City of Minneapolis

Minneapolis' Energy Franchise Agreements & City's Energy Vision: *Clean, Efficient, Reliable & Affordable*

The City of Minneapolis currently has utility franchise agreements with Xcel Energy for electricity and CenterPoint Energy for natural gas. These agreements, which were signed in the early 1990s, both expire at the end of 2014 so the City is in the early stages of preparing for negotiations for new agreements.

State law currently limits Minneapolis' authority over a public utility in a franchise agreement; however the City is seeking ways to allow negotiations with Xcel and CenterPoint to explore how Minneapolis could make progress towards its goals for sustainable energy, improved air quality, equity, and green jobs.

WHY ENERGY FRANCHISE AGREEMENTS ARE IMPORTANT FOR MINNEAPOLIS

The right-of-way along city streets and alleys are public property. To connect homes and properties to gas, electric, telephone and other services, companies run distribution and transmission lines using the public right-of-way. A franchise agreement spells out some of the conditions that apply to a public utility that is using public property to provide utility services and places a value on the company's use of the public right-of-way.

- Franchise negotiations give the City the opportunity to ensure that the economic benefit that Xcel Energy and CenterPoint Energy receive from use of our public right-of-way is fairly compensated. Those dollars are vital to the people of Minneapolis because they help pay for core services.
- Consumers want a quality reliable energy source. The City and Minneapolis residents want to see our public utilities offer cleaner renewable energy sources and encourage energy efficiency and sustainability. We would like to see these franchise negotiations and a future franchise agreement help spur progress.

BACKGROUND ON THE CITY'S ENERGY VISION

The consensus is clear: the global climate is changing and human activities are major contributors to that change. While climate change is a global issue, local action can make a difference.

Minneapolis elected officials adopted a target to reduce citywide greenhouse gas emissions 15 percent by 2015, and 30 percent by 2025 using 2006 as a baseline. The City is working with our community partners and other jurisdictions to meet these aggressive targets:

- City owned buildings continue to become more efficient and we now have eight City buildings with solar installed to generate power.
- Since 2008 we've reduced greenhouse gas emissions from City owned buildings and vehicle fuels by 12% and saved over $6 million in avoided costs.
- Using federal stimulus funds we've delivered community climate grants and funded a Home Energy Squad and revolving loan fund to help local businesses become more energy efficient.
- Minneapolis now requires large buildings (including government buildings) to disclose their energy usage. Often this information is the first step in making changes to make buildings more energy efficient.

- We've reduced permit fees for installing solar arrays and for some other energy-efficiency improvements, are testing new solar options on City properties and through our community partnerships are working to build a stronger solar community.
- Minneapolis has an updated Climate Action Plan approved June 28, 2013. The plan has specific goals and strategies designed to advance energy efficiency in residential, public and commercial buildings; provide cleaner transportation options; support walkable and bikeable neighborhoods; reduce waste and increase recycling; and add more local and renewable energy.

MORE ON ENERGY FRANCHISE AGREEMENTS

A utility franchise is an agreement between a city and a utility service provider (like electric, gas, and cable companies) that outlines the conditions under which they can use public right of way to serve customers. State law allows cities to impose a franchise fee, which is intended to reimburse the city for the use of public right of way. Those utility franchise fees are typically paid by the company's consumers as a fee on your monthly bill. A utility franchise agreement is not a contract between the City and utility for service. The Minnesota Public Utilities Commission determines services, programs, service territory and rates of energy utilities.

States vary greatly on how they allow communities to negotiate franchise agreements. In Minnesota, state law reserves many of the decisions about how utilities operate to the Minnesota Public Utilities Commission. Under existing state law, cities' authority in franchise agreements is generally limited to:

- The ability to impose franchise fees on a utility.
- The amount of the fees, fee structure, and how the fees are ultimately used.
- Other conditions on the use of the public right-of-way, such as repairing streets after construction work.

The Minnesota Public Utilities Commission is an important player because it has exclusive rights to determine:

- The rates utilities charged to customers for services.
- Programs or services made available to the customer by the utility and the utility's service area.
- The mix of generation sources (renewable versus non-renewable and otherwise) used to produce electricity.
- The level of investments made by utilities in energy conservation programs for customers.

In 2012, the Xcel franchise fee generated $16.7 million, and the CenterPoint franchise fee generated $5.9 million. These dollars are directed to the City's general fund, which pays for basic services like putting cops and firefighters on the streets, snow plowing and basic street maintenance. The current franchise agreement with Xcel Energy requires that the company pay the City:

- 5% of its gross revenues for Minneapolis residential service customers (this rate will drop to 4.5% beginning in January 2013);
- 3% of its gross revenues for Minneapolis commercial/industrial customers; and
- 5% of its gross revenues for Minneapolis small commercial/industrial customers;

WHAT ABOUT "MUNICIPAL-OWNED" UTILITIES?

Some communities have established their own municipal utility (meaning the city actually owns and becomes the energy utility provider). Minnesota law, which was passed in 1974, has provisions that

allow communities to establish municipal utilities; however, it could be a costly path because the law requires that the city to purchase the utility's property (utility poles, etc.), possibly pay for stranded costs (payment for a portion of existing debt the utility has for its infrastructure system), pay for revenue the existing utility company would lose in the future, and pay for other associated costs. It is difficult to estimate the potential costs of establishing a municipal utility since no Minnesota municipality has established its own utility for decades. Research done in other communities has estimated initial costs could range from several hundred million dollars to more than a billion dollars.

HOW CAN CITIES GET ENERGY COMPANIES TO BE MORE TRANSPARENT AND CLEAN-ENERGY FOCUSED?

In preparation for Franchise negotiations, the City examined existing state law that governs the scope of a local government's authority through a franchise agreement. Without significant changes to state law Minneapolis will be limited in what can be negotiated through the franchise agreement. However the City of Minneapolis is pursuing legislation that would change state law and give cities more power and flexibility when negotiating energy franchise agreements.

- *Green, Reliable, Affordable Clean Energy Bill* (HF 1450/ SF 1490; Rep. Ray Dehn and Sen. Kari Dziedzic). This legislation would give cities more power and flexibility when negotiating energy franchise agreements and would require that energy companies provide timely reports on service continuity, meet specific state-established energy goals, and incent consumers to be more energy efficient.
- *Franchise Reform Ending Energy Dependence of Municipalities Bill* (HF 945/SF 911; Rep. Frank Hornstein and Sen. Jeff Hayden). This legislation would require that the State Public Utility Commission use a more fair formula for placing a value on an energy company, which would make it more feasible for communities to consider pursuing a municipal-owned energy utility.

Both of these bills are still in energy committees for possible discussion during the 2014 legislative session.

The City of Minneapolis supported several other bills at the 2013 legislature that expand clean, renewable energy options for consumers and set a more aggressive state energy conservation policy goal.

- HF 1147/SF 1121 (Rep. Dehn/Sen. Dibble). This bill amends the state's Property Assessment Clean Energy (PACE) program and special assessments statutes to facilitate the use of PACE, which allows cities to issue bonds and use their proceeds to make loans to property owners to invest in conservation measures or install renewable energy systems. (Passed as part of Energy Omnibus bill)
- HF 956/SF 903 (Rep. Hortman /Sen. Marty). The House bill establishes a framework to stimulate the use of solar energy by establishing a solar energy standard that requires each electric utility to generate a targeted percentage of total retail electric sales to Minnesota retail customers from solar energy. (Passed as part of Energy Omnibus bill)
- HF 1079/SF 1349 (Rep. John Benson/ Sen. Bonoff). The bill permits the electricity displaced by qualified geothermal heating and cooling systems to be included in a utility's renewable energy standard (RES). The RES enabling statute requires that a certain proportion of electricity sales be generated from renewable resources. (Failed)

- HF 1301/SF 1135 (Rep. Hortman/Sen. Dibble). The bill amends the state's energy conservation policy goal to state that energy savings are an energy resource and that cost effective energy savings should be systematically pursued. The bill modifies the state energy goal of a 1.5% annual saving in retail sales of gas and electricity to be a minimum measure and not an absolute goal. Among the ways to achieve the goal, energy efficiency achieved by energy consumers without direct utility involvement is added to the energy conservation policy goal section of statute. (Passed as part of Energy Omnibus bill)

WHAT ARE THE NEXT STEPS RELATED TO THE FRANCHISE NEGOTIATIONS AND CLEAN ENERGY OPTIONS?

Energy pathways study

On June 28, 2013, the Minneapolis City Council selected the Center for Energy and Environment to draft an energy vision that details what the City wants from a sustainable, 21st century energy system. The consultant's work will include a report that explores the various paths the City could take to achieve its energy goals, including examination of potential utility partnerships, changes to how the City uses energy utility franchise fees, and the potential for municipalization of one or both energy utilities. The final report will be completed in early 2014.

The Center for Energy and Environment will draft comprehensive "energy vision" goals and complete a thorough review of the options and implications of the various pathways to meet the City's energy goals. Milestones will include:

- An updated set of "energy vision" goals for a future energy system. These goals may address the greenhouse gas intensity of the system, use and ownership of renewable energy, energy efficiency outcomes, reliability standards, affordability, and access to energy use information. The energy vision goals will shape the next milestone:
- A study that provides an overview of the various paths the City could take to achieve its energy vision goals. The study will include a progress update and a final report presented to the City Council. The report will include:
    - A review of the current legislative and legal landscape;
    - An examination of existing municipal utilities in Minnesota and across the country (utility performance, history, shared models, etc);
    - A report on a "municipalization pathway," to include a description of the process, schedule and preliminary cost estimates for forming a municipal utility under Minnesota law. The report will also include an evaluation of the potential for municipalization to help Minneapolis achieve its energy vision goals, and an identification of potential risks and barriers.
    - A review of alternative pathways for achieving the City's energy vision, which may include forming utility partnerships, adopting state legislative or Public Utilities Commission regulatory changes, and considering using energy utility franchise fees for City programs.

City Council discussion

The Minneapolis City Council will discuss and make a decision about requesting authorization from voters on the establishment of municipal electrical and gas utilities at the next Committee of the Whole meeting, which is at 9 a.m., Aug. 15. Public comment was accepted Aug. 1.

This web site will contain up-to-date information about the franchise negotiation process.

Aug. 2, 2013