

FOR BOARD ACTION

Agenda Item # 4

Meeting Date: 3/31/09

SUBJECT: RPU's Conservation Improvement Program, *Partnering in Energy Solutions Green Financing*

PREPARED BY: Stephanie Humphrey
Commercial Account Representative

ITEM DESCRIPTION:

Rochester businesses are successfully utilizing RPU's *Partnering in Energy Solutions (PIES) Energy Efficiency Financing* program for energy conservation investments. Customers have told us that PIES financing has factored into their energy conservation project decision(s). Sustainable building practices have become increasingly popular in response to rising energy costs and statewide legislation requiring increased energy conservation and renewable generation. As customers evaluate sustainable building practices, RPU can help by offering a value added program, *Green Financing*, for Energy Star[®] labeling, Leadership in Energy and Environmental Design (LEED[®]) certification, and Green Globes certification.

This program will leverage required Conservation Improvement Program (CIP) spending to indirectly help RPU, and its customers, meet our conservation goals. RPU will loan the dollars required to obtain a customer's building certification as Energy Star[®], LEED[®] (Certified, Gold, Silver, or Platinum) or Green Globes in accordance with the *Next Generation Act of 2007* (MN Statute 216B.241):

Subd. 1f. Facilities energy efficiency.

(c) The commissioner shall require that utilities include in their conservation improvement plans programs that facilitate professional engineering verification to qualify a building as Energy Star-labeled, Leadership in Energy and Environmental Design (LEED) certified, or Green Globes-certified. The state goal is to achieve certification of 1,000 commercial buildings as Energy Star-labeled, and 100 commercial buildings as LEED-certified or Green Globes-certified by December 31, 2010.

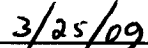
We propose to use \$250,000 of RPU allocated funds to be used in a revolving financing program. What we invoice, we receive back plus revenue in the form of a one-time administration fee. Similar to PIES *Energy Efficiency Financing*, customers may choose to pay for their certification over a one-to-two year period. Monthly payments for the financed amount are based on the total project amount: balances under \$5,000 are limited to 12 months and include a \$300 administration fee, and balances over \$5,001 not to exceed 24 months with a \$500 administration fee. Maximum amount financed per project is \$25,000. No interest fee is required on the payment and payment is collected as part of their utility bill. The risk is extremely low due to the qualification process. To date we have not had any defaults with our PIES *Energy Efficiency Financing* program. In the event that we do, we have the ability to charge any amount not paid to our CIP required spending.

Program plan attached for more information.

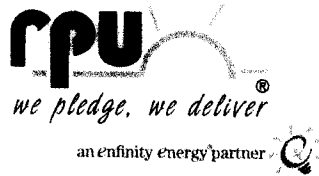
UTILITY BOARD ACTION REQUESTED:

The Board is requested to authorize the use of \$250,000 of RPU allocated funds to support RPU's *Partnering in Energy Solutions Green Financing* program, which will help our business customers obtain, Energy Star[®], LEED[®] or Green Globes certification for their projects.


General Manager


Date

ROCHESTER PUBLIC UTILITIES



CONSERVE & \$AVE

RPU's Conservation Improvement Programs (CIP)

Partnering in Energy Solutions

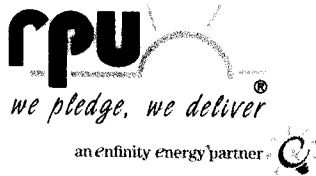
- Green Financing -

Prepared by:
Stephanie Humphrey and Patty Hanson
March 2009



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Purpose and Description

Rochester businesses are successfully using RPU's *Partnering in Energy Solutions* (PIES) program for energy conservation investments. Customers have told us that PIES *Energy Efficiency Financing* has factored into their energy conservation project decision(s).

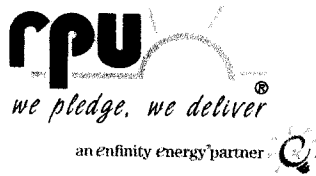
Sustainable building practices have become increasingly popular in response to rising energy costs and statewide legislation requiring increased energy conservation and renewable generation. As customers evaluate sustainable building practices, RPU can help by offering another value add program, *Green Financing*, for Energy Star® labeling, Leadership in Energy and Environmental Design (LEED®) certification, and Green certification.

RPU's *Green Financing* program is a Conservation Improvement Program (CIP) program that supports energy conservation by providing financing for our customers' energy improvement projects and those projects looking to achieve "green" status. RPU will finance the dollars required to obtain a customer's building certification in Energy Star®, LEED® (Certified, Gold, Silver, or Platinum) or Green Globes in accordance with the *Next Generation Act of 2007* (MN Statute 216B.241):

Subd. 1f. Facilities energy efficiency.

(c) The commissioner shall require that utilities include in their conservation improvement plans programs that facilitate professional engineering verification to qualify a building as Energy Star-labeled, Leadership in Energy and Environmental Design (LEED) certified, or Green Globes-certified. The state goal is to achieve certification of 1,000 commercial buildings as Energy Star-labeled, and 100 commercial buildings as LEED-certified or Green Globes-certified by December 31, 2010.

Similar to PIES *Energy Efficiency Financing*, customers may choose to pay for their certification over a one-to-two year period. Monthly payments for the financed amount are based on the total project amount: balances under \$5,000 are limited to 12 months and balances over \$5,001 not to exceed 24 months. Maximum amount financed per project is \$25,000. No interest fee is required on the payment. Payments are collected as part of the customer's monthly utility bill. An administration fee in the form of a check payable to RPU will be collected when the paperwork is submitted (\$300 for projects under \$5,000 and \$500 for projects \$5,001-\$25,000). This financing is only available for projects that are registering for Energy Star® labeling, LEED® certification, or Green Globes certification. The PIES *Green Financing* program is a separate program from the PIES *Energy Efficiency Financing* program.



The *Green Financing* program is only available for projects that are completed by an RPU Energy Solutions Partner (ESP). Presently, 35 southern Minnesota regional trade allies have become ESPs. ESPs promote our Conserve & Save programs, which in turn generates more energy savings. Once it has been received, the ESP (or customer) will be required to provide proof of the certification. Proof can be as simple as a copy of the certificate for our customer file.

This finance program allows RPU to provide another value added service to our customers with little increased investment on the utilities' part.

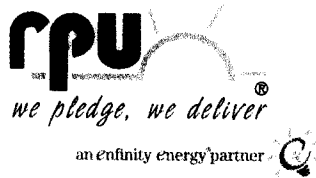
- This program encourages and supports investment in energy efficiency and green building in our community.
- The program will expand our offerings under the CIP requirements identified in the Next Generation Act of 2007 (MN Statute 216B.241).
- RPU will be able to add value to our customers and form closer business relationships with them.
- The risk is extremely low due to the qualification process. To date, we have not had any defaults with our PIES *Energy Efficiency Financing* program. In the event that we do, we have the ability to charge any amount not paid to our CIP required spending.

Target Market

The target market for this program is any RPU commercial business that wants to certify their buildings, whether new or existing, with the following green building programs: Energy Star[®], LEED[®], or Green Globes.

Process

1. An RPU representative or ESP will market the *Green Financing* program in conjunction with energy conservation and under the umbrella of our *Partnering in Energy Solutions* program to our commercial customers.
2. The ESP will fill out the *Utility Release of Information and Memo of Understanding* for the customer's green project. The transaction payment (administration fee) must be received prior to RPU staff processing the *Memo of Understanding* paperwork.
3. Projects under \$5,000 are limited to 12 month financing and a \$300 administration fee. Projects over \$5,001 are limited to 24 month financing and a



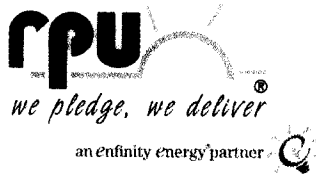
\$500 administration fee. RPU will not finance more than \$25,000 for a given project.

4. RPU marketing staff will approve or reject the financing proposal.
5. RPU will finance the dollars required to achieve either LEED® or Green Globes certification on behalf of the ESP (or customer) filling out the application. For Energy Star®, which does not charge for the “labeling”, RPU will finance the engineer’s labor required to fill out the application and complete the process towards obtaining the Energy Star® label. In both cases, amounts will not exceed program amount of \$25,000.
6. Upon completion of the project, the ESP (or customer) will invoice RPU for the amount to be financed for the certification or labeling of the building.
7. RPU will pay the ESP (or customer) for the financed amount and then RPU billing staff will add the monthly financed amount to the customer’s RPU invoice.
8. The ESP (or customer) is required to provide proof of certification once obtained. This information will be tracked and reported to the State as part of RPU’s CIP filing. If certification is denied, the balance of the financed amount is due immediately.
9. 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.
10. If a customer receives two delinquent notices within a twelve month period or defaults on a payment, they will be removed from the program immediately and full payment on the financed amount will be due. Failure to pay will result in standard RPU collection procedures.

Budget and Promotional Plan

No Cost/Low Cost Promotions:

- Information on RPU’s web site and RPU’s blog
- Included in the *Partnering in Energy Solutions* brochure
- Included as a digital billboard advertisement
- Post-Bulletin annual thank you ad on RPU’s conservation efforts
- Publicity from media for energy conservation articles, etc.
- Face-to-face customer meetings



- Face-to-face trade ally meetings

Miscellaneous events

- Introduction at the 2009 ASHRAE Golf Outing
- Introduction at the 2009 Think Green Fair
- Introduction at the 2010 Trade Ally Meeting
- Introduction at the 2010 Large Customer Meeting

Program dollars are Board approved in the amount of \$250,000. They are an allocation of RPU funds to be used in a revolving financing program. What we invoice, we receive back plus revenue in the form of the initial administration fee. Similar to the existing *PIES Energy Efficiency Financing* program, we will set up a separate internal order number under the PIES cost center (which is currently being established) to track projects and dollars.

Program Approved Dollars:

Available funds for financing	\$250,000
Promotional information (included in annual CIP budget)	\$ 500
<u>RPU Labor (included in annual CIP budget)</u>	<u>\$ 5,000</u>
Program Total	\$255,500

Controls

- Eligible customers should have at least two years of continuous business operation in RPU's service territory. For new customers, a Dunn & Bradstreet report will be required at the customer's expense.
- All customers who request financing will sign a *Utility Release of Information* for a credit check that will allow RPU to review the credit and payment history of the company.
- If credit is questionable, a Dunn & Bradstreet report will be required at the customer's expense.
- This is part of RPU's CIP program and any defaults will be a legitimate cost of operating this CIP program. The RPU CIP budget will underwrite any losses.
- If a customer receives two delinquent notices within a twelve month period or defaults on a payment, they will be removed from the program immediately and



full payment on the financed amount will be due. Nonpayment will result in normal collection procedures.

- f) All billing transactions will be tracked by the RPU accounting department.
- g) The RPU marketing department will monitor the activity of this finance program in the same manner as the PIEs *Energy Efficiency Financing* program.
- h) The total program amount available to finance will be limited to \$250,000. This amount will be reviewed periodically and adjusted as appropriate by the RPU marketing department and RPU Board approval.
- i) Qualifying projects over \$5,001, payment terms will be limited to 24 months, with an administration fee of \$500.
- j) Qualifying projects under \$5,000, payment terms will be limited to 12 months, with an administration fee of \$300.

Milestones

Arrange for line item on bill for payment	January 2009
Final marketing plan and program documents	March 2009
Discuss procedure/tracking with accounting department	March 2009
RPU Board approval	March 2009
Program information on RPU web site and blog	April 2009
Work on updating PIES brochure with Garcia Graphics	April 2009
Program launch	April 2009

Information on Certification Programs and Fees

- 1. Energy Star®
 - a) Description
 - The energy performance of commercial and industrial facilities is scored on a 1-100 scale and those facilities that achieve a score of 75 or higher are

eligible for the ENERGY STAR, indicating that they are among the top 25% of facilities in the country for energy performance. Commercial buildings that have earned the ENERGY STAR use on average 35% less energy than typical similar buildings and generate one-third less carbon dioxide. Increasing concern about the financial and environmental risks associated with climate change is driving more organizations to strive for the ENERGY STAR for their buildings, as it is seen as a symbol of an organization that is working to reduce global warming and its impacts.

b) Cost

No cost except that of a Professional Engineer. The role of the Professional Engineer is to verify that all energy use is accounted for accurately, that the building characteristics have been properly reported (including the square footage of the building), that the building is fully functional in accordance with industry standards, and that each of the indoor environment criteria has been met.¹

2. Leadership in Energy and Environmental Design (LEED®)

a) Description

LEED encourages and accelerates global adoption of sustainable green building and development practices through the creation and implementation of universally understood and accepted tools and performance criteria.

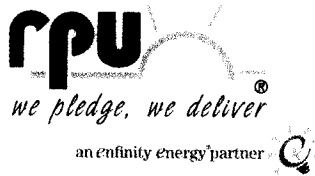
LEED is a third-party certification program and the nationally accepted benchmark for the design, construction and operation of high performance green buildings. LEED gives building owners and operators the tools they need to have an immediate and measurable impact on their buildings' performance. LEED promotes a whole-building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality

Four levels of LEED certification

- Certified Level 26 - 32 points
- Silver Level 33 - 38 points
- Gold Level 39 - 51 points
- Platinum Level 52+ points (69 possible)

b) Cost

¹ Source for Energy Star®:
http://www.energystar.gov/index.cfm?c=evaluate_performance.bus_portfoliomanager_intro



The cost ranges from \$1,875 to \$22,500. More costs could apply. See chart below.

Certification Fees²

The certification fee is based on the rating system that the project is certifying under, and the size of the project. This fee is paid when the project team submits documentation for review. The table below outlines the rates.

Rating System	Small Projects	Medium Projects	Large Projects	Very Large Projects
Design Review				
Members	\$1,250.00	\$0.025 / sf	\$12,500.00	\$500.00
Non-Members	\$1,500.00	\$0.030 / sf	\$15,000.00	\$500.00
Expedited Fee*	\$5,000.00 regardless of square footage			\$500.00
Construction Review				
Members	\$500.00	\$0.010 / sf	\$5,000.00	\$500.00
Non-Members	\$750.00	\$0.015 / sf	\$7,500.00	\$500.00
Expedited Fee*	\$5,000.00 regardless of square footage			\$500.00
Combined Design & Construction Review				
Members	\$1,750.00	\$0.035 / sf	\$17,500.00	\$500.00
Non-Members	\$2,250.00	\$0.045 / sf	\$22,500.00	\$500.00
Expedited Fee*	\$10,000.00 regardless of square footage			\$500.00
Initial Certification Review				
Members	\$1,250.00	\$0.025 / sf	\$12,500.00	\$500.00
Non-Members	\$1,500.00	\$0.030 / sf	\$15,000.00	\$500.00
Expedited Fee*	\$10,000.00 regardless of square footage			\$500.00
Recertification Review**				
Members	\$625.00	\$0.0125 / sf	\$6,250.00	\$500.00
Non-Members	\$750.00	\$0.015 / sf	\$7,500.00	\$500.00
Expedited Fee*	\$10,000.00 regardless of square footage			\$500.00
Members	\$2,500.00			\$500.00

² Source for LEED[®]: <http://www.usgbc.org/DisplayPage.aspx?CMSPageID=1497>

Non-Members	\$3,500.00	\$500.00
Expedited Fee*	\$5,000.00	\$500.00

3. Green Globes

a) Description

Building a structure to comply with Green Globes normally costs between 1% and 2% more than a standard building. In regions with extreme temperatures, the additional costs can rise to 8%. This is similar to compliance with any green building standard. However, Green Globes' assessment and verification costs are lower than most, so it tends to be less expensive overall. Through use of an integrated design process, and particularly with a system like Green Globes, design and construction teams can also save time and hassle resulting in fewer change orders and costly adjustments to final plans. This, in combination with savings from efficiencies and lower maintenance requirements, can more than make up for slightly increased initial costs.

b) Cost

It typically costs between \$3,000 to 5,000 to use the online tool and to have a building third-party verified.³

Appendix A: Supporting Documentation

1. *Utility Release of Information*
2. *Memo of Understanding*
3. *Credit Check (internal document)*

³ Source for Green Globes: <http://www.greenglobes.com/about-faq.asp#cost>



Partnering in Energy Solutions Green Financing

Memo of Understanding

Customer Name: _____
 Contact Name: _____
 Address: _____
 E-mail: _____
 Contract Account #: _____ Phone #: _____
 Energy Solutions Partner (ESP): _____

RPU's *Partnering in Energy Solutions Green Financing* program allows customers to finance the cost of Energy Star® labeling, Leadership in Energy and Environmental Design (LEED®) certification, or Green Globes certification. The financed amount is placed directly on the customer's RPU invoice. To qualify for this financing, please complete the following.

Please list the type of certification and provide a brief description:

- A. Certification's total cost {Detailed estimate or invoice attached}: \$ _____
 B. Requested financing amount {From Line A or Maximum of \$25,000}: \$ _____

The customer agrees to:

- Check with RPU to make sure financing funds are still available
- Allow RPU to investigate your credit history and if required, pay for a credit report
- Pay the proper administration fee (**fee is required with the submission of this form**)

Requested Financing Amount	Maximum Length Payment Term (Months)	Administration Fee	Interest Rate
\$5,000 or less	12	\$300	0%
\$5,001 to \$25,000	24	\$500	0%

- Make monthly payments by the invoice due date. If the account receives two delinquent notices within a twelve month period or defaults on a payment, the customer will be removed from the program immediately and full payment on the financed amount will be due.
- If certification is denied, or the business closes or files bankruptcy, the balance of the financed amount is due immediately.
- Provide proof of certification once received.

Upon completion of the customer billing payment option approval process, RPU agrees to:

- Pay the ESP for the certification cost up to \$25,000 (copy of the invoice for certification must be attached)
- **Hold the requested financing funds for a MAXIMUM of 90 days (paperwork is expected to be completed within 90 days of approval by RPU)**

The customer has carefully reviewed the above customer billing payment option. The respective administrative fee and estimated certification cost invoice are required with submission of this form. RPU will notify the customer and the ESP when the customer billing payment option approval process is completed. If approved, the customer authorizes RPU to bill them using the customer billing payment option.

Customer Signature: _____ Date: _____

RPU Approval Signature: _____ Date: _____



Utility Release of Information

This serves as a Release of Utility Information from the below stated company, to:

(Trade Ally or Energy Solutions Partner)

Company Name: _____

Authorized Signature: _____

Tenant Signature (if applicable): _____

Printed Signature: _____

For Location Address's listed below:

1. _____

2. _____

3. _____

4. _____

Please check all that apply:

Please provide up to the last two years of utility records for the aforementioned customer and addresses listed.

Please allow RPU to do a credit check for pre-approval of *Partnering in Energy Solutions Energy Efficiency Financing*.

Please allow RPU to do a credit check for pre-approval of *Partnering in Energy Solutions Green Financing*.

The above information should be sent via:

Email _____ Fax _____

To the attention of:

Name: _____ Phone Number: _____

Electric/Water Utility
Rochester Public Utilities
Victoria Cook
(507) 280-1537 phone
(507) 280-1542 fax
vcCook@rpu.org

Gas Utility
Minnesota Energy Resources
Rory Lenton
(507) 529-5117 phone
(507) 288-0071 fax
rdlenton@minnesotaenergyresources.com



Partnering in Energy Solutions

Credit Check For Office Use Only

Customer Name: _____

Contact Name: _____

Address: _____

E-mail: _____

Contract Account #: _____ Phone #: _____

Energy Solutions Partner (ESP): _____

Energy Efficiency Financing

Green Financing

RPU Credit History Review:

24 Month Billing History

Yes (see attached) _____ No _____

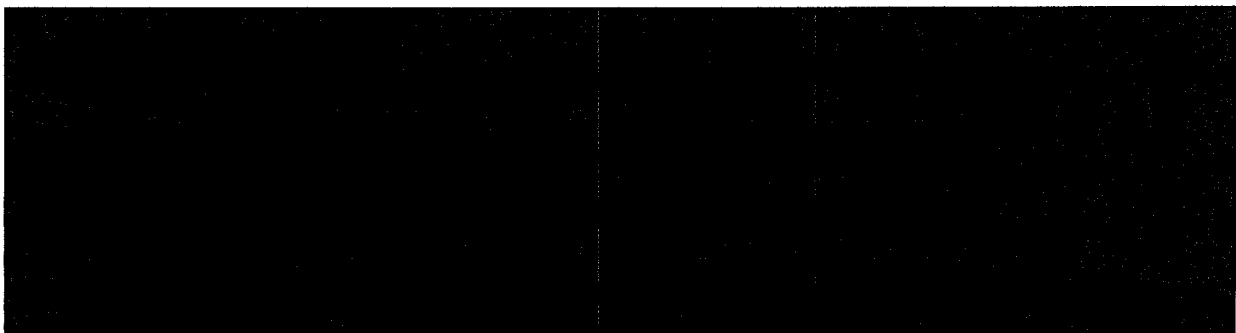
Have there been:

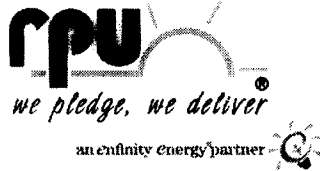
Collections on the account?	Yes _____	No _____
Delinquent notices?	Yes _____	No _____
NSF checks?	Yes _____	No _____
Disconnects?	Yes _____	No _____

Are there any other known issues with the account that affect credit worthiness?

Yes _____ No _____ If yes, please specify:

Was a Credit Report required? Yes (see attached) _____ No _____





RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve the use of allocated dollars in the amount of \$250,000 to support RPU's *Partnering in Energy Solutions Green Financing* program, which will help our business customers obtain Energy Star® labeling, LEED® certification, and Green Globes certification for their "green" projects.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 31st day of March, 2009.

President

Secretary