

## EEBC STATUS UPDATE ON XCEL ENERGY'S 2023 STRATEGIC ISSUES PROCEEDING

March 16, 2023

In 2022 and 2023, EEBC planned, fundraised, and executed on a winning strategy in two proceedings at the Colorado Public Utilities Commission: the Public Service Company of Colorado's (d/b/a Xcel Energy) 2023 Demand Side Management (DSM) and Demand Response Implementation Plan (the "2023 DSM Plan") and the 2024 – 2027 "Strategic Issues" (DSM SI) proceeding that sets up goals, budgets, and priorities for the coming years' DSM Plans, DR Plans, and Beneficial Electrification Plans. This memo updates members on the DSM SI Proceeding.

**BACKGROUND:** The SI proceeding is held roughly every three to five years and it sets the overarching savings goals and budgets for the Annual DSM, DR, and now Beneficial Electrification Plan. It guides the planning process for the DSM rebate plans normally held every two years. In 2023, the focus is on a move to Beneficial Electrification.

The DSM SI proceeding hearing has concluded and closing statements are due on March 10, 2023. EEBC engaged with experts Howard Geller (EEBC Advisor) and Mark Brown of Carrier West (EEBC's field witness for Heat Pumps) to provide testimony. EEBC also worked with its attorneys at Dietze and Davis to ensure that industry voices were adequately represented in the proceeding.

**RESULTS:** EEBC's efforts have yielded great outcomes, even before the end of the case, because Xcel has agreed with many of our recommendations. These included ensuring larger budgets for beneficial electrification and higher standards of energy efficiency – both of which mean increased business opportunities and rebates for our member companies in these areas.

Xcel expressed appreciation for the EEBC testimony because it included solutions and perspectives from the realities in the field from EEBC members that informed Howard Geller's expert witness testimony.

**BIG OVERALL WIN WITH XCEL:** Howard commented that, "Getting real world comments, feedback, and recommendations from members in the EEBC Action Groups helped me to develop much more specific credible requests that Xcel found to be reasonable. *This resulted in Xcel agreeing to most of our proposals because of our trusted business perspective!*"

## **TABLE OF EEBC SI WINS (summary of 21 proposals below):**

**The left column** describes Xcel Energy’s initial proposals for the 2023 DSM Plan filing relevant to EEBC members’ goals.

**The middle column** summarizes EEBC’s testimony and recommended modifications to Xcel Energy’s proposals.

**The right column** shows how Xcel Energy accepted almost all of EEBC’s proposals, except one, and changed its position on some of them as a result of EEBC’s intervention.

### **Acronyms used in the following table:**

**BE** – Beneficial Electrification

**DI** – Disproportionately Impacted Communities

**DR** – Demand Response

**DSM** – Demand Side Management (legal name for Rebates Program)

**Dth** – Dekatherm hours

**EE** – Energy Efficiency

**GHG** – Green House Gas

**GWh** – Gigawatt hours

**HP** – Heat Pump

**IQ** – Income Qualified Communities

**IQ/DI** – Income Qualified and Disproportionately Impacted Communities

**MW**- megawatt

**PIM** – Performance Incentive Mechanisms

**PSCo** – (Public Service Company dba Xcel Energy)

**SCE** – Social cost of emissions

**SI** – Strategic Issues

**SWEEP** – Southwest Energy Efficiency Project

**UCA** -Utility Consumer Advocate

**YOY** – Year-over-year

<b>Xcel Energy Initial Proposal</b>	<b>EEBC Recommendation</b>	<b>Xcel Energy’s Adjusted Response</b>
New Market Potential Study includes a broader primary data collection, better data source integration, greater focus on calibration, and improvement in willingness to pay research design.	Market Potential Study still faces great limitations and it omits the value of currently operating programs. PSCo has a history of understating savings potential and overstating costs.	Recognition of serious limitations in the market study, attempts to justify the limitations by showing they were all called out by the Company in the first instance.
Saturation of key EE measures is approaching long-run maximum market share.	PSCo is overstating market saturation of electric EE, especially when considering new construction and new homes.	Does not believe they have overstated market saturation, but by reducing this SI docket to only 3 years, they will be able to more closely respond to electric EE trends in the 2025 submission.
Electric EE Goals, net GWh: 2024: 415 2025: 357 2026: 317	Proposed goals are too low, PSCo needs higher electric EE goals of 460 GWh each year, which falls between incentive optimized and max achievable scenarios.	Changed to new goal of 450 GWh for each year.
Electric EE Demand Savings (MW): 2024: 87 2025: 75 2026: 67	Higher electric EE peak demand reduction goal of 97 MW each year is needed.	New proposal of 95 MW of electric demand savings for all years, aligns with SWEEP proposal.
Electric EE Budgets (millions) 2024: \$92 2025: \$91 2026: \$89	Electric EE Budget needs to be much higher, \$96 million each year with 20% flexibility.	New proposal of \$90 million for all years, but no flexibility.
Natural Gas EE Goals (Dekatherms saved): 2024: 0.95 million 2025: 1.0 million 2026: 1.05 million	Support these targets	No change, holds at initially proposed savings .
Natural Gas Budgets (millions): 2024 – 2026: \$21 million each year	Gas EE Budget suggestion (millions): 2024: \$26 2025: \$27 2026: \$28	No movement:  2024 – 2026: \$21 million each year, contends that they have budget flexibility here under Rule 4753(k).

Pay for Performance not initially addressed in testimony.	PSCo to undertake one or more RFPs from 2024-2028 to solicit proposals for pay-for-performance DR and/or EE programs.	Settlement Agreement in 22A-0315EG includes a provision for issuing RFP for pay-for-performance residential DR program.
BE Goals (Dekatherms saved):  2024: 157 2025: 311 2026: 482	BE Suggested Goals (dekatherms saved):  2024: 200 2025: 465 2026: 840	New goals (Dekatherms saved):  2024: 200 2025: 465 2026: 840
BE Budgets (millions):  2024: \$6 2025: \$10 2026: \$14	Higher Suggested Budgets (millions):  2024: \$7.2 2025: \$14 2026: \$22.4	New Budgets (millions):  2024: \$7 million 2025: \$17 million 2026: \$32 million
Five performance incentive mechanisms proposed:  1)Electric EE 2)Natural Gas EE 3)BE 4)DR 5)GHG Reductions	PIM should not be used for DR or GHG emission reductions, numbers 4 and 5.	Agree to no GHG emission reduction incentive, but keep DR incentives as follows:  <ul style="list-style-type: none"> <li>• Based on both dispatch and capacity incentive</li> <li>• Dispatch Incentive is 50 cents for each KWh of DR load reduction above baseline of 500,000 KWh</li> <li>• Capacity Incentive is \$120 per kW for each incremental YoY increase in DR capacity</li> <li>• Individual hard cap of \$10 million</li> </ul>
PIM Incentive Structures for Electric:  Electric EE: based on share of net economic benefits, starting at 5% of net benefits for achieving 50% of goal, increases linearly to 13% for achieving 130% of goal.	Electric EE PIMs for annual savings relative to goal should be used for net economic benefit, with percent based on sliding scale, including social cost of emissions (SCE) in the calculation of net economic benefit, starting at 5% of net benefit for achieving 80% of goal, and increasing to max incentive at 15%, capping 130% of savings goal.	Adopted close to EEBC Recommendation:  <ul style="list-style-type: none"> <li>• Calculated as percentage share of net economic benefits, include SCE</li> <li>• PIM earning kick in at 70% of goal</li> <li>• Shared net benefits will begin at 3% and increase 1% for every 5% of goal</li> <li>• Net benefit sharing capped at 15% incentive and 125% of the goal</li> </ul>

<p>PIM Incentive Structures for Natural Gas:</p> <p>Natural Gas EE: based on share of net economic benefits, starting at 7.5% of net benefits for achieving 50% of goal, increases linearly to 19.5% for achieving 130% of goal.</p>	<p>Gas EE PIMs for annual savings relative to goal should be used for net economic benefit, with percent based on linear sliding scale, including SCE in the calculation of net economic benefit, starting at 5% of net benefit for achieving 80% of goal, and increasing to max incentive at 15%, capping 130% of savings goal.</p>	<p>Adopted close to EEBC Recommendation:</p> <ul style="list-style-type: none"> <li>• Calculated as percentage share of net economic benefit, include SCE</li> <li>• PIM sharing of net benefits begin at 70% of proposed goal</li> <li>• Shared net benefits will begin at 3% and increase 1% for every 5% of goal</li> <li>• Net benefit sharing capped at 15% and 125% of the goal</li> </ul>
<p>PIM Incentive Structures for BE:</p> <p>Based on share of net economic benefits, starting at 6% of net benefits for achieving 50% of goal, increasing linearly to 15.6% for achieving 130% of goal.</p>	<p>BE PIM as 4% of net economic benefit if achieving 50% of gas savings goals, max of 20% of net economic benefit, capped at 130% of BE goal, ranging from .95 to 1.1 Dth/year.</p>	<p>Did not adopt EEBC Rec.</p> <ul style="list-style-type: none"> <li>• PIM calculated as \$15 per Dth</li> <li>• Incentive begins at 50% of revised goals</li> <li>• Capped at 125% of goal</li> </ul>
<p>PIM Structure Maximum:</p> <p>Proposed soft cap of \$30 million for all five PIMs.</p>	<p>Total hard cap on PIMs of \$30 million.</p>	<p>Hard cap of \$35 million for all 4 mechanisms.</p>
<p>Increased access to programming for IQ customers in DI communities.</p>	<p>Prioritize IQ applicants, not just individuals in DI zones.</p>	<p>Generally receptive, nothing specific.</p> <p>Also, PSCo thinks it is important not to encourage low-income customers to install BE measures that will result in higher annual energy costs.</p>
<p>Low-Income and Market Transformation adjustments to exclude negative net benefits from any of the incentive calculations.</p>	<p>Exclude IQ programs from shareholder incentive calculation if not cost-effective.</p>	<p>No response found – similarly stated in direct testimony.</p>
<p>Established minimum spending levels for IQ programs.</p> <p>Established “equity budgets.”</p>	<p>Acknowledgement of 20% total BE program funding to IQ/DI communities.</p>	<p>Acknowledged these minimums and adopt UCA recommendation of 25% of electric EE expenditures go to residential DSM for IQ households.</p>

<p>Commits to understanding how to analyze best options for individual residences when installing heat pumps, recognizes that these will be the mainstay of the BE program, HP are more costly to install than dual fuel or gas furnaces.</p>	<p>Supports dual fuel systems.</p>	<p>Generally promote the use of heat pumps, want to only maintain incentives for dual fuel systems.</p>
<p>No initial mention of how to measure BE success.</p>	<p>Success of BE Programs should be measured by ratepayer investments in DSM products and services and overall savings.</p>	<p>BE was first measured for success in 2022 after its 2021 use, and percentage growth to quantify success isn't the best because it is a small base. Adopting EEBC and Staff's recommendations for increased goals.</p> <p>No mention of measuring using investment in BE products.</p>
<p>No initial mention to training the workforce.</p>	<p>Workforce and Contractor Training for new BE installations is necessary.</p> <p>Customer Education is necessary.</p>	<p>Responded that they support market education with no specifics and no mention to Mark Brown.</p> <p>In the Settlement Agreement to the Company's 2023 DSM &amp; BE Plan filing (Proceeding 22A-0315EG), Xcel Energy committed to "provide contractors and customers with education on the availability of, and terms associated with, the Inflation Reduction Act's ("IRA") incentives and/or tax credits" and to "review its programmatic rebates and incentives and discuss with stakeholders at a future DSM roundtable whether adjustments to those rebates and incentives are appropriate."</p>