

Memo



To: BEL Stakeholders
From: Beneficial Electrification League
Date: 5/16/23
Re: Powering Affordable Clean Energy Program (PACE) – Notice of Funding Opportunity (NOFO)

EXECUTIVE SUMMARY

Introducing the Powering Affordable Clean Energy (PACE) program, a vital component of the Inflation Reduction Act. This groundbreaking initiative, which can be explored further at the following link: <https://tinyurl.com/548c8tb7>, represents one of the most significant investments in rural electrification since the Rural Electrification Act was signed into law by President Franklin Delano Roosevelt in 1936. **With a substantial budget of \$1 billion**, PACE aims to provide rural communities in America with accessible, clean, and affordable energy solutions.

Under the PACE program, the **Rural Utilities Service (RUS) of the USDA Rural Development will generously forgive up to 60 percent of loans** for renewable energy ventures utilizing sources such as **wind, solar, hydropower, geothermal, biomass**, and even renewable **energy storage** projects.

Through the PACE Program, the RUS aims to foster the development of renewable energy infrastructure and enable the transition to cleaner and more sustainable energy sources in rural areas. It provides a unique opportunity for eligible entities to secure financial support for their innovative projects that contribute to affordable and clean energy solutions.

The RUS, acting as a Rural Development (RD) Agency, is responsible for soliciting LOIs and announcing the loan application process, including the deadlines for eligible entities to submit their applications. These loans will be awarded to qualified PACE applicants who plan to finance power generation projects for Renewable Energy Resource (RER) systems or Energy Storage Systems (ESS) that specifically support RER projects.

Important dates:

- LOI submission: June 30, 2023, 11:59 a.m. ET to September 29, 2023, 11:59 a.m. ET.
- Loan application deadline: 60 days from the date of the Invitation to Proceed.
- If deadline falls on weekend/holiday: Due next business day.
- RUS may extend deadline upon applicant's written request and demonstration of exceptional circumstances.

Highlights

- **Program Description:** Purpose of the Program: Largest investment in clean energy in U.S. history, promoting affordable and clean energy access, particularly in rural communities.
- **Goal of the PACE Program:** Support clean, affordable energy growth through loans for renewable energy projects.
- **Statutory and Regulatory Authority:** PACE authorized under Section 22001 of the Inflation Reduction Act (IRA), Public Law 117–169.
- **Other relevant statutes and regulations:** Rural Electrification Act of 1936, Farm Security and Rural Investment Act of 2002, and corresponding CFR parts.
- **Funding and Loan Forgiveness:**
 - PACE Program funded with \$1 billion under Section 22001 of the IRA.
 - Loans provided under Section 317 of the Rural Electrification Act.
 - Project Loans or System Loans can be forgiven up to 50%, or more under certain conditions, based on loan terms and conditions.
- **Eligible Projects:**
 - Loans for constructing renewable energy generation facilities.
 - Loan funds can also be used for projects that store electricity for these generation facilities.
 - Power generated from eligible renewable energy sources should be sold to rural and nonrural residents.
- **Loan Rates:** Loan rates set at the average tax-exempt municipal rate of similar maturities.

Important Dates

- LOI submission: **6/30/23, 11:59 a.m. ET to 9/29/23, 11:59 a.m. ET.**
- Loan application deadline: 60 days from the Invitation to Proceed.
- Weekend/holiday deadline: Due next business day.
- RUS may extend deadline with applicant's request and exceptional circumstances.

Federal Award Information

- **Award Type:** Loan & Loan Forgiveness.
- **Fiscal Year Funds:** 2023 & 2024.
- **Available Funds:** **Initially \$1 billion appropriated, but around \$2.7 billion expected** based on subsidy rates. Minimum \$300 million committed to each category.
- **Award Amounts:** Maximum loan amount (including forgivable portion): \$100,000,000. Minimum amount: \$1,000,000.
- **Loan Types:**

- Project Loans: Senior security interest on project assets and revenues. Additional cash reserves and collateral assignment of Power Purchase Agreement (PPA) may be required.
- System Loans: Available to operating electric utilities with a perfected senior lien on assets.
- **Loan Forgiveness Categories:**
 - Category I: Up to 20% loan forgiveness.
 - Category II: Up to 40% loan forgiveness if over 50% of the population served is in Energy Communities or Distressed/Disadvantaged Communities.
 - Category III: Up to 60% loan forgiveness for areas in Puerto Rico, USVI, Guam, etc., Tribal areas, or SUTA areas.
- **Anticipated Award Date: September 2023 to December 2025.**
- **Performance Period: Five years from environmental clearance or by September 30, 2031.**
- **Use of Other Governmental Funds:** Combining incentives with other governmental benefits allowed if permitted by law.
- **Renewal or Supplemental Awards:** None.
- **Type of Assistance Instrument:** Loan Agreement.

Eligibility

Eligible Applicants:

- For-profit organizations
- State or local governments
- Indian Tribes
- Alaska Native Corporations
- Nonprofits
- Institutions of higher education
- Community-based organizations, distribution electric cooperatives, and generation and transmission electric cooperatives

Cost Sharing and Matching:

- Project Loans: RUS will finance up to 75% of the total project cost, and the awardee must provide at least 25% in cash or equity investments.
- System Loans: PACE System Loans may cover 100% of the total project costs.

Other Eligibility Information:

- Electricity generated or stored should be provided to rural and nonrural residents in eligible service areas.
- The rural percentage of the service territory must be at least 50% unless waived by the Administrator.
- Projects can include renewable power generation, energy storage systems, transmission or distribution facilities, and upgrading existing facilities.

- RERs (renewable energy resources) and ESSs (energy storage systems) must be installed to provide energy for resale to rural and nonrural residents.
- Applicants can request interconnection and other costs associated with delivering the energy to Off-Takers.

Application and Submission Information:

- Request the application package at <https://www.rd.usda.gov/programs-services/electric-programs/powering-affordable-clean-energy-pace-program>.
- The LOI must include information such as the LOI submitter's profile, financial information, technical description of the project, and prevailing wage certification.
- The Application must include a loan application letter, articles of incorporation and bylaws, environmental and historic preservation requirements, financial forecast, PPA (power purchase agreement), power resources owned or leased, power purchase contracts, power sales contracts, and engineering report.

Application Review Information:

- Criteria:
 - LOI:
 - RUS will process and evaluate complete LOIs in the order they are received.
 - Review of LOIs includes:
 - Applicant eligibility.
 - Project eligibility.
 - Geographic Diversity.
 - Financial status.
 - Allocation of Funds Among Categories.
 - Application:
 - RUS will evaluate and review each Application based on criteria in 7 CFR part 1710 subpart D.
 - Evaluation includes:
 - Financial coverage ratios.
 - Financial equity requirements.
 - Community Benefit Plan.
 - Loan forgiveness minimum requirements:
 - Ratepayer Benefit.
 - Technical Feasibility and Commercially Available Technology.
 - Financially Feasible.
 - Review and Selection Process:
 - LOI:
 - RUS considers only complete LOIs as they are received.
 - LOIs are evaluated based on the criteria described.
 - Only selected LOIs receive an Invitation to Proceed.
 - Application:
 - LOI submitters with an Invitation to Proceed have 60 days to submit an Application.

- Applications are processed in the order they are received.
- All Applications are reviewed based on the provided criteria.
- RUS makes Awards based on Applications meeting the requirements.
- The Agency may offer less funding or loan forgiveness than requested.

Federal Award Administration Information

- **Loan Terms and Conditions:**
 - Successful PACE Applicants receive a Commitment Letter from the Administrator.
 - The Commitment Letter specifies the approved Award amount, loan forgiveness amount, and other conditions.
 - All requirements and conditions specified in the Commitment Letter must be met before construction can begin.
 - Loans have a maturity period based on various factors, including the useful life of the project and lease agreements.
 - The Administrator can modify or waive requirements if it's in the government's best interest and the loan will be repaid.
 - Interest rates for PACE loans are determined based on municipal rates.
 - Prepayment of loans is governed by specific regulations.
 - Repayment of the loan must be made through equal monthly payments over the loan term.
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- **Administrative and National Policy Requirements:**
 - PACE loan agreement and related loan documents must be executed.
 - Compliance with policies, guidance, and regulations is required.
 - Applicable regulations include those in 7 CFR parts 1700-1730, 1767, 1773, and 1787, and 7 CFR part 1970.
 - Wage Rate Requirements and foreign investment disclosure are mandatory.
- **Reporting:**
 - Awardees must provide performance reports as outlined in the Award documents.
 - Accounting requirements must follow GAAP and specific regulations.
 - Audits are required for Awardees, including Non-Federal Entities and other entities.
 - Ongoing monitoring efforts and access to relevant documents must be provided to RUS upon request.

Build America, Buy America Requirements

- **Funding to Non-Federal Entities:**
 - Iron and steel used in the project must be produced in the United States.
 - Manufactured products used in the project must be produced in the United States, with at least 55% of the total cost of components being mined, produced, or manufactured in the United States.
 - Construction materials (excluding cement, aggregates, and binding agents) must be manufactured in the United States.

- Waiver requests for these requirements can be submitted following USDA's guidance.
- **Funding to all other entities:**
 - Awardees who are not Non-Federal Entities are subject to the Buy American requirement at 7 CFR part 1787.
 - For-profit organizations are not considered Non-Federal Entities but may still be subject to domestic content requirements under independent statutory authorities.
 - Waiver requests for these requirements must be submitted according to the applicable regulations.