

## 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 has adopted targets to reduce citywide greenhouse gas emissions 15 percent by 2015, 30 percent by 2025, and 80 percent or more by 2050 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?

### State law

The Minnesota legislature in 2013 passed and the governor signed the Omnibus Energy bill which include several provisions supported by the City of Minneapolis. Among the provisions is a framework to stimulate the use of solar energy, an amendment to the Property Assessment Clean Energy (PACE) program that facilitates the increased use of the program and a modification to the state’s energy goal that makes the current goal of a 1.5 percent savings in energy a minimum and not a maximum goal.

The City of Minneapolis supported several 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)

## Energy pathways study

The Minneapolis City Council selected the Center for Energy and Environment to complete an Energy Pathways Study. The Pathways study includes an energy vision that details what the City wants from a sustainable, 21st century energy system., The report also 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.

## Tentative agreements reached

The City of Minneapolis, Xcel Energy and CenterPoint Energy have reached tentative agreements that would establish first-of-their-kind City-utility Clean Energy Partnerships. If approved by the Minneapolis City Council Oct. 17, the partnerships will result in the City and utility companies collaborating in new ways to help Minneapolis achieve its energy goals. These goals include making energy affordable and reliable for everyone while increasing energy efficiency, increasing renewable energy and reducing greenhouse gases.

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

A public hearing to discuss the tentative agreements is scheduled for 1:30 p.m., Monday, Oct. 6, in Room 317 of City Hall, 350 S. Fifth St. The hearing will take place during the City Council's regularly scheduled Health, Environment & Community Engagement committee meeting.

- [Tentative franchise agreement with Xcel Energy](#) (PDF)
- [Tentative franchise agreement with CenterPoint Energy](#) (PDF)
- [Tentative franchise fee with Xcel Energy](#) (PDF)
- [Tentative franchise fee with CenterPoint Energy](#) (PDF)
- [Memorandum of understanding on Clean Energy Partnership with Xcel Energy](#) (PDF)
- [Memorandum of understanding on Clean Energy Partnership with CenterPoint Energy](#) (PDF)

Updates on the outcomes of the franchise negotiation process will be available at this [website](#).

Oct. 2, 2014