



Alternative Energy Revolving Loan Program (AERLP)

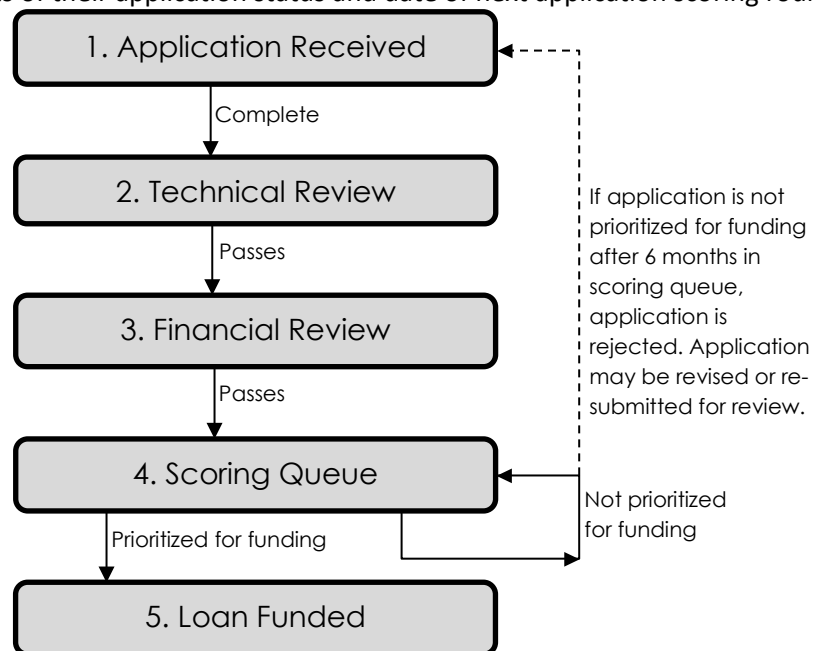
Ranking Criteria & Methodology Addendum to DEQ Policy EN-AERLP-03-05

Introduction

When the Alternative Energy Revolving Loan Program (AERLP) fund reaches a point where applications exceed projected funding, the Department of Environmental Quality (DEQ) is required by Administrative Rules of Montana (ARM) to prioritize applications based on certain criteria (ARM 17.85.111(5)). Those criteria, and the procedures DEQ will follow to apply those criteria, are outlined below. Note that the program draws funds from two accounts: one that was capitalized with funding from the U.S. Department of Energy (DOE), and one capitalized by state air quality penalties collected by DEQ ("State funds"). Due to varied constraints on each fund, some projects may not be eligible for DOE funds but may be eligible to be funded with State funds.

Procedures

DEQ will accept and process loan applications throughout the year. DEQ will initiate technical review of new applications in the order they are received. During the technical review, applications will be designated for funding through either the DOE fund or State fund. Staff perform a technical review, then forward applications to the AERLP financial services contractor for financial review. Prior to issuance of a loan commitment statement by the financial services contractor, applications passing both technical and financial review will be placed in a queue for the next scheduled application scoring date. The program manager will notify applicants of their application status and date of next application scoring round.



Staff will review the AERLP fund balance and will determine the amount of funding available for loans in each fund, based on anticipated revenue and expenses for the next six to twelve months. When there are more requests for funds than there are funds available, the program manager will score applications with technical and financial merit using the criteria and methodology outlined in the Ranking Criteria & Methodology Addendum.

The Ranking Criteria & Methodology Addendum and a schedule of application scoring dates will be posted on the AERLP website. Applications with technical and financial merit that are not funded in a scoring round will be considered in a subsequent round of scoring for up to six months from the date the application is received by DEQ. Applicants will be notified of their status following each scoring round. Applications become invalid at the end of six months. Applicants may submit a second application no earlier than six months after the date of their previous application.

Staff will review the Ranking Criteria & Methodology Addendum at least every twelve months but may update the addendum more frequently if necessary. Updates will be posted to the AERLP website.

Ranking Criteria and Methodology

Each application with technical and financial merit will be scored according to the following criteria. The scores for each criterion will be summed, and the highest scoring applications will be given priority for available funding in that round of scoring. Pursuant to ARM 17.85.111(5)(g), DEQ may use additional criteria as the department deems appropriate at the time applications are prioritized.

A. Amount of energy produced. *Criterion required by ARM 17.85.111(5)(a).*

⇒ 14% of total points available.

Score will be awarded based on estimated million British Thermal Units (MMBTU) produced in first year of operation per dollar of approved loan request. Please note that a system that is paid for with matching funds will inherently score higher on this criterion than an identical system funded exclusively with the AERLP.

1. If system generates 0.004 MMBTU/\$ or more, award 10 points
2. If system generates 0.0015 to .0039 MMBTU/\$, award 5 points
3. If system generates less than 0.0015 MMBTU/\$, award 0 points

B. Diversity of the technology in the portfolio. *Criterion required by ARM 17.85.111(5)(b).*

⇒ 26% of total points available.

Historically the highest number of projects funded by the AERLP has been photovoltaic systems, followed by geothermal (ground source heat pumps), followed by wind, hydro, biomass, and energy conservation measures. Application receives a score for each technology included.

1. If system generates energy using hydropower, wind, solid waste, decomposition of organic wastes, fuel cell that does not require hydrocarbon fuel, solar thermal, low-emission wood or biomass, or other eligible technology, award 4 points.
2. If the system generates energy using geothermal technology, award 2 points.
3. If the system generates energy using a solar photovoltaic technology, award 0 points.
4. If project includes energy conservation measure(s), award additional 7 points.
5. If project includes a battery storage system, award additional 7 points.

C. Return on investment. *Criterion required by ARM 17.85.111(5)(c).*

⇒ 13% of total points available.

AERLP administrative rules define “return on investment” as “a calculated simple payback for a system based on the installed cost of components, the current value of energy produced when the system goes into service, and the estimated useful life of the equipment” (ARM 17.85.103 (14)). For the purposes of this ranking criterion, the simple payback is calculated as: [total installed cost of components before incentives] / [projected annual energy savings in first year of operation] = [simple payback in years]. For off-grid electric-generating systems calculate the projected annual energy savings by using the retail electric rate of the nearest electric utility (kWh per year x retail electric rate of nearby utility). For biomass systems, calculate energy savings using Montana State University Extension Service heating fuel cost comparison calculator. Use most viable alternative heating supply, as reported by applicant, for comparison. Do not include costs or savings from energy conservation measures installed in conjunction

with an alternative energy system in this calculation. (Please note: This calculation does not guarantee the potential return on investment for the system, which may be affected by tax credits or other incentives, escalation of utility rates, property taxes levied on system cost, financing costs, degradation of equipment, re-investment of energy savings, etc.)

1. If project has a calculated simple payback of less than 10 years, award 9 points.
2. If project has a calculated simple payback of 10 to 19.99 years, award 6 points.
3. If project has a calculated simple payback of 20 to 29.99 years, award 3 points.
4. If project has a calculated simple payback of 30 or more years, or if the simple payback exceeds the estimated useful life of the equipment, award 0 points.

D. Use of a process, a system, or equipment generally available in Montana. *Criterion required by ARM 17.85.111(5)(d).*

⇒ 17% of total points available.

Does the proposed alternative energy system use a process, a system, or equipment that is sold and serviced by a Montana-based business?

1. If yes, award 12 points.
2. If no, award 0 points.

E. Diversity of the borrowers in the project portfolio. *Criterion required by ARM 17.85.111 (5)(f).*

⇒ 17% of total points available

For the purposes of this ranking criterion, diversity is considered based on eligible borrower types. Eligible borrower types are individuals, small businesses, nonprofit organizations, units of local government, or units of the university system (73-25-101(3), MCA). Historically the highest number of loans has been issued to individuals, followed by small businesses, nonprofit organizations, units of local governments, and units of the university system.

1. If applicant is a nonprofit organization, unit of local government, or unit of the university system, award 12 points.
2. If applicant is a small business, award 8 points
3. If applicant is an individual, award 0 points.

F. Geographical diversity of the project portfolio. *Criterion required by ARM 17.85.111(5)(e).*

⇒ 13% of total points available.

For the purposes of this ranking criterion, counties are grouped in three tiers according to the number of loans issued in each county over the history of the program. Each time the program enters a phase of ranking applications, and every six months thereafter, Table 1 will be updated to reflect the most recent data. Applications from low-distribution counties are awarded 9 points, medium-distribution counties are awarded 6 points, and high-distribution counties are awarded 3 points (Table 1).

Table 1. Application scoring by county

Tier	Counties	Points awarded in scoring
Low distribution of loans	Cascade, Flathead, Jefferson, Park, Carbon, Yellowstone, Madison, Lake, Stillwater, Beaverhead, Broadwater, Fergus, Silver Bow, Teton, Lincoln, Golden Valley, Sanders, Glacier, Deer Lodge, Chouteau, Daniels, Rosebud, Judith Basin, Musselshell, Meagher, Wheatland, Mineral, Toole, Pondera, Powell, Richland, Hill, Garfield, Sweet Grass, Roosevelt, Big Horn, Blaine, Carter, Custer, Dawson, Fallon, Granite, Liberty, McCone, Petroleum, Phillips, Powder River, Prairie, Sheridan, Treasure, Valley, Wibaux	9 points
Medium distribution of loans	Ravalli	6 points
High distribution of loans	Gallatin, Lewis & Clark, Missoula	3 points

G. Bonus Points: Financial Need. *Criterion authorized by ARM 17.85.111(5)(g).*

This is an optional category and additional information must be provided by the applicant(s) to be eligible for bonus points. Besides being authorized by ARM 17.85.111(5)(g), consideration of financial need is, additionally, authorized by ARM 17.85.111(5)(f), which allows DEQ to consider, “the diversity of borrowers in the project portfolio[.]”. DEQ has articulated this as a bonus consideration to provide additional clarity on what information it will consider in awarding these points and to allow applicant(s) to choose whether to provide DEQ with additional information. To be eligible for bonus points, the applicant(s) must submit information on household size and additional income documentation may be required. Please contact program staff for the required form and more information.

For the purpose of this ranking criterion, applicant income is grouped into the three tiers below. Area Median Income (AMI) is determined by Department of Housing and Urban Development (HUD) data for Montana and is broken out by county. For more information on AMI for your location please visit: huduser.gov/portal/datasets/il/il2023/select_Geography.odn

1. If applicant’s income is less than 80% of AMI, award 10 bonus points
2. If applicant’s income is between 80% and 150% of AMI, award 5 bonus points
3. If applicant income is greater than 150% of AMI, award 0 points

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