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August 13, 2025

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

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

Dear Mr. Bull:

Otter Tail Power Company (Otter Tail Power) hereby submits to the Minnesota Public Utilities Commission (Commission) its Reply Comments in the above-referenced matter.

Otter Tail has electronically filed this document with the Commission and is serving a copy on all persons on the official service list for these dockets. A Certificate of Service is also enclosed.

If you have any questions regarding this filing, please contact me at 218-739-8639 or at jgrenier@otpc.com.

Sincerely,

/S/ Jason Grenier
Jason Grenier
Manager, Retail Energy Solutions

kde
Enclosures
By electronic filing
c: Service Lists

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of a Commission
Review of Utility Performance
Incentives for Energy Conservation**

Docket No. E,G999/CI-08-133

INITIAL COMMENTS

I. INTRODUCTION

On January 25, 2024, the Minnesota Public Utilities Commission (MPUC) approved the latest rendition of the Shared Savings DSM Financial Incentive Mechanism (financial performance incentive) for electric and gas investor-owned utilities (IOU) for the 2024-2026 triennium. On June 26, 2025, the Minnesota Department of Commerce, Division of Energy Resources, (Department), Center for Energy and Environment (CEE), and Fresh Energy filed a joint proposal for modifications to the existing financial performance incentive for 2027-2029. The joint proposal goes beyond goals set based upon first-year savings goals by adding a low-income spending element and an Efficient Fuel Switching (EFS) element. These changes modernize the financial performance incentive to better reflect the goals and standards set in the Minnesota Energy Conservation and Optimization Act of 2021 (ECO Act).

As the financial performance incentive continues to modernize over time, it is important to consider the changes and challenges electric utilities face when providing energy efficiency, load management, low-income, and EFS programs. Utilities are finding higher saturation of premium efficient technologies in customer premises making energy savings targets harder to achieve. Pursuing hard to reach energy savings is even more challenging with the constant internal business struggle of competing investments, obligations, and opportunities. Meanwhile utilities are experiencing a shift in avoided costs being driven by increasing capacity avoided costs and not energy costs. The Company is open to adding a demand component to the financial incentive to appropriately reflect this shift, but at this time is not proposing a demand incentive component. Otter Tail Power appreciates the multi-factor incentive model approach made in the joint proposal. The ECO Act has driven electric utilities to implement programs that stretch beyond energy savings, and it is appropriate for the financial performance incentive to follow suit.

Otter Tail Power considers the joint proposal as a step in the right direction, and in these comments makes recommended modifications to the joint proposal to allow for

the continuation of the opportunity for electric utilities serving Minnesota to earn and receive strong incentives based on strong performance.

II. OTTER TAIL RESPONSE

First-Year Savings Metric

The first-year savings metric, as proposed jointly by CEE, Fresh Energy, and the Department, is a revised version of the current 2024-2026 financial incentive metric. The level of net benefits awarded has been adjusted downward from a 5.5% maximum level down to 4.5% to account for the addition of the low-income metric. Together, these two metrics would represent the financial performance incentive elements for standard ECO Program offerings with a combined maximum cap of 6%. While Otter Tail Power appreciates the approach to allow for an increased amount of capped net benefits, the Company believes the starting point for the ECO financial performance incentive should not place the electric utilities at a disadvantage compared to previous years. An electric utility that achieved the maximum goal of 2.2% first-year savings would have received an award of 5.5% of net benefits. Otter Tail Power believes an electric utility under the new 2027-2029 proposal should also be eligible to receive 5.5% of net benefits when they hit the maximum achievement level of first year savings and meet the low-income spending requirement. Otter Tail Power proposes an additional achievement level for first-year savings. The new level would be 2.3% of sales with the award of 5.0% of net benefits. This addition would encourage electric utilities to strive for additional savings while also allowing for the achievement award closer to the level that is currently in place. The Company believes the modified first year savings metric, when combined with Otter Tail Power's proposed modifications to the low-income spend metric will produce a better bridge between the new financial performance incentive and the current 2024-2026 methodology.

As Proposed	
First -Year Savings Achievement	% of Net Benefits Awarded
1.50%	1.00%
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%

As Modified by Otter Tail Power	
First -Year Savings Achievement	% of Net Benefits Awarded
1.50%	1.00%
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%	5.00%

The joint proposal recommends, that for the first-year savings metric and all other metrics, if an achievement falls between milestones, then the awarded percentage of net benefits can be determined through linear interpolation. Otter Tail Power would support this methodology and in any example calculations provided in these comments also utilize partial percentage points awarded to net benefits.

Low-Income Spend Metric

The joint proposal adds a new low-income spending element that would maximize the net benefits achieved at 1.5%, the minimum level of achievement would be 0.33%, triggered by meeting the minimum low-income spend requirement of 0.6% of Gross Residential Revenues. Otter Tail Power welcomes the addition of the low-income financial incentive element, however, would recommend that the scale of net benefit percentage points awarded be revised. Otter Tail Power would recommend that the first step of net benefits for meeting the minimum low-income spend start at 0.5% and not 0.33%. This revision would allow electric utilities that meet the 2.3% sales goal and the minimum low-income spend requirement to continue to achieve a 5.5% award of net benefits, as they are eligible for currently. Otter Tail Power does not see the benefit in adding a financial incentive element that would immediately reduce the achievement level a utility is eligible for earning compared to previous years with all ECO requirements being satisfied. Otter Tail Power recommends the following revised table for the low-income spend metric.

As Proposed	
Low-Income Spending Acheivement	% of Net Benefits Awarded
0.60%	0.33%
0.70%	0.62%
0.80%	0.91%
0.90%	1.21%
1.00%	1.50%

As Modified by Otter Tail Power	
Low-Income Spending Acheivement	% of Net Benefits Awarded
0.60%	0.50%
0.70%	0.75%
0.80%	1.00%
0.90%	1.25%
1.00%	1.50%

Efficient Fuel Switching Metric

The current proposed EFS incentive mechanism is based upon a utility's performance in the first-year ECO savings and low-income spend elements of the mechanism multiplied by EFS net benefits and then multiplied by a factor equal to the

EFS portfolio RIM ratio. The EFS incentive in the joint proposal, would be capped at 6% of EFS benefits.

EFS Incentive = (First-Year Savings Achievement % + Low-Income Spend Achievement % x EFS Net Benefits x EFS RIM Benefit-Cost Ratio)

The proposed mechanism introduces an element to reward utilities for first year savings and low-income spend performance tied to EFS activities. The guiding principles of EFS programming differ from the other two elements in the proposal, EFS measures are not a requirement of an ECO portfolio offering, do not have a minimum investment, produce increased sales to the electric utility, and have a set timeframe for which activities can receive a financial performance incentive.

It is clear to Otter Tail Power that EFS investments stand apart from other ECO offerings, because of these differences the Company takes issue with the EFS portion of the joint proposal being dependent on the performance of other ECO programming. The current proposal would link EFS net benefits to the net benefit percentage earned from ECO and low-income program performance. Otter Tail Power believes that the proposed link should be broken. Otter Tail Power also takes issue with the current 6% cap on the EFS performance incentive. If a utility were to maximize its first-year savings and its low-income spend to earn the 6% of net benefits metric, the RIM ratio component of the EFS financial incentive could only hurt the utility. If a utility were to have a 1.75 RIM ratio, they would continue to receive 6% of EFS net benefits, but if they had a 0.75 RIM ratio, the EFS net benefits awarded would drop to 4.5%. As proposed, the equation is unbalanced. Capping the performance-based performance incentive of one ECO element based on the performance of other elements is unreasonable.

As an alternative, Otter Tail Power would propose a set 5% base level of EFS net benefits that would be increased or decreased based upon the EFS RIM Ratio. The maximum allowance for the EFS financial incentive would be equal to 10% of EFS net benefits, or in other words a financial incentive would hit its maximum potential at a RIM ratio of 2.0. Should a utility have a RIM ratio below 1.0 their financial incentive would fall below the set 5% of net benefits. Otter Tail Power's alternative removes the link to the performance of other ECO programs, allows for the RIM ratio to always play a fundamental role in the calculation of net benefits awarded and increases the percentage cap from 6% to 10%.

Otter Tail Power recommends the following revised equation for the EFS Net Benefits metric.

EFS Incentive = 5% x EFS Net Benefits x EFS RIM Benefit-Cost Ratio

Attachment A: Otter Tail Power Estimated Incentive Amounts

Otter Tail Power reviewed Attachment A, which provided an estimated financial incentive based upon 2024 ECO performance and found errors, which when corrected, would drastically reduce the level of EFS financial incentive Otter Tail Power would achieve.

Attachment A as filed:

Metric	Hypothetical: Based on 2024 Achievements		
	2024 Achievement	Estimated Net Benefits Awarded	Estimated Incentive Awarded
First-Year Energy Savings (% of Sales)	3.11%	4.50%	\$1,528,337
Low-Income Spend (% of Residential GOR)	0.56%	0.20%	\$0
Total (non-EFS)		4.70%	\$1,528,337
Total (EFS)		4.70%	\$144,689
Combined Incentive (non-EFS + EFS)			\$1,673,026

The estimated net benefits awarded for low-income spend should be 0% and not 0.20%. This error appears to be the result of the joint proposal's linear interpolation calculation. Correcting this error would reduce the amount of non-EFS incentive and EFS incentive awarded. Additionally, according to the proposal, the maximum level achievable for the EFS incentive would be 6% of EFS net benefits, which would be less than 4.5% multiplied by the RIM Ratio of 1.76 which is the equivalent to 7.92%.¹ Below is a corrected table with the EFS incentive amount reduced by \$39,77.

¹ The table above represents 4.7%*1.76 or 8.27%.

Revised Attachment A:

Metric	Hypothetical: Based on 2024 Achievements		
	2024 Achievement	Estimated Net Benefits Awarded	Estimated Incentive Awarded
First-Year Energy Savings (% of Sales)	3.11%	4.50%	\$1,528,337
Low-Income Spend (% of Residential GOR)	0.56%	0.00%	\$0
Total (non-EFS)		4.50%	\$1,528,337
Total (EFS)		Maxed at 6%	\$104,918
Combined Incentive (non-EFS + EFS)			\$1,633,255

These corrections to Attachment A highlight the negative aspects of the proposed EFS mechanism. The joint proposal is highly reliant on the achievements of other ECO programs and is capped at an unreasonable level that is not tied to EFS program performance.

III. Additional Parameters

Otter Tail Power would like to take this opportunity to request a language change to one of the additional parameters that was previously approved for the 2024-2026 financial incentive and included in the joint proposal.

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

Removing the phrase “energy savings” and replacing it with “net benefits” is more reflective of how the financial mechanism calculates the financial performance incentive both under the old mechanism and the new mechanism.

IV. CONCLUSION

The joint proposal from CEE, Department, and Fresh Energy introduces new elements outside of the standard first-year energy savings and expenditure cap elements. It acknowledges the growing complexities of ECO program requirements and the ability

to design and implement cost effective programs during a time where savings are harder to find and avoided costs are on the decline. Electric utility programming has evolved from standard energy efficiency measures to now including load management and EFS measures, and Otter Tail Power supports the steps forward in recognizing these challenges with added financial incentive elements.

Electric Utility	2024 Actual	Joint Proposal Based on 2024	Joint Proposal	OTP Modified Based on 2024	OTP Modified
Otter Tail Power *	\$ 1,867,967	\$ 1,633,255	-13%	\$ 1,852,032	-0.85%
Minnesota Power	\$ 2,600,685	\$ 2,490,286	-4%	\$ 2,651,166	1.94%
Xcel Energy	\$ 15,133,727	\$ 14,773,004	-2%	\$ 15,609,322	3.14%

* To remain consistent with the current mechanism, the amount OTP requested for a 2024 EFS incentive has been removed.

The joint proposal highlights the importance of the financial incentive as it can be a “key motivator” in utility investments in ECO programs. The joint proposal explains the evolution of ECO and how new opportunities have been developed for utilities and the financial performance incentive should be aligned with the current framework. Otter Tail Power could not agree more with the sentiment, but as currently proposed, the financial performance incentive for 2027-2029 does not start on an even playing field. While the proposal allows for an increase in net benefits from 5.5% to 6% and includes a new EFS element, all electric utilities would see a decrease in a financial performance incentive based upon 2024 program performance. These results are counter intuitive; utilities would be awarded less for the same performance when there is now potential to be rewarded for elements previously not included. If a financial performance incentive has higher potential rewards but unachievable results and artificial caps, it is hard to describe the mechanism as being designed to drive increased performance.

Otter Tail Power requests the Commission evaluate its proposed modifications to the financial performance incentive to balance the changes between the old and new mechanisms and allows for the electric utilities to earn a financial incentive tied its EFS efforts separate from the achievements of its standard ECO programming. Under Otter Tail Power’s proposal, electric utilities would see the following estimated financial incentive based upon 2024 results.

Otter Tail Power Modified Financial Performance Incentive Calculation:

- First-Year Savings Metric: 2024 ECO Net Benefits x 5% = \$1,698,152
- Low-Income Spend Metric: 2024 ECO Net Benefits x 0% = \$0
- Efficient Fuel Switching Metric: EFS Net Benefits x 5% x 1.76 RIM = \$153,880

- Total Financial Performance Incentive: $\$1,698,152 + \$0 + \$153,880 = \$1,852,032$

The results under the Otter Tail Power modification are intuitive and easy to follow. There are three elements in which an electric utility can achieve a portion of the financial incentive, and dependent on the performance in those three categories, the financial incentive can increase or decrease from the utility's originally requested 2024 financial incentive. Xcel Electric achieved 2.98% of net benefits for first year savings, achieved 0.66% net benefits for meeting the low-income spend requirement and produced a cost effective EFS Program which resulted in an overall increase to their actual 2024 financial incentive request. Minnesota Power maximized its net benefits for first year savings, went above the Low-Income spending requirement, but did not provide an EFS program, resulting in a slightly higher estimated financial incentive. Otter Tail Power maximized its first-year savings achievement, missed its Low-Income spend goal, but produced a cost-effective EFS program, which results in a slightly lower financial incentive than requested in 2024.

Otter Tail Power recommends that any changes to the financial performance incentive be easy to understand as well as implement and reflect a clear line between program achievements and the financial incentive awarded for those efforts.

Dated: August 13, 2025

Respectfully submitted,

OTTER TAIL POWER COMPANY

By: /s/ JASON GRENIER
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CERTIFICATE OF SERVICE

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

I, Khris Ekstrom, hereby certify that I have this day served a copy of the following, or a summary thereof, on Mike Bull and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company
Initial Comments**

Dated this **13th** day of **August, 2025**.

/s/ KHRIS EKSTROM
Khris Ekstrom
Regulatory Filing Coordinator
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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
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