BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation Pursuant to Minn. Stat. § 216B.241, Subd. 2c

ISSUE DATE: December 9, 2020

DOCKET NO. E,G-999/CI-08-133

ORDER APPROVING 2021–2023 PARAMETERS FOR SHARED SAVINGS DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE

PROCEDURAL HISTORY

Under Minn. Stat. § 216B.16, subd. 6c, the Commission has established an incentive plan to encourage utilities to promote energy conservation. This plan is designed to reduce the financial losses that a utility incurs when conservation programs succeed and thus reduce the amount of energy the utility sells.

On March 3, 2020, the Minnesota Department of Commerce, Division of Energy Resources (the Department) filed a proposal to modify the Demand-Side Management (DSM) Financial Incentive Mechanism for the 2021–2023 triennium.

On March 17, 2020, the Commission issued a notice seeking public comment on whether the Commission should approve the Department's proposal.

On May 18, 2020, the Commission received comments from the following parties:

- Xcel Energy (Xcel)
- Minnesota Power
- CenterPoint Energy (CenterPoint)
- Otter Tail Power (Otter Tail)
- Minnesota Energy Resources Corporation (MERC)
- Fresh Energy, National Housing Trust, and Natural Resources Defense Council (jointly, Fresh Energy, et al.)
- American Council for an Energy-Efficient Economy (ACEEE)

- Center for Energy and the Environment and Energy CENTS Coalition (jointly, CEE, et al.)
- Office of the Attorney General—Residential Utilities Division (OAG)

On June 11, 2020, the Commission received reply comments from the following parties:

- Xcel
- Minnesota Power
- CenterPoint
- MERC
- Otter Tail
- CEE, et al.
- Fresh Energy, et al.
- OAG
- The Department

On October 22, 2020, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Background

Energy conservation, a form of DSM, provides a valuable resource to utilities. Conservation can help a utility reduce its fuel-related costs, and potentially avoid or defer investments in generation, transmission, and distribution facilities.

The Legislature directs each electric and natural gas public utility to implement an energy conservation improvement program (CIP).[1] Consistent with statute and implementing regulations, utilities file biennial or triennial CIP plans.[2] The Department then sets each utility's energy-savings goals[3] and approves its conservation programs,[4] while the Commission determines, under its ratemaking authority, if and how a utility may recover its CIP-related costs.[5]

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[1] Minn. Stat. § 216B.241.

[2] Minn. R. 7690.0500, subp. 1 (providing for biennial CIP filings); *but see*, for example, *In the Matter of Xcel Energy's Conservation Improvement Program Notice of Intent to File Triennial Plan and Variance Request*, Docket No. E,G-002/CIP-06-80, Order (March 21, 2006) (granting a variance to permit triennial CIP filings).

[3] Minn. Stat. § 216B.241, subd. 1c.

[4] *Id.*, subd. 2.

[5] *Id.*, subd. 2b.

While allowing CIP cost-recovery may reduce a utility's disincentive to depress energy sales via conservation, they do not affirmatively encourage the practice of promoting conservation. To that end, the Legislature authorized the Commission to approve a system of financial incentives to promote conservation, under Minn. Stat. § 216B.16, subdivision 6c. The statute requires the Commission to consider various factors in approving incentive plans, including:

> (1) whether the plan is likely to increase utility investment in cost-effective energy conservation;
>
> (2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;
>
> (3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and
>
> (4) whether the plan is in conflict with other provisions of chapter 216.

The Commission first implemented its Shared Savings DSM Financial Incentive Plan in 2000.[6] The incentive formula has changed over time, but currently, the formula includes thresholds, incremental incentives, and caps. Thresholds require that utilities achieve a specified minimum level of savings before receiving incentive payments; above the threshold, utilities receive incremental incentives for each additional amount of energy saved. The incentive is capped in two ways—first, the incentive is capped at a certain percentage of the utility's investment in CIP projects (referred to as the CIP Expenditures Cap), and second, the incentive is capped at a certain percentage of net benefits generated (referred to as the Net Benefits Cap).

II. The Department's Proposal

On July 1, 2019, the Department submitted a report on the impacts of the Shared Savings DSM Financial Incentive from 2010 to 2018. Based on the report, the Department worked with regulated utilities to analyze potential changes to the incentive program for the 2021–2023 triennium.

On March 3, 2020, the Department filed a proposal, recommending that the Commission approve a 2021–2023 Shared Savings DSM Financial Incentive mechanism with the following parameters:

- Electric utilities' incentive starts at energy savings of 1% of retail sales; 10% of net benefits is awarded at energy savings of 1.7% of retail sales and above.
- Gas utilities' incentive starts at energy savings of 0.7% of retail sales; 10% of net benefits is awarded at energy savings of 1.2% of retail sales and above.
- Net Benefits Cap remains at 10%.
- CIP Expenditures Cap remains at 30%.
- Utilities use their specific CIP Utility Discount Rate approved in Docket Nos. E999/CIP-18-783 (electric utilities) and G999/CIP-18-782 (gas utilities) for calculating net benefits for the Shared Savings incentive.

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[6] *In the Matter of Requests to Continue Demand-Side Management Financial Incentives Beyond 1998,* Docket No. E, G-999/CI-98-1759, Order Approving Demand-Side Management Financial Incentive Plans (April 7, 2000).

The Department opposed an exemption to the CIP Expenditures Cap, noting that Minnesota already has the highest Expenditures Cap in the country. However, the Department stated that if the Commission wanted to allow flexibility, the Department alternatively recommended that utilities could be allowed to exceed the 30% CIP Expenditures Cap, up to a maximum of 35%, if gas utilities meet or exceed energy savings equaling 1.2% of retail sales and if electric utilities meet or exceed energy savings equaling 2% of retail sales.

III. Party Comments

A. Utilities

Several utilities commented on the Department's proposal; the Commission received comments from Xcel, Minnesota Power, CenterPoint, MERC, and Otter Tail. Overall, the utilities supported the Department's proposal, and made additional recommendations as described below.

Xcel recommended that the Commission consider an incentive for utilities that achieve permanent peak reductions through DSM programs, noting that peak reduction makes the grid more cost-effective for all customers. Xcel proposed a stakeholder process to discuss this recommendation and other incentive mechanisms for the 2024–2026 triennium.

Minnesota Power and Otter Tail recommended that the Commission adopt the Department's alternative recommendation to allow utilities to exceed the 30% Expenditures Cap, up to a maximum of 35%, if utilities meet certain higher energy savings thresholds. Parties argued that incentives have already been reduced in recent years, and flexibility in the CIP Expenditures Cap was important to ensure that utilities continue to achieve significant conservation improvements.

B. Fresh Energy, et al.

Fresh Energy, et al. supported the Department's proposal, and proposed including an additional incentive tied to performance of low-income energy efficiency programs. The organizations suggested an incentive capped at 20% of a utility's low-income program spend, for utilities that exceed minimum statutory spending requirements for low-income programs by 50%, exceed certain low-income energy savings thresholds, and spend at least 80% of their low-income budget on non-direct install measures. Fresh Energy, et al. proposed that the maximum incentive would be reached after a utility spends four times the required amount on low-income programs.

Fresh Energy, et al. recommended that this proposal be adopted for the 2021–2023 triennium and argued that it was unnecessary to wait until the next triennium to implement these needed incentives.

Generally, parties supported further discussion and consideration of Fresh Energy, et al.'s proposal, but noted that additional clarification and refinement would be needed before the proposal could be implemented.

C. CEE, et al.

CEE, et al. recommended that the Commission approve the Department's proposal, including the alternative CIP Expenditures Cap. They also recommended a stakeholder process to explore and analyze other potential financial incentive structures ahead of the 2024–2026 triennium.

D. ACEEE

ACEEE supported the Department's proposal but recommended reducing the CIP Expenditures Cap to 20%, with a possible increase to 25% if utilities met ambitious savings targets.

E. OAG

The OAG recommended reducing annual incentives by implementing a 20% CIP Expenditures Cap and 8% Net Benefits Cap. The OAG agreed that energy conservation is an important goal, but argued that it could be achieved at a lower cost to ratepayers, noting that Minnesota's conservation incentives are very high compared to other states.

The utilities and CEE, et al. disagreed with the OAG and stated that conservation incentives are an important driver in motivating higher CIP achievement; some parties argued that the OAG was simply speculating that utilities would continue to achieve high levels of energy efficiency if financial incentives significantly decreased.

Overall, parties other than the OAG argued that higher caps were appropriate.

IV. Commission Action

Having reviewed the comments and recommendations of all parties, the Commission will approve the Department's proposal for the 2021–2023 triennium with a modification as discussed below. Although Minnesota's conservation incentives are relatively high compared to similar programs in other states, energy efficiency is still a low-cost resource compared to other types of generation, transmission, and distribution investments. The Commission believes that the Department's proposal establishes an appropriate level of conservation incentives that will incentivize utilities to invest in energy efficiency while also representing a good value for ratepayers.

The Commission will also approve the Department's alternative recommendation for an exemption to the CIP Expenditures Cap for utilities that achieve particularly high levels of energy savings. This exemption incentivizes utilities to undertake innovative energy efficiency solutions, ultimately benefiting both ratepayers and the environment.

The Commission appreciates Fresh Energy, et al.'s proposal for an incentive tied to performance of low-income energy efficiency programs and will request that the Department continue a stakeholder process to evaluate this and other similar proposals. Although parties largely supported Fresh Energy, et al.'s ideas, there were some remaining questions that will need to be discussed by stakeholders before a low-income incentive can be implemented.

The Commission anticipates that this stakeholder process will result in a well-developed proposal for a low-income energy efficiency incentive that could be implemented beginning in 2022. Although there are a number of questions that stakeholders will need to discuss, this timeline is intended to ensure that issues are resolved expeditiously.

Finally, the Commission will also request that the Department continue a stakeholder process on a number of other issues, listed in ordering paragraph 4, for potential inclusion in the incentive mechanism in the next triennium. As technology evolves, it is important to evaluate what other types of incentives may be necessary and appropriate to ensure that utilities continue to achieve high levels of energy savings.

ORDER

1. The Department's recommendations for the 2021–2023 triennium, as stated on pages 31 and 32 and Attachment A of its proposal filed on March 3, 2020, are approved, subject to the following modification.

2. Gas utilities may exceed the 30% CIP Expenditures Cap, up to a maximum of 35%, if they meet or exceed energy savings equaling 1.2% of retail sales; electric utilities may exceed the 30% CIP Expenditures Cap, up to a maximum of 35%, if they meet or exceed energy savings equaling 2% of retail sales.

3. The Commission requests that the Department continue a stakeholder process, under the current docket, to evaluate the development of a low-income shared-savings mechanism (such as proposed by Fresh Energy, et al.) to be adopted, potentially, by the end of 2021, to be used going forward starting January 1, 2022.

4. The Commission requests that the Department continue a stakeholder process, under the current docket, to evaluate ways of improving the shared-savings mechanisms for potential adoption in the 2024–2026 triennium including, but not limited to, discussion of:

    a. incorporation of lifetime energy savings into the incentive mechanism,

    b. incorporation of an incentive for utilities that achieve permanent peak reductions through the shared-savings incentive mechanism,

    c. comparison of alternative mechanisms, along with the approved 2021-2023 CIP financial incentive mechanism, to each other and to how a similar-sized (in terms of cost) supply-side investment would be rewarded financially through the cost-of-service model, and

    d. energy efficiency opportunities to support increased load flexibility (the ability to persistently shape and shift load).

5. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Will Seuffert
Executive Secretary

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CERTIFICATE OF SERVICE

I, Nancy Jia, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

Minnesota Public Utilities Commission
ORDER APPROVING 2021–2023 PARAMETERS FOR SHARED SAVINGS DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE

Docket Number

E,G-999/CI-08-133

Dated this **9th** day of **December**, **2020**

/s/ Nancy Jia

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