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August 13, 2025

Mike Bull
Interim Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

VIA ELECTRONIC FILING

Re: Minnesota Energy Resources Corporation Comments on the Proposal for Modifications to the Shared Savings DSM Financial Incentive Mechanism for Implementation Beginning in 2027
Docket No. G999/CI-08-133

Dear Mr. Bull:

On July 16, 2025, the Minnesota Public Utilities Commission (the "Commission") issued a Notice of Comment Period ("Notice") requesting comments on whether the Commission should approve the proposed modifications to the existing Shared Savings Demand-Side Management ("DSM") Financial Incentive Mechanism (the "Incentive Mechanism") for implementation beginning in 2027, as found in the June 26, 2025, joint proposal from the Minnesota Department of Commerce, Division of Energy Resources (the "Department"), Center for Energy and Environment ("CEE"), and Fresh Energy ("Proposal"). The Commission's Notice requested comments on the following topics:

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 Energy Conservation and Optimization ("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?

Minnesota Energy Resources Corporation ("MERC" or the "Company") appreciates the opportunity to provide comments on this important matter. The Incentive Mechanism is a critical component of MERC's ECO planning and implementation decisions, guiding the Company's efforts to maximize cost-effective energy savings, while also prioritizing other policy objectives and ensuring access to ECO across all the communities we serve.

Ultimately, the Proposal seeks to establish three metrics under which natural gas utilities would receive an incentive, including a metric based on first-year energy savings as well as two new metrics—one for insulation and air sealing and one for low-income spending. Additionally, the Proposal would increase the overall Net Benefits Cap from four percent to five percent of gas utility portfolio net benefits, assuming a gas utility maximized achievement of all three of the proposed metrics. Thus, a natural gas utility could theoretically earn a higher incentive under the Proposal. However, the analysis provided by the Department and CEE estimates that MERC would be awarded $919,895 under the Proposal for 2024 achievements,[1] less than MERC's 2024 Financial Incentive award of $998,125.[2] While this reduction is fairly modest, in a broader context, MERC's DSM incentive declined by an additional 33 percent between 2023 and 2024, driven largely by modifications to the DSM Incentive Mechanism approved for the 2024-2026 ECO Triennial.[3] The further reduction under the Proposal is primarily driven by the fact that the threshold for Metric 2: Insulation and Air Sealing First-Year Savings is not realistically achievable. As detailed in these Comments, Metric 2 as proposed is not designed to effectively incentivize increased investment in retrofit air sealing and insulation measures because the threshold is set too high to be reasonably and cost effectively achievable for MERC. MERC therefore recommends modifications to this metric.

1. **Should the Commission approve the proposed multi-factor Shared Saving DSM Financial Incentive Mechanism?**

MERC understands and appreciates the desire for a multi-factor financial incentive mechanism, which accounts for multiple ECO policy objectives for natural gas and electric utilities, including first-year energy savings, low-income spending, and long-lifetime insulation and air sealing that facilitate the installation of Efficient Fuel Switching ("EFS") measures. While a multi-factor incentive mechanism may account for multiple goals, its success requires careful planning, transparency, and fair and equitable design across natural gas and electric utilities to support program goals and the Proposal's intended policy objectives. MERC supports approval of the proposed multi-factor Shared Savings DSM Financial Incentive Mechanism as proposed by the Department, CEE, and Fresh Energy, with modifications, as described below. Specifically, modifications to Metric 2: Insulation and Air Sealing First-Year Savings are needed to ensure that metric functions as an effective driver of continued and increased utility investment in air sealing and insulation measures, which are essential for the cost-effective and scalable deployment of EFS measures. MERC supports Metric 1: First Year Energy Savings Achievement as a % of Average Retail Sales and Metric 3: Low Income Spend, as proposed.

The minimum threshold for the proposed Metric 2: Insulation and Air Sealing First-Year Savings is proposed at one-third of the achievement goal, which is 0.30 percent of weather-normalized average residential retail sales. To meet the 0.10 percent threshold, MERC's ECO programs would require over a 60 percent increase in insulation and air-sealing savings compared to 2024 achievement levels. MERC would need to increase spending at least proportionately—and likely significantly greater—to achieve this incremental increase in savings. A significant increase in budget allocation would be required to effectively motivate more customers to undertake retrofit

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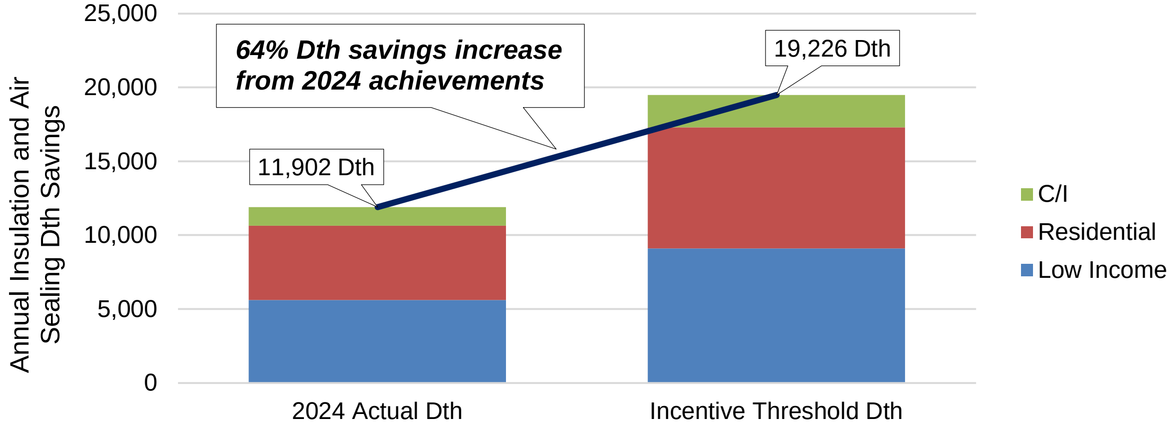
[1] *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation,* Docket Number E,G-999/CI-08-133, Department, CEE, and Fresh Energy Financial Incentive Mechanism Proposal at 28 (June 26, 2025).

[2] *Id.; see also In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of the 2024 Energy Conservation and Optimization Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor*, Docket No. G011/M-25-46, MERC Petition (May 1, 2025).

[3] *In the Matter of Petition of Minnesota Energy Resources Corporation for Approval of the 2023 Conservation Improvement Program Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor*, Docket No. G011/M-24-46, Order (Nov. 8, 2024).

insulation and air sealing measures, as well as to broaden the network of qualified contractors capable of providing these installation services. Figure 1 below demonstrates the proportionate increase in insulation and air-sealing savings across MERC's programs required to meet the minimum 0.10 percent savings threshold for the proposed Metric 2.

Figure 1. Metric 2 Threshold Sensitivity Analysis



Pursuant to Minn. Stat. § 216B.16, subd. 6c, the Commission must assess whether proposed changes to the Incentive Mechanism are likely to increase utility investment in cost-effective energy conservation or efficient fuel switching.

As currently proposed, Metric 2 sets a threshold that is too high to be reasonably achievable, even if MERC were to significantly increase its investment in air sealing and insulation measures. The level of utility spending required to meet even the minimum threshold is substantial. For example, MERC would need to incur a minimum of $1.1 million in additional costs from 2024 achievement levels, assuming a proportionate increase across all eligible measure participation. This minimum additional cost does not include any increase in participant rebate levels or implementation and marketing costs that will need to be incurred to drive increased participation in insulation and air sealing measures. This also does not include any incremental trade ally training and recruitment efforts. The incentive earned would not justify these additional significant investments. As a result, the metric as proposed is unlikely to drive increased utility activity in this area.

As noted in the Proposal, insulation and air sealing are enduring energy-saving measures and are foundational to the success of efficient fuel switching strategies. However, "[d]ue to their high upfront costs, insulation and air sealing measures are often harder to implement."[4] In order to effectively encourage increased investment in these measures, the threshold for Metric 2 should be revised to better reflect achievable performance.

[4] Department, CEE, and Fresh Energy Financial Incentive Mechanism Proposal at 13 (June 26, 2025).

Further, while the Proposal indicates that the achievement goal was calculated using total insulation and air-sealing program potential from the 2018 Minnesota Potential Study,[5] representing an average of Xcel Energy, CenterPoint, and MERC's 2027-2029 program potential for these measures, many key drivers around this metric have changed since the 2018 Minnesota Potential Study. For example, changing economic realities and the availability of contractors to deliver these services to customers have changed. Table 1 below demonstrates the difference between MERC's total projected program savings potential from the 2018 study and MERC's actual savings as filed and approved in MERC's 2022, 2023, and 2024 Status Reports.

Table 1. 2018 Minnesota Potential Study vs. MERC Status Report Achievements, 2022-2024

Program Year	2022	2023	2024	Total
MERC Projected Achievements	437,000	494,000	542,000	1,473,000
MERC Actual Achievements	410,281	397,439	395,470	1,203,191
Dth Difference	-26,719	-96,561	-146,530	-269,809
Percent Difference	6.3%	21.7%	31.3%	20.2%

Overall, MERC's actual achievements were approximately 20 percent lower than 2018 potential study projected program savings from 2022 through 2024. MERC recommends the Commission modify the achievement threshold and goals of Metric 2: Insulation and Air Sealing proportionate to the difference in the 2018 study savings potential and MERC's actual performance as reflected in Table 2 below, to ensure the threshold is reasonably achievable while incentivizing increased investment in these important measures. MERC further recommends that savings from EFS be included in Metric 2, as the inclusion of such savings is consistent with the goal of Minn. Stat. § 216B.16, subd. 6c to increase utility investment in cost-effective EFS.

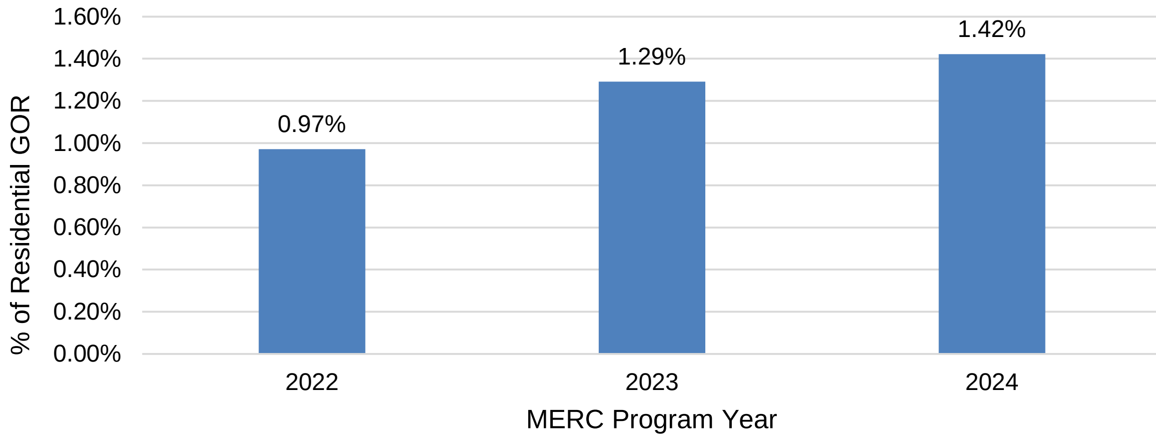
Table 2. MERC Proposed Modified Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)

Department/CEE Proposal Percentage	MERC Proposed Modified Percentage
0.10%	0.08%
0.14%	0.11%
0.18%	0.14%
0.22%	0.18%
0.26%	0.21%
0.30%	0.24%

[5] *See* Department, CEE, and Fresh Energy Financial Incentive Mechanism Proposal at 14 (June 26, 2025) (citing Natural Gas Potential Model Results from the 2018 ECO Potential Study. https://public.tableau.com/app/profile/center.for.energy.and.environment/viz/NaturalGasPotentialModelResults/GasStory).

Regarding Metric 3: Low-Income Spend, MERC has continued to expand and evolve its low-income programs since the passage of ECO, as illustrated in Figure 2 below, which demonstrates the increase of MERC's low-income spending since 2022.[6] MERC will continue to prioritize serving low-income customers in the 2027-2029 Triennial Plan and supports the inclusion of low-income spending in the DSM incentive mechanism to encourage increased investment in low-income programs, consistent with ECO.

Figure 2. MERC Low Income Spending (% of Residential GOR), 2022-2024



2. **Should modifications to the financial incentive take effect for utilities' 2027-2029 Energy Conservation and Optimization (ECO) Triennial Plans?**

MERC generally supports implementing modifications of the DSM Incentive Mechanism effective with the next ECO triennial which will cover the period 2027-2029. As noted in the Proposal, utility triennial plans are currently being developed and need to be filed by June 1, 2026. Having clarity regarding the structure of the Incentive Mechanism is important to MERC's ECO planning and implementation decisions. As a result, MERC supports the request that the Commission make a decision on the Incentive Mechanism by December 31, 2025, noting that even that timing limits MERC's ability to incorporate the final Incentive Mechanism into its triennial planning.

However, to ensure that the proposed modifications to the Incentive Mechanism are achieving the goals of ECO and the criteria set forth in Minn. Stat. § 216B.16, subd. 6c, MERC recommends modifications to Metric 2 as described above. While an incrementally higher incentive threshold may be appropriate for future Incentive Mechanisms, for the 2027-2029 Incentive Mechanism, the proposed threshold is too high to effectively incentivize program changes.

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[6] MERC 2022, 2023, and 2024 Status Reports, Docket Nos. G011/CIP-20-479 and G011/CIP-23-98.

3. Are the proposed modifications consistent with the public interest and state policy goals for energy equity, conservation, and greenhouse gas reduction?

MERC acknowledges that the proposed Financial Incentive metrics related to low-income spending and weatherization highlight important state policy goals for energy equity, conservation, and greenhouse gas reductions. Furthermore, robust insulation and air-sealing measures are often needed to ensure proper sizing of HVAC systems, before measures such as air-source heat pumps are installed. To further align with ECO's policy goals around EFS, MERC suggests that Metric 2 be expanded to include EFS measures, given the Proposal's emphasis on EFS for electric utilities. 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. Electric utilities have an inherent incentive over natural gas companies to offer EFS programs. To incentivize natural gas utility support of EFS programs, MERC recommends that savings from EFS measures, like air-source heat pumps, also be counted towards Metric 2.

Related to MERC's comments on Topic 1 above, MERC emphasizes that the metrics should be carefully designed according to their intention, which is to incentivize utilities to achieve key ECO policy goals. It is critical that achievement thresholds and goals are appropriate and realistically achievable, to avoid disincentivizing prioritization of any metric.

4. Are there other issues or concerns related to this matter?

MERC has a unique service territory distinguishing it from other utilities in the state of Minnesota. MERC serves approximately 254,000 natural gas customers across 179 communities spanning urban, suburban, and rural regions throughout the state. While many utilities primarily serve densely populated urban centers, MERC's commitment to reaching outlying communities underscores its dedication to ensuring that customers across various demographics can access energy efficiency programs. This diversity in MERC's customer base presents unique implementation challenges, as MERC must address the needs of both very small towns and larger cities. Serving such a vast geographic area also increases the cost of delivering energy efficiency programs, as MERC, its contractors, and its partners need to travel significant distances to serve customers. For example, based on total spending and savings provided in 2024 Status Reports, MERC's cost to deliver programs averages $33.3/Dth whereas Xcel's average cost is $21.1/Dth.

Alternatively, the current and proposed Incentive Mechanisms apply a one-size-fits-all framework that does not account for differences between Minnesota investor-owned utilities impacting their ability to achieve energy efficiency savings goals and other policy objectives.

Specifically, the proposed threshold and achievement goal for Metric 2 were developed based on a total average of savings potential across all natural gas utilities from the 2018 Statewide Potential Study, which assumes these measures are equally achievable (and achievable at the same or similar cost) across each natural gas utility. In reality, 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 and CenterPoint, 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.

In conclusion, MERC requests that the Commission take the following action regarding the proposed multi-factor Shared Savings DSM Financial Incentive Mechanism:

1. Approve *Metric 1: First Year Energy Savings Achievement as a % of Average Retail Sales* as recommended in the Proposal.

2. Modify *Metric 2: Insulation and Air Sealing First-Year Savings (Dth)* as follows:

    a. Include EFS measure savings to more closely align with ECO's policy goals for energy equity, conservation, and greenhouse gas reduction, and to encourage coordination between electric and natural gas utilities to jointly deliver EFS programs in the 2027-2029 Triennial.

    b. Modify the achievement threshold and goals for Metric 2 follows, to ensure this metric is reasonably achievable while incentivizing utilities to expand investment in these measures.

Insulation and Air Sealing First-Year Energy Savings (% of Residential Sales)	**% of Total Net Benefits Awarded**
0.08%	0.38%
0.11%	0.50%
0.14%	0.63%
0.18%	0.75%
0.21%	0.88%
0.24%	1.00% (cap)

3. Approve *Metric 3: Low-Income Spend ($)* as set forth in the Proposal.

Please contact me at (651) 322-8917 or jennifer.kimmen@wecenergygroup.com if you have any questions regarding these Comments.

Sincerely,

Jennifer Kimmen
Senior Customer Program Manager
WEC Business Services, Inc.

cc: Service List

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

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 13th day of August, 2025, on behalf of Minnesota Energy Resources Corporation (MERC), I electronically filed a true and correct copy of the enclosed Comments on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service lists.

Dated this 13th day of August, 2025.

/s/ Kristin M. Stastny

Kristin M. Stastny

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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

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