COMMERCE DEPARTMENT

August 1, 2024

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-24-46

Dear Mr. Seuffert:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

> Minnesota Energy Resources Corporation's (MERC or the Company) request (*Petition*) for Approval of the 2023 Conservation Improvement Program/Energy Conservation and Optimization Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor

The *Petition* was filed on May 1, 2024, by:

> Joylyn C. Hoffman Malueg
> Project Specialist 3
> Minnesota Energy Resources Corporation
> 2685 145th Street West
> Rosemount, MN 55068

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve MERC'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

Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G011/M-24-46

I. SUMMARY OF THE UTILITY'S PROPOSAL

On May 1, 2024, Minnesota Energy Resources Corporation (MERC or the Company) submitted to the Minnesota Public Utilities Commission (Commission) a filing entitled *In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of the 2023 Conservation Improvement Tracker Account, Demand-Side Management Financial Incentive, and Conservation Cost Recovery Adjustment Factor*. In its Petition, MERC requested that the Commission approve:

- A financial incentive of $1,494,587 for 2023 CIP activities;
- A 2023 CIP tracker with a year-end balance of ($3,070,173.82); and
- A proposed Conservation Cost Recovery Adjustment (CCRA) factor of $0.01221 per therm, with an effective date of January 1, 2025.

II. COMMISSION'S 2023 ORDER

On September 5, 2023, the Commission issued its Order approving MERC's 2022 CIP filings,[1] with the following determinations:

1. Approved MERC's 2022 Conservation Improvement Program ("CIP") Tracker Account petition.
2. Approved a 2022 DSM financial incentive of $1,246,952 to be included in the Company' tracker account no sooner than the issue date of the Commission's Order in the instant docket.
3. Approved MERC's 2022 CIP tracker account activities with a December 31, 2022, ending over-recovery balance of ($3,312,712.70).
4. Approved the revised gas CCRA of $0.00155 per therm for all of MERC's Minnesota customer classes, effective January 1, 2024, or the first billing cycle in the month following the Commission's Order, whichever was later.
5. Approved MERC's customer notification message that reads as follows: Effective January 1, 2024, the CCRA (conservation cost recovery adjustment) has been revised to $0.00155 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

[1] *See* Commission's September 5, 2023, Order in Docket No. G011/M-23-183.

6. Required MERC to submit a compliance filing with tariff sheets including all necessary calculations within 10 days of the issue date of this Order.

On September 11, 2023, MERC submitted its compliance tariff sheets in response to Order Point 6.

III. DEPARTMENT ANALYSIS

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

- In Section III.A, a review of Minnesota's updated conservation statutes;
- In Section III.B, MERC's proposed 2023 shared savings DSM financial incentive;
- In Section III.C, MERC's proposed reconciliation for its 2023 CIP tracker account;
- In Section III.D, MERC's proposed change to its currently approved CCRA;
- In Section III.E, MERC's historical CIP achievements and incentives, 20011-2023.

A. MINNESOTA'S UPDATED CONSERVATION STATUTES

In 2021, the Minnesota Legislature passed the Energy Conservation and Optimization (ECO) Act. This act updated Minnesota's existing "CIP" statutes, which have since become known as the "ECO" statutes. Subsequently, the state's Conservation Improvement Program (CIP) was re-branded as the state's Energy Conservation and Optimization (ECO) program. As a result, MERC's triennial filing governing the 2021-2023 years was considered a "CIP" Triennial Filing (Docket No. G011/CIP-20-479) and MERC's most recent triennial filing covering years 2024-2026 was considered its first "ECO" triennial filing (Docket No. G011/CIP-23-98). The Department expects future MERC reports will also incorporate the "ECO" language change.

The ECO Statutes impacting Investor-Owned Utilities are as follows:

- Minnesota Statutes § 216B.2401 (Energy Savings and Optimization Policy Goal);
- Minnesota Statutes § 216B.2402 (Definitions);
- Minnesota Statutes § 216B.241 (Public Utilities; Energy Conservation and Optimization);
- Minnesota Statutes § 216B.2411 (Distributed Energy Resources); and
- Minnesota Statutes § 216B.2412 (Decoupling of Energy Sales from Revenues).

The Department has reviewed the ECO Statutes for any changes that potentially impact the Commission. As under the former CIP Statutes, the ECO Statutes grant jurisdiction to the Department for most of the state's conservation activities. However, the Commission continues to have jurisdiction over two specific conservation items relevant to these Comments: the financial incentive and the recovery of ECO (formerly CIP) costs. The Department found no substantive changes to those sections concerning the Commission's authority that would impact this proceeding. However, the Department's review of the Company's Shared Savings Financial Incentive will be impacted in next year's filing, as that future review will incorporate the Commission's January 25, 2024 *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan* from Docket No. E,G999/CI-08-133 (In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation).

Therefore, the Department has determined that its current review of MERC's *Petition* can proceed as it has in past years.

B. MERC'S PROPOSED FINANCIAL INCENTIVE FOR 2023 ECO ACHIEVEMENTS

1. Background and Summary of MERC's Proposed DSM Incentive

The Shared Savings Demand Side Management Financial Incentive Plan was initially approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. On August 5, 2016, in the same docket, the Commission adopted an Order modifying the Demand Side Management Financial Incentive Plan for the years 2017-2019. In an Order issued November 15, 2021 in Docket No. 017/M-21-228, the Commission extended the modification through 2020. On December 9, 2020, the Commission approved the parameters for the Shared Savings financial incentive mechanism covering the 2021-2023 CIP triennial (December 9 Order). The Commission capped electric and gas incentives at 10 percent of net benefits and 30 percent of expenditures. The December 9 Order approved an expenditure cap of 35 percent if electric utilities meet or exceed energy savings of 2 percent and gas utilities of 1.2 percent of retail sales.

The instant filing covers CIP activities occurring in 2023, and so the 2023 financial incentive is subject to the following two caps: 10.0 percent of net benefits and up to 35 percent of expenditures.

2. The Department's Review of MERC's Proposed 2023 DSM Incentive

In the *Petition*, MERC provided the benefit and cost results associated with the Company's 2023 CIP performance. According to the Company, MERC achieved energy savings in 2023 of 397,439 dekatherms (Dth) resulting in an estimated $19,242,041 of net benefits before the requested incentive.[2] This savings is equal to 0.90% of the Company's three-year weather-normalized sales. Based on the terms and conditions of its approved DSM incentive plan, MERC requested approval of a 2023 financial incentive of $1,494,587.

MERC stated it excluded $171,487 of Next Generation Energy Act assessments from the calculation of net benefits, consistent with the Commission's December 9, 2020 *Order*.[3] In addition, MERC excluded costs and benefits associated with the Company's Low-Income Weatherization and 4U2 programs consistent with Minn. Statutes § 216B.241 as neither of these low-income programs pass the utility

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[2] *Petition*, Attachment B, Page 4
[3] *Petition*, Page 4

test.[4] These programs were previously excluded from the calculation of costs and benefits in Docket No's G011/M-21-307, and G011/M-22-209 and approved by the Commission.[5]

The Department's technical analysis of the demand and energy savings that underpin MERC's proposed Shared Savings 2023 Demand Side Management financial incentive is ongoing and will not be completed before the instant comments are due. The existence of this lag between the Company's request for recovery of the incentive and the completion of the Department's review is a recurring phenomenon. In 2023, the Department compensated for this lag by simply assuming MERC's claimed energy savings for 2022 were correct as filed, with the intent to make, in the instant filing, any adjustments approved by the Deputy Commissioner of the Department. However, the Deputy Commissioner approved MERC's 2023 Status Report, covering 2022 CIP activity, without any adjustments in Docket No. G011/CIP-20-479, and thus none are required in this docket.[6]

On June 24, 2024, Department staff recommended that the Deputy Commissioner accept MERC's 2023 Status Report. If any adjustments should be required in the Deputy Commissioner's final decision, the Department will account for those in comments on the Company's 2024 filing.

The Department's review indicates that the Company correctly calculated its DSM financial incentive for 2023 CIP achievements and did not exceed either of the caps. Therefore, the Department recommends that the Commission approve MERC's 2023 Shared Savings financial incentive of $1,494,587.

C. MERC'S PROPOSED 2023 CIP TRACKER ACCOUNT

In its *Petition*, MERC requested approval of its report on recoveries and expenditures included in the Company's CIP tracker account balance during 2023. Activity in MERC's CIP tracker account during 2023 can be found in Attachment A of the utility's *Petition* and is summarized below in Department Table 1.

Department Table 1: A Summary of MERC's 2023 CIP Tracker Account

Beginning Balance – January 1, 2023	($3,312,712.70)
Total CIP Expenses – January 1, 2023 – December 31, 2023[7]	$11,820,715.82
Carrying Charges – January 1, 2023 – December 31, 2023	($187,870.46)
DSM Financial Incentive	$1,246,952.00
CIP Recoveries – January 1, 2023 – December 31, 2023	($12,637,258.47)
Ending Balance – December 31, 2023	**($3,070,173.82)**

[4] *Petition*, Page 4 - 5
[5] See Commission's *Orders*, Docket No. G011/M-21-307, Commissions *Orders* G011/M-22-209
[6] Approved by the Department's Deputy Commissioner on August 7, 2023.
[7] The Tracker Account Total CIP Expenditures of $10,187,470.35 Includes Next Generation Assessments & Low-Income Weatherization and 4U2 Programs.

The Department reviewed Attachment A of the *Petition* and concludes that the Company correctly calculated its 2023 CIP Tracker account. Therefore, the Department recommends the Commission approve MERC's 2023 CIP tracker, resulting in a year-end balance of ($3,070,173.82).

The Department requests that in future years, the Company provide the CIP tracker (in this case, for year 2023) in an excel spreadsheet with all formula intact.

D. MERC'S PROPOSED CHANGE TO ITS CURRENTLY APPROVED CCRA

1. CCRA Calculation

Minnesota law states, in relevant part, the Commission "may permit a public utility to file rate schedules for annual recovery of the cost of energy conservation improvements."[8] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment or CCRA.

In MERC's *Petition*, the Company proposes to change the CCRA factor from the current $0.00155 per therm to $0.01221 per therm on January 1, 2025.[9] The current CCRA factor was approved by the Commission on September 5, 2023, and implemented on January 1, 2024.[10]

According to the Petition, MERC anticipates an under-recovery of $5,225,155 as of the end of December 2025.[11] The modification to the CCRA factor will allow the Company to recover the under-collected forecasted balance throughout 2025.

Table 2 below shows the Company's calculation of the proposed CCRA.

Table 2: Calculation of MERC's Proposed CCRA[12]

Description	Amount
Forecasted beginning balance (January 1, 2025)	($519,021)
Proposed expenditures (January 2025-December 2025)	$15,394,988
Proposed 2023 incentive (to be approved in 2024)	$1,494,587
Forecasted 2024 incentive (based on current approved 2023)	$1,216,044
Less forecasted CCRC recovery (January 2025-December 2025)	($12,366,379)
Projected carrying charges for 2025	($4,937)
Forecasted December 2025 balance	$5,225,155
Forecasted gas sales (January 2025-December 2025) in Therms	428,050,511
CCRA=$/therm beginning January 1, 2025	$0.01221

[8] See Minn. Stat. § 216B.16, subd.6b paragraph (c).
[9] *Petition*, Page 6
[10] https://efiling.web.commerce.state.mn.us/edockets/searchDocuments.do?method=showPoup&documentId={40E3F482-0000-CF13-95D2-6BA9732B5BEB}&documentTitle=20228-188715-01
[11] *Petition*, Page 7
[12] *Petition*, Attachment C

The Department reviewed the calculation of MERC's proposed CCRA rate of $0.01221 per therm for 2025 and concludes it is accurate. To provide additional information for the Commission, the Department requests MERC provide in its Reply Comments an estimate of the average residential customer bill impact, and a new forecasted December 2025 ending balance incorporating the new CCRA rate.

The Department recommends the Commission approve a CCRA rate of $0.01221 per therm for all of MERC's customer classes, effective January 1, 2025.

E. HISTORY OF MERC'S ECO (FORMERLY CIP) ACHIEVEMENTS AND FINANCIAL INCENTIVES 2011-2023

In Attachment A, the Department presents a historical comparison of MERC's CIP and DSM activities during the period of 2011 through 2023. This table provides an indication of how the Company's achieved energy savings, CIP expenditures, Shared Savings financial incentive, carrying charges, and year-end tracker balance changed over time. Select statistics from Attachment A are presented in Table 3:

Department Table 3: Savings, Expenditures, and Incentives for Select Years, 2011-2023

	Achieved Energy Savings (DTH)	CIP Expenditures	DSM Financial Incentive
2023	397,439	$11,820,716	$1,494,587
2022	410,281	$8,947,104	$1,246,952
2011	457,747	$7,870,823	$2,587,948
Average 2021-2023	400,181	$10,123,182	1,330,824
Average 2011-2013	472,390	$8,817,375	$2,603,403
Compare 2023 to 2022	-3.13%	32.12%	19.86%
Compare 2023 to 2011	-13.15%	50.18%	-42.25%
Compare 2023 to Avg 2021-2023	-0.69%	16.77%	12.31%
Compare Avg 2021-2023 to Avg 2011-2013	-15.29%	14.81%	-48.88%

Department Table 3 shows that in 2023:

- 2023 MERC's achieved energy savings were 3.13% lower than the Company's 2022 achieved energy savings;
- MERC's 2023 CIP expenditures increased by 32.12% and the DSM financial incentive increased by 19.86%;
- Comparing 2023 to a three-year 2021-2023 average; MERC's achieved energy savings decreased 0.69%, CIP expenditures increased 16.77% and the Company's Shared Savings DSM financial incentive increased 12.31%;

- Comparing 2023 to 2011 MERC decreased its achieved energy savings by 13.15%, expenditures have increased by 50.18% and the Shared Savings DSM financial incentive has decreased 42.25%.

III. RECOMMENDATIONS

The Department concludes MERC's filing is generally reasonable.

The Department recommends the Commission take the following action:

1. Approve a 2023 DSM financial incentive of $1,494,587 to be included in the Company' tracker account no sooner than the issue date of the Commission's Order in the instant docket;
2. Approve MERC's 2023 CIP tracker account activities as summarized in Table 1 above with a December 31, 2023, ending over-recovery balance of ($3,070,173.82);
3. Approve the revised gas CCRA of $0.01221 per therm for all of MERC's Minnesota customer classes, effective January 1, 2025, or the first billing cycle in the month following the Commission's Order, in this matter, whichever is later;
4. Approve MERC's customer notification message that reads as follows; and

   Effective January 1, 2025, the CCRA (conservation cost recovery adjustment) has been revised to $0.01221 per therm. The CCRA is an annual adjustment to true-up under-recovery or over-recovery of CIP (conservation improvement program) expenses.

5. Require MERC to submit a compliance filing with tariff sheets including all necessary calculations within 10 days of the issue date of this Order.

Attachment A, Table 1. MERC's Natural Gas Historical CIP Achievements, Incentives, and Tracker Balance 2007-2023

MERC's Historical CIP Achievements, DSM Financial Incentives, and Tracker Balance 2011 - 2022													
Line No.	1	2	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (Dth)	CIP Expenditures	DSM Financial Incentive	Incentive + CIP Expenditures	Net Benefits	Carrying Charges	Year-End Tracker Balance	Average Cost per first year Dth Saved	Average cost per Dth Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2011	457,747	$7,870,823	$2,587,948	$10,458,771	$34,530,422	$592,929	$10,086,519	$17.19	$22.85	32.88%	7.49%	7.53%	128.15%
2012	534,596	$9,951,018	$2,729,531	$12,680,549	$34,567,212	$496,537	$11,633,350	$18.61	$23.72	27.43%	7.90%	4.99%	116.91%
2013	424,827	$8,630,283	$2,492,730	$11,123,013	$17,668,017	$424,887	$14,781,047	$20.31	$26.18	28.88%	14.11%	4.92%	171.27%
2014	369,068	$7,360,832	$2,093,158	$9,453,990	$15,081,932	($154,344)	$115,423	$19.94	$25.62	28.44%	13.88%	-2.10%	1.57%
2015	493,382	$8,870,639	$3,392,001	$12,262,640	$26,416,176	($51,228)	$1,269,151	$17.98	$24.85	38.24%	12.84%	-0.58%	14.31%
2016	472,000	$9,198,728	$3,245,000	$12,443,728	$25,948,259	($45,726)	($158,238)	$19.49	$26.36	35.28%	12.51%	-0.50%	-1.72%
2017	402,989	$10,666,999	$1,694,489	$12,361,488	$16,561,396	($56,497)	($601,531)	$26.47	$30.67	15.89%	10.23%	-0.53%	-5.64%
2018	509,758	$11,777,435	$1,892,566	$13,670,001	$18,463,890	($221,377)	($4,540,350)	$23.10	$26.82	16.07%	10.25%	-1.88%	-38.55%
2019	468,544	$12,115,461	$1,771,381	$13,886,842	$23,113,258	($221,699)	($4,267,774)	$25.86	$29.64	14.62%	7.66%	-1.83%	-35.23%
2020	367,324	$9,072,339	$1,345,674	$10,418,013	$17,827,298	($143,149)	($971,704)	$24.70	$28.36	14.83%	7.55%	-1.58%	-10.71%
2021	392,822	$9,601,727	$1,250,934	$10,852,661	$16,269,824	($86,499)	($788,054)	$24.44	$27.63	13.03%	7.69%	-0.90%	-8.21%
2022	410,281	$8,947,104	$1,246,952	$10,194,056	$15,614,303	($140,603)	($3,312,713)	$21.81	$24.85	13.94%	7.99%	-1.57%	-37.0%
2023	397,439	$11,820,716	$1,494,587	$13,315,303	$19,242,041	($187,870)	($3,070,174)	$29.74	$33.50	12.64%	7.77%	-1.59%	-26.0%