



STATE OF NEW JERSEY
Board of Public Utilities
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www.nj.gov/bpu/

CLEAN ENERGY

IN THE MATTER OF THE CLEAN ENERGY) ORDER
MANUFACTURING FUND (CEMF) SOLICITATION –)
AWARD RECOMMENDATION – ENER-G RUDOX, INC.)
) DOCKET NOS. EG10020126 and
) QG14101150

Parties of Record:

Sandy Zeglarski, New Jersey Economic Development Authority
Ryan Goodman, **President**, ENER-G Rudox, Inc.

BY THE BOARD:

On October 22, 2014, the Board approved ENER-G Rudox, Inc's (EGR's) application for a Grant of \$300,000 and a term loan of \$3,000,000 under the Edison Innovation Clean Energy Manufacturing Fund ("CEMF") program for the purchase and formation of an advanced Combined Heat and Power ("CHP") manufacturing facility in East Rutherford, NJ (Docket Nos. EG10020126; QG14101150). The company planned to purchase a 28,885 square foot facility and create an advanced manufacturing facility for cogeneration and energy efficient systems, as well as a state-of-the-art network operations center for managing all North American systems ("the project"). Renovations, equipment and development costs made up the remainder of the project with a total estimated cost of \$6.9 million. The CEMF loan, as approved by the Board in October 2014, included a first lien position against all EGR business assets including a first lien on the new facility.

Since that time EGR's customer financing strategy and corporate ownership have changed. This change required a modification to the collateral structure for the CEMF loan thus necessitating the Board's reconsideration of the CEMF Award. Since its application, ERG has purchased a facility and is in an advanced state of site improvements, with the renovations expected to be completed by August, 2016. In turn, the project's anticipated total costs increased from \$6.9 million to \$9.98 million with the increase in costs to be funded with credit facilities from EGR's parent company.

The New Jersey Economic Development Authority ("EDA"), as administrator of the CEMF, is proposing that the Board approve a new collateral structure in which the BPU has a first lien mortgage on EGR's new facility and a first lien position on all business assets not already pledged either to the financier of any Energy Service Agreement (ESA) or to Mitsubishi Engine

North America, Inc. who sells engines to EGR.¹ This would allow EGR's ESA agreements for the CHP projects to go forward, unencumbered by the CEMF loan.

Based on EDA's analysis and recommendations, Board Staff recommends that the Board approve the new collateral structure and the CEMF funding awards to ENER-G Rudox for \$3,300,000 in total funding, the maximum allowed under the solicitation, for the manufacture of CHP systems.

BACKGROUND

On November 26, 2012, the Board's Office of Clean Energy (OCE), in collaboration with the EDA as administrator of the CEMF, issued a Solicitation for the CEMF program. The Solicitation offered financial assistance in the form of 2% interest loans and grants to support Class I renewable energy or energy efficiency companies entering into or expanding their manufacturing operations. Eligible applicants are companies that currently, or plan to within 36 months, manufacture Class I renewable energy or energy efficiency systems, products or technologies in New Jersey. Funding is subject to BPU approval of the annual Clean Energy Programs and Budgets and is further subject to State appropriations law. On June 30, 2014, the Board approved the Fiscal Year 2015 ("FY15") Budget which included funding for the CEMF in the amount of \$8,579,024.08 (Docket No. QO14050489). Total funds awarded may include up to 50% of total project's budgeted costs, not to exceed \$3,300,000 per project for each new program solicitation.

EGR submitted a CEMF Intake Form on June 5, 2014 and was approved for technical eligibility by the Board staff on June 11, 2014. The \$3.3 Million CEMF Award would go towards the purchase and creation of an advanced manufacturing facility for cogeneration and energy efficient systems, as well as a state-of-the-art network operations center for managing all North American systems.

On June 25, 2014, the Clean Technology Advisory Committee ("CTAC") reviewed EGR's application based upon the Program's evaluation criteria set forth in the Solicitation which include criteria for Economic Impact in New Jersey, Technical Merit, Investment Criteria, Management and Team Qualifications, and Market Potential. Upon review and discussion, the CTAC Committee recommended EGR's application for underwriting analysis and due diligence review by the EDA. EDA completed its underwriting analysis and due diligence review, and recommended an award of \$3,300,000 in total CEMF funding to EGR which includes a \$300,000 grant and \$3,000,000 semi-convertible loan.

On October 22, 2014, the Board approved EGR's application for a Grant of \$300,000 and a term loan of \$3,000,000 under the CEMF program for the purchase and formation of an advanced CHP manufacturing facility in East Rutherford, NJ (Docket # EG10020126).

A Commitment letter was extended on December 16, 2014 and accepted by EGR on December 31, 2014. It included a first blanket lien on all business assets and a first mortgage lien on the new facility. The loan however was never formally closed due to changes in EGR's customer financing strategy and a proposed new collateral structure inconsistent with the original terms of the CEMF loan. The Commitment expired on March 2, 2015 and was extended 90 days to June 2, 2015.

¹The Mitsubishi Brand engines are generally used in EGR's stand-by electricity business.

Since that time the company's customer financing strategy and corporate ownership have changed as well as the scale of the proposed project. The project's total costs increased from \$6.9 million to \$9.98 million to be funded with credit facilities from the parent company and the proposed \$3.3 million of CEMF funding. The initial project cost estimate was prepared in 2014 prior to finalizing the site of the new manufacturing facility. Since that time, EGR has purchased the East Rutherford site and is at an advanced stage of improvement. Consequently, the new projected cost is a more accurate reflection of the final cost of the project.

Additionally, EGR had originally intended to offer, Energy Service Agreements (ESA) to its customers in coordination with its sister entity that would act as the creditor. ESA's provide guaranteed savings to the customer over the length of the contract period (e.g. 20yrs) with low to zero upfront capital investments required by the customer. Under the terms of a typical ESA, in return for the installation of a CHP system and installation, a customer agrees to pay for the energy produced over the contract period and to lease the land on which the equipment is installed to the creditor. Subsequently, the creditor sells the assets generated by the ESA agreement to an ESA Financier. Accordingly, all project assets are encumbered by the ESA financier including cogeneration equipment, land leases and contract payments. Under this strategy, the assets generated by the agreement would have belonged to EGR's sister entity. This would have, in effect, removed these assets from the CEMF collateral pool.

However, EGR determined that it will enter into ESA agreements directly with the customer. Consequently, in addition to the business assets which were contemplated in the original CEMF award, EGR will have possession of the assets generated by the ESA agreements. This business model allows EGR to provide low initial investment for its customers while simultaneously allowing EGR to generate necessary revenue. However, EGR would be unable to sell the assets to an ESA Financier if they are collateralized as part of the CEMF loan. Thus, EGR is requesting that the equipment installed as part of ESA agreements be removed from the CEMF loan collateral.

Additionally, EGR is requesting that assets pledged to Mitsubishi Engine North America, Inc, for which EGR is a reseller, be removed from the CEMF loan collateral. Mitsubishi retains first lien position on their branded assets until paid for by EGR. Thus the primary collateral for the CEMF loan would be the real property of the new manufacturing center as well as any remaining business assets.

In January 2015, EGR completed the purchase of a 3.11 acre property with an existing 28,885 square foot Class C warehouse located at 180 East Union Avenue in East Rutherford, NJ for \$2,641,000 and is currently renovating the property. EGR anticipates completing the expansion and renovation of the warehouse create a state-of-the-art manufacturing facility consisting of 33,397 square feet of usable space in August 2016. The future market value of the facility, as appraised by Integra Realty Resource, at \$6 million assuming that all planned renovations are completed. EGR expects to relocate its operations from its Carlstadt, NJ facility to the new facility in July 2016 and to begin manufacturing at the facility in September 2016. In addition to the improvement to the property, the equipment in the new facility will include computers, IT network and phone systems, office furniture, tools, testing equipment, cranes, etc.

EDA, as administrator of the CEMF, is requesting that the Board approve a new collateral structure in which the BPU has a first lien mortgage on EGR's new facility and first lien all business assets not already pledged either to the financier of any ESA or to Mitsubishi Engine North America, Inc.

DISCUSSION AND FINDING

The Board **FINDS** that the CEMF grant and loan agreement will further the State's and the Board's policy of incentivizing the manufacture of renewable energy and energy efficiency technologies. EGR is a New Jersey presence and will use the funding to expand their operations in support of New Jersey jobs. The technology produced by ENER-G will have a direct and positive impact on many of the objectives of the NJDEP Global Warming Response Act ("GWRA") as well as the Governor's Energy Master Plan ("EMP").

Upon consideration of the facts set forth above, the Board **FINDS** that EDA's recommendation to approve the revised collateral structure is sound when the total appraised value of the property is considered. Furthermore, the Board **FINDS** that the revised CEMF funding award is reasonable and consistent with the criteria set forth in the CEMF Solicitation. Therefore the Board **HEREBY APPROVES** designating ENER-G Rudox Inc. as an award recipient in the amount of \$3,300,000. The Board **ORDERS** that a commitment letter, consistent with the terms of this Order be issued to ENER-G Rudox, Inc. by the Board's OCE Director, in coordination with appropriate EDA staff. The Board also **AUTHORIZES** President Mroz to sign the Grant and Loan Funding Agreement, the form of which was previously approved by the Board on March 12, 2009 in Docket No. EO08070470, consistent with the terms of this Order and the Department of Treasury requirements. The Board also **AUTHORIZES** President Mroz to review and approve matters within the scope of Section VII(B) of the Memorandum of Understanding between the BPU and the EDA dated March 24, 2011, consistent with the terms of this Order, subject to Board review as necessary.

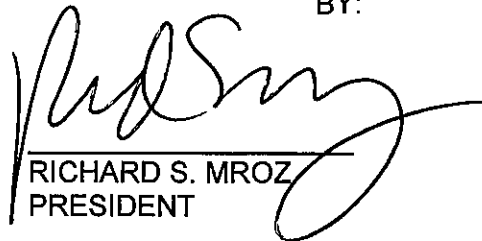
The effective date of this Order is July 9, 2016.

DATED: 6/29/16

BOARD OF PUBLIC UTILITIES
BY:



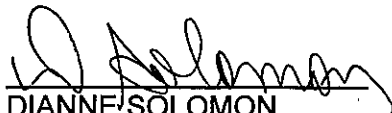
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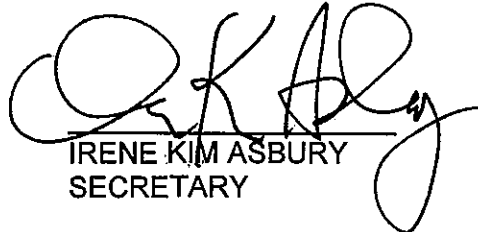
MARY ANNA HOLDEN
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DIANNE SOLOMON
COMMISSIONER

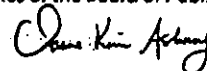


UPENDRA J. CHIVUKULA
COMMISSIONER

ATTEST: 

IRENE KIM ASBURY
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.



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AWARD RECOMMENDATION –
ENER-G RUDOX, INC.

DOCKET NOS. EG10020126 and QG14101150

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