September 15, 2025

Mike Bull, Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: Joint Reply Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation

Docket Number E,G999/CI-08-133

Dear Mr. Bull:

The Minnesota Department of Commerce, Division of Energy Resources (Department), Center for Energy and Environment (CEE), and Fresh Energy, as the "Joint Commenters," respectfully submit these Reply Comments to the Minnesota Public Utilities Commission (Commission) in response to interested parties' Initial Comments filed in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.

Several interested parties filed Initial Comments in response to the July 16, 2025, Notice of Comment Period in this docket (Notice), including Xcel Energy (Xcel), CenterPoint Energy (CenterPoint), Minnesota Energy Resources Corporation (MERC), Otter Tail Power (Otter Tail), and Minnesota Power. We appreciate parties' engagement in this docket and thank them for their thoughtful comments.

The Joint Commenters continue to support, and continue to recommend, Commission approval of the Joint Commenters' proposal for modifications to the existing Shared Savings Demand-Side Management (DSM) Financial Incentive Mechanism for implementation beginning in 2027, with several modifications in response to interested parties' comments. The following Reply Comments describe the proposed modifications to the Joint Commenters' initial proposal and reaffirm other elements of the initial proposal in response to interested parties' comments.

Thank you for considering our comments. Please contact me at myatsuhashi@mncee.org with any questions.

Sincerely,

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

/s/ Ashly McFarlane
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/s/ Will Nissen
Director of Policy
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/s/ Dr. Sydnie M. Lieb
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Director, Building Energy Transition
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I. SUMMARY OF JOINT COMMENTERS' INITIAL PROPOSAL

The Shared Savings DSM Energy Conservation and Optimization (ECO) financial incentive motivates utilities to invest in cost-effective energy efficiency. By rewarding successful ECO portfolios, it encourages innovative program design and ensures demand-side conservation is treated as a resource on par with supply-side options.

Since its inception, ECO program success has been measured by two metrics: first-year energy savings and portfolio cost-effectiveness, expressed through net benefits. The Joint Commenter's proposed incentive mechanism for 2027-2029 ECO program years maintains **first-year energy savings** and **cost-effectiveness** as the foundation of the financial incentive and adds additional metrics that align with statewide policy priorities, including:

1. **Low-income spending:** Ensure sustained investment and innovation in serving low-income households.
2. **Insulation and air sealing first-year natural gas savings:** Drive deeper and long-lived building efficiency and building decarbonization through insulation and air sealing measures.
3. **Efficient fuel-switching:** Accelerate decarbonization through efficient fuel-switching measures.

The proposed mechanism balances the goals of ECO programming when measuring utility performance and allocating the resulting incentive, and drives utilities to address several policy priorities at once.

For the electric utility incentive, the proposed metrics are first-year energy savings, low-income spending, and efficient fuel-switching (EFS). In these Reply Comments, the Joint Commenters also express support for the addition of a **permanent demand savings** metric adapted from a proposal included in Xcel's Initial Comments. For the natural gas utility incentive, the proposed metrics are first-year energy savings, low-income spending, and insulation and air sealing first-year energy savings. Under both the electric and gas incentives, the overall incentive amount remains dependent on the utility's portfolio-wide net benefits, keeping cost-effectiveness at the core of the metric.

The following Reply Comments summarize the recommendations made by interested parties in Initial Comments, and, in response, suggest several revisions to the proposed incentive mechanism.

II. OVERALL PROPOSED INCENTIVE STRUCTURE

Xcel proposed the removal of metric-specific Net Benefits Caps for both the gas and electric incentive mechanisms. Xcel argues that including metric-specific caps in addition to an overall Net Benefits Cap is "redundant and reduces the benefit of flexibility that a multi-factor mechanism could otherwise offer."[1]

The Joint Commenters view the metric-specific Net Benefits Caps as integral to the design of the multi-factor incentive. These caps ensure that a utility cannot earn the entire percentage of net benefits available under the Net Benefits Caps through a single metric, preserving the multi-factor character of the mechanism. With the caps in place, a utility must focus their efforts not only on maxing out a single metric, but also achieving above the threshold in all metrics, to earn close to or reach the overall Net Benefits Cap.

Xcel acknowledges this concern and proposes two possible solutions:

1. Requiring the utility to reach the minimum threshold for all metrics to be eligible for any incentive.
2. Setting the overall net benefits cap at the lower of seven percent or six percent plus the percentage of net benefits earned by Xcel's low-income achievement.

Although the Joint Commenters appreciate Xcel's proposed solutions, we continue to view the metric-specific caps as the best option for a balanced multi-factor incentive mechanism. The first proposed solution only pushes utilities to achieve the minimum threshold for each metric. Theoretically, utilities could aim to achieve the minimum threshold for each metric then focus their efforts on reaching the maximum net benefits for a single metric, disregarding the other two. On the gas side, Xcel's second proposed solution would allow utilities to disregard the insulation and air sealing metric beyond reaching the minimum threshold, as it would essentially place a combined Net Benefits Cap on insulation and air sealing and first-year savings. On the electric side, Xcel's second proposed solution functions like the proposed metric-specific Net Benefits Caps, but with a smaller percentage of net benefits dedicated to the low-income spending metric.

The Joint Commenters oppose the removal of metric-specific Net Benefits Caps, with one exception. As outlined in the Permanently Avoided Demand Metric section of these Reply Comments, the Joint Commenters would support the addition of a permanent demand savings metric to the electric incentive mechanism. With the addition of this metric, we suggest implementing a shared Net Benefits Cap for first-year savings and permanent demand savings.

Both metrics encourage ECO programs that maximize energy savings and demand reductions, improving system efficiency and reducing emissions in line with ECO's goals. Allowing flexibility

[1] Xcel Energy. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.* Docket No. E,G999/CI-08-133. Filed August 13, 2025. Page 11.

between them recognizes that each utility's territory may require different strategies to achieve the greatest system benefits. By contrast, the low-income spending and insulation and air sealing metrics serve different purposes, targeting specific program segments that could be deprioritized without metric-specific Net Benefits Caps.

The specific caps proposed by the Joint Commenters will be explained in the Overall Net Benefit section.

III. PROPOSED NATURAL GAS UTILITY INCENTIVE

CenterPoint, Xcel, and MERC expressed either neutrality regarding the proposed natural gas incentive mechanism or were supportive of the mechanism with modifications, summarized as follows:

- MERC supported the proposed First-Year Energy Savings and Low Income Spend metrics as originally proposed. MERC made several recommendations to modify the Insulation and Air Sealing Metric, outlining concerns and supporting evidence regarding MERC's unique challenges in meeting the achievement threshold and goal as proposed.
- Xcel supported the proposed natural gas mechanism but recommended that the metric-specific Net Benefits Caps be removed to allow for flexibility between the three proposed metrics.
- CenterPoint expressed neutrality regarding approval of the gas incentive, outlined potential concerns regarding the complexity introduced by the multi-factor mechanism and feasibility of increasing weatherization performance. That said, CenterPoint also outlines several steps it could take to pursue greater insulation and air sealing first-year savings including increased rebate levels.

Insulation and Air Sealing Metric

The proposed threshold and goal for the Insulation and Air Sealing metric were calculated using the first-year savings program potential from insulation and air sealing measures as projected by the 2018 Minnesota Energy Efficiency Potential Study.[2] The program potential values represent the first-year savings that can be reasonably achieved by each utility through insulation and air sealing measures, assuming aggressive marketing and program designs and

[2] "Final Report: Minnesota Energy Efficiency Potential Study: 2020–2029." Center for Energy and Environment. <http://mn.gov/commerce-stat/pdfs/mn-energy-efficiency-potential-study.pdf>.

with consideration for implementation constraints.[3] The Joint Commenters chose to use the average program potential of the three gas IOUs (CenterPoint, Xcel, and MERC) to establish a utility-wide metric. However, in response to comments from MERC regarding the proposed threshold and goal, the Joint Commenters recommend revising the insulation and air sealing metric to instead use the utility-specific program potential values to set the threshold and goal.

The Joint Commenters appreciate the comments provided by MERC highlighting the unique challenges MERC faces in achieving the proposed utility-wide threshold of 0.10 percent of average residential sales. MERC states that:

> …the proposed threshold is not reasonably achievable for MERC, and the cost for MERC to achieve savings from these measures will be much higher, resulting in lower net benefits for the same investment. Consequently, Xcel Energy and CenterPoint Energy, utilities with more urban, contiguous territories, are closer to achieving the threshold than MERC. Alternatively, MERC's rural, non-contiguous service territory, which has fewer large commercial and multifamily buildings, poses a significant challenge to achieving this metric.[4]

Using an average utility-wide threshold and goal based on the 2018 Potential Study places MERC at a disadvantage, as using the average value masks the study's consideration of differences between the gas utilities' service territories and customer base. To address this discrepancy, MERC proposes reducing the threshold and goal for all gas utilities by approximately 20 percent, as this was the size of the gap between MERC's 2022–2024 achievements in insulation and air sealing savings and the program potential values for the same years projected by the 2018 Potential Study.

The Joint Commenters believe that a more precise adjustment would use the utility-specific 2018 Potential Study values rather than the average of the three. This approach takes advantage of the study's consideration of unique utility characteristics, providing more accurate and realistic goals for each gas utility. Table 1 and Table 2 compare the initial proposal for the Insulation and Air Sealing achievement threshold and goal to the proposed revision:

Table 1: Originally Proposed Insulation and Air Sealing Threshold and Cap

Utility	Threshold	Cap
All	0.10%	0.30%

[3] *Appendix A of the Minnesota Energy Efficiency Potential Study: 2020–2029*. Published March 27, 2019. Page 5. https://www.mncee.org/sites/default/files/2021-06/Appendix-A_Methodology-and-Data-Sources_2019-03-27_FINAL.pdf

[4] Minnesota Energy Resources Corporation. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation*. Docket No. E,G999/CI-08-133. Filed August 13, 2025, Page 7.

Table 2: Modified, Utility-Specific Insulation and Air Sealing Thresholds and Caps

Utility	Threshold	Cap
MERC	0.06%	0.18%
CenterPoint Energy	0.11%	0.32%
Xcel Energy	0.11%	0.32%

Xcel and CenterPoint happen to have the same insulation and air sealing first-year savings program potential according to the 2018 Potential Study, while MERC's is significantly lower. Consistent with the methodology from the Joint Commenters' initial proposal, we propose setting the threshold at one-third of the program potential value for each utility.

CenterPoint expressed concerns about the feasibility of achieving greater first-year energy savings through insulation and air sealing. CenterPoint emphasized that the primary challenge lies in customer demand and willingness to pursue weatherization upgrades, rather than in how utilities allocate budgets.[5] While CenterPoint acknowledged that high upfront costs remain a barrier, it cautioned that simply increasing rebates would not necessarily drive the level of participation envisioned under the proposed mechanism.

The Joint Commenters recognize that increasing insulation and air sealing installations requires additional effort, but CenterPoint may have misunderstood our intent. While increased rebates are one strategy, the goal is not to reward utilities solely for higher spending, but rather to encourage innovative and thoughtful program designs that expand participation and deliver greater savings. Such designs could include targeted outreach, removing market barriers, community partnerships, and other program enhancements, in addition but not limited to increased rebates.

Other Recommendations from Natural Gas Utilities

MERC proposed expanding the insulation and air sealing metric to include EFS measures. MERC argues, "Combining the insulation and air sealing metric with natural gas EFS projects and investments would align the goals across electric and natural gas utilities and encourage their coordination and joint delivery of EFS programs in the 2027–2029 Triennial."[6]

Although the Joint Commenters appreciate MERC's concern for the proper incentivization of EFS measures, the proposed natural gas incentive already rewards EFS measures by including

[5] CenterPoint Energy. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation*. Docket No. E,G999/CI-08-133. Filed August 13, 2025, Pages 6-8.
[6] Minnesota Energy Resources Corporation. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation*. Docket No. E,G999/CI-08-133. Filed August 13, 2025, Page 6.

EFS savings in the first-year savings metric and EFS net benefits in the portfolio-wide net benefits. The Joint Commenters agree with the importance of incentivizing EFS measures for natural gas utilities but believe this is already captured in the first-year savings metric and portfolio-wide net benefits. In comparison, under the electric utility incentive, EFS measures must be treated differently than traditional efficiency measures as they do not lead to a reduction in the electric load and therefore are not accounted for in the first-year savings metric.

IV. PROPOSED ELECTRIC UTILITY INCENTIVE

Xcel, Minnesota Power, and Otter Tail all expressed support for a multi-factor approach to the electric financial incentive but proposed several modifications to the initial proposal, summarized as follows:

- All three utilities recommended that the EFS incentive be untethered from the first-year savings and low-income spend metrics.
- Xcel proposed the addition of a permanent demand savings metric, the removal of metric-specific net benefits caps, an increase in the overall percentage of net benefits, and changes to the achievement threshold and goal for first-year savings.
- Minnesota Power proposed changes to the percentage of net benefits corresponding to each achievement goal, increasing the overall Net Benefits Cap.
- Otter Tail proposed an increase in the minimum percentage of net benefits for the low-income spend metric and an increase to the net benefits and achievement goal for the first-year savings metric, increasing the overall Net Benefits Cap.

Efficient Fuel-Switching Incentive

As proposed, the magnitude of the EFS incentive earned by each utility is determined both by its achievements in first-year energy savings and low-income spending as well as the magnitude of net benefits earned through EFS programs. All three electric utilities support the addition of an EFS metric but argue that the metric should be independent from the non-EFS portion of the ECO incentive, citing potential statutory and programmatic concerns.

The utilities argue that the proposed EFS incentive is overly complicated and will prove burdensome when attempting to develop their 2027–2029 ECO Triennial Plans. Xcel argues that untethering the EFS incentive from the first-year savings and low-income spending metrics would “make program management and forecasting simpler for utility staff, who would not

need to rely on projected achievement in a different area in order to forecast the likely result of the EFS incentive."[7]

The Joint Commenters recognize that tethering the EFS incentive to achievements in the other two metrics may unnecessarily complicate the implementation of the proposed incentive mechanism. The Joint Commenters' intention in proposing an EFS incentive dependent on first-year savings and low-income spending achievements was to ensure utilities maintain focus on their non-EFS programming as EFS programming ramps up. Although only Xcel and Otter Tail currently have EFS programs included in their ECO portfolios and these programs are still in their early stages, it is difficult to predict the magnitude of growth that EFS programs will experience over the 2027–2029 Triennial, especially once utilities are able to earn a financial incentive for these types of programs.

With this uncertainty in mind, the Joint Commenters would support a separate EFS incentive, but only if the utilities are required to first achieve the statutory requirements for first-year savings and low-income spending before being eligible to earn the EFS incentive. The statutory requirements are as follows:

- First-year energy savings equal to or exceeding 1.75 percent of average retail sales.
- Low-income spending equal to or exceeding 0.60 percent of the utility's average residential gross operating revenue (GOR).

The Joint Commenters recommend the revised EFS incentive be calculated according to the method proposed by both Xcel and Otter Tail, using the following formula:

EFS Incentive = 5% x EFS net benefits x EFS RIM ratio

Otter Tail recommended an EFS incentive equal to 5 percent of EFS net benefits (adjusted by the RIM ratio), capped at 10 percent. Minnesota Power recommended 6 percent of EFS net benefits, also capped at 10 percent. Xcel endorsed a separate EFS mechanism and recommended a fixed percentage at 5 percent.

The Joint Commenters recommend aligning with Otter Tail's proposal by applying a 5 percent base to the EFS net benefits, subject to a 10 percent cap on EFS Net Benefits Cap (5 percent x RIM). In addition, we support Xcel's proposed 20 percent cap on EFS expenditures, which would increase to 25 percent if a utility achieves a RIM ratio of 2 percent or higher.

[7] Xcel Energy. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.* Docket No. E,G999/CI-08-133. Filed August 13, 2025. Page 16.

Permanently Avoided Demand Metric

Xcel proposed adding a demand savings component to the electric incentive mechanism to reflect the growing importance of capacity value as avoided energy costs decline. Xcel noted that while energy efficiency still reduces fuel use and emissions, the shift to renewable generation lowers the value of a saved kilowatt-hour. In contrast, permanently reducing customer demand provides enduring system benefits, even in a carbon-free grid. As Xcel explained, if incentives reflect only saved energy and not demand, they risk sending a distorted value signal by emphasizing activities that do not deliver the greatest system benefits.

To address this, Xcel recommended creating a new metric within the electric incentive mechanism based on permanently avoided demand through energy efficiency measures. Xcel defines permanently avoided demand as follows:

> …savings driven by the installation of energy-efficient equipment which reduces the amount of load the customer is able to impose on the system, relative to the counter-factual base case. Excluded from this metric would be demand savings associated with behavioral programming or demand response and load management programs. Those programs, while valuable and particularly helpful for addressing acute grid needs, do not reduce the amount of load the customer is able to impose; they simply modify the timing of the load. The Company believes the demand savings component should emphasize more permanent savings.

To establish a utility-specific threshold and goal for this metric, Xcel proposed using each utility's Integrated Resource Plan (IRP) to estimate the demand savings that would accompany a given level of energy savings. Two values would be needed from each utilities' IRP:

1. **Projected demand savings (MW)** associated with the approved energy efficiency targets
2. **Projected energy savings (MWh)** from those targets

Dividing demand savings by energy savings produces a demand ratio, representing the expected demand reduction per unit of energy savings. Multiplying this ratio by the utility's energy savings target (as a percentage of sales) yields the demand goal (MW) for the portfolio.

Xcel argued this approach would encourage utilities to pursue energy efficiency measures with the highest demand reduction potential, better align incentives with the system value of capacity savings, and provide flexibility as first-year savings become more challenging to achieve.

The Joint Commenters agree with these objectives and support incorporating this metric into the incentive mechanism, with one modification. In Xcel's proposal, the scale shown in Table 3 was used to calibrate the incentive.

Table 3: Xcel's Proposed MW and % of Net Benefits Scale

Percent of Sales	Percent of Net Benefits
1.00% (threshold)	1.00%
2.5%	2.25%

We propose the threshold and percentage of sales associated with one percent net benefits be raised to the level used for the first-year savings metric. The Joint Commenters proposal is shown in Table 4.

Table 4: Joint Commenters' Proposed MW and % of Net Benefits Scale

Percent of Sales	Percent of Net Benefits
1.50% (threshold)	1.00%
2.5%	2.25%

This change aligns the threshold for permanently avoided demand with the Joint Commenters proposed first-year savings goal and increases the level of demand savings required to earn one percent of net benefits.

Together, this metric and the first-year savings metric will promote ECO programs that optimize how much energy is saved and when demand is reduced, improving overall system efficiency and reducing emissions in line with ECO's goals. Recognizing that opportunities for first-year savings and permanently avoided demand may vary across utilities, we recommend applying a combined cap to the net benefits earned from these two metrics. Utilities would have flexibility in deciding whether to emphasize first-year savings or demand savings more while striving to reach the combined cap. For the demand savings metric, the achievement levels and corresponding percentages of net benefits can be extrapolated beyond the 2.5 percent goal shown in Table 4.

Overall Net Benefits Cap

Xcel and Minnesota Power highlight an anticipated decline in their marginal energy costs resulting from the ongoing transition to renewable energy sources which will, in turn, reduce the net benefits generated by their ECO portfolios. The decline in marginal energy costs is the byproduct of a successful transition to renewable energy resources, a transition that supports state policy and climate goals.

Xcel applied the updated marginal energy costs from its recently approved IRP to its 2024 ECO achievements and estimated a 26 percent decline in its marginal energy costs.[8] Minnesota Power does not have updated marginal energy costs readily available, but is in the midst of an IRP process that they anticipate will result in lower marginal energy costs.[9] Minnesota Power emphasizes that the electric utilities are operating on different IRP timelines and will therefore experience these declines at different points in time.[10]

Minnesota Power and Xcel recommend that the overall Net Benefits Cap for the proposed incentive be increased from six percent to seven percent to offset the impact of declining marginal energy costs on the incentive and avoid inadvertently penalizing utilities for their successful transition to renewable energy resources. Minnesota Power also suggests the consideration of unique net benefit percentages for each utility.

Otter Tail proposes raising the Net Benefits Cap to 6.5 percent to avoid reducing incentives compared to the current mechanism. Otter Tail argued that under the Joint Commenters' proposal, utilities would earn less for the same level of performance, which would effectively penalize them. By increasing the cap, Otter Tail aims to preserve the incentive value of meeting first-year savings goals and to provide stronger rewards for utilities that exceed minimum targets. To support this change, Otter Tail also recommended adding a new achievement level and revising the low-income metric to create a smoother transition between the old and new incentive mechanisms.

The Joint Commenters' initial proposal set the non-EFS electric Net Benefits Cap at six percent, a 0.5 percent increase from the current 2024–2026 cap. Without analysis available regarding the magnitude of the anticipated decline in marginal energy costs during the development of the initial proposal, it was challenging to calibrate the proposed incentive to accurately account for declining marginal energy costs. With Xcel's analysis now showing a 26 percent decline in marginal energy costs, the Joint Commenters support increasing the Net Benefits Cap an additional 0.5 percent to 6.5 percent, aligning with Otter Tail Power's proposal.

Raising the Net Benefits Cap from 5.5 to 6.5 percent represents an 18 percent increase in the incentive available for traditional demand-side management programs. When combined with the new EFS incentive, this adjustment helps maintain overall incentive levels consistent with previous years while encouraging innovative program designs that advance ECO's core goals.

We propose that the additional 0.5 percent of net benefits be allocated to the metric-specific Net Benefits Cap for first-year savings and demand savings, and that the achievement goal for first-year savings be increased proportionally. Under this proposal, a utility must achieve 2.3

[8] Xcel Energy. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.* Docket No. E,G999/CI-08-133. Filed August 13, 2025. Page 5.
[9] Minnesota Power. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.* Docket No. E,G999/CI-08-133. Filed August 13, 2025. Page 15.
[10] *Id.* Page 12.

percent of average retail sales to earn five percent of net benefits, while before the first-year savings metric was capped at four percent of net benefits awarded for an achievement of 2.2 percent of average retail sales. Table 5 shows the revised first-year savings achievement goal and Net Benefits Cap. Table 6 shows the new permanently avoided demand goal and Net Benefits Cap.

Table 5: Modified First-Year Savings Thresholds and Caps

First-Year Energy Savings (% of Retail Sales)	% of Non-EFS Net Benefits Awarded
1.50% (threshold)	1.00%[11]
1.60%	1.50%
1.70%	2.00%
1.80%	2.50%
1.90%	3.00%
2.00%	3.50%
2.10%	4.00%
2.20%	4.50%
2.30% (goal)	5.00% (cap)

The revised cap applies to both first-year savings and demand savings, so the demand savings metric would also be eligible to earn up to five percent of net benefits. As described in the "Permanently Avoided Demand Metric" section of these Reply Comments, the demand savings achievement corresponding with 5 percent of net benefits is 4.7 percent of average retail sales.

To summarize, the Joint Commenters propose the following revised Net Benefits Caps for the electric incentive:

- A 6.5 percent overall Net Benefits Cap;
- A 5 percent combined cap for the first-year savings and demand savings metrics
- A 1.5% metric-specific cap for the low-income spending metric

Low-Income Spending Metric

All three electric utilities support the addition of a low-income spending metric to the electric incentive mechanism, but with different caveats summarized as follows.

- Xcel Energy endorsed inclusion of the metric but proposed refinements, including requiring utilities to meet both the first-year savings and low-income spending

[11] The Joint Commenters adjusted the minimum percent of net benefits associated with first-year savings from 0.98 percent to 1.00 percent to simplify the scale and calculation.

thresholds to qualify for any incentive in a given year, while also opposing caps on the share of net benefits that could be earned from individual components such as low-income programming.

- Minnesota Power likewise supported the addition of a low-income metric, noting it aligns with state policy goals around equity, but cautioned that significantly higher levels of low-income spending may be difficult to achieve given resource constraints and uncertainty around new federal and state programs. Minnesota Power suggests increasing the slope of the metric so that the achievement goal of 1 percent of average Gross Operating Revenue (GOR) earns a utility 1.80 percent of net benefits rather than 1.50 percent of net benefits.[12]
- Otter Tail Power also supported the new metric but objected to the award scale in the Joint Proposal, arguing that the minimum award of 0.33 percent of net benefits for meeting the 0.6 percent residential GOR requirement is too low. To maintain parity with the current mechanism, Otter Tail recommended starting the award at 0.5 percent of net benefits so utilities meeting both the first-year savings goal and the low-income spending requirement could still earn 5.5 percent of net benefits.

As summarized earlier, the Joint Commenters believe a dedicated cap for low-income spending is essential to ensure it remains a priority — therefore, we recommend preserving a specific net benefits allocation for this metric.

Of the two proposed alterations to the award scale for the low-income metric, the Joint Commenters support Otter Tail's proposal as it puts greater weight on low-income spending. Increasing the percentage of net benefits associated with the achievement threshold also creates better parity with the current incentive mechanism, without increasing the overall percentage of net benefits available through this metric.

Other Recommendations from Electric Utilities

There were several recommendations made by electric utilities not addressed in the previous sections.

- **Lowering the First-Year Savings Achievement Threshold and Corresponding Net Benefits:** Xcel proposed lowering the first-year savings threshold from 1.5 percent to 1 percent and the corresponding minimum percentage of net benefits from 1.0 percent to 0.5 percent, which would allow the incentive for this metric to grow more slowly.[13] The Joint Commenters based the proposed achievement threshold on the current 2024-2026 incentive mechanism and do not wish to further decrease the achievement

[12] Minnesota Power's Initial Comments, Page 23.
[13] Xcel Energy's Initial Comments, Page 18.

threshold below the first-year savings level of 1.75 percent required of electric utilities in statute.[14]

- **Removal of Circularity in the Incentive Calculation:** Minnesota Power proposed the removal of the circularity in the incentive calculation, which includes the incentive as a cost in the total net benefits, then uses the reduced net benefits to recalculate the incentive amount.[15] Minnesota Power argues that the utilities should be rewarded for the full net benefits generated by their portfolios and that the circularity unnecessarily complicates the calculation of the incentive, especially with the addition of the EFS RIM ratio to the EFS incentive formula. The Joint Commenters appreciate this comment but continue to support treating the utility performance incentive as a cost in relevant cost-effectiveness tests and following the approved methodologies from the Department's upcoming Decision approving the 2027–2029 ECO cost-effectiveness methodologies, which is expected to be issued by the Department in Q1 2026. The Joint Commenters recommend that any potential refinement to the methodology for how to include the utility performance incentive as a cost in ECO's cost-effectiveness tests be discussed as part of the ongoing ECO Cost-Effectiveness Advisory Committee process, which is examining the cost-effectiveness assumptions that will be used for the 2027-2029 ECO Triennial period.
- **Minor Language Change:** Otter Tail requests a minor language change from "energy savings" to "net benefits" to improve the accuracy of one of the parameters carried over from the 2024–2026 incentive mechanism.[16] The Joint Commenters support this change and have reflected it in our revised parameters in the Conclusion section, under bullet 2(l).
- **Revisions to Attachment A:** The Joint Commenters thank the utilities for correcting several errors in the Attachment A spreadsheet. These suggested corrections were incorporated in the Revised Attachment A spreadsheet filed alongside these Reply Comments.

V. FUTURE CONSIDERATIONS

The Joint Commenters recognize that the proposed 2027–2029 DSM Incentive Mechanism is the first iteration of a multi-factor mechanism in Minnesota. In designing the mechanism, we attempted to balance the need for additional metrics with the need to avoid undue complexity that would hinder utilities' planning processes and create a difficult or confusing transition from

[14] Minn. Stat. § 216B.241, subd. 1c.
[15] Minnesota Power's Initial Comments, Page 20.
[16] Otter Tail Power. *Initial Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation.* Docket No. E,G999/CI-08-133. Filed August 13, 2025. Page 6.

the current incentive mechanism. Looking ahead to the 2030–2032 Triennial, we acknowledge there are certain aspects of the mechanism that could be improved given more time to analyze trends in ECO performance, gather data sources, and convene stakeholders. Assuming the 2027–2029 mechanism is approved, there will also be opportunity to track how the multi-factor mechanism influences utility behavior to help inform revisions for the 2030–2032 Triennial.

The Joint Commenters noted the following topics that would benefit from continued exploration and analysis to inform updates to the incentive for the 2030–2032 Triennial.

- *Low-Income Metric:* Several stakeholders noted the importance of incentivizing programming for renters and the segments of the population with the lowest incomes or the highest energy burdens. The Joint Commenters support continued exploration of revisions to the low-income spending metric or alternatives that would place additional emphasis on these populations, while also accounting for differences in utility service territories.
- *Electric Demand Savings Metric:* The proposed electric demand savings metric serves as a first step toward better incentivizing measures that bring capacity benefits to the electric system. However, the Joint Commenters recognize the potential limitations of this metric as proposed, such as its focus on summer peak impacts as modeled in the IRP process and the exclusion of behavioral demand response and other load management programs, which also provide valuable system benefits. Further analysis is needed to develop a more refined metric for the 2030–2032 Triennial. Stakeholders should explore alternative methods for setting utility-specific peak reduction goals that account for the seasonal value of demand reduction and include measures beyond those requiring new equipment.

VI. CONCLUSION

The Joint Commenters thank parties for providing feedback and recommendations regarding the Proposed Share Savings DSM Incentive for the 2027–2029 ECO Triennial. If approved, the modified proposal laid out in these Reply Comments would better incentive gas utilities to prioritize low-income spending and insulation and air sealing measures, and electric utilities to prioritize low-income spending, permanent demand savings, and efficient fuel-switching, all while maintaining the existing emphasis on first-year savings and cost-effectiveness. Although utilities have already made great progress in these areas, revising the incentive mechanism to include specific achievement goals will ensure utilities continue to prioritize these goals and pursue innovative pathways to achieve them.

Table 6 provides a summary of the modified incentive proposal, incorporating the changes outlined in these Reply Comments.

Table 6: Overview of Gas Incentive Mechanism

First-Year Energy Savings (% of Retail Sales)		% of Total Net Benefits Awarded
0.70% (threshold)[17]		1.14%
0.80%		1.51%
0.90%		1.88%
1.00%		2.26%
1.10%		2.63%
1.20% (goal)[18]		3.00% (cap)
Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)		
MERC	CenterPoint Energy & Xcel Energy	% of Total Net Benefits Awarded
0.06% (threshold)	0.11% (threshold)	0.38%
0.08%	0.15%	0.50%
0.11%	0.19%	0.63%
0.13%	0.24%	0.75%
0.16%	0.28%	0.88%
0.18% (goal)	0.32% (goal)	1.00% (cap)
Low-Income Spend (% of Residential GOR)		% of Total Net Benefits Awarded
1.0% (threshold)		0.38%
1.2%		0.50%
1.4%		0.63%
1.6%		0.75%
1.8%		0.88%
2.0% (goal)		1.00% (cap)

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

[18] 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 7: Overview of Electric Incentive Mechanism

First-Year Energy Savings (% of Retail Sales)		% of Non-EFS Net Benefits Awarded
1.50% (threshold)		1.00%[19]
1.60%		1.50%
1.70%		2.00%
1.80%		2.50%
1.90%		3.00%
2.00%		3.50%
2.10%		4.00%
2.20%		4.50%
2.30% (goal)		5.00% (cap)
Permanently Avoided Demand Response		% of Non-EFS Net Benefits Awarded
Percent of Sales	Demand Ratio	
1.50%	Utility Specific; dependent on IRP	1.00%
4.70%	Utility Specific; dependent on IRP	5.00% (cap)
Low-Income Spend (% of Residential GOR)		% of Non-EFS Net Benefits Awarded
0.60% (threshold)		0.50%
0.70%		0.75%
0.80%		1.00%
0.90%		1.25%
1.00% (goal)		1.50% (cap)
Efficient Fuel Switching Incentive		
= 5% × EFS RIM Ratio × EFS Net Benefits		

While designing the proposal and reviewing proposed modifications in the Initial Comments, the Joint Commenters aimed to balance the various metrics and ensure utilities are motivated to push beyond minimum achievement thresholds for each. We believe the structure outlined here is the best approach for incorporating additional metrics into the incentive mechanism for the 2027–2029 Triennial, and that these metrics best reflect the current policy goals for ECO programming.

[19] The Joint Commenters adjusted the minimum percent of net benefits associated with first-year savings from 0.98 percent to 1.00 percent to simplify the scale and calculation.

Proposed Decision Options

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

1. Approve a 2027–2029 Shared Savings DSM Financial Incentive Mechanism with the following provisions.
    A. **For all utilities**:
        a. Net benefits are calculated using the Minnesota Test according to the approved 2027–2029 ECO Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities, which is expected to be issued by the Department in Q1 2026.
    B. For natural gas utilities:
        a. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels.
            i. First-year energy savings of 0.7 percent of weather-normalized average retail sales, at which the utility can collect 1.14 percent of portfolio net benefits.
            ii. Insulation and air sealing first-year energy savings equal to one-third of the utility's average 2027-2029 insulation and air sealing first-year energy savings program potential (calculated using the 2018 ECO Potential Study), at which the utility can collect 0.38 percent of portfolio net benefits.
            iii. Low-income spending of 1.0 percent of residential gross operating revenue (GOR), at which the utility can collect 0.38 percent of portfolio net benefits.
        b. Set metric-specific net benefits caps at:
            i. 3 percent of portfolio net benefits for first-year energy savings, awarded for an achievement of 1.2 percent of weather-normalized average retail sales or higher.
            ii. 1 percent of portfolio net benefits for insulation and air sealing first-year energy savings, awarded for an achievement equal to the utility's insulation and air sealing first-year energy savings program potential (calculated using the 2018 ECO Potential Study).
            iii. 1 percent of portfolio net benefits for low-income spending, awarded for an achievement of 2 percent of average residential Gross Operating Revenue or higher.

c. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and net benefits cap.
d. Set a total Net Benefits Cap equal to 5 percent of portfolio net benefits. The total Net Benefits Cap corresponds with maximum achievement in all three metrics.
e. Set an Expenditures Cap of 20 percent of total portfolio expenditures, which increases to 25 percent if the utility achieves first-year energy savings of 1.2 percent of weather-normalized average retail sales or higher.

C. For electric utilities:

a. Allow utilities to begin collecting an incentive for each metric when they reach the following performance levels:
    i. First-year energy savings of 1.5 percent of weather-normalized average retail sales, at which the utility can collect 1 percent of portfolio net benefits.
    ii. Demand savings equal to the utility's 1.5 percent demand goal (calculated using the utility's most recently approved Integrated Resource Plan), at which the utility can collect 1.0 percent of portfolio net benefits.
    iii. Low-income spending of 0.6 percent of residential gross operating revenue (GOR), at which the utility can collect 0.5 percent of portfolio net benefits.
b. Set metric-specific net benefits caps at:
    i. A combined cap of 5 percent of non-EFS net benefits for first-year savings and permanently avoided demand, awarded when the utility achieves one of the following:
        1. First-year savings equal to 2.3 percent of weather-normalized average retail sales or higher.
        2. Reaching or exceeding the utility's 4.7 percent demand goal (calculated using the utility's most recently approved Integrated Resource Plan).
        3. Achievements in both first-year savings and demand savings that, together, result in 5 percent of awarded net benefits, calculated using linear interpolation.
    ii. 1.5 percent of portfolio net benefits for low-income spending, awarded for an achievement of 1 percent of average residential Gross Operating Revenue or higher.

c. Use linear interpolation to award the appropriate percentage of net benefits for performance levels between the achievement threshold and cap.
d. Set a total Net Benefits Cap for non-EFS programs equal to 6.5 percent of non-EFS portfolio net benefits.
e. Set a non-EFS Expenditures cap of 20 percent of non-EFS expenditures, which increases to 25 percent if the utility achieves first-year energy savings of 2.3 percent of weather-normalized average retail sales or higher.
f. For an electric efficient fuel switching:
    i. For an electric utility to begin earning an EFS incentive, it must first achieve the following thresholds:
        1. First-year energy savings equal to 1.75 percent of average retail sales and;
        2. Low-income spending equal to 0.6 percent of the average residential gross operating revenue.
    ii. Set the base percentage of net benefits awarded at 5 percent.
    iii. Set the final percentage of net benefits at the lesser of:
        1. The base percentage of net benefits multiplied by the RIM ratio achieved by the utility's EFS activity
        2. 10 percent
    iv. Apply the final percentage of net benefits to the total Minnesota Test net benefits from the utility's EFS activity to determine the EFS incentive amount.
    v. Set an EFS Expenditures Cap of 20 percent of EFS expenditures, which increases to 25 percent if the utility achieves an EFS RIM ratio greater than or equal to 2.0.

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

A. Both electric and gas utilities that have achieved energy savings at or above 1 percent of retail sales, excluding savings achieved through load management programs, are allowed to count the increased net benefits and energy savings derived from their load management programs that occurred on or after the approval of the Energy Conversation and Optimization Act (May 25, 2021) toward calculating their financial incentive.
B. For the treatment of load management programs that do not result in energy savings,
    a. Calculate net benefits using the Minnesota test and include the net benefits in the total net benefits used to calculate the financial incentive.

b. Exclude all kW saved from load management programs that existed before May 25, 2021, from the benefits calculation.

C. Gas utilities are allowed to count their expenditures on EFS in calculation of their Expenditures Cap and electric utilities are allowed to count their expenditures on EFS in their EFS Expenditures Cap.

D. CIP-exempt customers shall not be allocated costs for the Shared Savings Incentive Mechanism. Sales to ECO-exempt customers shall not be included in the calculation of utility energy savings goals.

E. If a utility elects not to include a third-party ECO project, the utility cannot change its election until the beginning of subsequent years.

F. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.0 percent savings goal for gas utilities and 1.75 percent savings goal for electric utilities.

G. The energy savings, costs, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

H. The costs of any mandated, non-third-party projects (e.g., 2007 Next Generation Energy Act assessments and University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

I. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in net benefits for DSM financial incentive purposes.

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

AFFIDAVIT OF SERVICE

DOCKET NUMBER E,G999/CI-08-133

I, Ashly McFarlane, hereby certify that on this 15th day of September 2025, I served *Joint Reply Comments in the Matter of a Commission Review of Utility Performance Incentives for Energy Conservation* in Docket Number E,G999/CI-08-133 on the following persons on the attached Service Lists by:

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

_X_ electronic filing

/s/ Ashly McFarlane
Ashly McFarlane

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