Minneapolis Clean Energy Partnership
BOARD MEETING
Xcel Energy, 414 Nicollet Mall, LL Bay 1
Wednesday, May 30, 2018
1:30 – 3:30 p.m.

2018 Q2 Meeting Notes

Board members present: Mayor Jacob Frey (Chair), Council Member Cam Gordon, Council Member Jeremy Schroeder, and Mark Ruff from the City of Minneapolis; Adam Pyles (Vice Chair) and Brad Tutunjian from CenterPoint Energy; Kelly Bloch and John Marshall from Xcel Energy.

Board members excused: None

Planning Team present: Sara Barrow, Bridget Dockter, Laura Dorle, Peter Ebnet, Robin Garwood, Luke Hollenkamp, Kelly Muellman, Heidi Ritchie, Emma Schoppe, Al Swintek, Karlee Weinmann

Guests/Staff present: Council Member Steve Fletcher (alternate), Machael Bropleh, Mark Cayce, Timothy DenHerder-Thomas, Chris Duffrin, Catherine Fleming, Patrick Hanlon, Jim Hasnik, Matt Kazinka, Alice Madden, Andy Mannix, Laura McCarten, Brian Millberg, Marcus Mills, Patty O'Keefe, Rebecca Olson, Heidi Ritchie, Lee Samelson, Julia Silvis, Jamez Staples, Tri Trinh

1. Welcome and Introductions

Mayor Jacob Frey called the meeting to order at 1:39 p.m. Mayor Frey invited Clean Energy Partnership (CEP) Board Members, staff and guests to introduce themselves. Special recognition was given to Laura McCarten, who served on the CEP Board since its inception and is retiring from Xcel Energy in June. Mayor Frey thanked Laura for her leadership and participation on the CEP Board. Kelly Bloch, Laura's replacement on the CEP Board, was welcomed. Kelly has 27 years of experience in the utility industry where she has compiled a diverse background. She joined the Public Service Company of Colorado in 1991 where she served in various engineering roles. After the merger with Northern States Power which created Xcel Energy, Kelly spent time working as an engineer and eventually in operations. She is currently the Regional Vice President, Distribution Operations, for Northern States Power Minnesota and Northern States Power Wisconsin serving customers in Minnesota, North Dakota, South Dakota, Wisconsin and Michigan.

2. Review and Approve Agenda and Minutes

Mayor Frey asked for a motion to approve the agenda, as well as the minutes from the 2018 Q1 CEP Board Meeting. It was MOVED and SECONDED that the minutes from March 15, 2018 be approved. Motion CARRIED.

3. Quarterly Update from EVAC Co-Chairs

Matt Kazinka provided an overview of the Q2 EVAC meeting on Monday, May 7. The primary focus of the EVAC meeting was to provide input and ideas for the Planning Team to consider as they develop the first draft of the 2019 Work Plan. To accomplish this, they convened small group conversations led by EVAC members with Planning Team members participating as a resource and to answer questions. Each group focused on one of the three different priorities set by the Board: energy efficiency, renewable energy and inclusive financing. Matt summarized the groups' discussions:

Energy Efficiency
- Increase benchmarking, data analysis, and data disclosure of large commercial and multi-family buildings; leverage Partner resources to target inefficient buildings.
- Expand benchmarking ordinance to include more building types (like multi-family), and consider time-of-sale disclosure policies.

Renewable Energy
- Provide an opt-out (as opposed to opt-in) renewable power purchasing approach. This may require legislative, city policy, and/or PUC tariff changes.
- Accelerate building solar on rooftops and properties in Minneapolis through collaboration with large companies and institutions.

Financing
- Make energy efficiency/renewable energy loans more accessible to everyone through a loan loss reserve, interest rate and loan amount buy-downs.
- Provide point-of-sale, instant rebates on high efficiency appliances.

It was acknowledged that, while EVAC's discussions focused on new ideas, the Partnership should carry-over some current Partnership activities into the next work plan. The Planning Team will consider EVACs ideas as they develop potential Partnership Activities for the next work plan. EVAC will have a chance to review the Planning Team's draft Partnership Activities at its Q3 meeting.

Matt summarized updates from EVAC's Workforce Development and Small Business Work Groups. Workforce Development met in March with representatives from the utilities, the City (including CM Fletcher and staff), and community advocates to discuss how funding allocated with the franchise fee increase should be used to do a workforce assessment. They discussed a draft scope of work, potential contractors, and research methodology for a workforce development assessment. Small Business worked with City staff to develop a new program out of the Community Planning and Economic Development department related to the existing Business Technical Assistance Program. The Energy Technical Assistance Program will help bring together existing resources around energy efficiency for small businesses, contracting with small business organizations in the city to help.

4. Inclusive Financing Tools Presentations

Chris Duffrin, president of Center for Energy and Environment (CEE), presented on Residential Property Assessed Clean Energy (PACE) Financing, and CenterPoint Energy's On Bill Loan

Repayment Program. CEE partners with the City and utilities on programs related to energy efficiency and clean energy.

- *Residential PACE:* This program, established approximately ten years ago, is a financing tool used to finance energy efficiency and renewable energy projects. Financing comes from various sources but it is funded primarily through a bond sale at the local government level. It is treated legally as an assessment, collected through property taxes, not as a loan. It has many of the same attributes of a loan: principal, interest, underwriting, debt obligation, and consequences for nonpayment including forfeiture of property. Around the country programs are typically geared more toward commercial projects than residential. Only three states currently have active residential programs: California, Missouri and Florida.

  Because of problems faced by the provider of Residential PACE in the California market, who was planning to come to the State of Minnesota, the State Legislature in the last session decided to suspend residential PACE while keeping Commercial PACE operating. They set up a task force to look at the issues and bring it back to bill for this year's session. A bill supported by many different organizations was introduced that addressed some of the problems in California, which included high interest rates and fees despite superior lien position (in front of the mortgage), predatory tactics by contractors, overpriced goods and services, lack of "ability to pay" rules, lack of disclosure, risk of tax forfeiture and foreclosure, and no oversight of energy efficiency claims. The Minnesota bill has explicit "ability to pay standards," contains clear protections for vulnerable adults and low-income customers, and makes the PACE lien subordinate to the first mortgage and previously recorded liens which allows Fannie Mae, Freddie Mac and FHA to insure the mortgages. The bill passed 65-1 in the Senate, 123-0 in the House, and was signed into law by Governor Dayton.

  Senator Dibble made an amendment to the bill that clarified that Minnesota Housing Finance Agency (MHFA) capital can be used for an assortment of energy efficiency technologies. The big additions were solar and energy storage as potential improvements that could be financed. The amendment also allows MHFA to integrate their loans with utility on-bill repayment programs.

  In response to questions, Chris said that when the property is sold the PACE lien will be paid; it does not stay with the property. Residential PACE will be regulated by the State Department of Commerce.

- *On-Bill Loan Repayment:* Two years ago CenterPoint Energy proposed an on-bill repayment program, and in a competitive bidding process the Center for Energy and Environment (CEE) was chosen to implement it. The program would include multiple sources of low-cost capital (i.e., CEE, MHFA, and other communities), and is targeted at cost-effective energy efficiency improvements in the residential sector. There are multiple points of entry; utility programs, contractors and partner communities will be able to refer to the program. The financing is unsecured, resulting in less risk to the borrower and lower transaction costs. The approval process is done online, so it is quick with instant approval.

The program is under development to comply with the state's Energy Conservation Improvement statute, which covers on-bill repayment programs. A regulated third-party lender will provide the loans to be repaid on CenterPoint Energy's utility bill. The utility bill gets paid before the loan, and the debt obligation is to the customer (not connected to the meter or property). The lender, not the utility, is at risk of default. Disconnection is not allowed for nonpayment of the loan.

Eligible improvements that tie directly to CenterPoint Energy's Conservation Improvement Plan (CIP) include recommendations through an energy audit, or items like high efficiency furnaces, boilers or water heaters, thermostats installed with an eligible heating system, ENERGY STAR clothes washer or dryer, wall or attic insulation and air sealing, and other improvements if done with one of the above.

CEE will offer loans with interest rates as low as competing banks and credit unions. Those with a credit score of 680 and above will qualify for the lower rate of 4.99%, and those with a credit score between 600-679, who are not usually served, will qualify for the higher rate of 6.99%. Only ten percent of the population who apply for loans would not qualify. Buy-downs and Loan Loss Reserves are possible to lower rates and help cover losses in the higher credit risk group. Loans are available to owner-occupied properties, and the loan size is up to $20,000 for ten-year terms. Applicants with a lower credit score may not qualify for $20,000, but enough capital will be provided to ensure that emergency situations like furnace replacements would be possible. Additional loans and grants (i.e., Weatherization Assistance Program, utilities' efficiency programs, partnerships with neighborhood groups) are available for non-qualified/low-income customers, emergency situations, and rental properties.

CenterPoint Energy will not extend the On-Bill Loan Repayment program to offer loans for equipment and services unrelated to rebate-eligible natural gas equipment. Electric appliances including central air conditioners, mini-split systems, or heat pumps, installed in conjunction with an eligible gas conservation measure, will be eligible for the program. Electric appliances that are not typically installed along with gas equipment, nor solar and wind generation equipment, will not be eligible for the program.

- *Pay As You Save® (PAYS):* Mark Cayce, General Manager for Ouachita Electric Cooperative in Arkansas (via conference call) reported on their implemented Pay-As-You-Save (PAYS) program. Starting in April of 2016, PAYS has enrolled almost 300 homes in the program. Average savings are about 22% per structure. Every member of the Coop is eligible; there are no income or credit requirements to participate. The Coop makes the infrastructure investments, and 80% of the monthly cost savings are used to cover its investments. 20% cost savings from day one is guaranteed to the members. A key feature of the tariff, which was approved by the regulatory commission, is that the energy efficiency measures are part of the basic service, like building electric lines, so it is built into base rates. Most investments are recovered over a ten to twelve year period.

  All of the financing is private, intended for use by electric cooperatives, and the interest rate is recovered as part of the investment. The average cost of capital is currently 4.5%. They buy their power from another power supplier. Participants average 2 kW peak demand savings per residential unit which saves them approximately $10.63 per month, giving them additional payback. Individual consumers pay their own way; they are not subsidized in any way. There is no credit requirement, but if that part of their bill is not paid they are subject to disconnect. To date, zero customers have defaulted.

When the program started the Arkansas Energy Office provided a $100,000 reserve fund to cover the Coop's investment. That was key in having the confidence to move forward. One advantage of a PAYS program is that you do not have to be a property owner to participate; you can be a renter of a home, multi-family building or apartment, although permission of the landlord must first be obtained. The tariff stays with the property, so if a tenant moves out the landlord must notify the new tenant. Some local schools and government buildings are also included in the program. They are not currently investing in mobile homes.

Several Board members had questions for Mr. Cayce:
Q: When there is turnover in an apartment, have you seen profit-taking on the part of the landlords who are not paying for these improvements? Do they increase rents to reflect that they have more modern heating and cooling?
A: That has not been an issue to date. The opportunity is there. Landlords are not made to sign an agreement and there are no restrictions about raising rent rates.

Q: Clarification - The Arkansas Commission allows you to categorize your capital investment as a regulated asset, and that is incorporated into your rate base?
A: That is correct. Because it is a tariff, each individual location is on this particular rate. There is a line item on the consumer's bill for energy efficiency improvements which is subject to the same requirements as any other line item.
Q: You are allowed to recover the same return on equity as a normal utility asset?
A: Yes, that is correct.

Q: What is the general term? How long does it take you to get back your capital investment?
A: Most of them have been a twelve year term. It varies. We have to ensure that they get 20% of the savings; we only take 80% to pay back. Some of them get paid back in six to seven years.

Q: Can you give us some details on schools that use the program? What do they do with it to make improvements, and how much do they save on their utility bill?
A: With our schools we are targeting lighting retrofits. There have been significant savings at elementary and high schools in rural school districts which are in desperate need of improvements. Because this is part of their electric bill they did not have to go through the budgeting process. In the case of a junior college, their savings is $100,000 per year, $80,000 of which is going to repay the debt but they are still saving $20,000 per year. After the Coop recovers its investment they will save 100%.

Q: How selective are you about what types of improvements can be paid for through this program?
A: The improvements must be able to pay for themselves: insulation, air sealing, duct sealing, basic weatherization as well as heating, air conditioning and lighting. They have not

looked at windows because they cannot verify the exact amount of savings from window improvements. They also look at the structure to make sure they are okay for the term of the repayment. For instance, if there is severe roof damage that is beyond the scope of the program and would have to be corrected before they could participate.
Q: Is it often that you have to say to a customer that there is not enough payback here, we can't bring you into this program?
A: That seldom happens. Since much of the housing stock here is substandard some of those improvements have to be made before they can do energy improvements.

Q: I want to review some of the numbers in your report, thinking about how to translate your experience to our markets in Minnesota. In the report it says the average amount spent was about $5,600 per home. The average savings was around 3,500 kWh per year, which represents about 22% of usage. Is that correct?
A: Yes.
Q: On average, the usage for these homes is four to five times the 3,500 kWh saved, or 14,000 to 17,000 kWh per year. Later in the report it valued the savings at about 10 cents per kWh.
A: Yes, which would be our rate. That's probably a little bit low.
Q: On average, if you're saving 3,500 kWh per year, at 10 to 12 cents per kWh, that is $350 to $400 per year that these customers are saving. Then 80% of that is used to pay for the investment, 20% goes back to the customer, so the customer is saving $60 to $80 per year in bill reduction. We want to compare these usage figures to what average customers in this market might be using to see how it would work for us.
A: One thing I want to mention is that when we go out to a house, if it currently has a gas furnace or air conditioner, we will inspect it and put in a new 95% AFUE (Annual Fuel Utilization Efficiency) furnace as well as a minimum of 16 SEER air conditioning unit. We do not discriminate based on fuel source. Savings from gas are not included in these savings figures.

Q: If you are working with the schools and there is an opportunity because of their HVAC load to investigate combined heat and power, is that something that you would work with them on, or are only electric efficiencies supported by this program?
A: We do gas efficiencies as well. If they are currently using gas we get them efficient new gas equipment. It was a requirement of the Arkansas Commission that there be no fuel preference.

Q: Just to clarify, you would still be paying it back on the electric bill, even though they are getting an added savings on their gas bill?
A: That is correct, because it is filed as a regulatory asset. The savings are calculated in the payment.

5. Board Inclusive Financing Tools Discussion

To begin this discussion, Mayor Frey read into the record the following definition as put forth in the PAYS handout as presented to the Minneapolis City Council: "Inclusive financing allows a utility to invest directly in resource efficiency upgrades on the customer side of the meter regardless of the customer's income, credit score, or renter/owner status."

In the ensuing discussion, the following points were made:

- The Ouachita Electric Cooperative PAYS program represents a utility investment but on PACE it is a third-party investment, not a utility investment. If both are to be considered, it is important to note that they are two different programs.
- PAYS® is currently the only operating model, introduced today, that meets the inclusive financing definition. PACE is not inclusive financing, and CenterPoint Energy's proposed on-bill loan repayment is not inclusive because it is debt to the customer.
- The cost of money is important. In Arkansas the cost of capital from their regulatory lender is 4.5%. In his presentation Chris identified interest rates of roughly 5% to 7%, the cost of money to the utilities will be about 10%. The lower the cost of money, the better it will be for the customer who is paying principal plus interest.
- In response to a request for clarification, Adam explained the 10% cost of money calculation as follows: The PUC recently approved CenterPoint Energy's rate case at 7.12%, which is the after-tax cost of money to the utility and includes debt and equity. Since their income is taxable, 7.12% times 1.4% equals almost 10%. Coops are taxed at a different rate and can borrow at lower rates than an investor-owned utility can.
- We need to reach those customers who have not had the opportunity to get efficient technology due to their financial means and history.
- The funding source for inclusive financing is not as important as the customer being able to make energy efficiency improvements through their utility bill to achieve savings. The Partnership could join forces and go back to the Public Utilities Commission and/or legislature to get permission for a pilot program to be done on a small scale.
- The Energy Transition Lab will be doing a market and feasibility study that will answer a lot of these questions about how the Arkansas and other scenarios would work in Minnesota. Right now there is a lot of speculation.
- If the meter is the line of demarcation in the inclusive financing definition put forward, it was proposed that it might make sense to keep that less definite in the definition. An opposing view was that it was a key part of the definition at this stage. A request was made that the Partners conduct further exploration and report back at the next meeting.

Following this discussion and additional wordsmithing, the following definition of inclusive financing was proposed: "Inclusive financing allows direct investment in resource efficiency upgrades on the customer side of the meter through an on-bill approach regardless of the customer's income, credit score, or renter/owner status. Under this definition debt is not accrued by the customer." It was MOVED and SECONDED that the proposed definition be approved. Motion PASSED.

In response to a question by CM Gordon about when results from the Energy Transition Lab's study would be available, Luke said they are looking for additional city partners before they begin. This study will likely include other municipalities throughout the state with different types of utility systems, not just the City of Minneapolis. The study is anticipated to be underway in the next few months, and it will take two to four months to complete. CM Gordon is eager about the potential of inclusive financing, including exploring opportunities with Minneapolis Public Housing Authority (MPHA), and he proposed beginning to develop a Partnership pilot prior to receiving study results.

Mark Ruff mentioned that in his presentation Chris' remarks explained the very intentional process on refining residential PACE last summer. Chris had referenced an on-bill repayment state statute that Mark would like to know if inclusive financing would be included in by current definition or if it would need revision. Mark requested a report back at the next meeting on how utility legal staff, the city attorney, and IGR staff view the regulatory landscape.

John Marshall suggested moving forward cautiously and collaboratively, adding that an element of patience will be necessary.

6. Updates

- *CenterPoint Energy and Xcel Energy Funding Flexibility*
  Emma Schoppe, CenterPoint Energy, said that at the Q1 CEP Board meeting it was requested that the utilities report back on how their programs might align with programs funded by the franchise fee. It was decided among the Partners that this conversation might fit the context of the Q3 CEP Board meeting agenda, which would include the annual report on 2017 progress and a discussion on the next work plan activities. The discussion on the ability of the utilities to be flexible is essentially a discussion that coincides with the steps in the process of work plan development.

  Bridget Dockter, Xcel Energy, added that at a recent Planning Team meeting they discussed some of the opportunities that they could consider and start to narrow the focus with program managers. These opportunities include shifting from statewide CIP dollars to dollars that could be specifically allocated to Minneapolis, for example: direct marketing in green zones or agreed-upon geographic areas, making collateral materials specific for an initiative in Minneapolis, or targeting specific programs like multi-family building efficiency. A real coordinated effort has not previously been done in those programs. Xcel Energy has been working on the Small Business Refrigeration Program with the City, but it has been difficult to get two large organizations on the same page. They haven't done targeted marketing in Minneapolis, but seven businesses in Minneapolis have signed up in the first three weeks of the program. Xcel Energy can administer additional rebates with targeted collaborative efforts. Luke suggested that they attempt attributing costs to these efforts, but Bridget said that is difficult to do without knowing what programs they are looking at and what the efforts are.

  CM Schroeder said that EVAC proposed a very good chart of where the money should be spent. Right now the City is funding all of it, making it a one-sided partnership. He wondered what additional dollars are being contributed by Xcel Energy and CenterPoint Energy specifically to the things that are already in process, and said he is disappointed that the utilities are not clear about that. He and his colleagues are looking for more money for outreach and other areas, and he asked pretty directly how much the utilities will contribute. He is hearing that it is still zero, and wondered if that was accurate.

  Bridget responded that the number is not 'zero'. Another part of the update is that Xcel Energy is working with the City on an Electric Vehicle Pilot, providing the infrastructure piece and helping the City with its fleet transition. There is still a filing with the PUC that would reallocate to city partners $1.2 million for a solar array at the Roof Depot site utilizing unused Renewable Development Fund money. There are other projects that Bridget is not ready to discuss with the Planning Team that will help the City reach its 100% renewable goals as a city enterprise.

Adam added that the utilities are operating under CIP programs regulated by the state. The Memorandum of Understanding tried to address that by indicating that if the City identified programs or wanted to spend money in excess of that, those are going to be City dollars. What the utilities committed to at the Q1 meeting was that they would look at their CIP programs and determine if there is money that is currently in the overall CIP budget that could be shifted toward Minneapolis projects. That work has not yet been completed, in part because they are talking about things like inclusive financing. The utilizes have finite resources. When it comes to how much is being spent, CenterPoint Energy spent around $4 million on energy efficiency projects in the City of Minneapolis in 2015, and they spent $7 million in 2016; numbers for 2017 are not yet available. It is not accurate to say it is a one-sided partnership. CenterPoint is spending $500,000 in IT development for the on-bill loan repayment project. The right place for this discussion is in Q3, after looking at what items will be in the work plan for the next two years.

CM Schroeder said that while he is appreciative of how much the utilities are helping the City with things like electric vehicles, in the end that is going to help the City spend more money on utility services. Another concern expressed at the Q1 meeting related to the Xcel Energy bill before the state legislature on the nuclear non-carbon facilities. It is difficult to say that the utilities are good partners when on one hand they are contributing and participating at the CEP level, and on the other hand working against public engagement in important energy decisions that affect the City.

Brad Tutunjian: I just wanted to clarify that one of the reasons why we are such good partners, at least from the CenterPoint Energy perspective, is because our revenue is completely decoupled from how much gas customers use, as approved by the MPUC. Therefore, we are not motivated to sell more gas; we are incentivized to conserve energy.

John Marshall, addressing CM Schroeder, said he took his comments personally and with a lot of passion that he hears behind them. With respect to the legislative action, there was never any intent to surprise the City with the nuclear bill. Moving forward Xcel Energy will work with the City of Minneapolis and its IGR staff better to avoid issues like that. With respect to the CEP, he is not sure what more can be done to fit the definition of partnership in CM Schroeder’s mind. It is Xcel Energy’s intent to continue to work towards the Partnership. Time will help get on a track of trust and respect. CM Schroeder responded that he would like to see the Partners come together before the next legislative session to discuss what they want to accomplish as a Partnership.

CM Gordon mentioned that last year all of the partners contributed equally to fund community outreach. He would like to see the partners collaborate on going before the PUC with proposed projects.

CM Fletcher concluded this discussion by stating that the way to build trust is by acting together. Acknowledging CM Schroeder's sense of apprehension, he said the new members on the CEP Board need the experience of seeing things actually move forward. He encouraged the Planning Team to begin working on a small pilot to identify problems and challenges, and to get the experience of acting together and gaining momentum.

- *Xcel Energy's Electric Vehicle Pilot*
  [Previously covered, and included in handout.]

- *Xcel Energy's Small Business Refrigeration Program Update*
  [Previously covered, and included in handout.]

7. Next Meeting

The Q3 2018 CEP Board meeting will be held on July 27, 1:00-3:00 pm, location to be determined.

The meeting was adjourned at 3:33 p.m.

This constitutes my understanding of items discussed and decisions reached.
If there are any omissions or discrepancies, please notify the author in writing.
Submitted by: Marsha Wagner, CastleVisions, marsha@castlevisions.com