Delivering the Green

by

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This holiday season, as we all get lumps of coal in our financial stockings, there is more interest than ever in finding out what might be under the Energy/Carbon Christmas Tree. New carols echo: "Redo the Halls With Energy Infrastructure," "Come Bearing Tidings of Climate Change Control." There's no want of things on our wish list: intelligent grids and sparkling renewables, affordable carbon sequestration, exquisite on-line efficiency management, energy efficient green buildings and . . . (oh yes): dollars, the entrepreneurs to execute projects, and an assurance that jobs will flow from it. In short, everything needed to satisfy the pull and tug of the three basic policy vectors: infrastructure stimulus (jobs), energy security (reduced net foreign oil dependency, more reliable power sources), and climate change control (neutral carbon footprint, cap and trade regulation). Hence, the reemergence of the notion of a National Infrastructure Bank, a piggy bank in one place targeted on those projects which would best incentivize all of the above.

Pretty wrapping; wrong present. What should be under the tree is a box of sturdy interlocking green lego blocks to form public-private partnerships (P3s) to create green jobs.

Why? Because it makes sense now to focus on how government institutions can now, or in the future, facilitate the kind of public-private partnerships which can serve, as "delivery systems" for the development and operations of the type of specialized environment/energy initiatives in support of climate change and growth being contemplated. Unlike an undifferentiated public works program for "crumbling infrastructures," these initiatives have certain characteristics in common: emphasis on technology breakthrough or change; application to sectors where there is already a major public presence, and a complex of institutionalized governmental rules and policy issues which must be accommodated, as well as the new energy job/carbon imperatives; and requirement of a sharing of risk-taking between the public and private sectors to assure achievement of these imperatives.

Infrastructure financing always requires a high degree of mitigation of market and price risks and clear-cut definition of non-market (political) external economic variables. It needs to be made through delivery channels designed to meet these requirements. A national infrastructure bank can certainly review financing variables to determine that they have been dealt with in a financeable way, and may be equipped with sovereign powers to plug holes in financing structures, *e.g.*, through loan guarantees, grants, or collateral financing support. But such a multipurpose bank may suffer brain damage in choosing among projects, of different sectoral types, subject to the prerogatives of multiple regulators in different regions of the country, and subject to lingering uncertainty of what the new Federal schemes will look like.

Not to say that a pump primer for each type of P3 is not necessary. Conventional availability of tax credit and depreciation benefits is not sufficient to cause private investors to otherwise take the lead in pulling the weight of change which is job productive: The applicable rules for that market for service must otherwise clearly be laid out through P3 arrangements, so that revenues are assured. Without revenue stability, the tax credits do little good.

Public-private partnerships ("P3s") are an old concept, which may be perceived to have fossilized into a single model: public retention of asset ownership, contractual delegation to the private sector for a "concession" price of the right to build facilities and provide services, implicit government credit support for the ventures through governmental service fees or lease payments, and explicit assumption of technical risk by the private sector. In that sense, a "public utility" is the most airtight of P3s. But the concept can and is becoming more flexible than that in an effort to align public policy objectives and private long-term ROI objectives.

The P3 model can be adapted to meet the green jobs/infrastructure crisis, in the near term, by a series of measures built around existing programs and appropriate funding sources. In particular, this can be done in the field of energy efficiency/renewables, as applied to the provision of public sector services and infrastructures. The key elements of P3s which are most critical for these purposes are the following:

1. Basis for demonstrable measurement/computation of efficiency savings payback.
2. Clear-cut baseline and methodology for carbon and other environmental credit benefits.
3. Specific public authority identified and qualified to administer services even though multiple services crossing functional lines are involved.
4. Support by fragmented legislation in the Federal, state, and local sectors is both substantial and subject to clear reconciliation mechanisms and includes, or is consistent with, use of funding available for renewables and/or innovative infrastructure and/or innovative carbon reduction practices.
5. Framework for allocation of different levels of technology risk and governmental risk, to public and private participants in venture, is clearly laid out and justifiable.
6. Governmental incentives mixing, *e.g.*, purchasing power, technology development grants/loans, use of public finance bond funding vehicles, *e.g.* CREBS, EQCBA, and IDBs may be utilized.

Elements of viable P3s with most of these features are susceptible to a "component assembly" approach from the bottom up (government and private sector working together), as well as from the top-down, and thereby side stepping inter-government and broader policy issues which otherwise could be roadblocks. This kind of component assembly is a setting where creative Federalism has something to offer which all-knowing National Infrastructure Bankism may not. A P3 based on these principles can be a do-it-yourself kit that can be enhanced over time. Jurisdictions have different resources to attract new industry development, local institutional development, and public service cost containment. These may include educational institutions (with innovation capability), local electric utilities (with efficiency facilitation capability), and existing centers of entrepreneurship, Different jurisdictions have different types of financing as well as institutional mechanisms suitable for blending. Knitting them together has a distinctly local flavor. The myriad types of public-private partnerships for specific purposes that are sustainable presently will only be enhanced as Federal programs become clearer. They may not look, or be, financially alike, and they may differ in risk profiles for the parties. They may be in different functional areas, such as water, heating and cooling, or local power distribution. But they will all produce least-cost solutions to the particular jobs/public service environment configuration of a particular jurisdiction. New Federal programs can thus support a diverse program of public-private delivery systems, which may be funded by the states.

In short, public-private partnership can represent interlocking lego block assemblies, not the clunky programmatic wooden toys of sometimes questionable success. They are the best way to assure that in future years the green goods will be delivered.

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