ECO and IRA Regulatory Process and Opportunities for Stakeholders

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Acronyms

- CIP = Conservation Improvement Program
- ECO = Energy Conservation and Optimization Act
- IOU = Investor-Owned Utility
- COU = Consumer-Owned Utility (municipal and cooperative utilities)
- Dth = Dekatherm (a unit of measurement for natural gas; 10 therms)
- kWh = Kilowatt hour (a unit of measurement for electricity)
  - Savings are reported “at the generator” and “at the customer”
- WAP = Weatherization Assistance Program (U.S. Dept. of Energy)
- AMI = Area median income
- SMI = State median income
- FPL = Federal poverty level
- TRM = Technical Reference Manual (provides technical assumptions to calculate energy savings of different measures)

Two topics

- ECO plans
- IRA alignment

Quick Refresh: ECO Updates and Regulatory Oversight

Energy Conservation and Optimization Act (ECO)

- New law in 2021
  - The Conservation Improvement Program (“CIP”) was renamed “ECO”
- Updates include:
  - Allows for efficient fuel switching (e.g. natural gas furnace to air source heat pump)
  - Allows utilities to include load management (i.e. demand response) programs
  - Increased the annual energy savings requirement for electric investor-owned utilities
  - Increases utility spending on low-income programs (gas to 1% and electric to 0.6% of residential gross operating revenue)
  - Allows utilities to fund “pre-weatherization” improvements (i.e. health and safety measures) for low-income customers

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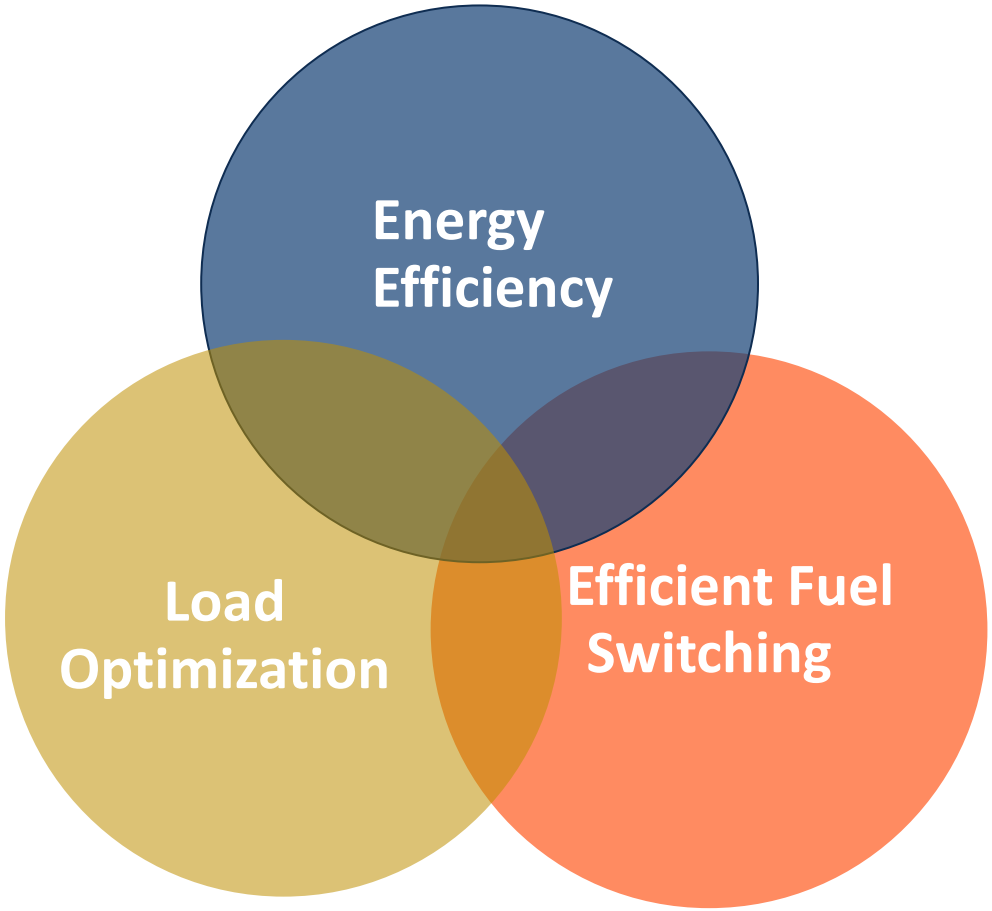
Energy Conservation and Optimization Act (ECO)



Regulatory Oversight of ECO Programs

- The MN Department of Commerce oversees ECO programs
- The ECO Regulatory Department is within the “Regulatory Analysis Section” in the Division of Energy Resources
- Department Staff:
  - Oversee compliance with ECO requirements (plans and achievements)
    - Approve, modify, and/or reject Triennial Plans
    - Approve, modify, and/or reject Annual Status Reports (“actuals”)
  - Maintain the Technical Reference Manual (TRM)
    - The TRM provides energy savings assumptions and calculations
  - Develop and maintain cost-effectiveness practices

New ECO Cost-Effectiveness Framework*

- Primary “Minnesota Test”
  - Based on National Standard Practice Manual Process
  - Reflects relevant Minnesota policies
  - Think of it as a new and improved “Societal Cost Test”
- Screening applied at the segment level (e.g. residential segment)
  - Individual programs and measures are not screened for cost-effectiveness
- Low-Income programs are not subject to cost-effectiveness requirements
- This test will likely determine the shareholder financial incentive.**

*New cost-effectiveness test, inputs, and application approved in Docket No. 23-046 on March 31, 2023.
**TBD in upcoming docket.

Utility ECO Plans

Utility ECO Plans

- Utilities develop three-year ECO plans called “Triennial Plans”
- Triennial Plans include:
  - Descriptions of programs
    - Qualifying equipment
    - Proposed rebate levels
  - Participation goals
  - Estimated budgets
  - Energy savings goals
  - Compliance stats
- Next Plans Due **June 30, 2023***
  - Will go into effect on January 1, 2024
  - Will last until December 30, 2026

*The Department extended the deadline for Triennial Plan filings to June 30, 2023.

Regulatory Process

- **June 30, 2023**: Utilities file proposed plans
  - Department of Commerce files “notice of completion”
  - **30 days** for stakeholder review
- July 31, 2023 (or after): Stakeholder Comments Due
  - **15 days** for utility review
- August 15, 2023 (or after): Utility Reply Comments Due
  - **30 days** for Department to review record
- September 14, 2023 (or after): Department Proposed Decision Due
  - **15 days** for stakeholder review
- September 29, 2023 (or after): Stakeholder Comments on Proposed Decision Due
- October 29, 2023 (or after): Final Decision Due

*Timeline is set by MN Administrative Rules, Chapter 7690.
**All dates are subject to change. The Department can modify timeline as needed and it is usually needed.

Opportunities and Priorities for 2024-2026 ECO Plans

1. Leveraging the Inflation Reduction Act Opportunities

- High-Efficiency Electric Home Rebate Act (HEERA)
  - Provides point-of-sale rebates for residential energy efficiency and electrification equipment
  - 2 rebate tiers, based on income
    - 80% area median income
    - 150% area median income
  - Rebates will be managed by the Department of Commerce
- Home Owner Managing Energy Savings (HOMES)
  - Provides rebate for residential energy efficiency projects based on modeled energy savings
  - Requires energy audit and modeling
  - Rebates will be managed by the Department of Commerce
- Tax Credits

IRA Incentives + ECO Incentives

Average measure cost	Income qualified households	Incentive	Gap
Air source heat pump: $18,000	Household earning less than 80% AMI	$8,000 discount	**$10,000**
	Household earning between 80% and 150% AMI	$4,000 discount	**$14,000**
Wall insulation: $5,250	Household earning less than 80% AMI	$1,600 discount	**$3,650**
	Household earning between 80% and 150% AMI	$800 discount	**$4,450**
Attic insulation: $4,750	Household earning less than 80% AMI	$1,600 discount	**$3,150**
	Household earning between 80% and 150% AMI	$800 discount	**$3,950**
Heat pump water heater: $4,500	Household earning less than 80% AMI	$1,750 discount	**$2,750**
	Household earning between 80% and 150% AMI	$875 discount	**$3,625**

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To capitalize

- Utilities will need to offer ECO rebates and programs that align with IRA:
  - Equipment type
  - Equipment specifications
  - Income eligibility
  - Program requirements
  - Program delivery mechanisms

2.Efficient Fuel-Switching (Electrification)

- ECO allows for fuel-switching that:
  - Reduces energy consumption (fuel-neutral, source basis)
  - Reduces greenhouse gas emissions
  - Improves electric utility load factor
  - Is cost-effective
- Gas utilities can claim energy savings and earn a shareholder financial incentive for electrification measures
  - Electric utilities cannot
- Spending caps until 2026:
  - 0.35% gross annual retail sales

Efficient Fuel-Switching Priorities

- Heat pumps paired with weatherization!
- Healthy incentives across utility territories that drive adoption

Low-Income ECO Program Eligibility

- 2023 Energy Omnibus (pending, but promising):
  - “Low-income household. "Low-income household" means a household whose household income:
    - (1) is 80 percent or less of the area median household income for the geographic area in which the low-income household is located, as calculated by the federal Department of Housing and Urban Development; or
    - (2) meets the income eligibility standards, as determined by the commissioner, required for a household to receive financial assistance from a federal, state, municipal, or utility program administered or approved by the department.

Low-Income ECO Programs

- The new definition aligns with lower income tier in IRA and will allow utilities to develop programs that leverage IRA funding.
- The “categorical eligibility” pathway will require the Department to provide guidance to utilities and may not be available until after utilities file plans.

Programs for Multi-Family Buildings and Renters

General Takeaways, Observations, and Recommendations

General Takeaways, Observations, and Recommendations

- Stakeholders have 2 opportunities to comment on utility plans
  - Effective comments don’t have to be long or extensive.
  - Organizations with similar positions can file comments together.
- Utility plans almost always change between proposal and approval.
- These plans will last until 2027!
  - However, plans can be modified.

Regulatory Takeaways, Observations, and Recommendations

- More stakeholder participation in the docket, will lead to better outcomes.
  - Coordinate, align, amplify.
  - Provide **your** perspective, data points, and story.
- Utility Triennial Plans are LONG and full of technical information
  - Focus on your priorities.
  - Ask your questions (formal information requests vs. informal questions)

Regulatory Takeaways, Observations, and Recommendations

- Utilities have a **LOT** of room with cost-effectiveness requirements.
- **Budgets are not caps.** Utilities can spend more than the approved budget.
  - Program design is a bigger driver of impact than the budget.
  - Except for:
    - Efficient fuel switching is capped at 0.35% of annual revenue.
    - R&D is capped at 10% of energy efficiency spend.
- “I can’t” vs. “I don’t want to”
  - Is there a regulatory barrier?
  - Is there a business barrier?

Thank You!

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Appendix

Extra Information

Primary Minnesota Test - Electric

Costs

- Program Costs
  - Administrative
  - Customer Rebates
- Utility Shareholder Incentive
  - Estimated at the program level prorating the estimated financial incentive based on lifetime savings per program (!)

Benefits

- Avoided Utility System Costs
  - Generation
    - Energy and Capacity
    - Environmental Compliance (assumed to be zero)
    - Market Price Effects*
    - Ancillary Services*
  - Transmission
  - Distribution
  - Program Costs (admin and rebates)
  - Utility Shareholder Incentive

Primary Minnesota Test - Gas

Costs

- Program Costs
  - Administrative
  - Customer Rebates
- Utility Shareholder Incentive
  - Estimated at the program level prorating the estimated financial incentive based on lifetime savings per program (!)

Benefits

- Avoided Utility System Costs
  - Commodity Cost
  - Capacity/Storage
  - Environmental Compliance
    - 1.4% adder to commodity cost, based on methane emissions standards
  - Market Price Effects* (set at zero)
  - Transportation/Delivery
- Other Fuels
- Avoided Emissions ($3.83/Dth)
  - GHGs
  - Criteria Pollutants