

**SF4562 - 0 - Fuel Switching Improvement Provisions Modified**

Chief Author: **Jason Rarick**  
 Committee: **Energy, Utilities, Environment and Climate**  
 Date Completed: **3/12/2024 2:00:58 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		FY2023	FY2024	FY2025	FY2026	FY2027
State Total						
Total		-	-	-	-	-
Biennial Total				-		-

Full Time Equivalent Positions (FTE)		Biennium			Biennium	
		FY2023	FY2024	FY2025	FY2026	FY2027
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**

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

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

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
Dollars in Thousands		<b>FY2023</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>	<b>FY2027</b>
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-
<b>2 - Revenues, Transfers In*</b>						
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-

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State Fiscal Impact	Yes	No
Expenditures		X
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	FY2023	FY2024	FY2025	FY2026	FY2027
Dollars in Thousands					
<b>Total</b>	-	-	-	-	-
<b>Biennial Total</b>			-		-

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2023	FY2024	FY2025	FY2026	FY2027
<b>Total</b>	-	-	-	-	-

## 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		FY2023	FY2024	FY2025	FY2026	FY2027
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

### Bill Description

SF4562 modifies various statutes to provide for efficient fuel-switching proposals and programs, including potential cost recovery for efficient fuel switching projects.

Section 1 adds efficient fuel-switching to the list of factors for the Public Utilities Commission (PUC) to consider when evaluating incentive plans for energy conservation improvement.

Section 2 provides that public utilities may recover costs for advertising items included in approved efficient fuel-switching programs and transportation electrification plans.

Sections 3 through 14 modify statutes relating to Energy Conservation and Optimization (ECO) plans to incorporate consideration of efficient fuel-switching proposals and programs, including modification of energy savings goals, financial incentive eligibility, and certain spending limits.

### Assumptions

SF4592 primarily modifies the ECO program, which is administered by the Department of Commerce. The main impact on the PUC is in sections 1 and 2, which modify cost recovery for efficient fuel-switching programs as part of utility rates. However, the PUC anticipates that these modifications would be addressed during the normal course of utility rate change proceedings and there would be no additional fiscal impact

### Expenditure and/or Revenue Formula

### Long-Term Fiscal Considerations

### Local Fiscal Impact

### References/Sources

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 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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Dollars in Thousands		FY2023	FY2024	FY2025	FY2026	FY2027
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-

<b>Full Time Equivalent Positions (FTE)</b>		<b>Biennium</b>			<b>Biennium</b>	
		FY2023	FY2024	FY2025	FY2026	FY2027
<b>Total</b>		-	-	-	-	-

**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		FY2023	FY2024	FY2025	FY2026	FY2027
	Total	-	-	-	-	-
	Biennial Total			-		-
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
	Total	-	-	-	-	-
	Biennial Total			-		-
<b>2 - Revenues, Transfers In*</b>						
	Total	-	-	-	-	-
	Biennial Total			-		-

### Bill Description

SF4562-0 contains modifications to eligible activities that can be included in Energy Conservation and Optimization program (ECO) financial incentive plans, allows electric investor-owned utility advertising expenses for ECO related efficient fuel-switching to be recovered from ratepayers, and modifies the ECO framework in a variety of ways.

#### Section 1: ECO Financial Incentive for Investor-owned Utilities

Modifies Minn. Stat. section 216B.16 subd. 6c to include efficient fuel-switching as an eligible activity for which the Minnesota Public Utilities Commission (PUC) can approve as part of an investor-owned utility's (IOU) ECO financial incentive plan.

#### Section 2: Advertising Expenses for ECO Related Efficient Fuel-Switching and Transportation Electrification Plans

Modifies Minn. Stat. section 216B.16 subd. 8 so that the PUC does not automatically disapprove a rate where the IOU's public advertisements include expenses for ECO related electric IOU efficient fuel-switching or a transportation electrification plan.

#### Section 3: Data Mining Facility Definition

Adds a definition of "data mining facility" to section 216B.2402.

#### Section 4: Efficient Fuel-Switching Definition

Removes language from the "efficient fuel-switching improvement" definition (216B.2402 subd. 4) requiring that neither an efficient fuel-switching improvement nor an energy conservation improvement where fuel switching would increase greenhouse gas emissions, count toward a utility's energy savings goal.

#### Section 5: Gross Annual Retail Energy Sales Definition

Changes the definition of "gross annual retail energy sales" (216B.2402 subd. 10) to exclude sales to data mining facilities if the facility has provided a letter verifying that it meets the definition of data mining facility and the facility imposes a peak electrical demand on a consumer-owned utility (COU) greater than 40 percent of the peak electrical demand of the system. This change appears to apply to COUs only.

Changes the impact of the electric vehicle charging sales exclusion from the gross annual retail energy sales definition. After December 31, 2032, incremental sales to electric vehicles would now only be included in IOU gross annual retail energy sales and not COU.

#### Section 6: Consumer-owned Utility Energy Savings Goal

Reduces the annual energy savings goal for natural gas COUs from 1.5% of annual retail sales to one percent. For all COUs, reduces the minimum required energy savings from energy conservation improvements from 0.95% to 0.9% of annual retail sales and increases the amount of permissible savings from efficient fuel-switching that can count toward the minimum savings goal from 0.55% to 0.6%.

Removes the efficient fuel-switching spending cap that is currently in place until July 1, 2026.

#### Section 7: Consumer-owned Utility Plans

Expands the scope of COU alternative-ECO programs to include efficient fuel-switching but would limit eligible organizations that could propose and implement alternative-ECO programs to political subdivisions, nonprofit corporations, and community organizations.

Expands the scope of permissible COU research and development investment under ECO to include efficient fuel-switching and load management.

Removes the COU requirement that ECO plans that include efficient fuel-switching programs must include a comparison of greenhouse gas emissions between fuels and use a full fuel-cycle energy analysis.

#### Section 8: Consumer-owned Utility ECO Programs for Low-income Households

Allows electric COUs to use ECO low-income spending on space and water heating and efficient fuel-switching improvements to help households whose current primary heating fuel is from a non-ECO utility or source.

#### Section 9: Consumer-owned Utility Efficient Fuel-Switching Criteria

Expands the methodology from which a COU can determine a net reduction in energy consumption achieved through an efficient fuel-switching improvement.

Changes the methodology for determining greenhouse gas emission reductions achieved through an efficient fuel-switching improvement from the current approach that uses the COU's hourly emissions profile to one that would use the COU or COU's electricity supplier's annual average emissions factor, or the seasonal, monthly or more granular analysis for the utility system over the measure's life.

Removes the requirement that an efficient fuel-switching improvement be installed and operated in a manner that improves the COU's system load factor.

#### Section 10: Investor-owned Utility Energy-Saving Goals

Removes the IOU spending cap on efficient fuel switching measures that is currently set to expire July 1, 2026.

#### Section 11: Investor-owned Utility ECO Plans

Expands the scope of permissible IOU research and development investment under ECO to include efficient fuel-switching and load management.

Expands the scope of IOU alternative-ECO programs to include efficient fuel-switching but would limit eligible organizations that could propose and implement alternative-ECO programs to political subdivisions, nonprofit corporations, and community organizations. Also requires the commissioner to consider the qualifications and experiences of the proposing entity when reviewing alternative-ECO proposals.

Removes the IOU requirement that ECO plans that include efficient fuel-switching programs must include a comparison of greenhouse gas emissions between fuels and use a full fuel-cycle energy analysis.

#### Section 12: Efficient Fuel-Switching Programs for Electric IOUs

Allows electric IOUs to propose a specific goal for efficient fuel-switching in ECO plans.

Removes language requiring consideration of whether electric IOU efficient fuel-switching improvements can be operated in a manner that facilitates integration of renewable energy resources into the electrical system. Also removes language allowing efficient fuel-switching net benefits to be counted toward efficiency program net benefits where the department



determines the primary purpose of the program is energy efficiency.

Allows the PUC to consider a financial incentive for efficient fuel-switching programs implemented by electric IOUs.

Clarifies the methodology from which an electric IOU can determine a net reduction in energy consumption achieved through an efficient fuel-switching improvement.

Changes the methodology for determining greenhouse gas emission reductions achieved through an efficient fuel-switching improvement from the current approach that uses the electric IOU's hourly emissions profile to one that would use the electric IOU annual average emissions factor or the seasonal, monthly or more granular analysis for the utility system over the measure's life.

Removes the requirement that an efficient fuel-switching improvement be installed and operated in a manner that improves the electric IOU's system load factor.

#### Section 13: Efficient Fuel-Switching Programs for Natural Gas IOUs

Removes the requirement that natural gas IOUs meet the one percent minimum savings goal with non-efficient fuel-switching programs in order for any efficient fuel-switching programs to be eligible for the natural gas IOUs financial incentive.

#### Section 14: Generation Projects

Removes the COU five percent spending cap on generation projects enumerated in 216B.2411 subd. 1.

Provides that COUs and IOUs are prohibited from participating in solar projects on a property unless the IOU has provided evidence that all reasonable cost-effective conservation investments have been made to the property.

#### **Assumptions**

Commerce assumes changes included in sections 1 through 14 would be adequately addressed with existing expertise and resources. Therefore, it is assumed that no additional resources will be required and there is no fiscal impact from the proposed bill.

#### **Expenditure and/or Revenue Formula**

N/A

#### **Long-Term Fiscal Considerations**

#### **Local Fiscal Impact**

#### **References/Sources**

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