

Should Natural Gas Energy Efficiency Incentives be Phased Out?

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ABSTRACT

Several states have taken steps to phase out natural gas energy efficiency incentives based on decarbonization goals. These include California, Massachusetts, Connecticut, Colorado, and New York. In Rhode Island Energy's recent 3-year energy efficiency planning process for 2024-26, we received a lot of stakeholder feedback on all sides of this debate. State agencies and environmental advocates wanted a gas efficiency phase out as soon as possible. Residential and low-income advocates think this may not be affordable for many customers and want to maintain customer choice. Businesses and energy service companies support decarbonization policies, but don't feel there are plausible, cost-effective electric alternatives for all commercial and industrial energy uses. So what is the best approach?

We created a framework to address this issue in a logical manner:

- look at measures that do not pass a benefit cost test and reduce or eliminate them
- shift funds from energy-consuming equipment like HVAC to measures that save energy such as weatherization
 - analyze where feasible electric alternatives exist
- consider specific market segments like new construction and multifamily that have distinct characteristics
 - start with residential and consider when C&I may be more feasible

Introduction

In recent years, the global push for energy system decarbonization has prompted several North American jurisdictions to pursue policies and plans to reduce the consumption of fossil fuels. As part of these efforts, several US states and the federal government have begun phase-outs for support for natural gas equipment, including rebates through natural gas energy efficiency programs, in favor of all-electric alternatives.

Federal Actions

At the federal level, the transition to favoring all-electric equipment and reducing reliance on natural gas equipment include provisions in the Inflation Reduction Act (IRA) and proposed changes to the ENERGY STAR program through EPA. The Inflation Reduction Act supports energy efficiency through the Home Energy Performance-Based, Whole-House Rebates (HOMES) and High-Efficiency Electric Home Rebate Act HEEHRA programs, which provide incentives for energy-efficient homes in the form of rebates. While HOMES provides incentives for overall home performance regardless of fuel, the HEERHA program provides incentives exclusively for all-electric homes, with measure-level incentives provided for heat pumps, heat pump water heaters, electric stoves, and other all-electric measures.

ENERGY STAR, the appliance certification program run by EPA, proposed updated furnace specifications¹ in April 2024, which proposes increasing the stringency for both gas and oil furnaces requirements to 97 percent annual fuel utilization efficiency and 87 percent, respectively.² The proposal also eliminates the regional distinction for ENERGY STAR furnaces.

State Action

At the US state level, utilities in California, Colorado, Connecticut, Massachusetts, and New York, among others, have begun pursuing the phase-out of natural gas incentives from their energy efficiency portfolios to align with their states’ respective climate policies. A comparison of these states’ natural gas phase-outs in their energy efficiency portfolios and beyond is provided in Table 1.

Table 1: State Comparison of Phase-Out Plans for Natural Gas Equipment Rebates

State	Source of Phase-Out Plan	Description	Relevant State Law	Phase-out Timeline	Sectors
CA ³	California Public Utilities Commission Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures ⁴	10-year phase-out for non-exempt gas efficiency measures with viable electric alternatives (starting with those that are cost-effective)	Executive Order B-55-18 to Achieve Carbon Neutrality	About 10 years (beginning 2024)	Residential and commercial
CO ⁵	Public Utilities Commission Decision Approval of Xcel Energy’s Clean Energy Plan (Colorado Department of Regulatory Agencies Public Utilities Commission)	Eliminate energy efficiency incentives for some gas equipment, including residential gas heating and water heating	Climate Action Plan to Reduce Pollution	By 2027	Residential
CT ⁶	CT Department of Environmental Protection 2022-2024 Conservation and Load Management Plan and the Utilities’ 2024 update to the plan (Department of Energy and Environmental Protection, 2022)	All utilities are pursuing a phase-out of natural gas incentives. Eversource will eliminate incentives for new natural gas equipment for heating, hot water, commercial kitchen equipment, and any natural gas-burning equipment for C&I new construction by 2025. Existing equipment enhancements will	Global Warming Solutions Act	Eversource: 2025 Other utilities unknown	Residential and C&I

¹ ENERGY STAR Proposes Updated Furnace Specification. 2024. Accessed 5/8/2024. ENERGY STAR. 2023. Accessed 3/1/24

² As of the date of this writing, legislation is pending to revoke the standards

³ Applicable utilities: PG&E, Southern California Gas Company, Bay Area Regional Energy Network, Southern California Regional Energy Network, Tri-County Regional Energy Network, Inland Regional Energy Network, and Marin Clean Energy

⁴ Public Utilities Commission of the State of California. 2023. *Decision Addressing Codes and Standards Subprograms and Budgets and Staff Proposal on Reducing Ratepayer-Funded Incentives for Gas Energy Efficiency Measures*. Decision 23-04-035. Available at <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M505/K808/505808197.PDF>

⁵ Applicable utilities: Xcel Energy

⁶ Applicable utilities: Eversource, United Illuminating, Connecticut Natural Gas Corporation, and Southern Connecticut Gas

		remain eligible for incentives if they are cost-effective.			
Massachusetts⁷	Massachusetts Joint State Wide Electric and Gas Three-Year Energy Efficiency Plan 2022-2024 (Please note that the 2025-2027 will be released in spring 2024 and these plans could change) (Mass Save, 2021)	Three-year (2025-2027) energy efficiency plan that redesigns the new construction program to make the all-electric offering the default. The 2022-2024 plan eliminated residential incentives for replacing condensing natural gas, oil (furnaces), and propane heating systems, and (2) eliminated residential incentives for oil-fired boilers.	An Act Creating a Next-Generation Roadmap for Massachusetts Climate Policy	Some elimination in residential by 2024, other phase-outs not specified	Residential
New York⁸	State of New York Public Service Commission Order Directing Energy Efficiency and Building Electrification Proposals (State of New York Public Service Commission, 2023)	Prohibits the use of ratepayer funds for natural gas-fired equipment (space heating, fireplaces, cooking equipment, or other) after 2025	New York Climate Leadership & Community Protection Act, All-Electric Buildings Law	By end of 2025	Residential

The phase-out plans given in Table 1 vary in their approaches and their targeted phase-out timeline. While sharing the same goal of ultimately phasing out ratepayer-funded incentives for natural gas equipment, plans can differ depending on the regulatory environment, state law in place, and level of stakeholder engagement. These factors contribute to the diversity of plans shown here.

Some, such as the New York Public Service Commission (New York Public Service Commission, 2023), take a blanket approach by prohibiting that rate-payer funds be used for any natural gas-fired equipment by a certain date without exceptions. New York has some of the strictest building decarbonization requirements of these states, which includes a law that prohibits the use of natural gas in new construction buildings starting by 2026 for small buildings (and by 2029 for multifamily and commercial buildings)⁹. The phase-out timeline of removing gas incentives by 2025 aligns with these goals, even if it is further-reaching than just new construction.

Others take a more nuanced approach that considers multiple factors in which measures to phase-out. One option is to start with a phase-out of incentives for gas equipment while keeping incentives for “exempt” measures that do not use gas directly but save on gas usage overall, like weatherization or insulation. California, for example, plans to first remove incentives for non-exempt¹⁰ measures that are not cost-effective, such as incentives for gas equipment (water heaters, dryers, etc) that are not cost-effective. For the remaining measures that are cost-effective, the plan also considers if the measure has a viable electric alternative; those that do will then be phased-out in the remaining 10-year period. The state has a committee dedicated to defining what “viable electric alternative” means, which is expected to release its results by the end of 2024.

⁷ Applicable utilities: Berkshire Gas Company, National Grid, Eversource, Until, Liberty, and Cape Light Compact

⁸ Applicable utilities: ConEdison, KEDNY/KEDLI, Central Hudson, O&R, NFG, Niagara Mohawk, NYSEG, and RG&E

⁹ State of New York. 2023. *Senate Bill S.4006--C*. Available at: <https://legislation.nysenate.gov/pdf/bills/2023/S4006C>.

¹⁰ Exempt refers to non-gas efficiency measures that can still produce gas savings, such as weatherization.

This longer timeline relative to New York’s phase-out aligns more closely with the California state law of meeting carbon neutrality by 2045. The 2022 roadmap (California Air Resources Board, 2022) also suggests several policies for achieving this goal in the buildings sector that could be implemented in the next decade that could contribute to the choice for a 10-year timeframe, including developing building performance standards for existing buildings, a zero-emission standard for new space and water heaters by 2030, and ending fossil fuel use in new construction, among others.

Some plans also remain committed to providing incentives in existing homes but begin the phase-out by removing incentives for gas equipment for new construction only. This approach could better align with states that do not include explicit goals or plans for building decarbonization. Connecticut, for example, aside from the broader state-wide targets, does not have buildings sector-specific emissions reduction targets and only targets new construction measures through 2025 with no explicit phase-out of natural gas equipment replacements going forward. Most recently, the Massachusetts draft 2025-2027 plan (MassSave, 2024) proposes redesigning the new construction program to be all-electric major end-uses with the exception of multifamily hot water heating. Notably, Connecticut is currently working on its next three-year energy efficiency plan, which could include additional strategies for reducing or eliminating gas incentives.

Canada

The push for phasing out natural gas also extends to Canada, where British Columbia’s “Roadmap to 2030” (British Columbia, 2021) similarly includes plans to phase-out natural gas incentives in energy efficiency and beyond. The roadmap, which lays out a comprehensive plan for the territory’s energy system through the end of the decade, places restrictions on new construction to be zero carbon by 2030, places a limit on greenhouse gas emissions from natural gas utilities to encourage fuel switching and energy efficiency, and requires that all new water and space heating installed equipment meet “the highest standards” for energy efficiency by 2030.

Setting the Rhode Island Context

State policy and regulatory environments influence how plans can address incentives for replacement equipment, consideration of cost-effectiveness of measures, and timeline. In addition, stakeholder buy-in is an integral part of phase-out plan development. The multitude of stakeholders involved in a natural gas phase-out, including consumer advocates, environmental advocates, businesses, and others, could affect the feasibility of these approaches in different jurisdictions.

Against this backdrop, this paper will introduce Rhode Island Energy’s reasoned and measured multi-step framework for phasing-out incentives for natural gas, which was developed with extensive stakeholder feedback, attempts to address concerns from multiple perspectives, and aligns with state policy to reduce GHG emissions by 45% by 2030 and achieve net-zero emissions by 2050. This framework considers several of the factors discussed above, such as cost-effectiveness, new construction vs. replacement, and the availability of viable alternatives.

The framework proposes the following for reviewing natural gas energy efficiency measures:

1. Reduce or eliminate measures that do not pass a benefit cost test
2. Shift funds from energy-consuming equipment like HVAC to measures that save energy such as weatherization
 - a. Analyze where feasible electric alternatives exist
3. Consider specific market segments like new construction and multifamily that have distinct characteristics
 - a. Take a phased approach: start with residential and consider when C&I may be more feasible

The remainder of this paper will discuss development of this framework, including the regulatory context and stakeholder feedback received that influenced its approach, as well as modeled results of planning scenarios.

Rhode Island Energy's Gas Energy Efficiency Planning Process

Discussions about phasing out gas incentives in Rhode Island began in 2022 during the 2023 Annual Energy Efficiency Plan process. The Energy Efficiency and Resource Management Council (EERMC), a body of citizen representatives that has oversight of Rhode Island Energy's programs, raised the idea of starting to phase out gas incentives. We (Rhode Island Energy) chose not to start that process at that time because it was the third year of a three-year plan, and we thought it would be best to take it up the following year when a new three-year plan commenced.

2024-2026 Planning Commencement

When the 2024-2026 three-year planning process commenced in 2023, we received a lot of stakeholder feedback on all sides of this debate. State agencies and environmental advocates wanted a gas efficiency phase out as soon as possible for greenhouse gas emissions purposes. Some distinction was made by stakeholders between gas consuming equipment (HVAC) versus purely energy-saving measures like weatherization. Residential and low-income advocates and affordable housing developers felt electrification through heat pumps may not be affordable for many customers, especially when considering ongoing operating costs, and wanted to maintain customer choice as a principle as well. Businesses and energy service companies supported decarbonization policies, but didn't feel there were plausible, cost-effective electric alternatives for all commercial and industrial energy uses, and also promoted the importance of customer choice.

There were also some concerns raised about customers switching to less efficient and higher-polluting oil or propane equipment (backsliding) if gas incentives were discontinued, which would have the opposite environmental impact of the intention. This may not end up being a large part of the population, but the possibility has to be modeled in program planning assumptions.

One important distinct regulatory factor in Rhode Island is that utility energy efficiency programs are not allowed to incentivize fuel switching from gas to electric, such as heat pumps ,

based on precedent from the Public Utilities Commission. So unlike other states where the programs can directly offset decreases in gas program savings with increases in electric program savings, we cannot do that. In fact, the state started its own fuel switching heat pump program in 2023 called Clean Heat Rhode Island, using federal funding. So any discussions of fuel switching occur outside of our EE planning process.

After getting the initial feedback and interest in the topic at the beginning of the year, we started drafting our plan. We presented to the EERMC and highlighted the following considerations we were analyzing:

- New Construction
 - Consider timeline to phase out gas incentives (starting with Residential).
- Retrofit
 - Analyze our portfolio of measures and lower gas incentives/raise electric incentives for measures that serve the same end use to favor the electric option.
 - Annually lower gas measure lives as 2050 approaches to raise the bar for cost-effectiveness.
- Considerations and Limitations
 - If a customer wants gas, we want to help them choose an efficient option.
 - Without fuel switching, electric incentives are limited to the incremental electric cost/savings.

External Stakeholder Feedback

Another important part of the phase-out process involved getting customer and vendor feedback on the issue. We hosted three listening sessions with customers in June 2023 including one for C&I customers, one for income-eligible customers, and one for residential customers. Feedback regarding future incentives for gas was split. While some customers asked about incentives for switching from natural gas to electricity, others expressed concern about losing, or the lack of current, access to natural gas as a fuel source.

Some C&I participants suggested shifting from natural gas to electric buildings including “continue with program that incentivizes electric [measures] and reduce those for gas.” Others noted some industrial processes need gas and that there are no feasible alternatives at this point and that is “concerning for manufacturers, need significant incentives to change equipment.”

Some Income Eligible participants expressed an interest in expanding the natural gas system to locations currently not being served.

Several participants noted that most recommended contractors seemed more comfortable with keeping their house on gas and were not “pro-heat pump or electrification” and “[I] was talked out of heat pump to stay with oil.” Another participant said, “more help is needed to get contractors to be more willing to install heat pump systems into existing solar battery backup systems.”

“Since RI Energy profits from conversions to electricity, you might invest in promoting heat pump conversion from propane both in terms of rebates and in terms of popularizing more among installers. Free education and training.”

The Company also engaged its program vendors to solicit their input by holding monthly calls with project expeditors, the most-active C&I program vendors. When we solicited feedback on the Plan development process, various program vendors shared the following sentiments:

- Vendors support the efforts to decarbonize buildings in an affordable manner for customers.
- Some vendors prefer to continue to allow customers to have choices in the fuel types of equipment they procure, while promoting the most-efficient option possible.
- Some customers, particularly schools, have trouble electrifying their facilities due to cost and resource barriers.

Plan Development and Proposal

Using this external feedback and upon conducting our own analysis (as described below), we formulated a methodology in our three-year plan. The following criteria were used to assess how gas incentives should be sized.

Cost Effectiveness

While cost effectiveness for the Plan is measured at the program level, measure-level benefit-cost ratios are calculated as well. In the 2024 Plan, all programs were cost effective using the Rhode Island Test, which is a variation of a Total Resource Cost Test; however, the Company looked at the measure level to analyze which gas efficiency measures were not cost effective. These gas efficiency measures, primarily in the residential sector, were reduced or removed entirely from the Plan where prudent, as described further below. The funds from these gas efficiency measures were shifted to more cost-effective gas measures within the residential sector or to the C&I sector.

Shift from Gas Equipment

Within the cost-effectiveness framework, the Company shifted funds from gas-consuming equipment to building envelope measures such as weatherization that help reduce the amount of gas burned.

Market Forces

External market forces of supply and demand played a major role in determining incentive levels. On the supply side, the Company wanted to be sure that viable electric alternatives exist for customers for any gas efficiency measures whose budgets were reduced or discontinued. The Company did not reduce or discontinue any gas efficiency measures for which there was no viable electric alternative.

On the demand side, we accounted for the input from stakeholders for both residential and C&I customers that customer choice is important and gas efficiency incentives should continue to encourage gas customers to get the most efficient equipment possible. Consequently, we retained many gas efficiency measures.

For example, for multifamily gas furnaces, we decided to keep the multifamily heating measures within the Multifamily Programs so there would be comprehensive offerings to building owners. The heating system is of utmost concern to building owners and if the opportunity for incentives does not exist, they may not even be willing to meet with the team. Once in the door, the sales team can work on education which also includes electrification. There are also limited alternatives in the short term. Since these are both custom measures, the Company can work to ensure that there is an up-to-date custom screening tool being used and only cost-effective projects progress. The Multifamily Programs have strong benefit-cost ratios. With the added focus on the custom project screening tool, we felt that these heating measures will be cost effective in practice. Anticipating success in electric heating conversions, we planned for furnaces to trend downwards over the 2024-2026 term.

Some progressive home builders promote all-electric new construction, and we support them through incentives and training opportunities. However, based on our interaction with the broader market, the majority of builders still plan for gas in new construction design. While we do not explicitly encourage new gas connections and will continue to educate the market on electric alternatives, we still felt it was valuable to offer customer choice and promote the most efficient gas equipment possible rather than have that lost opportunity. Furthermore, the Company stays abreast of new energy code adoption and will continue to adjust incentives as codes dictate.

Another important factor in the analysis was the Rhode Island Public Utilities Commission's Future of Gas docket. Like other states such as Massachusetts, the state is investigating the future of the natural gas system holistically and is conducting an analysis of multiple scenarios ranging from high electrification to high clean fuel use (such as renewable natural gas and hydrogen). The outcome of this docket could have a huge impact on future energy efficiency program design. Answers to the larger policy questions being addressed in the Future of Gas docket, and which are beyond the scope of the Company's net benefits analysis, should be aligned with the findings and recommendations made by the PUC at the conclusion of the proceeding. The range of decarbonization scenarios being contemplated in the Future of Gas docket include analysis of various levels of energy efficiency investments, which will be valuable to inform this process. As such, our strategy to continue, yet refine, gas efficiency incentives during the 2024-2026 term was both consistent with ongoing policy conversations about thermal decarbonization and flexible to accommodate policy changes as they arise.

Results

In the 2024-2026 Three-Year Plan, the Company identified a set of criteria to use in assessing gas incentive distribution based on market analysis and input from stakeholders. Values and trends from the plan reflect the results of this analysis framework. In response, the Company made several enhancements and changes to its program offerings for the 2024-2026 Plan that align with the Company's commitment to decarbonization goals, including:

- Researching opportunities to implement right sizing incentives for fossil fuel equipment and options for optimizing electric equipment versus gas equipment in Residential HVAC applications.
- Promoting prescriptive and custom offerings to Small Business Direct Install program participants in an effort to promote commercial weatherization and greenhouse gas emission reductions.
- Working with the Rhode Island Office of Energy Resources to research and review the electrification efforts being funded through state and federal programs.

Overall Trends

To realize the goals set for the 2024-2026 Three-Year Plan, we proposed minor increases in gas budget and savings year over year. In addition, some of this growth can also be attributed to inflationary economic pressures on specific participants, such as multifamily property owners. From 2024 to 2026, the total funding required for the Company’s gas portfolio increases by 2%, while the annual natural gas savings (MMBtu) increase by 8%, largely due to an emphasis on incentives for higher-efficiency gas equipment.

Compared to the 2023 Annual Plan, the 2024 Annual Plan proposes an overall 8% budget decrease across the gas portfolio. While the gas portfolio budget as a whole decreases, some programs show gas budget growth or maintenance. These programs include weatherization measures or measures with end-uses that do not have competitive electric alternatives. On the program level, the 2024 Plan outlines several significant changes compared to the 2023 Plan:

- 58% budget decrease to the gas Residential HVAC program.
- 17% budget decrease to the gas Income Eligible Single-Family program.
- 7% budget decrease to the gas Residential New Construction program, with continued reduction in quantities and incentives through 2025 and 2026.

The Company expects to see 3,878 short tons of carbon reductions by 2040 based off the proposed measure mix identified in the 2024 Annual Plan.

Cost-Effectiveness

Every program in the 2024 Annual Plan is cost effective, but the Company also looked at measure-level cost-effectiveness to determine which gas efficiency measures did not achieve a benefit / cost ratio of at least 1.0. The Company proposed discontinuing ten gas water heating measures in the 2024 Plan that were offered through the 2023 Plan that did not meet this threshold. Nine of these measures fell under the Residential New Construction program, and one under the Residential HVAC program.

Table 2: Measures Proposed for Discontinuation in 2024 That Were Offered in 2023

Program	Measure
Residential New Construction	Multifamily Heating
Residential New Construction	Multifamily Water Heating

Residential New Construction	Renovation – Water Heating Tier 1
Residential New Construction	Renovation – Water Heating Tier 2
Residential New Construction	Renovation – Water Heating Tier 3
Residential New Construction	Custom Water Heating
Residential New Construction	Water Heating Tier 1
Residential New Construction	Water Heating Tier 2
Residential New Construction	Water Heating Tier 3
Residential HVAC	Water Heating

In total, the 2024 Annual Plan proposed offering five measures that are non-cost effective. Two of these measures are custom multifamily projects where it would be difficult to identify a viable electric alternative for large properties. The Residential New Construction heating and water heating measures are both part of a three-measure package – each project in the program has a heating, cooling, and water heating component, so it is pertinent those measures are still included in the program despite their BCR.

Table 3: Measures Offered in 2024 with a BCR Below 1.0

Program	Measure	Benefit / Cost Ratio
C&I Multifamily	Custom Heating	0.88
Income Eligible Multifamily	Custom Heating	0.98
EnergyWise Multifamily	Duct Sealing	0.06
Residential New Construction	Renovation – Custom Water Heating	0.26
Residential New Construction	Renovation – Heating Tier 3	0.88

Shift from Gas Equipment

Where possible, the Company used its cost effectiveness framework to identify less-efficient, heavy usage gas measures with planned funding that could be shifted to measures that encourage using gas equipment more efficiently.

The Gas Residential HVAC program saw significant incentive decreases across several measures in the 2024 Plan compared to the 2023 Plan:

Table 4: Gas Residential HVAC Measures with Decreased Incentives Between 2023 and 2024

Measure	Percentage decrease in incentives from 2023 to 2024
Hot Water Boiler	20%
Combo Condensing Boiler/Water Heater	29%
ENERGY STAR Storage Water Heater	40%
Furnace with ECM	8%

The 2024 plan also re-allocated incentive funding to several Large C&I Retrofit measures compared to 2023, aligning with the Company’s effort to shift funds from incentivizing new gas-

consuming equipment to measures that help use existing gas equipment more efficiently. These funds were reassigned from several of the Residential New Construction gas water heating measures referenced in Table 2 above.

Table 5: Gas Large C&I Retrofit Measures that Received Additional Incentive Funding

Measure Name	2024 Benefit / Cost Ratio
High Pressure Steam Trap, HVAC	2.24
Custom Gas	2.82
Low Pressure Steam Trap, Custom	3.52
Low Pressure Steam Trap, HVAC	2.43

Market Forces

While analyzing the gas portfolio, the Company took into consideration which measures had viable electric alternatives before proposing discontinuation and did not reduce or discontinue any gas efficiency measures where an alternative was not identified. Since gas is still a popular fuel across the service territory, the Company continues to provide gas efficiency incentives that encourage gas customers to use the most efficient equipment. The 2024 Plan showed some programs with gas budget growth or maintenance between 2023 and 2024. These programs include weatherization and other gas-efficient measures and/or end-uses that do not have competitive electric alternatives.

- In particular, the EnergyWise Single-Family program had a proposed gas budget increase of 12% between 2023 and 2024. Taking a closer look at the program’s proposed measure mix, increases in the planned quantity of the Weatherization measure accounted for approximately 95% of the increase in budget.
- Additionally, the 2024 Plan included a budget increase of approximately 10% relative to the 2023 plan for the Small Business Direct Install gas program. Similarly, the 2024 Plan showed that the planned quantity of the Building Shell measure accounted for nearly 83% of the increase in budget.

Since both the Weatherization and Building Shell measures largely address building envelope-related efficiency challenges, their respective gas budget increases still align with the Company’s overall aim to reduce gas dependency.

Outcome

Both the EERMC and PUC unanimously approved our plan. EERMC appreciated our thoughtful approach to the issue and consideration of all perspectives. The budget decreases from 2023 were welcome, even if they didn’t meet everyone’s desires. The PUC asked many Information Requests about the gas budget and requested a lot of details on the measures that were affected, and we provided satisfactory responses that did not require any additional questions on the matter during the final hearings for the docket. The PUC’s approval signals an agreement with our decision to not fully phase out gas incentives during the three-year period while also

maintaining customer choice which they generally support. The overall gas programs were cost-effective, which is the PUC's main focus.

Next Steps

We are now in the midst of our 2025 annual planning process. EERMC and OER provided their 2025 priorities in March, which showed that this issue continues to be a priority for them. We are also closely following the Future of Gas Docket, where results of the analysis are expected later in 2024. Once the results are available, there will be discussion and decision on what path to pursue, which will influence our EE planning.

Additionally, while the PUC approved our gas EE plan, they did raise significant questions about delivered fuels EE measures, primarily weatherization. The PUC is focused on electric and gas system savings, and delivered fuels measures do not have a lot of those direct savings (even though they may indirectly lead to such savings by allowing HVAC measures to be right-sized smaller than otherwise). Therefore, 2025 planning will be focused more on these measures than on gas, but they still have major greenhouse gas emissions impacts, which is the thrust of the gas EE debate.

We are also coordinating closely with the OER on the IRA EE funding that we expect to begin flowing later in 2024 or early 2025. Some gas measures are eligible, but the bulk of the funding will flow to electric measures, and we will have to adjust our program budgets and savings targets to account for this additional funding source.

There were potential state legislative actions in the recent session that would have impacted our future EE program planning, but they did not come to fruition. A bill in the RI legislature called the "Building Decarbonization Act of 2024" would have required building energy usage reporting and reductions for large commercial buildings, as well as state facilities. More importantly, it would have required all-electric new construction for all building types over the next few years. The bill did allow for some exceptions such as lack of viable electric alternatives, but in general such a law would have directly affected our New Construction program and ability to claim savings. However, the bill did not pass the full legislature by the time the session ended. There was a Clean Heat Standard bill that did not pass as well.

Finally, it is very important to keep customer affordability of electrification in mind as more states and stakeholders seem to be raising as we get higher on the adoption curve and the costs of grid modernization become clearer. In Massachusetts, for example, the utilities recently submitted their Electric System Modernization Plans (ESMP) for their investments to upgrade the grid to address load growth from electrification like heat pumps and electric vehicles. These investments will cost billions of dollars over the next several years. At the same, the MA Department of Public Utilities recently ordered a study about the affordability of electrification and grid modernization (the RI Building Decarbonization Act included a similar study). Currently, annual operating costs of gas HVAC are lower than for heat pumps in many states and regions, so we must look beyond the initial capital costs when designing incentives, especially for low-income customers. It may lead to new rate designs for electric heat pump customers (which Massachusetts is also considering).

Of course, there are broader costs to inaction on climate that must be taken into account on a societal level, which is where policymakers on all levels will play an important role to send signals for future program design.

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