minnesota power
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November 2, 2023

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

Re: Reply 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 reply comments in response to the comments filed October 23, 2023 regarding the Utility Performance Incentives for Energy Conservation.

REPLY COMMENTS

Minnesota Power appreciates the level of effort and detail demonstrated by the Department of Commerce ("Department") and other parties regarding analysis of the financial incentive mechanism. There is general agreement that the financial incentive has been highly successful in encouraging investment and achievements in energy efficiency in Minnesota well beyond the requirements laid out in State statute and rules. There is also consensus that the incentive calculation should use the new Minnesota Test Net Benefits to align the utilities performance award metric with the priorities of the State and that the higher net benefits under this new test warrants some recalibration of the existing caps within the mechanism. There are varying thoughts however, on what the appropriate levels are for the new caps.

Below, Minnesota Power includes responses to the arguments made by the Office of the Attorney General ("OAG") and other utilities regarding at what level the caps should be set for the 2024-26 triennial period.

Response to OAG's Comments

The Company disagrees with the Department's and OAG's reccomedation that the incentive should be further reduced. Minnesota Power agrees that the caps should be modified to account for the increased net benefits resulting from the proposed transition to using the Minnesota Test and other recently approved changes to cost-effectiveness, but that the overall financial incentive should not be significantly decreased. One of the primary reasons for building out and moving to the Minnesota Test was to begin capturing more of the impacts associated with utility Energy Conservation and Optimization performance, not to specifically reduce the incentive earned by utilities.

Minnesota Power disagrees with the OAG's statement that "A modest reduction in incentives is reasonable because Minnesota's incentives are higher than those of other states with high-performing energy conservation programs, and past reductions to shared-savings incentives have not led to reduced performance by utilities." As explained in more detail in the initial utility comments, the Department's comparison to other high performing states does not show the whole picture. The biggest piece missing from those comparisons is the actual cost of delivering the high levels of savings associated with these high performing programs. Minnesota utilities have done an exceptional job delivering savings alongside the highest performing states in the U.S. while maintaining costs well below these other states. Section C of Xcel's October 23, 2023 comments in the matter of Commission Review of Utility Performance Incentives for Energy Conservation details the significant difference in total spend and first year cost per kWh associated with these comparison states relative to Xcel's spending. Notably, the comparison states ranged from $0.47 to $0.61 per first-year kWh from 2019 – 2021 while Xcel's costs came in at $0.16 – well under half the cost of the other states. Minnesota Power similarly has averaged only $0.12 per first year kWh during the same period, again significantly below the other top performing states. Not only is Minnesota's cost per first-year kWh saved lower than top performing states, they fall below the overall national utility average of $0.211.[1]

Minnesota utilities also appear to outperform these high ranking states in other ways as well. In Section E of Otter Tail Power's initial comments, they point out the relationship between electric prices, avoided costs and net benefits, ultimately showing Minnesota utilities not only manage to keep the costs of delivering savings low, but also have more efficient systems with lower avoided costs (and lower electricity prices for ratepayers). When adding these factors (cost to deliver and electric prices) to the analysis, the full picture shows that Minnesota utilities argueably outperform other states, and that while other states may have similar or lower caps (percent of net benefits and/or expenditures) for their incentives - they still may receive larger incentives simply because they spend more and have higher avoided costs.

Finally, Minnesota Power strongly disagrees with the sentiment that because utilities haven't reduced their efforts and achievements in the past as a result of reduced incentives, further reductions are justified. Not only does this suggestion feel punitive towards past positive actions from the utilities, it also may not hold true into the future as savings become more difficult and costly to achieve. The more the incentive gets reduced over time, the more the conversation changes internally around energy efficiency. While there are many reasons in addition to the incentive for utilities to continue pursuing efficiency, the performance incentive helps to balance the scales between supply-side investments and conservation investments.

[1] https://www.aceee.org/sites/default/files/pdfs/cost_of_saving_electricity_final_6-22-21.pdf

Response to Utility Comments
Comparison to Supply-Side Investments

Regarding the Department's comparison of the financial incentive to supply-side investments, Minnesota Power agrees with the arguments laid out in Xcel's initial comments in Section V. Comparing the revenue requirements oversimplifies the analysis and creates a misleading narrative. Rather, the focus of the comparison should be on the return on investment ("ROI") impact. The objective of comparing the two is to understand how the existing (or proposed) financial incentive mechanism rewards utilities for energy efficiency investments compared to how the same investment would be rewarded if treated like a supply-side resource on which the utility would continue to earn a return over the life of the asset. Without accounting for the ROI over the life of the investment, the Department's analysis does not address how supply-side investments are rewarded and the conclusion that the proposed mechanism "is extremely generous and lucrative for the utilities" cannot be made based on the figures presented. Further analysis would be needed to truly compare the two, but Minnesota Power believes the existing incentive levels create a reasonable enough balance between investments in supply-side resources and energy efficiency. Further reducing the incentive could change the economics from the utility perspective, making supply-side investments preferential to energy efficiency.

Expenditure Cap

As discussed in initial comments on this matter, Minnesota Power disagrees with the concept of an expenditures cap due to the conflicting signals and potentially perverse incentives it can create. Furthermore, given how Minnesota utilities deliver such low-cost savings as discussed above and in more detail in both Otter Tail and Xcel's initial comments, continuing to include and ratchet down an expenditure cap could be viewed as penalizing utilities for managing program costs so well while still achieving high levels of savings. Otter Tail provides a detailed description and example of how the expenditure cap creates conflicting signals and perverse inventives, and even penalizes efficient program spending. As such, Minnesota Power reiterates the importance of ensuring that if the expenditure cap contitnutes to be a part of the incentive mechanism, care is taken to set the cap at an appropriate level in order to minimize these concerns.

Net Benefits Cap

Otter Tail Power proposed that separate percent net benefit caps should be approved for each utility. The Company does not object to utility specific caps and agrees there is merit to this reccomendation. Minnesota Power has had lower avoided costs for many years now, which has resulted in lower financial incentive earning on a per kWh basis compared to the other utilities since the implementation of the new mechanism in 2017. This impact is reflected in Table 1 of the Department's September 1, 2023 comments (the initial analysis and proposal). Each utility system and their avoided costs are different. Ultimately this means the relative magnitude of the utilities financial incentive (and how much they can earn per kWh) is largely predetermined by factors unrelated to their actual performance. Utility specific caps could mitigate this issue and create more equitable outcomes among the utilities for similar performance. All that said, the record would need to be further developed to appropriately arrive at justified and reasonably aligned utility specific caps.

Conclusion

Minnesota's Utility Performance Incentive Mechanism has historically been highly successful in motivating utilities to go above and beyond when investing in and delivering energy savings that create value for ratepayers and Minnesota as a community. Recent changes in federal and state policy have emphasized the importance of these programs now and into the future. Minnesota Power urges the Commission to take into consideration the highly successful track record of Minnesota utility achievements, the upcoming challenges as the industry continues to evolve, and the statutory directive to adopt a mechanism that results in implementation of cost-effective conservation as a preferred resource given the impact on the earnings of the utility when deciding whether changes to the mechanism that would reduce the performance incentive are appropriate at this time.

Minnesota Power appreciates the work and analysis done by all parties in comments thus far and looks forward to continued collaboration regarding the Shared Savings DSM financial incentive mechanism.

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

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

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 2nd day of November, 2023, she served Minnesota Power's Reply 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 E-Docket's Official Service List for this Docket were served as requested.

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Tiana Heger