

FOR BOARD ACTION

Agenda Item #

9.

Meeting Date:

1/29/08

SUBJECT: Amendment to RPU's Conservation Improvement Program, specifically Partnering in Energy Solutions financing program.

PREPARED BY: Chuck Pentek
Key Account and Energy Services Manager

ITEM DESCRIPTION:

Overview of Need

Partnering in Energy Solutions provides financing for our customers' energy improvements projects. Customers may choose to pay for their project over a one to two year period. Monthly payments are based on the financing period (≤ 2 years) at 0% interest. Payment is collected as part of their utility bill. In many cases the additional payment is offset by the energy cost savings from the conservation improvement project. This financing is only available for projects that are completed by an Energy Solutions Partner (ESP). Presently, twenty-five southern Minnesota regional trade allies have become ESPs. ESPs promote our Conserve and Save programs, which in turn generates more energy savings. In 2007, we had seven customers take advantage of this financing option. Four ESPs were paid with funds from this financing program.

Proposal

That RPU provide additional funds to help commercial and industrial customers finance energy efficiency improvement projects. This program will leverage required conservation improvement project (CIP) spending to help RPU, and its customers, meet our conservation goals.

Budget

In July 2003, the RPU Board approved the initial program that targeted the use of \$250,000 of the budgeted \$1.2 million in CIP funding (see attached file copy). RPU proposes raising the cap to \$500,000 of the 2008 budgeted \$1.9 million in CIP funding.

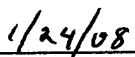
Justification

- ✓ This program encourages and supports investment in energy efficiency in our community.
- ✓ The program will expand our offerings under the CIP requirements identified in the State Energy Law.
- ✓ The energy cost savings from these projects improves the competitive position of local business and industry.
- ✓ The customers' energy cost savings may significantly offset the financed cost.
- ✓ RPU will be able to add value to our customers and form closer business relationships with them.
- ✓ The risk is extremely low due to the qualification process and ability to charge any amount not paid to our CIP required spending.

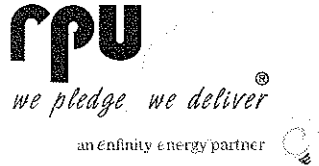
UTILITY BOARD ACTION REQUESTED:

The Board is requested to authorize the use of CIP budgeted money in the amount of \$500,000 to finance Demand Side Management energy efficiency projects.


General Manager


Date

ROCHESTER PUBLIC UTILITIES



REVISED

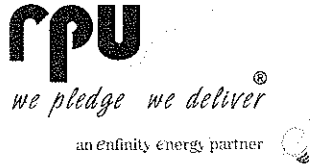
Addendum to RPU's Conservation Improvement Programs (CIP) Demand Side Management (DSM) Project Financing

Prepared by: Patty Hanson, Chuck Pentek, and Stephanie Yrjo



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Purpose and Description:

RPU's CIP DSM financing is a DSM process that supports energy conservation by providing financing for our customers' energy improvements projects. RPU will finance energy efficiency projects in accordance with the State Omnibus Energy Law. Customers are able to finance energy efficiency projects completed by RPU's Partnering in Energy Solutions program.

This program offers our customers help with their energy improvement projects that reduce their electrical and water costs and decrease energy waste. Customers may choose to pay for their project over a one to two year period. Monthly payments are based on the financing period (≤ 2 years) at 0% interest. Maximum amount financed per project is \$25,000. Payment is collected as part of their utility bill. In many cases the additional payment is offset by the energy cost savings from the conservation improvement project.

This financing is only available for projects that are completed by an Energy Solutions Partner (ESP). Presently, twenty-five southern Minnesota regional trade allies have become ESPs. ESPs promote our Conserve & Save programs, which in turn generates more energy savings. Customers can use their Conserve & Save rebates as a final payment to their project's ESP.

In 2007, we had seven customers take advantage of this financing option. Four ESPs were paid with funds from this financing program.

This financing program allows RPU to provide a valuable service to our customers with no increased investment on the utilities' part.

- This program encourages and supports investment in energy efficiency in our community.
- The program will expand our offerings under the CIP requirements identified in the State Omnibus Energy Law.
- The energy cost savings from these projects improves the competitive position of local business and industry.
- The customers' energy cost savings may significantly offset the financed cost.
- We are adding value to our customers and forming closer business relationships with them.
- The risk is extremely low due to the qualification process and ability to charge any amount not paid to our CIP required spending.



Target Market:

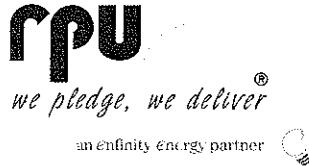
Businesses with at least 100 kW peak demand will be the first group of commercial customers to whom this program will be marketed. These customers have sufficient financial resources and can benefit from financing services for needed energy efficiency upgrades.

Typically, these customers have at least 5,000 square feet of business space. Their bills run over \$1,000 per month and energy cost is one of their ten largest expenses. Commercial loans are often difficult for them to arrange and interest rates can be quite high.

The value that RPU financing provides to the commercial customer is a match between expenditures for facility improvement costs and the savings that will result from them. In many cases, the customer will have sufficient savings from the improvement to offset the cost of financing for their project, which will be collected with their utility bill. The energy cost savings from these projects improves the competitive position of local business and industry.

Process:

1. A RPU representative or ESP will market energy conservation and our Partnering in Energy Solutions financing program to our customers.
2. The ESP will fill out the customer billing option form for a customer energy conservation project. The transaction payment must be received for RPU to process the customer billing option paperwork.
3. RPU will approve the qualifying projects so the work can begin.
4. Upon completion of the project, the ESP will invoice RPU for the financed portion of the project.
5. RPU will begin charging the agreed payment on the customer's utility bill.
6. The customer will be paid the project's qualifying rebate funds.
7. The customer will pay the ESP any additional amount due above the financed portion of the project.
8. Information will be available from the RPU accounting department at the customer's request. We anticipate a limited number of financed projects and few inquiries.



Budget and Promotion Plan:

Venues:

Target Market: Businesses with inefficient lighting, HVAC equipment, and motors.

Budget:

Program Budget	
Funds for Projects	\$500,000
Promotional Information	\$ 500
RPU Labor	\$ 5,000
Total	\$505,500

No Cost/Low Cost Promotions:

- Brochures at Home Show etc. as part of RPU or City/County displays
- Publicity from media for energy conservation articles, etc.
Post Bulletin annual article on conservation efforts at RPU
- Face to face marketing to commercial and industrial customers.

Controls:

- a) Eligible customers should have at least two years of continuous business operation in the community.
- b) All customers who request financing will sign a credit check release that will allow RPU to review the credit and payment history of the company.
- c) If credit is questionable, a Dunn & Bradstreet report will be required at the customer's expense.
- d) All financing will be part of RPU's Partnering in Energy Solutions financing program. This is part of our DSM program and any defaults will be a legitimate cost of operating this DSM program. The RPU DSM budget, currently \$1.9 million will underwrite any losses.
- e) All transactions will be tracked by the RPU accounting department.
- f) A review committee of RPU management has been established to monitor the activity of the financing program.



- g) The total amount available to finance projects will be limited to \$500,000. This amount will be reviewed periodically and adjusted as appropriate by the financing review committee and RPU Board approval.
- h) Qualifying projects over \$5,000, payment terms will be limited to 24 months.
- i) Qualifying projects under \$5,000, payment terms will be limited to 12 months.
- j) All Conserve & Save rebates due to the project will be paid directly to the customer.

Milestones:

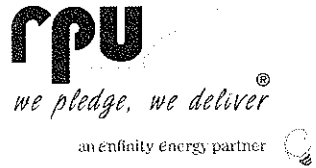
	<u>Status</u>
Decision on service provider(s):	Completed 1/2003
Arrange for line item on bill for payment:	Completed 4/2003
Tracking for status of account and end of payments:	Completed 4/2003
Identification of RPU revenues on the account and appropriate tracking:	Completed 4/2003
Product launch:	Completed 7/2003
Old Energy Solutions business model closed:	Completed 1/2007
Partnering In Energy Solutions launch:	Completed 1/2007
Update financing limit to \$500,000:	In progress

Product Launch:

The concept of the product has developed with our customers and trade allies over time. Partnering in Energy Solutions has been very well received. The internal processes and controls are in place. Process and controls are being update as weaknesses are identified. We have applications from customers interested in participating and will proceed as soon as this plan has been approved.

Appendix A: Supporting Documentation

Customer Billing Option Memorandum of Understanding



Conserve & Save Rebate Application



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to authorize the use of Conservation Improvement Program (CIP) budgeted money in the amount of \$500,000 to finance Demand Side Management energy efficiency projects.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 29th day of January, 2008.

President

Secretary