



The 2008 Annual Report of the Sustainable Development Fund

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I. INTRODUCTION

This 2008 Annual Report was prepared by the Sustainable Development Fund (SDF) and is submitted to the Pennsylvania Public Utility Commission and to the Joint Petitioners in the PECO Energy restructuring proceeding. Since its inception nine years ago, SDF has played a leading role in accelerating the region's investment in a clean energy economy. This report discusses the initiatives and accomplishments of SDF in calendar year 2008.

II. ACCOMPLISHMENTS

A. Loans and Investments

At the time of the writing of this report, SDF has committed nearly all of its remaining available capital. In these very difficult financial times, there is a critical need for predictable access to capital for clean energy and energy efficiency projects. Institutional lenders are no longer lending, or when they do lend, it is on terms that incorporate very high risk premiums. Projects that were feasible and ready to go six months ago can no longer obtain financing on commercially reasonable terms, if at all. Many entities have no ability to take advantage of the grants, rebates or tax credits that may be available for clean energy projects since they are unable to finance the balance of the project costs. With this in mind, The Reinvestment Fund, which manages the Sustainable Development Fund, is working diligently to raise additional capital for clean energy and energy efficiency financing.

Against this backdrop, SDF approved \$3,887,627 in ten new loans for new energy projects in 2008. The total project budgets of these ten financing transactions are \$43,200,335. These projects are shown on the table below:

Borrower	Purpose	Loan Amount	Total Project Budget
New Life Affordable Housing II, LP	Financing for high-performance energy measures (lighting, air conditioning, windows, etc.) for 39-unit affordable housing project	\$300,000	\$9,637,866
1260 HDC - Northeast I (Keystone)	Financing for high-performance energy measures for 23-unit affordable housing project	\$939,364	\$4,617,627
1260 HDC - Northeast II (Ditman)	Financing for high-performance energy measures for 34-unit affordable housing project	\$824,696	\$6,795,380

Borrower	Purpose	Loan Amount	Total Project Budget
The Fresh Grocer - La Salle	Financing of high-efficiency micro-turbine generators and other energy efficiency measures for independently owned new supermarket	\$1,000,000	\$14,393,700
Philadelphia Folklore Project	Finance energy efficiency measures for neighborhood cultural arts organization	\$8,014	\$169,000
Reform Congregation of Keneseth Israel	Finance energy efficiency measures (lighting upgrades) for neighborhood congregation	\$40,484	\$94,117
Germantown Jewish Centre	Finance energy efficiency measures (HVAC system) for multi-use facility	316,701	\$734,000
Smart Energy Solutions, Inc.	Finance energy efficiency measures (ENERGY STAR windows, insulation, white roof) for energy services company's warehouse	\$21,193	\$120,000
The Quaker School - Horhsam	Finance energy efficiency measures (ENERGY STAR windows/doors, lighting, insulation, white roof) for K-8 school for students with learning disabilities	\$237,175	\$3,785,775
Center for Student Learning at Pennsbury	Finance energy efficiency measures for a charter school serving at-risk students in lower Bucks County	\$200,000	\$2,852,870
Totals:		\$3,887,627	\$43,200,335

As of December 31, 2008, SDF had approved a cumulative total of 41 loans and investments, totaling \$21,151,495. The total budget of these 41 projects supported by SDF is approximately \$129,568,477.

B. Core Grants

In 2008, the SDF board approved 4 new core grants. The total of the grants approved was \$51,918 and the total value of the projects supported by these grants was approximately \$294,307. The core grants approved in 2008 are shown on the following table:

Grantee	Purpose	Grant Amount	Total Project Budget
Farm School at Snipes	Support for the installation of a 5.25 kW solar PV system at an environmental and agricultural education center.	\$16,418	\$45,841
Pennsylvania Environmental Council	Support to prepare a professional video of the 2008 Philadelphia Sustainability Awards.	\$3,000	\$12,466

Grantee	Purpose	Grant Amount	Total Project Budget
Rushforth Solar	Support to write-down the installation costs of three or four large solar domestic hot water (DHW) systems in apartment buildings.	\$25,000	\$136,000
Citizens for Pennsylvania's Future	Support for the public conferences of PennFuture's Center for Energy, Enterprise and the Environment	\$7,500	\$100,000
Totals:		\$51,918	\$294,307

At the SDF board meeting on June 24, 2008, the SDF board decided to suspend the core grant program until such time as the board determines that SDF income from loans and investments justifies resumption of the core grants. This decision was reaffirmed at the SDF annual meeting on December 16, 2008 in the approval of the 2009 Annual Program Plan.

As of December 31, 2008, SDF had approved a cumulative total of 86 core grant applications totaling \$1,762,358 in SDF support towards projects with a total value of approximately \$75,316,900. Four of these successful applicants withdrew prior to execution of a grant agreement, leaving 82 projects under executed grant agreements with SDF.

As of December 31, 2008, SDF had paid \$1,277,852 to its core grantees and had made a budget adjustment of -\$328,635 to the core grant program budget to reflect the four unexecuted agreements and the grants coming in under budget. At the close of 2008 there are seven open core grants with an unexpended balance of \$155,871.

III. 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 for the purpose of developing new Pennsylvania wind projects. SDF has committed its wind funding in three categories of wind energy projects as shown of the table on the following page. Except for \$213,466 that SDF has available for a second community wind project (and the outside consultants to review the proposals), all of the wind funding has been committed and all but \$406,907 (for the two community wind projects) has been paid to operating wind projects.

	Total \$ Committed	Total \$ Paid	Balance	Uncommitted
Utility-scale wind farms	\$11,500,000	\$11,500,000	\$0	
Community wind	\$193,441	\$0	\$193,441	\$210,966
Small-scale wind	\$75,000	\$75,000	\$0	

	Total \$ Committed	Total \$ Paid	Balance	Uncommitted
Project review	\$18,093	\$18,093	\$0	\$2,500
Totals:	\$11,786,534	\$11,593,093	\$193,441	\$213,466

2) *Utility-Scale Wind Farms*

In 2008 there were seven utility-scale wind farms operating in Pennsylvania that had received financial support from SDF:

	Size (MW)	Annual Output (MWH)	SDF Grant Amount
Mill Run	15.0	38,938	\$1,000,000
Somerset	9.0	20,404	\$1,000,000
Waymart	64.5	150,445	\$3,250,000
Meyersdale	30.0	81,243	\$2,500,000
Bear Creek	24.0	71,173	\$2,000,000
Casselman	34.5	93,819	\$1,000,000
Allegheny Ridge	80.0	217,248	\$750,000
Totals:	257.0	673,270	\$11,500,000

As of December 31, 2008, all seven wind projects had fully earned their SDF wind energy production incentives.

3) *Community Wind*

SDF defines community wind projects as locally-owned wind projects that use utility-scale turbines with a nameplate generating capacity between 500 kW and 10 MW. SDF sees an important market niche for these projects and is committed to help at least two community wind projects come on line in Pennsylvania.

In 2007, SDF executed a wind energy production incentive agreement with PennFuture Enterprises on behalf of the City of Hazelton in the amount of \$193,441 to support the construction of a 600 kW community wind project that will provide 75% of the electricity consumption of Hazelton's wastewater treatment facility. The project experienced problems in 2008 with the availability of a wind turbine and the increased costs of capital projects, but has resolved the turbine issue and received a grant from the Pennsylvania Energy Harvest program, so the turbine is scheduled to come on line in 2009.

SDF had planned to issue a second community wind solicitation in 2008 to identify a second community wind project, but held off because of the uncertainty in the wind market. SDF now

plans to issue this RFP in 2009 and has reserved up to \$210,966 for this solicitation and \$2,500 for the technical consultants to assist with the application reviews.

	Size (kW)	Annual Output (MWH)	SDF Grant Amount
Hazelton	600	1,290	\$193,441
New Project	TBD	TBD	\$210,966
Project review for new project	--	--	\$2,500

4) *Small Wind*

SDF's Small Wind program consisted of financial support in 2007 to the Pennsylvania Department of Conservation and Natural Resources (DCNR) for the installation of six 10 kW wind turbines at six state parks as part of DCNR's Sustainable Energy Demonstration and Exhibit at State Parks program. The six turbines are located at Presque Isle State Park, Prince Gallitzin State Park, Promised Land State Park, Pymatuning State Park, Tuscarora State Park and Yellow Creek State Park. The SDF grant for these installations was \$75,000.

B. The Solar Photovoltaic Grant Program

1) *The Solar PV Grant Program*

In the 2000 settlement of the PECO-Unicom merger proceeding, SDF received \$4 million for the purpose of supporting solar photovoltaic installations in Pennsylvania. A grant from the Pennsylvania Energy Development Authority to SDF in the amount of \$701,366 and proceeds from the Solar REC sales (see sub-section B(2) below) increased the PV program budget to \$4,772,370.

	Total \$ Committed	Total \$ Paid	Balance	Uncommitted
Solar PV grants	\$3,918,212	\$3,252,153	\$666,060	\$220,821
Program administration, installer training, education and coordination	\$603,337	\$586,670	\$16,667	\$30,000
Totals:	\$4,521,549	\$3,838,823	\$682,727	\$250,821

As of the end of 2008, SDF had approximately \$250,821 in uncommitted funding for the PV program. These funds will be committed in early 2009 between new PV funding and the necessary extension of the program administrator's contract.

The Solar PV Grant Program statistics as of December 31, 2008 are shown on the table on the following page.

	Approved Systems	Installed Systems
Number of Systems	229 ¹	208
Total Capacity	910 kW	846 kW
Estimated Annual Production	989 MWH	918 MWH

The total value of the approved solar PV systems supported by the SDF program is \$8,113,308.

2) *Registering and Selling Solar Renewable Energy Certificates*

SDF has continued its work registering and trading Solar Renewable Energy Certificates (SRECs) on the PJM Generation Attributes Tracking System (“GATS”). As of December 31, 2008, SDF had registered a total of 1,045 SRECs on GATS, of which 446 were registered in 2008. SDF has also entered into eight sale agreements for a total of 472 SRECs, earning \$105,276 after commissions. The SREC proceeds are shared 50/50 with many of the system owners and SDF’s share is dedicated to the Solar PV Grant Program. As of December 31, 2008, SDF had distributed a total of \$34,272 to the system owners and \$71,004 to the SDF solar program. SDF currently has 573 SRECs in its GATS account available for sale and will be looking for buyers in 2009.

C. The Renewable Energy Public Education Program

In the 2000 settlement of the PECO-Unicom merger proceeding, SDF received \$2.5 million for public education about renewable energy. Since 2001, SDF has operated a public education program that has involved 42 separate grant agreements for a wide variety of activities. As of December 31, 2008, there were only two grants with an open balance: the Energy Coordinating Agency of Philadelphia’s energy education project and the solar display project.

	Total \$ Committed	Total \$ Paid	Balance	Uncommitted
Education grants and contracts	\$2,320,086	\$2,275,268	\$44,818	\$2,750
Coordination and Evaluation	\$177,164	\$171,064	\$6,100	
Totals:	\$2,497,250	\$2,446,332	\$50,918	\$2,750

The Pennsylvania Clean Energy Communities Campaign is continuing under the management and funding of SmartPower. The campaign’s website is <http://communities.trfund.com/>. As of December 31, 2008, twelve local communities have completed all of the requirements ² to become a Clean Energy Community and have earned a free 1.26 kW solar PV system. The twelve

¹ The SDF Solar PV program approved a total of 301 system applications, but 72 of the approved applications were withdrawn by the applicant because they did not proceed with the system purchase and installation. In the beginning of the program, SDF did not require applicants to submit a signed contract or proof of down payment, so applicants could change their minds with no consequences.

² The three requirements are (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; and (3) the township actually starts purchasing clean power towards their 20% goal.

Pennsylvania Clean Energy Communities are Abington Township, Cheltenham Township, East Bradford Township, Jenkintown Borough, Lower Makefield Township, Middletown Township, Nether Providence Township, Swarthmore Borough, Tredyffrin Township, Upper Dublin Township, Upper Makefield Township and West Vincent Township.

SDF is working with two solar installers to install 1.26 kW solar PV systems in these communities. SmartPower is working with the remaining communities to help them get the needed number of new customers so they qualify for the free 1.26 kW PV system.

As of the end of 2008, SDF had \$2,750 in uncommitted funds in the public education program.

IV. ORGANIZATIONAL ISSUES

A. 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. The four board members whose terms expired on December 31, 2008 were Charlotte Arnold, Baird Brown, Randolph Haines and Richard Webster.³

The SDF Board appointed a Nominations Committee comprised of board members Charlotte Arnold and Richard Webster 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 letter was mailed October 7, 2008 to the PUC and the original parties to the PUC settlement order creating SDF;
- A notice was emailed October 7, 2008 to SDF's e-mailing list; and,
- A notice was posted on SDF's website on October 9, 2008.

Nominations to the SDF Board were received for the following six individuals:

- Tom Balderston, Mid-Atlantic Capital Alliance (self-nominated)
- Baird Brown, Ballard Spahr (self-nominated)
- Kurt Bresser, Temple University (self-nominated)
- Frank Jiruska, PECO (nominated by Richard Webster)
- William McCall, Exolis Energy (nominated by Joseph Dworetzky of Hanglely Aronchick Segal & Pudlin)
- Michael Speerschneider, EverPower Wind Holdings (self-nominated)

The Nominations Committee interviewed all of the nominees and made a report to the SDF Board at the Annual Meeting on December 16, 2008. At this meeting, the SDF Board unanimously elected the following four individuals to the board:

³ Charlotte Arnold, Randolph Haines and Richard Webster had all served two consecutive terms and were not eligible for re-election to the SDF board. Baird Brown has served only one term and was eligible for re-election.

Tom Balderston is the President and CEO of the Mid-Atlantic Capital Alliance, a position he has held since July, 2006. He has worked in venture capital businesses for 20 years. He formed Balderston Capital in 2001 to serve as a private equity investment, advisory and strategy firm providing custom advice to investors, funds and companies. Prior to founding Balderston Capital, Tom was President of SGI Capital, the private equity investment unit of Superior Group, a family-owned holding company. Mr. Balderston worked with TDH Group from 1985-1998 where he was a General Partner of its TDH III venture fund and co-founder of its management company. He currently serves as a board member of the Ben Franklin Technology Center of Southeastern PA as Chair of the Finance Committee, Treasurer and member of the Executive Committee. He serves on numerous private company boards and fund advisory committees and is active on a number of community boards as well. Mr. Balderston holds an M.B.A. from the UCLA Graduate School of Management with a concentration in Finance and a B.A. from Williams College.

Kurt Bresser is Energy Manager for Temple University, where he has worked since 1983. In this role, he manages a \$22 million annual utility budget and has implemented and now manages a 16 megawatt standby generating electric facility. Mr. Bresser is a member of Temple's Sustainability Task Force as well as several local industrial and commercial energy users associations, including the Philadelphia Area Industrial Energy Users Group (PAIEUG). Mr. Bresser is a graduate of the University of Cincinnati (B.A., English Literature and A.S., Energy Management) and Temple University (M.B.A., Management Science Operations Research).

Baird Brown is a partner in the Business and Finance Department of the law firm Ballard Spahr and a member of the Energy and Project Finance Group. His practice includes the development and financing of power plants, waste disposal and recycling facilities and other infrastructure projects. He currently focuses on renewable energy, including wind, solar biomass, tidal, small hydro, geothermal and biofuels. Mr. Brown is a co-chair of the Power Law Committee of the Section of Energy, Environment, Resources and Infrastructure Law of the International Bar Association. He serves as a vice chair of two committees of the American Bar Association Section of Environment, Energy and Resources (the Renewable Energy Resources Committee and the Committee on Energy and Environmental Finance). He is co-chair of a joint working group sponsored by those committees, ACORE and the EMA that has promulgated a Master Renewable Energy Certificate Purchase and Sale Agreement, and is working on a Verified Emissions Reduction Purchase and Sale Agreement. Mr. Brown is a graduate of the State University of New York at Buffalo (B.A. 1973) and the University of Pennsylvania Law School (J.D. 1978).

Frank Jiruska is the Director of Energy and Marketing Services for Exelon Corporation. He is responsible for sales and marketing to large and small commercial, industrial and residential customers and customer service for large commercial and industrial accounts. Mr. Jiruska launched PECO Wind in 2004, growing it to nearly 40,000 customers, making it one of the top five programs in the country. He has introduced a series of peak-reduction and energy efficiency programs targeted at PECO customers: He grew PECO's demand response capability to 3.5% of the company's peak load in three years. He has introduced a series of energy efficiency programs including the EE kit and on-line energy calculators. Mr. Jiruska is responsible for the development and execution of the energy efficiency and peak-load reduction components of Act 129. Prior to joining Exelon, Mr. Jiruska was Product Family Manager at Ameritech for eight years and has 13 years experience in the telecommunications industry. Mr. Jiruska has a MBA from Northern Illinois University (1996) and a BS in Business Administration from Marquette University (1981).

On December 22, 2008, SDF submitted to the Commission these four individuals for Commission review and approval. The Commission approved these new board members in January, 2009.

The SDF board members for 2009, together with the expiration dates of their terms, are as follows:

- Tom Balderston, Mid-Atlantic Capital Alliance (12/31/10)
- Baird Brown, Attorney (12/31/10)
- Kurt Bresser, Energy Manager, Temple University (12/31/10)
- Mark Deitcher, Project Financing Specialist (12/31/09)
- Frank Jiruska, PECO (12/31/10)
- Albert Koenig, Clean Energy Technology Consultant/Entrepreneur (12/31/09)
- Muscoe Martin, Green Building Architect (12/31/09)

B. SDF Board Meetings

During 2008, the SDF Board met on this reporting period, meetings of the board were held on March 25, June 24, November 14 and December 16, 2008.

C. Coordination with the Other Pennsylvania Sustainable Energy Funds

The regional sustainable energy funds met as a group on April 7, 2008 in Pittsburgh (at the Affordable Comfort Conference) and on October 24 in New Kingston to discuss projects of mutual interest and to better coordinate future activities.

D. Pennsylvania Sustainable Energy Board

SDF staff participated in the Pennsylvania Sustainable Energy Board meeting in Harrisburg on December 3, 2008.

V. FINANCIAL REPORT

As of December 31, 2008, 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 and the lump sum accelerated payment of PECO quarterly payments through December 31, 2006 totaling \$9,980,000.

Pursuant to the terms of the PECO Energy/Unicom merger agreement, SDF had also received three installments of \$4,000,000 for the Pennsylvania Wind Development Program (total of \$12,000,000 received); five annual installments of \$500,000 for public education about renewable energy (total of \$2,500,000); and four annual installments of \$1,000,000 for SDF's solar photovoltaic program (total of \$4,000,000 received). SDF's solar program has also received a grant of \$701,366 from the Pennsylvania Energy Development Authority and proceeds from the sale of Solar Renewable Energy Credits of \$71,004, for a total solar photovoltaic program budget of \$4,772,370.

SDF's unaudited financial statements for the twelve-month period ending December 31, 2008 show total income of \$473,219 for the period. Operating expenses for the 12-month period totaled \$473,525, resulting in a breakeven net income of -\$306 for the 12-month period.

On December 31, 2008, SDF held funds in two accounts pending disbursement for its loans, investments, grants and operations: \$2,026,238 was held in SDF's sweep/liquidity investment account, and \$3,878,480 was held in SDF's Limited Maturity investment account. The Limited Maturity investment account is invested primarily in government agencies and U.S. Treasuries, with a small investment in investment grade corporate bonds and commercial paper. The average maturity of the underlying securities is approximately 15 months.

As of December 31, 2008, there was \$406,907 in undisbursed wind development program funds (of which \$193,441 is under commitment to a community wind project now expected to come on line in 2009); \$53,668 in unexpended balances in Renewable Energy Public Education program funds; and \$933,548 in unexpended balances in the expanded budget of the Solar PV Grant Program (to be used for the initial installation payments, 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, 2008 totaled \$4,251,850; an additional \$1,595,000 in loans and investments were closed awaiting disbursement at the end of 2008. SDF's liabilities at December 31, 2008 totaled \$267,177 and were comprised of general accounts payable and accrued expenses of \$74,624, grants payable of \$191,553 and an escrow payable of \$1,000.

Audited financial statements for the year ending June 30, 2008 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.

