2019 State Position Statements

Minnesota Municipal Utilities Association
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About MMUA:
The Minnesota Municipal Utilities Association is a non-profit entity representing 124 electric, 170 water, and 33 gas utilities owned and operated by cities across the State. MMUA strives to be a recognized leader in advocacy, bringing value to municipal utilities and enhancing their position within the industry. MMUA’s mission is to support and serve as a common voice for municipal utilities. Its core values: People, Safety, Advocacy, Teamwork, Communication, Creativity, Dedication, Integrity, and Environment. For more about MMUA, its mission and values, visit us online at www.mmua.org

Municipal utility services and contributions to the community help keep our cities good places to live.
Sustainable CIP Improvements for Consumer-Owned Utilities

Background
Consumer-Owned Utilities (COUs) are those that are either owned and operated by a municipality (city) or a Rural Electric Cooperative. COUs participate in Minnesota’s Conservation Improvement Program (CIP). COUS believe CIP has achieved significant success toward reducing Minnesotans’ energy spending, catalyzing sustainable and renewable energy production in the state, minimizing new electric generation construction, and reducing greenhouse gas emissions, including carbon dioxide. From the cooperative and municipal utilities’ point of view, it has helped our members and citizens use electricity more wisely and has facilitated the successful widespread adoption of new efficient technologies. It is, however, time to update the CIP program so that it continues to be a successful and beneficial operation.

Current Status
CIP in its current form has reached maturity. CIP needs to be modernized in order to encompass new technologies, meet the evolving views of society regarding expanded but efficient electrification, and to take a broader view on overall energy efficiencies, conservation, and carbon reduction.

Many of the things CIP currently incentivizes have now been deployed to a point of saturation and thus diminishing returns on the investment. LED lighting is increasingly not only the preferred option, but the only option. People who can afford to buy new appliances find that most are energy efficient and the existence of a rebate has little effect on what they purchase. Meanwhile, for a low income family that can’t afford the new appliance, a rebate is not that helpful. In fact, utilities are beginning to report that in order to meet their CIP goals, including current minimum expenditure requirements, low-income customers are actually subsidizing others. Further, the current CIP can have the adverse effect of discouraging efficient electrification, including expanded use of electric vehicles, because it rewards reduced use of electricity regardless of the benefits of expanding production to meet the needs of efficient electrification. CIP in its current form is unsustainable and increasingly ineffective.

Principles for a new approach
Municipal utilities have been working closely with the electric cooperatives, and consulting with a number of non-governmental organizations (NGOs), to develop a modernized CIP that recognizes the good points of the current program while updating it to meet current demands and expectations. Early in the process, the COUs adopted the following

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principles to guide the process for developing an updated CIP that:

• Reflects that consumer-owned utilities have a valuable role to play in Minnesota energy policy

• Expands focus beyond just conservation and reduced KWh, and recognizes multiple purposes and benefits, including but not limited to: end use carbon emissions reduction, customer cost savings, utility efficiency, energy efficiencies, and economic growth

• Recognizes efforts that advance any of Minnesota’s energy policy priorities, including utility innovation, distributed generation support, consumer education, Minnesota energy sustainability and resiliency

• Establishes safety and reliability as bedrock concerns

• Uses reasonable, credible metrics for illustrating success

• Allows multi-year plans with averaging of savings towards overall goals

• Ensures the needs of low-income consumers are effectively addressed while placing an increased focus on multi-family residential buildings

• Simplifies administration

• Remains flexible and sustainable for the long-term.

Requested Action
MMUA continues to work closely with the Minnesota Rural Electric Association and their member cooperatives, and NGOs, to develop a sustainable CIP reform effort. MMUA seeks support for passage of CIP reform that reflects the objectives identified above in a viable and cost-effective manner for consumer-owned utilities. Specifically, MMUA requests support for a CIP bill that:

• Retains the current 1.5 percent savings goal

• Recognizes, and perhaps incentivizes, efficient electrification (including electric vehicles), using a kWh equivalent matrix

• Allows COUs to count efficient electrification and other new approaches for credit towards one-half their CIP goal

• Establishes a separate CIP for COUs and IOUs

• Repeal current minimum expenditure requirement

• Allows COUs to develop CIP plans that would cover up to a five-year period during which the utility could average a 1.5 percent savings even if in some years the savings were less than 1.5 percent

• Requires CIP plans, and annual updates as applicable, to be filed with the Department of Commerce but does not impose any authority to the Commissioner to approve, deny, or take any similar action regarding an utility’s plan

• Eliminates any differential treatment under CIP of utilities with over 45,000 customers

• Clarifies that the 1.5 percent savings goal applies against fossil-based fuels

• Modifies the three current Department of Commerce imposed assessments utilities currently pay under CIP to more proportionately reflect the benefits to their customers from a utility’s assessed contribution.

MMUA is working with advocates on behalf of low-income residents in hopes of being able to enhance the benefit of the current CIP requirement to have a low-income program as part of any plan. MMUA is not seeking nor supporting any changes to the size of utilities subject to CIP, nor the option of certain large consumers to opt out of CIP.
Study Impacts Before Changing Renewable Energy Standard

Background
Minnesota’s Renewable Energy Standard (RES) requires that by 2025, 25 percent of wholesale power sold to municipal and cooperative utilities for their customers must come from renewable energy sources such as wind and solar. The same standard applies to Minnesota Power and Ottertail Power. For Xcel Energy, the standard is 30 percent by 2020. Some renewable energy advocates propose increasing the standard so that all utilities would have to meet an RES of 50 percent by 2030. While municipal utilities and their power agencies support renewable energy, experience implementing the current RES dictates that further study is necessary before stepping up the Standard any further.

Current Status
All indicators appear to show that the current RES will be satisfied.

Increasing the RES to 50 percent by 2030 would require utilities other than Xcel to double their use of renewables in only five years from the current deadline, and Xcel to increase 67 percent in 10 years.

Market factors, including the expectations of customers, are moving utilities towards using more renewable energy.

The State has not sought to determine the feasibility, costs and other possible adverse impacts of trying to achieve a 50 percent threshold by 2030. The cost of renewable energy increased immediately following enactment of the current RES mandate. Similar cost increases could occur with an RES increase.

Requested Action
MMUA recommends that if the Legislature intends to increase the Renewable Energy Standard, it should first ensure that a comprehensive study is conducted as to the feasibility, costs and other possible impacts of doing so. Such a study should be designed with extensive input from the utility industry and Midcontinent Independent System Operator (MISO) to determine required changes to transmission networks, including costs, the time required and, who could build it. The State should also study likely changes that would be caused by an increased mandate in how industry participants would be affected and whether those effects fit with the full range of relevant Minnesota policies.
Position Statement

Funding for Border to Border Broadband

Background
Efforts to spur the placing of necessary infrastructure to ensure access to high-speed internet service in all parts of the State has been a long-term, underfunded effort for several years, dependent on small amounts of State funding to provide matching grants to telecommunication providers willing to invest in providing high-speed broad-band service to unserved and underserved communities across the State. It is time to provide on-going and reliable funding for the Border-to-Border Broadband program.

Current Status
The House and Senate majority has made long-term and sufficient funding for border-to-border broadband one of their respective top 10 missions for the 2019 legislative session.

For the past several years the Legislature has provided limited bond funds for matching grants to local governments and joint power entities to help offset the cost of building a border-to-border broadband system.

The number and total value of requests has far exceeded the limited resources provided by the State.

Border-to-Border broadband is essential for the economic viability of many rural communities.

Requested Action
MMUA supports and recommends the adoption of HF 7, which would create a permanent source of funding by including border-to-border broadband as an ongoing budget item under DEED’s biennial budget. Additional revenues should also be made available to enable immediate efforts that have languished in recent years due to the underfunding of this essential program.

Engineer working on Optical Consolidation Rack equipment that brings together thousands of fibre optic cables and helps connect them up to a main arterial network.
Bonding for Public Facilities Authority

**Background**
The 2018 Legislature authorized $59 million in appropriation bonds to fund PFA grants to local water treatment facilities. Unlike General Obligation Grants, which are backed by the full taxing and financial resources of the issuing authority, appropriation grants must specify the source of revenue to be used to repay the bonds. The 2018 Legislature designated constitutionally dedicated sales tax revenue to finance the bonds. Several environmental groups united in filing a lawsuit challenging the constitutionality of using the designated funds for paying back the bonds. This means that bond counsel cannot issue a clean opinion on the issuance of the bonds which effectively blocks the issuance of the bonds and thus denies the PFA the revenue to issue the grants that municipal utilities and others were counting on to finance important upgrades to their water utilities.

**Current Status**
Because of the lawsuit, State bond counsel cannot issue a clean opinion on the valid purpose of the appropriation bonds, and thus the State cannot issue the bonds and provide the PFA with the needed funds in order to finance and issue the grants to waiting local entities.

At least three municipal utilities have major water upgrades that cannot be completed without the PFA grants.

Estimates show that the PFA needs additional funding beyond the $59 million of currently lost bond funds in order to truly assist local governments.

The November 2018 State Budget forecast indicates the State will start the 2019 legislative session with a $1.5 billion surplus.

**Requested Action**
MMUA encourages the State Legislature to act quickly to either use cash from the surplus to cover the amount of the 2018 appropriation bonds for the PFA, or to take necessary action to replace the 2018 appropriation bonds with general obligation bonds. In addition, additional funding should be provided to ensure full funding of the PFA's estimated need for the grants it oversees.

PFA financing is a critical component of many municipal water projects in Minnesota.
Local Government Salary Cap Relief Needed

Background
Minnesota Statutes Section 43A.17 imposes a salary cap on the total wages and compensation most units of local government can pay their employees. Municipal utilities are subject to this restriction and are beginning to encounter challenges in recruiting and retaining high-level employees, particularly in upper management positions, due to competition from electric cooperatives and investor-owned utilities whose employees are not subject to statutorily imposed compensation limits.

Current Status
The cap is currently set at 110 percent of the Governor’s salary, and is adjusted annually based on the Consumer Price Index (CPI).

For 2019, the cap is $175,621 based on a 2.5 percent increase to the CPI.

A waiver request can be made to the Department of Management and Budget, but the process takes time, offers no certainty, and increases costs for both the State and local governments.

The salary cap fails to take into account that municipal utilities are responsible directly to their customers, most of whom are the residents of their communities, and are not directly supported by tax dollars.

Municipal electric, gas, and water utilities are complex businesses, requiring special skills to manage, and thus there is a limited number of qualified persons to lead them.

Highly valued employees sometimes leave for higher paying positions with utilities whose employees are not subject to compensation limits.

Artificially suppressing a top salary results in ‘wage compression,’ and lower wages for other workers. This can result in other qualified municipal utility employees leaving for other opportunities, and making it, in turn, difficult to attract qualified employees to fill that position when higher salaries can be offered by entities not subject to the compensation limit.

Requested Action
MMUA calls for the repeal of Minnesota Statutes (2018) Section 43A.17 as it applies to local governments, and in particular, municipal utilities.
Pay Equity Relief Needed

Background
Minnesota Statutes and Rules require cities to ensure that women in a female-dominated job requiring essentially the same level of training, skills, and expertise as a male-dominated position, receive equitable compensation to the men’s salaries. While not questioning the appropriateness of pay equity, from time to time situations arise where strict compliance with the law results in pay suppression that makes it very difficult to recruit and retain employees in a position which is male-dominated.

Current Status
Each city is required to adopt a job evaluation system that assigns points to each position based on things like the need for specialized training, skill sets, etc. A city may use the State's system, purchase one from an outside source, or develop its own so long as the system complies with State requirements.

“Electric Utility Line-worker” is a highly skilled position requiring significant technical training to become an apprentice line-worker, and four-years’ experience and additional training to become a journeyman. Line-workers work in extremely hazardous settings, and often in very challenging weather conditions.

Despite the unique training requirements necessary to be a line-worker, and the hazardous work environment and conditions, when applying point values assigned to line-worker positions within a municipal utility, it is not uncommon for the position to be scored equally with clerical and administrative positions.

For most, if not all, municipal utilities, line-workers are a male-dominated class of employees.

If the true “market-rate” salaries for a line-worker were to be analyzed, a municipal utility’s line-workers’ salaries would need to be compared to those paid by near-by electric cooperatives and investor-owned utilities, and not other municipal line-workers across the state.

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State guidance on rating systems used to determine if a male-dominated class of employees is paid a disproportionally higher salary than a similarly scored female-dominated class, states that “...surveying the “market” ...” should not be used. (*Pay Equity: The Minnesota Experience, 6th edition.*) When taken in context and historical application, the “should” effectively becomes a “shall.”

Because the “market” cannot be used to justify disproportionately different salaries between a male-dominated position and a comparably scored female-dominated position, publicly-owned utilities frequently feel compelled to pay lower salaries than those offered by near-by electric cooperatives and investor-owned utilities because the city cannot afford to pay all similarly scored positions at the “market-rate” line-worker salary.

A municipal utility unable to offer “market-rate” salaries often finds it is very difficult to attract and retain qualified line-workers, with some municipal utilities reporting jobs remaining open for months with no applicants.

Municipalities invest thousands of dollars training and developing a skilled line-worker, yet often lose that person to a nearby cooperative or investor-owned utility whose salaries are higher than the municipality can offer while remaining in compliance with pay equity requirements.

While pay equity guides imply that recruitment and retention problems can be considered when looking at pay-equity compliance issues, it is not clear as to exactly when and how a municipality may seek and be granted relief from strict pay equity compliance, nor is it clear as to the scope of relief that may be granted.

**Requested Action**

MMUA seeks administrative, and if necessary, legislative relief from strict pay-equity compliance so that a municipal electric utility may offer “market-rate” salaries in order to successfully recruit and retain properly skilled line-workers.
Preserve the Regulatory Compact

Background
Many of the 124 municipal electric utilities operating today were established through their city charters well before the state gave cities formal statutory authority to provide electric service beginning in 1901.

In 1974 the Legislature authorized the establishment of electric utility service areas.

In the 1990s, many states, including Minnesota, debated whether to allow unregulated companies to sell electricity to end-use customers. This is known in the industry as deregulation or “providing retail choice.” Sixteen states, excluding Minnesota, followed the deregulation route. The average price per kilowatt-hour in deregulated states has consistently been above the national average.

In 2001, the Legislature established new fundamental service standards and customer protections for all utilities in the state, to ensure that all Minnesotans could rely on their provider’s service and to ensure reasonable rates. There are no provisions applicable to a non-utility provider.

Despite the fact that Minnesota consciously rebuffed the deregulation threat of the ‘90s, bills continue to be introduced and heard in committees for such ideas as having the state allow unregulated third-party electricity sales from generators directly to the customer. Some proposals have required municipal utilities to “wheel” energy from third parties across municipal power lines to retail customers in violation of the utility’s exclusive service area rights. Third party sales could also occur by selling electricity from solar panels or other generating equipment sited on a consumer’s own property to retail customers, while maintaining ownership of those panels or equipment. Providing reliable municipal utility services comes with certain unavoidable expenses such as electric generation, power lines, poles, substations, water treatment equipment and chemicals, pipes, etc. Unregulated sales would pass more of these costs onto a utility’s remaining customers through higher rates. In addition, consumers would be buying from companies not subject to the safety regulations discussed above.

**MMUA Position**
A regulatory model that ensures all customers pay an equitable rate for access to and use of municipal utility services should be maintained. Persistent pressure from non-regulated third-party business interests, such as has been seen in the solar community, threatens to undermine a municipal utility’s finances. Privatizing municipal utilities is not the answer and would likely create more expenses. The Legislature should support and maintain the current regulatory compact, and recognize the value of the dependable services provided by municipal utilities. The legislature should reject giving third-party providers any advantage over municipal utilities, as well as any other effort to weaken the regulatory compact.

![Average Revenue per Kilowatt-hour: Deregulated vs. Regulated States](source: Energy Information Administration, Forms EIA-861 and EIA-826. Information courtesy of American Public Power Association.)