June 26, 2025

Will Seuffert, Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2027

Docket Number E,G999/CI-08-133

Dear Mr. Seuffert,

The Minnesota Department of Commerce, Division of Energy Resources (Department), Center for Energy and Environment (CEE), and Fresh Energy respectfully submit our joint proposal for modifications to the existing Shared Savings Demand-Side Management (DSM) Financial Incentive Mechanism for implementation beginning in 2027. This proposal was developed by CEE and the Department, as stated throughout the filing, and is supported by Fresh Energy.

Based on our analysis and conversations with stakeholders, the Department, CEE, and Fresh Energy recommend that the Minnesota Public Utilities Commission (Commission) approve a multi-factor Shared Savings DSM Financial Incentive Mechanism for electric and gas utilities' 2027–2029 Energy Conservation and Optimization (ECO) Triennial Plans. The attached proposal outlines, explains, and provides justification for a multi-factor incentive mechanism developed by the Department and CEE. The proposal modifies the current Shared Savings DSM Financial Incentive Mechanism to incorporate additional achievement metrics beyond the existing metrics of first-year energy savings and Minnesota Test net benefits.

To enable utilities to incorporate changes to the financial incentive mechanism into their 2027–2029 Triennial Plans, which will be filed with the Department by June 1, 2026, the Department, CEE, and Fresh Energy request the Commission meet to decide on this matter by December 31, 2025. The Department, CEE, and Fresh Energy are available to answer any questions that the Commission may have.

Sincerely,

/s/ Mariko Yatsuhashi
Regulatory Policy Advocate
Center for Energy and Environment

/s/ Ashly McFarlane
Senior Manager of Market Transformation
Regulatory Policy & Forecasting
Center for Energy and Environment

/s/ Will Nissen
Director of Policy
Center for Energy and Environment

/s/ Dr. Sydnie M. Lieb
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/s/ Caitlin Eichten
Director, Building Energy Transition
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I. INTRODUCTION

The Shared Savings DSM ECO financial incentive is a key motivator for utility investment in cost-effective energy efficiency programming. By rewarding utilities for the successful implementation of ECO portfolios, the incentive drives innovative program design and maintains demand-side energy conservation as a resource for meeting energy needs comparable to supply-side resources. Since the inception of the incentive, two metrics have been used to measure program success: first-year energy savings and portfolio cost-effectiveness, measured through net benefits. A utility's performance in these two areas determines the size of an incentive the utility can earn, indicating that first-year savings and cost-effectiveness are the top priorities when designing and delivering ECO programming.

With the passage of the Minnesota Energy Conservation and Optimization Act of 2021 (ECO Act) and additional modifications to Minn. Stat. § 216B.241 in 2024, the legislative framework for ECO has evolved and included additional programmatic opportunities. The ECO Act increased low-income minimum spending requirements for both electric and gas utilities, emphasizing a continued need to provide impactful programming for low-income customers. Qualifying efficient fuel-switching (EFS) and load management measures are now allowed within ECO portfolios, which, alongside the statewide goal to reach net-zero greenhouse gas emissions by 2050, indicates a growing need for a multifaceted demand-side efficiency approach supported by Minnesota's utilities. Robust insulation and air sealing measures are also needed to optimize space conditioning efficiency as a means of reducing energy consumption.

To align the financial incentive with the current ECO framework, the Proposed Shared Savings DSM incentive for 2027–2029 maintains first-year energy savings and cost-effectiveness as core metrics, but also incorporates additional metrics, namely low-income spending, savings from insulation and air sealing for gas utilities, and net benefits from EFS for electric utilities.

Historically, the Department develops a proposal for the ECO Shared Savings DSM incentive ahead of each Triennial and submits it for approval by the Commission. While the Department has regulatory authority over the implementation of ECO,[1] the Commission has authority over the structure and administration of the incentive mechanism[2] and oversees cost-recovery for ECO programming[3]. The Department, alongside CEE and Fresh Energy, submits the 2027–2029 Shared Savings DSM Incentive Proposal (Proposal) for consideration by the Commission.

[1] Minn. Stat. § 216B.241 Subd. 1c(a)
[2] Minn. Stat. § 216B.16 Subd. 6c
[3] Minn. Stat. § 216B.241 Subd. 2b

II. ENERGY CONSERVATION AND OPTIMIZATION FRAMEWORK

Minn. Stat. § 216B.241 (ECO Statute) provides the framework for public utility 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.[4] As discussed further in the following, these goals are based on the first-year energy savings achieved by utilities and have driven the development and growth of programs for over 15 years.

The ECO Statute also requires that programs implemented by utilities be cost-effective through consideration of the resulting costs and benefits from a variety of perspectives.[5] Cost-effectiveness tests developed to meet these requirements, like the Minnesota Test discussed further below, also play a critical role in calculating the utilities' DSM incentives.

Utilities develop and propose portfolios of ECO programs every three years through Triennial Plans filed with the Department,[6] with interim program modifications as needed,[7] and provide annual status reports detailing program results.[8] The Department has regulatory oversight in reviewing and approving utility plans and performance,[9] determining cost-effectiveness methodologies[10], and the overall administration of the ECO framework.[11] Utilities are also allowed to recover costs incurred from delivering ECO programs approved by the Department[12] which are recovered through a tracker account reviewed and approved annually by the Commission.[13] Finally, the Commission can approve incentive plans encouraging utility success through ECO programs provided the plans meet certain statutory requirements.[14] The Commission has approved DSM incentive formulas for each three-year Triennial Plan since 2010 through Docket No. E,G-999/CI-08-133,[15] and approves annual financial incentives through the ECO tracker account proceedings.[16]

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[4] Minn. Stat. § 216B.241, subd. 1c.
[5] Minn. Stat. § 216B.241 Subd. 1c(e)
[6] Minn. Stat. § 216B.241 Subd. 2(b)
[7] Minn. Rules. 7690.1400 and 7690.1430
[8] Minn. Rules. 7690.0550
[9] Minn. Stat. § 216B.241 Subd. 2 et seq
[10] Minn. Stat. § 216B.241 Subd. 1c(e)
[11] *See* Minn. Stat. § 216B.241, 216B.2402, 216B,2403 and Minn. Rules 7690
[12] Minn. Stat. § 216B.241, subd. 2b.
[13] Minn. Stat. § 216B.16, subd. 6b.
[14] Minn. Stat. § 216B.16, subd. 6c.
[15] Commission Order Establishing Utility Performance Incentives for Energy Conservation, January 27, 2010, Docket Number E,G-999/CI-08-133.
[16] 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.

The following sections provide an overview of the most recent incentive formula approved by the Commission for electric and gas utilities' 2024–2026 Triennial Plans and describe how the proposed 2027–2029 incentive builds from the current structure.

III. OVERVIEW OF 2024–2026 INCENTIVE

On January 25, 2024, the Commission approved the current Shared Savings DSM Financial Incentive Mechanism, which applies to investor-owned gas and electric utilities for savings achieved through ECO during the 2024–2026 Triennial.[17] 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. As energy savings achievements increase, the percentage of net benefits awarded increases. As a result, the size of the 2024–2026 utility incentive depends on first-year energy savings and net benefits.

Table 1: Current 2024–2026 Natural Gas Incentive

First-Year Energy Savings Achievement (% of Retail Sales)	% of Net Benefits Awarded
0.7% (threshold)[18]	1.90%
0.8%	2.32%
0.9%	2.74%
1.0%	3.16%
1.1%	3.58%
1.2% (goal)[19]	4.00% (cap)

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

[18] The achievement threshold refers to the achievement level a utility must reach before they begin earning an incentive for a given metric.

[19] 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: 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)

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.[20] 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.

IV. PROCESS FOR DEVELOPING 2027–2029 PROPOSAL

Timeline

CEE began researching DSM financial incentive mechanisms in late 2024 by collecting information from other leading states. Drawing from this research and stakeholder feedback, the Department and CEE developed the 2027–2029 Shared Savings DSM Financial Incentive Mechanism proposal in the spring of 2025. The goal of the Proposal is to further align the incentive's performance metrics with key development areas of the ECO program.

By filing the Proposal much earlier in the Triennial plan development process, the Department, CEE, and Fresh Energy hope that an incentive will be approved with enough time for utilities to

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

consider it while designing their ECO portfolios. Utilities will file 2027–2029 Triennial plans with the Department on June 1, 2026.

Multi-Factor Incentive Model

When developing the Proposal, the Department and CEE drew inspiration from other states that incorporate multiple public policy goals into their incentives for utility efficiency programs. These multi-factor incentives use multiple metrics to measure utility performance. These other states have incorporated metrics that measure performance in areas such as low-income programming, EFS, load management, and heating load reduction. If applied in Minnesota, a multi-factor incentive could balance the multiple goals of ECO programming when measuring utility performance and allocating the resulting incentive, driving utilities to address multiple priorities at once.

While developing the Proposal, the Department and CEE drew from multi-factor incentive models used in Michigan, Colorado, and Massachusetts but focused on adapting, rather than overhauling, the current Minnesota ECO Shared Savings DSM incentive. Alongside the new metrics included in the Proposal, first-year energy savings and Minnesota Test net benefits remain at the core of the incentive, ensuring that cost-effectiveness is not overshadowed by the new metrics.

The metrics included in the Proposal were selected to incentivize important measures that are not emphasized under the current mechanism. The incentives included in the Proposal and the justification for selecting them are outlined in the following section.

V. EXPANDED ECO PROGRAM OPPORTUNITIES AND REQUIREMENTS

Cost-Effectiveness and First-Year Energy Savings

The focus on cost-effectiveness in the ECO framework ensures that energy efficiency and other demand-side resources are viewed as valuable resources for meeting system needs, sustaining energy conservation efforts over time. Like the current 2024–2026 Shared Savings DSM Incentive Mechanism, the proposed 2027–2029 incentive mechanism will continue to include a percentage of portfolio Minnesota Test derived net benefits to ensure that cost-effectiveness remains a core consideration.

First-year energy savings have long been a key metric for measuring the success of ECO portfolios, both as a component of the financial incentive and as a statutory minimum goal. Natural gas utilities must achieve first-year energy savings of 1 percent of average retail sales, while electric utilities must achieve first-year energy savings of 1.75 percent of average retail

sales.[21] Figures 1 and 2 show the gas and electric investor-owned utilities' (IOUs) first-year energy savings from 2007 through 2024 as a percentage of weather-normalized average retail sales.[22]

Figure 1: Gas IOU First-Year Energy Savings as % of Sales

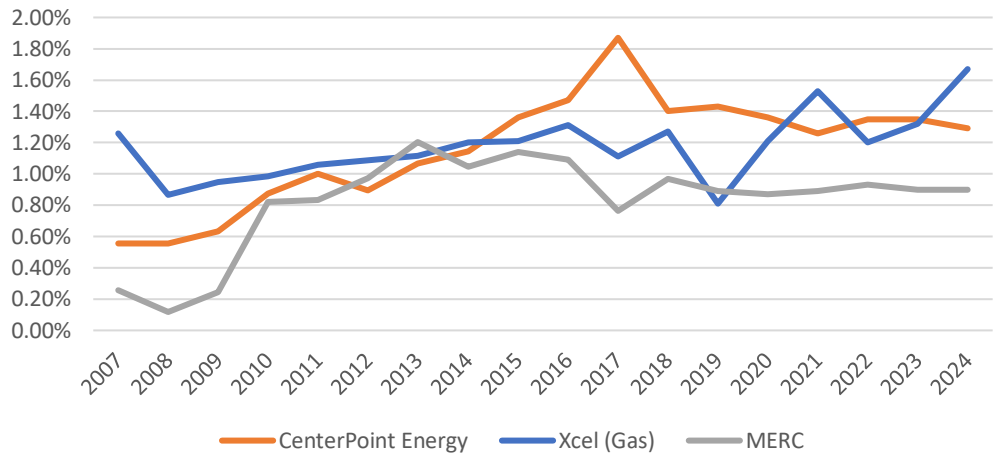
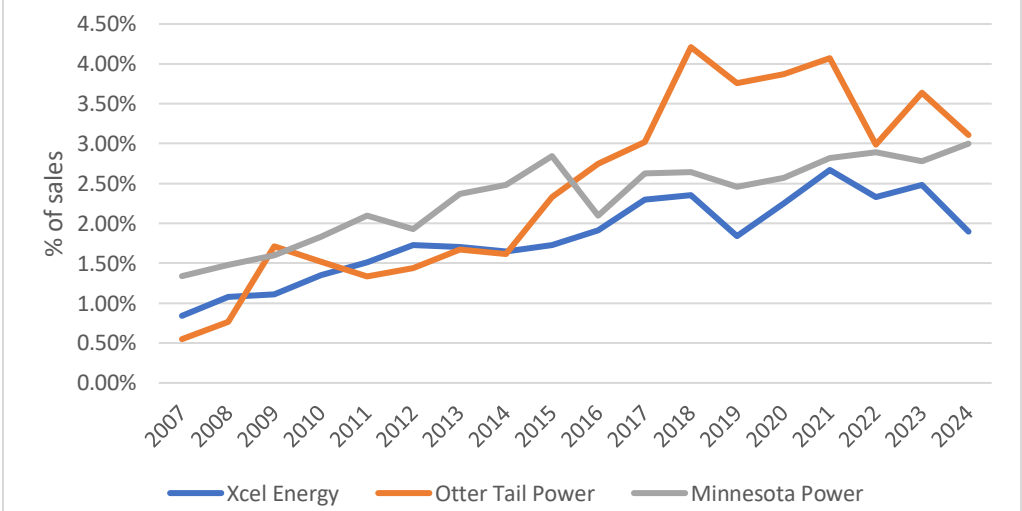


Figure 2: Electric IOU First-Year Energy Savings as % of Sales



[21] Minn. Stat. § 216B.241, subd. 1c.

[22] At the time of filing, utility savings results for 2024 ECO performance had been filed by natural gas and electric IOUs but were not yet approved by the Department. Data was collected from annual ECO status reports from 2007 through 2024 and Department summaries of historic ECO performance in comments 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.

Due to first-year energy savings being the primary metric of the ECO program and its ability to capture the basic yet central goal of saving energy, first-year energy savings remain a core element of the proposed 2027–2029 incentive.

Low-Income Programs

Under Minn. Stat. § 216B.241, subd. 7, utilities are required to invest in ECO programs serving low-income customers. 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. In Minnesota, the average low-income household faces an energy burden of 8 percent, while the average energy burden for non-low-income households is 2 percent.[23]

Despite the essential services that low-income programs provide, they 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. To avoid disincentivizing investment in low-income programs, utilities are permitted to exclude non-cost-effective low-income programs from their total net benefits for purposes of calculating their utility incentive.[24] Additionally, the Department has not required that low-income programs pass ECO's primary cost-effectiveness test in recognition of their importance in serving this customer group. Although savings from low-income programs are included in the calculation of total first-year energy savings, under the current financial incentive mechanism, utilities are incentivized to prioritize other programs that are cost-effective and attain the same savings at a lower cost. As a result, low-income programs are essentially excluded from the ECO financial incentive mechanism and the statutory minimum requirement for low-income spending remains the primary regulatory tool for motivating utilities to implement low-income programs.

The 2021 ECO Act, which more than doubled the low-income minimum spending requirements, signaled the Legislature's desire that the low-income sector be better served by ECO programming. As shown in Figures 3 and 4, in 2024, Minnesota's utilities adapted to the increased spending requirements, with all utilities reporting results exceeding the new minimum requirements except Otter Tail Power. However, maintaining and going above these achievement levels is challenging, especially as utilities face additional obstacles such as rising inflation and workforce constraints. Providing a positive incentive for low-income programming will maintain focus on the low-income sector, encourage innovative approaches for meeting and

[23] https://mn.gov/commerce-stat/pdfs/20210301_quad_report.pdf
[24] Minn. Stat. § 216B.241 subd. 7i

exceeding goals, and properly acknowledge the challenging work carried out by utilities to serve this sector.

Figure 3: Gas IOU Low Income Spend as a % of Residential Gross Operating Revenue

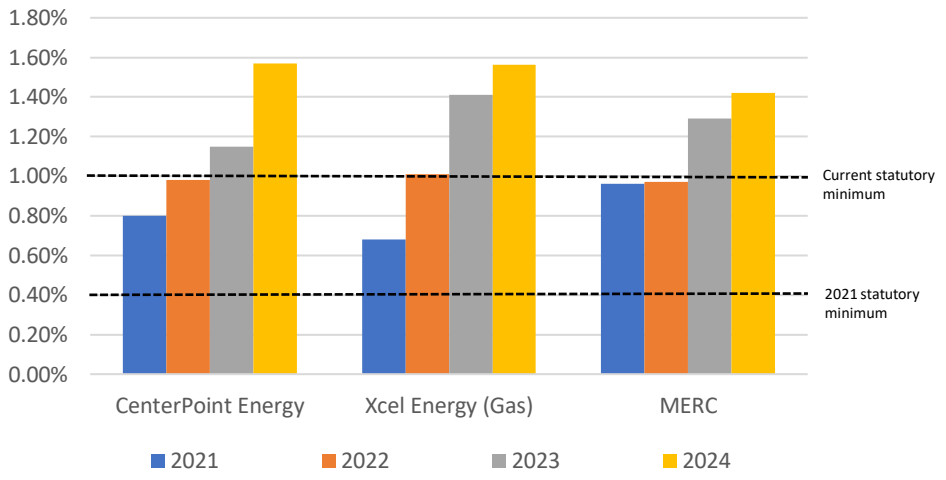
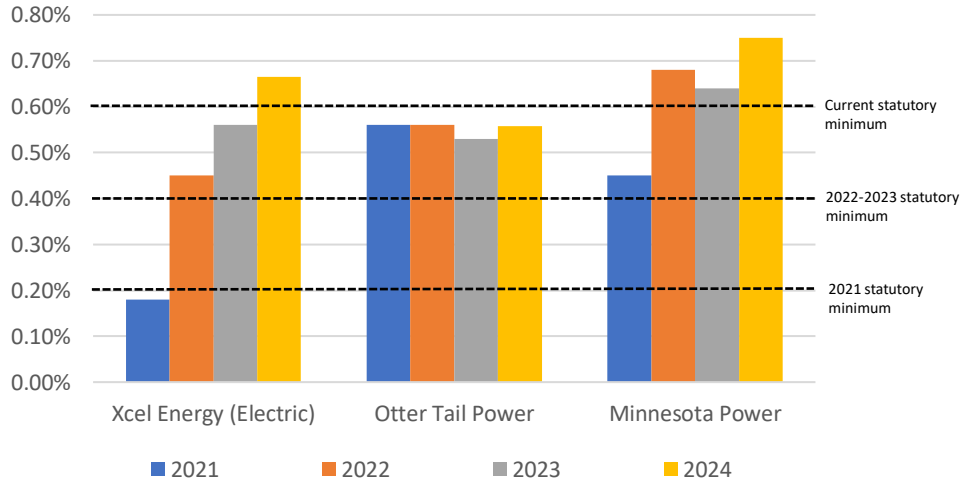


Figure 4: Electric IOU Low Income Spend as a % of Residential Gross Operating Revenue



In 2020, Fresh Energy, Natural Resources Defense Council (NRDC), and National Housing Trust (NHT) filed joint comments proposing the creation of a low-income performance incentive for

the 2021-2023 Triennial.[25] Despite widespread support for a low-income incentive, stakeholders expressed the need for additional engagement and development of a low-income performance incentive. The Commission did not approve the low-income incentive for 2021-2023, but ordered a stakeholder process to continue its development, stating:

> The Commission anticipates that this stakeholder process will result in a well-developed proposal for a low-income energy efficiency incentive that could be implemented beginning in 2022. Although there are a number of questions that stakeholders will need to discuss, this timeline is intended to ensure that issues are resolved expeditiously.[26]

The resulting stakeholder process carried out in 2023 did not result in a low-income incentive for the 2024–2026 Triennial. The Department, CEE, and Fresh Energy's Proposal for the 2027–2029 Triennial seeks to build on important past work and incorporate a low-income incentive into the broader incentive mechanism, offering a comprehensive approach to incentivizing low-income programming while retaining consideration of cost-effectiveness.

Electric Efficient Fuel-Switching

The 2021 ECO Act allowed for the inclusion of EFS programs in ECO portfolios, provided they result in a net reduction in the amount of source energy consumed, a net reduction of statewide greenhouse gas emissions, and are cost-effective.[27] EFS measures that meet these criteria are an important tool for advancing Minnesota's statewide climate and emissions goals. Minn. Statute § 216H.02 requires Minnesota to reach net zero emissions by 2050 while Minn. Statute § 216B.1691 requires electric utilities to generate 100 percent of their electricity with carbon-free sources by the end of 2040.[28] With Minnesota's electricity supply growing cleaner, EFS has become an increasingly important strategy for reducing greenhouse gas emissions.

In 2024, several Minnesota utilities offered EFS programs through their ECO portfolios for the first time, resulting in millions of net benefits for Minnesota's customers. Xcel Energy spent $6.69 million on EFS measures, CenterPoint Energy spent $2.76 million, and Otter Tail Power spent $462,400, while Minnesota Power and Minnesota Energy Resource Corporation (MERC)

[25]Joint Comments of Fresh Energy, National Housing Trust, and Natural Resources Defense Council in the Matter of Commission Review of Utility Performance Incentives for Energy Conservation. May 18, 2020. Docket Number E,G-999/CI-08-133.
[26]Commission Order Approving 2021-2023 Parameters for Shared Savings Demand-Side Management Financial Incentive. December 9, 2020. Docket Number E,G-999/CI-08-133.
[27] Minn. Stat. § 216B.241 subd. 11
[28] Minn. Stat. § 216B.1691 subd. 2g

have yet to offer EFS measures through their ECO portfolios.[29] Xcel Energy, CenterPoint, and Otter Tail Power plan to continue offering EFS programs throughout the remainder of the 2024-2026 Triennial.

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.[30] 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.[31] An EFS incentive for electric utilities has yet to be approved and the opportunity to include an EFS incentive for electric IOUs will sunset on December 31, 2032. Otter Tail Power recently included a proposal for an incentive based on EFS net benefits in its 2024 Annual Filing of the Demand Side Management Financial Incentive that would apply to its 2024 programming, but it has not yet been considered by the Commission.[32]

The statutory sunset on an electric EFS incentive emphasizes the pressing need for electric EFS measures to be included in the 2027–2029 incentive mechanism. Especially considering the current availability of federal, state, and local incentives, the 2027–2029 Triennial will be a crucial period for utilities to offer additional incentives to their customers and further facilitate the adoption of EFS technologies. Allowing electric utilities to earn an incentive for EFS programs will further indicate to electric utilities that EFS is a priority during the upcoming Triennial, encouraging innovative and effective programming.

Insulation and Air Sealing

Insulation and air sealing measures produce long-term, fuel-neutral energy savings, providing gas energy savings and enabling effective efficient fuel-switching measures, increasing comfort for customers, and lowering energy costs.

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

[29] At the time of filing, 2024 status reports had been filed by utilities but were not yet approved by the Department. Docket Numbers E002/G002/CIP-23-92, E015/CIP-23-93, E017/CIP-23-94, G008/CIP-23-95, G022/ CIP 23-96, G004/CIP-23-97, and G011/CIP-23-98.
[30] 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.
[31] Minn. Stat. § 216B.16, subd. 6c
[32] Docket Number E017/M-25-49

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.

According to the 2018 ECO Potential Study,[33] the program potential[34] for insulation and air sealing is significantly higher than the achievements realized today, meaning there is a large opportunity for gas utilities to shift ECO resources to prioritize insulation and air sealing measures. Figures 5, 6, and 7 show CenterPoint Energy, Xcel Energy (gas), and MERC's actual insulation and air sealing energy savings achieved through ECO programming compared to the program potential energy savings for 2021-2024.[35]

Figure 5: CenterPoint Insulation and Air Sealing First-Year Energy Savings (Dth)

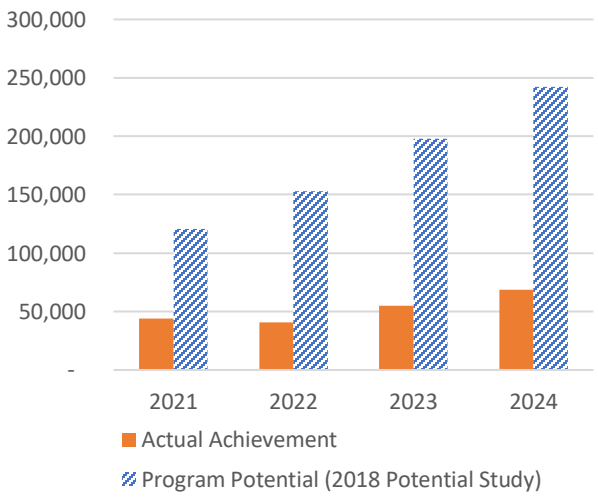
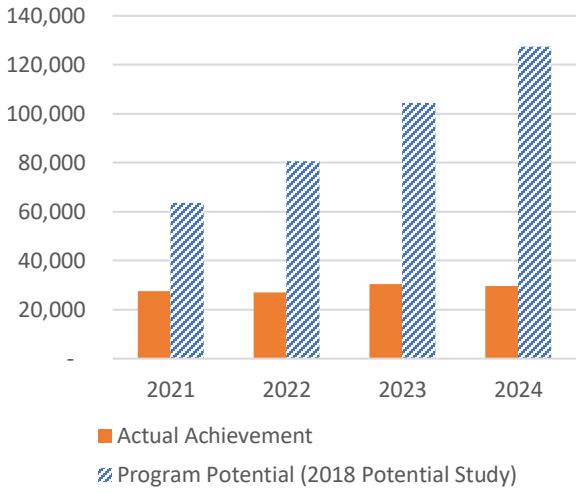


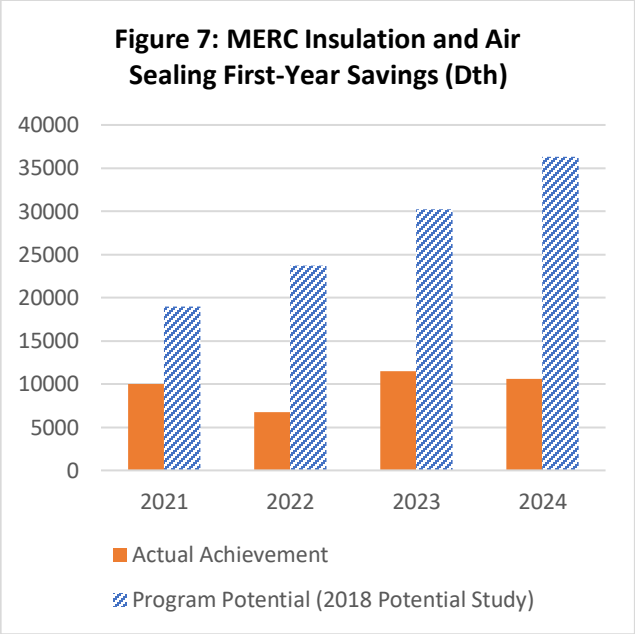
Figure 6: Xcel Gas Insulation and Air Sealing First-Year Energy Savings (Dth)



[33] Natural Gas Potential Model Results from the 2018 ECO Potential Study. https://public.Figureau.com/app/profile/center.for.energy.and.environment/viz/NaturalGasPotentialModelResults/GasStory

[34] The program potential, derived from a scenario that assumes aggressive marketing and program designs, is a subset of the maximum achievable potential. The program potential considers constraints in implementation.

[35] Data from the 2018 ECO Potential Study and 2021-2024 ECO Status Reports (Docket Numbers G002/20-473, G002/23-92, G008/20-478, G008/23-95, G011/20-479, and G011/23-98). The "Actual Achievement" estimation for CenterPoint includes Insulation Rebate program savings and weatherization savings from the LIRE and Low-Income Weatherization programs; for Xcel, it includes Insulation Rebate savings and insulation and air sealing savings from HESP and the Whole Home Efficiency program; for MERC, it includes insulation and air sealing savings from the Residential Rebate program and weatherization savings from the 4U2 and LI Weatherization programs.



Widespread weatherization is needed to meet statewide climate goals and effectively pursue EFS. The Minnesota Climate Action Framework, a roadmap for reaching statewide climate mandates, calls for the weatherization of 25 percent of dwellings where occupants earn 50 percent or less of state median income by 2030.[36] It also sets the goal of reducing GHG emissions from existing buildings by 50 percent compared to 2005 levels by 2035. Insulation and air sealing measures are an important and currently underutilized tool for reaching these goals.

Weatherization is a precursor to affordable EFS in buildings. Weatherized homes have smaller size requirements for heat pumps and enable heat pumps to meet more annual space heating load, meaning customers will likely pay less for the upfront costs of installing and operating the heat pump. A CEE study on the weatherization and electrification potential for Minneapolis' residential sector found that weatherization can mitigate increased energy bills for fully electrified customers and, in some cases, result in bill savings.[37]

Insulation and air sealing measures can support several public policy goals, including high energy savings, emissions reductions, and increased benefits for low-income households. As gas utilities have not reached the full potential for these measures, the Proposal aims to better incentivize them. Under the current incentive mechanism, insulation and air sealing measures are not prioritized as they tend to be less cost-effective due to higher upfront costs and generate long-term savings that are not highlighted by a first-year energy savings metric.

[36] https://climate.state.mn.us/sites/climate-action/files/Climate%20Action%20Framework.pdf
[37] https://www.mncee.org/sites/default/files/2023-02/Minneapolis%201-4%20Unit%20Residential%20Weatherization%20and%20Electrification%20Roadmap_Final%20%281%29.pdf

VI. OVERVIEW OF 2027–2029 NATURAL GAS AND ELECTRIC INCENTIVE MECHANISMS

The proposed Shared Savings DSM incentive framework for the 2027–2029 ECO Triennials closely follows the 2024–2026 structure outlined in the Commission's January 25, 2024, Order.[38] Under the current framework, a percentage of Minnesota Test net benefits is awarded based on the level of first-year energy savings achieved. The new proposal retains this approach but expands it by introducing additional achievement metrics through which net benefits can also be earned.

Tables 3 and 4 provide an overview of the percentage of net benefits allocated to each metric for the natural gas and electric incentives respectively, as well as the performance levels utilities must reach to earn the net benefits. The achievement threshold refers to the minimum achievement level a utility must reach in each metric to begin earning an incentive for that metric. The achievement goal refers to the achievement level for each metric that corresponds with the maximum percentage of net benefits that can be earned for that metric.

Table 3: Overview of Gas Incentive Mechanism

First-Year Energy Savings (% of Retail Sales)	% of Total Net Benefits Awarded
0.70% (threshold)[39]	1.14%
0.80%	1.51%
0.90%	1.88%
1.00%	2.26%
1.10%	2.63%
1.20% (goal)[40]	3.00% (cap)
Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)	% of Total Net Benefits Awarded
0.10% (threshold)	0.38%
0.14%	0.50%
0.18%	0.63%
0.22%	0.75%
0.26%	0.88%
0.30% (goal)	1.00% (cap)

[38] Docket Number E,G-999/CI-08-133.

[39] The achievement threshold refers to the achievement level a utility must reach before they begin earning an incentive for a given metric.

[40] 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.

Low-Income Spend (% of Residential GOR)	% of Total Net Benefits Awarded
1.0% (threshold)	0.38%
1.2%	0.50%
1.4%	0.63%
1.6%	0.75%
1.8%	0.88%
2.0% (goal)	1.00% (cap)

Table 4: Overview of Electric Incentive Mechanism

First-Year Energy Savings (% of Retail Sales)	% of Non-EFS Net Benefits Awarded	% of EFS Net Benefits Awarded
1.50% (threshold)	0.98%	0.98%
1.60%	1.48%	1.48%
1.70%	1.98%	1.98%
1.80%	2.49%	2.49%
1.90%	2.99%	2.99%
2.00%	3.49%	3.49%
2.10%	4.00%	4.00%
2.20% (goal)	4.50% (cap)	4.50% (cap)
Low-Income Spend (% of Residential GOR)	% of Non-EFS Net Benefits Awarded	% of EFS Net Benefits Awarded
0.60% (threshold)	0.33%	0.33%
0.70%	0.62%	0.62%
0.80%	0.91%	0.91%
0.90%	1.21%	1.21%
1.00% (goal)	1.50% (cap)	1.50% (cap)

In equation form, the gas incentive mechanism is calculated as follows:

Gas Incentive = (first-year energy savings % of net benefits + insulation and air sealing % of net benefits + LI spending % of net benefits) × total net benefits

In equation form, the electric incentive mechanism is calculated as follows, with the second portion of the equation accounting for the EFS electric incentive:

Non-EFS Incentive = (first-year energy savings % of net benefits + LI spending % of net benefits) × non-EFS net benefits

EFS Incentive = (first-year energy savings % of net benefits + LI spending % of net benefits) × EFS Net Benefits × EFS RIM Benefit-Cost Ratio

Total Electric Incentive = Non-EFS Incentive + EFS Incentive

Additional parameters from the current 2024–2026 incentive that will remain the same under the 2027–2029 proposal are as follows, and are captured in Proposed Decision Option 2 in the conclusion section:

- 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.
- 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) towards calculating their financial incentive.
- 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.
- Both electric and gas utilities are allowed to count their expenditures on EFS and load management programs in the calculation of their Expenditures Cap.
- ECO-exempt customers will not be allocated costs for the shared savings incentive.
- If a utility elects not to include a third-party ECO project, they cannot change its election until the beginning of subsequent years.
- 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 DSM incentive and energy savings and will count toward the energy savings goal.
- The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.
- The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments, 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.

- Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.
- A utility may elect to exclude a non-cost-effective low-income program from its net benefits calculations for purposes of calculating the financial incentive. The energy and demand savings from non-cost-effective low-income programs may be applied toward first-year energy savings for purposes of calculating the financial incentive.[41]

VII. PROPOSED NATURAL GAS INCENTIVE MECHANISM

The gas utility DSM incentive mechanism will be modified to consider three metrics, as opposed to only first-year energy savings. Table 5 shows the three metrics proposed for the gas incentive:

Table 5: Overview of Gas Incentive Metrics

Gas Incentive Metric	Weight	Maximum % of Net Benefits Awarded
First-year energy savings achievement (Dth) as a percentage of retail sales	60%	3%
Insulation and air sealing first-year savings (Dth) as a percentage of sales	20%	1%
Low-income spend ($) as a percentage of residential GOR	20%	1%
Total	100%	5%

The achievement metrics are explained in more detail below. The relative weight of each metric, which determines the maximum incentive that can be earned for meeting the metric, is shown above.

Metric 1: First Year Energy Savings Achievement as a % of Average Retail Sales

First-year energy savings (Dth) will continue to be reported as a percentage of weather-normalized average retail sales over the most recent three years, excluding sales to ECO-exempt customers.[42] For the next Triennial filing filed in 2026, this period will cover years 2023 through 2025. The savings achievement range remains consistent with the 2024–2026 framework. However, the percentage of net benefits awarded for first-year savings has been reduced to reflect the addition of new achievement metrics. For this metric and all following metrics, if the

[41] Minn. Stat. § 216b.241 subd. 7(i)

[42] The total first-year savings value includes insulation and air sealing first-year savings, as well as those achieved through low-income programs.

achievement value falls between the listed points, the awarded percentage of net benefits can be determined through linear interpolation. Table 6 shows the incentive levels corresponding to specific achievement milestones.

Table 6: First-Year Energy Savings Metric

First-Year Energy Savings Achievement — % of Retail Sales	% of Minnesota Net Benefits Awarded
0.7% (threshold)	1.14%
0.8%	1.51%
0.9%	1.88%
1.0%	2.26%
1.1%	2.63%
1.2% (goal)	3.0% (cap)

- The threshold for this metric — the minimum savings a utility must meet to qualify for an incentive — will remain at 0.7 percent of weather-normalized average retail sales, the threshold used in the 2024–2026 mechanism.[43]
- The achievement goal — the achievement corresponding to the maximum net benefits multiplier — will remain at 1.2 percent of weather-normalized average retail sales, the achievement goal used in the 2024—2026 mechanism.

Metric 2: Insulation and Air Sealing First-Year Savings (Dth)

Insulation and air-sealing first-year savings are reported as a percentage of weather-normalized average residential retail sales[44] over the most recent three years. This metric only includes savings from retrofit programs and excludes new construction programs. The focus on retrofits emphasizes the need for significant upgrades to the existing housing stock to realize widespread energy savings, reduce future grid impacts, and increase energy affordability. Examples of eligible insulation and air sealing measures include wall insulation, attic insulation, and envelope air sealing. Table 7 shows the incentive levels corresponding to specific achievement milestones.

[43] Commission Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan. January 25, 2024. Docket No. E,G-999/CI-08-133.
[44] Average weather-normalized residential retail sales were estimated using the 2022-2024 gas and electric Jurisdictional Annual Reports for each utility.

Table 7: Insulation and Air Sealing Metric

Insulation and Air Sealing Savings Achievement — % of Residential Sales	% of Minnesota Net Benefits Awarded
0.10% (threshold)	0.38%
0.14%	0.50%
0.18%	0.63%
0.22%	0.75%
0.26%	0.88%
0.30% (goal)	1.0% (cap)

- The threshold is set at one-third of the achievement goal.
- The achievement goal was calculated using the total insulation and air sealing program potential from the most recent Minnesota Potential Study.[45] The goal represents the average of Xcel Energy, CenterPoint, and MERC's 2027–2029 program potential for attic insulation, wall insulation, and envelope air sealing as a percentage of weather-normalized average residential retail sales.

Metric 3: Low-Income Spend ($)

The low-income spend metric represents the amount utilities spend on low-income programs, as defined in statute[46] and calculated as a percentage of residential gross operating revenue (GOR). Table 8 shows the incentive levels corresponding to specific achievement milestones. The low-income metric was based on spending to encourage utilities to invest not only in programs that generate direct energy savings, but also those such as preweatherization and workforce development that enable impactful programming.

Table 8: Low-Income Spend Metric

Low-Income Spend Achievement — % of Residential GOR	% of Minnesota Net Benefits Awarded
1.0% (threshold)	0.38%
1.2%	0.50%
1.4%	0.63%
1.6%	0.75%
1.8%	0.88%
2.0% (goal)	1.0% (cap)

[45] https://www.mncee.org/sites/default/files/2021-05/MN-Potential-Study_Final-Report_Publication-Date_2018-12-04.pdf
[46] Minn. Stat. § 216B.2402 subd. 16 and 17

- The threshold is equal to 1 percent of the utility's residential GOR, the minimum amount a gas utility must spend on low-income programs.[47]
- The achievement goal is double the statutory requirement.

Incentive Caps

Incentive caps limit the total financial incentive a utility may receive. The incentive is capped in two ways: 1) the incentive is capped at a percentage of the utility's investment in ECO programs (the Expenditures Cap); and 2) the incentive is capped at a percentage of the total generated net benefits (the Net Benefits Cap). The total incentive is limited to the lower of the Expenditures Cap and Net Benefits Cap.

The gas utility Expenditures Cap is equal to 20 percent of ECO portfolio spending, meaning utilities cannot receive a total incentive greater than 20 percent of total spending. This cap increases to 25 percent if the utility achieves the maximum goal for first-year energy savings, equal to 1.2 percent of weather-normalized average retail sales for gas utilities.

The gas utility Net Benefits Cap is equal to 5 percent of generated net benefits. The proposed 2027–2029 Net Benefits Cap is set 1 percent higher than the 2024–2026 Net Benefits Cap to recognize the added challenge of pursuing multiple metrics under the 2027–2029 Proposal.

The Net Benefits Cap is distributed among the three metrics, so that 3 percent of net benefits can be earned through the first-year energy savings metric, 1 percent can be earned through the insulation and air sealing metric, and 1 percent can be earned through the low-income spend metric. Together, these values add up to 5 percent of net benefits, i.e. the Net Benefits Cap.

VIII. PROPOSED ELECTRIC INCENTIVE MECHANISM

The DSM incentive mechanism for electric utilities will be modified to consider low-income spending and EFS in addition to first-year energy savings and cost-effectiveness. Incentives for first-year energy savings and low-income spending will be awarded based on the total Minnesota Test net benefits for non-EFS ECO programs, namely energy efficiency (EE) and load management (LM) net benefits. The incentive for the third metric, EFS, will be based on EFS Minnesota Test net benefits and the Rate Impact Measure (RIM) test benefit/cost ratio for EFS programs.

[47] Minn. Stat. § 216B.241 subd. 7

The percentage of net benefits awarded for the EFS incentive is equal to the percentage awarded for first-year energy savings achievement and low-income spending achievement. As a result, the amount of EFS net benefits awarded depends on the utility's achievement in non-EFS first-year energy savings and low-income spending. Table 9 shows the metrics for the proposed electric utility incentive.

Table 9: Overview of Electric Incentive Metrics

Metric	Maximum % of Net Benefits Awarded
First-year energy savings achievement (kWh) as a percentage of retail sales	4.5% (non-EFS net benefits)
Low-income spend ($) as a percentage of residential GOR	1.5% (non-EFS net benefits)
EFS net benefits	6% (EFS net benefits)
Total	6% of non-EFS net benefits + 6% of EFS net benefits

Metric 1: First-Year Energy Savings Achievement as % of Retail Sales

First-year energy savings (kWh) will continue to be 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 filing filed in 2026, this period will cover years 2023 through 2025. The savings achievement percentage range remains consistent with the current framework. However, the percentage of net benefits awarded for first-year savings has been reduced to reflect the addition of new achievement metrics.

When reporting first-year achievements, only the kilowatt-hour (kWh) savings from electric energy efficiency and load management programs are included. The estimated kWh equivalent savings from EFS programs are excluded. This requirement ensures that electric efficiency and load management efforts receive appropriate focus, rather than placing emphasis solely on EFS initiatives.

Table 10 shows the incentive levels corresponding to specific achievement milestones. For this metric, and all subsequent metrics, if the achievement values fall between the listed points, the awarded percentage of net benefits can be determined through linear interpolation.

Table 10: First-Year Energy Savings Metric

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% (goal)	4.5% (cap)

- The threshold for this metric — the minimum savings a utility must achieve to qualify for an incentive — will remain at 1.5 percent of weather-normalized average retail sales, the threshold used in the 2024–2026 mechanism. [48]
- The achievement goal—or achievement corresponding to the maximum net benefits multiplier—will remain at 2.2 percent of weather-normalized average retail sales, the achievement goal used in the 2024–2026 mechanism.

Metric 2: Low-Income Spend ($)

The low-income spend metric represents the amount utilities spend on low-income programs, as defined in statute[49] and calculated as a percentage of residential gross operating revenue. Low-income spending for both non-EFS and EFS programs are included in the metric. Table 11 shows the incentive levels corresponding to specific achievement milestones.

Table 11: Low-Income Spend Metric

Low-Income Spend Achievement — % of Residential GOR	% of Minnesota Net Benefits Awarded
0.60% (threshold)	0.33%
0.70%	0.62%
0.80%	0.91%
0.90%	1.21%
1.00% (goal)	1.50% (cap)

[48] Commission Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan. January 25, 2024. Docket No. E,G-999/CI-08-133.
[49] Minn. Stat. § 216B.2402 subd. 16 and 17

- The threshold is equal to 0.6 percent of a utility's gross residential operating revenue, the minimum amount an electric utility must spend on low-income programs as of 2024.[50]
- The achievement goal is set at 1.0 percent of a utility's gross residential operating revenue.

Metric 3: Efficient Fuel Switching Net Benefits

The percentage of Minnesota Test net benefits awarded for the EFS incentive is equal to the combined percentage awarded for first-year energy savings achievement and low-income spending achievement. To calculate the EFS incentive, this combined percentage is multiplied by the net benefits from EFS measures (based only on electric utility investments) and the result is then multiplied by the RIM test benefit-cost ratio for EFS measures.[51] To summarize, the formula for calculating the EFS incentive is:

EFS Incentive = (First-Year Savings Achievement % + Low-Income Spend Achievement %) × EFS Net Benefits × EFS RIM Benefit-Cost Ratio

As a result, the size of the EFS incentive is directly tied to the utility's achievement in non-EFS first-year energy savings as well as non-EFS and EFS low-income spending. This ensures that utilities continue to prioritize non-EFS programs alongside EFS programs and prevents EFS programs from having an oversized influence on the overall incentive.

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.

Incentive Cap

Incentive caps limit the total financial incentive a utility may receive. The incentive is capped in two ways: 1) the incentive is capped at a percentage of the utility's investment in ECO programs (the Expenditures Cap); and 2) the incentive is capped at a percentage of the total generated

[50] Minn. Stat. § 216B.241 subd. 7

[51] The RIM benefit-cost ratio should only consider impacts to the electric system, not the natural gas system. The calculation of the RIM benefit-cost ratio as well as Minnesota Test net benefits should align with the 2023 Department of Commerce Decision in the Matter of 2024–2026 CIP Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities, Docket No. E,G999/CIP-23-46.

net benefits (the Net Benefits Cap). The total incentive is limited to the lower of the Expenditures Cap and Net Benefits Cap.

The electric utility Expenditures Cap is equal to 20 percent of ECO portfolio spending, meaning utilities cannot receive a total incentive greater than 20 percent of total spending. This cap increases to 25 percent if the utility achieves the maximum goal for first-year energy savings, equal to 2.2 percent of weather-normalized average retail sales for electric utilities. For electric utilities, both non-EFS and EFS spending is included in the calculation of the Expenditures Cap.

The Net Benefits Cap is equal to 6 percent of non-EFS net benefits plus 6 percent of EFS net benefits. The proposed 2027–2029 Net Benefits Cap is set 0.5 percent higher than the 2024–2026 Net Benefits Cap to recognize the added challenge of pursuing multiple metrics under the 2027–2029 Proposal.

The Net Benefits Cap is distributed among the first-year energy savings and low-income spend metrics, so that 4.5 percent of net benefits can be earned through the first-year energy savings metric and 1.5 percent can be earned through the low-income spend metric. Together, these values add up to 6 percent of net benefits, i.e. the Net Benefits Cap. For electric utilities, the Net Benefits Cap is the sum of 6 percent of non-EFS net benefits and 6 percent of EFS net benefits and applies to the sum of the non-EFS incentive and the EFS incentive.

IX. STATUTORY REQUIREMENTS

The Proposed 2027–2029 Incentive fulfills the Statutory Requirements for energy conservation and efficient fuel switching incentive plans in Minn. Statute § 216B.16.[52] The requirements are addressed briefly in the following. In approving incentive plans for energy conservation and EFS programs, the Commission must consider:

1. *Whether the plan is likely to increase utility investment in cost-effective energy conservation or efficient fuel switching.*

   The incentive mechanism rewards utilities financially for their ECO programs, making energy conservation and efficient fuel switching appealing investments with benefits for utility shareholders. If utilities fulfill the achievement goals for the incentive metrics, the amount earned will be comparable to past incentive years. Although several metrics included in the Proposal will be challenging for utilities to fulfill, the overall net benefits cap was raised slightly for both gas and electric utilities to account for the added challenge. The basis of the mechanism

[52] Minn. Stat. § 216B.16, subd. 6c.

is the net benefits calculated from the Minnesota Test. This keeps cost-effectiveness at the core of the mechanism.

2. *Whether the plan is compatible with the interest of utility ratepayers and other interested parties.*

   The incentive plan maintains cost-effectiveness as a core component as measured through Minnesota Test net benefits, which considers both utility and societal impacts. The additional metrics in the Proposal will incentivize programming that maintains cost-effectiveness. Additionally, the electric EFS incentive emphasizes EFS programs that put a downward pressure on rates for all utility customers.

3. *Whether the plan links the incentive to the utility's performance in achieving cost-effective conservation or efficient fuel switching.*

   Minnesota Test net benefits are a core component of both the gas and electric incentive plans, ensuring that cost-effectiveness remains a priority in ECO programming. Each metric is tied to net benefits, so even if a utility excels in each metric, they must still maintain cost-effectiveness to earn a significant incentive. The electric EFS incentive also depends on EFS Minnesota Test net benefits.

4. *Whether the plan conflicts with other provisions of Minnesota Statute 216B.16.*

   The gas and electric incentive plans do not conflict with the other provisions of Minnesota Statute 216B.16.

5. *The likely financial impacts of the conservation and efficient fuel-switching programs on the utility.*

   The financial incentive encourages cost-effective ECO and EFS programs, encouraging utilities to implement programs that achieve more benefits for the utility and society than costs. If a utility excels in the metrics included in the Proposal, it will earn a shareholder incentive comparable to those earned throughout the history of ECO and CIP.

X. PROJECTED IMPACT

To provide a comparison between the current 2024–2026 incentive mechanism and proposed 2027–2029 incentive mechanism, the Department and CEE input reported 2024 ECO achievements into the proposed incentive mechanism and compared them to the 2024 incentives requested under the current 2024–2026 mechanism.[53] While first-year energy savings, total net benefits, and low-income spending were explicitly reported in the 2024 status

[53] The reported 2024 incentive amounts and achievements have yet to be approved by the Commission.

reports, the Department and CEE estimated values for insulation and air sealing energy savings and electric utility EFS net benefits when they were not explicitly reported. For the insulation and air sealing metric, only savings from measures clearly reported as insulation and air sealing were included, potentially underestimating the actual 2024 achievements of utilities.[54]

Table 12 compares the 2024 incentive amounts requested by utilities to the 2024 incentive amounts estimated using the proposed 2027–2029 mechanism.

Table 12: Estimated Incentive Based on 2024 Achievements[55]

Utility	Actual 2024 Incentive (2024–2026 Mechanism)	Estimated 2024 Incentive (Proposed 2027–2029 Mechanism)[56]	% Change
CenterPoint	$7,942,034	$7,416,964	-6.6%
Xcel Gas	$4,313,292	$4,020,805	-6.8%
MERC	$998,125	$919,895	-7.8%
Xcel Electric	$15,133,727	$14,773,004	-2.4%
Otter Tail Power	$1,964,142	$1,673,026	-14.8%
Minnesota Power	$2,600,685	$2,490,286	-4.2%
Total	$32,952,005	$31,293,980	-5.0%

If the Proposed mechanism is approved by the end of 2025, the utilities would have enough notice to adapt plans and refocus resources on programming that fulfills the new metrics.

For additional context, Figures 8 and 9[57] show long-term trends in the performance incentives awarded to gas and electric utilities.

[54] Utilities are not required to report a total value for insulation and air sealing measures. 2024 values were estimated by adding up Dth savings from measures indicated to be insulation and air sealing in 2024 status reports. The estimates likely exclude some insulation and air sealing measures that were not separately reported.
[55] Detailed calculations for the estimates in Table 12 can be found in Attachment A.
[56] The estimated financial incentive includes the actual 2024 incentive—as reported in each utility's 2024 ECO Status Report—as a cost in the Minnesota Test net benefits, rather than the estimated incentive. Under the Department's forthcoming "2027–2029 ECO Cost-Effectiveness Methodologies" decision (expected Q1 2026), the incentive should be treated as a cost. Substituting the estimated incentive for the actual incentive will have a minor impact on the estimated financial incentive.
[57] Otter Tail Power's 2024 incentive value includes Otter Tail Power's proposed 2024 EFS incentive.

Figure 8: Gas IOU ECO Financial Incentive Levels

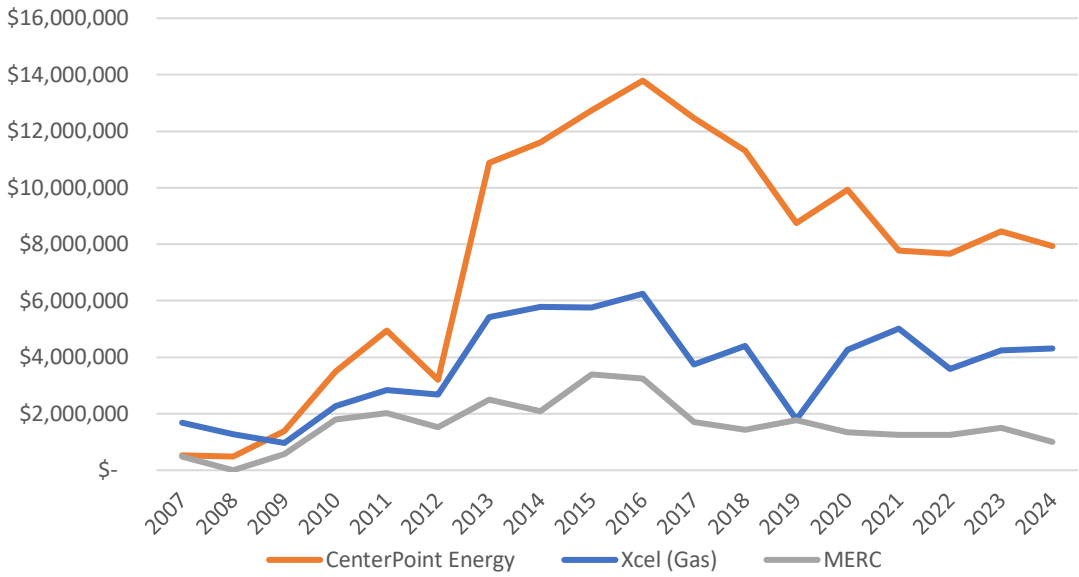
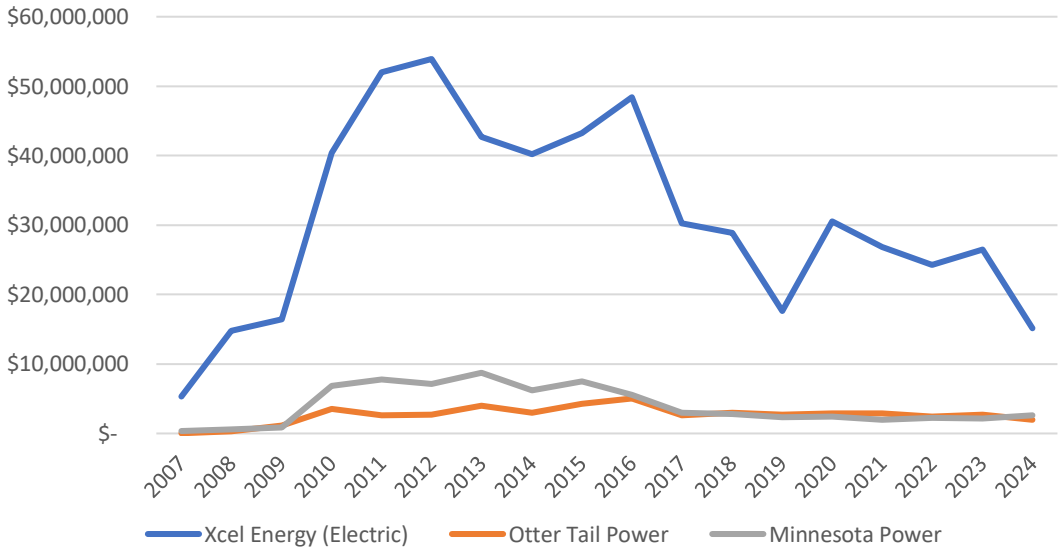


Figure 9: Electric IOU ECO Financial Incentive Levels



XI. CONCLUSIONS AND RECOMMENDATIONS

The multi-factor incentive proposed above will better incentivize multiple public policy goals at once, aligning the incentive with the current ECO framework. The Proposal balances the long-standing ECO principles of cost-effectiveness and high energy savings with additional metrics that reflect recent evolutions in the ECO framework and current policy priorities. The

Department, CEE, and Fresh Energy recommend the Commission adopt the following parameters for the 2027–2029 ECO Shared Savings DSM Financial Incentive Mechanism.

1. Approve a 2027–2029 Shared Savings DSM Financial Incentive Mechanism with the following provisions:
    A. 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.
    B. 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.
    C. For natural gas utilities:
        a. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels:
            i. First-year energy savings of 0.7 percent of weather-normalized average retail sales, at which the utility can collect 1.14 percent of portfolio net benefits.
            ii. Insulation and air sealing first-year energy savings of 0.10 percent of weather-normalized average residential retail sales, at which the utility can collect 0.38 percent of portfolio net benefits.
            iii. Low-income spending of 1.0 percent of residential gross operating revenue (GOR), at which the utility can collect 0.38 percent of portfolio net benefits.
        b. Set metric-specific net benefit caps at:
            i. 3 percent 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.
            ii. 1 percent of portfolio net benefits for insulation and air sealing first-year energy savings, awarded for an achievement of 0.30 percent of weather-normalized average residential retail sales or higher.
            iii. 1 percent of portfolio net benefits for low-income spending, awarded for an achievement of 2 percent of average residential Gross Operating Revenue or higher.
        c. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and net benefits cap.

d. Set a total Net Benefits Cap equal to 5 percent of portfolio net benefits. The total Net Benefits Cap corresponds with maximum achievement in all three metrics.
e. 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.

D. For electric utilities:
   a. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels:
      i. 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.
      ii. Low-income spending of 0.6 percent of residential gross operating revenue (GOR), at which the utility can collect 0.33 percent of portfolio net benefits.
   b. Set metric-specific net benefit caps at:
      i. 4.5 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.
      ii. 1.5 percent of portfolio net benefits for low-income spending, awarded for an achievement of 1 percent of average residential Gross Operating Revenue or higher.
   c. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and cap.
   d. Calculate the EFS incentive by multiplying EFS net benefits by the EFS Ratepayer Impact Measure (RIM) ratio and the combined net benefits multiplier from the first-year energy savings and low-income spending metrics.
   e. Set a total Net Benefits Cap equal to 6 percent of portfolio net benefits plus 6 percent of EFS net benefits.
   f. 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 2.2 percent of weather-normalized average retail sales or higher.

2. Approve the following provisions from the 2024–2026 Shared Savings DSM Financial Incentive Plan for continuation under the 2027–2029 DSM Financial Incentive, as follows:

A. 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.

B. 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.
C. Both electric and gas utilities are allowed to count their expenditures on EFS and load management programs in calculation of their Expenditures Cap.
D. CIP-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.
E. If a utility elects not to include a third-party ECO project, the utility cannot change its election until the beginning of subsequent years.
F. 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.
G. 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.
H. 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.
I. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

3. The new Shared Savings DSM Financial Incentive Plan shall be in effect for 2027–2029 ECO program years.

APPENDIX A: ESTIMATED NET BENEFIT AND EXPENDITURES CAPS FOR 2024 USING 2027–2029 PROPOSED INCENTIVE MECHANISM

Gas Utility 2024 Estimated Incentive Caps

Utility	Net Benefits Cap	Expenditures Cap
CenterPoint	$9,927,542	$15,676,382
Xcel Gas	$5,391,615	$7,321,398
MERC	$1,817,129	$2,632,632
Total	$17,136,286	$25,630,412

Electric Utility 2024 Estimated Incentive Caps

Utility	Net Benefits Cap	Expenditures Cap
Xcel Electric	$25,246,812	$27,852,530
Otter Tail Power	$2,142,701	$1,973,956
Minnesota Power	$2,837,111	$2,651,166
Total	$30,226,624	$32,477,652

APPENDIX B: GLOSSARY OF INCENTIVE TERMS

- *Achievement level* = the utility's performance in a given metric.
- *Achievement threshold* = the achievement level a utility must reach before they begin earning an incentive for a given metric.
- *Achievement goal*= the achievement level that aligns with the maximum percentage of net benefits a utility can earn for a given metric.
- *Expenditures Cap* = limits the awarded incentive to a specific percentage of overall ECO expenditures (equal to 20 percent of expenditures for all utilities, increasing to 25 percent if the achievement goal for first-year energy savings is achieved or surpassed).
- *Net Benefits Cap* = limits the awarded incentive to a specific percentage of the net benefits generated by a utility's ECO programming.

AFFIDAVIT OF SERVICE

DOCKET NUMBER E,G999/CI-08-133

I, Mariko Yatsuhashi, hereby certify that on this 26th day of June 2025, I served *Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2027* in Docket Number E,G999/CI-08-133 on the following persons on the attached Service Lists by:

_X_ placing such filing in envelopes, properly addressed, and depositing the same in the Post Office at the City of Minneapolis, for delivery by the United States Post Office as directed by said envelopes.

_X_ electronic filing

/s/ Mariko Yatsuhashi
Mariko Yatsuhashi

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
1	Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP		50 S 6th St Ste 1500 Minneapolis MN, 55402-1498 United States	Electronic Service		No	8-133Official
2	Anjali	Bains	bains@fresh-energy.org	Fresh Energy		408 Saint Peter Ste 220 Saint Paul MN, 55102 United States	Electronic Service		No	8-133Official
3	Annika	Brindel	abrindel@nhtinc.org	National Housing Trust		1101 30th Street NW Ste 100A Washington DC, 20007 United States	Electronic Service		No	8-133Official
4	Christina	Brusven	cbrusven@fredlaw.com	Fredrikson Byron		60 S 6th St Ste 1500 Minneapolis MN, 55402-4400 United States	Electronic Service		No	8-133Official
5	Generic	Commerce Attorneys	commerce.attorneys@ag.state.mn.us		Office of the Attorney General - Department of Commerce	445 Minnesota Street Suite 1400 St. Paul MN, 55101 United States	Electronic Service		Yes	8-133Official
6	Stacy	Dahl	sdahl@minnkota.com	Minnkota Power Cooperative, Inc.		5301 32nd Ave S Grand Forks ND, 58201 United States	Electronic Service		No	8-133Official
7	Justin	Fay	fay@fresh-energy.org	Fresh Energy		408 St. Peter St Ste 220 St. Paul MN, 55102 United States	Electronic Service		No	8-133Official
8	Sharon	Ferguson	sharon.ferguson@state.mn.us		Department of Commerce	85 7th Place E Ste 280 Saint Paul MN, 55101-2198 United States	Electronic Service		Yes	8-133Official
9	Edward	Garvey	garveyed@aol.com	Residence		32 Lawton St Saint Paul MN, 55102 United States	Electronic Service		No	8-133Official
10	Metric	Giles	metriccsp@gmail.com	Community Stabilization Project		501 Dale St N Saint Paul MN, 55101 United States	Electronic Service		No	8-133Official
11	Jenny	Glumack	jenny@mrea.org	Minnesota Rural Electric Association		11640 73rd Ave N Maple Grove MN, 55369 United States	Electronic Service		No	8-133Official
12	Laura	Goldberg	lgoldberg@nrdc.org	Natural Resources Defense Council		20 N. Upper Wacker Dr. Suite 1600 Chicago IL, 60606 United States	Electronic Service		No	8-133Official
13	Jason	Grenier	jgrenier@otpco.com	Otter Tail Power Company		215 South Cascade Street Fergus Falls MN, 56537 United States	Electronic Service		No	8-133Official
14	Jeffrey	Haase	jhaase@grenergy.com	Great River Energy		12300 Elm Creek Blvd Maple Grove	Electronic Service		No	8-133Official

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
						MN, 55369 United States				
15	Tiana	Heger	theger@mnpower.com	Minnesota Power		30 W. Superior Street Duluth MN, 55802 United States	Electronic Service		No	8-133Official
16	Joe	Hoffman	ja.hoffman@smmpa.org	SMMPA		500 First Ave SW Rochester MN, 55902-3303 United States	Electronic Service		No	8-133Official
17	Tina	Koecher	tkoecher@mnpower.com	Minnesota Power		30 W Superior St Duluth MN, 55802-2093 United States	Electronic Service		No	8-133Official
18	Discovery	Manager	discoverymanager@mnpower.com	Minnesota Power		30 W Superior St Duluth MN, 55802 United States	Electronic Service		No	8-133Official
19	Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP		33 South Sixth St Ste 4200 Minneapolis MN, 55402 United States	Electronic Service		No	8-133Official
20	Samantha	Norris	samanthanorris@alliantenergy.com	Interstate Power and Light Company		200 1st Street SE PO Box 351 Cedar Rapids IA, 52406-0351 United States	Electronic Service		No	8-133Official
21	James	Phillippo	james.phillippo@wecenergygroup.com	Minnesota Energy Resources Corporation (HOLDING)		PO Box 19001 Green Bay WI, 54307-9001 United States	Electronic Service		No	8-133Official
22	Lisa	Pickard	lseverson@minnkota.com	Minnkota Power Cooperative		5301 32nd Ave S Grand Forks ND, 58201 United States	Electronic Service		No	8-133Official
23	Scott	Reimer	reimer@federatedrea.coop	Federated Rural Electric Assoc.		77100 US Highway 71 PO Box 69 Jackson MN, 56143 United States	Electronic Service		No	8-133Official
24	Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us		Office of the Attorney General - Residential Utilities Division	1400 BRM Tower 445 Minnesota St St. Paul MN, 55101-2131 United States	Electronic Service		Yes	8-133Official
25	Michael	Sachse	michael.sachse@opower.com	OPOWER		1515 N. Courthouse Rd, 8th Floor Arlington VA, 22201 United States	Electronic Service		No	8-133Official
26	Bruce	Sayler	bruces@connexusenergy.com	Connexus Energy		14601 Ramsey Boulevard Ransey MN, 55303 United States	Electronic Service		No	8-133Official

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
27	Christine	Schwartz	regulatory.records@xcelenergy.com	Xcel Energy		414 Nicollet Mall, MN1180-07-MCA Minneapolis MN, 55401-1993 United States	Electronic Service		No	8-133Official
28	Will	Seuffert	will.seuffert@state.mn.us		Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul MN, 55101 United States	Electronic Service		Yes	8-133Official
29	Jeffrey	Springer	jeff.springer@dairylandpower.com	Dairyland Power Cooperative		3200 East Ave S La Crosse WI, 54601 United States	Electronic Service		No	8-133Official
30	Grey	Staples	gstaples@mendotagroup.com	The Mendota Group LLC		1830 Fargo Lane Mendota Heights MN, 55118 United States	Electronic Service		No	8-133Official
31	Analeisha	Vang	avang@mnpower.com			30 W Superior St Duluth MN, 55802-2093 United States	Electronic Service		No	8-133Official
32	Ethan	Warner	ethan.warner@centerpointenergy.com	CenterPoint Energy		505 Nicollet Mall Minneapolis MN, 55402 United States	Electronic Service		No	8-133Official