CITIZENS UTILITY BOARD
Empowering Minnesota Consumers

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August 19, 2020

William Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, MN 55101

Re: Docket No. G-008/GR-19-524
In the Matter of the Application by CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

Dear Mr. Seuffert:

The Citizens Utility Board of Minnesota ("CUB") advocates for affordable and reliable utility service and clean energy for residential and small business consumers across Minnesota. We believe it is important to use our voice to support programs and initiatives that promote equity and inclusion within our diverse communities. With this in mind, CUB supports the City of Minneapolis' proposed Energy Efficiency Inclusive Financing Program (the "Inclusive Financing Program" or "Program"). Namely, we support the City's innovative and dedicated approach to meeting clean energy, climate action, and equity goals by expanding financing opportunities available to Minnesota residents. Improving energy efficiency in existing buildings is a key and necessary step towards meeting these goals. Investments in energy efficiency can both reduce the energy burden felt by many Minnesotans and provide long term economic benefits by reducing energy costs.

Households that struggle economically are burdened when they experience higher than average energy expenses with lower than average incomes. Many Minnesota households – especially those that are already energy burdened – struggle to come up with funds to pay for energy efficiency improvements, do not qualify for traditional loans, and/or face barriers that otherwise make traditional loans unattainable. Too often, these barriers fall along racial and ethnic lines, and too often this means that low-income Minnesotans and Minnesotans of color have fewer opportunities to make energy efficiency improvements to their homes or businesses. Notably, these same Minnesotans stand to benefit the most from the long-term cost savings that such improvements can offer. Tariffed on-bill financing ("TOBF") offered through the Inclusive Financing Program seeks to help eliminate these barriers. If the Program succeeds as intended, it will allow more Minnesotans to pay for efficiency upgrades, while simultaneously saving money on their energy bills over time. We believe the City's efforts on this program are worthy of ongoing support and discussion, and we at CUB appreciate the opportunity to participate and support the City in this initiative.

Without intending to diminish our overall support of the Inclusive Financing Program, we have some concerns about language in the Pay As You Save® (PAYS®) Model Tariff (the "Model Tariff"). We also have some general questions and suggestions about the details of the Program that we believe should be addressed further by the City and other stakeholders in this initiative. The concerns, questions, and recommendations we raise herein are offered and intended to help improve the Program. We note that the City may be able to adequately address some of our concerns and questions simply by providing additional information, and without necessarily changing the underlying functionality of the Model Tariff or Inclusive Financing Program. In those instances, we recommend that the City revise its written materials to add clarification and include more detailed explanations where appropriate.

1. **Eligibility and Participation.**

We are concerned that low-income residents who are already eligible for existing energy improvement programs will end up paying for upgrades that they could have obtained for free or at a lower cost through other, existing programs. Section 1 of the Model Tariff notes: "The utility must ensure that customers who are interested in participating are notified that if they are income qualified, they may also be eligible for free energy upgrades through other programs and provide contact information." While we strongly support the inclusion of this notice requirement, we recommend that it be expanded to require the utility to notify customers of *specific* eligibility requirements for other applicable programs, including but not limited to federal Weatherization Assistance Program funding, low-income Conservation Improvement Program offerings, and free or low-cost financing from the Minnesota Housing Finance Agency. We believe providing these more specific details will enable and empower customers to evaluate different efficiency improvement options available to them to make an informed decision on applying for the Inclusive Financing Program.

We would also like to see more explanation of how a customer living in a rental property, or who otherwise does not own the property, could participate in the Inclusive Financing Program. Section 2 of the Model Tariff notes that a customer can participate in the program by 1) requesting from the utility an analysis of cost-effective upgrades; and 2) signing the Efficiency Upgrade Agreement. Section 2.1 also describes an Owner Agreement that an owner must sign if the customer signing the Efficiency Upgrade Agreement is not the owner. It is unclear to us how the Owner Agreement and the Efficiency Upgrade Agreement interact with each other, whether the owner must consent to the Efficiency Upgrade Agreement before a tenant signs it, or how those agreements interact with the lease between a building owner and a tenant residing in the building. We are concerned that a tenant entering into an Efficiency Upgrade Agreement without first obtaining the consent of the building owner could inadvertently violate the terms of a lease. This could exacerbate tensions between landlords and tenants in low-income communities with a high eviction rate or history of unlawful landlord activity. Therefore, we recommend that the City clarify in materials shared with customers what customers must obtain from their landlord/building owner before signing the Efficiency Upgrade Agreement or otherwise confirming their intent to participate in the program.

2. **Prepayments.**

Section 7.1 of the Model Tariff provides that "prepayment of unbilled charges will not be permitted." While we understand that a tariff is different than a loan, we are concerned about how and whether the tariff may affect a customer wishing to move or sell their home before the utility has recovered the full costs of the upgrade. We note that the utility retains full ownership of the upgrade until it has recovered its costs in full. If the customer does not have the option to prepay outstanding costs prior to selling a property, how must it disclose the utility's ownership of the upgrade in documentation of the offer and sale of the property? Further, in the event that a buyer taking possession of a property alleges that an upgrade is damaged or not operating to the buyer's satisfaction, who is responsible for paying for repairs to the upgrade (the seller, buyer, or utility)?

To help avoid these potential complications, we recommend that prepayment be permitted, if possible, under the terms of the tariff. Whether prepayment is permitted or not, we recommend that utilities be required to include in written materials shared with customers an explanation of how the tariff will apply to future owners or renters residing at the property. We also recommend that the utility be required to include a written notice the customer could provide to a realtor in the event of a property sale that explains, in terms intended for a real estate professional, how the tariff should be addressed and acknowledged in documentation of the property sale.

3. **Responsibility for maintenance and repairs of upgrades.**

We are concerned about the power imbalance between the utility and the customer in the event a dispute arises over an upgrade that is damaged or otherwise not meeting the customer's expectations. Section 7.4 of the Model Tariff provides that the utility is responsible for determining the cause of any damage to the upgrade, and for repairing the damage <u>if</u> the utility determines the customer or building owner were not responsible for the damage. On the other hand, if the utility determines the customer or building owner is responsible for the damage, the utility can seek reimbursement for repairs from the customer or owner. If the customer or owner refuses to pay, or cannot pay, for the costs of repairs, Section 8 provides that the utility "will seek to recover all costs associated with the installation, including any fees and legal fees, and it may seek to recover incentives paid to lower project costs." Finally, Section 7.9 provides that "*without regard* to any other Commission or utility rules or policies… the utility may disconnect the metered structure for non-payment of Service Charges under the same provisions as for any other service" (emphasis added). We believe these sections, when read collectively, grant the utility more discretion and power over the customer than is necessary for this program to succeed.

To address this power imbalance, we recommend that a dispute resolution mechanism be built into the Model Tariff, and/or into the contracts between the customer and the utility, that permits a customer to appeal to a neutral third party a utility decision finding the customer responsible for paying for repairs. We recommend that, so long as such an appeal is filed in good faith, the customer be permitted to suspend payment of repair costs until that dispute can be resolved. Also, we recommend that the Model Tariff, and/or the contracts between the customer and the utility, clarify how and from whom the utility can "recover costs associated with the installation, including any fees and legal fees" in the event a customer is unable or unwilling to pay for repairs. For example, we believe it would be inconsistent with the equity goals behind this program to permit a utility to seek recovery of its own legal fees directly from a customer, particularly a low-income customer, unwilling or unable to pay for repairs to an upgrade. Even if it is unlikely a utility would seek to recover legal fees in this way, a customer who fears a utility *could* seek recovery of such fees from the customer may be easily intimidated into paying for repairs, even if the customer believes he or she is not responsible for the damage. While we do not expect a utility to simply absorb costs of repairing damage caused by someone other than the utility, we recommend that the Model Tariff specify alternate means of cost recovery that do not include seeking recovery directly from one customer. Finally, and perhaps most importantly, a utility's ability to disconnect a customer over non-payment of a Service Charge must be *subject to all* other Commission or utility rules or policies, not "without regard to any" Commission or utility rules or policies. A utility should not, for example, be permitted to disconnect a customer otherwise protected by the Cold Weather Rule in the event of nonpayment of a Service Charge.

4. **Program funding source.**

We recommend that the City provide additional detail about the total budget for the pilot program and how funds will be obtained and spent. For example, will the funding come from multiple sources, and, if so, will funding from different sources be allocated to specific costs? How much funding comes from each source? How much of the pilot program budget will be allocated to actually financing upgrades in customer properties, as opposed to covering administrative or other costs? We think it is important for both the Commission and other stakeholders in this initiative to better understand these details before the pilot program is approved.

It is our understanding that the City does not intend to use ratepayer funds to finance upgrades, themselves, but that ratepayer funds may be used to cover administrative costs of the pilot program. We recommend that, to the extent any funding of the program comes from ratepayers, the Commission and participating utility consider whether and how to appropriately apply ratepayer funds to a program available to some, but not all, customers residing in the utility's service territory.

Finally, regarding financing of the upgrades, themselves, we recommend that the City and participating utility demonstrate the reasonableness of any interest payments or other consideration paid to the lender providing the financing. For example, if the lender collects interest, applicable interest rates should be no higher than interest rates charged in a conventional loan that would be available to consumers seeking financing for a similar project.

5. **What upgrades would be financed through this pilot program?**

It would be helpful for the City to specify the types of upgrades a customer could make when participating in the pilot program, and how such upgrades align with the City's broader efficiency and clean energy objectives. During the pilot period, we recommend limiting eligible upgrades to select, pre-determined options, such as insulation improvements and air sealing projects. We see two reasons for naming these specific improvement options. First, a feasibility study conducted for the University of Minnesota concluded that such measures are reasonably likely to be cost-effective for CenterPoint Energy customers when financed with tariffed on-bill financing.[1] Second, the City of Minneapolis has implemented aggressive goals to combat climate change that require the City to strategically move away from natural gas.[2] Improving a home's insulation and air sealing will be beneficial to a customer regardless of whether the customer uses natural gas, electricity, or another fuel to heat their home in the future, meaning such projects would also be consistent with the City's climate goals. On the other hand, financing a new natural gas appliance with an expected life of 15 years or more may be inconsistent with the City's climate goals. We recommend that the City provide similar support when determining other upgrades are eligible for inclusion in the pilot program.

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[1] See generally, CADMUS, "Tariffed On-Bill Financing Feasibility Assessment of Innovative Financing Structures for Minnesota" (Aug 2019) (available at http://energytransition.umn.edu/wp-content/uploads/2019/08/Minnesota-TOB-Financing-FINAL_AH-1.pdf).

[2] See, e.g., Miguel Otarola, "Minneapolis Needs to Make Drastic Cuts to Natural Gas Emissions, Officials Say", STAR TRIBUNE (Aug 28, 2019) (available at https://www.startribune.com/minneapolis-needs-to-make-drastic-cuts-to-natural-gas-emissions-officials-say/558497872/).

6. How will the Program be marketed?

We believe it is important to carefully consider how the Program is marketed to consumers to ensure marketing materials do not (whether advertently or inadvertently) mislead customers as to the benefits of participating in the Program. For example, if the Program is marketed primarily as a way for customers to lower their energy bills, marketing materials should not include statements that potentially exaggerate cost savings without also disclaiming that some customers may experience little or no cost savings. We recommend that marketing materials encourage energy audits and offer tariffed on-bill financing as a new option available to customers to pay for upgrades identified in the audit. Such materials should include information about any fees the customer is responsible for if they request an audit but do not ultimately move forward with an upgrade.

We also recommend that materials provided to customers before they commit to the Program include an explanation of what charges and/or savings they can expect to see on their utility bill over time. Specifically, such materials should explain how such charges/savings may change between the summer and winter months, and they should address how charges/savings might appear differently for customers participating in the Gas Affordability Program or similar programs.

7. Who will administer the Program?

It would be helpful for the City to provide more information on administration of the Program. Will the utility itself administer the Program, or a third party? If a third party, how will that third party be chosen, and based on what characteristics? How would a third-party administrator be compensated? Though not all of these questions need to be answered now, we believe they are important to raise early for further discussion. Also, if a third-party is utilized to administer the Program, we recommend that any compensation paid to the third-party not be linked to the number of customers participating in the Program, or the amount of financing run through the Program. (I.e., a third-party should not be paid "on commission.") This will help reduce the potential for aggressive sales practices that could undermine the well-intentioned goals for the Program.

8. How will the City evaluate the success of the pilot program?

If a pilot program is established, we believe it is important to establish metrics at the outset that measure the effectiveness of the program. We recommend that utilities participating in the pilot program file a regular (at least annual) report on those metrics. Such metrics could include:

- Number of customers participating (and/or numbers of properties participating) by 9-digit ZIP code
- Amount of funds invested by 9-digit ZIP code
- Number of renters versus numbers of owners participating
- Total dollars spent on upgrades over a specified time period
- Type of upgrades made and the numbers of each type
- Median project cost for upgrades
- Amount of spending on equipment and materials used in the upgrade, installation, administrative, marketing, and other budget categories
- Number of customers participating who are also identified as qualifying for low-income programs by 9-digit ZIP code

- Number, dollar amount, and percentage of all Service Charge payments made late or not made at all
- Median monthly customer bill amount before and after upgrade is completed
- Number of customers whose bills increase as a result of an upgrade. Better yet, if possible, the number of customers whose bills change, as a result of the upgrade, by
    - more than -25%
    - -25% to -10%
    - -10% to 0%
    - 0% to +10%
    - +10 to +25%
    - More than +25%
- Any evidence that prospective renters or buyers were hesitant to rent or purchase properties with on-bill tariffs attached to their utility bills
- Any other concerns or issues that arose for participants, contractors, the program administrator, or other
- Any other learnings

Conclusion

As stated above, CUB supports the goals and concept behind the Inclusive Financing Program. We believe that, if the program is successful, it will permit more Minnesotans the opportunity to benefit from energy efficiency upgrades. The comments we offer here are intended to help improve and refine the Program to make it as effective as possible while simultaneously looking out for the interests of consumers who wish to participate in the Program. We welcome the opportunity to expand on the comments included herein as part of ongoing discussions with the City and other stakeholders in this initiative.

Sincerely,

s/Annie Levenson-Falk
Annie Levenson-Falk
Executive Director
Citizens Utility Board of Minnesota

s/Brian Edstrom
Brian Edstrom
Senior Regulatory Advocate
Citizens Utility Board of Minnesota