



2018 Annual Legislative Report

Local Energy Efficiency Program & Energy Savings Partnership

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Prepared by
Minnesota Department of Commerce, Division of Energy Resources

Pursuant to Minnesota Statute 216C.43, subd. 12

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Executive Summary

The following is the 2018 annual report on projects studied and implemented under the programs enabled by Minnesota Statutes 216C.42 and 216C.43. This report meets the requirements outlined in Minnesota Statute 216C.43 subd. 12.

The Department of Commerce (Commerce) operates the Local Energy Efficiency Program (LEEP) and the Energy Savings Partnership (ESP). LEEP provides local units of government with technical services to conduct energy project studies. The ESP is a standard energy project financing agreement for local units of government managed by the Saint Paul Port Authority through contract with Commerce. These combined programs enable local governments to easily identify and implement energy conservation measures that help meet locally-identified energy and greenhouse gas emissions goals as well as reduce the financial burden from utility bills and operations and maintenance costs.

The ESP was created in 2012 as a standard lease-purchase financing agreement. Two million dollars in Commerce funds were dedicated as a loan loss reserve to make a wider range of energy project sizes and types financially viable for smaller communities across Greater Minnesota. The ESP has funded several energy projects since inception through lease-purchase financing. ESP quoted seven projects in 2018 totaling over \$10 million. The projects included five cities and two school districts, ranging from \$500,000 to \$1.8 million. None of these projects has closed. Several of the quotes are still under consideration.

LEEP was formally launched in 2016. A Master Contract with 10 engineering firms was established, along with the program requirements to provide a pool of qualified contractors as well as standard contract and procurement documents to local governments. Commerce issued a Request for Proposals, evaluated the responses and negotiated the Master Contract with the qualified firms.

Commerce led an intense LEEP program development and outreach process during 2017, contacting over 100 local governments, attending events and partnering with outside community and economic development organizations. Commerce also partnered with these and other organizations to create new marketing materials, integrate LEEP into utility rebate programs and partner with the Department of Education to integrate LEEP into state long-term facility maintenance revenue dollars.

Throughout 2018 Commerce continued to expand the conversation to new local governments through different channels, while developing potential projects with local governments that had previously expressed interest in Commerce energy programs. One city has entered into a Joint Powers Agreement (JPA) with Commerce to use the LEEP Master Contract and one school district board has authorized its administration to approve the JPA.

History

Minnesota Statutes 216C.42 and 216C.43 grant the Department of Commerce authority to provide local units of government with technical services in conducting energy project studies, a standard project financing agreement and a supplemental cash flow agreement for local units of government. Local units of government are defined as a Minnesota county, statutory or home rule charter city, town, school district, park district or any combination of those units operating under an agreement to exercise powers jointly.

Energy Savings Partnership (ESP)

In addition to the authority to offer energy project studies to local units of government, Minnesota Statutes 216C.42 and 216C.43 also direct Commerce to provide a “standard project financing agreement” through private financial institutions for local units of government wishing to implement energy improvement projects. Commerce must review projects to determine eligibility.

In 2012 Commerce entered into a contractual agreement with the Saint Paul Port Authority (SPPA) to administer the Energy Savings Partnership (ESP) Program to offer lease-purchase financing to local governmental units across Minnesota to complete energy efficiency and renewable energy improvements on their properties.

The ESP was established after \$2 million in Commerce funds were committed to establish a loan loss reserve (LLR) fund which leveraged \$20 million in private equity from US Bank to issue lease-purchase financing agreements under the program. This LLR allows the SPPA to offer lower interest rates for a wider range of project sizes, which makes smaller projects in cities, counties and school districts viable across Greater Minnesota. To protect the LLR dedicated by Commerce and to ensure that high-quality projects leverage other existing state energy programs, Commerce must review and approve any project seeking financing through the ESP on the basis of:

- Technical and economic feasibility, with a projected positive cash flow each year of the financing agreement
- Provision for continued operation and maintenance of the project
- Use of Conservation Improvement Program opportunities with the utilities providing gas and electric service

Since 2012, the ESP financed seven energy projects at local governments with a total project cost of \$5,180,930 and in buildings with cumulative 1,042,360 square footage.

Local Energy Efficiency Program (LEEP)

The energy efficiency improvement program for local units of government was formerly titled the Public Buildings Enhanced Energy Efficiency Program (PBEEEP). Commerce initially contracted with the Center for Energy and Environment (CEE) to develop and administer the local government PBEEEP offering. In April 2012, all program materials were turned over to Commerce, including program designs, technical standards, basic marketing materials and pilot study data and reports.

PBEEEP was re-instated by Commerce in 2012 as a Master Contract with 26 engineering firms using existing program guidelines. As Commerce developed the Guaranteed Energy Savings Program (GESp), it was evident there was significant overlap between GESp and PBEEEP. Priority was given to the development of GESp because it offered technical assistance to a wider range of building owners and was directed towards larger energy savings projects. The PBEEEP Master Contract was cancelled in 2014 when it was determined the program structure needed significant changes to better meet the needs of local units of government as a complement to other energy programs offered by Commerce. This streamlining of programs has created efficiencies in the development, promotion and delivery of both GESp and LEEP.

In 2016, Commerce hired a dedicated program administrator to re-develop the energy efficiency improvement program for local governments. A new name was given to differentiate the program from previous versions: Local Energy Efficiency Program (LEEP). This helps the promotion of the program to both providers (e.g. engineering firms entering into the Master Contract) and local units of government that may have seen PBEEEP materials or program guidelines in the past.

A Request for Proposals (RFP) was drafted during 2016 and marketing of the program began to potential engineering firms, including those involved in PBEEEP and other firms with energy study capabilities. Initial outreach to potential local units of government was also conducted during 2016. Commerce entered into a LEEP Master Contract agreement with ten firms in September 2016 and hosted events with the firms to clarify roles and responsibilities.

Commerce led an intense LEEP program development and outreach process during 2017, contacting over 100 local governments, attending events and partnering with outside community and economic development organizations. Commerce also partnered with these and other organizations to create new marketing materials, integrate LEEP into utility rebate programs and partner with the Department of Education to integrate LEEP into state long-term facility maintenance revenue dollars.

Throughout 2018, Commerce continued to expand the conversation to new local governments through different channels, while developing potential projects with local governments that had previously expressed interest in Commerce energy programs.

2018 Annual Summary and Metrics

Energy Savings Partnership

Overview

The ESP contract between the SPPA and Commerce was amended on July 12, 2018. This amendment left intact the terms and conditions of the previous year's amendment, but extended the terms through 2019. Commerce worked with the SPPA to develop a tool and process for loan application intake, including a checklist for local governments to complete to ensure smooth technical review by Commerce.

ESP quoted seven projects in 2018 totaling over \$10 million. The projects included five cities and two school districts, ranging from \$500,000 to \$1.8 million. None of these projects has closed. Several of the quotes are still under consideration.

Metrics

Commerce reports on high-level metrics of the ESP to the U.S. Department of Energy (DOE) on a quarterly basis. Commerce has reported the following milestones and metrics in 2018:

2018 ESP Metrics Overview

| Metric Description | 2018 |
|---|------|
| Building Retrofits | |
| Buildings Retrofitted (count) | 0 |
| Square footage Retrofitted (sq.ft.) | 0 |
| Loans Given | |
| Number of loans supported by LLR (count) | 0 |
| Total monetary value of loans supported by LLR (\$) | \$0 |

Detailed project information for projects funded through ESP in 2018 as well as a cumulative summary of previous years' projects can be found in the following table.

2018 ESP Detailed Metrics

| Site | ESP Financing Amount (\$) | Total Project Cost (\$) | Buildings | Total Square Footage | Calculated Energy Savings (kWh) | Actual Energy Savings (kWh) | Calculated Energy Savings (\$) | Actual Energy Savings (\$) |
|------------------------------------|---------------------------|-------------------------|-----------|----------------------|---------------------------------|-----------------------------|--------------------------------|----------------------------|
| 2018 Total | 0 | 0 | 0 | 0 | 0 | unknown | 0 | unknown |
| Figures Reported in Previous Years | \$5,180,930 | \$5,980,130 | 18 | 1,042,360 | 831,146 | unknown | \$149,810 | unknown |
| Cumulative Total | \$5,180,930 | \$5,980,930 | 18 | 1,042,360 | 831,146 | unknown | \$149,810 | unknown |

Local Energy Efficiency Program

Overview

Commerce focused heavily on continuing the development and outreach of the LEEP throughout 2018, following the completion of the Master Contract in 2016. Commerce has focused its efforts on several key areas, detailed below.

Program Development

Commerce continued outreach efforts to promote LEEP with local governments and schools as a tool to help them achieve their goals for reduced energy use, adoption of renewable energy systems and reduction in Greenhouse Gas Emissions. To support these efforts, Commerce created a new LEEP Program Overview Handout and a new presentation explaining a strategic approach to leverage energy efficiency work to address long-term facility maintenance needs.

Commerce continued to coordinate outreach efforts with the Clean Energy Resource Teams (CERTs) to engage local governments and identify high-potential local government targets. Commerce directly communicated with over 50 local governments as a result. To complement this, Commerce conducts bi-weekly meetings with CERTs staff on LEEP and to coordinate specific outreach and intake processes for potential projects. Commerce also utilized its relationship with CERTs to develop marketing tools, blog posts and new presentations.

Commerce staff attended several local government conferences, including the League of Minnesota Cities annual conference, the Minnesota Association of School Business Officials annual conference, Minnesota Educational Facilities Management Professionals (MASMS) chapter meetings and CERTs regional events targeted at local governments.

Staff targeted wastewater treatment facilities for energy studies, leveraging data and engagement done through the U.S. Department of Energy Wastewater Treatment Accelerator program at Commerce.

Commerce staff will continue to develop potential LEEP projects with local governments in the future by increasing program awareness at association events, hosting meetings and webinars, and developing stronger ties with other organizations and utilities.

Leveraging External Organizations and Programs

Commerce is an active steering member of the Minnesota GreenStep Cities program, which provides technical resources to member cities. Commerce staff integrated LEEP into the GreenStep program's list of best practices, updating the website and emailing member cities. Through Commerce's participation in the GreenStep Cities Program, Commerce has tied performing a LEEP project into one of the GreenStep Cities' Best Practice Actions, to helping a city identify energy conservation measures and financing options for city owned buildings. This process has yielded one site as a pilot project for LEEP.

Staff also leveraged outside organizations such as the Coalition of Greater Minnesota Cities and Association of Minnesota Counties to email member local governments.

Commerce also drove a partnership with the Retiree Environmental Technical Assistance Program (RETAP) housed at the Minnesota Pollution Control Agency. RETAP provides a low-level audit for businesses and public entities using retired engineers throughout the state. Commerce identified a change to RETAP's intake process and worked with staff to integrate LEEP and GESP into RETAP messaging, along with changing RETAP preliminary

energy reports for local governments to include a recommendation to leverage LEEP or GESP for full project implementation.

Utility Programs

Commerce staff leveraged relationships with Minnesota utilities to begin integrating LEEP into their business plans. Staff gave LEEP training to utilities involved with Commerce's Technical Reference Manual, a set of standard methodologies and inputs for calculating the savings impacts and cost-effectiveness of energy measures in Minnesota's Conservation Improvement Program (CIP). Commerce has since followed up with several utilities to integrate LEEP into energy studies, recommissioning studies and other rebate programs aimed at local governments.

School Districts

Commerce identified in 2017 that school districts have different needs than cities, counties or other local governments eligible for LEEP due to new Long-Term Facilities Maintenance Revenue (LTFMR) streams that place limits on equipment and long-term financing.

Commerce has worked with the Minnesota Department of Education to integrate LEEP into LTFMR guidelines and reporting requirements for school districts, as well as to show how LEEP can be used as a strategic approach to both achieve energy savings and help address Long-Term Facility Maintenance needs. The LEEP energy study can be used to develop the schools Ten-Year Facility Plan. The LEEP energy study will identify potential energy conservation measures (ECMs) along with their estimated cost and savings. Many of the ECMs identified will involve replacement of equipment that is at or near the end of its useful life. This will assist the school district with the mandatory annual update to their Ten-Year Facility Plan. Utilizing LEEP in combination with ESP will enable the school district to implement the ECMs using lease purchase financing, thereby reserving limited LTFMR funds for identified work that has little or no payback. Utilizing this approach allows the school district to maximize reduction of both energy use and deferred maintenance. This process has yielded one site as pilot for developing energy projects that specifically leverage LTFMR as a guide for future school projects.

These efforts have proven valuable as many local governments are in the LEEP intake process and have shown interest in signing a Joint Powers Agreement to proceed with an investment grade audit through LEEP.

While no local governments have completed an investment grade audit, one city has signed a LEEP JPA and one school board has approved entering into a LEEP JPA. Commerce anticipates that several projects will move forward in 2019.

Metrics

Commerce reports on high-level metrics of the LEEP to the U.S. Department of Energy (DOE) on a quarterly basis. At the time this report was written, Commerce has completed the following 2018 milestones and metrics.

2018 LEEP Milestones

| Milestone Description | 2018 |
|------------------------------------|------|
| Technical Assistance | |
| Number of program audits performed | 0 |
| Marketing Collateral | |
| New marketing tools created | 2 |

2018 LEEP Metrics Overview

| Metric Description | 2018 |
|--|------|
| Building Energy Audits | |
| Audits performed (count) | 0 |
| Floor space studies (sqft) | 0 |
| Calculated energy savings (kWh) | 0 |
| Building Retrofits | |
| Buildings retrofitted (count) | 0 |
| Square footage retrofitted (sqft) | 0 |
| Informational Contacts | |
| Number of detailed contacts (count) | 50 |
| Workshops, Training & Education | |
| Number of sessions (count) | 4 |
| Number of people attending (count) | 133 |

Conclusions & Next Steps

Commerce will continue to develop the Energy Savings Partnership with the Saint Paul Port Authority in the coming year through specific identified improvements to the program. This includes better aligning ESP marketing with Commerce energy programs, increasing the outreach for the program through better tools and event presence, building new external-facing program documents to better integrate with local government project and finance flows, and improving reporting information and internal review processes. The contract between Commerce and the SPPA will be up for renegotiation again in 2019, allowing for better definition of expectations from both parties.

LEEP continues to gain traction with local governments through the outreach and engagement efforts of Commerce and its outside partners. Commerce is continually improving the way LEEP reaches local governments and provides value – from partnering with new outside organizations that have deep relationships with elected officials and staff at local governments, to integrating LEEP into utility programs and marketing to help achieve their energy reduction goals alongside local governments. In addition, Commerce will continue working with its key partners including CERTs, the Pollution Control Agency and Department of Education, to target local governments and schools with potential for improvement.

LEEP will continue to be an important part of Commerce’s technical assistance portfolio for local governments, complementing the Guaranteed Energy Savings Program and Energy Savings Partnership. In 2019, Commerce staff will focus efforts on refining the program, continuing work with outside organizations and utilities to outreach efforts, extending those efforts to other organizations and utilities, and driving the completion of several investment grade audits.