MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	**March 12, 2026**		**Agenda Item 4****
Company	All Electric and Gas Utilities		
Docket No.	**E,G999/CI-08-133**		
	In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation		
Issues	Should the Commission approve, modify, or deny the proposed modifications to the existing Shared Savings Demand-Side Management (DSM) Financial Incentive Mechanism for implementation beginning in 2027, as proposed by the Department, Center for Energy and Environment, and Fresh Energy?		
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✓ **Relevant Documents**	**Date**
Docket No E,G999/CI-08-133	
Initial Proposal	
Department of Commerce, Division of Energy Resources (DOC DER), Center for Energy and Environment (CEE), and Fresh Energy, Financial Incentive Mechanism Proposal	June 26, 2025

✓ **Relevant Documents**	**Date**
Initial Comments	
CenterPoint Energy, Initial Comments	August 13, 2025
Minnesota Power, Initial Comments	August 13, 2025
Minnesota Energy Resources Corporation, Initial Comments	August 13, 2025
Otter Tail Power Company, Initial Comments	August 13, 2025
Xcel Energy, Initial Comments	August 13, 2025
Reply Comments	
DOC DER, CEE, and Fresh Energy, Joint Reply Comments and Revised Proposal	September 15, 2025
CenterPoint Energy, Reply Comments	September 15, 2025
Minnesota Energy Resources Corporation, Reply Comments	September 15, 2025
Otter Tail Power Company, Reply Comments	September 15, 2025
Xcel Energy, Reply Comments	September 15, 2025
Great Plains Natural Gas, Reply Comments	October 10, 2025
Late-Filed Modified Proposals	
DOC DER, CEE, and Fresh Energy, Proposed Modifications	January 23, 2026
Center Point Energy, Supplemental Comments	January 28, 2026
RELATED DOCKET	
Docket No. E,G999/CIP-18-694	
2026 TRM Decision	
DOC DER, Decision	January 9, 2026
DOC DER, MN Technical Reference Manual (TRM) 5.0 Final	January 9, 2026

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ACRONYMS

AFUE	Annual Fuel Utilization Efficiency
BCA	Benefit-Cost Analysis
CIP	Conservation Improvement Program
ECO	Energy Conservation and Optimization
EE	Energy Efficiency
EFS	Efficient Fuel-Switching
DOC	Department of Commerce
DSM	Demand Side Management
Dth	Dekatherm
GOR	Gross Operating Revenues
HVAC	Heating, Ventilation and Air Conditioning
IOU	Investor-Owned Utility
IRP	Integrated Resource Plan
kWh	Kilowatt Hour
MW	Megawatt Hour
RIM	Rate Impact Measure
TRM	Technical Reference Manual

BACKGROUND

I. Executive Summary

At its March 12, 2026 Agenda Meeting, the Commission will consider whether to approve modifications to the Shared Savings Demand-Side Management (DSM) Financial Incentive Mechanism for the 2027-2029 Triennial period, proposed jointly by the Department of Commerce, Division of Energy Resources' (Department or DOC DER), Center for Energy and Environment (CEE), and Fresh Energy on June 26, 2025 (Joint Proposal). The questions before the Commission include:

- Should the Commission approve the proposed multi-factor Shared Savings DSM Financial Incentive Mechanism?
- Should modifications to the financial incentive take effect for utilities' 2027-2029 Energy Conservation and Optimization (ECO) Triennial Plans?
- Are the proposed modifications consistent with the public interest and state policy goals for energy equity, conservation, and greenhouse gas reduction?

The purpose of the Shared Savings DSM Financial Incentive Mechanism (also called the ECO Financial Incentive Mechanism) is to motivate Minnesota's investor-owned utilities (IOUs) to maximize cost-effective energy savings by providing the utilities with a portion of the net benefits generated when their customers undertake ECO projects.

The current ECO Incentive Mechanism, which applies for years 2024 through 2026, was approved in the Commission's January 25, 2024 *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan* in this docket (2024 Order).

On June 26, 2025, the Department, CEE, and Fresh Energy (collectively, Joint Commenters) filed a proposal for modifications to ECO Incentive Mechanism, to take effect for utilities' 2027–2029 ECO Triennials.

The Joint Commenters' proposal requests the Commission approve a multi-factor ECO Incentive Mechanism for electric and gas utilities, which would add four new metrics into the determination of a utility's incentive:

1. Low-income spending (for both gas and electric utilities)
2. Savings from insulation and air sealing (for gas utilities)
3. Savings from permanently avoided demand, which is the demand savings resulting from long-term conservation measures such as appliance efficiency upgrades or weatherization. Historically, the incentive has rewarded only energy savings from these measures. (for electric utilities)
4. Net benefits from efficient fuel-switching (EFS) (for electric utilities)

These new metrics would be in addition to continuing to use first-year energy savings and the cost-effectiveness of ECO programs to calculate financial incentives.

There is strong support in the record for transitioning to a multi-factor incentive methodology using the new metrics Joint Commenters have proposed. However, the manner in which these metrics are rewarded through the DSM Financial Incentive Mechanism is contested. The decisions before the Commission are largely policy decisions, including:

1. Should new metrics be added to the incentive calculation to explicitly incent utility performance in these areas?
2. If adding new metrics, should utilities have a reasonable opportunity to earn an incentive *comparable* to recent historical incentives, or *higher* than recent historical incentives?
3. How ambitious should the performance criteria for each metric be, and how much should utilities be rewarded for different levels of performance?
4. How much flexibility should utilities have to prioritize among the various metrics to achieve a desired incentive level?

In these briefing papers, the issues before the Commission are organized into five main categories: 1) issues that impact the overall incentive methodology and would therefore impact all relevant utilities, 2) issues specific to the proposed natural gas utility incentive, 3) issues specific to the proposed electric utility incentive, 4) issues specific to the proposed electric EFS incentive, and 5) other minimally-contested methodology recommendations.

II. History of the DSM Financial Incentive Mechanism and ECO Act

The Commission first implemented a Shared Savings DSM Financial Incentive Plan in 2000[1] to encourage utilities to promote energy conservation pursuant to Minn. Stat. § 216B.16, subd. 6c. The financial incentive is intended to reward utilities for successful implementation of conservation programs that provide net benefits to customers and the state, countering utilities' disincentive to implement programs that may lower energy sales.

Utilities develop and propose portfolios of ECO programs every three years through Triennial Plans filed with the Department. The Department typically develops a proposal for the ECO Shared Savings DSM incentive ahead of each Triennial and submits it for approval by the Commission.

The process for development and approval of the DSM Financial Incentive reflects the split in jurisdiction over ECO programs between the Department and the Commission. Broadly, the Department has regulatory authority over ECO implementation, approving planned and actual spending and savings on energy conservation,[2] while the Commission has authority over cost

[1] 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).

[2] Minn. Stat. § 216B.241, subd. 1c(a)

recovery[3] and the ECO financial incentive.[4]

The Commission has approved DSM incentive formulas for each three-year Triennial Plan since 2010 through Docket No. E,G-999/CI-08-133, and considers recovery of each utility's annual financial incentive through the respective ECO tracker account proceedings.

In this docket in 2023, the Department evaluated trends in the financial incentives and energy savings achievements by Minnesota IOUs, evaluated the relationship between incentive size and energy savings, and compared Minnesota's incentives to those of other states. The Department found:

- From 2006 to 2012, overall incentives to IOUs increased before declining from 2012 through 2022. However, energy savings increased at a relatively steady rate over the entire period, despite incentives declining by roughly half.
- There is a positive correlation between incentives and energy savings for both gas and electric utilities, meaning that higher incentives were associated with higher energy savings achievements, although the Department warned against interpreting this relationship as *causal* (in other words, a lower incentive may not necessarily reduce energy savings).[5]
- At the time of the analysis, Minnesota's utility incentives per unit of energy saved were on the high end of similarly-performing states, though other parties contested how comparable these figures were given the large range in energy prices and total program costs across states.[6]

A. Energy Conservation and Optimization Act

In 2021, the Minnesota Legislature passed the Energy Conservation and Optimization Act (ECO Act), updating and modernizing the previous Conservation Improvement Program – now called ECO. The changes made by the 2021 ECO Act included:

- More than doubling public utilities' minimum spending requirements for low-income ECO programs: from 0.4% to 1.0% for natural gas utilities and from 0.2% to 0.6% for electric utilities by 2024.
- Allowing efficient fuel-switching (EFS) to be included in utility ECO portfolios. EFS measures must cost-effectively reduce both emissions and energy use through switching source fuel (for example, moving from propane to electricity or from fuel oil to natural gas).
- Allowing load shifting and load management programs that reduce peak demand to be

[3] Minn. Stat. § 216B.16, subd. 6c

[4] Minn. Stat. § 216B.241, subd. 2b

[5] Staff Briefing Papers, November 30, 2023, Docket No. E,G999/CI-08-133, Attachment A: Summary of Department Analysis of Past Incentives and Savings

[6] *Id,* at 11-20. See in particular Tables 3 and 6.

incorporated into the ECO Incentive Mechanism.

- Increasing the annual energy savings goal for public utilities providing electric service to 1.75% (up from 1.5%) and reducing the annual energy savings goal for public utilities providing natural gas service to 1% (down from 1.5%) of their respective normalized retail sales.

In 2024, the Minnesota Legislature made modifications to the ECO Act, which among other things, allowed public electric utilities to earn a financial incentive for EFS achievements,[7] subject to approval by the Commission. (Until these modifications, the ECO Act had allowed public natural gas utilities to count EFS achievements toward their incentive calculations but prohibited public utilities providing *electric* service from doing so).

Minn. Stat. § 216B.16, subd. 6c prescribes the requirements for both an energy conservation incentive and EFS financial incentive, as well as the factors the Commission must weigh when considering whether to approve such an incentive:

> **Subd. 6c. Incentive plan for energy conservation and efficient fuel-switching improvement.**
>
> (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation and efficient fuel-switching expenditures and savings. For public utilities that provide electric service, the commission must develop and implement incentive plans designed to promote energy conservation separately from the plans designed to promote efficient fuel-switching. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.
>
> (b) In approving incentive plans, the commission shall consider:
>
> (1) whether the plan is likely to increase utility investment in cost-effective energy conservation or efficient fuel switching;
>
> (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 or efficient fuel switching;
>
> (4) whether the plan is in conflict with other provisions of this chapter;
>
> (5) whether the plan conflicts with other provisions of this chapter; and
>
> (6) the likely financial impacts of the conservation and efficient fuel-switching programs on the utility.
>
> (c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation and efficient fuel-switching programs. The commission may:
>
> (1) increase or decrease any otherwise allowed rate of return on net

[7] Laws of Minnesota 2024, Chapter 127, Article 42, Sec. 17, modifying Minn. Stat. 216B.241, subd. 11

> investment based upon the utility's skill, efforts, and success in improving the efficient use of energy through energy conservation or efficient fuel switching;
>
> (2) share between ratepayers and utilities the net savings resulting from energy conservation and efficient fuel-switching programs to the extent justified by the utility's skill, efforts, and success in improving the efficient use of energy; and
>
> (3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation or efficient fuel switching is a preferred resource choice for the public utility considering the impact of conservation or efficient fuel switching on earnings of the public utility.
>
> (d) Any incentives offered to electric utilities under this subdivision for efficient-fuel switching projects expire December 31, 2032.

Notably, the statute imposes the following limitations on an EFS incentive mechanism for electric utilities:

- Incentive plans to promote efficient fuel-switching must be separate from those designed to promote energy conservation.
- The Commission must consider several factors, including whether the plan is likely to increase utility investment in cost-effective energy conservation or efficient fuel-switching, and whether the incentive is compatible with the interest of utility ratepayers.
- Incentives for electric utilities' EFS activities expire at the end of 2032.

B. 2024-2026 Shared Savings DSM Financial Incentive

The current ECO Incentive Mechanism was approved by the Commission in January 2024 and applies to utility achievements for the 2024-2026 Triennial period. This iteration made several important changes to the incentive formula, including moving from using the Utility Cost Test to assess portfolio cost-effectiveness to using the then-new Minnesota Test, which includes additional societal benefits.[8] The 2024-2026 Triennials were also the first plans submitted under the ECO framework and the first plans in which utilities could implement EFS measures.

The 2024-2026 Incentive Mechanism awards an eligible utility a percentage of its ECO portfolio's net benefits as calculated by the Minnesota Test. The specific percentage awarded depends on the utility's first-year energy savings achievement as a percentage of retail sales, with higher net benefits awarded for higher savings achievements. Tables 1 and 2 below show the award levels for corresponding first-year energy savings achievements.

This formula ensures that the size of a utility's incentive during the 2024–2026 Triennial period depends on both first-year energy savings and the ECO portfolio's net benefits.

[8] Joint Commenters, Initial Proposal, June 26, 2025, Docket No. E,G999/CI-08-133 at 6 (hereafter, Joint Commenters, Initial Proposal)

Table 1: Current 2024–2026 Natural Gas Incentive

First-Year Energy Savings Achievement (% of Retail Sales)	% of Net Benefits Awarded
0.7% (threshold)	1.90%
0.8%	2.32%
0.9%	2.74%
1.0%	3.16%
1.1%	3.58%
1.2% (goal)	4.00% (cap)

Table 2: Current 2024–2026 Electric Incentive

First-Year Energy Savings Achievement (% of Retail Sales)	% of Net Benefits Awarded
1.5% (threshold)	1.30%
1.6%	1.90%
1.7%	2.50%
1.8%	3.10%
1.9%	3.70%
2.0%	4.30%
2.1%	4.90%
2.2% (goal)	5.50% (cap)

Table 3: Current 2024–2026 Incentive Caps

	Net Benefits Cap	Expenditures Cap
Natural Gas Utilities	4%	20% or 25% if utility meets or exceeds first-year energy savings goal
Electric Utilities	5.5%	

Terminology Used:

- **Threshold:** The achievement threshold refers to the achievement level a utility must reach before they begin earning an incentive for a given metric.
- **Goal:** The achievement goal refers to the achievement level that aligns with the maximum percentage of net benefits a utility can earn for a given metric.
- **Cap:** Incentive caps limit the total incentive each utility can earn. The 2024–2026 incentive mechanism has two caps: the net benefits cap and the expenditures cap. A utility's incentive is limited to whichever cap is lower.[9]

[9] Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan, January 25, 2024, Docket Number E,G-999/CI-08-133

As shown in Table 3 above, the expenditures cap is 20% of total portfolio expenditures for both electric and natural gas utilities; however, if a utility meets or exceeds the first-year energy savings goal (shown in Tables 1 and 2), the expenditures cap increases from 20 to 25%.

C. Procedural Timeline

On June 26, 2025, the Department, CEE and Fresh Energy filed the Joint Proposal.

On August 13, 2025, the following parties submitted Initial Comments:

- CenterPoint Energy (CenterPoint)
- Minnesota Energy Resources Corporation (MERC)
- Minnesota Power
- Northern States Power Company, d.b.a. Xcel Energy (Xcel)
- Otter Tail Power Company (OTP)

By October 10, 2025, the following parties submitted Reply Comments:

- Joint Commenters
- CenterPoint
- Great Plains Natural Gas (Great Plains)
- MERC
- OTP
- Xcel

After the close of the formal comment period in this docket, parties made the following relevant filings:

On January 9, 2026 the Department issued a Decision in Docket No. E,G999/CIP-18-694 updating the Technical Reference Manual (TRM) for use by Minnesota utilities for calculating the savings impacts of ECO measures installed in 2027.

On January 23, 2026 Joint Commenters filed a Modified Proposal in the instant docket recommending certain modifications to the incentive calculation for natural gas utilities in response to the Department's January 9, 2026 Decision. To distinguish this from the revised proposal submitted in Reply Comments, Staff refers to this filing as the "second revised proposal."

On January 28, 2026 CenterPoint filed Supplemental Comments recommending modifications to Joint Commenters' second revised proposal. Staff refers to this as CenterPoint's modified proposal.

SUMMARY OF THE JOINT PROPOSAL

The Joint Commenters' requested the Commission approve a *multi-factor* ECO Incentive Mechanism for electric and gas utilities, to take effect for the 2027-2029 ECO Triennial Plans. The Joint Commenters noted the proposal was developed by CEE and the Department and is supported by Fresh Energy. This section summarizes the Joint Commenters' proposal as of the January 23, 2026 second revision. Where relevant, Staff includes discussion of earlier versions of the proposal.

The Joint Commenters proposed four new metrics be incorporated into the incentive mechanism, in addition to the existing metrics of first-year energy savings and cost-effectiveness:

1. Low-income spending (for both natural gas and electric utilities)
2. Savings from insulation and air sealing (for the natural gas utility incentive)
3. Savings from permanently avoided demand, which is the demand savings resulting from long-term conservation measures such as appliance efficiency upgrades or weatherization. Historically, the incentive has rewarded only energy savings from these measures. (for electric utilities)
4. Net benefits from efficient fuel-switching (for the electric utility incentive)

Joint Commenters proposed that the new methodology apply to ECO performance in 2027 through 2029. Utilities' 2027-2029 ECO Triennial Plans will be filed with the Department by June 1, 2026.

III. Rationale For Moving to a Multi-Factor Incentive Mechanism

Joint Commenters recommend moving to a multi-factor methodology to better align the financial incentive with the current ECO framework, which was expanded to include additional policy priorities with the passage of the ECO Act in 2021, with additional ECO modifications in 2024. As discussed in Section II.A of these Briefing Papers, these statutory changes increased spending requirements for low-income conservation programs and encouraged efficient fuel-switching and load management, in addition to setting annual energy savings goals.

They noted that other states including Michigan, Colorado, and Massachusetts have moved to multi-factor incentive models to reward utility conservation performance. Joint Commenters drew lessons from these states in developing their proposal. According to Joint Commenters, the proposal sought to advance several policy objectives, which Staff summarizes below.

Preserving the Importance of Cost-Effectiveness and First-Year Energy Savings
Joint Commenters emphasized that the proposed 2027-2029 incentive mechanism will continue to award incentives as a portfolio of Minnesota Test net benefits, ensuring that cost-effective delivery of value is a core consideration for utilities. Similarly, Joint Commenters believe first-

year energy savings remains a key metric for measuring the success of ECO programming.[10]

Emphasizing the Importance of Low-Income Programs

Under Minn. Stat. § 216B.241, subd. 7, utilities are required to invest in ECO programs serving low-income customers. Joint Commenters noted that "low-income programs provide essential benefits to low-income customers, helping reduce energy bills, improve comfort, and, in some cases, make homes healthier for customers who typically face significantly higher energy burdens, meaning they spend a disproportionate percentage of their income on energy costs."[11]

Joint Commenters explained that low-income programs, while providing essential services, "are typically not cost-effective based on standard tests and generate limited to no net benefits under the current cost-effectiveness framework due to their higher implementation costs."[12] To avoid disincentivizing these programs, Minn. Stat. § 216B.241, subd. 7(i) permits utilities to exclude non-cost-effective low-income programs from their total net benefits for purposes of calculating their incentive,[13] and the Department does not require low-income programs to pass the Minnesota Test.

In practice, Joint Commenters asserted, this means that low-income programs are "essentially excluded from the ECO financial incentive mechanism" and the primary driver of utility investments in this area is the statutory minimum spending requirement.[14] Utilities have responded to the statutory change and all except OTP exceeded the new minimum spending requirement in 2024, as shown in Figures 1 and 2 below.

[10] Joint Commenters, Initial Proposal at 8

[11] Joint Commenters, Initial Proposal at 10

[12] *Ibid.*

[13] *Ibid,* citing to Minn. Stat. § 216B.241, subd. 7(i)

[14] *Ibid.*

Figure 1: Gas IOU Low-Income Spend as a Percent of Residential Gross Operating Revenue

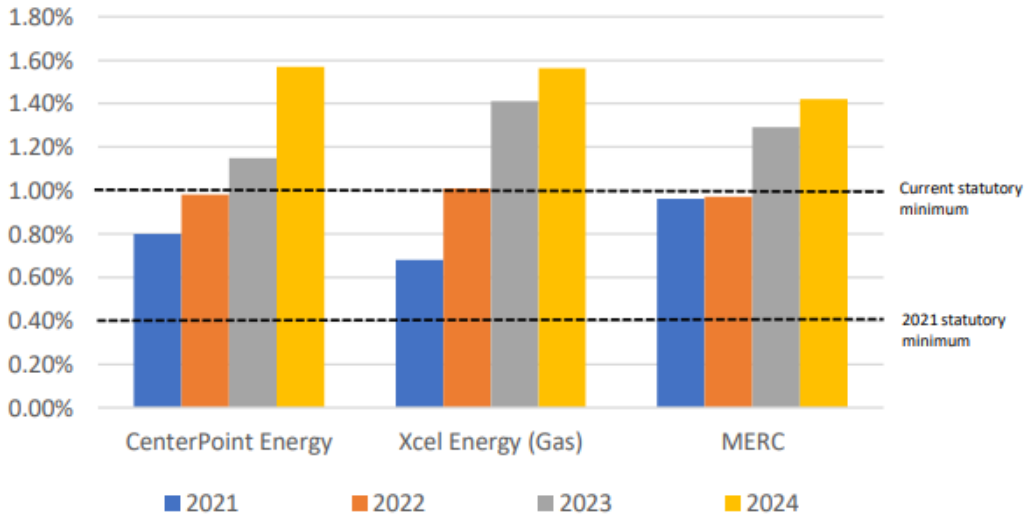
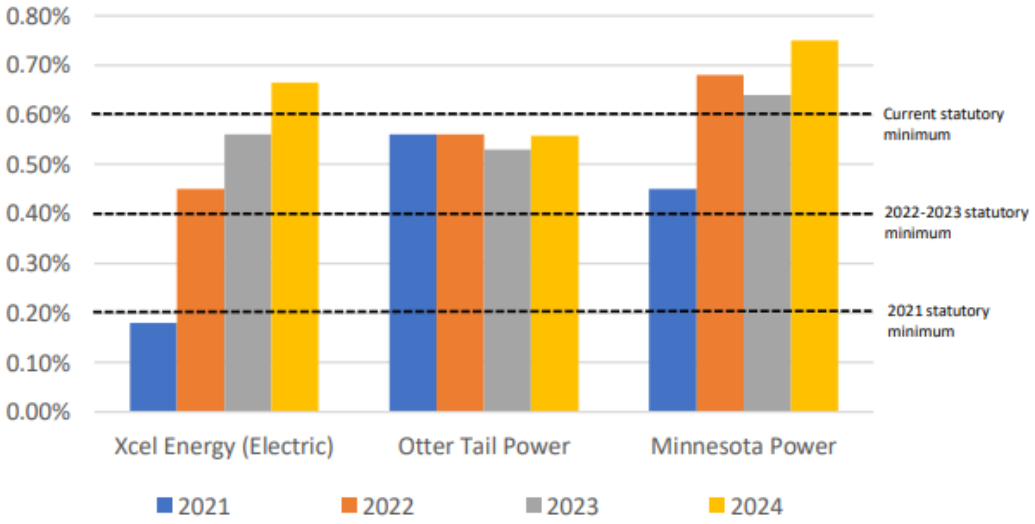


Figure 2: Electric IOU Low-Income Spend as a % of Residential Gross Operating Revenue



In the Commission's 2020 Order approving a DSM Financial Incentive for the 2021—2023 Triennial, the Commission ordered a stakeholder process to continue development of a low-income incentive, which had been proposed jointly by Fresh Energy, Natural Resources Defense Council, and National Housing Trust in that proceeding.[15] The Joint Commenters characterize their proposal as building on the stakeholder work that followed.[16]

[15] Order Approving 2021-2023 Parameters for Shared Savings Demand-Side Management Financial Incentive, December 9, 2020, Docket Number E,G-999/CI-08-133

[16] Joint Commenters, Initial Proposal at 12

Encouraging Electric Efficient Fuel-Switching

Under the ECO framework and the Commission's 2024 Order, gas utilities can count energy savings and net benefits from qualifying EFS programs toward their financial incentive the same way traditional ECO programs are counted, as long as the utility has achieved at least 1.0% first-year energy savings from *non-EFS* programs.[17] An electric utility cannot currently count savings or net benefits from EFS measures toward its incentive, but as discussed in Section II.A above, statutory changes made in 2024 allow the Commission to consider and approve an EFS incentive for public electric utilities through December 31, 2032.

OTP requested approval of a temporary EFS incentive as part of its 2024 Annual DSM Financial Incentive Filing. The Commission approved this request in its November 20, 2025 Order in Docket No. E-017/M-25-49. Otter Tail's temporary incentive will apply until the Commission adopts a formal EFS inventive mechanism.[18]

Joint Commenters seek to implement an electric EFS incentive to encourage utilities to offer additional EFS incentives in the 2027–2029 Triennial, which they view as especially important given the changing landscape of federal, state, and local incentives, and given the statutory time limit for such an incentive.

Encouraging More Ambitious Insulation and Air Sealing Programming

Joint Commenters noted many benefits of insulation and air sealing measures, including long-term energy savings, comfort for customers, lower energy costs, and the potential for certain EFS measures. However, they asserted:

> Due to their high upfront costs, insulation and air sealing measures are often harder to implement. As a result, these measures are typically not prioritized, and gas utilities allocate only a small portion of their ECO funding to them. Instead, a larger share of spending goes toward rebates for high-efficiency gas equipment. However, improving insulation and air sealing is a critical step in decarbonizing homes. It reduces heating demand, which leads to energy savings and allows for the installation of smaller, more efficient heating systems.[19]

Joint Commenters recommended the Commission incorporate insulation and air sealing performance into the ECO Financial Incentive because these measures support several public

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[17] Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan, January 25, 2024, Docket Number E,G-999/CI-08-133, ordering paragraph 3C

[18] Order in the Matter of Otter Tail Power Company's Annual Filing to Update the ECO Rider, November 20, 2025, Docket No. E017/M-25-49, at ordering paragraph 7

[19] Joint Commenters, Initial Proposal at 13-14

policy goals (energy bill savings, efficient fuel-switching, emissions reductions, housing equity), and because the current incentive formula does not, in their view, adequately incentivize these programs.

Additionally, Joint Commenters stated that there is a "large opportunity for gas utilities to shift ECO resources to prioritize insulation and air sealing measures," pointing to the 2018 Minnesota Energy Efficiency Potential Study performed by CEE, Optimal Energy and Seventhwave for the Department. This study found insulation and air sealing program potential for each natural gas utility is significantly higher than recent achievements.[20]

IV. Consistency with Statutory Criteria

When considering whether to approve an energy conservation incentive or EFS incentive, the Commission is required under Minn. Stat. § 216B.16, subd. 6c to weigh several factors:

1. Whether the plan is likely to increase utility investment in cost-effective energy conservation or efficient fuel-switching;
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 or efficient fuel-switching;
4. Whether the plan conflicts with other provisions of Minn. Stat. Ch. 216B; and
5. The likely financial impacts of the conservation and efficient fuel-switching programs on the utility.[21]

Joint Commenters argued that the proposed natural gas incentive, electric non-EFS incentive, and electric EFS incentive meet all of these criteria, and no party asserted otherwise or raised concerns about statutory criteria. Joint Commenters' arguments are summarized below.

Regarding increasing utility investment, Joint Commenters asserted that the proposed incentives will reward utilities for successful and cost-effective ECO programs, making energy conservation and EFS programming beneficial to the utility's owners or shareholders. Based on 2024 accomplishments, they expect utilities to earn incentives under this proposal comparable to past years, which should provide a relatively consistent incentive for investment.

Regarding ratepayer interests, Joint Commenters noted that all the incentives are tied to net benefits determined under the Minnesota Test, which considers both utility and societal impacts. Several of the new metrics are intended to reward programs that can mitigate costs on a long-term basis, and Joint Commenters pointed to the inclusion of the Rate Impact Measure (RIM) metric in the electric EFS incentive which emphasizes programs that put downward pressure on rates.

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[20] Joint Commenters, Initial Proposal at 14-15

[21] Minn. Stat. § 216B.16, subd. 6c

Regarding performance in achieving cost-effective programs, Joint Commenters noted that all the incentives are based on a utility's performance on the included metrics, and the incentives are tied to net benefits determined under the Minnesota Test, which evaluates cost-effectiveness.

Joint Commenters asserted that no aspect of the incentive conflicts with other provisions of Minn. Stat. § 216B.16.

And last, regarding financial impact on the utility, Joint Commenters stated the incentive encourages utilities to implement programs that provide more benefits to the utility system and society than costs. If utilities perform well in each metric, they will earn a shareholder incentive comparable to those earned throughout the history of ECO and CIP.[22]

DISCUSSION

The remainder of the Briefing Papers is organized as follows:

- **Section V: Overall Structure of the Proposed 2027–2029 Mechanism** discusses the Joint Commenters and party positions on the contested aspects of the overall structure of the proposal.
- **Section VI: Natural Gas Utility Incentive** discusses each component of the proposed natural gas incentive, party positions and recommendations, and modifications proposed by Joint Commenters to account for the January 9, 2026 Department Decision adopting TRM version 5.0.
- **Section VII: Electric Non-EFS Incentive** discusses each of the components of the proposed electric non-EFS incentive and party positions and recommendations.
- **Section VIII: Efficient Fuel-Switching Incentive** discusses each of the components of the proposed electric EFS incentive and party positions and recommendations.
- **Section IX: Other Recommendations** discusses certain secondary aspects of the proposed methodology that parties recommended modifications to, as well as components that are uncontested.

V. Overall Structure of the Proposed 2027–2029 Mechanism

Joint Commenters modeled the Proposed 2027-2029 ECO Incentive Mechanism on the current 2024–2026 incentive structure. Like under the current structure, the proposed incentive mechanism would award utilities a percentage of the portfolio's net benefits, calculated under the Minnesota Test, with the award percentage based on a utility's performance on

[22] Joint Commenters, Initial Proposal at 27

conservation metrics.

Under the current incentive mechanism for 2024-2026, the award percentage depends on the level of first-year energy savings achieved (shown in Tables 1 and 2 in Section II.B of these Briefing Papers). Under the proposed 2027-2029 incentive mechanism, a utility's total award percentage would be the sum of awards on each factor. Table 4 shows the Joint Commenters' proposed 2027-2029 incentives in equation form.

Table 4: Summary of Proposed Incentive Formulas

Natural Gas Incentive	Electric non-EFS Incentive	Electric EFS Incentive
first-year energy savings: *% of net benefits*	*first-year energy savings* *% of net benefits*	EFS Portfolio Net Benefits
+ insulation and air sealing: *% of net benefits*	*+ permanently avoided demand:* *% of net benefits*	
+ low-income spending: *% of net benefits*	*+ low-income spending:* *% of net benefits*	x EFS RIM ratio
= Total Award Percentage	= Non-EFS Award Percentage	
		x 5%
Total Award Percentage	Non-EFS Award Percentage	
x Portfolio Net Benefits	x Non-EFS Net Benefits	
= Natural Gas Incentive	= Electric Non-EFS Incentive	= Electric EFS Incentive

The following Tables 5 and 6 show the proposed incentive framework in more detail. For each metric, these tables show the proposed award percentage for a given achievement level ranging from the threshold to goal. To calculate an incentive, one would identify the award percentage corresponding to a utility's actual performance on each metric, and plug these award percentages into the formula shown in Table 4. Importantly, under the Joint Commenters' proposal, each metric has its own net benefits cap, which means that utilities would need to pursue achievements on each metric in order to maximize their incentive.

Note that Table 5 below reflects Joint Commenters' second revised proposal for the natural gas incentive framework as of their January 23, 2026 letter in this docket. These revisions recalibrated the net benefit award scale and the insulation and air sealing performance levels to account for changes to the residential furnace efficiency baseline made in the Department's January 9, 2026 Decision. This issue is discussed further in Section VI of these Briefing Papers.

Table 5: Overview of Proposed Natural Gas Incentive Mechanism[23]

First-Year Energy Savings (% of Retail Sales)			% of Total Net Benefits Awarded
0.70% (threshold)			1.44%
0.80%			1.81%
0.90%			2.18%
1.00%			2.56%
1.10%			2.93%
1.20% (goal)			3.3% (cap)
Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)			% of Total Net Benefits Awarded
MERC	CenterPoint	Xcel	
0.05% (threshold)	0.10% (threshold)	0.09% (threshold)	0.48%
0.07%	0.14%	0.13%	0.60%
0.10%	0.17%	0.17%	0.73%
0.12%	0.21%	0.21%	0.85%
0.14%	0.25%	0.24%	0.98%
0.16% (goal)	0.29% (goal)	0.28% (goal)	1.10% (cap)
Low-Income Spend (% of Residential Gross Operating Revenue)			% of Total Net Benefits Awarded
1.0% (threshold)			0.48%
1.2%			0.60%
1.4%			0.73%
1.6%			0.85%
1.8%			0.98%
2.0% (goal)			1.10% (cap)

For example, if MERC achieved 1.20% first-year energy savings, 0.05% insulation and air sealing first-year energy savings, and 1.8% low-income spend, its incentive would be 3.3% + 0.48% + 0.98% (totaling 4.76%) of ECO portfolio net benefits (unless the expenditure cap was hit).

[23] Joint Commenters, Modified Proposal January 23, 2026, p. 6, Table 3

Table 6: Overview of Proposed Electric Incentive Mechanism[24]

<table>
<tr><td colspan="2">First-Year Energy Savings
(% of Retail Sales)</td><td>% of Non-EFS Net Benefits Awarded</td><td rowspan="20">*5.0% Non-EFS net benefits cap applies to these two metrics combined</td></tr>
<tr><td colspan="2">1.50% (threshold)</td><td>1.00%</td></tr>
<tr><td colspan="2">1.60%</td><td>1.50%</td></tr>
<tr><td colspan="2">1.70%</td><td>2.00%</td></tr>
<tr><td colspan="2">1.80%</td><td>2.50%</td></tr>
<tr><td colspan="2">1.90%</td><td>3.00%</td></tr>
<tr><td colspan="2">2.00%</td><td>3.50%</td></tr>
<tr><td colspan="2">2.10%</td><td>4.00%</td></tr>
<tr><td colspan="2">2.20%</td><td>4.50%</td></tr>
<tr><td colspan="2">2.30% (goal)</td><td>5.00% (cap)*</td></tr>
<tr><td colspan="2">Permanently Avoided Demand</td><td>% of Non-EFS Net Benefits Awarded</td></tr>
<tr><td>% of Sales</td><td>Demand Ratio</td><td></td></tr>
<tr><td>1.50%</td><td rowspan="10">Utility specific; dependent on IRP[25]</td><td>1.00%</td></tr>
<tr><td>1.90%</td><td>1.50%</td></tr>
<tr><td>2.30%</td><td>2.00%</td></tr>
<tr><td>2.70%</td><td>2.50%</td></tr>
<tr><td>3.10%</td><td>3.00%</td></tr>
<tr><td>3.50%</td><td>3.50%</td></tr>
<tr><td>3.90%</td><td>4.00%</td></tr>
<tr><td>4.30%</td><td>4.50%</td></tr>
<tr><td>4.70%</td><td>5.00% (cap)*</td></tr>
<tr><td colspan="2">Low-Income Spend
(% of Residential GOR)</td><td>% of Non-EFS Net Benefits Awarded</td></tr>
<tr><td colspan="2">0.60% (threshold)</td><td>0.5%</td></tr>
<tr><td colspan="2">0.70%</td><td>0.75%</td></tr>
<tr><td colspan="2">0.80%</td><td>1.00%</td></tr>
<tr><td colspan="2">0.90%</td><td>1.25%</td></tr>
<tr><td colspan="2">1.00% (goal)</td><td>1.50% (cap)</td></tr>
<tr><td colspan="3">Efficient Fuel-Switching Incentive</td></tr>
<tr><td colspan="3">= 5% × EFS RIM Ratio × EFS Net Benefits</td></tr>
</table>

[24] Joint Commenters, Reply Comments, Table 7 at 19

[25] See Section VII.C for a discussion of how the demand ration would be calculated for each utility

For example, if Minnesota Power achieved 2.00% first-year energy savings, permanently avoided demand corresponding to 2.70% of sales, and 1.00% on low-income spending, its non-EFS incentive would be 6.5% (unless the expenditure cap was hit). It would also earn an efficient fuel-switching incentive for EFS programming.
Alternatively, if Minnesota Power achieves only 0.50% of its low-income spend (below the threshold), it would not qualify for either a low-income incentive of an EFS incentive. In this case, the utility's incentive would only be 5.00% of non-EFS net benefits awarded (the combined cap on first-year energy savings and permanently avoided demand awards).

A. Overall Utility Positions

The commenting utilities universally supported moving to a multi-factor incentive mechanism and many agreed with the Joint Commenters goal of better aligning the ECO Incentive Mechanism with the new ECO framework and expanded state policy goals. While all utilities supported approval of some form of the Joint Commenters' proposal, they offered many recommended modifications which are discussed in following sections.

- **Decision Option 1** would approve a new DSM financial incentive, with specific components to be adopted in subsequent decision options.
- **Decision Option 2** directs the changes apply to the 2027-2029 Triennial period.
- **Decision Option 3** is available should the Commission wish to deny the proposed changes to the DSM financial incentive or take some other action.

B. Estimated Incentive Amounts Under Proposed Methodology

Many of the modifications recommended by utilities were related to concerns about incentive awards declining under the new methodology, in particular, concerns that a utility might earn a lower incentive for the same performance.

Joint Commenters provided estimates of utility financial incentives under the new methodology, assuming 2024 performance levels.[26] As shown in Table 7, the natural gas utilities would each have earned roughly similar incentives in 2024 under the Joint Commenters' originally proposed methodology compared to 2024 actuals. When accounting for the recent change to baseline furnace efficiency, Joint Commenters anticipate a decline in natural gas utility incentives of approximately 20%. Under Joint Commenters' second revised proposal, the impact to utility incentives (assuming no programmatic changes) ranges from +1% to -20%.

[26] Joint Commenters, Reply Comments, Attachment A

Table 7: Estimated 2024 Incentives Under Proposed Methods: Natural Gas Utilities[27]

	A	B	C
Natural Gas Utilities	**Actual 2024 Requested Incentive**	**Joint Revised Proposal**	**% Change from 2024 Actual (A)**
CenterPoint[28]	$7,942,034	$7,435,872	-6.4%
Xcel Gas	$4,313,292	$4,031,320	-6.5%
MERC	$998,125	$1,063,343[29]	6.5%

	D	E	F	G
Natural Gas Utilities	**After TRM 5.0, Revised Proposal**	**% Change from (A)**	**After TRM 5.0, Second Revised Proposal**	**% Change from (A)**
CenterPoint	$5,755,998	-27.5%	$6,368,994	-19.8%
Xcel Gas	$3,224,230	-25.2%	$3,556,393	-17.5%
MERC	$844,696	-15.4%	$1,009,428	1.1%

CenterPoint provided updated estimates of its 2024 incentive accounting for TRM 5.0 in Supplemental Comments on January 28, 2026. These are shown in Section VI.D of these Briefing Papers alongside the discussion of CenterPoint's recommended modifications to the Joint Commenters' second revised proposal.

As shown in Table 8, the anticipated results for electric utilities are mixed. Joint Commenters expect Xcel would have seen a slightly higher incentive under the new methodology, largely due to the ability to earn an incentive for EFS measures. Otter Tail's incentive would have been 13% lower due to not meeting the 0.60% threshold for low-income spending. Minnesota Power's incentive would not have changed as the company hit its expenditure cap in 2024.[30]

[27] This table combines information from Joint Commenters June 26, 2025 Proposal, Table 12 p. 28 and January 23, 2026 Modified Proposal, Table 4 p. 7, modified to compare each scenario to 2024 actual incentives requested.

[28] The Commission's November 20, 2025 Order in Docket No. G-008/M-25-43 reduced the amount of CenterPoint's financial incentive for 2024 by $61,981, representing claimed savings from Efficient Fuel-Switching Air Source Heat Pump installations, making the Company's awarded incentive $7,880,053.

[29] This figure for MERC is the most recent estimate, provided by Joint Commenters on January 23, 2026. It reflects updated assumptions about commercial insulation and air sealing savings and is therefore differs from prior filings.

[30] Minnesota Power Initial Comments at 22

Table 8: Estimated 2024 Incentives Under Proposed Method: Electric Utilities

	Actual 2024 Requested Incentive	Joint Revised Proposal	Difference (% Change from Current)
Electric Utilities			
Xcel Electric	$15,133,727	$16,220,457	7%
Minnesota Power	$2,600,685	$2,600,685	0%
Otter Tail Power	$1,964,142	$1,706,239	-13%

Note that Table 8 shows estimated 2024 incentives for electric IOUs under the Joint Commenters' revised proposal, combining the electric non-EFS and EFS incentives. Unlike the gas incentive, no further revisions have been proposed in response to TRM 5.0.

C. Overall Caps vs. Individual Metric Caps

As described above, the Joint Commenters' proposed model for a multi-factor incentive is designed to provide utilities an opportunity to achieve an incentive comparable to the current incentive level by splitting the overall maximum award percentage (the net benefits cap) into categories—assigning caps to the individual factors, which then add up to the overall cap.

1. Utility Positions

Xcel expressed concern with this approach and recommended modifying the overall structure of both the gas and electric incentive mechanisms to eliminate metric-specific caps in favor of relying on the overall net benefits cap and expenditures cap. Xcel argued that capping net benefits that can be awarded for each category "is redundant and reduces the benefit of flexibility that a multi-factor mechanism could otherwise offer."[31]

Under Xcel's proposal to rely only on overall net benefits cap, performance above the "goal" in each sub-category would be associated with a possible net benefits award level above the proposed "cap." For example, electric utility first-year energy savings above the proposed 2.3% cap could receive greater than 5.0% of non-EFS net benefits. Xcel proposed that those award levels be calculated through linear extrapolation, similar to how intermediate award levels are calculated using linear interpolation, which will be discussed further in Section IX of these Briefing Papers.

Xcel acknowledged that the Joint Commenters Proposal's use of individual component caps was intended to ensure utilities do not focus entirely on one factor to the exclusion of others—specifically, to ensure that utilities focus on increasing low-income spending above the statutory minimum.

[31] Xcel Initial at 11

Xcel offered two possible solutions to this concern:

1. Requiring the utility to reach the minimum threshold for first-year savings and low-income spending to be eligible for *any* incentive in the associated year.[32] This recommendation is reflected in **Decision Option 10** (gas) and **Decision Option 24** (electric).
2. Setting the overall net benefits cap for the electric non-EFS incentive at the lower of (i) 7%; or (ii) 6% plus the percentage of net benefits earned by the Company's low-income achievement. This recommendation is reflected in **Decision Option 20C** (electric); for consistency staff provides **Decision Option 6D** to apply this structure to the gas incentive net benefits cap.

Xcel pointed out that while "the Joint Proposal could not be maximized without achieving statutory requirements (and beyond), it appears to allow a utility to earn an incentive based on one metric even if performance on another is below threshold."[33] Xcel's first solution would ensure that utilities only receive an incentive when meeting or exceeding those thresholds.

Xcel prefers the first solution, but offered the second as an alternative that would better incent low-income spending *above* the statutory minimum. Under this approach, a utility would be incentivized to spend significantly more than the statutory minimum to achieve at least a full percentage point of net benefits from the low-income component, which would make it eligible to receive the maximum award of 7% of net benefits.

In their reply comments, MERC and CenterPoint supported Xcel's proposals to:

- Remove the metric-specific caps and rely on the overall net benefits cap, and;
- Require that utilities meet the minimum spending thresholds in both the first-year energy savings metric and the low-income spending metric in order to earn a financial incentive.

2. Joint Commenters Response

Joint Commenters opposed this modification, arguing that the metric-specific caps are "integral to the design of the multi-factor incentive."[34] In their view, metric-specific caps serve key functions by 1) ensuring a utility cannot earn the maximum net benefits percentage through performance on a single metric, and by 2) encouraging utilities to achieve above the threshold for each metric to earn close to or reach the overall net benefits cap.

Regarding Xcel's proposed solutions, Joint Commenters disagreed that either would satisfactorily encourage utilities to excel in each of the categories. They worried that the first option would allow a utility to simply meet the minimum threshold in each category and then

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[32] Xcel Initial at 15

[33] Ibid

[34] Joint Commenters Reply Comments, at 5

focus their efforts on maximizing one metric. They worried that the second option would allow gas utilities to simply focus on reaching the minimum for insulation and air sealing and for electric utilities would have the effect of reducing the net-benefits incentive associated with low-income spending.[35]

Joint Commenters did embrace the idea of a shared cap in one area: they agreed with Xcel's proposal to add a metric for permanently avoided demand to the electric non-EFS incentive and proposed for that metric to share a net benefits cap with electric first-year energy savings. These metrics are discussed in Sections VII.B and VII.C of these Briefing Papers.

3. Staff Analysis

Both approaches proposed here will encourage utilities to pursue each performance achievement category, but to varying degrees. Metric-specific caps will encourage utilities to seek excellent performance on *each* of the metrics. Xcel's proposal for overall category caps will incentivize utilities to achieve at least threshold performance while offering more flexibility for utilities to maximize their incentive with over-performance in one or more categories.

If the Commission believes there are significant differences between utilities in how likely they are to be able to achieve a desirable incentive under the new structure, that may argue in favor of providing more flexibility this Triennial by adopting Xcel's proposal to eliminate metric-specific caps. To approve Xcel's proposal, the Commission should approve the following packages of Decision Options for the gas and electric incentives, respectively:

- For natural gas incentive: **Decision Option 10, Decision Option 12** (select specific calibration points with subparts) and **Decision Option 17**.
- For electric incentive**: Decision Option 24, Decision Option 26** (select specific calibration points with subparts) and **Decision Option 28**.

If the Commission believes it is important that all utilities are incented to achieve strong, above-threshold results on each metric, it may prefer Joint Commenters recommendation to establish metric-specific caps which add up to the overall cap. These are reflected in:

- For natural gas incentive: **Decision Option 7, Decision Option 11** (select metric caps in subparts) and **Decision Option 16**
- For electric incentive**: Decision Option 20D, Decision Option 25** (select metric caps in subparts) and **Decision Option 27**

VI. Natural Gas Utility Incentive

Under Joint Commenters' proposal, the incentive for natural gas utilities would be modified to consider performance on three metrics: first-year energy savings as a percentage of retail sales, first-year energy savings from residential insulation and air sealing, and low-income spending as

[35] Ibid

a percentage of residential gross operating revenue (GOR). The proposal would award a specific percentage of net benefits to each of the three metrics. These percentages were developed by giving each incentive metric category a weight. The relative weight of each metric as a portion of the total maximum award (the sum of the three categories) is shown in Table 9 below.

Table 9: Overview of Gas Incentive Metrics[36]

Gas Incentive Metric	Weight	Maximum % of Net Benefits Awarded
First-year energy savings achievement (Dth) as a percentage of retail sales	60%	3.3%
Insulation and air sealing first-year savings (Dth) as a percentage of sales	20%	1.1%
Low-income spend ($) as a percentage of residential GOR	20%	1.1%
Total	100%	5.5%

Gas utilities supported or were neutral on two of the three metrics as originally proposed: first-year energy savings and low-income spending. MERC expressed concern with the insulation and air sealing savings metric as originally proposed. CenterPoint also conveyed concerns but took a neutral position. Joint Commenters proposed revisions in their Reply Comments to address MERC's concerns. MERC and Great Plains expressed support for the revisions.

The remainder of this section describes the proposed natural gas incentive mechanism and party comments, followed by discussion of a recent change to the Department's Technical Reference Manual (TRM) that will impact Minnesota Test net benefits, and by extension, natural gas ECO incentives. The Department and CenterPoint both filed modified proposals in January 2026 in response to the TRM changes and these Briefing Papers reflect the modified proposals.

A. First-Year Energy Savings

The Joint Commenters sought to preserve energy savings as an important factor in the incentive calculation and thus proposed maintaining the current calculation of first-year energy savings[37] and current achievement levels, shown below in Table 10. Compared to the current 2024-2026 incentive framework, Joint Commenters' proposal includes lower net benefit award levels for energy savings, which was done to recalibrate this metric given the addition of two additional metrics on which utilities can earn an incentive.

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[36] Joint Commenters Proposal, Table 5 p. 19, updated to reflect the January 23, 2026 Modified Proposal.

[37] First-year energy savings (Dth) are reported as a percentage of weather-normalized average retail sales over the most recent three years, excluding sales to ECO-exempt customers. For the next Triennial (filed in 2026), this will cover 2023-2025.

In their January 23, 2026 second revised proposal, Joint Commenters recommended increasing the award levels for this metric in response to the TRM change. The table below reflects Joint Commenters' second revised proposal, with recommendations from Reply Comments shown in strike-through for reference.

Table 10: Natural Gas First-Year Energy Savings Metric

First-Year Energy Savings Achievement (% of Retail Sales)	% of Minnesota Net Benefits Awarded
0.7% (threshold)	~~1.14%~~ 1.44%
0.80%	~~1.51%~~ 1.81%
0.90%	~~1.88%~~ 2.18%
1.00%	~~2.26%~~ 2.56%
1.10%	~~2.63%~~ 2.93%
1.20% (goal)	~~3.00%~~ 3.30% (cap)

Xcel and MERC supported Joint Commenters' original proposal, and CenterPoint did not have concerns with it prior to January 28, 2026.[38] As will be discussed in Section VI.D of these Briefing Papers, in Supplemental Comments CenterPoint proposed adding an additional 0.30% to the maximum award for this metric, which would bring the cap to 3.60%.

B. Low-Income Spending

The Joint Commenters recommended tying a portion of the ECO incentive directly to utility spending on low-income programs, as defined in statute,[39] and calculated as a percentage of residential gross operating revenue (GOR). They based this metric on *spending* to encourage utility investments in programs like preweatherization and workforce development in addition to those that generate energy savings.

Joint Commenters proposed that the threshold for this metric be set at 1% of residential GOR, the statutorily-required minimum spending level, and that the goal be set at double the statutory requirement (2%). In their January 23, 2026 Modified Proposal, Joint Commenters recommended increasing the award levels for this metric in response to the TRM change. The table below reflects Joint Commenters' second revised proposal, with recommendations from Reply Comments shown in strike-through for reference.

[38] Xcel, Initial Comments at 11, MERC Initial at 2, CenterPoint Reply at 3

[39] Minn. Stat. § 216B.2402, subd. 16 and 17

Table 11: Natural Gas Low-Income Spend Metric

Low-Income Spend Achievement (% of Residential GOR)	% of Minnesota Net Benefits Awarded
1.0% (threshold)	~~0.38%~~ 0.48%
1.2%	~~0.50%~~ 0.60%
1.4%	~~0.63%~~ 0.73%
1.6%	~~0.75%~~ 0.85%
1.8%	~~0.88%~~ 0.98%
2.0% (goal)	~~1.00%~~ 1.10% (cap)

Xcel Gas and MERC supported the Joint Commenters' original proposal,[40] and Great Plains did not discuss the metric in their Reply Comments.[41] CenterPoint was not opposed to the low-income spending metric as originally presented, but in Supplemental Comments proposed adding 0.10% to the maximum award for this metric, which would bring the cap to 1.20%.[42] This is further discussed in Section VI.D of these Briefing Papers.

C. Insulation and Air Sealing Savings

Joint Commenters proposed tying a portion of the ECO incentive to energy savings from residential insulation and air-sealing, specifically retrofit programs. Savings for this subset of programs would be calculated consistent with overall first-year energy savings.[43] Joint Commenters explain that the focus on retrofit measures—such as wall insulation, attic insulation, and envelope air sealing—is due both to the large need in this segment as well as to the benefits of these upgrades for energy affordability and reducing overall system costs.[44]

In their Initial Proposal, Joint Commenters proposed a schedule of award levels and corresponding savings achievements that would apply to all eligible natural gas utilities. The 0.30% achievement goal was calculated using the average of these utilities' 2027-2029 program potential for insulation and air sealing measures as calculated in the 2018 Minnesota Potential Study.[45] The threshold was set at 1/3 of the goal.

In response to utility comments expressing concern that achievement levels were not realistic,

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[40] Xcel, Initial Comments at 11; MERC, Initial Comments at 2

[41] Great Plains, Reply Comments at 1

[42] Xcel, Initial Comments at 11; MERC, Initial Comments at 5; CenterPoint, Reply Comments at 3

[43] Joint Commenters, Initial Proposal at 20

[44] *Ibid.*

[45] CEE, Optimal Energy and Seventhwave, Minnesota Energy Efficiency Potential Study: 2020–2029, Published 2018

Joint Commenters revised their proposal in Reply Comments. In their January 23, 2026 Modified Proposal, Joint Commenters again revised the energy savings threshold and goals for this metric. The modifications reflect that energy savings from insulation and air sealing measures are anticipated to decline by 11% as a result of the new TRM 5.0 furnace baseline. This is discussed further in Section VI.D of these Briefing Papers.

Table 12 below reflects Joint Commenters' second revised proposal, with recommendations from Initial and Reply Comments shown in strike-through for reference.

Table 12: Joint Commenters' Updated Insulation and Air Sealing Energy Metric[46]

	Achievement Level		Net Benefits Award %	
Initial Proposal	**Threshold**	**Goal**	**Threshold**	**Goal**
All utilities	~~0.10%~~	~~0.30%~~	~~0.38%~~	~~1.00%~~
Revised Proposal	**Threshold**	**Goal**	**Threshold**	**Goal**
MERC	~~0.06%~~ 0.05%	~~0.18%~~ 0.16%	~~0.38%~~ 0.48%	~~1.00%~~ 1.10% (cap)
CenterPoint	~~0.11%~~ 0.10%	~~0.32%~~ 0.29%		
Xcel Energy	~~0.11%~~ 0.09%	~~0.32%~~ 0.28%		

1. Gas Utility Positions

Insulation and Air Sealing Savings Levels

MERC and CenterPoint expressed concern with this metric as originally proposed. MERC found the threshold for the insulation and air sealing metric to be "not realistically achievable," and recommended lowering the threshold and goal percentages to better reflect historical performance and differences in utility service territory and customer base. MERC noted that it has a geographically large service area spanning urban, suburban, and rural regions of the state, which increases its costs to deliver conservation programs. To achieve the original 0.10% threshold, MERC estimated it would need to increase insulation and air-sealing savings by more than 60% compared to its 2024 achievements.[47]

MERC pointed to the utility-specific program potential calculated in the CEE, Optimal Energy, Seventhwave 2018 Potential Study and recommended that its threshold for this metric be set at a 0.08% savings and its goal be set at 0.24%.[48]

CenterPoint was originally neutral on the proposal overall but expressed skepticism about

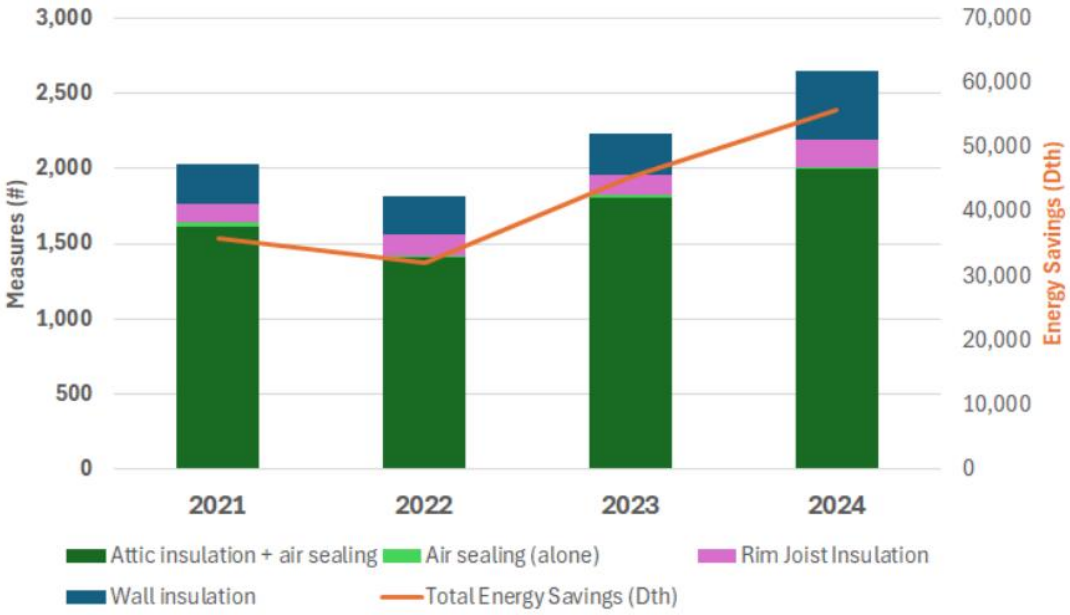
[46] Staff modification of Joint Commenters' Revised Proposal Tables 1-2 (at 7-8), adding January 23, 2026 positions.

[47] MERC, Initial Comments at 3

[48] MERC, Initial Comments at 4. These specific percentages are the result of averaging MERC's program potential under the 2018 Potential Study with the percentages proposed by Joint Commenters.

whether the insulation and air sealing savings levels Joint Commenters proposed are realistically achievable. The utility noted several market barriers that could constrain achievements in this area: customer priorities, customer education, non-financial customer costs, economic constraints on project completion, and workforce constraints. CenterPoint did note that home insulation savings have increased since 2022, illustrated in Figure 3 below. The utility attributed this increase to higher rebate amounts.

Figure 3: Home Insulation Program Measures and Savings 2021-2024[49]



CenterPoint has marketing and program services in place to address the market barriers but said that to achieve the originally-proposed 0.3% savings goal, the utility would have to triple its 2024 performance (to 218,000 Dth), which it found unrealistic. However, CenterPoint stated that if the proposal is approved, it would strive to expand these programs through increased rebates and encouragement of priority market segments like multi-family buildings and low-income customers.

Xcel supported the Joint Commenters' proposed natural gas incentive and found this metric to be reasonable and "calibrated to result in comparable results for the utility when program achievements are comparable to recent history."[50]

Inclusion of EFS Measures

MERC proposed expanding the insulation and air sealing metric to include EFS measures, which would provide additional flexibility to utilities in how to meet the goal. MERC also stated this

[49] CenterPoint, Initial Comments at 5, Figure 3

[50] Xcel, Initial Comments at 11-12

would help to align policy incentives for electric and gas utilities and encourage coordination on program delivery.

In Reply Comments, CenterPoint supported MERC's recommendation to include EFS savings in this metric,[51] and expressed overall support for changes that increase flexibility for utilities in how they achieve conservation goals. As an alternative, CenterPoint offered that this category could be broadened to "building shell" measures, which by referring to the entire envelope of a building would include window efficiency measures in addition to insulation and air sealing.[52]

2. Revised Insulation and Air Sealing Metric

Insulation and Air Sealing Savings Levels

As noted earlier, Joint Commenters revised the energy savings threshold and goals proposed for the insulation and air sealing metric in response to MERC's comments. Instead of applying a uniform savings goal and threshold, Joint Commenters recommended using each utility's program potential as identified in the 2018 Minnesota Energy Efficiency Potential Study to establish the goal. The threshold would continue to be set at 1/3 of the goal.

In response to the Department's January 9, 2026 TRM 5.0 Decision, Joint Commenters again revised the energy savings threshold and goals for this metric. The new recommended levels reflect that energy savings from insulation and air sealing measures are anticipated to decline by 11% as a result of the new furnace baseline.[53]

Table 12 (reproduced below) shows Joint Commenters' initial, revised, and modified thresholds and goals for this proposed metric. The numbers with strikethrough are Joint Commenters recommendations prior to the TRM Decision.

Table 12 (Copy): Joint Commenters' Updated Insulation and Air Sealing Energy Metric[54]

	Achievement Level		Net Benefits Award %	
Initial Proposal	**Threshold**	**Goal**	**Threshold**	**Goal**
All utilities	~~0.10%~~	~~0.30%~~	~~0.38%~~	~~1.00%~~
Revised Proposal	**Threshold**	**Goal**	**Threshold**	**Goal**
MERC	~~0.06%~~ 0.05%	~~0.18%~~ 0.16%	~~0.38%~~ 0.48%	~~1.00%~~ 1.10% (cap)
CenterPoint	~~0.11%~~ 0.10%	~~0.32%~~ 0.29%		
Xcel Energy	~~0.11%~~ 0.09%	~~0.32%~~ 0.28%		

[51] CenterPoint, Reply Comments at 6

[52] CenterPoint, Reply Comments at 6

[53] Joint Commenters, Revised Proposal, at 3-4

[54] Staff modification of Joint Commenters Revised Proposal at 7-8 (Tables 1-2), adding January 23, 2026 positions.

In response to CenterPoint's concerns about the feasibility of maintaining cost-effectiveness if implementing higher rebates to achieve this savings level, Joint Commenters emphasized that they are not necessarily hoping to encourage higher rebates but to encourage innovative and thoughtful program designs that expand participation and deliver greater savings.

MERC and Great Plains expressed support for the revisions in their Reply Comments. CenterPoint noted that its goal actually increased with the revised methodology (from Reply Comments): the utility's new threshold would be 16% higher than 2024 actuals and its goal would be about 238% of 2024 actuals.[55] CenterPoint expressed concern that this "will further limit the potential upside for focusing programs and services to grow the market for insulation and air sealing projects."[56]

As will be discussed in Section VI.D of these Briefing Papers, CenterPoint proposed in Supplemental Comments adding 0.10% to the maximum award for the insulation and air sealing metric, which would bring the cap to 1.20%.

Inclusion of EFS Measures

Joint Commenters disagreed with MERC's recommendation to include EFS savings in this metric, noting that natural gas utilities may already count energy savings from EFS measures toward their overall first-year energy savings metric, and can count EFS net benefits in their ECO portfolio net benefits. To date, electric utilities have been barred from counting EFS measures toward first-year energy savings or net benefits, as they do not lead to a reduction in electric load.

D. Updated Furnace Efficiency Baseline in TRM 5.0

On January 9, 2026, the Assistant Commissioner of Commerce issued a Decision in Docket No. E,G999/CIP-18-694 ("TRM Docket") updating the Minnesota TRM to version 5.0 ("TRM 5.0"). The TRM is used by utilities to calculate the savings impacts and cost-effectiveness of ECO programs and is updated annually.

Relevant to the decisions before the Commission in this docket regarding the ECO Incentive Mechanism for 2027-2029, the Assistant Commissioner's Decision increases the baseline efficiency assumed for residential furnaces in the TRM from 80% Annual Fuel Utilization Efficiency (AFUE) to 90% AFUE. AFUE is a standard measurement of how efficiently a furnace converts energy from the fuel it uses into warm air. Currently, the federal minimum efficiency

[55] CenterPoint, Reply Comments, at 5-6

[56] *Ibid*

for natural gas furnaces is 80% AFUE.[57]

Parties in the TRM Docket noted that this change would have significant impacts on the calculated energy savings for a number of residential ECO measures including furnace rebates and maintenance programs, insulation and air sealing measures, air source heat pump rebates, and others. Because the change impacts how much energy savings certain ECO measures produce, it is expected to impact utilities' ECO financial incentives in the next Triennial.

Following the Assistant Commissioner's Decision, Joint Commenters filed Supplemental Comments in this docket with proposed modifications to their recommended ECO Financial Incentive Mechanism to account for the new furnace baselines in TRM 5.0. Joint Commenters noted that they "believe the resulting impact to the first-year savings and net benefits generated by gas utility ECO portfolios merits a slight recalibration of the proposed 2027-2029 ECO incentive."[58]

To provide context for the late-filed modifications provided by Joint Commenters, Staff summarizes the Assistant Commissioner's Decision regarding furnace efficiency baselines and party positions in the TRM Docket below, before summarizing Joint Commenters' new recommendations.

1. Summary of Furnace Efficiency Updates in TRM 5.0

As noted above, the federal minimum furnace efficiency is 80% AFUE. This level was established in 2007 and has been used as the furnace efficiency baseline in the Minnesota TRM since at least 2014.[59]

On October 29, 2025, the Department of Commerce released a proposed decision for the ECO TRM 5.0, which included a proposal to increase the residential furnace efficiency baseline from 80% AFUE to 90% AFUE. The furnace efficiency baseline is an important factor in determining the energy savings produced by a variety of measures in ECO portfolios. Essentially the baseline efficiency level is the counterfactual to which upgraded equipment is compared when calculating energy savings. As a result, an increase to baseline furnace efficiency will reduce the energy savings produced by residential programs for furnaces, air source heat pumps, ground source heat pumps, insulation and air sealing, and window efficiency.[60]

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[57] There is a process underway to increase the federal minimum to 95 percent AFUE. This is expected to occur in December 2028. See: Energy Conservation Program: Energy Conservation Standards for Consumer Furnaces; Final rule. Energy Efficiency and Renewable Energy Office. December 18, 2023. https://www.regulations.gov/document/EERE-2014-BT-STD-0031-4107

[58] Joint Commenters, Supplemental Comments, January 23, 2026, at 1

[59] Department of Commerce, TRM version 1.1, at 347

[60] The Department noted that TRM 5.0 does not update the baseline for window programs, this will be done in version 5.1.

The Department explained that it is necessary to update baseline efficiencies periodically to ensure the baseline reflects market conditions as accurately as possible. In proposing the 90% AFUE baseline, the Department pointed to a 2023 United States Department of Energy (US DOE) proposal to update furnace efficiency standards to 95% AFUE baseline to take effect December 2028, and to a 2023 survey of Wisconsin heating, ventilation, and air conditioning (HVAC) contractors that supported increasing the efficiency baseline to 90% for non-income qualified single family residential customers in Wisconsin.[61]

Note that the furnace baseline change in TRM 5.0 only impacts measures for existing single-family homes ("replace on fail or early replacement measures"). The Department did not change the baseline furnace efficiency for duplexes, townhomes, or multi-family residential households, which will remain at 80% in TRM 5.0. The baseline furnace efficiency for new residential construction was already set at 90% AFUE.[62]

Additionally, the Department's Decision allows that "if utilities can verify that the actual efficiency of the customer's existing furnace equipment is less than 90%, the Federal minimum standard of 80% AFUE for furnaces can be used."[63]

2. Impacts of the Updated Furnace Efficiency Baseline

In response to the Department's proposal to update the furnace efficiency baseline, the gas and electric IOUs as well as other parties submitted comments to the Department in November and December 2025 in Docket No. E,G999/CIP-18-694. CEE and Fresh Energy supported the Department's furnace baseline proposal. All utilities that commented (CenterPoint, MERC, Otter Tail, and Xcel) as well as a group of 11 utilities commenting jointly[64] opposed changing the baseline. Concerns raised by the utilities included:

- The procedure and timing of the proposed change;
- The technical justifications for the change;
- Lower energy savings may necessitate reducing rebate levels to maintain cost-effectiveness, which may have negative impacts on customer access to high-efficiency furnaces; and
- Reduced energy savings and reduced cost-effectiveness of core ECO programs may result in lower utility ECO incentives.[65]

Joint Commenters in their January 23, 2026 letter summarized the concerns about reduced energy savings as follows:

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[61] Department of Commerce, TRM 5.0, January 9, 2026, Docket No. E,G999/CIP-18-694, at 107

[62] *Ibid,* at 106

[63] Department of Commerce, TRM 5.0, January 9, 2026, Docket No. E,G999/CIP-18-694, p. 106

[64] Joint Utility Commenters, Initial Comments, November 20, 2025, Docket No. E,G999/CIP-18-694, p. 1

[65] See summary in Department Decision, January 9, 2026, Docket No. E,G999/CIP-18-694, pp. 3-12

> During several rounds of comments, stakeholders emphasized that the change in furnace baseline would result in significant decreases in per-measure savings for key measures, namely high-efficiency furnaces, which currently make up a large share of each gas utility's residential programming. Insulation and air sealing, air source heat pumps (ASHPs), and other measures would also see a decrease in per-measure savings, although not as severe as that anticipated for high-efficiency furnaces. Essentially, if gas utilities made no changes to their ECO portfolios but recalculated per-measure savings using the updated furnace baseline of 90 percent AFUE, portfolio-wide first-year savings and net benefits would decrease significantly.

In its Comments in the TRM Docket, CEE presented additional research on market conditions in Xcel and CenterPoint territories gathered from Home Energy Squad data. Considering that data and the 2018 ECO Potential Study, CEE found the increase to a 90% AFUE baseline to be reasonable. However CEE noted that low-income households may be more likely to have a lower-efficiency furnace, and furnace efficiency varies by region of the state.[66] To address these nuances, CEE recommended that the Department allow utilities to use the 80% AFUE baseline if the utility can determine that the customer's existing furnace is less than 90% efficient.[67] MERC and Xcel supported this recommendation, in the absence of retaining the current baseline. The Department ultimately adopted this recommendation.

Using information provided by CenterPoint and MERC, CEE estimated the impacts of the furnace change to three key inputs to the incentive calculation: first-year energy savings, insulation and air sealing savings, and Minnesota Test net benefits. The results are shown in Table 13 below.

Table 13: Anticipated Changes to ECO Achievements due to TRM Furnace Baseline Change[68]

	Estimated Reduction (% change)		
Utility	Portfolio-Wide First-Year Savings (Dth)	Insulation and Air Sealing First-Year Savings	Net Benefits
CenterPoint	-9.5%	-11%	-20%
Xcel Gas	-7.5%	-11%	-20%
MERC	-7.1%	-4.7%	-13.3%

Note that these estimates may show a steeper decline than will actually be observed because they do not account for the possibility that utilities will propose to use an 80% AFUE baseline

[66] CEE Initial Comments, Docket No. E,G999/CIP-18-694, pp. 3-11

[67] In its Reply Comments, CEE updated this recommendation to if a utility can verify the existing furnace being replaced is non-condensing. The Department adopted the initial version of this recommendation.

[68] Joint Commenters, Proposed Modifications, January 23, 2025, Table 1 p. 3

when the existing furnace efficiency is verified to be less than 90% AFUE. They also do not account for changes to ECO portfolios that utilities may make in response to the baseline change. For example, because the furnace baseline remains at 80% AFUE for multi-family properties and townhomes, utilities may choose to put greater emphasis on those segments in the next Triennial.[69]

The reductions in energy savings and net benefits shown in Table 13 will impact utility incentives, but that impact is not a 1:1 relationship. The scale of impact on a utility's incentive will also be influenced by whether the utility meets the energy savings and air sealing thresholds, whether it hits the expenditure cap or the net benefits cap, and whether its energy savings performance would be above the goal level even after accounting for reductions.

3. Joint Commenters Proposed Modifications

Joint Commenters filed proposed modifications on January 23, 2026 to recalibrate their proposed incentive mechanism for natural gas utilities to account for the TRM 5.0 furnace baseline update. They stated:

> The ECO financial incentive proposal for the 2027-2029 Triennial was developed in collaboration with utilities and other stakeholders without accounting for a potential change to the TRM furnace baseline…[and was] designed to set challenging yet realistic goals for utility performance. To account for the new baseline assumptions and ensure that the goals set by the incentive mechanism remain obtainable, the Joint Commenters recommend making several modifications to the proposed 2027-2029 gas incentive mechanism.[70]

Joint Commenters recommend changes to the insulation and air sealing metric and to the net benefits scale (the award levels corresponding to performance). Specifically, they recommended reducing each utility's threshold and goal for insulation and air sealing metric by 11% to account for the anticipated reduction to energy savings in this category. The details of this updated recommendation are shown in Table 14 below.

Similarly, Joint Commenters recommend a slight increase to the net benefits scale—awarding utilities a slightly higher percentage of net benefits for each achievement level—to account for anticipated declines in net benefits and to recognize that achieving historical performance levels may be more challenging in the short-term as utility programs adjust to the new baseline. They recommend raising both the minimum and maximum award levels by 0.5%, to 2.4% and 5.5% respectively. This increase would be distributed among the three proposed natural gas metrics according to their relative weight in the calculation (weighting is shown in Table 9).

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[69] CEE Initial Comments, Docket No. E,G999/CIP-18-694, p. 18

[70] Joint Commenters, Proposed Modifications, January 23, 2025, p. 2

Table 14 shows Joint Commenters' second revised proposal compared to their recommended gas incentive mechanism as of September 15, 2025 Reply Comments. The updated recommendations shown below are the same as the figures shown earlier in Table 5.

Table 14: Overview of Proposed Modifications to Gas Incentive Mechanism[71]

<table>
<tr><th colspan="3">First-Year Energy Savings (% of Retail Sales)</th><th>% of Total Net Benefits Awarded</th></tr>
<tr><td colspan="3">0.70% (threshold)</td><td>~~1.14%~~ 1.44%</td></tr>
<tr><td colspan="3">0.80%</td><td>~~1.51%~~ 1.81%</td></tr>
<tr><td colspan="3">0.90%</td><td>~~1.88%~~ 2.18%</td></tr>
<tr><td colspan="3">1.00%</td><td>~~2.26%~~ 2.56%</td></tr>
<tr><td colspan="3">1.10%</td><td>~~2.63%~~ 2.93%</td></tr>
<tr><td colspan="3">1.20% (goal)</td><td>~~3.00%~~ 3.3% (cap)</td></tr>
<tr><th colspan="3">Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)</th><th rowspan="2">% of Total Net Benefits Awarded</th></tr>
<tr><th>MERC</th><th>CenterPoint</th><th>Xcel</th></tr>
<tr><td>~~0.06%~~ 0.05% (threshold)</td><td>~~0.11%~~ 0.10% (threshold)</td><td>~~0.11%~~ 0.09% (threshold)</td><td>~~0.38%~~ 0.48%</td></tr>
<tr><td>~~0.08%~~ 0.07%</td><td>~~0.15%~~ 0.14%</td><td>~~0.15%~~ 0.13%</td><td>~~0.50%~~ 0.60%</td></tr>
<tr><td>~~0.11%~~ 0.10%</td><td>~~0.19%~~ 0.17%</td><td>~~0.19%~~ 0.17%</td><td>~~0.63%~~ 0.73%</td></tr>
<tr><td>~~0.13%~~ 0.12%</td><td>~~0.24%~~ 0.21%</td><td>~~0.24%~~ 0.21%</td><td>~~0.75%~~ 0.85%</td></tr>
<tr><td>~~0.16%~~ 0.14%</td><td>~~0.28%~~ 0.25%</td><td>~~0.28%~~ 0.24%</td><td>~~0.88%~~ 0.98%</td></tr>
<tr><td>~~0.18%~~ 0.16% (goal)</td><td>~~0.32%~~ 0.29% (goal)</td><td>~~0.32%~~ 0.28% (goal)</td><td>~~1.00%~~ 1.10% (cap)</td></tr>
<tr><th colspan="3">Low-Income Spend (% of Residential GOR)</th><th>% of Non-EFS Net Benefits Awarded</th></tr>
<tr><td colspan="3">1.0% (threshold)</td><td>~~0.38%~~ 0.48%</td></tr>
<tr><td colspan="3">1.2%</td><td>~~0.50%~~ 0.60%</td></tr>
<tr><td colspan="3">1.4%</td><td>~~0.63%~~ 0.73%</td></tr>
<tr><td colspan="3">1.6%</td><td>~~0.75%~~ 0.85%</td></tr>
<tr><td colspan="3">1.8%</td><td>~~0.88%~~ 0.98%</td></tr>
<tr><td colspan="3">2.0% (goal)</td><td>~~1.00%~~ 1.10% (cap)</td></tr>
</table>

As discussed further in Section VI.D of these Briefing Papers, Joint Commenters estimated that under the second revised proposal, MERC's incentive may increase slightly (1.1%), while Xcel Gas and CenterPoint's may decline (by 17.5% and 20%, respectively) compared to 2024 actuals. These estimates assumed that utilities do not use verified furnace efficiencies nor do they change their programming to mitigate impacts of reduced energy savings.

[71] Joint Commenters, Reply Comments, Table 7 at 19

4. CenterPoint Energy Modified Proposal

On January 28, 2026, CenterPoint filed Supplemental Comments recommending changes to the Joint Commenters' second revised proposal. Staff will refer to this as CenterPoint's Modified Proposal.

CenterPoint supported Joint Commenters' modifications to the insulation and air sealing metric to address the impact of TRM 5.0, but noted that "this does not address the Company's prior concerns with accurate calibration of the mechanism for what is achievable in 2027-2029 for insulation and air sealing."[72] Staff understands this to mean that CenterPoint continues to believe the performance levels for this metric are overly ambitious but does not oppose adoption of the metric.

CenterPoint expressed that its primary concern is that overall award levels may be mis-calibrated due to its expectation that gas commodity pricing used in the Minnesota Test for the next Triennial will be significantly lower. The Department is in the process of updating the cost-effectiveness framework for use in the 2027-2029 Triennial and as part of the update is considering moving from using an all-utility weighted average cost to individual utility commodity costs over a 24-month historical period.[73] If this change occurs, CenterPoint expects its gas cost assumed in the Minnesota Test to decline from $4.52 per Dth to $3.30 per Dth for 2027-2029 (a 27% decline).[74]

CenterPoint estimated that using $3.30 per Dth in 2024 would have reduced its ECO portfolio net benefits by about 16%. When combined with the higher furnace baseline in TRM 5.0, the Company estimated an approximately 35% reduction in portfolio net benefits for 2024, holding program performance constant.[75]

To mitigate this decline, CenterPoint recommended increasing the net benefits cap for natural gas utilities to 6.0%, rather than the increase to 5.5% proposed in Joint Commenters' second revised proposal. The company recommended using the pre-existing metric weightings (shown in Table 9) to allocate the additional net benefits between categories, so their proposal increases the metric-specific cap for all three metrics to the following levels:

- First-year energy savings cap: 3.6% of net benefits
- Low-income spending cap: 1.2% of net benefits
- Insulation and air sealing cap: 1.2% of net benefits

CenterPoint did not propose a corresponding increase to the awards for *threshold* performance

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[72] CenterPoint Energy, Supplemental Comments, p. 5

[73] ECO Cost-Effectiveness Advisory Committee Summary Report, October 31, 2025, p. 15

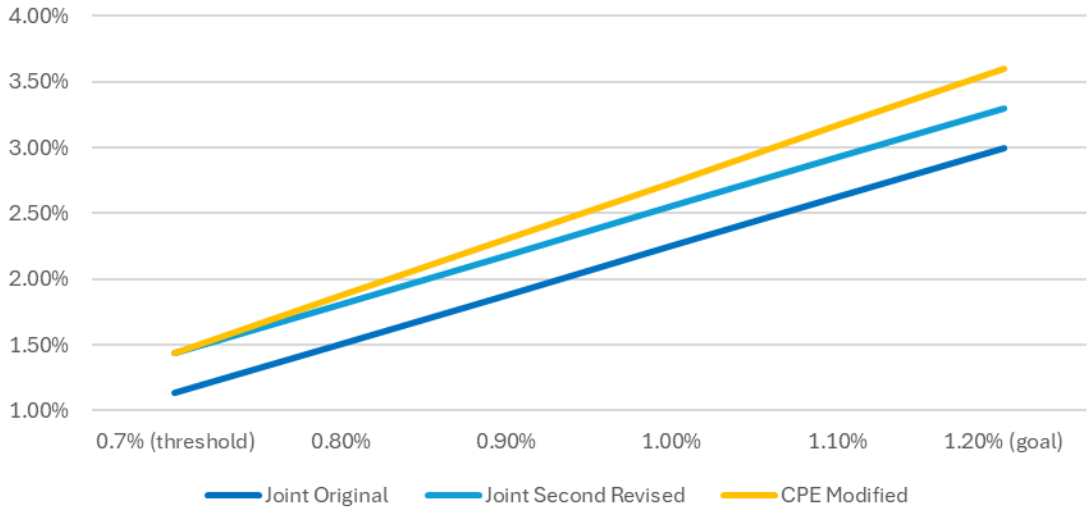
[74] The estimated $3.30 per Dth is a sales-weighted average fuel cost using 24 months of historical data (November 2023 through October 2025).

[75] CenterPoint Energy, Supplemental Comments, p. 6

levels, just increasing the *caps*. This increases the slope of the incentive function. In other words, CenterPoint's modified proposal provides a greater incentive to reach higher levels of performance in each measure compared to Joint Commenters' second revised proposal.

Staff includes Figure 4 below to illustrate how net benefits would be awarded for gas first-year energy savings achievements under the Joint Commenters' original, Joint Commenters' second revised, and CenterPoint modified proposals.

Figure 4: Proposed Award Levels for Natural Gas First-Year Savings



Staff did not reproduce this figure for the insulation and air sealing or low-income spending metrics, but CenterPoint's proposal would have a parallel impact on those categories; i.e., increasing the caps provides a greater incentive to reach higher levels of performance.

CenterPoint justified raising the cap to 6% for three reasons:

- The company anticipates this change will allow it to achieve an incentive comparable to recent years if it maximizes net benefits across all three metrics.
- Raising the cap may reduce financial incentives for natural gas utilities, which it believes is consistent with Joint Commenters' goals.
- "[A 6% cap] is calibrated at a level that allows for consistency among the gas utilities."[76]

Table 15 shows CenterPoint's expectations for its own incentive (using 2024 performance) when accounting for impacts of both TRM 5.0 and reduced natural gas pricing in the next Triennial under the Joint Commenters' original, Joint Commenters' second revised, and CenterPoint modified proposals. Staff included the Joint Commenters' estimates for comparison, to illustrate the impact of the gas price assumption.

Table 15 illustrates that CenterPoint anticipates a new gas price methodology could result in its

[76] CenterPoint Energy, Supplemental Comments, p. 7

incentive being 18% lower than Joint Commenters' estimate (assuming no programmatic changes), and that its modified proposal would mitigate this decline to an 11% reduction.

Table 15: Estimated 2024 CenterPoint Incentive Under Three Methods

	Joint Revised	Joint Second Revised	CenterPoint Modified
Joint Commenters Estimate (After TRM 5.0)	$5,755,998	$6,368,994	
% difference from revised	-	*+11%*	
CenterPoint Estimate (TRM 5.0 and gas price decline)		$5,207,454	$5,645,326
% difference from joint second revised		*-18%*	*-11%*

E. Staff Analysis

Staff found the Joint Commenters' proposal to modify the natural gas incentive—specifically, to consider performance on low-income spending and insulation and air sealing, in addition to first-year energy savings—to be reasonable. Staff also agrees that the proposal would bring the incentive in closer alignment with ECO policy objectives. There is general agreement among parties on adopting these three metrics; contested issues are largely about exactly where to set thresholds, caps, and award levels, given the recent updates to the TRM.

The Commission can approve the use of a multi-factor incentive for natural gas by adopting **Decision Option 5** and selecting from subparts A-D, which correspond with adopting metrics for:

A. First-year energy savings **and**
B. Low-income spending **and**
C. Insulation and air sealing savings **or**
D. Building shell savings

1. Furnace Baseline Impacts and Modified Proposals

Staff understands utilities' concern that the TRM furnace baseline change may necessitate lowering rebates in some cases—especially for single-family furnace replacement—to maintain program cost-effectiveness. Utilities may encounter challenges that must be worked through as the change is integrated across ECO portfolios. However, Staff notes that that the updated baseline is intended to improve the accuracy of energy savings claimed, and in the Department's view, the higher baseline more accurately reflects market conditions. In all areas of utility regulation, it is necessary to periodically re-evaluate and update inputs to modeling or cost/benefit tests to ensure programs and incentives are 1) aligned with market conditions, and

2) reflect their value to the public.

Staff notes that there is discussion in the record of at least two avenues for utilities to mitigate the impact of the furnace baseline change, even within their portfolio of HVAC measures. First, utilities can work to verify the efficiency of existing furnaces and request to use the 80% AFUE baseline for those with verified efficiency less than 90% AFUE. Second, utilities can prioritize market segments that are not impacted or are less impacted by the change, including townhomes and multi-family housing segments, as well as air source and ground source heat pump programs.

Joint Commenters estimate that without any programmatic changes, the new furnace baseline would lower gas utility incentives by approximately 20%. When accounting for the proposed methodology changes, gas utility incentives could decline by much as 15-27% compared to 2024 actuals. Under the Joint Commenters' second revised proposal, this impact is lessened with MERC estimated to see a 1% increase and Xcel and CenterPoint estimated to see declines between 17-20%, as shown in Table 7. Staff is comfortable with Joint Commenters' second revised proposal, especially as utilities would have several avenues for adjusting ECO portfolios to achieve a desired incentive under the proposed methodology.

Regarding CenterPoint's Supplemental Comments, Staff notes that gas prices are a significant factor in determining Minnesota Test net benefits. CenterPoint is concerned that gas prices for the 2027-2029 ECO Triennial will be based on the 24-month period from November 2023 through October 2025, which could result in a significant decline in net benefits for gas conservation.

Gas prices have risen significantly since 2023 and 2024, and market forecasts expect prices to remain elevated through 2026 and 2027 due to increased demand from multiple sectors, including liquified natural gas (LNG) exports.[77] If these market conditions continue, use of 2023-2025 historical prices to assess net benefits during the upcoming Triennial period could underestimate the actual value of avoided gas purchases.

However, the change to ECO cost-effectiveness test methodology that CenterPoint is concerned about is still speculative at this time, and is not a decision in the Commission's purview. Additionally, natural gas price volatility is a factor utilities always have to consider in developing ECO portfolios using estimated net benefits from a snapshot in time. For these reasons, Staff does not recommend the Commission base its decision on an expectation that utilities' ECO net benefits will decline by an additional 16% due to updated natural gas price assumptions.

The Department's ECO Staff issued a Proposed Decision on the updated cost-effectiveness framework on February 12, 2026.[78] Comments on this proposal were due in late February, and

[77] U.S. Energy Information Administration (EIA) Short Term Energy Outlook, Natural Gas, February 10, 2026, available at https://www.eia.gov/outlooks/steo/report/natgas.php

[78] Department of Commerce, Staff Proposed Decision, Docket No. E,G999/CIP-26-89, February 12, 2026

the Department anticipates the Assistant Commissioner Decision's approving the final 2027-2029 ECO cost-effectiveness methodologies for investor-owned utilities will be issued in late March 2026. Staff suggests that if utilities are concerned about potential unintended consequences of methodology changes, they express this concern through comments to the Department.

2. Natural Gas Net Benefits Caps

There is agreement in the record that the Commission should set a net benefits cap equal to the sum of the goal award levels for each metric. The question for the Commission is precisely where to set this cap, and whether to adjust the cap based on the recent TRM furnace baseline and/or potential changes to the ECO cost-effectiveness test.

- If the Commission does not believe it is appropriate to modify the ECO incentive to mitigate impacts from the TRM changes at this time, it can adopt the Joint Commenters' original proposal for a 5.0% net benefits cap with **Decision Option 6A.**

- If the Commission agrees with Joint Commenters that it is reasonable to increase the net benefits cap by 0.5% to offset some of the impact of the TRM furnace baseline change, it can adopt **Decision Option 6B.**

- If the Commission is persuaded that the forthcoming cost-effectiveness framework will significantly reduce ECO net benefits, it should consider adopting CenterPoint's modified proposal to increase the award levels for goal-level achievements consistent with a 6.0% net benefits cap. (**Decision Option 6C**)

Note that setting the net benefits cap is a separate issue from whether to cap each individual metric or allow over-performance in certain areas.

3. First-Year Energy Savings and Low-Income Spending

There is broad agreement in the record concerning the structure of the first-year energy savings and low-income spending metrics, as well as which threshold and goal achievement levels to use. The contested issues are whether to set metric-specific caps (discussed earlier) and how much to award utilities for performance at each level.

After determining whether to establish metric-specific caps **(Decision Options 7, 11, 20D, 25)** or to instead rely on the overall net benefits and expenditure caps **(Decision Options 12 and 26),** the Commission can:

- Adopt Joint Commenters' original proposal for award levels with **Decision Options 9A(i), 9D(i), 11/12 A(i),** and **11/12 D(i)**

- Adopt Joint Commenters' second revised proposal, which increases award levels for both threshold and goal, consistent with a 5.5% net benefits cap with **Decision Options**

9A(ii), 9D(ii), 11/12 A(ii), and **11/12 D(ii)**

- Adopt CenterPoint's modified proposal, which further increases the award for goal-level achievements consistent with a 6.0% net benefits cap by adopting **Decision Options 9A(ii), 9D(ii), 11/12 A(iii),** and **11/12 D(iii)**

4. Insulation and Air Sealing

Staff finds Joint Commenters' revisions to the insulation and air sealing metric to be reasonable. Their initial revisions moving to utility-specific achievement levels (based on each utility's program potential) would allow this metric to better reflects differences in geographic scale, population density, and customer composition compared to a uniform, averaged savings goal. While utility-specific metrics will add some complexity to the incentive calculation, Staff finds it justified in this instance due to the added benefits of accuracy and achievability.

Joint Commenters' second revision adjusted achievement levels by 11% and increased award levels consistent with a 5.5% net benefits cap to 1) account for TRM furnace baseline changes and 2) mitigate some or most of the impact that change will have on utility incentives this upcoming Triennial. The Commission can adopt Joint Commenters' second revised proposal with **Decision Options 9C** and **11/12 C(i).**

If the Commission does not believe it is appropriate to modify the metric at this time to account for the TRM change, it can adopt Joint Commenters' original proposal for the metric with **Decision Options 9B** and **11/12 B.**

If the Commission is persuaded that the forthcoming cost-effectiveness framework will further reduce net benefits, it may wish to adopt CenterPoint's modified proposal with **Decision Options 9C** and **11/12 C(ii).**

Regarding the recommendations from MERC and CenterPoint that EFS or building shell measures should count toward insulation and air sealing achievements, it is important to note that natural gas utilities can already count savings from EFS programs toward their overall first-year energy savings goal. Staff advises caution when the Commission considers allowing utilities to count measures toward two categories (in this case, toward both first-year energy savings and insulation and air sealing).

Staff's understanding is that under Joint Commenters' proposal, measures that can count toward insulation and air sealing achievements or toward low-income spending are also counted toward first-year energy savings. While this *could* be viewed as double-counting those measures, Staff understands this as an intentional feature of the proposal, designed to encourage those program types for policy reasons, and to recognize that these programs may show lower cost-effectiveness than other measures. Therefore, it may not be inherently problematic to allow EFS or additional building shell measures to count toward the insulation and air sealing metric, but the Commission should consider whether such measures are already sufficiently incentivized under the ECO framework.

Record development on this issue was limited, so if the Commission is interested in potentially expanding the insulation and air sealing metric, Staff suggests it ask parties about this matter at the agenda meeting or seek further record development. If the Commission wishes to approve Joint Commenters' recommendation, it can adopt **Decision Option 13.**

If the Commission wishes to expand the insulation and air sealing metric in this proceeding, it can adopt MERC's suggestion with **Decision Option 14** or CenterPoint's alternative with **Decision Option 15.**

VII. Electric Non-EFS Incentive

The Joint Commenters' proposal would calculate the electric utility incentive based on performance on three metrics: first-year energy savings, permanently avoided demand, and low-income spending. The proposed metric for permanently avoided demand was proposed in Joint Commenters' Reply Comments in response to a proposal from Xcel.

Joint Commenters' proposal also includes a separate incentive for EFS achievements, as shown in Table 16 below. For the electric conservation incentive, which Joint Commenters call the non-EFS incentive, the proposed incentive mechanism would award a specific percentage of net benefits to each of the three included metrics, which is discussed in the following sections. The relative *weight* of each metric as a portion of the total maximum non-EFS or EFS award is also shown in Table 16 below.

Table 16: Overview of Electric Non-EFS Incentive

Electric Non-EFS Incentive	**Weight**	**Maximum % of Non-EFS Net Benefits Awarded**
First-year energy savings achievement (MWh) as a percentage of retail sales	77%	5%
Permanently avoided demand, measured by the corresponding level of avoided retail sales		
Low-income spend ($) as a percentage of residential GOR	23%	1.5%
Non-EFS Total	**100%**	**6.5%**
Efficient Fuel-Switching Incentive	**Weight**	**Maximum % of EFS Net Benefits Awarded**
Efficient fuel-switching achievements	100%	10%

A. Total Electric Net Benefits Cap

Joint Commenters proposed a net benefits cap for the non-EFS incentive of 6.5%, the sum of the metric-specific caps proposed for energy and demand savings (5%) and low-income spending (1.5%). Note that Joint Commenters' Initial Proposal included a 6.0% net benefits cap, which they increased by 0.5% after feedback from utilities that the 6.0% cap would hinder utilities from earning incentives comparable to current levels.

1. Electric IOU Positions

All three electric IOUs proposed increasing the non-EFS net benefits cap above 6.0%. Minnesota Power[79] and Xcel recommended increasing it to 7.0%, and Otter Tail recommended increasing it to 6.5%. As shown in the table below, both Otter Tail and Minnesota Power made recommendations for increasing the metric-specific caps so that the sum of these caps equaled their overall cap, while Xcel argued for eliminating the metric-specific caps.

Table 17: Proposed Caps for the non-EFS Incentive

Metric	Joint Commenters	Otter Tail Power	Minnesota Power	Xcel Energy
Energy Savings	5%	5%	5.2%	none
Low-Income Spend.	1.5%	1.5%	1.8%	
Non-EFS Cap	**6.5%**	**6.5%**	**7%**	**7%**

Utilities argued that it was necessary to increase the cap to enable utilities to earn an incentive comparable to current levels. Otter Tail argued that under the Joint Commenters' Initial Proposal, utilities would earn less for the same level of performance, which it saw as effectively penalizing them. Xcel argued that a higher cap and elimination of the metric-specific caps was necessary to 1) counteract a marked decline in the value of avoided marginal emissions and avoided energy costs and 2) keep the overall incentive level stable for utilities.[80] As discussed further in Section VII.B of these Briefing Papers, Xcel estimated that the avoided electricity generation value of its 2024 ECO portfolio will drop by 26% when using updated forecasts from its most recent IRP, which it expects will be used to calculate Minnesota Test net benefits for its 2027-2029 Triennial.[81]

Joint Commenters appreciated the additional information Xcel provided on declining avoided energy cost and agreed it was reasonable to increase the overall cap on the non-EFS category as a result.[82] They preferred Otter Tail's recommendation to increase the cap to 6.5% and noted

[79] Minnesota Power Initial Comments at 13

[80] Xcel, Initial Comments at 15

[81] Xcel, Initial Comments at 5

[82] Joint Commenters, Reply Comments at 13

that the current cap for electric non-EFS performance is 5.5% of net benefits. Joint Commenters explained:

> Raising the Net Benefits Cap from 5.5 to 6.5 percent represents an 18 percent increase in the incentive available for traditional demand-side management programs. When combined with the new EFS incentive, this adjustment helps maintain overall incentive levels consistent with previous years while encouraging innovative program designs that advance ECO's core goals.[83]

In other words, Joint Commenters expect that the combination of a new EFS incentive (discussed in Section VIII of these Briefing Papers) and a 6.5% net benefits cap on the non-EFS category will counterbalance declining avoided energy costs and enable electric utilities to achieve incentives over the upcoming Triennial comparable with recent levels.

2. Staff Analysis

Multi-Factor Incentive

Staff found the Joint Commenters' proposal to modify the electric incentive—specifically to consider performance on multiple metrics, including low-income spending and avoided demand in addition to first-year energy savings—to be reasonable. Staff also agrees that the proposal would bring the incentive in closer alignment with ECO policy objectives. There is agreement among parties on adopting these metrics for the 2027-2029 electric non-EFS incentive.

The Commission can approve the use of a multi-factor electric non-EFS incentive by adopting **Decision Option 19** and selecting from subparts A-C, which correspond to:

A. First-year energy savings **and**
B. Permanently avoided demand **and**
C. Low-income spending

Total Net Benefits Cap

As Staff understands it, Joint Commenters' proposal is intended to allow utilities to earn a similar level of *overall* incentive as in recent years, but encourages expanding and shifting priorities within the ECO portfolio to do so. Utilities generally emphasized a desire to be able earn a similar incentive for similar performance going forward, and argued that the addition of new goals should correspond to the opportunity to earn a *higher* incentive. Utilities also discussed several economic trends (declining avoided electricity costs and declining marginal emissions) that are reducing the Minnesota Test net benefits of traditional ECO programs, and may therefore drive declines in incentive amounts. These issues are discussed further in the remainder of Section VII of these Briefing Papers.

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[83] Joint Commenters, Reply Comments at 13

The ECO incentive and Minnesota Test contain many variables and program performance is impacted by many exogenous factors, thus making it difficult to project hypothetical future incentive levels. In previous proceedings to update the incentive methodology, the Commission has considered whether to maintain a roughly consistent level of incentive or reduce incentives to save ratepayers money while still encouraging energy savings.

The Commission should assess the marginal benefits of increasing the non-EFS net benefits cap to 7%, as proposed by the IOUs, and whether the potential added cost to ratepayers is reasonable to increase utilities' motivation to pursue strong energy savings and low-income spending. For the three electric IOUs, the aggregate difference between 6.5% and 7% of non-EFS Minnesota net benefits in 2024 was $1,925,123.

Staff notes that in the hypothetical incentives calculated for 2024 performance under the new methodology, both Otter Tail and Minnesota Power hit the 5% net benefits cap for the energy savings metric, as both utilities achieved over 2.3% first-year energy savings in 2024.[84] Therefore, increasing the net benefits cap appears likely to benefit these two utilities, assuming similar program performance and market conditions.

To set the net benefits cap, the Commission should select **Decision Option 20** and choose from subparts A, B, or C, which represent Joint Commenters' recommendation, the IOUs preferred recommendation, and Xcel's alternative recommendation, respectively.

B. First-Year Energy Savings

As with the proposed natural gas incentive, Joint Commenters sought to preserve energy savings as an important factor in the electric utility incentive calculation and proposed maintaining the current method of calculating first-year energy savings.[85] Consistent with current practice, energy saved (in kWh) through electric energy efficiency and load management programs are included, but the kWh-equivalent savings from EFS programs are excluded. The proposed first-year energy savings threshold and cap are shown in Table 18 below.

[84] Joint Commenters, Reply Comments, Attachment A

[85] First-year energy savings (Dth) are reported as a percentage of weather-normalized average retail sales over the most recent three years, excluding sales to ECO-exempt customers. For the next Triennial (filed in 2026), this will cover 2023-2025. Joint Commenters Initial Proposal at 23.

Table 18: Revised First-Year Energy Savings Thresholds and Caps

First-Year Energy Savings Achievement (% of Retail Sales)	% of Minnesota Net Benefits Awarded
1.5% (threshold)	1.0%
1.6%	1.5%
1.7%	2.0%
1.8%	2.5%
1.9%	3.0%
2.0%	3.5%
2.1%	4.0%
2.2%	4.5%
2.3% (goal)	5.0% (cap)

This proposal remained largely unchanged between their Initial and Revised proposals, except that Joint Commenters agreed with Otter Tail that the goal should increase from 2.2% to 2.3% of retail sales, increasing the corresponding cap on net benefits from 4.5% to 5.0%. In other words, Joint Commenters added the last row of Table 18 in the Revised Proposal.

Joint Commenters also proposed that the 5.0% cap be a combined cap that applies to both first-year savings and demand savings. This is discussed further in Section VII.C of these Briefing Papers.

1. Electric IOU Positions

Xcel, OTP, and Minnesota Power expressed concerns about the electric first-year energy savings metric as originally proposed, and recommended modifications. Their concerns fell into two categories:

- Impacts of declining avoided energy costs on the ECO incentive
- Proposed threshold and cap for first-year energy savings

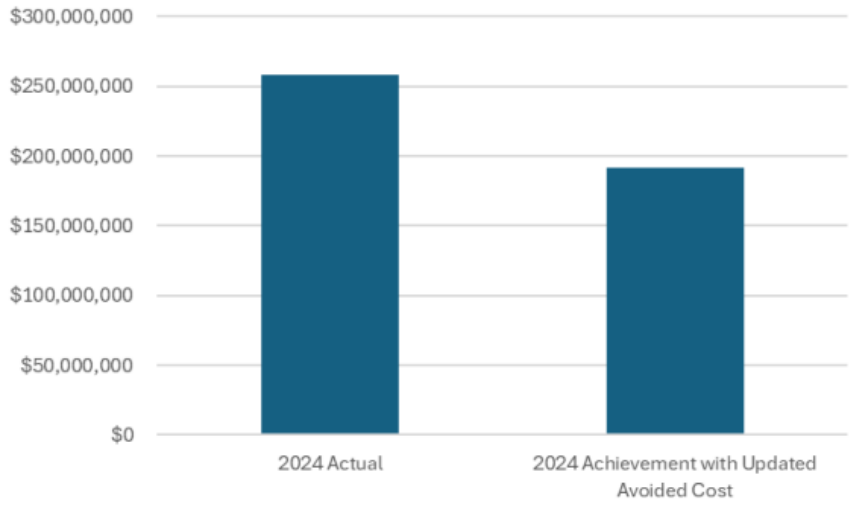
Declining Avoided Energy Costs

Xcel and Minnesota Power highlighted system trends that are causing a decline in the value of avoided electric energy, which is consequently eroding the cost-effectiveness of these measures under the Minnesota Test. Both utilities noted that the transition away from combusted fuels and growth of wind and solar generation is resulting in lower wholesale electricity prices and lower average greenhouse gas intensity of the electric system. These changes benefit customers and the climate but reduce the cost-effectiveness of traditional energy efficiency. Xcel noted these market changes "are reaching a point that a significant portion of the electricity saved through energy efficiency would otherwise have been generated from renewable or other zero-carbon resources."[86]

[86] Xcel, Initial Comments at 3

Xcel observed that its most-recently-approved IRP shows a continuing decline in marginal electricity costs and emissions. To illustrate the impact these changes may have on its ECO portfolio's cost-effectiveness in the next Triennial, Xcel applied the marginal electricity price forecast from its 2024 IRP to its 2024 ECO achievement. As shown in Figure 5 below, the approved avoided generation value for Xcel's 2024 ECO programming was $258 million. Xcel projected this would fall by 26% to $191 million when using generation costs forecasted in the IRP.

Figure 5: Declining Value of Saved Electricity[87]



Xcel attributed this expected drop to a large increase in the number of hours when wind and solar with $0.00 fuel cost are the marginal (and therefore price-setting) generation resource in MISO. Xcel's IRP modeling projected that the number of hours in which renewables are on the margin will increase from 5% in 2025 to over 50% in 2045, as shown in Table 20 below.

Table 20: Projected Annual Hours when Renewables are the Marginal Generation Resource[88]

Year	Number of Hours	Percentage of Hours
2025	449	5%
2030	2,544	29%
2045	5,022	57%

Xcel noted that avoided generation costs were the largest source of value in the company's 2024 ECO portfolio at over $258 million. This represents 37% of total portfolio benefits and 52% of electric system benefits under the Minnesota Test. Avoided electric externalities—predominantly reduced carbon emissions—provided another $50 million in value.[89] Given the

[87] Xcel, Initial Comments at 5, Figure 1

[88] Xcel, Initial Comments at 6, Table 1

[89] Xcel, Initial Comments at 4

scale of potential impact of these market trends, Xcel recommended the Commission consider awarding a higher percentage of net benefits for the same level of electric savings achievement and proposed modifying the threshold, cap, and net benefits awarded for first-year energy savings, discussed below.[90]

Xcel also proposed adding a new metric to reward utilities for *demand* savings, which it believes will increasingly be the primary source of system benefits from energy efficiency as marginal costs and emissions continue to decline. Xcel's proposed permanent avoided demand metric is discussed in Section VII.C of these Briefing Papers.

Minnesota Power emphasized that because each electric utility uses its most-recently-approved IRP to calculate avoided generation costs under the Minnesota Test, the *timing* of IRPs significantly impacts utilities' avoided energy values and can lead to disparate impacts across utilities. Minnesota Power recommended the Commission consider approving different percentages of net benefits for each utility to reflect differences in avoided energy costs.[91]

Modifications to net benefits awarded for energy savings

Each of the electric IOUs proposed modifications to the net benefits awarded for first-year energy savings. Xcel and Otter Tail also recommended modifications to the threshold and goal savings levels. These recommendations are compared against the Joint Commenters' Revised Proposal in Table 21 below.

As 5.5% is the *current* net benefits cap for electric first-year energy savings, Otter Tail Power supported net benefits award levels that enable an electric utility to "receive 5.5% of net benefits when they hit the maximum achievement level of first-year savings and meet the low-income spending requirement."[92] However Otter Tail recommended adding an additional achievement level of 2.3% energy savings what would correspond to an award of 5.0% of net benefits. According to OTP, this will encourage utilities to strive for additional savings and better enable utilities to achieve an award under the new framework that is consistent with current levels.[93]

In their Reply Comments, Joint Commenters agreed with this recommendation, as reflected in Table 21; however they recommend a combined cap for energy saving and demand savings, as will be discussed in the following section. The Commission can adopt Otter Tail's proposed energy savings achievement and award levels with **Decision Option 23A and 25/26 C.**

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[90] Xcel Initial at 6

[91] Minnesota Power Initial at 13

[92] Otter Tail Power, Initial Comments at 2

[93] Otter Tail Power, Initial Comments at 2

Table 21: Summary of Recommended First-Year Energy Savings Award Levels

	Percent of Electric Non-EFS Net Benefits Awarded			
First-Year Energy Savings (% of Retail Sales)	Joint Commenters Revised	Otter Tail Power	Minnesota Power	Xcel Energy
1.00%*				0.50%
1.10%				0.79%
1.20%				1.08%
1.30%				1.38%
1.40%				1.67%
1.5%*	1.0%	1.0%	1.69%	1.96%
1.6%	1.5%	1.5%	2.19%	2.25%
1.7%	2.0%	2.0%	2.69%	2.54%
1.8%	2.5%	2.5%	3.19%	2.83%
1.9%	3.0%	3.0%	3.70%	3.13%
2.0%	3.5%	3.5%	4.20%	3.42%
2.1%	4.0%	4.0%	4.70%	3.71%
2.20%**	4.5%	4.5%	5.2% (cap)	4.00%
2.30%**	5% (cap)	5% (cap)	-	4.29%

*Xcel proposed lowering the savings threshold to 1.0% (denoted by the red box), while the other commenters recommended keeping it at 1.5%.
**Joint Commenters and OTP proposed a goal of 2.3% energy savings (denoted by the green box), while Minnesota Power recommended keeping it at 2.2%.

Minnesota Power recommended to keep the threshold and goal savings levels (1.5% and 2.2%, respectively) but to increase the maximum percentage of net benefits awarded from 5.0% to 5.20%.[94] As discussed earlier, Minnesota Power recommended raising the total non-EFS net benefits cap to 7.0%, the sum of its proposed caps for energy savings and low-income spending. The Commission can adopt Minnesota Power's proposed energy savings achievement and award levels with **Decision Option 23B and 25/26 B.**

Xcel recommended several changes to the first-year energy savings metric:

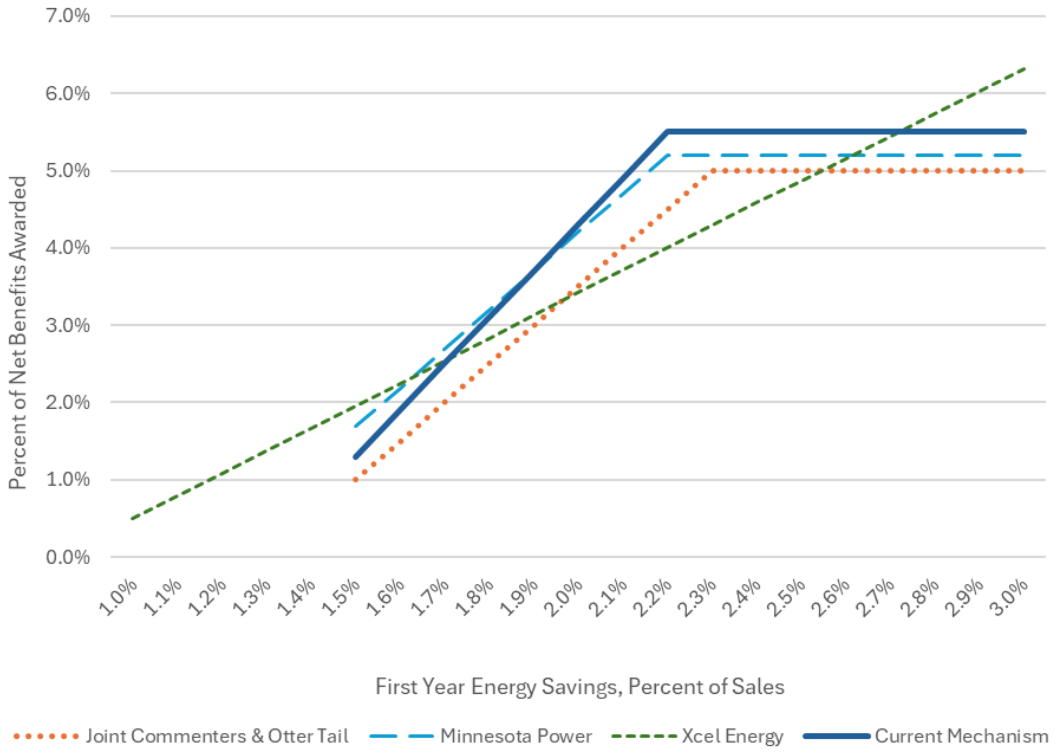
- Lower the threshold from 1.5% to 1.0%;
- Award 0.5% of net benefits for that minimum level of achievement;
- Reduce the rate of increase of net benefits awarded: at 2.2% savings, award 4.0% of net benefits rather than 4.5% (with intermediate achievements calculated by linear interpolation); and
- Allow achievements above the goal level of 2.2% to earn a higher award, calculated by extrapolation, subject to the net benefits and expenditure caps.[95]

[94] Minnesota Power, Initial Comments at 13

[95] Xcel, Initial Comments at 18

Staff adapted a graph from Xcel's comments to create Figure 6 below. Figure 6 illustrates Xcel's proposed changes to this metric as compared to the current mechanism, Minnesota Power's proposal, and the Joint Commenters' and Otter Tail's Proposal.

Figure 6: Incentive Functions for Electric First-Year Savings[96]



Xcel acknowledged that its proposed 1.0% savings threshold is below the 1.75% energy savings goal established in statute, but pointed out that 1) the current mechanism and proposal use 1.5% of sales as the threshold, and 2) that the Commissioner of Commerce has statutory authority to approve an energy savings goal as low as 1% under certain conditions. Xcel proposed a 1% threshold on that basis. The applicable statute is MN Stat. § 216B.241, subd. 1c:

> Subd. 1c. **Public utility; energy-saving goals.** (a) The commissioner shall establish energy-saving goals for energy conservation improvements and shall evaluate an energy conservation improvement program on how well it meets the goals set.
>
> (b) A public utility providing electric service has an annual energy-savings goal equivalent to 1.75 percent of gross annual retail energy sales unless modified by the commissioner under paragraph (c). A public utility providing natural gas service has an annual energy-savings goal equivalent to one percent of gross annual retail energy sales, which cannot be lowered by the commissioner. The savings goals must be

[96] Xcel, Initial Comment at 19, Figure 2

> calculated based on the most recent three-year weather-normalized average. A public utility providing electric service may elect to carry forward energy savings in excess of 1.75 percent for a year to the succeeding three calendar years, except that savings from electric utility infrastructure projects allowed under paragraph (d) may be carried forward for five years. A public utility providing natural gas service may elect to carry forward energy savings in excess of one percent for a year to the succeeding three calendar years. A particular energy savings can only be used to meet one year's goal.
>
> (c) In its energy conservation and optimization plan filing, a public utility may request the commissioner to adjust its annual energy-savings percentage goal based on its historical conservation investment experience, customer class makeup, load growth, a conservation potential study, or other factors the commissioner determines warrants an adjustment.
>
> (d) The commissioner may not approve a plan of a public utility that provides for an annual energy-savings goal of less than one percent of gross annual retail energy sales from energy conservation improvements.

The Commission can adopt Xcel's proposed energy savings threshold and net benefits award levels with **Decision Options 23C and 25/26 D.** The Commission can adopt Xcel's proposal to use linear extrapolation to award utilities for savings achievements above the goal with **Decision Option 28.**

2. Staff Analysis

Staff appreciates utilities elevating the issue of declining avoided generation costs and emissions, and the impact this is expected to have on the net benefits of their ECO portfolios in coming years. Of course, declining wholesale prices and declining marginal emissions benefit utility customers and society. Nonetheless these trends can be expected to create uncertainty in Minnesota utility conservation programs, as updated electricity cost forecasts may bring about significant drops in a utility's calculated net benefits.

To the extent these trends are expected to continue, Staff agrees it would be beneficial to update the ECO incentive to better reflect the current sources of system cost and better encourage activities that can avoid those costs. Staff is generally supportive of adding a component to reflect the value of avoided demand, which is discussed in the following Section VII.C of these Briefing Papers.

Regarding the proposals for adjusting the first-year energy savings metric, Staff notes that both Xcel's and Minnesota Power's proposed modifications would likely provide higher incentive levels for energy savings achievements compared to the Joint Commenters' proposal, counteracting the impacts of declining avoided energy costs. Of the two options, Xcel's proposals to lower the threshold to 1% and allow utilities to earn net benefits for performance above the goal are larger changes to the incentive design, which the Commission should

consider carefully. Minnesota Power did not submit Reply Comments so it is unclear whether its concerns on this metric would be addressed by the addition of a demand component. The Commission may wish to ask Minnesota Power for their position on the demand metric during the agenda meeting.

Overall, Staff suggests the Commission consider proposals for the energy savings metric in the context of other changes it may make to the incentive framework and the overall impact the changes will have on utilities' expected incentives.

C. Permanently Avoided Demand

As discussed above, Xcel proposed a new metric be added to the electric incentive calculation to reward utilities for programming that reduces electric *demand* in addition to energy savings, to better reflect the growing importance of capacity value as avoided energy costs decline. In Reply Comments, both the Joint Commenters and Otter Tail supported Xcel's recommendation.

Xcel's proposal would award a percentage of non-EFS net benefits to utilities for achievements of "permanently avoided demand." Xcel explained that permanently avoided demand means demand "savings driven by the installation of energy-efficient equipment which reduces the amount of load the customer is able to impose on the system, relative to the counter-factual base case."[97] The category does not include demand savings from demand response or load management programs that shift the timing of customer usage. Xcel explained that while such programs are very valuable for managing grid needs, they do not reduce the amount of load the customer is theoretically able to impose. Xcel believes the ECO financial incentive demand component should reward permanent savings.

Xcel proposed that each utility use its most-recently approved IRP to calculate levels of demand savings corresponding to the levels of first-year energy savings approved for that metric. Xcel explained that utilities can use the forecasting from their most recent IRPs to identify the demand savings expected to result from the energy savings level called for in the IRP. This can then be used to derive the demand savings level associated other energy savings levels.

Xcel provided a hypothetical example in which a utility's IRP called for 100 MWh of energy savings and this corresponded to 1% of annual sales in that year. The IRP indicated that 100 MWh of energy savings in that year was associated with 25 MW of demand reduction. Therefore, that utility's "1 percent demand goal" would be 25 MW. In other words, a 1% *demand goal* represents the MW of demand associated with reducing annual *electricity sales* (MWh) by 1%.

Xcel identified that in its 2024 IRP, each MWh of energy savings was associated with 0.000185 MW of demand savings due to the load shape assumptions it used. Xcel called this the "demand

[97] Xcel Initial at 14

ratio." Xcel multiplied its demand ratio with the MWh corresponding to each level of energy savings, to determine the corresponding demand goal, shown in the fourth column of Table 22 below. This approach results in a 1% demand goal of 50.3 MW and a 2% demand goal of 100.6 MW for Xcel.

Table 22: Xcel Energy Proposed Schedule of Net Benefits for Permanently Avoided Demand

Percent of Sales	MWh Savings	Demand Ratio	Demand Goal (MW)	of Non-EFS Net Benefits Awarded
1.0%	272,290	0.0001848	50.32	1.00%
1.1%	299,519	0.0001848	55.35	1.08%
1.2%	326,748	0.0001848	60.38	1.17%
1.3%	353,977	0.0001848	65.42	1.25%
1.4%	381,206	0.0001848	70.45	1.33%
1.5%	408,435	0.0001848	75.48	1.42%
1.6%	435,664	0.0001848	80.51	1.50%
1.7%	462,893	0.0001848	85.54	1.58%
1.8%	490,122	0.0001848	90.58	1.67%
1.9%	517,351	0.0001848	95.61	1.75%
2.0%	544,580	0.0001848	100.64	1.83%
2.1%	571,809	0.0001848	105.67	1.92%
2.2%	599,038	0.0001848	110.70	2.00%
2.3%	626,267	0.0001848	115.74	2.08%
2.4%	653,496	0.0001848	120.77	2.17%
2.5%	680,725	0.0001848	125.80	2.25%

Xcel argues that adding this component "would help orient electric utilities toward energy efficiency programming that maximizes the demand savings potential of energy efficiency. Given the importance of demand savings in avoiding future system expansion and expense, this is an appropriate and reasonable signal to send."[98] Xcel also noted that adding this mechanism will help utilities maintain ECO financial incentive levels as overall energy savings become harder to achieve. The Commission can adopt Xcel's proposed Permanent Demand Savings component with **Decision Options 23D(i) and 25/26 E.**

1. Party Positions

Joint Commenters and Otter Tail Power supported the addition of a component for rewarding permanent demand savings. However, Otter Tail expressed concern that the demand savings component should not split the net benefits awards available for energy savings, but operate as an opportunity for utilities to achieve a higher incentive.

Joint Commenters proposed modifying Xcel's component so that the demand savings threshold

[98] Xcel Initial at 21

match the first-year energy savings threshold, i.e., 1.5% of sales. Related to this change, Joint Commenters recommend recalibrating the demand saving and award levels above 1.5%. While Xcel proposed 1.0% of net benefits correspond to 1.0% demand savings, Joint Commenters proposed 1.0% of net benefits correspond to 1.5% demand savings. They maintained Xcel's upper calibration point of 2.25% net benefits corresponding to 2.5% demand savings, as shown in Table 23 below.

Table 23: Joint Commenters and Xcel Demand Savings Calibration Points

Demand Savings Goal as Percent of Sales		% of Non-EFS Net Benefits Awarded
Xcel	Joint Commenters	
1.0%	1.5%	1.00%
2.5%	2.5%	2.25%

Using these calibration points, Joint Commenters calculated the net benefit awards for other demand savings levels. Under this proposal a utility may earn 5.0% of non-EFS net benefits for demand savings corresponding to 4.7% of sales. Joint Commenters' proposed award levels and demand savings levels are shown in Table 24.

Table 24: Joint Commenters Proposed Schedule of Net Benefits for Permanently Avoided Demand

Permanently Avoided Demand		% of Non-EFS Net Benefits Awarded
% of Sales	Demand Ratio	
1.50%	Utility Specific; dependent on IRP	1.00%
1.90%		1.50%
2.30%		2.00%
2.70%		2.50%
3.10%		3.00%
3.50%		3.50%
3.90%		4.00%
4.30%		4.50%
4.70%		5.00% (shared cap)

Joint Commenters noted that while both the permanent demand savings and first-year energy savings would be eligible to earn up to 5.0% of non-EFS net benefits, these metrics were subject to a combined cap of 5.0% under their revised proposal.

While proposing to move forward with adding a permanent demand savings component, Joint Commenters recognized "the potential limitations of this metric as proposed, such as its focus on summer peak impacts as modeled in the IRP process and the exclusion of behavioral demand response and other load management programs, which also provide valuable system

benefits."[99] They suggested further analysis and collaboration from stakeholders is needed to refine the metric for the 2030–2032 Triennial, especially around ways to value seasonal peak reduction and ways to incorporate a broader range of measures.

2. Staff Analysis

Demand has long been a driver of utility investment and customer costs, and Staff agrees with commenters that it is becoming an even more important driver of costs, risks, and planning challenges across the electric system. Overall, Staff is supportive of adding a demand component to the financial incentive formula to better incentivize programs with beneficial impacts on load shape.

Staff is not aware of previous discussion in this docket of the concept of "permanently avoided demand" or the approach Xcel and Joint Commenters proposed here that calibrates avoided demand based on expected avoided energy via energy conservation programs. This concept is significantly different from peak demand or net peak demand, which are metrics the Commission uses in many proceedings.

Staff wishes to clarify that as proposed, the avoided demand metric would be an additional avenue for incentivizing conservation programs (in addition the first-year energy savings metric), rather than incentivizing a new category of activities. It would also *exclude* traditional demand response and behavioral load-management programs.[100] Given that the avoided demand and first-year energy savings metrics could reward the same measures (albeit in slightly different ways), Staff agrees with Joint Commenters that it is appropriate for both metrics to be subject to a shared cap.

Both the Joint Commenters' and Xcel's proposed approaches allow utilities an opportunity to earn a higher incentive if their energy savings achievements are below the 2.3% goal. Utilities with higher energy savings achievements may not see a significant impact while those with lower energy savings are more likely to see increased incentives.

Staff does agree with Joint Commenters that this component would benefit from further discussion among stakeholders about potential refinements to better reflect how capacity is valued in other areas of electricity planning, such as by incorporating seasonal differences, targeting net peak rather than gross peak, and considering whether and how this metric could incentivize demand response or other load management programs.

Should the Commission wish to adopt a permanent avoided demand component, it should determine whether it prefers Xcel's proposal, which begins to offer incentives at demand

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[99] Joint Commenters, Reply Comments at 17

[100] Currently, load management is not *explicitly* incentivized by the ECO incentive framework, but utilities may count energy savings from load management programs toward first-year energy savings, count the net benefits of load management programs as part of their portfolio net benefits, and count load management expenditures in the calculation of the expenditures cap.

savings equivalent to 1.0% of sales, or Joint Commenters' proposal, which begins to offer incentives at 1.5% of sales. While Joint Commenters' proposal has a higher threshold, net benefits awarded also increase at a faster rate than under Xcel's proposal. Staff finds either approach reasonable and suggests the Commission match the demand savings threshold to the threshold selected for the first-year energy savings metric.

The Commission can adopt Joint Commenters proposed permanent demand savings component with **Decision Option 19B, Decision Option 23D(ii)** and can adopt the proposed combined cap with **Decision Option 25/26A** (in entirety)**.**

The Commission can adopt Xcel's proposed permanent demand savings component with **Decision Option 19B, Decision Options 23D(i) and 25/26E.**

D. Low-Income Spending

As with their revisions to the natural gas utility ECO incentive, Joint Commenters recommended tying a portion of the electric incentive directly to utility spending on low-income programs as defined in statute,[101] calculated as a percentage of residential GOR. They argued that the award levels should be based on *spending* to encourage utility investments in a broader array of programs that have significant benefits for customers, and to avoid limiting programming to measures that are most cost-effective.[102] Joint Commenters recommend setting the net benefits award levels using the schedule shown in Table 25 below.

Table 25: Proposed Electric Low-Income Spend Metric

Low-Income Spend Achievement (% of Residential GOR)	% of Minnesota Net Benefits Awarded
0.60% (threshold)	0.50%
0.70%	0.75%
0.80%	1.00%
0.90%	1.25%
1.00% (goal)	1.50% (cap)

These recommended net benefit levels are slightly higher than the levels Joint Commenters proposed in their Initial Proposal. In response to feedback from the electric utilities, they increased the award for meeting the 0.60% threshold from 0.33% of net benefits to 0.50%, while keeping the cap at 1.50% net benefits for achievement of the 1.0% spending goal.

Joint Commenters also noted that the low-income spending metric may benefit from additional refinements over time to better incentivize programming for renters and those with the highest energy burdens.

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[101] Minn. Stat. § 216B.2402, subd. 16 and 17

[102] Joint Commenters, Initial Proposal at 10

1. Electric IOU Positions

All three electric utilities expressed support for adding a low-income spending metric to the electric incentive mechanism, but recommended modifications. As discussed earlier, Xcel recommended the use of an overall cap instead of metric-specific caps, but specified that all utilities be required to meet both the first-year savings and low-income spending thresholds to qualify for any incentive in a given year.

Minnesota Power agreed adding a low-income spending metric aligns with state policy goals around equity, but cautioned that significantly higher levels of low-income spending may be difficult to achieve given resource constraints and uncertainty around new federal and state programs. Minnesota Power suggested increasing the slope of the metric so that achieving the 1.0% spending would earn a utility 1.80% rather than 1.50% of net benefits.[103]

Otter Tail similarly supported the metric but recommended revising the award levels upward. It argued that that the initially proposed minimum award of 0.33% of net benefits for meeting the 0.6% residential GOR requirement was too low and should be increased to 0.5% of net benefits. Otter Tail reasoned that 0.50% would better preserve parity with the current incentive because it would allow a utility to achieve 5.5% of net benefits for achieving the first-year energy savings goal (2.3% of sales) and the statutorily required low-income program spending levels (0.6% GOR).

Table 26 below summarizes the Joint Commenters' revised proposed low-income spending metric and the electric utility recommendations. As Joint Commenters adopted Otter Tail's proposal, those columns are the same. Neither Xcel nor Minnesota Power addressed Joint Commenters' revised proposed award levels in Reply Comments, so this table reflects their positions as of Initial Comments.

Table 26: Summary of Party Recommendations for Electric Low-Income Spend Metric

Low-Income Spend (% of Resi. GOR)	% of Non-EFS Minnesota Net Benefits Awarded			
	Joint Commenters Revised	Otter Tail Power	Minnesota Power	Xcel Energy*
0.6% (threshold)	0.50%	0.50%	0.33%	0.33%
0.70%	0.75%	0.75%	0.70%	0.62%
0.80%	1.00%	1.00%	1.07%	0.91%
0.90%	1.25%	1.25%	1.43%	1.21%
1.0% (goal)	1.5% (cap)	1.5% (cap)	1.8% (cap)	1.5% (cap)

*Staff represents Xcel's recommendations in gray here because they did not state a position on the revised low-income award levels in Reply Comments. Xcel also recommended that all utilities be required to meet the low-income spending threshold in order to earn *any* ECO incentive.

[103] Minnesota Power, Initial Comments at 23

2. Staff Analysis

In Staff's view, any of these proposals is reasonable. Minnesota Power's proposed award levels provide lower incentive at the lower levels of spending and higher incentive to work toward the 1.0% goal. However, its proposed 1.8% award for meeting the 1.0% spending goal would require some action on other caps, such as: 1) increasing the overall non-EFS category's net benefits cap as Minnesota Power proposed, 2) reducing the energy savings metric cap by 0.3%, or 3) removing the metric-specific caps as Xcel has proposed.

Xcel's proposal for the low-income metric is closely tied to its proposals to remove metric-specific caps in favor of the overall non-EFS category cap, and related to that, to require utilities to meet energy savings and low-income spending thresholds in order to earn an incentive. The Commission may wish to determine how to proceed on the question of overall category caps versus metric-specific caps (in Section V.C of these Briefing Papers) before deciding the low-income metric.

The Commission can adopt Joint Commenters' and Otter Tail's recommendation with **Decision Options 23E(ii) and 25/26 F(i).** Minnesota Power's recommendation is reflected in **Decision Option 23E(i)** and **25/26 F(ii).** Xcel's recommendation is reflected in **Decision Options 23E(i) and 25/26 F(i).**

VIII. Efficient Fuel-Switching Incentive

Joint Commenters proposed adding an electric EFS incentive to encourage utilities to pursue more EFS programming in the 2027–2029 Triennial, particularly EFS measures that are cost-effective and deliver strong ratepayer benefits. To assess ratepayer benefits of EFS programs, Joint Commenters proposed using the Rate Impact Measure (RIM) test, the benefit-cost test used to evaluate the cost-effectiveness of ECO programming from a ratepayer perspective.[104]

Joint Commenters stated: "The RIM test evaluates how an investment affects customer rates. A RIM ratio above 1.0 signals that the investment has a downward pressure on rates. By multiplying the EFS incentive by the RIM ratio, greater weight is given to EFS programs that add off-peak load and generate more revenue than cost, ultimately lowering costs for all customers, including those not participating directly in EFS programs."[105]

Joint Commenters originally proposed that the electric EFS incentive be the product of multiplying the EFS portfolio's net benefits, the EFS portfolio's RIM test ratio, and the sum of

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[104] Minn Stat. § 216B.241, subd. 1c, subpart (e) requires calculating the costs and benefits of ECO programs to ratepayers, the utility, participants, and society. Per DOC DER Decision, March 31, 2023, Docket No. E,G999/CIP-23-46, the RIM test is used to evaluate ratepayer impact and is one of the secondary tests used in addition to the Minnesota Test during the current ECO Triennial.

[105] Joint Commenters, Initial Proposal at 25

the utility's award level for first-year energy savings and low-income spending. As with the non-EFS incentive, it would be capped at 6% of the EFS portfolio's net benefits. In equation form, the initial proposal was:

Initial Proposal: EFS Incentive Formula

$$\text{EFS Incentive} = (\text{First-Year Savings Award \%} + \text{Low-Income Spend Award \%}) \times \text{EFS Net Benefits} \times \text{EFS RIM Ratio}$$

In response to feedback from the three electric IOUs, Joint Commenters revised their proposal to separate the EFS incentive from achievements on low-income spending and first-year energy savings, on the condition that electric utilities should *only* be eligible for an EFS incentive if they meet or exceed the statutory minimums for both, which are:

- First-year energy savings: 1.75% of average retail sales
- Low-income spending: 0.60% of average residential gross operating revenue

The Joint Commenters agreed with the revisions to this metric proposed by Xcel and Otter Tail, which would raise the cap to 10% of EFS net benefits and calculate the EFS incentive by multiplying 5% of EFS net benefits by the RIM ratio, as shown in the formula below:

Revised Proposal: EFS Incentive Formula

$$\text{EFS Incentive} = 5\% \times \text{EFS Net Benefits} \times \text{EFS RIM Ratio}$$

1. Electric Utility Positions

All three utilities recommended that 1) the EFS incentive be untethered from achievements on first-year savings and low-income spending, 2) the cap be raised from 6% of EFS net benefits to 10%, and 3) a flat multiplier.

All of the utilities expressed concern that the original formula was overly complicated and would be challenging for their program staff to use. Xcel argued that electric EFS is a different sort of program activity from electric energy efficiency, and more importantly that the statute authorizing an EFS incentive mechanism states "the commission must develop and implement incentive plans designed to promote energy conservation separately from the plans designed to promote efficient fuel-switching"[106] (emphasis added). Xcel expressed concern that using a utility's energy efficiency achievements to calculate the EFS incentive conflicted with this statutory requirement.

Similarly, Otter Tail argued it was appropriate to break the link between the EFS incentive and the other metrics because of differences in how EFS is treated under the ECO statute. Otter Tail noted EFS measures are not a required component of ECO portfolios, there is no minimum achievement requirement, and there is an expiration date for utilities to a financial incentive for

[106] Minn. Stat. § 216B.16, subd. 6c; Xcel, Initial Comments, at 10

EFS measures.[107] Otter Tail also took issue with how the original proposal's 6.0% cap would limit a utility's incentive to both achieve an EFS RIM above 1.0 and achieve the goals in energy savings and low-income spending.[108]

OTP and Xcel proposed calculating the EFS incentive using 5% of EFS net benefits multiplied by the EFS RIM ratio (as shown in the revised proposed formula above). Minnesota Power proposed using 6% of EFS net benefits multiplied by the EFS RIM ratio.

All three utilities recommended increasing the net benefits cap from 6% to 10% of EFS net benefits. Under the 5% ratio proposal from Xcel and Otter Tail, utilities would need to achieve a RIM ratio at or above 2.0 to maximize their EFS incentive. A RIM ratio of 2.0 would indicate that the additional utility revenue generated by these programs is double the cost of operating the programs and serving the additional load.[109] Under Minnesota Power's proposal to use 6% of EFS net benefits, a utility would need to have a RIM ratio of at least 1.67 to maximize their EFS incentive.

As discussed earlier, Joint Commenters agreed with the recommendations from Xcel and Otter Tail to separate the EFS Incentive, calculate the incentive using 5% of EFS net benefits multiplied by the RIM ratio, and to cap the award at 10% of EFS net benefits.

Xcel also proposed that the expenditure cap for the EFS incentive be tied to the RIM ratio rather than to the level of first-year energy savings (as is the case for the non-EFS expenditure cap). Under Xcel's proposal, the EFS Incentive would be capped at 20% of EFS expenditures, but the cap would increase to 25% if a utility achieves a RIM ratio of 2.0 or higher. Joint Commenters supported this proposal.[110]

2. Staff Analysis

Staff agrees with commenters that Minnesota state policy has evolved significantly in the past several years toward incentivizing EFS, and that integrating EFS into the electric utility incentive framework is consistent with this movement. The Commission also recently approved a temporary EFS incentive mechanism for Otter Tail Power in Docket No. E-017/M-25-49, which will be in place until the Commission adopts a formal EFS incentive methodology.

The Commission can adopt an electric EFS incentive with **Decision Option 29.**

The primary difference between Joint Commenters' proposal and that from Xcel and Otter Tail is that Joint Commenters proposed the EFS incentive be conditional on a utility having met the

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[107] Otter Tail Power, Initial Comments at 4

[108] Ibid.

[109] Xcel Energy, Initial Comments at 16

[110] Joint Commenters, Reply Comments at 10

statutory minimums for first-year energy savings and low-income spending **(Decision Option 30)**. Staff finds this proposal reasonable, but acknowledges that it preserves some level of connection between achievement in non-EFS programs and the EFS incentive. The Commission may wish to ask parties about this provision at the agenda meeting as the proposal was made in Reply Comments and utilities have not yet responded to it.

To approve the specific formula to be used, the Commission should:

- Select either **Decision Option 31 or 32** to approve a base award percentage of 5% or 6%
- Select **Decision Options 33 in entirety, 34, and 35**. These were uncontested.

IX. Other Methodology Recommendations

Joint Commenters proposed to keep many other parameters consistent between the current 2024-2026 incentive and the proposed 2027-2029mechanism. The parameters that received objections or modifications from commenters are discussed in subsections A and B, and uncontested recommendations in subsection C.

A. Net Benefit Test and Circularity

Joint Commenters did not propose any changes to the benefit-cost analysis (BCA) used to calculate net benefits and noted that the Department expects to make a decision approving the 2027–2029 ECO cost-effectiveness methodology and inputs in Q1 2026.

Minnesota Power[111] and Otter Tail[112] recommended removing the circularity in the incentive calculation. Currently, the financial incentive is included as a cost in the Minnesota Test to determine total net benefits, and then this reduced net benefits is used to recalculate the incentive amount. These utilities argue that this multi-step calculation is cumbersome and "introduces unnecessary complexity to the incentive calculations and reduces transparency and ease of estimating incentives,"[113] which will be exacerbated by including the RIM ratio in calculating the EFS incentive. Minnesota Power also stated that this approach means utility incentives are lower than the allowed percent of net benefits created by these programs.

Minnesota Power recommended utilities be rewarded for the full net benefits generated by their portfolios, but to subtract the financial incentive from the net benefits in appropriate tests to find final BCA results. Otter Tail recommended including the financial incentive as a total cost to be included in the overall portfolio benefit-cost ratios instead of doing so on an individual program level.

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111 Minnesota Power, Initial Comments at 20

112 Otter Tail Power, Reply Comments at 1-2

113 Minnesota Power, Initial Comments at 20

Joint Commenters continued to support using the utility performance incentive as a cost in relevant cost-effectiveness tests, but recommended that any potential modifications to this aspect of the methodology should be discussed as part of the ongoing ECO Cost-Effectiveness Advisory Committee process. That committee has been discussing refinements to the cost-effectiveness tests in anticipation of Department Staff issuing a Proposed Decision in January 2026.

The Commission can select its preferred approach with:

- **Decision Option 36 and 37** (Joint Commenters)
- **Decision Option 38** (Minnesota Power)
- **Decision Option 39** (Otter Tail)

B. Minor Adjustments

1. Linear Interpolation

For all metrics discussed in this proceeding, Joint Commenters and other parties proposed specific thresholds and goals which would be associated with specific percentages of net benefits awarded. In order to identify the net benefits percentage that would be awarded for performance levels that fall *between* the threshold and goal, Joint Commenters proposed to use linear interpolation, consistent with current practice for the 2024-2026Incentive **(Decision Options 16 and 27)**. Parties that commented on this feature of the calculation formula supported continuing to use this approach.

However, Xcel's proposal to remove metric-specific caps necessitates having a method to identify net benefits award levels above the goal, in case a utility over-achieves on one metric before hitting the overall cap. Xcel proposed to use linear extrapolation to do this – essentially, using the threshold and goal levels to find the slope of net benefits awarded, and applying that to performance levels above the goal. If the Commission adopts Xcel's recommendation to use *calibration points* instead of metric specific *caps* for the gas and electric incentives (**Decision Options 12 and 26**), Staff recommends also adopting Xcel's proposal to use linear extrapolation for performance above the calibration point (**Decision Options 17 and 28)**.

2. Expenditures Cap

Joint Commenters proposed to maintain the current framework for the expenditures cap, which limits a utility's incentive to 20% of expenditures or 25% if the utility meets or exceeds the energy saving goal. This approach was not contested, but there are two options for the electric non-EFS expenditure cap depending on which energy savings goal (2.2% or 2.3%) the Commission adopts.

Xcel proposed that for the EFS incentive, the expenditures cap be raised to 25% if a utility achieved a RIM ratio of 2.0 or higher. Joint Commenters accepted this recommendation in their

revised proposal.[114]

The Commission can approve expenditure caps with the following decision options:

- Natural Gas Incentive: **Decision Option 8**
- Electric Non-EFS Incentive: **Decision Option 21 or 22**
- Electric EFS Incentive: **Decision Option 35**

Relatedly, Xcel proposed to remove language that would have allowed both gas and electric utilities to count spending on both EFS and load management programs toward their expenditures cap. Joint Commenters recommended new language that specifies electric utilities can only count EFS spending toward their EFS expenditures cap. Otter Tail noted that this lacks a reference to load management programs, and proposed a clarification of the existing language to allow load management expenditures to count toward non-EFS expenditures. Staff recommends adopting both:

- **Decision Option 40**(Otter Tail)
- **Decision Option 41** (Joint Commenters)

C. Uncontested Methodology Components

Joint Commenters also proposed to maintain several elements of the current 2024-2026 Financial Incentive Mechanism that were uncontested and are listed below.

- Both electric and gas utilities that have achieved energy savings at or above 1% of retail sales, excluding savings achieved through load management programs, are allowed to count the increased net benefits and energy savings derived from their load management programs that occurred on or after the approval of the Energy Conversation and Optimization Act (May 25, 2021) towards calculating their financial incentive. **(Decision Option 42)**

- For the treatment of load management programs that do not result in energy savings,
  - Net benefits are calculated using the Minnesota Test and included in the total net benefits used to calculate the financial incentive.
  - All kW saved from load management programs that existed before May 25, 2021 are excluded from the benefits calculation.
    (Decision Option 43)

- The Societal Discount Rate, as approved in the Department's 2027–2029 ECO Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities, is used in the calculation of net benefits to discount for future benefits and costs. **(Decision Option 44)**

[114] Joint Commenters, Reply Comments at 10

- ECO-exempt customers shall not be allocated costs for the Shared Savings Incentive Mechanism. Sales to ECO-exempt customers shall not be included in the calculation of utility energy savings goals. **(Decision Option 45)**

- If a utility elects not to include a third-party ECO project, the utility cannot change its election until the beginning of subsequent years. **(Decision Option 46)**

- If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.0% savings goal for gas utilities and 1.75% savings goal for electric utilities. **(Decision Option 47)**

- The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive. **(Decision Option 48)**

- The costs of any mandated, non-third-party projects (e.g., 2007 Next Generation Energy Act assessments and University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded. **(Decision Option 49)**

- Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in net benefits for DSM financial incentive purposes. **(Decision Option 50)**

GUIDE TO THE DECISION OPTIONS

The Decision Options are organized into five main sections. Below, Staff provides a high level outline of the options and the choices before the Commission in each section.

- **Approval or Denial and Overarching Provisions:** Decision Options 1-3
  - **DO 1:** Approval
  - **DO 2:** Application to the 2027-2029 Triennial
  - **DO 3:** Denial

- **Natural Gas Incentive**: Decision Options 4-17
  - **DO 4:** Select preferred wording for this order point
  - **DO 5:** Select which metrics to include in the calculation of the natural gas financial incentive
  - **DO 6 and 7:** Set the net benefits cap
  - **DO 8:** Set the expenditures cap
  - **DO 9:** Set performance thresholds for each metric selected in DO 5
  - **DO 10:** Option to require certain thresholds are met before any gas incentive is earned

  - **DO 11 or 12:** Select metric-specific caps for each metric or to deny metric-specific caps, select calibration points for each metric
  - **DOs 13-15:** Select which measures count toward insulation and air sealing
  - **DO 16 or 17:** Select linear interpolation and/or extrapolation

- **Electric Non-EFS Incentive:** Decision Options 18-28
  - **DO 18:** Select preferred wording for this order point
  - **DO 19:** Select which metrics to include in the calculation of the electric non-EFS financial incentive
  - **DO 20:** Set the net benefits cap
  - **DO 21 or 22:** Set the expenditures cap
  - **DO 23:** Set performance thresholds for each metric selected in DO 19
  - **DO 24:** Select to require certain thresholds are met before any electric non-EFS incentive is earned
  - **DO 25 or 26:** Select metric-specific caps for each metric or to deny metric-specific caps, select calibration points for each metric
  - **DO 27 or 28:** Select linear interpolation and/or extrapolation

- **Electric Efficient Fuel-Switching Incentive:** Decision Options 29-35
  - **DO 29:** Select to adopt an EFS incentive
  - **DO 30:** Select to require certain thresholds are met before any electric EFS incentive is earned
  - **DO 31-34:** Set the formula for setting the EFS award percentage
  - **DO 35:** Set the expenditures cap

- **General Parameters:** Decision Options 36-50
  - **DOs 36-39:** Select parameters for the cost-effectiveness test to be used to calculate the incentive
  - **DOs 40-41:** Clarify how EFS and load management expenditures count toward relevant expenditure caps
  - **DOs 42-43:** Continuation of current practice for counting load management savings towards savings achievement and net benefits
  - **DOs 44-50:** Continuation of current practice on uncontested miscellaneous topics

DECISION OPTIONS

Approval or Denial and Overarching Provisions

[To approve an updated DSM Financial Incentive Mechanism, select DOs 1 and 2. To deny the proposed changes, select DO 3.]

1. Approve a Shared Savings DSM Financial Incentive Mechanism with the following provisions, (Joint Commenters, CenterPoint, MERC, Minnesota Power, Otter Tail, Xcel) **and**

2. The new Shared Savings DSM Financial Incentive Plan shall be in effect for 2027–2029 ECO program years. (Joint Commenters, CenterPoint, MERC, Minnesota Power, Otter Tail, Xcel) **or**

3. Deny the proposed changes to the DSM Financial Incentive Mechanism.

[The remainder of the Decision Options are predicated on Commission selection of DO 1.]

Natural Gas Incentive

4. The following parameters apply to natural gas _____ *[select preferred wording as reflected in 4A or 4B.]*

    A. Utilities, (Joint Commenters) **or**

    B. Energy efficiency, (Xcel)

Metrics Used to Calculate the Natural Gas Incentive

[To approve a multi-factor incentive, select DO 5 and subparts corresponding to desired performance metrics. The Commission may select 5A, 5B and either 5C or 5D. If the Commission selects 5D it must modify certain subsequent decision options to replace "insulation and air sealing" with "building shell."]

5. The utility incentive shall be based on performance in the following categories:

    A. First-year energy savings, as a percent of weather-normalized average retail sales, (Joint Commenters, CenterPoint, MERC, Xcel) **and**

    B. Spending on low-income ECO programs, measured as a percent of average residential Gross Operating Revenue (GOR). (Joint Commenters, CenterPoint, MERC, Xcel) **and**

C. Insulation and air sealing first-year energy savings, as a percent of weather-normalized average residential retail sales, (Joint Commenters, MERC, Xcel) **or**

D. Building shell first-year energy savings, as a percent of weather-normalized average residential retail sales, (CenterPoint)

Net Benefits Cap
[Select 6 and choose from subparts A-D. The Commission may select 7.]

6. Set a total net benefits cap equal to _____ of portfolio net benefits.

   A. 5.0 percent (Xcel, MERC) *[Joint Commenters Initial]* **or**

   B. 5.5 percent (Joint Commenters) **or**

   C. 6.0 percent (CenterPoint)

   D. The lower of: (i) 5 percent or (ii) 4 percent plus the percentage of net benefits earned by the Company's low-income achievement. (Staff interpretation of Xcel Alternative)

7. The total net benefits cap corresponds with maximum achievement in all three metrics under the natural gas incentive. (Joint Commenters, CenterPoint)

Expenditures Cap

8. Set an expenditures cap of 20 percent of total portfolio expenditures, which increases to 25 percent if the utility achieves first-year energy savings of 1.2 percent of weather-normalized average retail sales or higher. (Joint Commenters, CenterPoint, Xcel)

Performance Thresholds
[Select DO 9, and then select from subparts 9A-D the performance threshold for each metric the Commission approved in DO 5.]

9. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels: (Joint Commenters, CenterPoint, MERC, Xcel)

   First-Year Energy Savings *[select 9A and choose between romanette i or ii.]*

   A. First-year energy savings of 0.7 percent of weather-normalized average retail sales, at which the utility can collect _____ of portfolio net benefits.

      i. 1.14 percent (Xcel, MERC) *[Joint Commenters Initial]* **or**

ii. 1.44 percent (Joint Commenters, CenterPoint)

Insulation and Air Sealing *[choose between 9B or 9C.]*

B. Insulation and air sealing first-year energy savings equal to one-third of the utility's average 2027-2029 insulation and air sealing first-year energy savings program potential (calculated using the 2018 ECO Potential Study), at which the utility can collect 0.38 percent of portfolio net benefits. (Xcel, MERC, Great Plains) *[Note: Joint Commenters Initial]* **or**

C. Insulation and air sealing first-year energy savings equal to one-third of the utility's average 2027-2029 insulation and air sealing first-year energy savings program potential (calculated using the 2018 Minnesota Energy Efficiency Potential Study and recalibrated for a 90 percent AFUE furnace baseline), at which the utility can collect 0.48 percent of portfolio net benefits. (Joint Commenters, CenterPoint)

Low-Income Spending *[select 9D and choose between romanette i or ii.]*

D. Low-income spending of 1.0 percent of residential gross operating revenue (GOR), at which the utility can collect _____ of portfolio net benefits.

i. 0.38 percent (Xcel, MERC) *[Joint Commenters Initial]* **or**

ii. 0.48 percent (Joint Commenters, CenterPoint)

Prohibition on Incentive Until Thresholds Are Met

10. A utility may not earn any financial incentive for a year in which either first-year savings or low-income spending are below the threshold performance level. (Xcel, MERC, CenterPoint)

Performance Goals and Metric Caps
[Select either 11 or 12. Then select from subparts A-D performance goals for each metric the Commission approved in DO 5.]

11. Set metric-specific net benefits caps at the levels below, (Joint Commenters, CenterPoint) **or**

12. Set metric-specific calibration points at the levels below. (Xcel, MERC)

First-Year Energy Savings *[select 12A and choose between romanette i, ii, or iii.]*

A. _____ of portfolio net benefits for first-year energy savings, awarded for an

achievement of 1.2 percent of weather-normalized average retail sales or higher.

i. 3.0 percent (Xcel, MERC) *[Joint Commenters Initial]* **or**

ii. 3.3 percent (Joint Commenters) **or**

iii. 3.6 percent (CenterPoint)

Insulation and Air Sealing *[select 12B, or 12C(i), or 12C(ii).]*

B. 1 percent of portfolio net benefits for insulation and air sealing first-year energy savings, awarded for an achievement equal to the utility's insulation and air sealing first-year energy savings program potential (calculated using the 2018 ECO Potential Study). (Xcel, MERC) *[Joint Commenters Initial]* **or**

C. _____ percent of portfolio net benefits for insulation and air sealing first-year energy savings, awarded for an achievement equal to the utility's insulation and air sealing first-year energy savings program potential (calculated using the 2018 ECO Potential Study and recalibrated for a 90 percent AFUE furnace baseline).

i. 1.1 percent (Joint Commenters) **or**

ii. 1.2 percent (CenterPoint)

Low-Income Spending *[select 12D and choose between romanette i, ii, or iii.]*

D. _____ of portfolio net benefits for low-income spending, awarded for an achievement of 2 percent of average residential Gross Operating Revenue (GOR) or higher.

i. 1.0 percent (Xcel, MERC) *[Joint Commenters Initial]* **or**

ii. 1.1 percent (Joint Commenters) **or**

iii. 1.2 percent (CenterPoint)

Eligible Measures for the Insulation and Air Sealing Metric
[Select 13, or select 14 and/or 15. As with DO 5D, if the Commission selects 15, it must modify several decision options to replace the phrase "insulation and air sealing" with "building shell."]

13. A utility may count savings from insulation and air sealing retrofit measures such as wall insulation, attic insulation, and envelope air sealing toward the Insulation and Air Sealing metric. (Staff interpretation of Joint Commenters) **or**

14. A utility may count savings from insulation and air sealing retrofit measures such as wall

insulation, attic insulation, and envelope air sealing, as well as savings from efficient fuel-switching measures, toward the insulation and air sealing metric. (Staff interpretation of MERC, CenterPoint) **and/or**

15. A utility may count savings from any building shell retrofit measures, including wall insulation, attic insulation, envelope air sealing, and window efficiency programs, toward the Building Shell metric. (Staff interpretation of CenterPoint alternative)

Linear Interpolation and/or Extrapolation
[Select 16 or 17.]

16. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and net benefits cap. (Joint Commenters) **or**

17. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and calibration point. Use linear extrapolation to calculate the percentage of net benefits awarded for performance levels above the calibration point. (Xcel)

Electric Non-EFS Incentive

18. The following parameters apply to electric _____ *[select preferred wording as reflected in 18A-C.]*

    A. Utilities, (Joint Commenters) **or**

    B. Energy efficiency, (Xcel) **or**

    C. Utilities' non-EFS activities (Staff Option)

Metrics Used to Calculate the Electric Non-EFS Incentive
[To approve a multi-factor incentive, select DO 19 and subparts corresponding to desired performance metrics.]

19. The utility incentive shall be based on performance in the following categories:

    A. First-year energy savings, as a percent of weather-normalized average retail sales, (Joint Commenters, Minnesota Power, Otter Tail, Xcel) **and**

    B. Demand savings, expressed as the reduction in demand corresponding to energy savings as a percentage of weather-normalized average retail sales. The demand reduction (MW) corresponding to each MWh of energy savings shall be

calculated using the utilities' most recently-approved Integrated Resource Plan, (Joint Commenters, Otter Tail, Xcel) **and**

C. Spending on low-income ECO programs, measured as a percent of average residential Gross Operating Revenue (GOR). (Joint Commenters, Minnesota Power, Otter Tail, Xcel)

Net Benefits Cap
[Select 20 and choose between A, B, or C. The Commission may select D with any of the other subparts if desired.]

20. Set a total net benefits cap for non-EFS programs equal to _____ of non-EFS portfolio net benefits.

    A. 6.5 percent (Joint Commenters) **or**

    B. 7 percent (Xcel, Otter Tail, Minnesota Power) **or**

    C. The lower of: (i) 7 percent or (ii) six percent plus the percentage of net benefits earned by the Company's low-income achievement. (Xcel Alternative) **and**

    D. The total net benefits cap corresponds with maximum achievement in all three metrics under the electric non-EFS incentive.

Expenditures Cap
[Select 21 or 22]

21. Set an expenditures cap of 20 percent of total portfolio expenditures, which increases to 25 percent if the utility achieves first-year energy savings of 2.3 percent of weather-normalized average retail sales or higher. (Joint Commenters) **or**

22. Set an expenditures cap of 20 percent of energy efficiency portfolio expenditures, which increases to 25 percent if the utility achieves first-year energy savings of 2.2 percent of weather-normalized average retail sales or higher. (Xcel)

Performance Thresholds
[Select DO 23, and then select from subparts A-E the performance threshold for each metric the Commission approved in DO 19.

23. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels: (Joint Commenters, Xcel, Otter Tail, Minnesota Power)

    First-Year Energy Savings [select A, B, or C.]

A. First-year energy savings of 1.5 percent of weather-normalized average retail sales, at which the utility can collect 1 percent of portfolio net benefits. (Joint Commenters, Otter Tail) **or**

B. First-year energy savings of 1.5 percent of weather-normalized average retail sales, at which the utility can collect 1.69 percent of portfolio net benefits. (Minnesota Power) **or**

C. First-year energy savings of 1.0 percent of weather-normalized average retail sales, at which the utility can collect 0.5 percent of portfolio net benefits. (Xcel)

Demand Savings [select D and choose between romanette i or ii.]

D. Demand savings equal to the utility's _____ demand goal (calculated using the utility's most recently approved Integrated Resource Plan), at which the utility can collect 1.0 percent of portfolio net benefits.

i. 1.0 percent (Xcel, Otter Tail) **or**

ii. 1.5 percent (Joint Commenters)

Low-Income Spending [select E and choose between romanette i or ii.]

E. Low-income spending of 0.6 percent of residential gross operating revenue (GOR), at which the utility can collect _____ of portfolio net benefits.

i. 0.33 percent (Xcel, Minnesota Power) **or**

ii. 0.5 percent (Joint Commenters, Otter Tail)

Prohibition on Incentive Until Thresholds Are Met

24. A utility may not earn any financial incentive for a year in which either first-year savings or low-income spending are below the threshold performance level. (Xcel, Otter Tail)

Performance Goals and Metric Caps
[Select either 25 or 26. Then select from subparts A-F performance goals for each metric the Commission approved in DO 19.]

25. Set metric-specific net benefits caps at the following levels for each metric (Joint Commenters, Minnesota Power) **or**

26. Set metric-specific calibration points at the following levels for each metric (Otter Tail,

Xcel)

First-Year Energy Savings *[select one from subparts A-D.]*

A. A combined cap of 5 percent of non-EFS net benefits for first-year savings and permanently avoided demand, awarded when the utility achieves one of the following:
    i. First-year savings equal to 2.3 percent of weather-normalized average retail sales or higher.
    ii. Reaching or exceeding the utility's 4.7 percent demand goal (calculated using the utility's most recently approved Integrated Resource Plan).
    iii. Achievements in both first-year savings and demand savings that, together, result in 5 percent of awarded net benefits, calculated using linear interpolation.

    (Joint Commenters) **or**

B. 5.2 percent of portfolio net benefits for first-year energy savings, awarded for an achievement of 2.2 percent of weather-normalized average retail sales or higher. (Minnesota Power) **or**

C. 5.0 percent of portfolio net benefits for first-year energy savings, awarded for an achievement of 2.3 percent of weather-normalized average retail sales. (Otter Tail) **or**

D. 4.0 percent of portfolio net benefits for first-year energy savings, awarded for an achievement of 2.2 percent of weather-normalized average retail sales. (Xcel)

Separate Cap or Goal for Permanently Avoided Demand
[If the Commission approves 26A, skip this subsection. If 19B is approved, but 26A is not, the Commission should select 26E or write a modified version]

E. 2.0 percent of portfolio net benefits for demand savings, awarded for an achievement of the 2.2 percent demand goal (calculated using the utility's most recently approved Integrated Resource Plan). (Xcel, Otter Tail)

Low-Income Spending *[select 26F and romanette i or ii.]*

F. _____ of portfolio net benefits for low-income spending, awarded for an achievement of 1 percent of average residential Gross Operating Revenue or higher.

    i. 1.5 percent (Joint Commenters, Xcel, Otter Tail) **or**

    ii. 1.8 percent (Minnesota Power)

Linear Interpolation and/or Extrapolation
[Select 27 or 28.]

27. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and net benefits cap. (Joint Commenters) **or**

28. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and calibration point. Use linear extrapolation to calculate the percentage of net benefits awarded for performance levels above the calibration point. (Xcel)

Electric Efficient Fuel-Switching Incentive:

[To approve an EFS Incentive for electric utilities for 2027-2029, select DO 29 and consider 30-through 35.]

29. The following parameters apply for electric efficient fuel-switching: (Joint Commenters, Xcel, Otter Tail, Minnesota Power) **and**

30. For an electric utility to begin earning an EFS incentive, it must first achieve the following thresholds:
    A. First-year energy savings equal to 1.75 percent of average retail sales and;
    B. Low-income spending equal to 0.6 percent of the average residential gross operating revenue.
    (Joint Commenters)

Calculating the EFS Award Percentage
[Select 32 or 33, and select 34 and 35.]

31. Set the base percentage of net benefits awarded at 5 percent. (Joint Commenters, Xcel, Otter Tail Power) **or**

32. Set the base percentage of net benefits awarded at 6 percent. (Minnesota Power) **and**

33. Set the final percentage of net benefits at the lesser of:
    A. The base percentage of net benefits multiplied by the RIM ratio achieved by the utility's EFS activity
    B. 10 percent
    (Joint Commenters, Xcel, Otter Tail, Minnesota Power) **and**

34. Apply the final percentage of net benefits to the total Minnesota Test net benefits from the utility's EFS activity to determine the EFS incentive amount. (Joint Commenters,

Xcel, Otter Tail, Minnesota Power)

Expenditures Cap

35. Set an EFS expenditures cap of 20% of EFS expenditures, which increases to 25% if the utility achieves an EFS RIM ratio greater than or equal to 2.0. (Joint Commenters, Xcel)

General Parameters

Cost-Benefit Test
[The Commission should select DO 36, and may select one of 37, 38 or 39.]

36. For all utilities, net benefits are calculated using the Minnesota Test according to the approved 2027–2029 ECO Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities, which is expected to be issued by the Department in Q1 2026. (Joint Commenters, Xcel) **and**

37. Potential refinements to the methodology regarding whether and how to include the utility performance incentive as a cost in 2027-2029 ECO cost-effectiveness tests should be discussed in the ECO Cost-Effectiveness Advisory Committee or comment period in Docket No. E,G999/CIP-26-89. (Staff Interpretation of Joint Commenters) **or**

38. Modify the test as follows to remove the circular nature of including the financial incentive as a cost that impacts the financial incentive:
    A. Calculate Minnesota Test net benefits without the performance incentive and use those net benefits to determine the financial incentive.
    B. For final BCA results, apply the financial incentive amount derived from the calculation in subpart (A) to the initial net benefits in all of the appropriate tests to arrive at final net benefits accounting for the performance incentive. (Minnesota Power) **or**

39. Include the financial incentive as a cost in relevant cost-effectiveness tests for the purposes of calculating overall portfolio net benefits and benefit-cost ratios, but do not include the incentive as a cost in tests at the individual program level. (Staff interpretation of Otter Tail)

How to Count EFS and Load Management Expenditures
[DO 40 is a minor clarification of existing practice. If the Commission adopts an electric EFS Incentive, it should adopt 41 to clarify how electric utilities calculate the EFS expenditures cap.]

40. Both electric and gas utilities may count their expenditures on eligible load management programs when calculating the relevant expenditures cap. (Staff Interpretation of Otter Tail)

41. Gas utilities are allowed to count their expenditures on EFS in calculation of their expenditures cap and electric utilities are allowed to count their expenditures on EFS in their EFS expenditures cap. (Joint Commenters)

Load Management

[The Commission may adopt any or all of 42-43. These decision options would continue current practices for counting load management in the ECO financial incentive.]

42. Both electric and gas utilities that have achieved energy savings at or above 1 percent of retail sales, excluding savings achieved through load management programs, are allowed to count the increased net benefits and energy savings derived from their load management programs that occurred on or after the approval of the Energy Conversation and Optimization Act (May 25, 2021) toward calculating their financial incentive. (Joint Commenters, Xcel, Otter Tail) **and**

43. For the treatment of load management programs that do not result in energy savings,
    A. Calculate net benefits using the Minnesota test and include the net benefits in the total net benefits used to calculate the financial incentive.
    B. Exclude all kW saved from load management programs that existed before May 25, 2021, from the benefits calculation.

    (Joint Commenters)

Other Requirements

[The Commission may select any or all of decision options 44-50, which would continue current practices for calculating the ECO financial incentive.]

44. The Societal Discount Rate, as approved in the Department's 2027–2029 ECO Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities, is used in the calculation of net benefits to discount for future benefits and costs. (Joint Commenters, Xcel) **and**

45. ECO-exempt customers shall not be allocated costs for the Shared Savings Incentive Mechanism. Sales to ECO-exempt customers shall not be included in the calculation of utility energy savings goals. (Joint Commenters, Xcel) **and**

46. If a utility elects not to include a third-party ECO project, the utility cannot change its election until the beginning of subsequent years. (Joint Commenters, Xcel) **and**

47. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.0 percent savings goal for gas utilities and 1.75 percent savings goal for electric utilities. (Joint Commenters, Xcel) **and**

48. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive. (Joint Commenters, Xcel) **and**

49. The costs of any mandated, non-third-party projects (e.g., 2007 Next Generation Energy Act assessments and University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded. (Joint Commenters, Xcel) **and**

50. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in net benefits for DSM financial incentive purposes. (Joint Commenters, Otter Tail)