Summary - Fuel Switching Meeting #1

The Department of Commerce (hereafter: the "Department") convened a stakeholder meeting on June 26, 2019, to address issues related to the prohibition on targeted fuel-switching in the Minnesota Conservation Improvement Program. This document summarizes the information presented at that meeting, and selected comments from meeting participants.

I. Introduction and Policy Background

A. Welcome and introduction by Jessica Burdette

The meeting was convened at 9:00 a.m. by Jessica Burdette, Manager, Energy Regulation & Planning, who welcomed participants and summarized the meeting agenda.

B. Remarks by Deputy Commissioner Joe Sullivan

Deputy Commissioner Joe Sullivan reviewed fuel-switching policy including the 2005 prohibition and modifications with guidance in 2012. The Department determined in 2005 that rebates would be based on reductions in utility sales, and savings from fuel's other than the utility's would not be counted toward efficiency improvements. A 2012 modification allowed electric utilities to provide fuel-switching solutions for low-income customers in conjunction with the weatherization assistance program.

C. Remarks by Anthony Fryer

Anthony Fryer, CIP Program Coordinator, reviewed the issues that led to the May 2018 Stakeholder Meeting that raised questions for stakeholder consideration about current fuel-switching policy and potential changes. He also discussed a parallel stakeholder process focusing on strategic electrification, toward development of an action plan in 2021.

II. Overview of Stakeholder Process Objectives and Methodology

Michael Burr (hereafter "the facilitator") discussed the plan for the stakeholder process, including its objectives and the methodology to be pursued. The methodology involves providing information about fuel-switching policy and related developments and facilitating stakeholder discussions, toward the objective of clarifying stakeholder perspectives, assessing options and issues, and synthesizing inputs into a report that provides guidance for policy consideration at the Department.

III. Fuel-Switching Policy Background

Stakeholder Written Comments: The facilitator summarized the major topics addressed in the May 2018 Stakeholder Meeting and subsequent written comments, comprising four main questions: 1) What constitutes fuel switching? 2) Does the Department have the authority to permit fuel switching? 3) Would fuel switching advance CIP goals? 4) How could fuel-switching measures be included in CIP portfolios? He summarized various ways of defining fuel switching for CIP purposes that were highlighted in stakeholder's written

comments. For a detailed summary of the written comments, see "Summary Report - Stakeholder Written Comments, Minnesota Department of Commerce May 30, 2018 Fuel-Switching Stakeholder Meeting."

A. 2019 Fuel-Switching Legislative Proposal (not adopted): The facilitator summarized fuel-switching related language in the proposed 2019 legislation HF 2208/SF 211, including:
    1. Explicitly including fuel-switching among energy saving methods eligible for incentives;
    2. Expanding the statutory goal to include "optimization" of energy use – removing the narrower definition that limits the ability to use fuel switching and some other tools such as demand response;
    3. Establishing requirements for energy conservation and optimization planning, reporting, and verification; and
    4. Codifying four criteria for fuel-switching improvements, including:
        a) Reduces cost and amount of source energy consumed on a fuel-neutral basis;
        b) Results in lifetime net reductions of GHGs;
        c) Is cost-effective on a societal basis; and
        d) Doesn't increase utility peak demand or require significant new infrastructure.

B. Fuel-Switching Outside Minnesota: The facilitator provided an overview of conservation policies in several states that allow fuel switching. He noted that among the numerous states that include fuel switching in conservation policies, some are deregulated states and others are not. Policies in most states date from about 2010, but from much earlier in some states – notably California with its three-prong test for allowable fuel switching established in 1992. Some states also seem to have different motivations for allowing fuel switching; notably Oklahoma's policy is aimed at encouraging efficient use of natural gas.

IV. Moderated Discussion:

A. Fuel-Switching Drivers and Use Cases: The facilitator introduced the moderated discussion by summarizing primary drivers for fuel switching, especially associated with two fuel-switching use cases:
    1. An electric utility program offers a rebate to help residential and business customers replace oil, propane, or gas-fired furnaces with heat pumps that have lower lifecycle costs, higher efficiency, and lower or equivalent emissions
    2. A natural gas utility offers incentives for combined heat and power (CHP) systems that reduce industrial customers' net energy consumption, costs, and climate footprint than separate utility electric and onsite thermal production.

    He summarized a third use case involving electrification transportation, and noted that related issues are being addressed through the parallel Strategic Electrification stakeholder process and will not be a central focus of the fuel-switching stakeholder process.

    Stakeholder remarks:

    - A participant from Otter Tail Power (OTP) raised a point about fuel equality, noting that its filing seeking to allow fuel-switching involved some customers being prevented from taking advantage of a program offered to OTP customers, and so the prohibition on "targeted" fuel switching is leading to unintended consequences.

- A participant from Great River Energy (GRE) noted that another use case involves utilizing industrial use of electric infrared heating and curing technologies. He also mentioned that while CIP is a standalone policy it also is part of a group of State policies, and so policy change will be most effective if it takes a holistic and comprehensive approach.
- A participant representing the Minnesota Propane Association noted that propane today is considered a clean fuel equivalent to natural gas, and it shouldn't be treated as a dirty fuel.
- A participant noted that the two presented use cases have different objectives and results in different specific situations, and that the use cases should be broken down into multiple more specific applications to clarify how fuel-switching policy prohibition affects specific situations differently.
- Jessica Burdette observed that a subsequent meeting will address fuel-switching technologies, and as part of that meeting stakeholders are asked to consider further the more specific use cases that are driving interest in policy change.
- A participant from OTP observed that non-CIP regulated municipal gas utilities are not affected by fuel-switching policy prohibition the way investor owned utilities are affected by it, and that "unregulated" fuel switching is happening to the disadvantage of electric utilities. The facilitator noted that State law doesn't explicitly prohibit fuel switching, but that it prevents using CIP incentives to finance it. Jessica Burdette clarified that unregulated utilities are not subject to the CIP statute and so their fuel-switching programs are not equivalent to those that are prohibited within CIP.
- A participant noted that many examples of fuel switching could fall into the same category as transportation electrification, but that they should still be considered in this process because they represent examples that are driving the need for policy change generally and so they should inform any CIP policy considerations.
- A participant from GRE noted that much of the trend toward fuel switching is driven by new technologies and applications emerging in the market. He emphasized that State policies should encourage holistic optimization of energy use, and that a utility's load growth should not be assumed to be a bad thing. Jessica Burdette responded that the policy isn't saying load growth is bad, but that as incentives are being applied they encourage efficiency improvements, and any load growth should happen in an efficient way.
- Jessica Burdette added that conservation policies are interrelated and policy changes can have complex effects on other policies or programs.
- A participant from Michaels Energy observed that fuel-switching policies affect progress on goals involving environmental issues and optimal use of utility system capacity.
- A participant from Fresh Energy mentioned examples of managed loads vs non-managed loads, and that fuel-switching outcomes that lead to solutions that can be controlled to manage peak loads are more desirable than those that don't.

B. CIP Policy Considerations: The facilitator raised for discussion three questions re: policy changes that would effectively address the needs emerging in the market so that CIP can support efficient fuel switching:

1. Net energy savings: What changes would best enable optimal accounting of net energy savings rather than the metric of utility sales reduction?
2. Avoiding cross-subsidy: How can the program prevent one utility's ratepayer funds from being used to benefit a different utility?
3. Effective criteria: What criteria would ensure fuel switching supports CIP goals and avoids unintended consequences?

Stakeholder Remarks:

- A participant from the Citizens' Utility Board (CUB) discussed that fuel-switching outcomes are affected by external issues including the transition away from fossil fuels and toward renewables. He referred to environmental benefits and capital cost avoidance, and noted that it's important when considering policy change to stay focused on the best ways to achieve the policy goals.
- Jessica Burdette agreed with the point and observed that while environmental benefits are quantified in CIP, they are not explicitly part of CIP goals, and this can lead to conflicts when CIP programs are advanced partly for environmental purposes.
- The facilitator noted that criteria in the proposed 2019 legislation as well as other states' policies explicitly include environmental improvements as well as deferment of infrastructure capital investments.
- A participant from the Center for Energy and the Environment (CEE) noted that he was involved in developing the proposed legislation. He noted that the proposed language sought to allow quantifying net energy savings on a fuel-neutral basis, adding that a great deal of work went into the proposed language and that effort can inform the fuel-switching stakeholder process.
- The facilitator asked the CEE representative if he could speak to the proposed language re: significant new infrastructure, pointing out that things like district energy could yield energy savings but could be defined as significant infrastructure. The participant said the language was mostly driven by considerations around electrification that could lead to increased electric peak loads, especially winter peaks, that would require additional utility infrastructure to support. He added that criteria should balance the need for new infrastructure against customer cost-effectiveness; the policy should result in customer and system benefits.
- A participant from the Minnesota Rural Electric Association (MREA) commented that all new infrastructure being installed today is more efficient than legacy systems, and that when investments are being deferred it results in deferment of renewable energy infrastructure. He added that in terms of framing the questions at hand, the plain language of the statute offers opportunity for substantial change and flexibility, and the process may not result in an optimal outcome if it focuses only on minor incremental changes. He expressed interest in policy changes that are consistent with the way energy services and technologies are changing. The facilitator suggested the participant's point is that policy should go back to the original intent of the statute, and asked Jessica Burdette whether such an approach is possible given changes in the statutory framework. She responded that it is a problem because the CIP statute has been in place since 1981, with many statutory changes and iterations over time. The

current policy framework was established in 2007, and updates may be merited but statutory change hasn't succeeded. She suggested that if old orders are no longer appropriate that they should be thrown out, but going back to the plain language of the statute may not help because it can be interpreted in many ways.

- The facilitator asked how the policy changed in 2007 that is pertinent to fuel-switching questions. Jessica Burdette said it established a statewide energy savings goal and associated criteria, and that understanding how the framework changed in 2007 is important to inform any approach to policy change to allow fuel switching in CIP.
- A participant referred to the preamble in the statute pertinent to utility CIP programs and noted that the over-arching objective is to save 1.5% of energy broadly, not in terms of gas or electricity. He expressed the opinion that the statutory language provides latitude in approaches to achieving energy savings.
- Jessica Burdette pointed out that the preamble language in §216B.2401 is an aspirational statement, whereas §216B.241 sets out actual CIP requirements for utilities.
- The facilitator observed that policy change may be needed in both the aspirational policy language as well as the specific utility regulatory language.
- A participant added that since 2007 technology has changed and CIP has had success achieving utility energy savings. Similar success has not been achieved in other fuel sectors, which represent 2/3 of the market. He suggested that the policy discussion should be viewed as an opportunity to provide better regulations to achieve benefits in all major fuel sectors.
- Jessica Burdette observed that when the statute does not provide specific policy guidance, the Department has limited ability to promulgate policies to achieve broader objectives.
- The facilitator observed that stakeholders in the other 2/3 of the energy industry may or may not welcome the kinds of policies that would lead to energy savings akin to CIP. Delivered heating fuel suppliers for example would be unlikely to benefit from any fuel-switching policy changes.
- A participant from CUB mentioned that on major issues like carbon emissions, major improvements have yet to be made in the utility industry, and that it's premature to declare success from CIP in deploying customer energy-saving measures.
- The facilitator asked Jessica Burdette to discuss CIP utility infrastructure provisions and how those policies may factor into the fuel-switching discussion. She noted the societal cost test and opportunities for system efficiency, and referred to a recently denied Xcel Energy filing on EV charging stations as an example of how system efficiencies and customer efficiency technologies are different but both can relate to the fuel-switching conversation. She added that a more holistic approach to policy development leads to discussion about how built environments need to change in order to achieve environmental and other goals, that buildings are getting smarter, and are evolving to become a distribution system resource. As the conversation evolves the policy implications become more entangled – e.g., as buildings become smarter that can support system efficiencies. As a result it becomes harder to isolate conversations about fuel-switching and issues like system efficiency.

- A participant from MREA reiterated the point that CIP is crafted to achieve societal benefits that are being prevented today by the 2005 fuel-switching prohibition. He agreed that going back policy established 14 years ago may be fraught, but the focus of any policy change should be on achieving the statutory goals rather than on making peripheral tweaks to the policy.
- Anthony Fryer observed that the 2018 stakeholder written comments expressed opinions on whether fuel-switching could be allowed within the statute without identifying the specific provisions that would do so. He called for detailed inputs and suggestions on fuel-switching policy language that could fit within the existing statute.

V. Conclusion:

The facilitator concluded the meeting with a brief summary of major points discussed, and information about next steps including a pending written comment period and a second stakeholder meeting to be scheduled for September 2019.

The meeting ended at 12:00 noon.

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