wind farms, community wind projects use large wind turbines, but usually only one, two or three of them. The most common owners of community wind projects are government entities (such as water treatment facilities), schools or groups of for-profit companies. Both PennFuture and the sustainable energy program at St. Francis University are working with Pennsylvania entities to help develop community wind projects.

On August 16, 2006, SDF issued a solicitation for grant support for community wind projects in the form of wind energy production incentive payments, similar to the earlier SDF work with utility scale wind projects. A review team, similar to the teams that reviewed the utility-scale applications, was assembled and evaluated the two applications SDF received by the August 16, 2006 deadline. During its September 2006 board meeting, the SDF board directed staff to enter into negotiations with the project proposed by PennFuture and the City of Hazelton Wind Energy Center. The final terms of the grant was a wind energy production incentive grant in the amount of \$193,441, to be earned at a rate of 7.5¢ per kWh. This 600 kW project will be located at the City of Hazelton's wastewater treatment facility and will generate approximately 60% of the facility's power needs. Construction should be completed by late 2007. The project will be net metered.

6) *Small Wind*

At the SDF annual meeting on December 15, 2005, the SDF board approved a grant of \$75,000 to the PA Department of Conservation and Natural Resources (DCNR) to install 10 kW wind turbines at six state parks as part of DCNR's Sustainable Energy Demonstration and Exhibit at State Parks program. In 2006, DCNR completed the wind studies at its sites and the decision was made to install the wind turbines at the state parks of Presque Isle, Prince Gallitzin, Promised Land, Pymatuning, Tuscarora and Yellow Creek. Installation began in late 2006 and all six turbines are expected to be operational in the first half of 2007.

B. The Solar Photovoltaic Grant Program

1) *The PV Grant Program*

As stated in SDF's 2005 Annual Report, SDF stopped accepting new applications for solar PV grants on December 31, 2005. SDF took this step because SDF has approved or is currently processing applications that together would fully subscribe the initial program budget of \$4 million obtained in the settlement of the PECO/Unicom merger. The PV Program Administrator is working with all approved applicants to verify that they are moving quickly to install their approved systems, otherwise the funding commitment is being withdrawn and the money is made available for another PV installation.

The Solar PV Grant Program statistics as of December 31, 2006 are shown on the following table:

Number of Applications Received	184
Number of Applications Approved	180
Number of Systems Installed	167
Total Capacity of Approved Systems	809.1 kW
Estimated Annual Production of Approved Systems	890 MWH
Total of SDF Incentives for Approved Systems	\$3,526,686
Total Cost of Approved Systems	\$7,038,000

2) Pennsylvania Energy Development Authority Grant

SDF learned in early 2006 that the application it filed on November 15, 2005 with the Pennsylvania Energy Development Authority for additional solar PV grant funding was denied. Undiscouraged, SDF filed a new PEDDA application on July 14, 2006.

PEDA informed SDF in late 2006 that its second application was accepted and would be funded in the amount of \$701,366. This will enable SDF to support the installation of an additional 42 solar PV systems. PEDDA and SDF expect to execute this grant agreement in early 2007.

3) The Registration of Solar Renewable Energy Certificates with PJM's Generation Attributes Tracking System

To ensure that small distributed generation could easily participate in the PJM Generation Attributes Tracking System ("GATS"), SDF decided in early 2006 to become the agent of its solar PV grant recipients for purposes of registering their solar production with GATS. First, SDF had to register as an alternative energy generator with the PA Department of Environmental Protection and the Commission.

Next, SDF had to obtain executed agreement from the SDF Solar PV Grant Program grantees to be their agent in registering their PV systems and their output with GATS. If and when SDF sells any Solar Renewable Energy Certificates ("Solar RECs"), SDF would share half of the proceeds with the system owners and half of the proceeds would be put into the budget of the solar PV work at SDF. We had agreements from 25 system owners in 2005 and with 53 owners in 2006.

In March 2006, SDF registered 85 Solar RECs for solar generation in 2005. Each Solar REC represents 1 MWH of solar generation. For 2006, SDF registered an additional 200 Solar RECs for solar generation in 2006.

4) The PV Program Administrator

Throughout 2006, SDF continued to contract with Ron Celentano, a mechanical engineer and PV expert, to administer the PV Grant Program. Ron works very well with the Participating Contractors and has earned the respect and trust of everyone in the program. Ron provides significant education and marketing work as well as reviewing and approving applications. Ron's

current contract extends through June 30, 2008, by which time it is expected that nearly all of SDF's solar PV dollars (including the annual production incentive payments) will have been disbursed.

C. The Renewable Energy Public Education Program

1) The Pennsylvania Clean Energy Communities Campaign

To follow up on 2005's Pennsylvania Clean Energy Campaign, SDF and SmartPower executed a contract in April 2006 for the Pennsylvania Clean Energy Communities Campaign. SmartPower is working closely with the clean energy suppliers active in the PECO service territory (PECO Wind, the Energy Cooperative Association of Pennsylvania and NativeEnergy) to identify 20 clean energy communities. To qualify, a community must commit to three things:

1. The township will purchase clean energy equal to at least 20% of all local government electricity consumption by 2010;
2. The township encourages the necessary number of residents and small businesses to become new customers of clean power
3. The township actually starts purchasing clean power towards their 20% goal.

A township that accomplishes all three steps becomes a Clean Energy Community and receives from SDF a 1 kW solar PV system at no cost for its school or other public building.

As of December 31, 2006, SmartPower was working with 39 local townships and nine of these townships has committed to the 20% by 2010 goal, the first requirement.¹ The initial contract called for 10 clean energy communities, but because of the speed at which the first nine were recruited, SDF and SmartPower executed a grant amendment increasing the number of clean energy communities to 20. SmartPower also developed a public web site for the campaign (<http://communities.trfund.com/>) and a wiki internet tool for all of the campaign stakeholders to communicate with each other. The campaign held meetings with all of the clean energy suppliers every other month in 2006 to get their input on the campaign activity and to coordinate with the suppliers. As of the end of 2006, no township had met the requirement of the number of residents becoming new purchases of clean energy.

2) The Customer Rewards Program

The SDF Customer Rewards program was begun in early 2005 with an initial budget of \$150,000 to provides incentives to clean energy suppliers who make new renewable electricity sales to PECO Energy distribution service customers. SDF pre-approved both the clean energy products that were eligible for the program and the marketing strategies that would be recognized by the program. The marketing strategies that were pre-approved were strategies that are not cost-effective without the Rewards payment, so that SDF could be assured that the program was resulting in additional customer education that would not otherwise occur.

¹ The nine townships are East Vincent Township, Jenkintown Borough, Lower Makefield Township, Media Borough, Swarthmore Township, Tredyffrin Township, Upper Chichester Township, Upper Dublin Township and West Vincent Township.

Because of the success of the program, The SDF board added \$75,000 to the Customer Rewards Program budget in December 2005 and an additional \$50,000 in March 2006², for a total budget of \$225,000. By the end of June 2006, the total Customer Rewards program budget of \$225,000 had been fully earned by the clean energy suppliers through the sign-up of 7,321 residential customers to become new clean energy customers.

In 2006, SDF also began a nonresidential Customer Rewards Program for businesses and institutional customers who purchase electricity under the General Service, High Tension and Primary Distribution tariffs. The Nonresidential program, budget was \$100,000 and the rewards could be earned at a rate of \$10 per annual megawatthour (MWH) sold, up to a maximum reward of \$200 per customer. The program was gearing up at the end of 2006.

3) *The Solar Energy Exhibits Program*

In 2005, SDF entered into contracts with Alt.Atica of New York, NY (the project designer) and Re:Vision Architects of Philadelphia (the facilitator for the design charrette) to develop signage and exhibits for environmental education centers, museums and others about solar energy. The design charrette was held at the Cusano Environmental Center on April 3 and 4, 2006 to develop generic messaging, signage, displays and larger educational exhibits about solar PV technology. These displays could then be customized by each organization for its own specific needs.

Since the charrette, Alt.Atica has designed and produced 200 small (4" x 6") *Sunlight Harvested Here* durable signs for homeowners and others who wanted a small plaque for their home to announce they are a solar PV home. Alt.Atica also designed and produced 50 larger (17" x 25.5") signs for environmental centers, businesses and others who wanted a larger sign.

The remaining piece of this project, to be completed in mid 2007, is to work with the Heinz National Wildlife Refuge at Tinicum, the Schuylkill Environmental Center, the Borough of Media, Anchor Farm in Wrightstown, the Peace Valley Environmental Center in Bucks County and the Friend's Center in Philadelphia to design exhibits and signage to accompany the solar PV systems at those institutions.

4) *The Energy Curricula Project*

In 2005, SDF's board approved a grant of \$41,900 to the Northeast Sustainable Energy Association for the preparation of curricula materials about energy conservation/efficiency and renewables specifically designed to address PA's Academic Standards for Environment and Ecology (www.pde.state.pa.us/k12/lib/k12/envec.pdf). NESEA presented the curricula at a one day session of the intensive training program of PA Master Teachers (the Governor's Institute) in the summer of 2006 and revise the curricula based on feedback received from the teachers. The PA Department of Education will print and distribute 3,000 copies of the curricula to Pennsylvania school teachers.

² The March 2006 board action also reduced the reward payment to \$35 per customer.

5) *The Energy Education Coordinator*

SDF continues to contract with Maureen Mulligan to serve as SDF's part-time Energy Education Coordinator. She has been very effective in increasing communication between the various contractors and creating significant synergies in our program.

V. FUTURE TASKS

It is one of SDF's chief priorities to deploy SDF's remaining funds in projects and companies in a way that makes the strongest possible case that the public interest is served through the continued funding of clean energy activities. To this end, SDF's focus in 2007 will be on the following:

A. Recapitalization

For SDF to continue supporting clean energy at the rate it has for the last few years, it must identify new sources of capital. In 2007, SDF will be using the following strategies to secure new capital:

- We will ask the Commission to resolve whether PECO has a continuing obligation to support SDF under the existing settlement orders in the restructuring case and the merger case.
- We will continue our discussions with the Pennsylvania Department of Treasury with the intention of successfully negotiating an initial Treasury investment to deploy in the form of project loans for clean energy projects throughout Pennsylvania.
- We will work with the Pennsylvania Department of Environmental Protection to identify a collaborative SDF lending role as part of the Pennsylvania Energy Independence Initiative.
- We will take advantage of any opportunities to recapitalize SDF's energy work through regulatory initiatives as we did in the Exelon/PSEG merger proceeding and the Constellation/FPL merger proceeding.
- We will look to apply the precedent we established in the PEDDA grant for our solar PV projects and explore additional opportunities to originate SDF financing transactions for purchase by PEDDA, DCED and PA Treasury Department.

B. Deal flow

In 2007, SDF needs to increase the number of loans and investments that it closes. One strategy we will push is to expand joint financing initiatives with The Reinvestment Fund by financing eligible energy measures as part of a larger transaction under TRF's Fresh Foods Financing Initiative, Community Facilities loans (charter schools, daycare centers, etc.) and Affordable Housing projects.

We will also expand the co-marketing and financing work we do with PIDC at the Philadelphia Navy Yard, the University of Pennsylvania and elsewhere.

C. SDF Wind Program

In 2007, SDF will work to ensure that the Casselman and Allegheny Ridge projects come on line, as well as the Hazelton community wind project. SDF will issue a second solicitation for Community Wind projects in late 2007. SDF will see the installation of the six DCNR small wind turbines.

D. SDF Solar PV Program

In 2007, SDF will be winding down the installation of new solar PV systems under its Solar PV Grant Program, including those new systems what will be installed by the new funding from PEDDA. We hope to assist the Pennsylvania Energy Development Authority with the creation of a statewide PV program funded under the Pennsylvania Energy Independence Initiative.

E. SDF Public Education Program

SDF expects the Pennsylvania Clean Energy Communities Program and the other renewable energy public education activities funded by the PECO/Unicom merger settlement to be completed by the end of 2007.

F. Hosting the Spring 2007 CESA meeting

SDF will be the host of the Spring 2007 meeting of the members of the Clean Energy States Alliance in Philadelphia from May 20-23, 2007. SDF has organized a half-day session on the Pennsylvania Enterprise Model, a different approach to clean energy market development than taken by most of the other funds.

VI. FINANCIAL REPORT

As of December 31, 2006, SDF had received a total of \$31,815,216 from PECO Energy. This figure consisted of eight quarterly payments in 1999 and 2000 from distribution charges that total \$3,335,216, three installments of \$4,000,000 for the Pennsylvania Wind Development Program under the PECO Energy/Unicom merger agreement (total of \$12,000,000 received), the lump sum accelerated payment of PECO quarterly payments through December 31, 2006 totaling \$9,980,000, four annual installments of \$1,000,000 for SDF's photovoltaic program (total of \$4,000,000 received), and five annual installments of \$500,000 for public education about renewable energy (total of \$2,500,000).

SDF's unaudited financial statements for the twelve-month period ending December 31, 2006 show total income of \$625,741 for the period. Operating expenses for the 12-month period totaled \$791,050, a \$43,508 favorable variance over board approved budget expenses in CY2006. The excess of expenses over revenue in 2006 totaled \$165,309, a \$29,956 improvement over the operating deficit in 2005 and a \$6,751 unfavorable variance from the approved budgeted deficit of (\$158,558). This \$6,751 unfavorable variance is a result of lower than expected net financial income from loan closings in 2006. The planned and approved 2006 deficit is the third in a row, following years of consistent surpluses. The deficit recognizes the predicted cumulative impact of SDF's

performance-based grant making for its wind, solar PV and public education programs on its net financial income. SDF has responded to this situation by reducing its staff expense, reducing or holding its other operating expenses flat, and increasing its efforts to source and close loans that generate current income. However, absent any new capitalization, SDF's deficits are expected to continue as the remaining PECO Energy/Unicom merger grant program commitments are paid out and SDF's capital decreases.

On December 31, 2006, SDF held funds in two accounts pending disbursement for its loans, investments, grants and operations: \$8,450,085 was held in SDF's sweep/liquidity investment account, and \$2,056,437 was held in SDF's Limited Maturity investment account. The Limited Maturity investment account is invested in government agencies, U.S. Treasuries, and investment grade corporate bonds and commercial paper. The average maturity of the underlying securities is approximately 12 months. Of these combined fund accounts, \$3,360,924 represented approved but not disbursed conditional wind production incentives for Pennsylvania wind projects; \$189,500 in approved but not closed loans and investments; \$256,591 in unexpended balances of Core program grants that are under executed agreements; \$335,913 in unexpended balances in Renewable Energy Public Education grants that are under executed agreements (including the contract for the education coordinator); and \$1,589,444 in unexpended balances in the Solar PV Grant Program (both the initial installation payments and the one year anniversary payments and the PV program administrator). Outstanding loans, energy performance contract leases receivable and outstanding investments in portfolio companies at December 31, 2006 totaled \$5,908,143. SDF's liabilities at December 31, 2006 totaled \$503,121 and were comprised of general accounts payable and accrued expenses of \$70,722, an account payable of \$46,430 to The Reinvestment Fund for operating expenses approved under the 2006 operating budget, grants payable of \$309,219 and a wind project escrow account of \$76,750.

Audited financial statements for the year ending June 30, 2006 are available upon request by contacting Robert Sanders, Fund Manager, Sustainable Development Fund, The Reinvestment Fund, 718 Arch Street, Suite 300 North, Philadelphia, PA 19106-1591.

VII. CONCLUSION

2006 has marked a turning point for SDF. Much of the capital placed with SDF in conjunction with the 2000 settlement of the PECO Unicom merger proceeding has now been committed to projects. The last of these dollars will be largely disbursed in 2007 as the funded projects' performance milestones are achieved. Recapitalization of TRF/SDF's energy work is essential in 2007 if TRF is to extend its strong energy financing track record.

