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October 23, 2023

Mr. Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East  
Suite 350  
St. Paul, MN 55101-2147

**RE: In the Matter of a Commission Review of Utility Performance Incentives  
for Energy Conservation  
Initial Comments**

Dear Mr. Seuffert:

Otter Tail Power Company (Otter Tail) hereby submits to the Minnesota Public Utilities Commission (Commission) its Initial Comments in the above-referenced matter.

We have electronically filed this document with the Commission and copies have been served on all parties on the attached service list. A Certificate of Service is also enclosed.

Please contact me at 218-739-8639 or [jgrenier@otpc.com](mailto:jgrenier@otpc.com) if you have any questions regarding this filing.

Sincerely,

*/s/ JASON GRENIER*  
Jason Grenier  
Manager  
Retail Energy Solutions

sjw  
Enclosures  
By electronic filing  
c: Service List

**STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of a Commission  
Review of Utility Performance  
Incentives for Energy Conservation**

**Docket No. E,G999/CI-08-133  
INITIAL COMMENTS**

**I. INTRODUCTION**

On December 9, 2020, the Minnesota Public Utilities Commission (MPUC) approved a Shared Savings DSM Financial Incentive Mechanism for electric and gas investor-owned utilities (IOU) for the 2021-2023 triennium. The Commission further requested the Department continue a stakeholder process, under the current docket, to evaluate ways of improving the shared-savings mechanisms for potential adoption in the 2024-2026 triennium including, but not limited to, discussion of:

- a. incorporation of lifetime energy savings into the Incentive Mechanism,
- b. incorporation of an incentive for utilities that achieve permanent peak reductions through the Shared-Savings Incentive Mechanism,
- c. comparison of alternative mechanisms, along with the approved 2021-2023 CIP financial incentive mechanism, to each other and to how a similar-sized (in terms of cost) supply-side investment would be rewarded financially through the cost-of-service model, and
- d. energy efficiency opportunities to support increased load flexibility (the ability to persistently shape and shift load).

In response to the MPUC's order, the Department of Commerce, Division of Energy Resources (Department or DOC), on September 1, 2023, filed a Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2024. The Department recommends the MPUC approve their proposed modifications to the Shared Savings Financial Incentive Mechanism for the utilities' 2024-2026 triennium. The Department recommends two main changes. First, decreasing the financial incentive cap on net benefits from 10 percent to 3.4 percent based on the change from utilities' reliance on the utility cost-effectiveness test to the new Minnesota cost-effectiveness test. Second, the Department recommends that the financial incentive cap on expenses be lowered from 30-35 percent to 15-20 percent. Specifically, the Department lists the proposed changes as follows:

- IOUs use the new Minnesota Test outlined in the Department’s Decision In the Matter of 2024- 2026 CIP Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities (Decision) filed on March 31, 2023, in Docket No. E,G999/CIP-23-46 for calculating their net benefits to derive their Shared Savings incentive.
- IOUs use the 3.3 percent Societal Discount Rate approved by the Deputy Commissioner of the Department in the Decision for calculating the new Minnesota Test Net Benefits to derive their Shared Savings incentive.
- Electric utilities’ incentive starts at energy savings of 1.3 percent of retail sales; 3.4 percent of net benefits is awarded at energy savings of 2.0 percent of retail sales and above.
- Gas utilities’ incentive starts at energy savings of 0.7 percent of retail sales; 3.4 percent of net benefits is awarded at energy savings of 1.2 percent of retail sales and above.
- Net Benefits Cap of 3.4 percent.
- ECO/CIP Expenditures Cap of 15 percent.
- IOUs are allowed to exceed the 15 percent Expenditures Cap, up to a maximum of 20 percent, if gas utilities meet or exceed energy savings equaling 1.2 percent of retail sales and if electric utilities meet or exceed energy savings equaling 2.0 percent of retail sales.

Otter Tail believes the Department’s recommendation is too drastic of a reduction in the utilities’ financial performance incentive. Otter Tail takes this opportunity for comments to describe why Minnesota utilities should receive strong financial incentives and highlights areas where the Company’s analysis of the financial incentives differs from the Department’s analysis.

## **II. OTTER TAIL RESPONSE**

### **A. Input inaccuracies cause the Department’s calculation to overstate incentive value.**

Otter Tail reviewed the Department’s calculation of utility financial incentives under its proposal and found several inaccuracies in the inputs, leading to misleading and overstated financial incentive estimates for Otter Tail. Otter Tail assumes the Department applied the same methodology for other

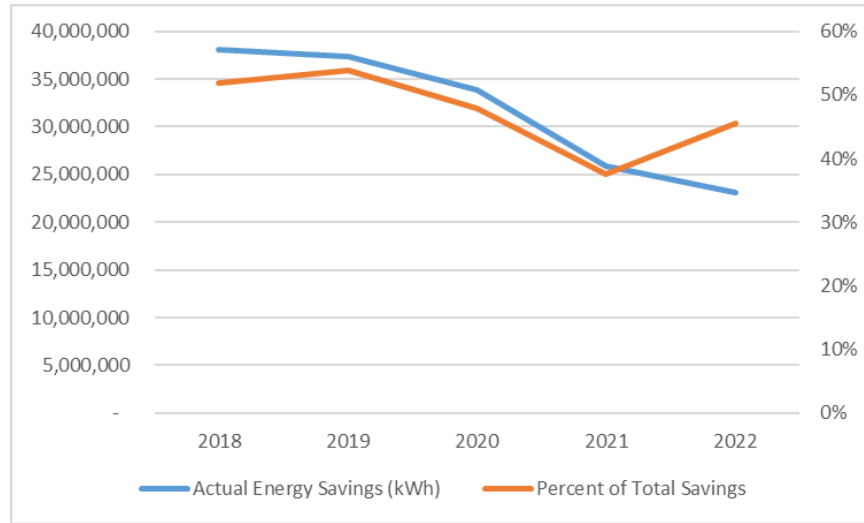
utilities, meaning all utility incentives based on the Department's review are likely overstated.

**1. 2024-2026 ECO plans should not have been inflated.**

The Department performed a historical analysis of utility spending, energy savings and net benefits. Based on the analysis, the Department concluded that initial triennial proposals are conservative estimates and utilities are destined to exceed these estimates. The Department then took an average percent of actuals versus initial filing estimates and inflated each utility's 2024-2026 proposed spending, energy savings, and net benefits. These adjustments are shown in the Department's Table 7 from its September 1, 2023, comments. The Department's assumption here is that the proposed 2024-2026 triennial plans are similar to historic plans and the triennial proposal results are understated.

Otter Tail disagrees with the Department's assumption that the 2024-2026 ECO plan goals are significantly overstated. The Company believes that the large LED opportunities we experienced in 2017-2021 are diminishing with high saturation among customers. This market change will limit large increases in spending, energy savings, and net benefits going forward. Chart 1 below shows the large decrease in LED energy savings each year for Otter Tail's portfolio. From 2018 to 2022 the Company experienced a 39 percent decrease in LED lighting energy savings. LED programs were the largest contributor to achieving Otter Tail's goals. A good example of this is Otter Tail's most recent 2022 annual plan results, which produced decreases in overall energy savings, spending, and net benefits compared to what the Company initially proposed. These most recent results are the most reflective of conservation results but are in direct conflict with the Department's assumption.

**Chart 1: Otter Tail 5 -Year Historic LED Savings - Actual**



The Department’s “Minnesota Energy Efficiency Potential Study: 2020-2029” shows Otter Tail’s maximum potential as 2.8 percent for the years of 2024-2026. Not including Efficient Fuel Switching (EFS) measures, Otter Tail filed its 2024 ECO plan at 2.57 percent every savings. An increase to 2.8 percent (maximum of the potential study) would only increase the portfolio’s energy savings estimates by about 9 percent, much lower than the 56 percent the Department used in its Table 7. Moving forward through 2024-2026, Otter Tail believes its accuracy in results will be within approximately 10 percent of its initially proposed 2024-2026 ECO plan based on LED saturation, lower 2022 results, and the Department’s potential study results.

**2. Inclusion of ineligible expenses skew the results.**

After the Department inflated the 2024-2026 utility spend, energy savings, and net benefits, the Department calculated a forecasted financial incentive for each utility going forward utilizing the proposed changes to the financial incentive cap level mechanisms. Otter Tail reviewed the Department’s analysis in its response to Xcel’s information request 11, Attachment 1. The Company disagrees with the Department’s analysis because it incorrectly included Otter Tail’s total spending budget, including EFS and Load Management expenses, which are not allowed to be included in the financial incentive. The Department also included forecasted savings from EFS, inflating the Company’s energy savings, which by statute is not allowed. For net benefits, again the Department simply used Otter Tail’s total proposed budget and did not adjust for EFS, load management, low-income,

POP Solar, or regulatory assessments. Net benefits associated with these programs are not all currently eligible for inclusion in the incentive. By including these additional spending categories, energy savings, and net benefit items within the Department's analysis, it significantly overstates Otter Tail's incentive under the Department's proposed incentive plan.

### **3. The corrected analysis shows more reasonable results.**

To show the actual effect of the Department's proposed incentive plan, Otter Tail applied the Department's 3.4 percent net benefit cap and 15 percent spending cap to Otter Tail's proposed 2024 year in Table 1 below. Table 1 is broken into two sections for readability below. Line numbers and column letters are included to help navigate the tables.

The Company adjusted its proposed 2024 conservation goals to account for the adjustments in the Department's Table 7. Based on this analysis, Otter Tail would receive a \$1,654,889 incentive, applying the 3.4 percent net benefits cap. The 1,654,889 incentive is \$0.0218/kWh saved. After adjusting for inflation to compare to 2020, the incentive decreases to \$0.0186/kWh. When comparing 2024 to Otter Tail's 2020 financial incentive of \$0.0425/kWh, the Company's financial incentive decreases by 56 percent.<sup>1</sup> This example is shown on line 11, column I, in Table 1, with Department adjustments shown on line 10. The Department's proposal would drastically reduce the financial incentive and no longer adequately incentivize utilities to pursue high energy efficiency performance. With a financial incentive at this extremely low level, utility energy-efficiency managers will struggle to compete against utility supply-side investment opportunities.

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<sup>1</sup> This assumes a Department proposal that has the Department-calculated adders applied.

**Table 1: Otter Tail’s Alternative Financial Incentive Calculations**

	A	B	C	D	E	F
Line	Year	Proposed Spend	Proposed kWh Savings	Proposed Net Benefits	Est. Incentive with Spend Cap.	Est. Incentive with NB Cap.
1	2024	\$9,211,650	48,661,424	\$30,601,651	\$2,302,913	\$3,060,165
2	2024	\$9,211,650	48,661,424	\$30,601,651	\$2,118,680	\$2,754,149
3	2024	\$9,211,650	48,661,424	\$30,601,651	<b>\$2,026,563</b>	<b>\$2,631,742</b>
4	2024	\$9,211,650	48,661,424	\$30,601,651	\$1,934,447	\$2,448,132
5	2024	\$9,211,650	48,661,424	\$30,601,651	\$1,750,214	\$2,142,116
6	2024	\$9,211,650	48,661,424	\$30,601,651	\$1,565,981	\$1,836,099
7	2024	\$9,211,650	48,661,424	\$30,601,651	\$1,381,748	\$1,530,083
8	2024	\$9,211,650	48,661,424	\$30,601,651	\$1,381,748	\$1,224,066
9	2024	\$9,211,650	48,661,424	\$30,601,651	<b>\$1,381,748</b>	<b>\$1,040,456</b>
10		17%	56%	65%		
11	2024	\$10,739,520	76,007,131	\$50,386,342	<b>\$1,610,928</b>	<b>\$1,713,136</b>

	G	H	I	J	K	L	M
Line	Expense Cap	Net Benefits Cap	Financial Incentive	Nominal \$ of Incentive /kWh Saved	Net Present Value compared to 2020	% Change based on Time Value of \$ 2020	
1	25.0%	10.0%	\$2,754,149	\$0.0566	\$0.0484	13.7%	
2	23.0%	9.0%	\$2,506,275	\$0.0515	\$0.0440	3.5%	
3	<b>22.0%</b>	<b>8.6%</b>	<b>\$2,405,412</b>	<b>\$0.0494</b>	<b>\$0.0423</b>	-0.7%	OTP Recommendation
4	21.0%	8.0%	\$2,252,282	\$0.0463	\$0.0396	-7.0%	
5	19.0%	7.0%	\$1,992,167	\$0.0409	\$0.0350	-17.7%	
6	17.0%	6.0%	\$1,725,933	\$0.0355	\$0.0303	-28.7%	
7	15.0%	5.0%	\$1,453,578	\$0.0299	\$0.0255	-40.0%	
8	15.0%	4.0%	\$1,175,103	\$0.0241	\$0.0206	-51.5%	
9	<b>15.0%</b>	<b>3.4%</b>	<b>\$1,005,081</b>	<b>\$0.0207</b>	<b>\$0.0177</b>	-58.5%	DOC Recommendation
10							DOC Adjustments
11	<b>15.0%</b>	<b>3.4%</b>	<b>\$1,654,889</b>	<b>\$0.0218</b>	<b>\$0.0186</b>	-56.3%	DOC Recomm. with Budget, Energy, and Net Ben. adders

Table 1, lines 1-9 do not include the Department’s adjustments that are included in line 10. Otter Tail has assembled lines 1-9 to show the Commission potential Otter Tail financial incentives (column I) at different

levels of expenditure caps (column H) and net benefit caps (column I). Column L shows the percent change in incentive received per kWh saved when compared to the Company's 2020 financial incentive results. Column K adjusts column J for inflation (4 percent was used) to bring 2024 \$/kWh saved dollars back to 2020 dollars.

#### **4. Otter Tail's Recommendations.**

Otter Tail proposes the Commission adopt an 8.6 percent cap on net benefits and a 22 percent cap on expenses, assuming the utility achieves two percent or greater energy savings. This example appears on line 3 of Table 1. Based on Otter Tail's proposal the resulting incentive for the Company's 2024 ECO proposal is a \$2,405,412 financial incentive (column I, line 3). This is \$0.0494/kWh saved, but after adjusting for inflation back to 2020, it is \$0.0423/kWh (K3), or 0.7 percent (L3) less, per kWh, than the Company received in 2020. This proposal is a slight decrease compared to the Company's 2020 financial incentive, but still encourages the utility to pursue energy-efficiency above all other resources.

Otter Tail's analysis in Table 1 did include the financial incentive as an expense, which appears in column E. The Department's September 1, 2023, comments reference this same assumption on page 1, sub part 2. It stated, "The new Minnesota Test considers the financial incentive payments to IOUs as a cost and includes that in the calculation of net benefits."

#### **B. The Department's proposed incentive does not make conservation resources a preferred resource over Supply-Side Resources for Otter Tail.**

The Department's Figure 17 shows that Otter Tail's current ECO financial incentive pays less than supply-side investments, which is not the same scenario for the other Electric IOUs. The Department's proposal would further increase this gap where ECO incentives pay less than supply-side resources. The Commission should approve a separate percent of net benefits cap specific to each utility, since the incentive is based on net benefits that are driven by utility-specific avoided costs. Minnesota's incentive law supports Otter Tail's recommendation. It states: "the Commission may: adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility." Minnesota Statute § 216B.16 (6c)(c)(3). Not only must the incentive render conservation a preferred resource (i.e. more financially



beneficial than other resources) it must also be so for “the utility” which denotes that the incentive must be tailored for each particular utility. Otherwise, the legislature would have used more general words, like “utilities.”

**C. The proposed low expenditure cap disincentivizes highly cost-effective programs.**

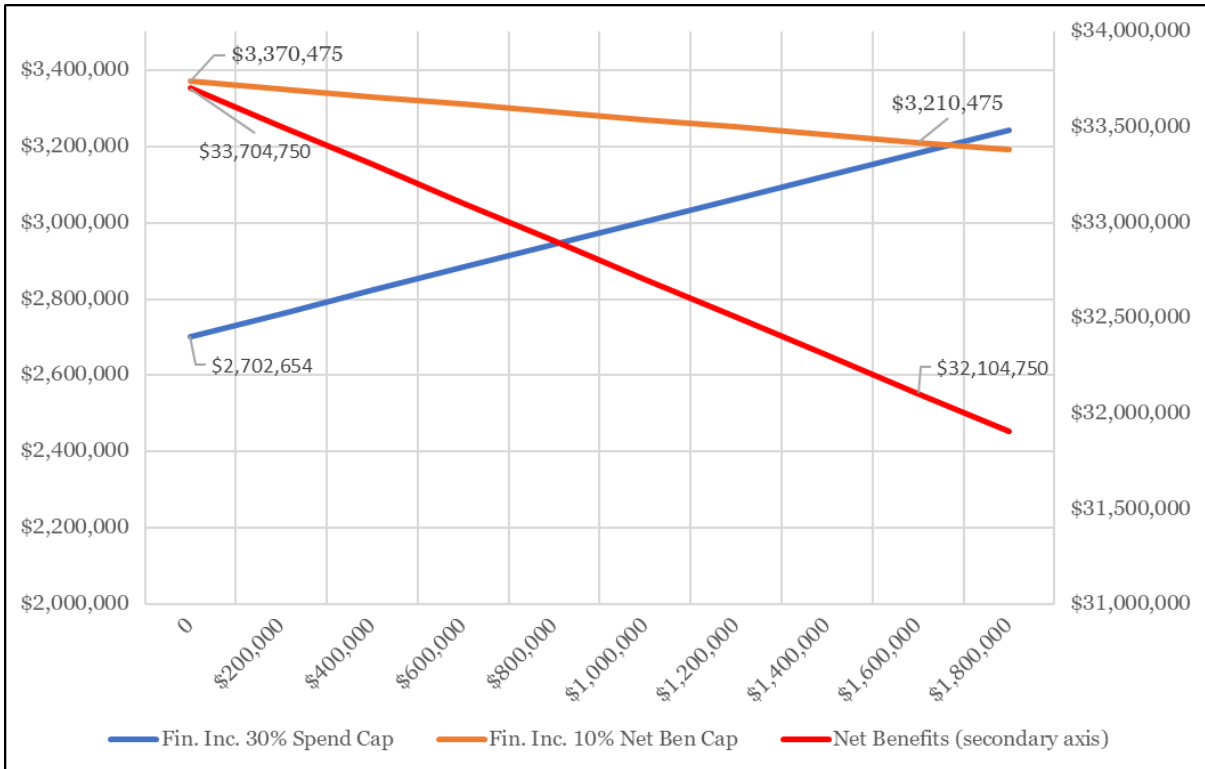
A cap placed on the financial incentive due to expenditures was first applied to the Minnesota financial incentive for 2017 conservation results. Otter Tail has always opposed a spending cap on the financial incentive because it conflicts with the purpose of the state statute and is punitive to a utility like Otter Tail that administers highly cost-effective programs. Including both a percent of net benefits cap as well as a percent of expenditures cap within the financial incentive mechanism creates a conflict between the caps, thus creating disincentives to run cost-effective programs, and is ultimately in conflict with Minnesota Statute §216B.16 Subd. 6c, which contains guidelines for the Commission to establish a financial incentive based on cost-effectiveness of program performance.

For Otter Tail, financial incentives were limited in 2017 – 2020 because of the newly introduced 30 percent spending cap. The Commission’s adoption of the 35 percent expenditure cap for utilities surpassing 2 percent energy savings (for utilities’ 2021-2023 triennial plans) allowed the Company to benefit from its highly cost-effective portfolio. While Otter Tail would prefer the Commission discontinue the expense cap on the financial incentive, Otter Tail recommends at minimum, the Commission set the expense cap high enough that it does not impact high-performing portfolios like Otter Tail’s.

The following example, in Chart 2, demonstrates why the cap on expenses for the financial incentive can lead to rewarding less cost-effective portfolios. The x-axis represents an increase in spending from left to right. The orange line on the primary (left) axis is decreasing from left to right. This orange line illustrates a utility’s potential financial incentive based upon 10 percent of net benefits. Potential net benefits decrease as spending increases along the x axis. The red line on the secondary (right) axis, represents the decrease in net benefits driven by higher spending. As expected, when net benefits decrease (red line) so does the financial incentive (orange line), however because of the spending cap, the financial incentive could actually increase. The blue line on the primary axis shows the capped 30 percent of expenses financial incentive increasing as expenses go up. Under the 10 percent net benefit scenario, the Company would receive an almost \$3.4 million incentive, but the 30 percent expense cap lowers the incentive to about

\$2.7 million. However, if the utility increases spending by an additional \$1.6 million without increasing benefits to customers, ultimately decreasing net benefits by \$1.6 million, the financial incentive capped by expenses rises from \$2.7 million to \$3.2 million. This produces an approximate \$500,000 increase to the financial incentive while decreasing net benefits of the overall portfolio.

**Chart 2: Interplay of Expenditures, Spending Cap, and Net Benefit Cap**



The Department compared Minnesota’s financial incentive spending cap against other states and recommended a 15 percent cap with the opportunity to increase to 20 percent if the utility achieves two percent energy savings. Otter Tail and Xcel Energy are both multi-state utilities, providing energy efficiency programs in both Minnesota and South Dakota. South Dakota currently has a 30 percent expenditure cap on the financial incentive. Otter Tail believes Minnesota should have a percentage expenditure cap similar to South Dakota to encourage utilities to maximize resources in Minnesota. The Company recommends the Commission adopt a 22 percent spending cap. This protects rate payers from having to pay premiums for very large unique projects, incentivizes utilities to pursue cost-effective programs without unjustifiable spending, and

keeps Minnesota competitive with neighboring South Dakota for multi-jurisdictional utilities.

**D. The proposed incentive for load management without energy savings should include partial credit for existing participants.**

Otter Tail is in alignment with the Department that there should be a utility financial incentive to encourage load management without energy savings, separate from ECO activities that encourage energy savings. However, the Company disagrees with the Department on its position of only allowing new kW savings to count towards an annual incentive.

To have high customer engagement from a load management portfolio there must be a significant effort from the utility in managing existing participants in the program and ensuring their participation continues. Load management participants can easily leave the interruptible rates if they encounter excessive load control hours, equipment failure, perceived low value from monthly incentives, or a belief that a competitive fuel is more cost-effective to operate.

Unlike energy efficiency, where a technology is permanently installed, load management equipment can be quite temporary. Very little effort is needed for customers to leave most of the Company's interruptible rates. Water heater control and Cool Savings (AC cycling control), in most cases, only requires a simple phone call to the utility to remove the Company's control equipment. For dual fuel rates, customers can simply switch over to a fossil fuel. The Company's load management program marketing is a reminder to existing customers of the benefits they receive by participating in load management.

Existing load management kW should be included in a utility financial incentive. Once a kW is added to the load management portfolio it is essential the utility provides an excellent customer experience and retains this kW long-term. The utility continually markets to participants, sending letters reminding them to ensure their systems are in working order for the upcoming control seasons. The Company also meets internally each month and reviews control hour data and customer feedback to ensure balance between the system benefits of load control and customer satisfaction. For these reasons Otter Tail believes existing customer kW should be included at some level in a utility financial performance incentive. Otter Tail proposes that including fifty percent of existing kW and all new kW, is a reasonable place to start a load management financial incentive.

## E. Minnesota’s Incentives Compared to Other States

The Department’s analysis comparing Minnesota energy efficiency results to other states is based primarily on the American Council for Energy Efficient Economy’s (ACEEE) 2022 State Energy Efficiency Scorecard. The Department highlights other high performing states as a metric that Minnesota should aspire to meet. In the Department’s Table 8, it ranks high performing states based on the ACEE Scorecard. These rankings are as follows:

1. California
2. Massachusetts
7. Rhode Island
9. Connecticut
10. Minnesota
13. Colorado

However, these rankings are based on multiple factors. As shown in Table 2 below, much of the scorecard is based on state policies and standards with very little weight based on actual utility conservation performance.<sup>2</sup> When we examine the results based solely on utility performance, Minnesota ranks 4<sup>th</sup> overall behind California, Massachusetts, and Rhode Island. The Utility and Public Benefits category analyzes energy savings, energy efficiency standards, performance incentives, and low-income energy efficiency programming.

**Table 2: ACEEE State Energy Efficiency Scorecard Categories**

Rank	State	Utility and public benefits (15 pts.)	Transportation policies (13 pts.)	Building energy efficiency policies (12 pts.)	State government initiatives (4.5 pts.)	Industrial policies (2.5 pts.)	Appliance efficiency standards (3 pts.)	Total score (50 pts.)
1	California	15	12	10	4.5	2.5	3	47
2	Massachusetts	14	11.5	10.5	4.5	2.5	1.5	44.5
3	New York	11.5	11.5	8.5	4.5	2.5	0.5	39
4	Vermont	11	9	9	4	1	2.5	36.5
5	Maine	10	8.5	8.5	4.5	2.5	1.5	35.5
6	District of Columbia	8	11	8.5	3	2.5	2	35
7	Rhode Island	12.5	7.5	6	4.5	1.5	1	33
7	Maryland	9.5	10	8	4	0.5	1	33
9	Connecticut	9	10	7	4	2.5	0	32.5
10	Minnesota	12	8	6.5	3	2.5	0	32

<sup>2</sup> <https://www.aceee.org/sites/default/files/pdfs/u2206.pdf>

The Department's Table 8 also lists these high performing utilities by dollar of incentive per a kWh of savings. The Department concludes that Minnesota is receiving the highest incentive per kWh among these high performing utilities. Otter Tail does not claim that the analysis provided by the Department is incorrect but believes that the Department's conclusion that Minnesota utilities should receive less of an incentive compared to other high performing utilities does not have merit. Minnesota utilities should have the highest earning opportunity among states as they perform the best all-around when factoring in highly cost-effective programs, high energy savings, low spend per kWh of savings, while also maintaining low retail customer rates.

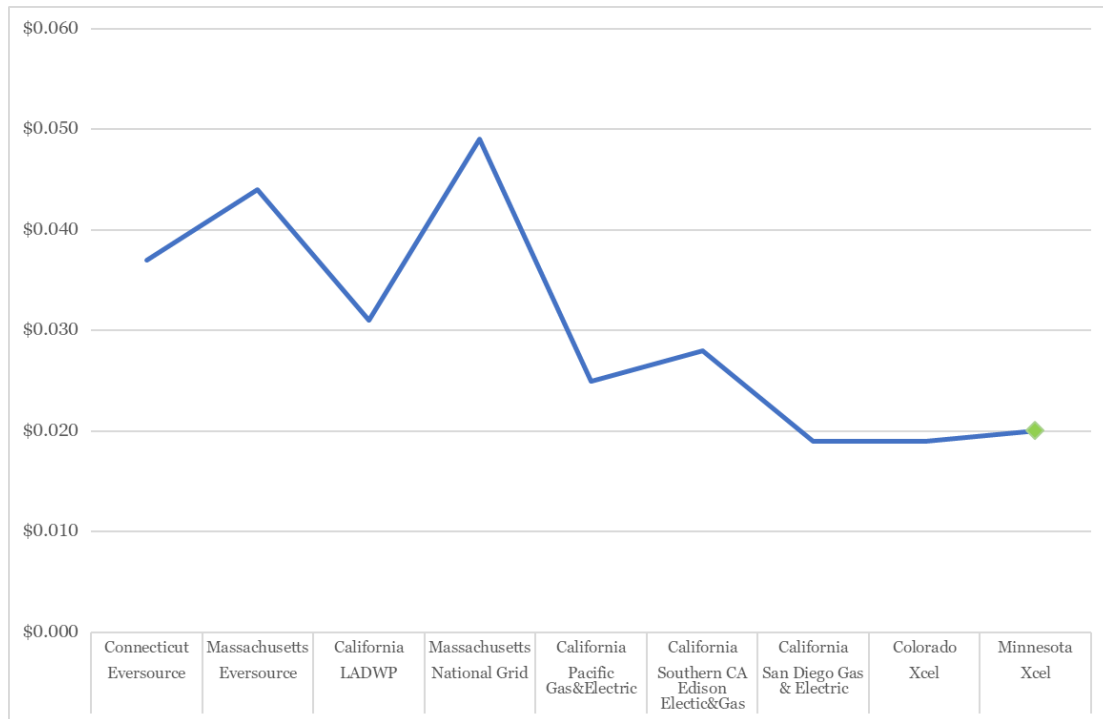
In 2021 ACEEE published a report titled, *The Cost of Saving Electricity for the Largest U.S. Utilities: Ratepayer-Funded Efficiency Programs in 2018*.<sup>3</sup> This report was the most recent Otter Tail could find on the ACEEE website, but the Company believes it is still relevant and accurate. Otter Tail used this report to pull data from utilities among the high performing states as determined by the Department, and listed above, to examine their spend per kWh of savings.

Otter Tail has included Chart 3 to illustrate the levelized cost of energy saved compared to other utilities in high performing states. Xcel Minnesota is at \$0.02/kWh saved, which is slightly higher than Xcel Colorado and San Diego Gas & Electric at \$0.019/kWh saved. However, utilities in other high performing states like Connecticut, Massachusetts, and California spend 25 percent (PG&E, CA) to 145 percent (National Grid, MA) more than what Xcel, Minnesota spends to save a kWh.

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<sup>3</sup> [https://www.aceee.org/sites/default/files/pdfs/cost\\_of\\_saving\\_electricity\\_final\\_6-22-21.pdf](https://www.aceee.org/sites/default/files/pdfs/cost_of_saving_electricity_final_6-22-21.pdf)

**Chart 3: Levelized Cost of Energy (kWh) Saved Including Low-Income**



When comparing financial incentives between states, one of the most important drivers is monetary benefits from the programs. Otter Tail agrees with the Department’s assessment on page 39, section C of its comments that benefits or net benefits are difficult to find and compare between states. However, benefits are based on avoided costs and a significant portion of avoided costs is reflected in energy prices customers pay. Otter Tail compiled a comparison of electricity prices between states based on information from the U.S. Energy Information Administration (EIA) Independent Statistics and Analysis.<sup>4</sup> Otter Tail found that the high performing states that the Department highlighted, apart from Colorado, rank among states with the highest electric costs in the nation. Table 3 below shows a ranking of electricity prices by state from 2021, the latest EIA information available.

<sup>4</sup> [https://www.eia.gov/state/seds/data.php?incfile=/state/seds/sep\\_fuel/html/fuel\\_pr\\_es.html&sid=US](https://www.eia.gov/state/seds/data.php?incfile=/state/seds/sep_fuel/html/fuel_pr_es.html&sid=US)

**Table 3: Electricity Price and Expenditure Estimates, 2021**

		Dollars per Million Btu				
		Prices				
Rank	State	Residential	Commercial	Industrial	Transportation	Total
1	Hawaii	98.16	90.5	79.48	—	88.86
2	Alaska	66.09	57.46	49.39	—	58.8
3	California	66.89	56.21	43.43	34.57	57.75
4	Massachusetts	67.09	49.79	44.49	19.09	55.85
5	Rhode Island	65.36	45.45	47.06	57.88	54.05
6	Connecticut	64.21	48.25	28.24	36.63	53.7
7	New Hampshire	58.18	47.27	40.47	—	50.92
8	Vermont	56.44	48.63	33.34	—	47.89
9	New York	57.1	47.11	18.59	37.13	47.21
10	New Jersey	47.93	37.19	31.36	27.09	41.16
11	Maine	49.88	37.81	27.98	—	40.9
12	Michigan	51.39	36.07	22.54	36.06	37.98
13	Dist. of Col.	38.36	38.09	23.05	28.59	37.54
14	Maryland	38.46	30.06	24.79	22.21	33.65
15	Minnesota	39.57	32.88	24.3	30.43	32.65
16	Wisconsin	42.56	32.1	22.36	44.32	32.27
17	Colorado	38.31	31.78	23.46	27.67	32

Minnesota ranks 15<sup>th</sup> on this list, but its costs are dramatically less than CA, MA, RI, and CT. California’s electricity prices are 77 percent higher than Minnesota, Massachusetts’s is 71 Percent higher, Rhode Island’s is 66 percent higher, and Connecticut’s is 64 percent higher. Meanwhile Minnesota’s and Colorado’s prices are very similar. Knowing these high performing states have extremely high prices means their extremely high avoided costs are driving their high benefits from energy efficiency. When comparing Minnesota’s net benefit financial incentive against the percent of net benefit financial incentive the states with high avoided costs have, it is imperative to remember that utilities in those states will earn a much higher incentive based on net benefits driven by high avoided costs.

When comparing Minnesota utilities to utilities in other high-energy-efficiency-performing states, Otter Tail concludes that Minnesota utility performance is as high if not higher than utilities in any other state. As illustrated above, Minnesota holds top four ranking by ACEEE’s state energy efficiency scorecard for Utility and Public Benefits, ranks among the lowest expenditures per kWh saved by high-performing states, and finally its electricity pricing is also among the lowest of high-performing states. These factors justify a

Minnesota financial incentive which encourages the highest earning opportunity in the nation.

### **III. CONCLUSION**

The data shown above points to Minnesota electric utilities being the best energy-efficiency performing utilities in the nation. The utilities continually hit very high energy-saving goals, run highly cost-effective programs, produce immense customer net benefits, all while keeping the price of a kWh much more affordable than utilities in other high-performing states. Minnesota utilities should be rewarded for their strong performance with a commensurate incentive, highlighting their nation-leading performance.

The Company cautions the Commission against making a significant reduction in the financial incentive when energy efficiency is being delivered in the state so cost-effectively. Results based on the Department's recommendation of a cap of 3.4 percent on net benefits and a 15-20 percent cap on expenses are not accurate and understate the true reduction in utility incentives. With many recent federal and state legislative changes encouraging energy efficiency, making a significant change to utility performance incentives is not warranted at this time. Utilities are in the beginning stages of planning how to implement the federal Inflation Reduction Act (IRA) with customers. This legislation along with the Minnesota ECO act, which puts a focus on EFS, will significantly challenge utilities to deliver new and expanded energy efficiency measures to customers while still delivering traditional energy-efficiency programming and achieving traditional energy-efficiency goals.

The Department's Minnesota Energy Efficiency Potential Study: 2020-2029 shows Otter Tail's maximum potential is 2.8 percent for the years of 2024-2026. This study was conducted prior to the IRA and EFS within ECO was passed. Otter Tail will be hard pressed to deliver high results in all these areas simultaneously. A strong financial incentive will motivate the Company and its leadership to continue to deliver leading energy-efficiency results while balancing other mandates and priorities of the federal and state governments.

Otter Tail recommends the Commission set a financial incentive cap on Otter Tail's net benefits at a maximum of 8.6 percent and the cap on expenditures at 22 percent, assuming the utility achieves two percent or greater of energy savings. The Company also requests that since each utility's avoided costs are approved by the Department, and these avoided costs serve as the primary driver in net benefits, that each utility should have its own cap on net benefits. This creates equity among the utilities, allowing utilities with low



avoided costs the opportunity to earn an equitable financial incentive based on equitable conservation efforts.

Lastly, the Company requests the Commission adopt a financial incentive for the Company's cost-effective load management activities. Otter Tail believes the mechanism used for conservation should also be applicable to load management activities. The Company also believes that new kW and at least half of existing kW derived from load management should be eligible toward a financial incentive.

Dated: October 23, 2023

Respectfully submitted,

**OTTER TAIL POWER COMPANY**

By: /s/ JASON GRENIER

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**CERTIFICATE OF SERVICE**

**RE: In the Matter of a Commission Review of Utility Performance  
Incentives for Energy Conservation  
Docket No. E,G999/CI-08-133**

I, Stacy Wahlund, hereby certify that I have this day served a copy of the following, or a summary thereof, on Will Seuffert and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company  
Initial Comments**

Dated this **23rd** day of **October, 2023**.

/s/ STACY WAHLUND  
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