COMMERCE DEPARTMENT

July 22, 2025

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

RE: Comments of the Minnesota Department of Commerce
Docket No. E015/M-25-48

Dear Mr. Bull:

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

*Minnesota Power's Conservation Improvement Program Consolidated Filing (Petition)*

The Petition was filed by Minnesota Power on April 1, 2025.

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

Sincerely,

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

AZ/ad
Attachment

Before the Minnesota Public Utilities Commission

**Comments of the Minnesota Department of Commerce**

Docket No. E015/M-25-48

## I. INTRODUCTION

On April 1, 2025, Minnesota Power (MP or the Company) submitted its Petition with the Commission in Docket No. E015/M-25-48. In its Petition, MP requests that the Commission approve:

- Performance incentive of $2,600,685 for 2024 ECO activities.
- 2024 ECO tracker account, resulting in a December 31, 2024, tracker balance of $2,184,533.
- 2025/2026 Conservation Program Adjustment of $0.000817/kWh to be effective July 1, 2025.
- Carrying Charge rate of 0.6458% for the ECO Tracker.

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

## II. PROCEDURAL BACKGROUND

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|---|---|
| April 1, 2025 | MP submitted its Petition with the Commission. |
| April 24, 2025 | The Commission posted a Notice of Comment Period for the Petition. |
| June 25, 2025 | The Department filed a request for variance extension, requesting an additional 21 days to complete its analysis and file comments. |
| June 25, 2025 | The Commission granted the request for extension. |

Topics open for comment:

- Should the Commission approve Minnesota Power's proposed electric DSM Financial Incentive of $2,600,685 for ECO activities in 2024?
- Should the Commission approve Minnesota Power's proposed 2024 ECO Tracker account, resulting in a year-end balance of $2,184,533?
- Should the Commission approve Minnesota Power's proposed CPA of $0.000817/kWh, to be implemented without proration on July 1, 2025?

[1] *See* Docket No. E015/CIP-23-93

- Should the Commission approve Minnesota Power's proposed Carrying Charge rate of 0.6458% for its ECO Tracker?
- Are there other issues or concerns related to this matter?

## III. DEPARTMENT ANALYSIS

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

A. Commission's 2024 Order
B. Minnesota's Energy Conservation and Optimization Statute
C. Proposed 2024 Shared Savings DSM Financial Incentive
D. Proposed 2024 ECO Tracker
E. Proposed Conservation Program Adjustment for 2025/2026
F. Proposed Carrying Charge Rate for the ECO Tracker
G. Historical ECO Achievements and Shared Savings Incentives

### *A. COMMISSION'S 2024 ORDER*

On November 8, 2024, the Commission issued its Order approving MP's 2023 Consolidated CIP filings,[2] with the following determinations:

1. Approved MP's 2023 ECO tracker account with a December 31, 2023 tracker balance $477,245.
2. Approved a 2024/2025 Conservation Program Adjustment of $0.001444 per kilowatt hour, to be effective on the first billing cycle in the next full month after Commission approval.
3. Approved a DSM financial incentive of $2,190,843 for MP's 2023 ECO achievements, to be included in the Company's ECO tracker account no sooner than the issue date of the Commission's Order.
4. Required MP to submit a compliance filing, within 10 days of the issue date of the Order, with revised tariff sheets reflecting the Commission's determinations in this matter.
5. Approved a monthly Carrying Charge rate of 0.7292 percent for the ECO tracker.

### *B. MINNESOTA'S ENERGY CONSERVATION AND OPTIMIZATION STATUTE*

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

[2] *See* Commission's November 8, 2024 Order in Docket No. E-015/M-24-48.
[3] https://www.revisor.mn.gov/bills/text.php?number=HF164&type=bill&version=2&session=ls92&session_year=2021&session_number=0

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

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

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

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

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

### *C. PROPOSED 2024 SHARED SAVINGS DSM FINANCIAL INCENTIVE*

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

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

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

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

**Table 1: 2024–2026 Natural Gas Incentive**

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

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

**Table 2: 2024–2026 Electric Incentive**

| First-Year Energy Savings Achievement (% of Retail Sales) | % of Net Benefits Awarded |
|---|---|
| 1.5% (threshold) | 1.30% |
| 1.6% | 1.90% |
| 1.7% | 2.50% |
| 1.8% | 3.10% |
| 1.9% | 3.70% |
| 2.0% | 4.30% |
| 2.1% | 4.90% |
| 2.2% (goal) | 5.50% (cap) |

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

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

### *C.2. The Department's Review of Minnesota Power's Proposed 2024 Shared Savings DSM Financial Incentive*

The Petition covers ECO activities occurring in program year 2024. MP reported that its 2024 achievements resulted in total first-year energy savings of 76,582,710 kWh (approximately 3% of ECO-applicable retail sales), total demand savings of 5,942.4 kW, and total expenditures of $10,604,662. To

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

calculate the financial incentive, the Company removed savings and spending due to "MP Projects."[25] Thus, MP reported incentive-eligible energy savings of 76,313,768 kWh, spending of $10,402,740, and net benefits of $53,461,303 for 2024 ECO activities.

Based on the terms and conditions of its approved Shared Savings DSM financial incentive plan, MP requested recovery of a DSM financial incentive of $2,600,685. The Company's proposed incentive is equal to 4.86% ($2,600,685/$53,461,303) of the Company's 2024 calculated net benefits and 25.00% ($2,600,685/$10,402,740) of the Company's 2024 expenditures.

The Department's review indicates that the Company correctly calculated its DSM financial incentive for 2024 ECO achievements and did not violate the Commission-approved caps. Therefore, the Department recommends that the Commission approve MP's 2024 Shared Savings financial incentive of $2,600,685.

Additionally, should the Commission find it helpful context, the Department also evaluated the broader ECO program achievements reported in the Company's Status Report. As mentioned earlier, since the Company's Status Report does not require Commission approval, this portion of the Petition has been assigned to a separate docket. [26] On May 23, 2025, the Department filed a Staff Proposed Decision. The Proposed Decision provides Staff's evaluation of the Status Report's compliance with Minnesota Statutes and Rules, and Staff's examination of the technical assumptions behind the Company's reported ECO performance to ensure that energy savings are cost-effective, measurable, and verifiable. On July 9, 2025, the Department's Assistant Commissioner Decision approved the ECO achievements reported in MP's Status Report.

### *D. PROPOSED 2024 ECO TRACKER*

In its Petition, MP requested approval of its report on recoveries and expenditures included in the Company's ECO tracker account. This activity can be found can be found in Exhibit 1, page 1 of the utility's Petition and is summarized below in Table 3.

[25] On Page 69 of the Petition, MP notes that Order Points 1 and 2 from the Commission's July 16, 2013 Order Determining Ratemaking Treatment of Utility CIP Project Costs (Docket No. E,G999/DI-12-1342), net benefits and energy savings resulting from MP facilities projects are excluded for the purpose of the financial incentive calculation.

[26] *See* Docket No. E015/CIP-23-93

**Table 3: Summary of MP's 2024 ECO Tracker Account**

| Line | Description | Time Period | Amount |
|---|---|---|---|
| 1 | Beginning Balance | December 31, 2023 | $477,245 |
| 2 | ECO Expenses | January 1, 2024 through December 31, 2024 | $10,604,662 |
| 3 | DSM Financial Incentive | Approved in 2024 for 2023 activities | $2,190,843 |
| 4 | Carrying Charges[27] | January 1, 2024 through December 31, 2024 | ($53,728) |
| 5 | ECO Expenses Subtotal [Line 1 + Line 2 + Line 3 + Line 4] | January 1, 2024 through December 31, 2024 | $13,219,022 |
| 6 | CCRC Recovery | January 1, 2024 through December 31, 2024 | ($10,072,402) |
| 7 | CPA Recovery | January 1, 2024 through December 31, 2024 | ($962,088) |
| 8 | ECO Revenues Subtotal [Line 6 + Line 7] | January 1, 2024 through December 31, 2024 | ($11,034,490) |
| 9 | Ending Balance [Line 5 + Line 8] | December 31, 2024 | $2,184,533 |

The Department reviewed Exhibit 1 of the Petition and concludes that the Company correctly calculated its 2024 ECO Tracker account. Therefore, the Department recommends the Commission approve MP's 2024 ECO tracker, resulting in a year-end balance of $2,184,533.

The Department requests that in future years, the Company provide the ECO tracker in an Excel spreadsheet with all formula intact.

## *E. PROPOSED CONSERVATION PROGRAM ADJUSTMENT FOR 2025-2026*

### *E.1. Calculation of Proposed Conservation Program Adjustment*

The Commission approved MP's current Conservation Program Adjustment (CPA) of $0.001444 per kWh on November 8, 2024, in Docket No. E015/M-24-48.

On page 12 of its Petition, as it has in past filings, MP explained how its CPA was calculated:

> The ECO Tracker Account balance at year-end 2024 reflects the results of prior activity in Tracker 2, as indicated on page 1 of Exhibit 1. However, for CPA purposes, the 2024 year-end balance requires adjustments to properly calculate the proposed CPA factor. Using the fiscal year approach, these factors include actual and anticipated expenditures and cost recovery through base rates (CCRC) and the current CPA rate for the remainder of the current CPA period (January 2025–June 2025) as well as anticipated financial incentives, anticipated ECO expenditures and

[27] A monthly carrying charge rate of 0.6670 percent was in effect from January through November of 2024, whereas a monthly carrying charge rate of 0.7292 percent was in effect during December of 2024.

> anticipated cost recovery through base rates for the new CPA period (July 2025–June 2026). The fiscal year approach is designed to achieve a zero Tracker balance at the end of the CPA period (fiscal year) rather than at the end of the calendar year. Minnesota Power notes that actual program performance, expenditures and sales will lead to tracker balance fluctuation.

For July 1, 2025, through June 30, 2026, MP proposed a CPA factor of $0.000817/kWh, or a $0.000627 per kWh decrease from the Company's current CPA of $0.001444 per kWh.

Table 4 below shows the Company's calculation of its 2025/2026 CPA.

**Table 4: MP's 2025/2026 Conservation Program Adjustment Calculation[28]**

| Line | Description | Jan 2025-June 2025 | July 2025-June 2026 |
|---|---|---|---|
| 1 | ECO Tracker Account balance | $2,184,533 | ($891,382) |
| 2 | Financial Incentives for 2024 Activity | N/A | $2,600,685 |
| 3 | ECO Expenditures | $4,746,805 | $12,829,989 |
| 4 | ECO Expenses Subtotal [Line 2 + Line 3] | $4,746,805 | $15,430,674 |
| 5 | ECO Costs Recovered Through Base Rates (CCRC) | ($5,887,178) | ($12,343,005) |
| 6 | ECO Cost Recovery through Rider (CPA) | ($1,953,146) | N/A |
| 7 | ECO Recoveries Subtotal [Line 5 + Line 6] | ($7,840,324) | ($12,343,005) |
| 8 | Carrying Charges | $17,605 | N/A |
| 9 | Recoverable CIP Tracker Balance [Line 1 + Line 4 + Line 7 + Line 8] | ($891,382) | $2,196,288 |
| 10 | CPA per kWh = $2,196,288/2,689,600,000 kWh | | $0.000817 |

MP derived its proposed 2025/2026 CPA by dividing the recoverable ECO tracker balance projected for June 30, 2026 (2,196,288, see fourth column of line 9) by the kilowatt hour sales subject to ECO over the corresponding time period (2,689,600,000 kWh, see line 10). The result is the $0.000817/kWh CPA that the Company proposed.

The Department reviewed MP's proposed 2025/2026 CPA of $0.000817/kWh and concludes that the Company calculated its CPA correctly. Minnesota Power requested that the CPA become effective July 1, 2025. The Department recommends the Commission approve the Company's proposed CPA to be effective July 1, 2025, or the first month following the Commission's Order in this proceeding.

[28] For charges in Lines 3, 5, and 6 (ECO expenditures, ECO base rate recoveries, and CPA recoveries), the Company used actual figures for January and February of 2025, and estimated figures for March 2025 through June 2026.

The Department also requests that in future years, the Company include a monthly tracker with all formula intact, covering all months used to calculate the Company's proposed CPA; in this filing, for example, the tracker would cover each month from January 2025 through June 2026.

### *F. PROPOSED CARRYING CHARGE RATE FOR THE ECO TRACKER*

Minnesota Power's Petition proposes a carrying charge rate of 0.6458% for the ECO Tracker with an effective date on July 1, 2025, or upon approval by the Commission.

As stated on page 8 of the Company's Petition, "Minnesota Power calculates the carrying charge on its ECO Tracker Account using the rate from its multi-year credit facility, which is in accordance with the Commission's Order dated September 16, 2015, in Docket No. E015/M-15-80."

Page 5 of Exhibit 1 in MP's Petition provides additional detail around the calculation of the proposed carrying charge rate. The Department reviewed the details provided by the Company in Exhibit 1 and finds that it appears that MP calculated its proposed carrying charge rate by following the Commission's September 16, 2015, Order.

### *G. HISTORICAL ECO ACHIEVEMENTS AND SHARED SAVINGS INCENTIVES*

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

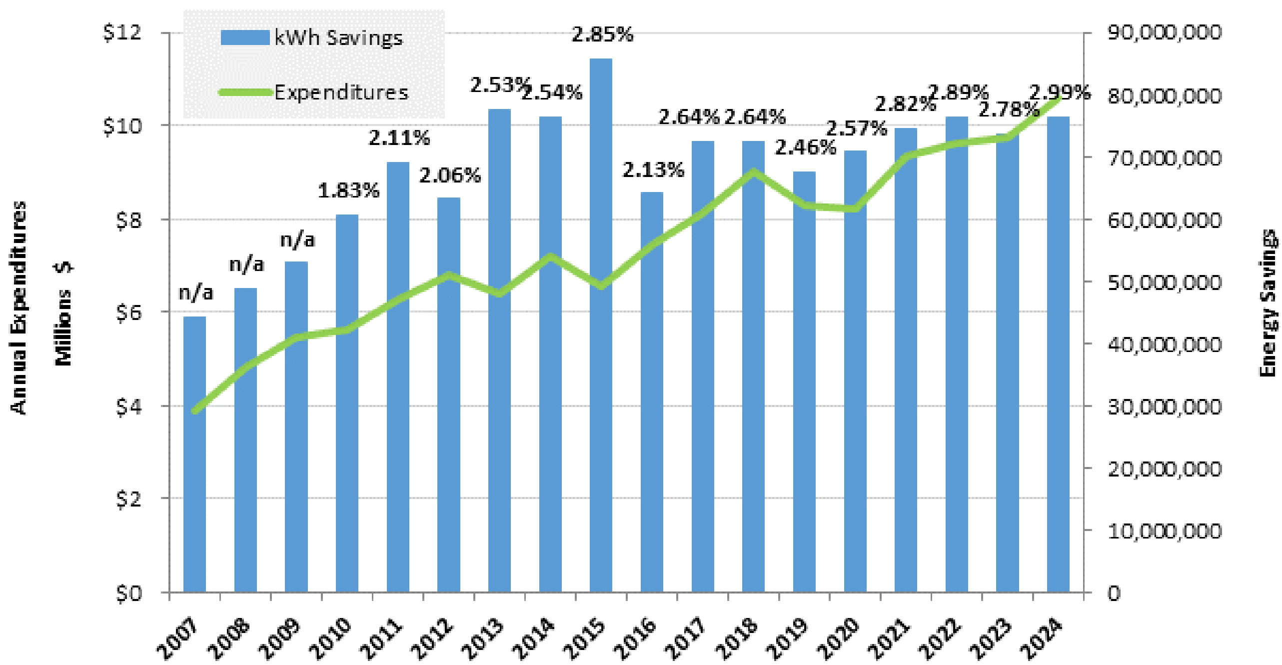
In Figure 1, the Department also provides a more comprehensive summary of MP's ECO performance over time. The Department finds that the Company continues to make impressive progress toward its ECO savings achievements.

**Table 5: Savings, Expenditures, and Incentives for Select Years**[29]

| | Energy Savings (kWh) | Demand Savings (kW) | Expenditures | Shared Savings Incentive |
|---:|---:|---:|---:|---:|
| 2024 | 76,313,768 | 5,956 | $10,402,740 | $2,600,685 |
| 2023 | 73,549,385 | 7,072 | $9,560,194 | $2,190,843 |
| 2022 | 76,053,524 | 8,195 | $9,445,982 | $2,206,583 |
| Average 2022-2024 | 75,305,559 | 7,074 | $9,802,972 | $2,332,704 |
| Compare 2024 to 2023 | 3.76% | -15.78% | 8.81% | 18.71% |
| Compare 2024 to Avg 2022-2024 | 1.34% | -15.81% | 6.12% | 11.49% |

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

**Figure 1. Historical ECO Performance**




## IV. DEPARTMENT RECOMMENDATIONS

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

### *A. RECOMMENDATIONS TO MINNESOTA POWER*

- A.1. The Department requests that in future filings the Company provide ECO trackers as Excel spreadsheets, with all formulae intact, covering all months from the prior year's tracker and all months used to calculate the CPA.
- A.2. The Department also notes that in future filings, MP may wish to provide redline and clean versions of its tariff pages that incorporate proposed CPA changes.

### *B. RECOMMENDATIONS TO THE COMMISSION*

- B.1. Approve a performance incentive of $2,600,685 for 2024 ECO activities;
- B.2. Approve MP's 2024 ECO tracker account, as summarized in Table 1 above, resulting in a December 31, 2024 tracker balance of $2,184,533;
- B.3. Approve a 2025/2026 Conservation Program Adjustment of $0.000817/kWh to be effective July 1, 2025, or the first month following the Commission's Order in this proceeding;
- B.4. Approval to use a Carrying Charge rate of 0.6458% for the ECO Tracker; and
- B.5. Require MP to submit a compliance filing, within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.