Staff "Surge Call" Summary – Tuesday, September 5th, 2023: The Inflation Reduction Act (IRA) Home Electrification and Efficiency Rebates and Tax Credits

Synopsis

The Inflation Reduction Act (IRA) introduced provisions for customer-focused rebate programs like the Home Efficiency Rebates (Section 50121) and the Home Electrification and Appliance Rebate (Section 50122) programs, which together allocate over $8 billion in funding to State Energy Offices nationwide. For public utility commissions, challenges exist in ensuring that their regulated utilities' efficiency and electrification programs are implemented in a way that complements these new federally funded rebate programs. How can the cost reductions created by these federal rebates be incorporated into existing ratepayer-funded programs as a supplemental funding stream to directly offset ratepayer funding? Where do Commissions fit into this and what leverage do they have given the source of funding? Commission staff on this surge call shared how they are responding to these questions and handling these issues.

Rhode Island

Rhode Island has only one combined gas and electric utility in the state; they are also the program administrator for various EE programs. The utility implements the program under a least cost procurement standard and allows the utility to use EE measures as a least cost supply. There are certain program objectives that the Commission must affirm for utility EE programs:

- The Commission must find that a utility program is less than the cost of a traditional electricity supply.
- The savings must be cost effective under their specific Rhode Island test.
- The savings must be prudent, reliable, and environmentally responsible.

The question Rhode Island has seen come up is how the PUC intertwines these requirements through new IRA EE utility programs such as the Home Efficiency Rebates and the Home Electrification and Appliance Rebate programs?

The Rhode Island PUC has developed a list of questions they plan to ask the utility about all new EE programs:

1. What is the objective for program funding coordination? What are we working towards?
2. Should federal funds be incorporated into existing programs or be funded with a new mechanism outside of the utility's control, such as a program under the control of the SEO?
3. Should new EE programs outside of the utility's control be used to offset utility costs?
4. Should the new federal funding be made available for specific technologies or via the broad parameters set by the federal government so far. For example, in Rhode Island their efficiency programs do not support fuel-switching. Therefore, could federal funding be used to cover measures that fall outside the individual programs, such as electrification, weatherizing oil-heated homes, and pre-weatherization activities?
5. What are the right strategies for coordinating these programs and influx of funding? What information is needed? What do we known and where is clarity still needed?

6. How can the Rhode Island PUC collaborate with SEO partners when it does not regulate or control them? [Rhode Island has so far held joint workshops and technical meetings with the SEO to discuss these key issues for new EE programs.]
7. What are the implications of this funding for the utility's business?
    a. Utility programs are required to comply with federal guidelines of the programs.
    b. Rhode Island has made the utility estimate the impact of these EE programs, federal funding, and how they affect the "rightsized" budgets.

Arkansas
Arkansas has had EE programs and targets for the last 15 years for its four regulated electric and three regulated gas utilities. They have targets of 1.2% annual energy savings for electric utilities and 1.5% annual energy savings for gas utilities. To earn shareholder incentives, utilities must exceed the targets. The Arkansas SEO runs LIHEAP and other federally funded EE programs and will receive most of these federal EE funds, such as the HOMES program. Arkansas wonders whether money "left on the table" by other states is available to them. For example, Florida declined to apply for $350 million for Home/HEARs funding. Where does that money go? Arkansas wondered if offsetting EE program costs with federal funds would enable the utility to reach more ratepayers with their EE programs.

Nevada
Nevada's Public Service Commission hosts a DSM stakeholder collaborative group – one of the questions they have raised is whether utility rebates should be discontinued in favor of federal rebates and tax credits. Other questions raised by the DSM collaborative include: whether the participant in the utility program should be required to apply for applicable federal funding first, and who is responsible for educating customers about the available funding, the utility or the energy office?

Michigan
The state of Michigan is coordinating across all state agencies, including the SEO, on federal funding opportunities. They have an ad-hoc working group on energy-related programs such as the federal EE programs. The Michigan State Energy Office is interested in the Quick Start programs.[1] The PUC has been tracking what regulated utilities are applying for but they are not seeing much activity on EE funding.

Arizona
Arizona is interested in federal EE programs like those mentioned on the call. However, the State Energy Office was disbanded and reinstated within the last few years. Thus, capacity issues have slowed the process of pursuing federal EE funds for the Arizona State Energy Office.

Additional questions discussed:

Who can act as a third-party administrator for these IRA funds?
Rhode Island wondered if the SEO was subject to any requirements from the federal government with respect to how the funds are used or what would qualify as a third-party administrator. For example, can the IRA funds simply be passed on to a utility that is already administering ratepayer-funded EE

[1] For more information on the DOE's QuickStart Program, please use this link: https://www.energy.gov/scep/slsc/home-energy-rebate-program/developing-quick-start-program-home-energy-rebates.

programs as a way of offsetting ratepayer costs? This would be akin to how Rhode Island currently uses revenues generated from the utility's participation in the ISO-NE Forward Capacity Market (FCM).

How will the existence of the federal funds for EE affect the existing funding and level of EE investment?
Arkansas noted that their utilities limit their program activity to the amount needed to reach their maximum incentive. The existence of federal funding may not result in an expansion of total spending and savings above the existing rate, just a replacement of the funding source. Nevada asked if federal funding for the EE programs could lead to certain utility programs being discontinued in favor of using federal funding.

How best to engage with stakeholders to discuss issues around federal EE funding??
States on the call gave a few different examples of ways they have handled this, such as collaborative groups, technical meetings, and weekly coordination calls.

State Energy Office capacity: how can PUCs support their state energy offices and the ratepayers?
Arkansas utilized a PWC (working group) that includes various parties and the SEO. As part of an upcoming EE potential study, utilities are supposed to consider the impact of IRA.

How to attribute EE savings and utilize PIMs for these new federal programs?
Rhode Island has a net savings-based PIM where the company earns on the savings produced from its programs but also the costs of the programs. It signals the utility to find opportunities to achieve savings at lowest costs, which should incentive them to seek out sources of funding like the IRA to lower the ratepayer costs of the savings. However, the utility has not proactively pursued this EE program earning opportunity via the PIM, so the PUC is wondering what barriers may exist that are preventing the utility from doing so. For example, the utility has expressed concern about how net-to-gross adjustments will affect savings claims in the presence of federal funding. The PUC does not yet know how best to assess these issues or whether they need to order specific evaluation efforts to begin developing some answers.