August 14, 2025

Mike Bull
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Comments of the Minnesota Department of Commerce
G011/M-25-46

Dear Mr. Bull:

Attached are the comments of the Minnesota Department of Commerce (Department) in the following matter:

> *Minnesota Energy Resources Corporation's 2024 Energy Conservation and Optimization Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor (Petition)*

The Petition was filed by Minnesota Energy Resources Corporation on May 1, 2025.

The Department recommends that the Minnesota Public Utilities Commission (Commission) approve Minnesota Energy Resources Corporation's Petition. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ Dr. SYDNIE LIEB
Assistant Commissioner of Regulatory Analysis

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce

Docket No. G011/M-25-46

I. INTRODUCTION

On May 1, 2025, Minnesota Energy Resources Corporation (MERC or the Company) submitted its Petition with the Commission in docket no. G011/M-25-46. In its Petition*,* the Company requests that the Commission approve:

- Performance incentive of $998,125 for 2024 ECO activities.
- 2024 ECO tracker account, resulting in a December 31, 2024, tracker balance of $50,592.
- Conservation Cost Recovery Adjustment (CCRA) of $0.00638/therm to be effective January 1, 2026.

The Petition also contains the Company's 2024 Energy Conservation and Optimization (ECO) Status Report (Status Report). The Status Report is intended to fulfill the requirements of the Department's annual ECO reporting rules contained in Minnesota Rules part 7690.0550. Since the Company's Status Report does not require Commission approval, this portion of the Petition has been assigned to a separate docket.[1]

II. PROCEDURAL BACKGROUND

May 1, 2025	The Company submitted its Petition with the Commission.
May 16, 2025	The Commission posted a Notice of Comment Period for the Petition.
May 30, 2025	The Company submitted a Correction to Estimated Bill Impacts
July 28, 2025	The Department filed a request for variance extension, requesting an additional 14 days to complete its analysis and file comments.
July 28, 2025	The Commission granted the request for extension.

Topics open for comment:

- Should the Commission approve MERC's proposed DSM Financial Incentive of $998,125 for ECO activities in 2024?
- Should the Commission approve MERC's proposed 2024 ECO Tracker account, resulting in a year-end balance of $50,592?
- Should the Commission approve MERC's proposed CCRA of $0.00638 per therm for bills rendered on and after January 1, 2026?
- Are there other issues or concerns related to this matter?

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[1] *See* Docket No. G011/CIP-23-98

III. DEPARTMENT ANALYSIS

The Department's analysis of the Company's Petition is provided below in the following sections:

A. Commission's Order from the Previous Year
B. Minnesota's Energy Conservation and Optimization Statute
C. Proposed 2024 Shared Savings DSM Financial Incentive
D. Proposed 2024 ECO Tracker
E. Proposed Conservation Cost Recovery Adjustment
F. Historical ECO Achievements and Shared Savings Incentives

A. COMMISSION'S ORDER FROM THE PREVIOUS YEAR

On November 8, 2024, the Commission issued its Order approving MERC's 2023 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor,[2] with the following determinations:

1. Approved a 2023 DSM financial incentive of $1,494,587 to be included in Minnesota Energy Resources Corp.'s (MERC) tracker account no sooner than the issue date of the Commission's Order in the instant docket.
2. Approved MERC's 2023 CIP tracker account activities with a December 31, 2023, ending balance of ($3,070,173.82).
3. Approved the revised gas CCRA of $0.01221 per therm for all of MERC's Minnesota customer classes, effective January 1, 2025, or the first billing cycle in the month following the Commission's Order, in this matter, whichever is later.
4. Approved MERC's customer notification message that reads as follows: Effective January 1, 2025, the CCRA (conservation cost recovery adjustment) has been revised to $0.01221 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.
5. Required MERC to submit a compliance filing with tariff sheets including all necessary calculations within 10 days of the issue date of this Order.

B. MINNESOTA'S ENERGY CONSERVATION AND OPTIMIZATION STATUTE

In 2021, the Minnesota Legislature passed the Energy Conservation and Optimization Act (ECO Act).[3] The ECO Act primarily serves to modernize what was the Conservation Improvement Program (CIP) to provide a more holistic approach to energy efficiency programming. Notable highlights of the ECO Act include:

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[2] *See* Commission's November 8, 2024 Order in Docket No. G-011/M-24-46.
[3] https://www.revisor.mn.gov/bills/text.php?number=HF164&type=bill&version=2&session=ls92&session_year=2021&session_number=0

- Providing participating electric and natural gas utilities the opportunity to optimize energy use and delivery through the inclusion of load management[4] and efficient fuel-switching (EFS) programs.[5]
- Raising the energy savings goals for the state's electric investor-owned utilities (IOUs).[6]
- More than doubling the low-income spending requirement for all IOUs.[7]
- Providing greater planning flexibility for participating municipal and cooperative utilities.[8]
- Including activities to improve energy efficiency for public schools.[9]

Minn. Stat. § 216B.241 (ECO Statute) provides the framework for IOU ECO programs that deliver energy savings, load management programs, and EFS measures. This includes annual savings goals, which are determined as a percentage of the most recent three-year average of gross retail sales after subtracting sales to ECO-exempt customers.[10] 2024-2026 is the first program year period where requirements from the ECO Act take effect for the IOUs' ECO programs.

The ECO Statute grants jurisdiction to the Department over most of the state's ECO program regulatory activities. The Commission continues to have jurisdiction over two specific conservation items relevant to this proceeding: the Shared Savings DSM Financial Incentive and the recovery of ECO costs.

The Department has regulatory oversight in reviewing and approving utility plans and performance,[11] determining cost-effectiveness methodologies[12], and the overall administration of the ECO framework.[13] Utilities are also allowed to recover costs incurred from delivering ECO programs approved by the Department,[14] which are recovered through a tracker account reviewed and approved annually by the Commission.[15] Finally, the Commission can approve incentive plans encouraging utility success through ECO programs provided the plans meet certain statutory requirements.[16] The Commission has approved Shared Savings DSM Financial Incentive mechanisms for each three-year Triennial Plan since 2010 through Docket No. E,G-999/CI-08-133,[17] and approves annual financial incentives through the ECO tracker account proceedings.[18]

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[4] Minn. Stat. § 216B.241, subd. 13.
[5] Minn. Stat. § 216B.2403, subd. 8.
[6] Minn. Stat. § 216B.241, subd. 1c(b).
[7] Minn. Stat. § 216B.241, subd. 7(a).
[8] Minn. Stat. § 216B.2403, subd. 3.
[9] Minn. Stat. §§ 216B.2403, subd 3(j) and 216B.241, subd. 2(i).
[10] Minn. Stat. § 216B.241, subd. 1c.
[11] Minn. Stat. § 216B.241 Subd. 2 et seq
[12] Minn. Stat. § 216B.241 Subd. 1c(e)
[13] Minn. Stat. § 216B.241, 216B.2402, 216B,2403 and Minn. Rules 7690
[14] Minn. Stat. § 216B.241, subd. 2b.
[15] Minn. Stat. § 216B.16, subd. 6b.
[16] Minn. Stat. § 216B.16, subd. 6c.
[17] Commission Order Establishing Utility Performance Incentives for Energy Conservation, January 27, 2010, Docket Number E,G-999/CI-08-133.
[18] See Commission Orders in Docket Numbers G-008/M-24-43, G-004/M-24-44, G-022/M-24-45, G-011/M-24-46, G-002/M-24-47, E-015/M-24-48, E-017/M-24-49, and E-002/M-24-50.

C. PROPOSED 2024 SHARED SAVINGS DSM FINANCIAL INCENTIVE

C.1. Key Parameters from the 2024-2026 Shared Savings DSM Financial Incentive Plan

On January 25, 2024, the Commission's Order approved the current Shared Savings DSM Financial Incentive Plan, which applies to investor-owned gas and electric utilities for savings achieved through ECO during the 2024–2026 Triennial.[19] The Department's review of the Petition's proposed Shared Savings Financial Incentive was informed by the requirements included in the Commission's January 25, 2024, Order.

The current incentive mechanism awards utilities a percentage of their portfolio-wide Minnesota Test net benefits depending on their first-year energy savings achievement. In 2024, the cost-effectiveness test used to calculate net benefits for purposes of the incentive mechanism switched from the Utility Cost Test to the newly developed Minnesota Test, which incorporates additional considerations when measuring cost-effectiveness, such as greenhouse gas emission reductions. The 2024–2026 incentive mechanism modified the previous 2021–2023 incentive mechanism by updating achievement goals for first-year energy savings and the corresponding percentages of net benefits awarded, partially to account for the change in cost-effectiveness tests.

Tables 1 and 2 show the range of annual first-year energy savings a utility can achieve during the 2024–2026 Triennial and the corresponding percentage of net benefits awarded for each level of first-year energy savings.

Table 1: 2024–2026 Natural Gas Incentive

First-Year Energy Savings Achievement (% of Retail Sales)	% of Net Benefits Awarded
0.7% (threshold)[20]	1.90%
0.8%	2.32%
0.9%	2.74%
1.0%	3.16%
1.1%	3.58%
1.2% (goal)[21]	4.00% (cap)

[19] Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan, January 25, 2024. Docket Number E,G-999/CI-08-133.
[20] The achievement threshold refers to the achievement level a utility must reach before they begin earning an incentive for a given metric.
[21] 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.

Table 2: 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)

Incentive caps limit the total incentive each utility can earn. The 2024–2026 incentive mechanism includes two incentive caps for each utility, one based on net benefits (Net Benefits Cap) and one on portfolio expenditures (Expenditures Cap), with the incentive amount being limited to whichever cap is lower.[22] For the 2024–2026 incentive, the gas Net Benefits Cap equals 4 percent of portfolio net benefits and the Expenditures Cap equals 20 percent of total portfolio expenditures. For electric utilities, the Net Benefits Cap equals 5.5 percent of portfolio net benefits and the Expenditures Cap equals 20 percent of total portfolio expenditures. For both gas and electric utilities, the Expenditures Cap increases from 20 to 25 percent if the utility achieves or surpasses the maximum first-year energy savings goal, which is 1.2 percent of average retail sales for gas utilities and 2.2 percent of average retail sales for electric utilities.

Under the ECO framework, gas utilities can include savings and net benefits from qualifying EFS programs when calculating their financial incentive, effectively treating EFS programs the same as traditional ECO programs, provided it has achieved energy savings from non-EFS programs at or above 1 percent of retail sales.[23] An electric utility cannot currently count savings or net benefits from EFS measures when calculating its overall Shared Savings DSM incentive, but a utility, the Department, or other stakeholder may propose a separate EFS incentive for approval by the Commission.[24]

C.2. The Department's Review of the Proposed Shared Savings DSM Financial Incentive

The Petition covers ECO activities occurring in program year 2024. The Company reported that its 2024 achievements resulted in total first-year energy savings of 395,470 Dth (approximately 0.90% of ECO-applicable retail sales), and total expenditures of $13,163,160. To calculate the financial incentive, the Company removed costs and net benefits associated with low-income programs that are not cost-effective and from regulatory assessments. Thus, the Company reported incentive-eligible energy

[22] Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan, January 25, 2024. Docket Number E,G-999/CI-08-133.
[23] Commission's Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan, January 25, 2024, Docket Number E,G-999/CI-08-133.
[24] Minn. Stat. § 216B.16, subd. 6c

savings of 395,470 Dth, spending of $10,915,936, and net benefits of $36,342,585 for 2024 ECO activities.

Based on the terms and conditions of its approved Shared Savings DSM financial incentive plan, the Company requested recovery of a financial incentive of $998,125. The Company's proposed incentive is equal to 2.74% ($998,125/$36,342,585) of the Company's 2024 calculated net benefits and 9.14% ($998,125/$10,915,936) of the Company's 2024 expenditures.

The Department's review indicates that the Company correctly calculated its financial incentive for 2024 ECO achievements and did not violate the Commission-approved caps. Therefore, the Department recommends that the Commission approve the Company's 2024 Shared Savings financial incentive of $998,125.

Additionally, should the Commission find it helpful context, the Department also evaluated the broader ECO program achievements reported in the Company's Status Report. As mentioned earlier, since the Company's Status Report does not require Commission approval, this portion of the Petition has been assigned to a separate docket. [25] On June 23, 2025, the Department filed a Staff Proposed Decision. The Proposed Decision provides Staff's evaluation of the Status Report's compliance with Minnesota Statutes and Rules, and Staff's examination of the technical assumptions behind the Company's reported ECO performance to ensure that energy savings are cost-effective, measurable, and verifiable. On August 7, 2025, the Department's Assistant Commissioner approved the Company's Status Report achievements.

D. PROPOSED 2024 ECO TRACKER

In its Petition, the Company requested approval of its report on recoveries and expenditures included in the Company's ECO tracker account. This activity can be found can be found in Attachment A of the utility's Petition and is summarized below in Table 3.

Table 3: Summary of 2024 ECO Tracker Account

Line	Description	Time Period	Amount
1	Beginning Balance	Jan. 1, 2024	($3,070,174)
2	Total ECO Expenses	Jan. 1 2024 – Dec. 31, 2024	$13,163,160
3	DSM Financial Incentive	Approved in 2024 for 2023 Activities	$1,494,587
4	Carrying Charges	Jan. 1 2024 – Dec. 31 2024	($180,440)
5	ECO Expenses Subtotal [Line 1 + Line 2 + Line 3 + Line 4]	Jan. 1 2024 – Dec. 31 2024	$11,407,133
6	CCRC Recovery	Jan. 1 2024 – Dec. 31, 2024	$10,793,697
7	CCRA Recovery	Jan. 1 2024 – Dec. 31, 2024	$562,844
8	ECO Revenues Subtotal [Line 6 + Line 7]	Jan. 1 2024 – Dec. 31, 2024	$11,356,541
9	Ending Balance [Line 5 – Line 8]	Dec. 31, 2024	**$50,592**

[25] *See* Docket No. G011/CIP-23-98

The Department reviewed Attachment A of the Petition and concludes that the Company correctly calculated its 2024 ECO Tracker account. Therefore, the Department recommends the Commission approve the Company's 2024 ECO tracker, resulting in a year-end balance of $50,592.

E. PROPOSED CONSERVATION COST RECOVERY ADJUSTMENT

Minnesota Statutes 2016B.16., Subd. 6b(c) states that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements." This ECO recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

E.1. CCRA Proposal

The Company's current CCRA factor was approved by the Commission on November 8, 2024, with an effective date of January 1, 2025. [26] In MERC's Petition, the Company proposes to change the CCRA factor from the current $0.01221 per therm to $0.00638 per therm (representing a $0.00583 per therm decrease) effective January 1, 2026.[27]

If the proposed rate were to be effective beginning January 1, 2026, the Company's year-end 2026 tracker balance would be $774[28], as shown in Table 4. Table 4 also provides details behind MERC's calculation of its proposed CCRA rate of $0.00638 per therm.

Table 4. Calculation of the Company's Proposed CCRA Rate[29]

Line	Description	Time Period	Amount
1	Beginning Balance	January 1, 2026	($2,163,425)
2	ECO Expenses	January 2026-December 2026	$15,047,208
3	2024 DSM Financial Incentive	Approved in 2025 for 2024 Activities	$998,125
4	2025 DSM Financial Incentive	Approved in 2026 for 2025 Activities	$1,207,087
5	Carrying Charges	January 2026-December 2026	($116,784)
6	ECO Expenses Subtotal [Line 1 + Line 2 + Line 3 + Line 4 + Line 5]	January 2026-December 2026	$14,972,211
7	CCRC Recovery	January 2026-December 2026	$12,263,250
8	Remaining Amount to be Recovered Through CCRA [Line 6 - Line 7]	January 2026-December 2026	$2,708,961
9	Projected Sales (Dth)	January 2026-December 2026	424,480,782
10	Proposed CCRA Rate ($/Dth) [Line 8/Line 9]	Effective January 1, 2026	$0.00638
11	Forecasted Balance	December 31, 2026	$774

[26] *See* Commission's November 8, 2024 Order in Docket No. G-011/M-24-46.
[27] Petition, Page 7
[28] Attachment C, page 2 includes the following note about the forecasted balance estimate: "Note that incorporating the proposed CCRA rate of $0.00638, effective January 1, 2026, into the CCRA calculation should equate a $0 Forecasted December 2026 Balance. The $774 Forecasted December 2026 Balance shown is attributable to rounding."
[29] Data in Table 4 retrieved from Petition, Attachment C.

MERC's CCRA would ideally be set at a rate that brings the Company's ECO tracker balance as close to zero as possible. Doing so avoids significant over or under recovery of ECO costs by the Company, thus minimizing carrying charges and stabilizing CCRA rates.

Reviewing the data in the Petition's Attachment C, the Department concludes the proposed CCRA factor will bring the ECO tracker closer to zero by the end of 2026 and therefore is reasonable. The Department reviewed the calculation of MERC's proposed CCRA rate of $0.00638 per therm and concludes it is accurate. The Department recommends the Commission approve the proposed CCRA rate of $0.00638 per therm to be effective January 1, 2026.

E.2. Customer Notification Method for the CCRA Proposal

In addition to updating the relevant tariff sheet, the Department recommends that the Commission approve the Company's proposed bill message in the billing month immediately following the date of the Commission's Order:

> Effective January 1, 2026, the CCRA (conservation cost recovery adjustment) has been revised to $0.00638 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

F. HISTORICAL ECO ACHIEVEMENTS AND SHARED SAVINGS INCENTIVES

In Table 5, the Department examined energy savings, expenditures, and incentive values for select years. The Department observes that the Company's energy savings and financial incentive decreased from 2023 to 2024 and when comparing 2024 to the Company's 2022-2024 average savings and incentive figures. The Department also observes that the Company's expenditures decreased from 2023 to 2024 but increased when comparing 2024 to the Company's 2022-2024 average expenditures figure.

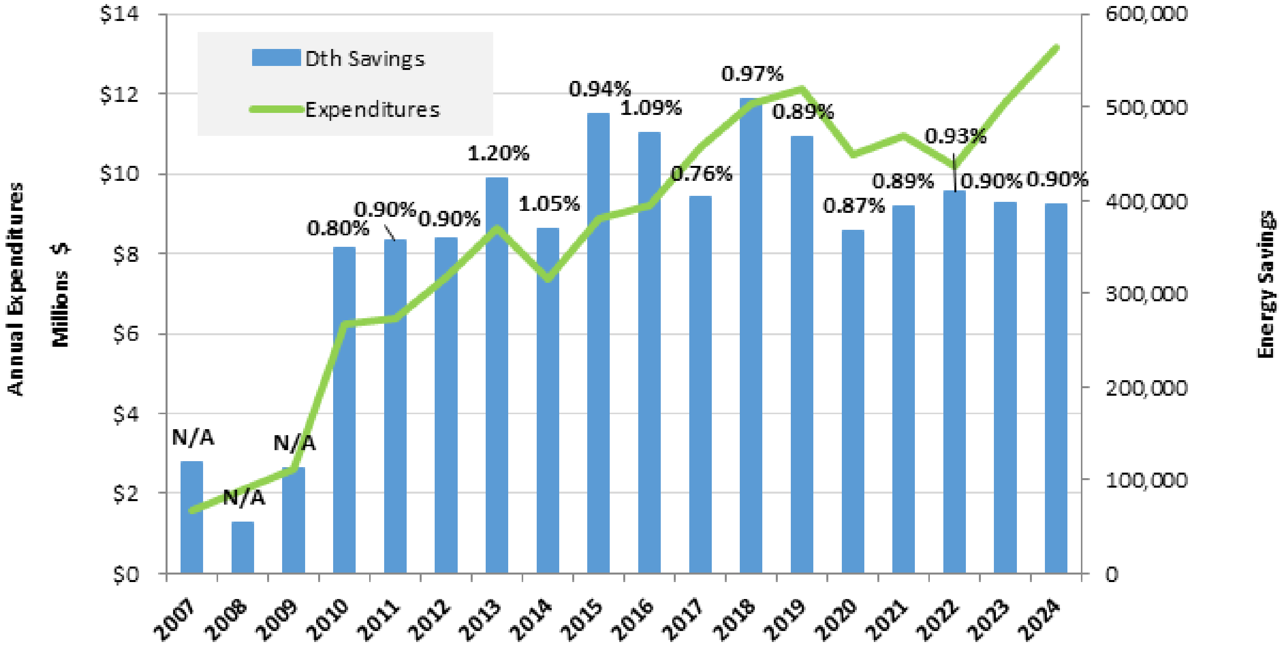
In Figure 1, the Department also provides a more comprehensive summary of the Company's ECO performance over time.

Table 5: Savings, Expenditures, and Incentives for Select Years[30]

	Energy Savings (Dth)	Expenditures	Shared Savings Incentive
2024	395,470	$10,915,936	$998,125
2023	397,439	$11,820,716	$1,494,587
2022	410,281	$8,947,104	$1,246,952
Average 2022-2024	401,063	$10,561,252	$1,246,555
Compare 2024 to 2023	-0.50%	-7.65%	-33.22%
Compare 2024 to Avg 2022-2024	-1.39%	3.36%	-19.93%

[30] Data reflects savings and expenditures used to calculate the financial incentive, and thus does not include savings and spending due to specific programs that were excluded from the financial incentive calculation.

Figure 1. Historical ECO Performance



IV. DEPARTMENT RECOMMENDATIONS

The Department reviewed the Company's Petition and concluded that it is generally reasonable. Based on analysis of the Petition and the information in the record, the Department has prepared recommendations, which are provided below. The Department is available to answer any questions the Commission may have.

A. RECOMMENDATIONS TO THE COMMISSION

- A.1. Approve a performance incentive of $998,125 for 2024 ECO activities;
- A.2. Approve MERC's 2024 ECO tracker account, as summarized in Table 3 above, resulting in a December 31, 2024 tracker balance of $50,592;
- A.3. Approve a Conservation Cost Recovery Adjustment of $0.00638 per therm to be effective January 1, 2026, or the first month following the Commission's Order in this proceeding;
- A.4. Approve the Company's proposed bill message in the billing month immediately following the date of the Commission's Order:
    - Effective January 1, 2026, the CCRA (conservation cost recovery adjustment) has been revised to $0.00638 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.
- A.5. Require MERC to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.