ECO and IRA Regulatory Process and Opportunities for Stakeholders

May 17, 2023
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
Energy Conservation and Optimization Act (ECO)

- Energy Efficiency
- Load Optimization
- Efficient Fuel Switching
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.**


**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

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

apartridge@mncee.org
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