

Other Business

For the Metropolitan Council meeting of June 13, 2018

Subject: Memorandum of Understanding (MOU) with Xcel Energy providing a pathway to 100% clean electricity for Council accounts and supporting electrification of vehicles, including buses.

District(s), Member(s): All

Policy/Legal Reference: Council Sustainability Policy 1-2; Governor's EO 17-12

Staff Prepared/Presented: Meredith Vadis, Deputy Regional Administrator, 651-602-1567

Ned Smith, MCES Finance Director, 651-602-1162

Brian Funk, Deputy Chief Operating Officer – Bus, 612-349-7514

Division/Department: All

Proposed Action

That the Metropolitan Council authorizes the Regional Administrator to execute the attached non-binding Memorandum of Understanding with Xcel Energy (dba Northern States Power).

Background

The Council has roughly 500 accounts with Xcel Energy through which it receives electricity to operate its transit, wastewater, administrative, and other functions. Despite good conservation success, the Council is still one of its largest electric customers in the State of Minnesota. In total, the Metropolitan Council utilizes more than 245,000 MWh of electricity every year. In 2017, the Council paid Xcel over \$20M for electricity necessary to fulfill its mission.

The Council, in accordance with the sustainability goals outlined in *Thrive MSP 2040*, seeks to adjust its consumption of energy toward renewable sources. The Council has already invested in solar gardens, behind-the-meter solar installations, steam recovery at a WWTP, electric and hybrid buses, biodiesel and other energy conservation measures to reduce its carbon footprint and its energy costs. However, at present there is no path to eliminate the Council's need to purchase electrical capacity from Xcel.

Therefore, the Council endeavored to create an agreement with Xcel that would accomplish three main principles:

1. For the electricity the Council needs to purchase within Xcel's electric service territory, the Council will buy 100% renewable electricity, by 2040, from facilities procured by Xcel or its affiliates. This load will initially be physically new and additional to renewable energy standards and mandates set forth in Minnesota statutes.
2. The expected net present value over the life of the renewable purchase agreement will be positive and anticipated to result in savings to the Council's tax and ratepayers and be competitive with other clean renewable options.
3. The agreement will develop methods to effectively cooperate, and as legal authorities allow, the parties to communicate about, support, and jointly pursue opportunities to maximize the potential of all available funding sources to create multi-year

research and demonstration projects related to improving wastewater or mass transit operations.

After nearly two years of discussion, Council and Xcel staff have outlined a path forward to initiate and advance our green energy partnership. The non-binding MOU (attached) does not provide extensive detail on how we intend to accomplish these goals, however it sets forward the broad path and principles that are foundational to entering into binding contracts, which we anticipate will begin with a second tranche of Renewable*Connect, if approved by the Public Utilities Commission.

After the MOU is signed, Xcel will begin the regulatory process (with the Department of Commerce and the Public Utilities Commission) to get approval to offer the Renewable*Connect tariff, and also prepare a request for proposals for wind and solar developers to supply the new renewable energy. Council staff hope to commit about 65 percent of the Environmental Services baseload (the entire Metro Plant load) to this initial offering, assuming terms come back favorable. The Council would then commit additional load to subsequent contracts, assuming terms continue to remain favorable, until it reached 100 percent renewable electricity.

Rationale

Environmentally, the Governor's Executive Order asks us to do more to mitigate greenhouse gas emissions. The Council's own sustainability policy does so as well. Moreover, mitigating air pollution from transportation is an opportunity to improve the livability and quality of life in the region; the regional (transportation) solicitation calls out improving air quality explicitly.

Helping Xcel and the region advance *additional* renewable clean electricity onto the grid rapidly is expected to provide financial savings for the Council over the lifecycle while also not disadvantaging non-participants. In fact, non-participants would benefit from the positive externalities that would result from the Council, one of the region's top 10 energy consumers, moving its base load from fossil fuel-generated electricity to renewably-sourced electricity.

Moreover, transportation has become the largest greenhouse gas polluting sector of the economy. Metro Transit is the largest diesel fuel purchaser in the state. Additionally, through its contracted services and Metro Mobility units, the Council makes and influences decisions regarding many more buses. It also operates non-revenue fleets of vehicles. Most of these vehicles could be operated cleaner by using electricity. And electric vehicles' improving economics appear to provide lifecycle financial savings. The Council's partnership with Xcel will assist us in continuing to move these vehicles toward renewably-sourced electrical power.

The next set of Renewable*Connect tariffs, if approved by the Public Utilities Commission and if we accept them, are expected to provide a positive net present value for our ratepayers and taxpayers. This program anticipates that the subscribers (it is hoped that others would join us) will retain the "renewable energy credits" (an environmental accounting mechanism) and be able to credibly report that operations so subscribed are powered by renewable energy only.

It's important to note:

- that the Council will continue to buy power from Xcel, under its existing various account tariffs, just as it has.
- we expect that the Renewable*Connect contract will provide that contractual payments are substituted for avoided fuel charge components on those regular tariffs.

- Xcel does not make any profit on this tariff but just passes the costs (from the wind and solar vendors) through.
- the Council will have the opportunity to decline the subscription(s) should the bids not meet our criteria.

Thrive Lens Analysis

Livability is impacted as this partnership would create reductions in air pollutants, odor and noise. *Prosperity* is enhanced from the savings for Council operations, support for our primary regional regulated electricity provider and its rate base and possibly new jobs and tax revenues in the region created by new renewable energy production. Finally, environmental *Sustainability* is clearly advanced through a transition away from fossil-fuel based electricity.

Funding

The MOU itself requires no material funding. Subscriptions, if executed in future contracts, will require payments of utility bills out of operating budgets, as is now the case. The Council can project, but not know with certainty at this time, what opportunity cost it might be giving up due to lost opportunities for other types of energy generation. Current projections suggest that this arrangement will provide a positive net present value to the Council.

Known Support / Opposition

None known, but we expect conversation about the assertion of no impact on non-participants to be lively at the Public Utilities Commission.

MEMORANDUM OF UNDERSTANDING

Green Energy Partnership (GEP)

THIS MEMORANDUM OF UNDERSTANDING is made and entered into between the Metropolitan Council and Northern States Power Company, a Minnesota corporation (NSP). This Memorandum of Understanding relates to renewable electricity purchases and electrification of transportation.

WHEREAS, both Parties want to accelerate the advancement of environmental responsibility and clean renewable energy and gain the societal and economic benefits therefrom for the region, including:

- reducing greenhouse gases and “criteria” air pollutants;
- reducing dependence on fossil fuels;
- leading the nation in development and deployment of clean technologies;
- advancing economic benefits to the region, and
- delivering safe, clean and reliable electricity to provide the most advanced, secure energy grid for the future; and

WHEREAS, both Parties want to continue the successful conservation partnership between them, and expand the partnership into renewable energy and transportation electrification; and

WHEREAS, the Parties desire to continue their ongoing working relationship as it relates to this GEP and memorialize their understandings and expectations in this Memorandum of Understanding; and

WHEREAS, NSP authorized the execution of this Memorandum of Understanding on a nonbinding basis consistent with paragraph 8 below by Chris Clark, President NSP Minnesota; and.

WHEREAS, the governing body of the Council authorized the execution of this Memorandum of Understanding on a nonbinding basis consistent with paragraph 8 below at its meeting on June 13, 2018;

NOW, THEREFORE, below are the Parties intentions and expectations for the GEP.

1. **Goals and Objectives.** The Parties have common or shared goals and objectives for the GEP and each Party has its own desired outcomes for the GEP.

- (a) ***Shared Goals and Objectives.*** The Parties' mutual understandings and expectations are that:
- (i) Both parties will work towards a bold and innovative agreement that seeks to set a precedent in the clean operation of wastewater management and mass transit;
 - (ii) The GEP provides regional environmental and economic benefits;
 - (iii) The GEP provides a framework and pathway for the Council to get 100% of its electrical energy (purchased from Xcel Energy) from clean renewable energy sources by 2040 available through NSP programs. And this energy shall be additional i) to requirements in State statutes and ii) as otherwise defined by the Council;
 - (iv) This GEP also provides opportunity for NSP to help develop *electric bus* demonstration components in pilot programs and accelerate their wide implementation by the Council;
 - (v) The GEP will also help the Council move its "non-revenue" fleets to electric vehicles as much and as fast as is practicable and economically feasible;
 - (vi) The parties will meet regularly and try to help each other advance the goals and objectives of this GEP through consideration of other initiatives, such as research and joint pursuit of funding, as both deem appropriate; and
 - (vii) This GEP will not materially disadvantage non-participants (on a cost of service basis) in NSP's rate base and will support NSP's goal of providing safe, reliable, and environmentally responsible energy to all its customers.
- (b) ***Council's Goals and Objectives.*** The Council's intentions and expectations are that:
- (i) The GEP's clean renewable energy program will provide some expected net present value *savings* for its rate and taxpayers through subscription to long term tariff terms;
 - (ii) NSP's clean renewable energy program tariffs implemented as part of the GEP will also provide price certainty (for Council budgeting and reserve setting) for a growing portion of its operating costs (fuel charges within energy expenses); and
 - (iii) Support from NSP will accelerate the implementation of electrification of the Council's bus and other fleets.
- (c) ***NSP's Goals and Objectives.*** NSP's intentions and expectations are that:

- (i) The GEP will be a collaboration with the Council to develop innovative approaches and enhanced outcomes for clean renewable energy and electric transportation;
 - (ii) The GEP will expand opportunities for developing and testing pilot programs and innovative program concepts for all customers; and
 - (iii) The GEP will leverage additional channels to broaden customer outreach.
2. **Undertakings.** To achieve the goals and objectives stated above, the Parties will proceed with the following understandings and expectations:
- (a) At a minimum, ***the Council will:***
 - (i) Compute the expected financial results, review the additionality of the proposed resources and tariff cancellation terms and in good faith subscribe where its requirements are met and the other principles of this partnership are satisfied;
 - (ii) Prioritize looking for acceptable ways to accelerate the advancement of the electrification of its bus fleets, including contracted bus services and also its Non-Revenue fleets; and
 - (iii) Work together to define how to measure 100% for this GEP clean renewable energy goal - given that the Council's electrical usage is constantly changing (conservation reducing the load and new service growing it)
 - (iv) The Parties' work on electric buses and bus charging infrastructure will provide a scalable model for public transit electrification that provides economic and environmental benefits for all customers.
 - (b) At a minimum, ***NSP will:***
 - (i) Make best efforts to file in summer 2018 a renewable energy subscription offer for high load factor customers;
 - (ii) Seek Public Utility Commission approvals as needed for a clean renewable energy subscription offer;
 - (iii) Develop an initial resource acquisition strategy in 2018 for the energy generation required for the clean renewable energy subscription offering;
 - (iv) Evaluate the requirements and scope for additional clean renewable energy resource acquisition and subscriptions necessary to match Council's loads not already subscribed to a clean renewable energy offering; and

- (v) Make best efforts to propose one or more pilot programs to advance the electrification of transit in 2018.

- 3. **Actions Going Forward.** The Parties intend to work together, meeting at least quarterly, to accomplish the goals and objectives of each party.

Additionally, the Parties anticipate there will be additional opportunities to pursue which will further the goals of the GEP.

- 4. **Termination of Memorandum of Understanding.** Any Party may terminate this Memorandum of Understanding for any reason and at their convenience with 60 days written notice to the other Party. Upon termination, no Party will have any further responsibilities under this Memorandum of Understanding.

- 5. **Notices.** Any notice from a Party to the other Party will be deemed to have been given and received when mailed United States Mail to the other party at the following addresses or at such other addresses as the Parties may designate in writing to each other:

Xcel Energy
Attn: RVP, Rates and Regulatory Affairs
414 Nicollet Mall, 401-7
Minneapolis, MN 55401

Metropolitan Council
Attn: Regional Administrator
390 Robert Street North
St. Paul, MN 55101

- 6. **Final Decision-making Authority.** The Parties acknowledge and agree that any final decisions may require approvals by the Parties' respective governing bodies.
- 7. **No Liability.** No Party is liable for the acts or omissions of the other Party and no Party waives any immunities or liability limitations conferred on it by state or federal law.
- 8. **Non-Binding.** The Parties agree this Memorandum of Understanding does not create any binding obligations on the Parties. Nothing in this Memorandum of Understanding creates any legal entity of a partnership, joint venture or agency relationship between or among the Parties. Further, NSP is regulated by the Minnesota Public Utilities Commission (MPUC) and actions or programs proposed by NSP pursuant to the GEP may require MPUC approval before they can be implemented.

IN WITNESS WHEREOF, the Parties have caused this Memorandum of Understanding to be executed by their authorized representatives. This Memorandum of Understanding is effective on the date when it has been signed by all of the Parties' authorized representatives.

METROPOLITAN COUNCIL

By _____
Its: Regional Administrator

Date _____

**Northern States Power Company,
a Minnesota corporation
("Xcel Energy")**

By _____
Its: President, NSP Minnesota

Date _____