

**Subject** Energy conservation

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## **Summary**

House File 4502, the first engrossment, reorganizes and adds new language to the statute governing the Conservation Improvement Program (CIP), which for almost 40 years has required electric and gas utilities to invest in energy conservation measures that save energy at a lower cost than purchasing an additional unit of energy for consumption.

Although the language comprising the bill's first 15 pages appears to be new, the vast majority is taken verbatim from the current CIP statute (section 216B.241). That section of law—which applies to public utilities, cooperative electric associations, and municipal utilities, although these entities are often treated differently—is currently organized by issue rather than by the type of utility to which it applies. For example, provisions regarding a utility's annual energy savings goals are organized into a single subdivision, which contains some paragraphs that apply to all three utility types, and others that apply to two or only a single type.

House File 4502 reorganizes the statute by grouping most of its provisions into two separate portions: all regulations pertaining to cooperative electric associations and municipal utilities – collectively referred to in the bill as “consumer-owned utilities”—are contained in 10 subdivisions under section 5, most of which replicates the language of the existing statute that applies to those entities. Provisions governing public utilities (Xcel Energy, Minnesota Power, and Otter Tail Power, which collectively sell about 60 percent of the retail electricity consumed in Minnesota) are in sections 6 to 20. The portion applying to public utilities is created largely by amending the existing statute (i.e., removing references to cooperatives and municipal utilities). This method of organization makes finding specific provisions easier, but also necessitates some repetition of language.

This bill summary will focus on only new provisions the bill adds to the existing statute.

### **Non-Conservation Improvement Program (CIP) Provision**

Section 2 of the bill contains a new provision which is not part of CIP. It allows a public utility to recover through its energy rates, if approved by the Minnesota Public Utilities Commission, investments in “innovative clean technologies” that are not widely deployed among utilities and that provide net economic benefits to ratepayers. The amount of costs that can be recovered for these programs is limited to \$6 million over three consecutive years (Xcel and CenterPoint) and \$3 million for other public utilities.

## Consumer-Owned Utilities

### **(1) Energy-Savings Goals**

Current law requires utilities to reduce retail energy sales by 1.5 percent annually. This energy-savings goal is retained for consumer-owned utilities, as is the requirement that at least 1.0 percent result from implementing traditional conservation measures. A new source of energy savings—from efficient fuel switching improvements (line 7.29)—may contribute to energy savings above that minimum 1.0 percent level. These are defined as measures that substitute electricity or natural gas for a customer’s current fuel (lines 4.10 to 4.22) and that: (1) reduce the overall amount of energy used on a fuel-neutral basis; (2) reduce greenhouse gas emissions; (3) are cost-effective; and (4) improve the utility’s load factor (lines 14.12 to 14.32). The commissioner of commerce is to develop a method utilities must use to calculate energy savings from fuel-switching improvements (lines 21.7 to 21.14).

An energy conservation plan submitted by a consumer-owned utility to the Minnesota Public Utilities Commission for review may span up to three years, rather than the annual plans required now. A consumer-owned utility is not required to meet the 1.0 and 1.5 percent goals for each year of the plan, but must meet them both on an average basis over the plan’s duration, unless the 1.5 percent goal is reduced by the commissioner of commerce, a reduction allowed under current law (lines 8.17 to 8.31 and 10.12 to 10.30).

Should a consumer-owned utility fall short of the minimum 1.0 percent goal three years in a row, while spending less than 1.5 percent of its gross retail operating revenues on conservation investments for an electric utility, or 0.5 percent for a natural gas utility, those spending levels become a mandatory spending minimum until the 1.0 percent goal is reached for three consecutive years. The commissioner may reduce these measures under certain specified circumstances (lines 11.1 to 11.31).

### **(2) Energy Conservation for Low-Income Households**

The minimum annual amount a municipal electric utility must spend on energy conservation programs for low-income households increases from 0.1 percent of its gross operating revenues to at least 0.2 percent (line 12.9). Up to 15 percent of a consumer-owned utility’s spending on low-income programs may fund preweatherization measures (e.g., repairing a broken window or leaky roof), without which, by law, weatherization measures (such as insulation) may not be installed in a home. The commissioner of commerce must develop a list of approved preweatherization measures by March 15, 2021. A consumer-owned utility may also contribute to preweatherization spending by paying into a newly-created account whose funds are used to remove asbestos insulation from homes (lines 13.14 to 13.30).

## **Public Utilities**

### **(1) Energy-Savings Goals**

The annual energy-savings goal for a public utility providing electric service is increased from 1.5 to 1.75 percent, while the goal for a natural gas utility is lowered to 1.0 percent (lines 18.7 to 18.10).

### **(2) Energy Conservation and Optimization Plan**

A public utility's energy conservation plan must include activities to improve energy efficiency in public schools served by the utility (lines 24.21 to 24.27).

### **(3) Energy Conservation for Low-Income Households**

The annual amount a public electric utility must spend on energy conservation programs for low-income households increases from 0.1 to 0.4 percent of its gross operating revenues; for a natural gas utility, the increase is from 0.4 to 0.8 percent (lines 27.20 to 27.25).

The same provisions that apply to consumer-owned utilities regarding preweatherization measures and the asbestos removal account apply to public utilities.

### **(4) Fuel-Switching Improvements**

Unlike a consumer-owned utility, a public utility providing electric service may not count energy-savings from fuel-switching toward its energy-savings goal. Neither may the Public Utilities Commission approve a financial incentive to encourage fuel-switching for a public electric utility (since the utility, via fuel-switching, benefits financially by increasing its sales), although the utility may recover through its energy rates the costs of the fuel-switching improvement (lines 30.12 to 30.15).

However, the net benefits resulting from the implementation of a fuel-switching improvement (the amount by which the cost of purchasing and installing the improvement is exceeded by the reduction in the utility's costs to provide service to that customer) may be counted toward the overall net benefits of the public utility's CIP (lines 30.8 to 30.11). A public utility's aggregate amount of net benefits determines how much of the total economic savings resulting from conservation investments a public utility is allowed to retain; the balance is allocated to ratepayers.

A public utility providing natural gas service may receive a financial incentive from the commission for installing an electric technology-based fuel-switching improvement that reduces natural gas consumption, e.g., an electric heat pump (lines 31.3 to 31.33).

### **(5) LED Lighting**

The bill updates existing law to require both public and consumer-owned electric utilities to encourage the use of LED lights (rather than fluorescents and high-intensity discharge lights, as

the current statute requires) and to provide cost recovery for the collection of used LEDs by Xcel Energy and any other utility that elects to do so.

**(6) Load Management Programs**

Load management programs shift energy demand from peak times when electricity is expensive (because less-efficient resources are brought on line to generate it, or it is purchased on the wholesale market at a time when demand is high) to times when it is cheaper. For example, a utility may place controls on residential water heaters that allows the utility to heat water at night when rates are low, rather than at peak daytime hours.

As under current law, this bill allows cost recovery of load management investments that actually save energy, as opposed to merely shifting energy demand. It also allows a public utility to obtain a financial incentive to encourage investments in load management programs approved by the commission, provided it finds the program in the interest of the utility's ratepayers. The financial incentive may, with commission approval, make load management investments an asset of the utility on which a rate of return may be earned, or the public utility may choose to count net benefits from load management towards the utility's overall program net benefits (lines 32.4 to 33.5).

**Repealer**

The bill repeals three subdivisions of the current statute whose language is largely retained, but organized differently in the bill, and two subdivisions containing obsolete language.



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