

**STATE OF MINNESOTA**

**BEFORE THE PUBLIC UTILITIES COMMISSION**

*In the Matter of a Petition by  
CenterPoint Energy and the City of  
Minneapolis to Introduce a  
Tariffed On-Bill Financing Pilot  
Program*

**PUC Docket No. G008/M-21-377**

**SUPPLEMENTAL COMMENTS**

On Behalf Of  
Fresh Energy  
Sierra Club  
Minnesota Center for Environmental Advocacy  
and  
The Community Stabilization Project

**August 8, 2022**

## INTRODUCTION

The Clean Energy Organizations<sup>1</sup> and the Community Stabilization Project (referred to collectively as “CEOs”) appreciate the opportunity to offer supplemental comments on the revised proposal (“Revised Proposal”) submitted by CenterPoint Energy (“CenterPoint”) and the City of Minneapolis (“City”) on May 16, 2022, for a Tariffed On-Bill Pilot Program (“TOB Pilot” or “Pilot”). The Revised Proposal includes and accurately reflects CEOs’ comments on the original TOB petition. Further, the Revised Proposal addresses some of CEOs’ concerns and adopts some of CEOs’ program modifications enumerated in our initial comment.<sup>2</sup> In light of the changes included in the Revised Proposal, the CEOs support the Revised Proposal subject to three additional modifications discussed below in Section II. In Section I, CEOs will discuss our support for the modifications in the Revised Proposal.

### I. CEOs SUPPORT THE MODIFICATIONS IN THE REVISED PROPOSAL

CEOs support the modifications put forth by the City and CenterPoint in the Revised Proposal. The modifications address several of the CEOs’ concerns iterated in our initial comment. Specifically, the Revised Proposal incorporates our recommendations to:

- Prohibit disconnection for non-payment of the monthly bill charge during the pendency of the Pilot;<sup>3</sup>
- Gather data on whether the TOB Pilot reduces a customer’s risk of disconnection;<sup>4</sup>
- Remove the \$100 energy assessment as a cost to program participants;<sup>5</sup>
- Limit Pilot startup and delivery costs;<sup>6</sup>
- Reduce the overall Pilot budget;<sup>7</sup>

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<sup>1</sup> In this docket, the Clean Energy Organizations consist of Fresh Energy, Minnesota Center for Environmental Advocacy, and Sierra Club.

<sup>2</sup> See CEOs’ Initial Comment at 46-47 for a list of CEOs’ initial recommended program modifications.

<sup>3</sup> See CEOs’ Initial Comment at 28-30 (Feb. 4, 2022).

<sup>4</sup> See *Id.*

<sup>5</sup> See *Id.* at 39-40.

<sup>6</sup> See *Id.* at 40.

<sup>7</sup> See *Id.* at 41.

- Develop a system for ensuring potential TOB participants that are income-eligible for free or lower-cost programs are meaningfully connected with the operators of those programs so consumers can make an informed decision about the program they want to participate in;<sup>8</sup>
- Track the effectiveness of connecting potential TOB participants that are income-eligible for free and lower-cost programs with those programs;<sup>9</sup> and
- Track all participant disputes and how those disputes are resolved.<sup>10</sup>

As stated in our initial comment, we believe the above program modifications are key to ensuring the TOB Pilot is effective, lowest-cost, and designed using best practices. We are also pleased to see additional modifications to the Pilot beyond those we suggested, including:

- Switching from yearly spending limits to a focus on overall Pilot costs, thereby eliminating the possibility the Pilot would start and stop repeatedly due to annual spending caps;<sup>11</sup>
- Working with community organizations to connect potential participants to the Pilot and ensure Pilot information is inclusive and accessible;<sup>12</sup> and
- Reporting on various metrics that will help interested parties evaluate the efficacy of the Pilot and the utility of a fully implemented TOB program.<sup>13</sup>

## **II. CEOS' THREE SUGGESTED MODIFICATIONS FOR THE REVISED TOB PILOT PROPOSAL**

While the modifications in the Revised Pilot address many of CEOs' concerns, we believe 3 key modifications are still needed. These modifications include: (1) reducing CenterPoint's rate of return on energy upgrade investments, (2) requiring landlords to be approached first for any co-payment required, and (3) reporting on estimated savings versus realized savings of program participants.

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<sup>8</sup> See CEOs' Initial Comment at 45 (Feb. 4, 2022).

<sup>9</sup> See *Id.* at 45-46.

<sup>10</sup> See *Id.* at 29 n.129.

<sup>11</sup> TOB Petitioners' Reply Comment at 5 (May 16, 2022).

<sup>12</sup> *Id.* at 5.

<sup>13</sup> *Id.* at 8-9.

### **A. Reducing CenterPoint's Rate Of Return**

The most important of our concerns that remains unaddressed in the Revised Proposal is CenterPoint's request to earn its full rate of return on the energy upgrade investments. In our initial comments, we noted that this was not reasonable when CenterPoint had provided no justification for this level of return. We further noted that it does not make sense to treat the energy efficiency upgrades as an asset in CenterPoint's rate base when these upgrades are not owned by the utility and are therefore not a utility capital asset that can be added to the rate base. Moreover, this high rate of return reduces the cost-effectiveness of the program.<sup>14</sup> As a solution, CEOs recommended the Commission order either a 0% cost of capital for the duration of the Pilot to test the TOB program and remove barriers to participation, or order a 3% cost of capital, which is in line with the cost of long-term debt of CenterPoint's parent company.<sup>15</sup>

In the Revised Proposal, CenterPoint continues to seek its full rate of return and still offers no justification for this beyond the fact that other utilities have done it this way.<sup>16</sup> However, other TOB programs may be structured so that the energy upgrade is in fact owned by the utility, making it logical to treat it as a utility asset included in the rate base. In other words, the fact that other utilities receive their full rate of return on their TOB program upgrades is not a sufficient rationale for CenterPoint to receive that same return on *this* program.

As we have previously noted, one potential solution to the rate of return issue is to utilize third-party capital to fund the TOB upgrades, and we are happy to see the City and CenterPoint's commitment in the Revised Proposal to "explore methods to reduce capital costs" by "pursu[ing] third party sources of donated capital or grant funding."<sup>17</sup> The City and CenterPoint have made

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<sup>14</sup> CEOs' Initial Comment at 32-36 (Feb. 4, 2022).

<sup>15</sup> *Id.* at 33-36.

<sup>16</sup> TOB Petitioners' Reply Comments at 13 (May 16, 2022).

<sup>17</sup> *Id.* at 3, 7.

this commitment before, however, but thus far such explorations do not appear to have been robust. For example, based on CenterPoint's responses to information requests, it appears CenterPoint has only consulted with one potential third-party capital provider thus far.<sup>18</sup> Additionally, there is no incentive for CenterPoint to meaningfully investigate other lower-cost capital sources if it can earn its full rate of return when it provides the capital. Therefore, to ensure the exploration of third-party lower-cost capital is meaningful and thorough, the CEOs recommend the Commission authorize a rate of return of 3% or lower, akin to CenterPoint's long-term cost of debt. Then, when the Company seeks cost recovery of its Pilot costs, we recommend that if the Company was unable to secure lower-cost, third-party financing, the Company must demonstrate why this could not be reasonably secured if it wishes to seek its full rate of return from ratepayers. Additionally, CEOs recommend the Commission order CenterPoint to report on this exploration of lower-cost capital when it seeks cost recovery of Pilot costs so the Commission and interested parties can assess whether the Company's efforts were sufficient.

**Therefore, CEOs recommend the Commission:**

- Reject the Company's proposal to earn its full rate of return on energy upgrade investment costs; AND
- Establish a zero percent cost of capital for the duration of the Pilot in order to test the TOB concept and remove barriers to participation; OR
- Authorize CenterPoint to receive a rate of return of 3% or lower, require CenterPoint to explore lower-cost capital options, and only allow CenterPoint to receive its full rate of return if it can demonstrate why a lower cost of capital cannot be reasonably secured; AND
- Require CenterPoint to report on its exploration into lower-cost capital, including efforts undertaken to identify alternate capital sources, the capital sources identified,

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<sup>18</sup> See CenterPoint response to Alice Madden Information Request 008, included as Attachment 1.

- and any barriers to utilizing these alternate capital sources.

### **B. Consulting Landlords First For Any Co-Pays**

Another issue CEOs raised in our initial comment that remains unaddressed in the Revised Proposal is CEOs' recommendation that landlords (instead of tenants) be required to pay any co-pay that may be required for a rental unit to qualify for the TOB Pilot. We understand that it is common practice in other TOB programs for landlords to voluntarily pay a co-pay if one is required for one of their rental units to qualify for the program under the 80/20 Rule. However, while our initial comment recommended the landlord be required to pay any co-pay, we now realize that this has the unintended consequence of limiting tenant participation if landlords are unwilling to cover that cost. Thus, to truly make it easier for tenants to participate in energy efficiency programs, we recommend the Commission order that CenterPoint approach landlords first for payment of the co-pay if a co-pay is required for a rental unit to participate in the Pilot. We also ask that the Commission order CenterPoint to track how many landlords were willing to pay the co-payment.

#### **Therefore, CEOs recommend the Commission:**

- Order CenterPoint to first approach landlords for a co-payment if a co-payment is necessary for a rental unit to meet the 80/20 Rule and participate in the TOB Pilot;
- Require CenterPoint to report on how many landlords willingly paid the co-pay as opposed to tenants.

### **C. Tracking Estimated Savings Compared To Savings Realized**

Finally, CEOs recommend an additional tracking metric that looks at how the estimated savings compared to actual savings realized for program participants. CEOs originally suggested this metric as part of a series of tracking metrics if disconnection for non-payment was allowed. While Pilot participants may no longer be disconnected for non-payment under the Revised

Proposal, CEOs still believe this would be a useful metric to determine how the modeled estimates compare with realized savings to confirm that the models used produce realistic results.

**Therefore, CEOs recommend the Commission:**

- Order an additional reporting metric that tracks estimated savings compared to realized savings for program participants.

**CONCLUSION**

CEOs believe the Pilot remains a needed supplement to Minnesota's existing energy efficiency programs. As discussed in our initial and reply comments, it is clear that expansions to CIP cannot replace TOB, and both CIP expansions and TOB together are needed to serve the energy efficiency need in Minnesota.

The TOB Pilot will reduce energy burdens, improve home living conditions, reduce greenhouse gas emissions, and expand much-needed access to energy efficiency in an inclusive way. The Pilot also presents an opportunity to gather data to strengthen a future TOB program and efficiency programs in general. CEOs further hope this Pilot will pave the way for other utilities, including Minnesota's electric utilities, to utilize the TOB tool as well.

CEOs appreciate the revisions made by CenterPoint and the City to the original TOB Pilot proposal. Given that the Revised Proposal addresses several of CEOs requested modifications, CEOs support the Revised Proposal subject to only a short list of additional modifications that would improve the Pilot.

**CEOs' final recommended decision options include:**

1. Approve the Revised Pilot proposal contained in the City and CenterPoint's Reply Comments dated May 16, 2022 along with decision options 2, 3[A, or B] 4, and 5.
2. Reject the Company's proposal to earn its full rate of return on energy upgrade investment costs.

3. Establish a zero percent cost of capital for the duration of this Pilot in order to test the TOB concept and remove barriers to participation; OR

Authorize CenterPoint to receive a rate of return of 3% or lower, require CenterPoint to explore lower-cost capital options, and only allow CenterPoint to receive its full rate of return if it can demonstrate why a lower cost of capital cannot be reasonably secured.

4. Require CenterPoint to report on its exploration into lower-cost capital, including efforts undertaken to identify alternate capital sources, the alternate sources identified, and any barriers to utilizing these alternate capital sources.
5. Order CenterPoint to first approach landlords for a co-payment if a co-payment is necessary for a unit to meet the 80/20 Rule and participate in the TOB Pilot and report on how many landlords willingly paid the co-pay as opposed to tenants.

Respectfully submitted,

/s/Amelia Vohs

Amelia Vohs

Regulatory Attorney

Minnesota Center for Environmental Advocacy

*Attorney for Clean Energy Organizations*

**State of Minnesota**  
**Community Power Minnesota**

**Utility Information Request**

Docket Number: G008/M-21-377 - Tariffed On Bill Pilot Program

Date of Request: 1/24/2022

Requested From: CenterPoint Energy Minnesota Gas

Response Due: 1/31/2022

Analyst Requesting Information: Alice Madden

Type of Inquiry: Other

***If you feel your responses are trade secret or privileged, please indicate this on your response.***

Request No.	
CPMN-AM 008	<p>If referencing source information that provides information or answers that are core to the information request, please whenever possible excerpt quotes and/or page number that provide the answer as well as a reference to the source material (rather than solely providing the link, statute name, etc for stakeholders to locate separately).</p> <p>If a spreadsheet is used, please include formulas and leave them open/unlocked. Please also ensure that sources for data/inputs are either labeled, cited/linked, or explained in writing.</p> <p>Please provide:</p> <ul style="list-style-type: none"><li>a. Centerpoint's cost of long-term debt and the cost of long-term debt for Centerpoint's parent company</li><li>b. The cost of capital that was offered by the third party capital provider (referenced in Response to Community Power Info Request #1). If possible please also provide any information (name, key contact, pdf of summary proposal, etc) that the third party capital provider has not requested remain strictly confidential. If some or all is strictly confidential to the third party, for those pieces please name which information the Company possesses but cannot share details for (e.g. name, key contact, term sheet, etc).</li><li>c. A list of specific barriers as detailed as possible including barriers related to time available to explore this option that Centerpoint, the City, and/or the third party capital provider identified (as quoted below in "i" from the Response to Community Power Info Request #1).</li><li>d. A list of the pathways the Centerpoint and the City plan to continue</li></ul>

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to explore third party capital (as quoted below in “ii” from Response to Community Power Info Request #1). Please be as specific about those intended pathways as possible.

- i. *“however we did not find a path forward for lower cost third party capital as part of the TOB pilot petition filed September 1, 2021.”*
- ii. *“The Company and Minneapolis are interested in exploring the option of third party capital once a pilot program is in place.”*

**Response:**

- a. As filed in our current rate case, Docket G008/GR-21-435, CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas cost of long term debt is 4.1% for 2022; the Company's parent company, CenterPoint Energy Inc. cost of long term debt is 3.16%.
- b. The Company has not received any offers from third-party capital providers to fund the proposed TOB pilot, filed on September 1, 2021. Prior to filing, CenterPoint Energy and the City of Minneapolis engaged in informational discussions with Inclusive Prosperity Capital, a financial institution with experience in TOB programs, to explore the possibility of a third-party funded utility TOB program. Inclusive Prosperity Capital provided an example of a loan agreement between U.S. Bank National Association and the City of Fort Collins Electric Utility Enterprise for a residential energy efficiency program. The loan amount was \$2.5 million with a default interest rate of 3%. For more information about Inclusive Prosperity Capital, visit <https://www.inclusiveprosperitycapital.org/>.
- c. In discussion, CenterPoint Energy learned that Inclusive Prosperity Capital was interested in providing capital directly to utilities such as CenterPoint Energy to facilitate PAYS® programs; but they were not interested in providing capital directly to utility customers. CenterPoint Energy did not see a path to passing the capital provider's lower cost of capital to TOB pilot participants without directly lending to the participant. In addition, while the Company and Minneapolis's proposed TOB pilot is based on PAYS®, there are differences from traditional PAYS programs that require further scrutiny from interested third party capital providers to consider before making an offer to the Company.
- d. Upon regulatory approval of the proposed TOB pilot, the Company and Minneapolis will focus on the successful start-up development and launch of the TOB pilot. Once the TOB pilot is operational, the Company and Minneapolis will track progress and investigate

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process improvements on an on-going basis. The Company and Minneapolis will continue to explore any opportunities that may enable the Company to offer lower capital costs for participants in the TOB pilot.

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