HF4502 - 0 - Energy Conservation and Optimization Act of 2020

Chief Author:	**Zack Stephenson**
Commitee:	**Energy and Climate Finance & Policy Division**
Date Completed:	**4/16/2020 1:57:00 PM**
Lead Agency:	Public Utilities Commission
Other Agencies:	
Commerce Dept	

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
State Total					
Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2019	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Total	-	-	-	-	-

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature:	Christian Larson	**Date:**	4/16/2020 1:57:00 PM
Phone:	651-284-6436	**Email:**	christian.larson@lbo.leg.mn

State Cost (Savings) Calculation Details

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*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium	
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

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State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

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Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Christian Larson **Date:** 4/13/2020 3:58:08 PM
Phone: 651-284-6436 **Email:** christian.larson@lbo.leg.mn

State Cost (Savings) Calculation Details
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Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

HF 4502, the Energy Conservation and Optimization Act of 2020:

- Section 2 Innovative Clean Technologies, allows a public utility to petition the PUC for authorization to invest in projects to deploy one or more innovation clean technologies, and sets out evaluation criteria. It also permits the PUC to approve an automatic cost recovery mechanism for the costs.
- Section 3 amends Minnesota Statutes Section 216B.2401, Energy Savings Policy Goal, to include optimizing the time and method of consumer use of energy (load management), increasing the annual energy savings goals, and expand the types of measures that can be used to meet those goals.
- Sections 4 through16 amend a number of provisions of Minnesota Statutes Section 216B.241, Energy Conservation Improvement, adds requirements, and reorganizes the statute to separate more clearly what provisions apply to municipal and cooperative utilities versus public utilities.

Assumptions

The vast majority of the provisions of the bill deal with Conservation Improvement Program (CIP) matters under the jurisdiction of Commerce, not the PUC. Section 2, the provision that has direct involvement by the PUC, will not have a significant fiscal impact.

- Section 2 allows public utilities to petition the PUC to invest in innovative clean technology projects. The PUC assumes that in the first two years, only one or two filings will be made under these provisions. It is likely that most utilities do not have specific projects in mind at this time and would examine how the early filings are evaluated before considering whether or not to file with the PUC.
- The PUC already has CIP cost-recovery mechanisms for each of the major public utilities and any cost recovery allowed for innovative projects under Section 2 would be included in the existing mechanisms.

Section 15 expands the types of programs that can be included in a public utility's conservation plan to encompass efficient fuel switching and load management, and allows the costs of these programs to be recovered. This section also allows an incentive mechanism for load management programs that meet certain criteria, and prohibits incentives for fuel switching programs.

- The PUC already has CIP cost-recovery mechanisms for each of the major public utilities and any fuel switching and load management programs approved by Commerce would be included in the existing mechanisms.

- The PUC has an existing system of CIP financial incentives that rebuild into the existing cost-recovery mechanisms, and the financial incentive mechanism is re-examined periodically. These new provisions regarding incentives would be incorporated into this periodic review in the normal course of business.

Section 16 repeals various provisions of the existing statute, but those same or similar provisions are still included in the bill in different sections as a result of the reorganization of the statute.

Expenditure and/or Revenue Formula

Long-Term Fiscal Considerations

If the number of petitions from utilities for innovative projects in the future are greater than the assumption of one or two per year, there could be a need for additional PUC staff in the future, especially as technology continues to evolve over the next several years.

Local Fiscal Impact

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Kay Urquhart

Date: 4/13/2020 3:33:41 PM

Phone: 651-201-2222

Email: kay.urquhart@state.mn.us

HF4502 - 0 - Energy Conservation and Optimization Act of 2020

Chief Author:	**Zack Stephenson**
Commitee:	**Energy and Climate Finance & Policy Division**
Date Completed:	**4/16/2020 1:57:00 PM**
Agency:	Commerce Dept

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

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Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature:	Christian Larson	**Date:**	4/16/2020 1:56:46 PM
Phone:	651-284-6436	**Email:**	christian.larson@lbo.leg.mn

State Cost (Savings) Calculation Details
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	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

House File 4502 concerns new parameters for public utilities to invest in innovative clean technologies, changes to Minnesota's energy savings and policy goal, and significant modifications to Minnesota's Conservation Improvement Program (CIP). Below is an itemized list of changes by section.

Section 1 Title
Identifies sections 2-15 of the bill as the "Energy Conservation and Optimization Act of 2020."

Section 2 Innovative Clean Technologies
Establishes a definition of "innovative clean technologies," provides that a public utility may petition the Minnesota Public Utilities Commission (Commission) to invest in projects to further the development, commercialization and deployment of these technologies, and outlines the conditions under which the Commission may approve the petition.

Section 3 Energy Savings and Optimization Policy Goal
Increases Minnesota's annual energy savings goal to 2.5 percent of annual electricity and natural gas retail sales and provides a non-exhaustive list of measures to be used to meet the goal.

Encourages utilities to design and offer load management programs to maximize the customer's economic value gained from energy purchased and optimize the utility's infrastructure and generation capacity to serve customers and facilitate the integration of renewable energy into the energy system.

Requires that the Department of Commerce (Department) provide an annual report estimating progress toward the energy-savings goal that includes recommendations to increase energy savings and documents the state's energy productivity.

Section 4 Definitions (216B.2402)
Provides definitions for terms used in sections 216B.16, subdivision 6b, 216B.2401 through 216B.241. Many of the new terms or revised definitions are included to facilitate the inclusion of fuel-switching and load management in CIP.

Section 5 Consumer Owned Utilities, Energy Conservation and Optimization (216B.2403)
Retains the CIP 1.5 percent energy savings goal for consumer owned utilities (COUs). Provides that, in addition to energy conservation improvements, savings above one percent can be achieved through electric utility infrastructure improvements or efficient fuel-switching improvements.

Outlines the circumstances in which a COU can request to adjust its minimum savings goal down from 1.5 percent. Prohibits the Department from approving a minimum savings goal that is less than three percent over a consecutive three-year period.

Starting June 1, 2020, COUs submit CIP plans up to three years in length. For plans greater than one year in length, COU is only required to meet its goal over the entirety of the plan period, not individual years. Regardless of plan length, COUs must submit annual status reports, detailing total expenditures, intended changes to the plan, and savings achievements.

Removes COU mandatory CIP spending requirement. COUs falling short of minimum savings goal are required to meet applicable spending requirements for three consecutive years. The amount or duration of the requirements may be reduced by the Department if the utility demonstrates good cause as to why it is unable to meet the energy savings goal.

Requires that electric and natural gas COUs spend at least 0.4 percent of their most recent three-year average gross operating revenue from residential customers in Minnesota. Requires the Department to convene a stakeholder group to review and update multifamily low-income guidelines by July 1, 2021. Provides additional ways in which COUs can meet spending requirements, including pre-weatherization measures and contributing money to the Healthy AIR (Asbestos Insulation Removal) account.

Allows COUs to implement fuel-switching improvements where, relative to the fuel being replaced, it results in a net reduction of source energy and greenhouse gas emissions, is cost-effective from the utility, participant, and society perspective, and is installed in a manner that improves the utility's system load factor.

Section 6 Large Customer Facility

For consistency with other sections, modifies CIP large customer facility opt-out provision. In the event a utility or large customer facility appeals the decision of the Department on a large customer opt-out petition, the Commission shall rescind the decision if it finds that it is not in the public interest.

Section 7 Public Utility Energy-Saving Goals

Increases electric investor-owned utility (IOU) savings goal to 1.75 percent of gross annual retail sales. Decreases natural gas IOU savings goals to one percent of gross annual retail sales. Revises thresholds for carrying savings forward to correspond with the changes in the respective savings goals.

Revises requirements of the Department's annual "CO2 Report" to include capacity savings and information regarding annual energy sales or generation capacity increases resulting from efficient fuel-switching improvements. Report must also provide an estimate of progress made toward statewide energy-savings goal.

Section 8 Technical Assistance

Requires Department to track IOU and COU lifetime energy savings and cumulative lifetime energy savings provided in plans.

By March 15 of the year following enactment, the Department must develop and publish technical information needed to evaluate whether deployment of a fuel-switching improvement meets the established criteria. Requires the Department to do this in consultation with interested stakeholders and to update technical information as necessary.

Section 9 Facilities Energy Efficiency

Removes outdated state goal regarding commercial building certification.

Section 10 Public Utility Energy Conservation and Optimization Plans

Allows IOU energy conservation and optimization plans to include efficient fuel-switching improvements and load management. Requires plans to include lifetime energy savings and cumulative lifetime savings.

Changes annual IOU research and development spending cap from ten percent of total amount *required* to be spent on energy conservation programs to ten percent of total amount *actually* spent on energy conservation programs.

Removes prohibition of IOU energy conservation improvement spending directly benefitting large energy facility or a large customer facility that has been exempted.

Requires IOU plans to include activities to improve energy efficiency in public schools.

Section 11 Recovery of Expenses

Modifies IOU recovery of expenses provision to make terminology consistent with other changes included in the bill.

Section 12 Ownership of Energy Conservation Improvements

Revised to include pre-weatherization measures in provision.

Section 13 IOU Efficient Lighting Program

Removes less efficient lighting technologies from the program requirements and replaces them with LEDS.

Section 14 IOU Low-income Programs

Increases natural gas IOU low-income spending requirement to 0.8 percent of its most recent three-year average gross operating revenue from residential customers.

Increases electric IOU low-income spending requirement to 0.4 percent of its most recent three-year average gross operating revenue from residential customers.

Requires the Department to convene a stakeholder group to review and update multifamily low-income guidelines by July 1, 2021. Provides additional ways in which IOUs can meet spending requirements, including pre-weatherization measures and contributing money to the Healthy AIR (Asbestos Insulation Removal) account.

Section 15 IOU Programs for Efficient Fuel-Switching and Load Management

Allows for inclusion of efficient fuel-switching and load management in IOU CIP plans. For efficient fuel-switching to electric end uses, the Department must consider whether the measure can be operated in a manner that facilitates the integration of variable renewable energy into the electric system.

Allows for the inclusion of cost-effective load management programs where the primary purpose of the program is energy efficiency.

Allows the Commission to permit IOU rate schedules that provide for annual cost recovery for efficient fuel switching improvements and cost-effective load management programs approved by the Department.

Prohibits the Commission from approving financial incentive to encourage efficient fuel-switching programs.

Allows the Commission to structure an incentive plan to encourage cost-effective load management programs.

Allows IOUs to implement fuel switching improvements where, relative the fuel being replaced, it results in a net reduction of source energy and greenhouse gas emissions, is cost-effective from the utility, participant, and society perspective, and is installed in a manner that improves the utility's system load factor.

Assumptions

The Department assumes changes included in sections 2 through 15 would be adequately addressed with existing expertise and resources.

Sections 2-3 are minimal in the requirements for analysis and can accomplished with current resources.

Section 4 outlines a series of definition changes and will not require additional agency work.

Sections 5-6 essentially duplicates an existing section of 216B.241, but adapts it specifically for municipal and cooperative utilities. The current process to evaluate municipal and cooperative CIP plans and reports will remain the same. Work is currently underway to sort through fuel-switching policy issues that will be raised in Subdivision 8, so this work can continue with the current resources.

Sections 7-11 require some technical assistance work to analyze the efficient fuel-switching issues, but can be managed with current resources. Even though the public utility savings goal increases, the process remain the same.

Expenditure and/or Revenue Formula

N/A

Long-Term Fiscal Considerations

N/A

Local Fiscal Impact

N/A

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Amy Trumper **Date:** 4/16/2020 1:27:00 PM

Phone: 651-539-1517 **Email:** amy.trumper@state.mn.us