Xcel Energy®

414 Nicollet Mall
Minneapolis, MN 55401

September 15, 2025

—Via Electronic Filing—

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

RE: REPLY COMMENTS
IN THE MATTER OF COMMISSION REVIEW OF UTILITY PERFORMANCE INCENTIVES FOR ENERGY CONSERVATION
DOCKET NO. E,G999/CI-08-133

Dear Mr. Bull:

Northern States Power Company, doing business as Xcel Energy, submits this Reply in response to Initial Comments submitted by Parties on August 13, 2025 regarding the proposed modifications (Joint Proposal) to the existing Shared Savings Demand-Side Management Financial Incentive Mechanism proposed by the Department of Commerce, Center for Energy and Environment (CEE), and Fresh Energy.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact Luke Anderson at 612-216-9238 or luke.anderson@xcelenergy.com or contact me at 612-330-7974 or christopher.j.shaw@xcelenergy.com if you have any questions regarding this filing.

Sincerely,

/s/

CHRISTOPHER SHAW
MANAGER, REGULATORY POLICY

Enclosure
cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Hwikwon Ham	Commissioner
Audrey C. Partridge	Commissioner
Joseph K. Sullivan	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF COMMISSION REVIEW OF UTILITY PERFORMANCE INCENTIVES FOR ENERGY CONSERVATION

DOCKET NO. E,G999/CI-08-133

COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits this Reply in response to Initial Comments submitted by Parties on August 13, 2025 regarding the proposed modifications (Joint Proposal) to the existing Shared Savings Demand-Side Management Financial Incentive Mechanism proposed by the Department of Commerce, Center for Energy and Environment (CEE), and Fresh Energy.

The Company appreciates the thoughtful comments submitted by CenterPoint Energy, Minnesota Energy Resources Corporation (MERC), Minnesota Power, and Otter Tail Power. We acknowledge and value the broad support expressed for the proposed multi-factor incentive structure, particularly the inclusion of a low-income spending metric, which aligns with the objectives of the Energy Conservation and Optimization (ECO) Act and reflects the evolving responsibilities of utilities. We also note the constructive suggestion from parties to consider the addition of a demand savings component to the incentive framework, recognizing its potential to further enhance alignment with system value and policy goals. Based on the Comments in record, the Company continues to support our recommendations.

The Company, along with other parties, has continued to participate in the collaborative efforts of the Department, CEE, and Fresh Energy in developing an updated Joint Proposal. We appreciate the continued partnership among all parties in working toward a consensus and are optimistic that ongoing dialogue could lead to a unified recommendation.

We continue to be cautious about the Joint Proposal's requirement to cap individual components of the mechanism while maintaining a steep incline in the calibration levels. Smoothing out the calibration levels will allow all utilities to receive the same incentive benefit regardless of lower net benefits (as a direct result of meeting environmental policy goals). Additionally, capping components within the incentive mechanism does not provide a flexible approach necessary to focus on declined avoided costs and the ability to encourage good outcomes for customers. We focus our Reply on these details.

REPLY

I. Calibration of Incentive Scales

We believe the Joint Proposal submitted by CEE, the Department and Fresh Energy, was not intended to reduce the utilities' incentive overall but rather maintain the existing levels while incenting the utility to exceed in particular areas such as low income. However, the Joint Proposal did not explicitly account for the change in projected avoided costs. As addressed in our Comments (pages 3-6), the Company has observed a change in avoided costs as we meet and/or exceed clean energy requirements. As these avoided costs decline, energy savings that are cost-effective under the Minnesota Test will become harder to achieve as individual measures and programs become less cost-effective and at any given level of energy savings, less total net benefits will be created by utility portfolios. Minnesota Power also addressed concerns with avoided costs noting that the percentages for energy efficiency "may inadvertently lead to lower incentives than intended and possibly inconsistent performance rewards across utilities."[1]

We continue to support our proposal to place less emphasis on the first-year savings than the Joint Proposal by reducing the savings threshold and growing the percent of benefits awarded for first-year savings more slowly.

Specifically, the Company proposes that the first-year savings component have a reduced achievement threshold of 1.0 percent of sales, rather 1.5 percent.[2] Intermediate achievement would be calculated by interpolation, and achievement above 2.2 percent savings would be calculated by extrapolation (rather than capped as

[1] Initial Comments, Minnesota Power, August 10, 2025 (pg. 11).
[2] The current mechanism and the Joint Proposal use 1.5 percent of sales as the threshold, slightly below the default energy savings goal established in statute at 1.75 percent of sales. However, the Commissioner has statutory authority to approve an energy savings goal as low as one percent if the utility requests it and can demonstrate its appropriateness. The Company used the lower 1.0 percent figure as a threshold on that basis.

in the Joint Proposal). Higher levels of savings would be rewarded with higher percentages of net benefits, subject to the overall cap of 7 percent rather than a component requirement.

Table 1 below shows this recalibration level, noting that it could be extrapolated above the 4 percent if achievements exceeded the amount noted in the table.

Table 1: Incentive Functions for First-Year Savings

First-year Energy Savings (% of retail sales)	% of Non-EFS Benefits Awarded
1.0% (threshold)	0.5%
1.5%	1.96%
1.6%	2.25%
1.7%	1.98%
1.8%	2.49%
1.9%	2.99%
2.0%	3.49%
2.10%	3.71%
2.2% (goal)	4.0%

We support efforts to refine the framework, however, we continue to see value in elevating expectations at the lower levels. This approach is not driven by a belief that first-year energy savings should be lower, but rather by the potential impact of achieving our environmental goals—particularly in terms of avoided costs. By raising the bar earlier, we aim to lessen the steep incline of collaboration required in later stages.

II. Design of Net Benefit Caps

The Company maintains our position to raise the overall net benefits caps and remove component caps so that net benefits can be achieved from any individual component in the mechanism for both the electric and natural gas mechanism. As noted in our Comments, this is particularly important as a result of future avoided costs on the electric side, but also important as noted further below around the feasibility of each of the individual components.

An overall cap would not have a negative impact on any of the individual components as long as the Commission approves our suggestion that utilities should not be eligible for any incentive in a year in which they fall below the minimum achievement thresholds for both first-year savings and low-income spending. With this stakeholder concern addressed, we believe that an overall cap would address utility concerns regarding the individual components. We address these specifically below:

- *Electric Energy Savings:* As addressed above as avoided costs decline, less total net benefits will be created by utility portfolios. The Company has suggested a total net benefit cap of seven percent for the electric incentive (alongside a change in the calibration) to address these inevitable changes.
- *Allowances to excel in certain components:* While stakeholders have noted concern in a focus on one over another component, caps at the individual level also fail to encourage the utility to excel in one component if there is an ability to do so.
- *Ability to achieve the maximum thresholds of a particular component:* The thresholds outlined for low-income are set at a level for which exceeds historical achievement. While we appreciate the intent of this direction and provide no changes to the low-income thresholds, we do acknowledge these are stretch goals. However, rather than adjust the calibration of the metric, as suggested by Otter Tail Power[3], removing the caps at these levels would achieve the same result.

III. Feasibility of the Weatherization Metric

We agree with MERC's concerns regarding the Joint Proposal's air sealing and weatherization metric.[4] While we agree with the natural gas incentive generally, we continue to suggest the removal of the individual caps by component; in this case, we are open to this component of the mechanism. The Company also finds this metric out of alignment with what achievement is possible in the next Triennial.

The Company achieved 29,706 Dth savings that would have been applicable to this metric in 2024. The Joint Proposal sets a minimum threshold of 38,549 Dth or a 30 percent increase above our current achievement. The high calibration is set at 115,649 Dth or a 289 percent increase above current achievement. We agree with MERC in that these calibrations do seem to be unaligned with what could be achieved in the next triennium.

The Company is supportive of verifying that components can be adjusted towards an overall net benefit percentage alongside the methodology suggested in the Joint Proposal but otherwise does not support a mechanism that includes possibly

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[3] Initial Comments, Otter Tail Power Company, August 10, 2025 (pg 3).
[4] Initial Comments, MERC, August 10, 2025 (pg. 3).

unachievable results.

CONCLUSION

We appreciate the opportunity to provide these Reply Comments and remain committed to working collaboratively with stakeholders and the Commission to refine the Shared Savings Demand-Side Management Financial Incentive Mechanism. We believe the proposed adjustments—particularly those related to incentive calibration, the inclusion of a demand savings component, and the removal of individual metric caps—will better align utility performance incentives with evolving policy goals, system value, and feasibility across utilities.

We are encouraged by the progress made through stakeholder engagement and believe that continued dialogue will support the development of a consensus framework that is equitable, achievable, and responsive to Minnesota's clean energy objectives. We look forward to reviewing the updated Joint Proposal anticipated by CEE, the Department, and Fresh Energy, and remain committed to supporting a mechanism that drives meaningful outcomes.

Dated: September 15, 2025

Northern States Power Company

CERTIFICATE OF SERVICE

I, Christine Marquis, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

DOCKET NO. E,G999/CI-08-133

Dated this 15th day of September 2025

/s/

____

Christine Marquis
Regulatory Administrator

#	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	Sasha	Bergman	sasha.bergman@state.mn.us		Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul MN, 55101-2147 United States	Electronic Service		No	8-133Official
4	Annika	Brindel	abrindel@nhtinc.org	National Housing Trust		1101 30th Street NW Ste 100A Washington DC, 20007 United States	Electronic Service		No	8-133Official
5	Christina	Brusven	cbrusven@fredlaw.com	Fredrikson Byron		60 S 6th St Ste 1500 Minneapolis MN, 55402-4400 United States	Electronic Service		No	8-133Official
6	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
7	Stacy	Dahl	sdahl@minnkota.com	Minnkota Power Cooperative, Inc.		5301 32nd Ave S Grand Forks ND, 58201 United States	Electronic Service		No	8-133Official
8	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
9	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
10	Edward	Garvey	garveyed@aol.com	Residence		32 Lawton St Saint Paul MN, 55102 United States	Electronic Service		No	8-133Official
11	Metric	Giles	metriccsp@gmail.com	Community Stabilization Project		501 Dale St N Saint Paul MN, 55101 United States	Electronic Service		No	8-133Official
12	Jenny	Glumack	jenny@mrea.org	Minnesota Rural Electric Association		11640 73rd Ave N Maple Grove MN, 55369 United States	Electronic Service		No	8-133Official
13	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

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
14	Jason	Grenier	jgrenier@otpco.com	Otter Tail Power Company		215 South Cascade Street Fergus Falls MN, 56537 United States	Electronic Service		No	8-133Official
15	Jeffrey	Haase	jhaase@grenergy.com	Great River Energy		12300 Elm Creek Blvd Maple Grove MN, 55369 United States	Electronic Service		No	8-133Official
16	Tiana	Heger	theger@mnpower.com	Minnesota Power		30 W. Superior Street Duluth MN, 55802 United States	Electronic Service		No	8-133Official
17	Joe	Hoffman	ja.hoffman@smmpa.org	SMMPA		500 First Ave SW Rochester MN, 55902-3303 United States	Electronic Service		No	8-133Official
18	Tina	Koecher	tkoecher@mnpower.com	Minnesota Power		30 W Superior St Duluth MN, 55802-2093 United States	Electronic Service		No	8-133Official
19	Discovery	Manager	discoverymanager@mnpower.com	Minnesota Power		30 W Superior St Duluth MN, 55802 United States	Electronic Service		No	8-133Official
20	Christine	Marquis	regulatory.records@xcelenergy.com	Xcel Energy		414 Nicollet Mall MN1180-07-MCA Minneapolis MN, 55401 United States	Electronic Service		No	8-133Official
21	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
22	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
23	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
24	Lisa	Pickard	lseverson@minnkota.com	Minnkota Power Cooperative		5301 32nd Ave S Grand Forks ND, 58201 United States	Electronic Service		No	8-133Official
25	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
26	Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us		Office of the Attorney General - Residential	1400 BRM Tower 445 Minnesota St	Electronic Service		Yes	8-133Official

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
					Utilities Division	St. Paul MN, 55101-2131 United States				
27	Michael	Sachse	michael.sachse@opower.com	OPOWER		1515 N. Courthouse Rd, 8th Floor Arlington VA, 22201 United States	Electronic Service		No	8-133Official
28	Bruce	Sayler	bruces@connexusenergy.com	Connexus Energy		14601 Ramsey Boulevard Ransey MN, 55303 United States	Electronic Service		No	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