HF164 - 0 - Energy Conservation and Optimization Act of 2021

Chief Author:	**Zack Stephenson**
Commitee:	**Climate And Energy Finance And Policy**
Date Completed:	**1/24/2021 11:07:27 AM**
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	FY2021	FY2022	FY2023	FY2024	FY2025
State Total					
Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)			Biennium		Biennium
	FY2021	FY2022	FY2023	FY2024	FY2025
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.

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State Cost (Savings) Calculation Details
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State Cost (Savings) = 1-2			Biennium		Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

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Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
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.

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	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

HF 164-0, the Energy Conservation and Optimization Act of 2021 makes a number of changes to the conservation improvement program (CIP) sections of statutes, and also adds a new section on innovative clean technologies.

- 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 expanding the types of measures that can be used to meet those goals.
- Sections 4 through 16 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. Section 20 repeals parts of existing CIP statutes consistent with these added sections separating what provisions apply which types of utilities.
- Sections 17 through 19 set out provisions for incorporating cost effective fuel switching and load management, and related cost recovery and financial incentives.

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.

Sections 17-19 expand the types of programs that can be included in a public utility's CIP to encourage efficient fuel switching and load management, and allows the costs of these programs to be recovered and included in the financial incentive mechanism.

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

- The PUC has an existing system of CIP shared-savings financial incentives, and the mechanisms are re-examined periodically, generally at least every three years. The potential for inclusion of fuel switching and load management savings into the incentives can be included in existing analysis and mechanisms in the normal course of business.

Expenditure and/or Revenue Formula

N/A

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

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Chief Author:	**Zack Stephenson**
Commitee:	**Climate And Energy Finance And Policy**
Date Completed:	**1/24/2021 11:07:27 AM**
Agency:	Commerce Dept

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

	Yes	No
Local Fiscal Impact		X

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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.

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Total	-	-	-	-	-
Biennial Total			-		-
2 - Revenues, Transfers In*					
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

HF164 creates new parameters for electric and natural gas utilities to invest in innovative clean technologies, changes Minnesota's energy savings and policy goal, and modifies Minnesota's Conservation Improvement Program (CIP). Below is an itemized list of changes by section.

Section 1 Title
Identifies sections 2-19 of the bill as the "Energy Conservation and Optimization Act of 2021."

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, outlines the conditions under which the Commission may approve the petition, and provides utility spending limits under this section over three consecutive years.

Section 3 Energy Savings and Optimization Policy Goal
Finds that optimizing the timing and method used to manage energy use can provide benefits to the consumer and the utility system as a whole and that load management programs (in addition to cost-effective energy savings) should be procured systematically and aggressively.

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 Commissioner of the Department of Commerce (Commissioner) 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). However, provides that, in addition to energy conservation improvements, savings above one percent can be achieved through electric utility infrastructure

improvements, efficient fuel-switching improvements, or demand-side natural gas or electric energy displaced by use of waste heat recovered and used as thermal energy.

Starting June 1, 2022, COUs submit CIP plans up to three years in length. Multiyear plans must identify energy savings to be achieved each year of the plan. COU is only required to meet its goal over the entirety of the plan period, not individual years, but must state why each annual goal is projected to be unmet.

Starting June 1, 2023, regardless of plan length, COUs must submit annual status reports detailing total expenditures, intended changes to the plan, and savings achievements.

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

Removes COU mandatory CIP spending requirements. COUs falling short of minimum savings goal for three consecutive years, however, are required to meet applicable spending requirements until utility has met minimum savings goal for three consecutive years. The amount or duration of the requirements may be reduced by the Commissioner 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 0.2 percent of their most recent three-year average gross operating revenue from residential customers in Minnesota on low-income programs. Requires the Commissioner 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 low-income spending requirements, including preweatherization measures and contributing money to the Healthy AIR (Asbestos Insulation Removal) account.

Allows COUs to implement efficient 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 Commissioner in regard to 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 Commissioner'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, 2021, Commissioner must develop and publish technical information needed to evaluate whether deployment of a fuel-switching improvement meets the established criteria. Requires the Commissioner 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 Manner and Filing of Service

Removes COU requirement to submit filings through Department's electronic filing system.

Section 11 Public Utility Energy Conservation and Optimization Plans

Repeals the time limit on length of programs that the Commissioner can require public utilities to adopt.

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.

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

Section 12 Recovery of Expenses

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

Section 13 Ownership of Preweatherization or Energy Conservation Improvements

Revised to include preweatherization measures in provision.

Section 14 IOU Efficient Lighting Program

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

Section 15 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 Commissioner 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 preweatherization measures and contributing money to the Healthy AIR (Asbestos Insulation Removal) account.

Section 16 Assessment

Outlines Department authority to assess public utilities for technical assistance, CARD, CERTs and CSBR.

Section 17 IOU Programs for Efficient Fuel-Switching Improvements; Electric Utilities

Allows for inclusion of efficient fuel-switching and load management in IOU CIP plans. For efficient fuel-switching to electric end uses, 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 net benefits from efficient fuel-switching improvement to be counted toward net benefits of energy efficiency programs if primary purpose of program is energy efficiency.

Allows Commission to permit IOU rate schedules that provide for annual cost recovery for efficient fuel switching improvements. Prohibits Commission from approving financial incentive to encourage efficient fuel-switching programs.

Allows electric 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.

Section 18 Programs for Efficient Fuel-Switching Improvements; Natural Gas

Allows natural gas IOUs to propose programs to install electric technologies that reduce consumption of natural gas.

Allows natural gas IOUs to implement electric improvements where they result in a net reduction of source energy, greenhouse gas emissions, and is cost-effective from the utility, participant, and society perspective.

Allows natural gas IOUs to count energy savings of efficient fuel-switching programs to energy savings goal.

Allows Commission to permit IOU rate schedules that provide for annual cost recovery for efficient fuel-switching improvements and a financial incentive mechanism calculated based on the combined energy savings and net benefits.

Financial incentive not allowed for efficient fuel-switching program in a year where the utility achieves energy savings below one percent.

Section 19 Cost-Effective Load Management Programs

Load management programs may be approved if cost-effective to ratepayer, utility, participant and society.

Allows Commission to permit IOU rate schedules that provide for annual cost recovery of reasonable and prudent costs for cost-effective load management programs.

Commission may approve, modify, reject incentive plan proposal if Commission determines load management program is needed to increase utility's investment in cost-effective load-management, is compatible with interest of ratepayers, and links incentive to utility performance in load-management.

Financial incentive not allowed for load-management program in a year where the utility achieves energy savings below one percent.

Assumptions

Commerce assumes changes included in sections 2 through 19 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

Local Fiscal Impact

References/Sources

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