minnesota power
AN ALLETE COMPANY

30 West Superior Street
Duluth, MN 55802-2093
www.mnpower.com

August 13, 2025

VIA E-FILING
Mike Bull
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: Initial Comments in the Matter of Commission Review of Utility Performance Incentives for Energy Conservation
Docket No. E,G999/CI-08-133

Dear Mr. Bull:

Minnesota Power (the "Company") respectfully submits to the Minnesota Public Utilities Commission (the "Commission") the following comments in response to the Commission's Notice of Comment Period issued on July 16, 2025, regarding the joint proposal (the "Proposal") filed on June 26, 2025, by the Department of Commerce, Division of Energy Resources (the "Department"), Center for Energy and Environment ("CEE"), and Fresh Energy recommending modifications to the existing Shared Savings Demand-Side Management ("DSM") Financial Incentive Mechanism.

Please contact me at (218) 355-3158 or hmitchell@mnpower.com with any questions related to this filing.

Respectfully Submitted,

Hannah Mitchell
Public Policy Advisor
Minnesota Power
30 W Superior Street
Duluth, MN 55802

HM: ah
attach

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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

I. INTRODUCTION

Minnesota Power (the "Company") respectfully submits these comments in response to the Notice of Comment Period opened by the Minnesota Public Utilities Commission (the "Commission") in Docket No. E,G999/CI-08-133 regarding the modifications to the existing Shared Savings Demand-Side Management ("DSM") Financial Incentive Mechanism jointly proposed by the Department of Commerce, Division of Energy Resources (the "Department"), Center for Energy and Environment ("CEE"), and Fresh Energy.

The Company appreciates the opportunity to submit comments to the Commission and further engage in a regulatory process designed to develop the best outcomes for Minnesota customers by allowing public utilities to provide insight into any components or impacts distinctive to their programs or service territory. Minnesota Power prides itself on reliably serving a unique customer mix that includes some of the nation's largest industrial operations, and the Company is grateful to be able to submit comments on proposed decisions that would impact Energy Conservation and Optimization ("ECO") programs, which seek to understand how to reach customers and encourage more efficient, conservative energy usage.

Minnesota Power is committed to continuing its progress toward meeting the State of Minnesota's Carbon-Free Standard and is guided by its approved 2021 Integrated Resource Plan ("IRP") and *Energy**Forward*** strategy, which incorporates a diverse renewable energy portfolio including hydroelectric, solar, biomass, wind, and energy storage resources, and seeks to maximize customer energy efficiency programs. The Company is also currently in the middle of the proceeding for its 2025 IRP, which may impact the marginal energy costs Minnesota Power will use for the 2027-2029 Triennial ECO plan ("2027-2029 Triennial"). With avoided energy costs relying heavily on a utility's rate of transition to renewable energy generation and IRP proceeding timelines varying across utilities, the proposed modifications to the financial incentive mechanism will impact utilities differently, some in ways counterproductive to the intention of the mechanism.

Furthermore, the Company would also highlight that these proposed modifications come at a time in which the energy industry is quickly evolving, in part due to shifting state and federal policies that impact public utilities. With regulatory uncertainties and differing timelines due to IRP proceedings and potential policy shifts, Minnesota Power respectfully encourages the Commission to consider the individual natures of utilities as well as the overall timing of this proceeding as important context in their decision on the proposed modifications to the financial incentive mechanism.

II. BACKGROUND

On September 1, 2023, the Department filed a proposal for modifications to the Shared Savings DSM Financial Incentive Mechanism for implementation beginning in 2024.[1] Initial Comments were filed by utilities and the Office of the Attorney General, Residential Utilities Division, on October 23, 2023, and Reply Comments were filed on November 2,

---

[1] "Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2024," *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation*, Docket No. E,G999/CI-08-133.

2023. On December 7, 2023, this matter came before the Commission. The Commission issued an Order on January 25, 2024 ("January Order").[2]

Within the January Order, the Shared Savings DSM Financial Incentive Mechanism was approved with the following new provisions related to electric utilities:

- Utilities are to 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 filed on March 31, 2023, in Docket No. E,G999/CIP-23-46 ("Decision") for calculating their net benefits to derive their Shared Savings incentive.

- Investor-Owned Utilities ("IOUs") are to 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.

- A net benefits cap of 5.5 percent is set for electric utilities.

- Electric utilities' incentive starts at energy savings of 1.5 percent of retail sales; 5.5 percent of net benefits is awarded at energy savings of 2.2 percent of retail sales and above.

- An expenditures cap of 20 percent is set, which increases to 25 percent if the electric utility achieves the designated high achievement threshold of 2.2 percent of retail sales.

[2] "Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan," *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation*, Docket No. E,G999/CI-08-133.

- For load management programs that do not result in energy savings, excluding kilowatts (“kW”) saved prior to May 25, 2021, net benefits are included in the total net benefits used to calculate the financial incentive.

On June 26, 2025, the Department, CEE, and Fresh Energy filed proposed modifications to the existing Shared Savings DSM Financial Incentive Mechanism (the “Proposal”).[3] The proposed modifications to the January Order include:

- The incentive will be based on two metrics, first-year energy savings and low-income spending, and will be applied to the efficient fuel switching (“EFS”) net benefits and the non-EFS net benefits separately.

- Electric utilities’ savings-based incentive starts at first-year energy savings of 1.5 percent of retail sales in which case 0.98 percent of net benefits is awarded; 4.5 percent of net benefits is awarded at energy savings of 2.2 percent of retail sales and above.

- Electric utilities’ spending-based incentive starts at low-income spending of 0.6 percent of residential gross operative revenue (“GOR”) in which case 0.33 percent of net benefits is awarded; 1.5 percent of net benefits is awarded at spending levels of 1.0 percent of residential GOR and above.

- Adding together the savings-based and spending-based net benefits caps of 4.5 percent and 1.5 percent equates to an overall Net Benefits Cap on the sum of the EFS and non-EFS net benefits of 6 percent for electric utilities.

[3] “Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2027,” *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation*, Docket No. E,G999/CI-08-133.

- Linear interpolation is to be used to award the appropriate percentage of net benefits for performance levels between the achievement threshold and cap.

- A total Net Benefits Cap equal to 6 percent of portfolio net benefits plus 6 percent of EFS net benefits.

On July 16, 2025, the Commission issued a Notice of Comment Period. The topics open for comment are:

1. Should the Commission approve the proposed multi-factor Shared Savings DSM Financial Incentive Mechanism?
2. Should modifications to the financial incentive take effect for utilities' 2027-2029 ECO Triennial Plans?
3. Are the proposed modifications consistent with the public interest and state policy goals for energy equity, conservation, and greenhouse gas reduction?
4. Are there other issues or concerns related to this matter?

III. COMMENTS

Minnesota Power appreciates the analysis and support provided by the Department, CEE, and Fresh Energy. Minnesota's utility performance incentive mechanism has historically been highly successful in motivating utilities to go above and beyond when investing in and delivering energy savings that create value for customers and Minnesota as a community. The Company believes a periodic review of the incentive mechanism is prudent to ensure that the incentive continues to balance intended objectives with both customer costs and value. This review is especially valuable during a time of governmental transition since legislative uncertainties can make reaching ECO goals more challenging. Minnesota Power continues to monitor federal and state legislative changes and their impacts on the Company's programs and unique service territory.

The Company welcomes the proposed addition of a low-income spending metric and the EFS component to the financial incentive mechanism, and believes that these align well with public policy goals to promote higher levels of low-income investments and beneficial electrification. However, the Company believes there are opportunities for improvement in how the mechanism is calibrated and structured.

The inclusion of an EFS incentive mechanism aligns with state policy goals, however, the Company advocates for a separate EFS incentive that is not dependent on first-year energy savings and low-income spending. Minnesota Power proposes a fixed percentage of 6 percent of EFS net benefits, with a cap of 10 percent to provide certainty in a new energy landscape and ensure cost-effective strategic electrification. The Company agrees with using the Ratepayer Impact Measure ("RIM") ratio to reward programs that add off-peak load and lower costs for all customers, but requests adjustments to the cap to avoid penalizing utilities with high RIM ratios and high performance in other areas. With EFS incentives set to expire in 2032, Minnesota Power emphasizes the importance of a reasonable and predictable mechanism to encourage ambitious electrification initiatives.

Minnesota Power supports the proposed mechanism for incentivizing energy efficiency and low-income program investments, but recommends adjustments to ensure financial incentives align with historical levels for high achievements. The Company highlights challenges in calibrating the mechanism due to uncertainties surrounding avoided energy costs and varying timelines for IRP proceedings across utilities. Minnesota Power proposes modifications to the incentive structure, including adjusted slopes and caps for the first-year energy savings and low-income spending metrics, to maintain meaningful rewards while encouraging higher investments in low-income programs. The Company emphasizes the importance of flexibility in planning, given evolving federal and state funding opportunities and the increasing demands on utilities to achieve multifaceted ECO programming with a higher emphasis on energy equity. While Minnesota Power values the focus on low-income spending, the Company cautions that significant increases in spending may be unattainable in the short term due to resource constraints and external factors, including the aforementioned federal and state policy uncertainties. The Company recommends modifications that aim to balance achievable goals with incentives that recognize utilities' efforts and align with state policy objectives.

Minnesota Power also suggests revisiting the inclusion of the financial incentive as a cost in the calculation of the financial incentive. This inclusion adds unecessary complexity and creates a circularity issue where the financial incentive is included in the calculation that ultimately determines its own value, resulting in a reduction of the financial incentive. The iterative recalculation process currently being used addresses mathematical circularity but still results in utilities earning less than the intended percentage of net benefits and complicates transparency, especially in the EFS incentive proposal. Minnesota Power recommends calculating net benefits without factoring in the incentive, basing the financial reward on that result, and then applying the financial incentive cost to final benefit-cost analysis ("BCA") results to avoid circularity while maintaining accurate net benefit accounting.

In the last section of the comments below, Minnesota Power calls attention to a handful of values in the Attachment A file of the Proposal that the Company believes to be incorrect.[4] If the proposal is accepted as written, the Company feels that it is important for these values to be updated.

Minnesota Power appreciates the opportunity to provide comments as well as all of the work that the Department, CEE, Fresh Energy, and others have contributed to this process. The comments below build off of this work, adding important utility perspectives. When approving the financial incentive mechanism, the Company hopes the Commission will take into consideration the highly successful track record of Minnesota utility achievements and the upcoming challenges as the industry continues to evolve.

[4] "Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2027: Attachment A," *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation*, Docket No. E,G999/CI-08-133.

a. Efficient Fuel Switching Incentive

Minnesota Power appreciates the efforts to incorporate a performance incentive related to EFS achievements and believes this to be a step towards better aligment with state policy goals, especially as they pertain to greenhouse gas emissions and enhanced grid efficiency. By investing in strategic electrification, utilities can help customers lower their carbon footprints while improving overall energy efficiency and reducing long-term energy costs.

Minnesota Power believes that the efficient fuel switching component of the financial incentive mechanism is an important addition. However, the Company believes it should be an independent mechanism that recognizes utility achievements specific to EFS. The Company finds an independent mechanism to be more in line with Minn. Stat. § 216B.16, subd. 6(c), which was amended in 2024 to read: "For public utilities that provide electric service, the commission must develop and implement incentive plans designed to promote energy conservation separately from the plans designed to promote efficient fuel-switching."[5] In the proposed financial incentive mechanism, the EFS incentive is dependent on the results of the energy efficiency portion of the mechanism in that the achievement levels on energy savings and low-income spending dictate the percentage of both non-EFS and EFS net benefits awarded.

Additionally, the proposed structure appears to utilize the EFS component of the incentive mechanism to offset lower non-EFS incentives resulting from decreasing marginal energy costs. This implies that utilities must successfully implement cost-effective EFS programs on top of achieving similarly high levels of energy efficiency to reach the same level of incentivization as in past years. With a constantly changing energy landscape and the increased demand for multifaceted demand-side efficiency offerings, reducing incentives may decrease motivation for ambitious goals at a time when expanding customer

---

[5] Reference amendment to Minn. Stat. § 216B.16, subd. 6(c), in Laws of Minnesota 2024, Chapter 126, Article 6, Section 6.

programs is increasingly important. The approved mechanism should allow for utilities to continue being rewarded for high levels of energy efficiency while also introducing opportunities to be rewarded for new initiatives in the electrification space.

For the above reasons, Minnesota Power proposes an independent EFS financial incentive mechanism with the following parameters:

- Set the percentage of net benefits awarded for EFS at 6 percent
- Maintain the proposed EFS RIM ratio multiplier.
- Set the EFS net benefits cap at 10 percent of EFS segment net benefits.

In equation form, the EFS incentive would be calculated as the minimum of:

6% x EFS net benefits x EFS RIM ratio

Or

10% x EFS net benefits

i. Proposed Percentage of Net Benefits

The Company believes that having a fixed percentage will provide utilities with some certainty in a new and unpredictable landscape. There are no minimum requirements or target goals for EFS in Minnesota, so a flat percentage rather than a scale tied to achievement level is appropriate. The resulting incentives will simply be based on how much EFS the utility is able to achieve and how cost-effective it is. Basing the EFS incentive on acomplishments in other aspects of ECO programming adds uncertainy to what utilities can expect as a performance incentive and creates more challenges when planning for EFS measures that have little historical precedent in Minnesota ECO programs.

Under the proposed mechanism, 6 percent is the amount of net benefits associated with reaching the achievement goals for energy efficiency and low-income spending. Minnesota Power agrees that this is a reasonable percentage to incentivize utilities to achieve meaningful levels of strategic electrification.

Additionally, the Company recognizes that incentives for EFS projects will expire December 31, 2032, and believes that a fixed percentage at a reasonable rate is even more important within the context of this short timeline. If future statutory changes impact the sunsetting of the EFS specific incentive, the mechanism should be revisited at that time.

ii. RIM Ratio

Minnesota Power agrees with the concept of using the RIM ratio to account for the benefits that strategic electrification and added load can bring to ratepayers. EFS presents a unique opportunity for load building that has not historically been present in ECO programs, and it is imperative that new load be added in a deliberate way. As discussed in the Proposal, multiplying the financial incentive by the RIM ratio promotes "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." Utilities have the ability to earn more than 6 percent when the RIM ratio is greater than one, signaling that the programs will put downward pressure on rates. Alternatively, utilities would earn less than 6 percent if the RIM ratio is below one.

iii. Overall EFS Cap

If the mechanism is accepted as proposed, the overall cap of 6 percent prevents the application of the RIM ratio from reflecting the positive impacts on ratepayers in the case that utilities are already reaching or exceeding the maximum achievement goal through non-EFS performance. As a result, utilities will be penalized for having exceeded the energy efficiency goal in that they cannot be rewarded for having a RIM ratio above one, but can still be negatively impacted by a RIM ratio below one. Minnesota Power requests that the Commission consider this disparity when determining what the cap on EFS should be.

Minnesota Power's proposal of a 10 percent cap addresses this by allowing room for the incentive to increase with RIM ratios above one. This proposed cap recognizes that the higher the ratio, the more benefits that are created for ratepayers, while still capping the total EFS incentive at a reasonable level.

b. Calibration of the Energy Efficiency and Low-Income Components

Minnesota Power believes that the mechanism included in the Proposal is a good starting point for expanding the incentive to recognize both high levels of cost-effective energy efficiency as well as significant levels of investment in low-income programs, which often are not cost-effective. While the Company agrees with the structure, the calibration for these components requires further consideration. It is important that the approved mechanism results in incentives that are in line with historical levels for similar high achievements. Historically, the process of updating the financial incentive mechanism occurred after the cost-effectiveness guidance had been finalized and therefore all benefit-cost analysis components, including utility avoided costs, were known. The Company appreciates the early timing of this Proposal for planning purposes; however, it introduces uncertainty for calibration. Minnesota Power anticipates avoided energy costs will continue to decrease and may vary significantly across utilities. As such, the Company is concerned that the proposed percentages may inadvertently lead to lower incentives than intended and possibly inconsistent performance rewards across utilities.

The energy conservation landscape has evolved drastically in recent years, making traditional energy efficiency more challenging while also introducing new elements through the ECO legislation requiring more diverse and multi-faceted utility programming. Navigating these new opportunities—in addition to other ECO-specific and ECO-adjacent initiatives such as the Minnesota Efficient Technology Accelerator, codes and standards, Inflation Reduction Act ("IRA") rebates and other federal funding, etc., which are all in various stages of implementation—demands a significant amount of time and effort from utility ECO teams. Utilities are now faced with continuing to achieve high levels of energy efficiency while also navigating these new spaces. This evolving landscape can be difficult to predict and may become more challenging to keep up with in the coming years, especially with the ongoing uncertainty surrounding federal initiatives such as the aforementioned IRA rebate programs that build on and therefore impact Minnesota's ECO programs. Maintaining meaningful financial incentives will continue to signal to utilities that their efforts are important to state policy goals and public interest. The Company encourages the Commission to consider the impacts of reducing the financial incentive while increasing expectations for utility performance within ECO programs.

As written, the Proposal will result in lower incentives for utilities that achieve similar levels of high achievement as in the past and will only award similar incentives if utilities invest significantly more in low-income programs while also implementing cost-effective EFS programs. Table 12 of the Proposal compares the requested 2024 utility incentives to the estimated 2024 incentive amounts when using the proposed 2027–2029 mechanism and shows that all utilities would receive a lower incentive with the proposed mechanism. Furthermore, these estimated incentives do not yet account for the anticipated decrease in avoided marginal energy costs.

Changes to marginal energy costs for the upcoming 2027-2029 Triennial are utility-specific and are largely dependent on the utility's rate of transition to clean energy generation and the timing of their most recent IRP proceedings. As utilities add renewable energy to their generation mix, avoided energy costs will continue trending downward at varying rates. Minnesota Power also anticipates that the timing of IRP proceedings will have disproportionate impacts on avoided energy costs across utilities. The electric utility IRP processes are all on different timelines such that some utilities may be required to use updated, lower avoided energy costs while others may use older, higher avoided energy costs. Minnesota Power falls somewhere in between the two scenarios with less certainty as the Company is in the middle of an IRP proceeding, anticipating approval in early to mid-2026, which will not allow time to use values from the approved plan in the Company's 2027-2029 Triennial filing. It is unclear yet whether Minnesota Power will be required to use avoided costs from the updated but not yet approved resource plan or whether the dated, but most recently approved plan should be used. Regardless, the Company recommends that the Commission consider approving different percentages of net benefits for each utility to reflect differences in avoided energy costs.

The modifications proposed below are the Company's best efforts to address the concerns laid out above and were developed specific to Minnesota Power. Overall, the intent of Minnesota Power's proposal, is to maintain similar levels of incentive for similar high levels of achievements as in the past, with opportunity for additional emphasis on significantly higher levels of low-income spending. Further discussion of the Company's reasoning for the proposed modifications is included in the sections that follow.

Minnesota Power proposes the following parameters:

- Maintain the slope and the starting and ending points for first-year energy savings at 1.5 percent and 2.2 percent respectively, but adjust the maximum percentage of net benefits awarded to 5.20 percent such that at 1.5 percent of retail sales, 1.69 percent of net benefits is awarded and at the achievement goal of 2.2 percent of retail sales and above, 5.20 percent of net benefits is awarded.

- Maintain the starting and ending points for low-income spending levels at 0.6 percent and 1.0 percent of GOR respectively, but adjust the slope such that the percentages of net benefits awarded increase faster with additional low-income spending above the minimum required amount. Specifically, the Company proposes maintaining an award of 0.33 percent of net benefits at 0.6 percent of GOR, but at the achievement goal of 1.0 percent of GOR, 1.80 percent of net benefits is awarded.

- Maintain the structure of adding the first-year energy savings percentage of net benefits to the low-income spending percentage of net benefits to get the total percentage of non-EFS portfolio net benefits awarded.

- Modify the total net benefits cap to be equal to 7.0 percent of non-EFS net benefits which corresponds to the sum of the maximum achievement in both first-year energy savings and low-income spending.

In equation form, the non-EFS incentive would be calculated as follows with a maximum potential award of 7 percent of net benefits:

(first-year energy savings % of net benefits + low-income spend % of net benefits) × non-EFS net benefits

Tables 1 and 2 below show the incentive levels corresponding to specific achievement milestones for the first-year energy savings and the low-income spending metrics.

Table 1: First-Year Energy Savings Metric

First-Year Energy Savings (% of Retail Sales)	% of Non-EFS Minnesota Net Benefits Awarded
1.5% (threshold)	1.69%
1.6%	2.19%
1.7%	2.69%
1.8%	3.19%
1.9%	3.70%
2.0%	4.20%
2.1%	4.70%
2.2% (goal)	5.20% (cap)

Table 2: Low-Income Spending Metric

Low-Income Spend (% of Residential GOR)	% of Non-EFS Minnesota Net Benefits Awarded
0.6% (threshold)	0.33%
0.7%	0.70%
0.8%	1.07%
0.9%	1.43%
1.0% (goal)	1.80% (cap)

i. Justification for Modified First-Year Energy Savings Metrics

Minnesota Power recognizes and appreciates that the earlier than normal timing of the Proposal is intended to help utilities better plan for the 2027-2029 Triennial filing. However, given the changes that the Company anticipates for avoided energy costs, Minnesota Power is concerned that calibrating the percentage caps based on net benefits from the current 2024-2026 Triennial ECO plan ("2024-2026 Triennial") in lieu of updated information may inadvertently result in lower financial incentives than intended. Without having reasonable estimates of the marginal energy costs and other BCA inputs that could impact cost-effectiveness results for the 2027-2029 Triennial, the analysis completed and presented in the Proposal is not an accurate representation of how it will impact each utility.

Minnesota Power understands that not all utilities are in a situation of having unknown marginal energy costs at this time. The timing of the Company's current IRP is uniquely challenging as it will not be approved in time for new marginal energy costs to be incorporated into the 2027-2029 Triennial filing, but proposed values will be available. The possibility of utilities updating marginal energy costs throughout the 2027-2029 Triennial period has also been a discussion within the Cost-Effectiveness Advisory

Committee ("CAC"). These unknowns make it difficult to accurately predict the impact of financial incentive proposals at this time. However, it is expected that future updates to avoided marginal energy costs would generally decrease net benefits and therefore financial incentive potential. At a minimum, it is important that utlities have a reasonable path to earn the current percentage of net benefits being awarded for their non-EFS achivements, however, this would still result in a decreased financial incentive amount for utilites with updated avoided energy costs.

Despite not having concrete avoided marginal energy costs at this time, Minnesota Power has attempted to make a reasonable proposal with the limited information available. By modifying the percentage of net benefits awarded based on first-year energy savings, Minnesota Power would be awarded 5.5 percent when reaching the first-year energy savings achievement goal of 2.2 percent and low-income spending minimum of 0.6 percent However, because the Company anticipates lower avoided energy costs, low-income spending levels will need to be above the minimum threshold in order to be awarded a similar financial incentive amount as in the past. In the next section, Minnesota Power discusses the challenges and uncertainty around significant increases in low-income spending, especially in the short-term. Spending on the high side of the proposed calibration scale may not be feasible for many utilities. The Company's proposed modification meets the following objectives:

- Does not diminish the value of achieving higher first-year energy savings assuming the low-income spending threshold is also met.

- Requires low-income investments above the statutory minimum to maintain current financial incentive amounts.

- Maintains the incentive for utilites to strive for those higher levels of low-income spending by offering the potential to increase their overall performance reward above historic levels, which the Company believes is reasonable due to a combination of the challenging nature and the value associated with achieving such levels.

While still in early stages of planning for the 2027-2029 Triennial, Minnesota Power anticipates to be under 6 percent of net benefits awarded under this proposal, which assumes the first-year energy savings achievement goal will be reached and moderately increased low-income spending will be achieved. While techinically allowed via the Company's proposed mechanism, Minnesota Power does not, at this time, forsee a situation in which the max of 7 percent would be attained.

ii. Low-Income Spending

The Company agrees that the incorporation of a low-income spending component is a worthwile addition to the financial incentive mechanism. Low-income spending within utility conservation programs addresses both social equity and long-term economic and environmental benefits. Low-income households often face higher energy burdens, spending a larger percentage of their income on utility bills, and may lack the resources to invest in energy-related upgrades. By targeting these customers, utilities can help reduce energy consumption, lower bills, and improve living conditions, fostering greater energy equity. Encouraging utilities to increase low-income spending and acknowledging high levels of investment through a performance incentive not only supports vulnerable populations but also aligns with broader state policy goals, creating a win-win for utilities, customers, and the state of Minnesota.

The Company believes that a stronger emphasis on low-income spending is valuable and is eager to be a part of the continued movement towards greater energy equity. Utilities have a long track record of supporting low-income customers and expect that momentum to continue and increase. The Company thinks it is worth addressing that utilities are not the only organizations focusing on energy conservation and optimization-related efforts for the low-income sector. Historically, Minnesota's Weatherization Assistance Program has been an important partner in delivering and funding customer projects. Moving forward, new initiatives such as the federal Home Energy Rebates through the IRA, the state Heat Pump Rebate Program, and potential funding from data centers will introduce more opportunities for braiding or stacking funding on low-income projects. In the past, Minnesota Power has covered the full cost of most eligible energy efficiency upgrades for low-income customers and if additional funding sources come to fruitation, the Company could be spending less per project in the future. These additional opportunities are a great way to reach more customers than ever throughout Minnesota; however, the impact that these funds will have on Minnesota Power's specific service territory and low-income investments is less clear. The state and federal funding sources have fewer established precedents and less predictable longevities. The uncertainty surrounding the future and the allocation of these new funding sources will necessitate flexibility in planning and implementing low-income programs. This will also make it difficult to target and achieve specific levels of spending with high levels of confidence.

The proposed mechanism and low-income calibrations will require utilities to spend significantly more on low-income programs than ever before in order to maintain recent levels of financial incentive. The minimum requirement for low-income spending increased from 0.2 percent to 0.6 percent of residential GOR between 2021 and 2024, during which time Minnesota Power increased its low-income spending by over 60 percent. The Company has consistently been achieving well above the respective minimum threshold each year until recently. The current threshold of 0.6 percent has proven to be an achievable but challenging goal. Minnesota Power is constantly exploring new paths to best serve our most vulnerable customers, both within ECO and through other affordability program offerings, and is currently investigating avenues for most effectively maximizing spending on low-income programs for the 2027-2029 Triennial. The Company is considering ways to expand both the number of customers reached and also the programs and services that are available. However, Minnesota Power is concerned that maintaining current spending levels will be challenging and significant increases may prove to be unattainable at this time.

Approving the non-EFS portion of the mechanism as proposed would mean that Minnesota Power would have to be awarded 1.0 percent of net benefits from the low-income component on top of the 4.5 percent awarded for max achievement in first-year energy savings in order to achieve a total of 5.5 percent of net benefits, the current level awarded for high achievements. This would require another 30 percent increase in low-income spending. While it may be feasible to spend more, an additional 30 percent would require significant re-evaluation of program structures and resources while also being highly dependent on external factors, such as workforce availability and funding from other sources. In order to reach the maximum of 1.5 percent of net benefits from the low-income component, the Company would have to spend at levels that are unpredecented.

For these reasons, Minnesota Power believes that the low-income component of the financial incentive mechanism is highly valuable and deserving of further incentivization for achieving significantly increased investment levels. The Company agrees with the Proposal's starting point of 0.33 percent of net benefits awarded for meeting the statutory requirement of low-income spending at 0.6 percent of residential GOR, but suggests an increased slope to enhance the reward for spending at notably high levels. The Company's combined modifications to the first-year energy savings and low-income spending components allow utilities to reasonably achieve comparable net benefit percentages to previous years, without requiring levels of low-income spending that may not be attainable, but still providing additional motivation to expand and continue scaling up their investments in low-income programs over time.

c. Financial Incentive Circularity

During the 2024-2026 Cost-Effectiveness Advisory Committee sessions, and in the related comments, Minnesota Power argued against the concept of including the financial incentive itself as a cost in the net benefits that are used to calculate the utilities financial incentive. Doing so creates a circularity problem where the financial incentive award has a negative impact on the financial incentive awarded. The Department proposed an iterative recalculation process that is being used in the current 2024-2026 Triennial. While the process addresses the mathematical issue of circularity it does not change the fact that conceptually this method is circular in nature. The shared savings incentive is intended to allow the utilities to earn a portion of the net benefits that were created as a direct result of the implementation of their programs. This iterative method results in utilities earning some amount less than the allowed percent of net benefits created by these programs.

This process also introduces unnecessary complexity to the incentive calculations and reduces transparency and ease of estimating incentives since it is no longer as simple as applying the percent of net benefits allowed by the mechanism to estimated net benefits created by the programs. This issue is further complicated in the EFS incentive proposal where there is an added component of multiplying the incentive by the RIM ratio to arrive at the final incentive. This introduces another calculation that has to go through the iterative process where the incentive reduces both the MN test net benefits and the RIM ratio iteratively until the process arrives at a stopping point. This makes it more complicated for both utilities and stakeholders to estimate financial incentives associated with new EFS programs.

The Company believes a reasonable approach would be to calculate Minnesota test net benefits without inclusion of the performance incentive and base the financial incentive off of that result (as has been done historically). Then, for the purposes of final BCA results, apply that financial incentive amount to the initial net benefits in all of the appropriate tests to arrive at the final net benefits accounting for the performance incentive. This method removes the circular nature of including the incentive in the calculation of the incentive but still allows the final net benefits to reflect the costs of the performance rewards.

d. Edits to Attachment A – Financial Incentive Mechanism Proposal

If the structure is approved as currently proposed, Minnesota Power would like to call attention to the following errors in Attachment A file of the Proposal:

- The calculation of Minnesota Power's Minnesota test net benefits is inaccurate. The net benefits appear to be derived by dividing the Company's requested financial incentive by the net benefits cap of 5.5 percent, but since the Company's financial incentive was capped by expenditures in 2024, this approach does not provide an accurate result, leading to an underestimation of actual net benefits.

- The listed low-income spending amount for Minnesota Power is inflated. The value of $952,947 was based on page 19 of the Company's 2024 Status Report. However, the correct amount of low-income spending is listed on page 14 of the Company's Status Report as $810,693. The discrepancy between these two values is in the categorization of low-income spending associated with hybrid programs that serve a mix of low-income and non-low-income customers. Per the Company's 2024 Status Report Proposed Decision, "The Department does not include anticipated spending associated with participation by low-income customers in a utility's market rate programs because these programs do not contain an element intended to directly serve the needs of low-income persons." For this reason, the Home Efficiency spending of $143,107 is not included in the Company's overall low-income spending and there is a small amount of spending from indirect programs that is included but is not shown in the table on page 19.

- The total portfolio spending amount includes spending on both regulatory activities and Minnesota Power-owned facility projects, both of which are typically excluded from the financial incentive calculation.

- Similar to the above, the first-year energy savings include energy savings from projects at Minnesota Power-owned facilities, which are required to be removed for the purposes of calculating the financial incentive.

After accounting for the above updates, Minnesota Power's financial incentive would have been exactly the same with the new mechanism as it was in 2024 because, in both situations, the incentive would have been capped at 25 percent of expenditures and totaled $2,600,685.

IV. CONCLUSION

Minnesota Power appreciates all the work that goes into reviewing and refining the financial incentive mechanism for utility ECO program performance. The Company believes the proposed mechanism included many improvements that will help align the performance awards with the state policy goals and the public interest, and that the modifications suggested in the above comments further refine that proposal in a way that helps to balance achievable goals with meaningful incentives that encourage utilities to continue expanding and achieving in an increasingly challenging environment. The Company's recommendations are summarized below:

- Separate the EFS incentive into an independent mechanism with the following parameters:
  - A fixed percentage of 6 percent of EFS net benefits.
  - Maintain the proposed EFS RIM ratio multiplier.
  - Set the EFS net benefits cap at 10 percent of EFS segment net benefits.
- For the first-year energy savings and low-income spending mechanism:
  - Maintain the slope and the starting and ending points for first-year energy savings at 1.5 percent and 2.2 percent respectively, but adjust the maximum percentage of net benefits awarded to 5.20 percent such that at 1.5 percent of retail sales, 1.69 percent of net benefits is awarded and at the

achievement goal of 2.2 percent of retail sales and above, 5.20 percent of net benefits is awarded.

  - Maintain the starting and ending points for low-income spending levels at 0.6 percent and 1.0 percent of GOR respectively, but adjust the slope such that the percentages of net benefits awarded increase faster with additional low-income spending above the minimum required amount. Specifically, the Company proposes maintaining an award of 0.33 percent of net benefits at 0.6 percent of GOR, but at the achievement goal of 1.0 percent of GOR, 1.80 percent of net benefits is awarded.

  - Maintain the structure of adding the first-year energy savings percentage of net benefits to the low-income spending percentage of net benefits to get the total percentage of non-EFS portfolio net benefits awarded.

  - Modify the total net benefits cap to be equal to 7.0 percent of non-EFS net benefits which corresponds to the sum of the maximum achievement in both first-year energy savings and low-income spending.

- Remove the circular nature of including the financial incentive as a cost that impacts the financial incentive by:

  - Calculating Minnesota test net benefits without the performance incentive and use those net benefits to determine the financial incentive

  - For final BCA results, apply that financial incentive amount to the initial net benefits in all of the appropriate tests to arrive at the final net benefits accounting for the performance incentive.

- Update values in Attachment A of the Proposal with Minnesota Power's edits.

Minnesota Power appreciates the opportunity to provide these comments on the joint Proposal by the Department, CEE, and Fresh Energy to modify the Shared Savings DSM Financial Incentive Mechanism for implementation during the 2027-2029 Triennial period. The Company has electronically filed this document with the Minnesota Public Utilities Commission, and copies have been electronically served upon the parties on the attached service list.

Please contact me at (218) 355-3158 or hmitchell@mnpower.com with any questions related to this filing.

Dated: August 13, 2025

Respectfully Submitted,

Hannah Mitchell
Public Policy Advisor
Minnesota Power
30 W Superior Street
Duluth, MN 55802

STATE OF MINNESOTA)
)ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA ELECTRONIC FILING

I, Amy M. Honkala of the City of Duluth, County of St. Louis, State of Minnesota, hereby certify that on the 13th day of August, 2025, I electronically filed a true and correct copy of Minnesota Power's **Initial Comments in Docket No. E,G999/CI-08-133** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on eDocket's Official Service List for this Docket were served as requested.

Amy M. Honkala

Amy M. Honkala

#	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	Mike	Bull	mike.bull@state.mn.us		Public Utilities Commission	121 7th Place East, Suite 350 St. Paul MN, 55101 United States	Electronic Service		Yes	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	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
21	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
22	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
23	Lisa	Pickard	lseverson@minnkota.com	Minnkota Power Cooperative		5301 32nd Ave S Grand Forks ND, 58201 United States	Electronic Service		No	8-133Official
24	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
25	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
26	Michael	Sachse	michael.sachse@opower.com	OPOWER		1515 N. Courthouse Rd, 8th Floor Arlington VA,	Electronic Service		No	8-133Official

#	First Name	Last Name	Email	Organization	Agency	Address	Delivery Method	Alternate Delivery Method	View Trade Secret	Service List Name
						22201 United States				
27	Bruce	Sayler	bruces@connexusenergy.com	Connexus Energy		14601 Ramsey Boulevard Ransey MN, 55303 United States	Electronic Service		No	8-133Official
28	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
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