

MEMORANDUM

To: Nick Mark, Manager | DSM Policy and Strategy

From: Stacy Miller, Sustainability Program Coordinator | Energy and Climate Regulatory Policy

Cc: City of Minneapolis and Xcel Energy Clean Energy Partnership Board Members and staff

Date: Feb 15, 2023

Subject: Recommendations for the 2024-2027 Xcel Energy Conservation Improvement Program Plan

The City of Minneapolis appreciates Xcel Energy's openness to recommendations regarding the next Conservation Improvement Program (CIP) Triennial Plan for energy efficiency programs. This memo outlines the collective recommendations of the City of Minneapolis' Clean Energy Partnership board members and staff.

These programs have long helped residential and commercial electricity customers who want to invest in energy upgrades that save money, reduce greenhouse gas emissions, and reduce peaking load on the grid. For several years now, Minneapolis has offered funding and program buy-downs to leverage important Xcel Energy CIP programs to make energy- and cost-saving projects more accessible for residential and commercial customers.

As energy policy and program goals evolve, the new CIP Triennial plan creates an opportunity to modify existing programs and develop new ones that will help the state and local governments meet important climate and clean energy goals. The City offers the following recommendations for your consideration based on new opportunities associated with the ECO Act, newly available federal funding, and staff experience.

Residential Programs

In 2019-2022, Minneapolis participated in a Commerce-funded Conservation Applied Research and Development grant led by Citizens Utility Board of MN to clearly articulate the challenges and opportunities to make CIP programs more accessible for Black and people of color households, households with incomes above 60% State Median Income but below high-income, and renters. Results from the [research](#) showed that 1) home and property owners are primarily making decisions on energy appliance purchases during a time of appliance failure (e.g., refrigerator, air conditioner, furnace, water heater, etc.) and 2) current rebate levels are insufficient to cover the incremental costs to purchase a high efficiency (rebate-eligible) appliance.

HVAC Equipment and Appliance Rebates

We believe customers with older equipment and appliances may benefit from the development of a plan that includes two types of intervention: 1) proactive to support equipment replacement decisions prior to time of failure. (Home Energy Squad visit, pre-weatherization, weatherization, pre-electrification, electrification) and 2) reactive (time-of-sale rebates, easy electrification) to address the issue of owners

being unable to afford an appliance failure and therefore purchasing the cheapest available option, forgoing utility rebates and proactive efficiency programs like Home Energy Squad. The City supports the CARD grant recommendation to offer **appliance rebates that cover 90-100% of cost difference** between the base model and the high efficiency model. Additionally, the rebates should be made available at the time-of-sale through retailers and contractors.

The CARD findings held true whether the households were owner- or renter-occupied. Rental property owners were unlikely to replace failed equipment with high-efficiency (rebate-eligible) equipment at current rebate levels. The City asks Xcel to increase rebates for rental property programs, including the Multi-Family Building Efficiency program, to help more property owners go through with efficiency upgrades.

Even with higher rebates for equipment households struggle with unexpected costs. Many are unable or unqualified to take on a personal loan and would benefit from low-interest, non-credit-based on-bill repayments with immediate savings. Without an inclusive financing solution, a gap remains. We are eager to connect with Xcel on strategies to fill this financing gap.

Home Energy Squad

Home Energy Squad (HES) is a high value program and a great entry point for residential customers to learn about the benefits of energy efficiency. We support continuing free HES assessments for low-income customers. Minneapolis has supported the HES program by buying the program cost down to \$0 for non-income eligible customers in Minneapolis Green Zones, but we request that Xcel **expand free assessments to geographies recognized as environmental justice areas**, such as Minneapolis Green Zones, and to geographic areas of concentrated poverty.

Given new **federal incentives for efficiency and electrification**, we recommend Xcel budget additional resources to reduce wait times for popular HES services, including continued investments in **workforce development** as more households seek weatherization and electrification. We also encourage more explicit beneficial electrification recommendations within the HES program and during visits, including on-going **electrification assistance** when speaking to a HES Energy Advisor.

Electrification in New and Existing Homes

Thousands of residential units are built every year in Minneapolis. Offering **prescriptive incentives** for efficient all-electric homes, including single family and multi-family homes, new construction, and renovations would encourage architects and builders to choose high performance homes in the design phase. This will help lower costs for occupants and mitigate future energy cost increases for generations of occupants to come.

With ECO Act-enabled tools newly available this Triennial, we ask Xcel to offer expanded **electrification programs in coordination with CenterPoint Energy**, including significant incentives for electric heat pumps in both new and existing homes. This would include heat pump water heaters and heat pump heating systems (both all-electric and dual-fuel hybrid).

We also encourage working with Commerce and CenterPoint to align energy audit programs, such as HES, with the new **Inflation Reduction Act (IRA)** rebate programs to make it easier for customers to access federal incentives.

Since most new housing units being built are larger multifamily buildings, the choice of HVAC systems deeply impacts Minneapolis's ability to meet our community-wide climate goals. As low-efficiency gas-fired "Magic-Pak" individual HVAC units remain extremely popular for developers to install, specific efforts to **promote and incentivize all-electric and dual-fuel heat pumps** would be especially helpful.

Commercial Programs

Electrification

Minneapolis encourages Xcel to pursue electrification as allowed under the new ECO Act rules, including heat pumps, water heaters and commercial kitchen appliances. Setting higher rebates will help businesses invest in energy efficiency and weatherization for existing and new buildings.

We believe that marketing to raise awareness among small- to mid-size companies about the Commercial Streamlined Assessment offering would increase participation in this high value program. In addition to existing custom incentives, a new **prescriptive program for building automation** may improve participation by smaller companies, leading to more demand response opportunities. Increasing incentives for electric stoves, ovens, and food service equipment may help restaurant owners electrify as well.

Custom Projects

Commercial and Industrial (C&I) lighting programs could benefit from a simplified rebate pathway that doesn't require custom analysis for fixtures that do not fall into traditional categories or instances where the replacement fixture is not identical to the existing fixture. Additionally, **using existing equipment/building conditions as the baseline condition** (as opposed to code as baseline) within custom analyses and allowing a longer payback period for C&I custom projects may boost program participation and reduce the number of projects denied.

Demand Response

Peak Partner Rewards is an excellent program that may require more marketing and/or a free real-time demand meter with a one-year commitment to program. If 25-kW is too high as a minimum demand threshold, Xcel may wish to help small commercial customers participate by lowering the demand threshold as a program modification.

In closing, we appreciate Xcel and CenterPoint coordinating on certain program offerings to streamline CIP participation for customers with Xcel electric and CenterPoint gas service. This has been effective for HES, recommissioning studies, and the Energy Design Assistance Program. We similarly encourage coordination on beneficial electrification programs for customers who wish to transition from gas heating to cold climate air source heat pumps and other fuel switching rebates.

Working together, our programs can better reach residents and businesses most in need of energy efficiency and beneficial electrification. Minneapolis appreciates Xcel's willingness to consider our recommendations and welcome further discussion with the opportunity to share additional detail.