minnesota power
AN ALLETE COMPANY

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October 23, 2023

VIA E-FILING
Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

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

Dear Mr. Sueffert:

Minnesota Power (the "Company") respectfully submits to the Minnesota Public Utilities Commission ("Commission") the following comments in response to the Commission's September 13, 2023, request for comments regarding the Utility Performance Incentives for Energy Conservation.

The topics open for comment are:

1. Do the proposed modifications to the 2024-2026 Shared Savings Financial Incentive Mechanism serve the public interest?
2. Are there other issues or concerns parties may have related to this matter?

Comments

The Company appreciates the analysis and support provided by the Minnesota Department of Commerce, Division of Energy Resources ("Department"). Minnesota Power thinks a periodic review of the performance incentive is prudent to ensure that the incentive continues to balance intended objectives with both customer costs and value.

1. **Do the proposed modifications to the 2024-2026 Shared Savings Financial Incentive Mechanism serve the public interest?**

   The Company agrees that energy conservation is a valuable resource to a utility and its customers. Minnesota Power recognizes that recent updates to the cost-effectiveness framework necessitated changes to the Shared Savings DSM financial incentive mechanism for the 2024-2026 Triennial period and that the recommendations for electric utilities, as detailed in the Department's September 1, 2023 letter, which includes the parameters outlined below, are intended to reflect and address those updates for the upcoming triennial period:

- Investor-owned utilities (IOUs) use the new Minnesota Test outlined in the Department's Decision In the Matter of 2024- 2026 CIP Cost-Effectiveness Methodologies for Electric and Gas Investor-Owned Utilities filed on March 31, 2023 in Docket No. E,G999/CIP-23-46 (Decision) for calculating their net benefits to derive their Shared Savings incentive.
- IOUs use the 3.3% Societal Discount Rate approved by the Deputy Commissioner of the Department in the Decision for calculating the new Minnesota Test Net Benefits to derive their Shared Savings incentive.
- Electric utilities' incentive starts at energy savings of 1.3% of retail sales; 3.4% of net benefits is awarded at energy savings of 2.0% of retail sales and above.
- Gas utilities' incentive starts at energy savings of 0.7% of retail sales; 3.4% of net benefits is awarded at energy savings of 1.2% of retail sales and above.
- Net Benefits Cap of 3.4%.
- ECO/CIP Expenditures Cap of 15%.
- IOUs are allowed to exceed the 15% Expenditures Cap, up to a maximum of 20%, if gas utilities meet or exceed energy savings equaling 1.2% of retail sales and if electric utilities meet or exceed energy savings equaling 2.0% of retail sales.

These updated parameters will result in reduced financial incentives. Historically, the financial incentive in Minnesota has been critical in driving program innovation and achieving savings well beyond State goals and requirements – outcomes that have been valuable on many levels to Minnesota Power's customers and its surrounding communities. The Company believes the financial incentive mechanism as laid out in the Department's proposal will result in meeting the State of Minnesota's energy savings goals as set forth in Minn. Stat. § 216B.241, subd. 1c, however, a trade-off exists when reducing utility performance incentives. Lower incentives may have a small positive impact on bills but could potentially interrupt the existing momentum that's driving innovation, program expansion and high levels of utility investment in conservation. Avoided costs continue to decline along with opportunities for the most cost-effective and accessible energy saving projects (such as lighting), making it more important than ever to continue evaluating the best way to measure and incentivize ECO performance and ensure that the mechanism aligns well with policy preferences.

2. Are there other issues or concerns parties may have related to this matter?

While Minnesota Power understands the need to balance the desire to provide utilities motivation to perform well while also minimizing ratepayer costs, it asks that the Commission carefully consider the proposed changes to the incentive mechanism and weigh those impacts in the context of the wide range of goals intended for ECO. Minnesota recently underwent a robust effort to update its cost-effectiveness framework to better reflect and align with State policy goals. This work resulted in the development of the new Minnesota Test. As noted in the Department's September 1, 2023 comments, the financial incentive mechanism proposal will use the Minnesota Test in order to ensure that utilities are incentivized to consider the same factors as the regulator when making decisions within their ECO plans. Minnesota Power fully supports this change and the reasoning behind it. Significant time and effort from the State, utilities, and stakeholders went into capturing these key factors in the new framework. However, if the incentive potential continues to be reduced, utilities' will not have much ability to meaningfully impact their performance award by focusing on those factors.

As recognized within the Department's comments, the performance incentive has been significantly reduced over the last several years and the Department's recommendation for the 2024-2026 incentive mechanism will result in further lowering these incentives. Minnesota Power recommends that unless a strong argument for why the Minnesota Shared Savings Incentive needs to be further reduced is presented, the goal for the 2024-2026 proposal should be to re-calibrate the mechanism under the new cost-effectiveness framework such that utilities are being awarded, at minimum, the same levels as under the current mechanism for similar performance levels. Furthermore, there should be no adjustment factor as part of this calibration to account for the fact that historically utilities frequently outperformed their plans. With new cost-effectiveness parameters, higher plan goals than ever, and major program changes including the reduced opportunity for lighting savings, Minnesota Power does not anticipate actual performance to exceed plan levels to the same extent as in the past. Attempting to calibrate in this way would likely lead to an arbitrary reduction in future performance awards and essentially penalize utilities based on past performance.

The Department's proposal modified the two main components of the mechanism used to calculate the awarded incentive amounts – the percent of net benefits and the percent of expenditures caps. Both components were significantly reduced. The exact parameters necessary to maintain current incentive levels will differ from utility to utility, however in general both the percent of net benefits cap and the expenditure cap need to be higher than the proposed levels in order to maintain current incentive levels.

The proposed percent net benefits cap of 3.4% (down from 10%) results in a financial incentive reduction on a per kWh basis of over 25% for Minnesota Power as compared to the average incentive per kWh earned over the last four years when the percent net benefits cap was 10% of utility net benefits. Minnesota Power recommends a percent (of Minnesota Test) net benefits cap of at least 5% to maintain similar incentive levels as the current mechanism. Additionally, when considering the impacts of recent levels of inflation, a higher percent may actually be more appropriate.

An expenditure cap was first introduced to the financial incentive mechanism for use in the 2017-2019 triennial. It was phased in starting at 40% in 2017, reduced to 35% in 2018 and landed at 30% in 2019. A provision was also introduced to allow utilities achieving savings over 2% of retail sales an increased cap of 35%. Minnesota utilities have successfully exceeded savings expectations while keeping program costs below the national average. Expenditure caps can ultimately penalize Minnesota utilities for their continued ability to deliver significant savings while effectively managing the costs to deliver them. While Minnesota Power understands the motivation to include caps on the incentive as a form of minimizing impacts on ratepayers, a cap on expenditures introduces potentially conflicting signals and can detract from the focus on achieving higher net benefits. If an expenditure cap continues to be a component of the mechanism, it should be set high enough that it primarily serves as a secondary cap for all utilities (i.e. no utility should be in a scenario where they will almost always be capped by spending rather than net benefits). The proposed reduction in the expenditure cap from 30% to 15% is a significant drop and may render the net benefits cap meaningless for most utilities. Minnesota Power recommends an expenditure cap no lower than 20% to address these concerns.

The financial incentive is key to balancing utilities responsibilities to customers while continuing to progress toward, sustain, and exceed energy savings and carbon reductions goals defined in Minnesota state policies. Minnesota Power appreciates the continued collaboration regarding the Shared Savings DSM financial incentive mechanism and looks forward to on-going discussions as the energy efficiency industry continues to evolve.

If you have any questions regarding this filing, please contact me at 218.591.4870 or avang@mnpower.com.

Sincerely,

Ana Vang
Senior Public Policy Advisor

AMV:sr

STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	ELECTRONIC FILING
COUNTY OF ST. LOUIS	)	

Susan Romans, of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 23rd day of October, 2023, she served Minnesota Power's Comments in **Docket No. E,G999/CI-08-133** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on the E-Docket's Official Service Lists for these Dockets were served as requested.

Susan Romans

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