



SWEEP
SOUTHWEST ENERGY EFFICIENCY PROJECT

Western
Resource
Advocates.
wra



AUGUST 2026

A Path to Pollution-Free Buildings in 2026

Protecting Progress and Affordability

EXECUTIVE SUMMARY

AUTHORS

STACY TELLINGHUISEN • Deputy Director of State Advocacy, WRA

RAMÓN DC ALATORRE • Utility Program Senior Program Manager, SWEEP

JUSTIN BRANT • Senior Manager, Current Energy Group

ED CARLEY • Senior Building Decarbonization Policy Advisor, WRA

MICHAEL KENNEY • Building Decarbonization Manager, WRA

THOMAS SIAFA JR. • Building Decarbonization Advocate, Climate and Energy, NRDC

Executive Summary

INTRODUCTION

Colorado's 2021 Clean Heat Standard set ambitious goals for the state's gas utilities to reduce greenhouse gas emissions at least 22% below 2015 levels by 2030. Since Xcel Energy began implementing its first Clean Heat Plan in late 2024, it has provided incentives to tens of thousands of customers to improve the efficiency of their homes and install electric heat pumps and heat pump water heaters. While these programs have largely been successful, meeting the 2030 clean heat goal requires Xcel to accelerate its efforts.

In this report, we present a detailed Pollution-Free Buildings portfolio for Xcel that would drive significant emissions reductions and establish Colorado as a national leader in building decarbonization. And we explain why, as gas sales decline, regulators must shape clean heat programming — and related utility policies and investments — to maintain affordability for customers over the mid- to long-term.

XCEL HAS MADE IMPORTANT PROGRESS BUT IS OFF-TRACK TO MEET ITS 2030 GOAL

Xcel's 2024-2027 Clean Heat Plan established robust budgets and programs to support beneficial electrification and energy efficiency in Colorado homes and businesses, and the company has seen rapid customer uptake. However, despite positive initial results, Xcel's current emissions trajectory is not on track to meet the 2030 clean heat goal. In 2030, Xcel's emissions are projected to be 4% *higher* than its 2015 baseline and far higher than the statutory goal.

XCEL MUST INCREASE EFFORTS TO PROMOTE ELECTRIFICATION AND EFFICIENCY

Xcel can still meet the 2030 clean heat goal if it accelerates adoption of efficient electric heat pumps and heat pump water heaters and improves the energy efficiency of homes and businesses. The Pollution-Free Buildings portfolio focuses exclusively on energy efficiency and electrification, the cheapest forms of building decarbonization. It finds that Xcel can achieve its 2030 goal by accelerating the replacement of gas appliances with electric equivalents at their end of life. The portfolio also calls for expanding whole-home electrification programs, particularly where gas system investments can be avoided, and ensuring new buildings are all-electric.

In the 2028-2030 plan period, incentives and robust program budgets are still necessary. The Pollution-Free Buildings portfolio has average annual budgets of just over \$440 million, and we assume approximately half of this, or \$231 million, would be recovered from gas utility customers. For comparison, this budget is less than one-third of Xcel's expected average annual gas system capital expenditure over the next 15 years. The portfolio's budgets — while significant — can be viewed as a down payment in transforming the market. As adoption of efficient, electric appliances and all-electric new homes expands and contractors and customers gain experience and comfort with electric appliances, incentive programs can be reduced.

CLEAN HEAT PROGRAMS SHOULD BE DESIGNED TO MAINTAIN LONG-TERM AFFORDABILITY

As the transition from gas appliances to efficient electric appliances accelerates, Xcel's customer base and total gas sales will decline. If it is not accompanied by a commensurate reduction in capital expenditures, this decline will contribute to rising customer costs. And as gas customer costs rise — whether driven by reduced throughput, global market forces, or other factors — wealthier households may opt to replace their gas appliances with efficient electric appliances, leaving low- and moderate-income households on the system.

Beyond 2030, the level and pace of market transformation are highly uncertain. With market transformation, Xcel could see significant reductions in throughput or customer counts, and gas customers could see rising costs. The risk of rising gas system costs should not dissuade policymakers from meeting the established clean heat goals but rather should ensure capital investments are aligned with declining gas sales. In addition, the 2028-2030 Clean Heat Plan should adopt strategies to protect low- and moderate-income customers from rising costs.

Specifically, we recommend Xcel and the Public Utilities Commission:

1. Align clean heat programs with reducing the size and cost of the gas system.

Programs should focus on measures that can, over the long term, reduce the cost of maintaining the gas system. These include prioritizing efficient all-electric space and water heating over hybrid (dual-fuel) systems and emphasizing building envelope efficiency to manage customer bills and ensure electric equipment purchased is right-sized. Programs should also incentivize whole-home electrification for customers that require a service line replacement within the next 10 years and ensure new homes and businesses are built all-electric.

2. Manage and reduce gas system capital costs.

The Clean Heat Plan can incentivize all-electric new construction, support geo-targeted electrification projects, and expand programs such as service line non-pipeline alternatives that can avoid gas system investments. In other proceedings, such as gas infrastructure plans and rate cases, the Public Utilities Commission can evaluate whether expenses are consistent with managing customer affordability. Because new capital investments are put in rate base and recovered over many years, reducing capital investments *before* gas sales decline is an important component of moderating rates.

3. Ensure clean heat programs are provided to low- and moderate-income customers and protect those customers from future rising costs.

In the current program structure, Xcel is permitted to incentivize new gas appliances for income-qualified customers but not for market-rate customers. For the 2028-2030 Clean Heat Plan, we recommend eliminating this allowance. Installing new gas equipment in homes potentially exposes income-qualified residences to significant risk from rate volatility and long-term rising gas prices. Similarly, it is critical that income-qualified customers receive cold-climate heat pumps, typically the most expensive appliance in a household, to preserve those customers' ability to disconnect from the

gas system in the future. Finally, Xcel should pair heat pump installations with weatherization measures to manage rate impacts and ensure home comfort.

One vulnerable set of customers includes renters, particularly in large apartment buildings that may be difficult or expensive to electrify. We encourage Xcel to work with stakeholders to develop programs to specifically address this customer segment.

4. Expand the level of funding dedicated to low- and moderate-income households.

During the 2028–2030 plan period, the Pollution-Free Buildings portfolio directs at least 25% of funding to income-qualified customers and assumes that services provided to those customers are covered in full. While the portfolio models higher levels of funding for income-qualified customers after 2030, over the next 10 years, it is difficult if not impossible for ratepayer-funded programs to fully cover the cost of electrifying and weatherizing all low-income households in Xcel's service territory. This underscores the need for Colorado to develop additional funding mechanisms to support energy efficiency and electrification in low- and moderate-income households.

5. Expand complementary programs and maintain electric service affordability.

For many customers, up-front capital costs of electric appliances are a barrier to adoption. Complementary programs, such as on-bill financing, can help customers finance appliances. In other jurisdictions, customers can access low or zero-interest loans to further help finance new appliances.

In addition to addressing the up-front cost, it is critical to ensure that customers who adopt efficient electric appliances do not see higher combined bills. Xcel's forthcoming heat pump rate is an opportunity to update rate structures to appropriately allocate the fair share of system costs to heat pump customers and can be expected to reduce costs for heat pump users. Similarly, Xcel could consider additional measures to support all-electric new construction, such as higher construction allowances for new all-electric homes that are designated as affordable housing.

THE PATH FORWARD

The Public Utilities Commission will need to address affordability issues across a host of proceedings beyond Xcel's 2028-2030 Clean Heat Plan. For example, the underlying gas system capital costs can best be addressed in rate cases and gas infrastructure plans, while electric rate design and construction allowances are best addressed in an electric rate case. But this Clean Heat Plan presents a critical opportunity. The Pollution-Free Buildings portfolio charts a path forward that meets the legislature's goals to reduce emissions while addressing how to manage long-term affordability.