Clean Heat Standard Equity Advisory Group
Tuesday, August 06, 12:30-3:00 PM ET
Agenda

Meeting Link: https://cbi-org.zoom.us/j/87383177532

Participant Agenda

12:30	**Welcome & Review of agenda** ● Initiate recording	Brn
12:35	**Review and approval of 8/06/24 meeting minutes**	Ben
12:40	**Updates from the PUC**	Dominic
1:00	**EAG Continued Conversation: Minorities, Vermonters of Color, Indigenous Populations**	Ashira
1:15	**Public Comment (10 min)**	Ashira
1:25	**Conversations with TAG Rep - Michelle Keller**	Ashira
1:55	**Public Comment (10 min)**	Ashira
2:05	**Initial Conversation and Question Formation: Moderate Income Households**	Ashira
2:35	**Credit Issues Subgroup Update**	Ashira
2:45	**Public Engagement Subgroup Update**	Ashira
2:55	**Next Steps**	Ashira
3:00	**Close**	Mia

Topic:

Frontloading of credit obligations under the Clean Heat Standard (CHS) credits to ensure low and moderate income (LMI) households in Vermont are prioritized to the greatest extent possible during initial years of CHS implementation.

Background:

LMI households in Vermont are the most energy burdened in the state[1]. As a result of this, the LMI population in Vermont are expected to be disproportionately affected by any increases in heating fuel costs associated with adoption and implementation of the CHS.

Section 8124(d)(2) of Act 18 establishes that:

"of their annual requirement, each obligated party shall retire at least 16 percent from customers with low income and an additional 16 percent from customers with low or moderate income. For each of these groups, at least one-half of these credits shall be from installed clean heat measures that require capital investments in homes, have measure lives of 10 years or more, and are estimated by the Technical Advisory Group to lower annual energy bills."

Furthermore, section 8124 (d)(3) of Act 18 also specifies that:

"The Commission shall, to the extent reasonably possible, frontload the credit requirements for customers with low income and moderate income so that the greatest proportion of clean heat measures reach Vermonters with low income and moderate income in the earlier years."

Discussion:

Frontloading the LMI credit requirement in the early years of the CHS could prove to be difficult. Limited workforce capacity and higher anticipated cost to acquire LMI credits could cause an increase in overall program compliance costs and slow overall progress towards GWSA targets. An increase in costs for obligated entities has the potential to accelerate increases in heating fuel costs, as those costs may be passed on to end consumers.

However, frontloading of CHS LMI credits would have the desired effect of serving a greater portion of the LMI population in the early years of CHS implementation, helping to mitigate potential economic harm caused increases in heating fuel costs and promoting equitable implementation of the CHS. Policies that increase costs of heating fuel are inherently

[1] https://www.efficiencyvermont.com/Media/Default/docs/white-papers/2019%20Vermont%20Energy%20Burden%20Report.pdf

regressive because the percentage of income that lower income households spend on energy would increase more than higher income households [2].

There remain many unknowns about the available clean heat workforce and overall costs associated with the CHS program. Implementing the frontloading of LMI credits may be challenging in the initial outset of the program. Therefore, a framework to allow for the Commission and the DDA(s) to specifically target programs and incentives at the LMI community are needed to more readily facilitate future increases to obligated party yearly LMI credit retirement targets. Creating distinct LMI credit categories is one such approach that helps facilitate a more equitable CHS credit marketplace from the outset.

Five Unique Credit Categories:

The Commission's July 10, 2024, memorandum re: "Staff Straw Proposals on Credit Fulfillment Plans and Criteria, Non-Compliance and waiver process", assert the creation of five separate CHS credit categories that a DDA could deliver on behalf of an obligated party. The five credit categories differentiate credits derived from low income, moderate income and non-LMI/market - rate participants. Within both the low-income and moderate-income credit categories, there is further delineated between generic measures and low-installed measures[3].

The EAG supports the Staff proposal of having five unique credit categories, as it would allow LMI credit market activity to be more closely tracked to help inform any future increase or decrease in obligated party LMI requirements.

The EAG acknowledges that the five-credit framework will add a layer of complexity to the CHS framework. Any increased complexity increases the burden on obligated parties, the Commission and the Default Delivery Agent (DDA), which should be avoided as much as possible in the design of the framework.

However, given the fact that credits generated from installed measures, particularly from low-income households, are required under Act 18 and expected to cost significantly more to produce than the credits from generic sources, having distinct categories of credits appears necessary to set credit values that reflect the variance in costs.

Commented [MW1]: I added this text in red to try to reflect our conversation on the issue of increased complexity, we can remove if not needed.

Obligated party compliance with current LMI credit annual retirement requirements could also be more clearly tracked because market activity would be taking place within a unique and separate marketplace from the market -rate credits, eliminating confusion as to what type of credits are being transferred in any given transaction.

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[2] https://www.mass.gov/doc/memo-on-obligated-entities/download
[3] Installed measures defined as "capital investments in homes, 10-year measure lives, lower annual energy bills"

Specific CHS program incentives or bonuses offered to obligated parties could be better designed and implemented because specific conditions of the LMI credit market would be identified through the tracking of each of the four LMI credit marketplaces. Additionally, the five separate credit categories would allow the Commission, through the triennial DDA budget and planning process, to toggle up or down credit category pricing to incentivize or disincentivize certain outcomes. As an example, the DDA could propose a decrease in the low-income installed measure credit price to incentivize increased obligated party investment in that specific credit category, while leaving all other credit category prices unchanged. In effect it would allow for the DDA to have greater control over CHS market activities and would allow for more prescriptive actions to be taken to ensure LMI Vermont households receive an equitable share of CHS market activity annually.

Unknown information:

Assuming that the above framework with five distinct credits will be part of the final CHS framework, the following information will be important to inform a decision on frontloading obligations:

- The percentage of low and moderate installed measures currently being produced relative to all clean heat measures
- The percentage of low and moderate delivered measures currently being produced relative to all clean heat measures
- The expected cost of low and moderate installed credits
- The expected cost of generic credits

Understanding how many LMI credits are being produced under current conditions is essential to understanding whether frontloading is reasonably possible. If the number of credits that would be available under current conditions is substantially lower than the obligated 32%, increasing that requirement further is more likely to be unfeasible. Similarly, understanding the cost to deliver low income installed credits relative to generic credits will be essential to predicting the impact on the market and on fuel prices.

Recommendations:

There are several key variables that are still unknown that will be needed to make an informed decision on increasing annual LMI credit obligations.

At this point in time, the EAG believes that there is insufficient information to determine whether frontloading the LMI targets in the earliest years of the program is “reasonably possible”.

However, both the language “shall” under Act 18 and the overall need to promote greater equity in implementation makes it imperative that the Commission continue to review this issue and seek ways to increase LMI targets once more is known.

The PUC should consider the following when timing is appropriate to reassess the issue:

- The percentage increase in frontloaded LMI credits could be approached moderately, for example, increasing from 16% to 18%, rather than doubling or otherwise dramatically increasing obligations. A small increase in obligations may be possible without destabilizing the market and would still produce additional benefits for LMI households.
- The Commission could consider increasing some credit requirements individually. The EAG feels that installed measures will have far more immediate and direct benefits for LMI households than delivered measures. The Commission could potentially increase that requirement while leaving generic requirements from LMI households unimpacted.

Commented [MW2]: We discussed this in the credit issues meeting. I proposed this idea and think that there is some value in the suggestion. In this proposal, LMI households get more installed measures without obligated parties needing to also produce additional delivered/other measures. However, Matt was concerned about increased complexity. We should discuss with full EAG.

The EAG recommends that the Commission revisit the question of frontloading no earlier than the second triennial DDA budget and planning process. However, the Commission should not be discouraged from pursuing moderate frontloading of LMI obligations in the initial framework and first triennial DDA budget should data emerge to support its feasibility.

The Default Delivery Agent (DDA) will be an important resource for serving many of the populations that are expected to be disproportionately impacted by increased costs related to the Clean Heat Standard. The EAG encourages the Commission to ask that proposals for the DDA include a description of the entity's experience with, and plan for serving, the following groups:

- Renters
- Low-income households
- Moderate-income households
    - Does the organization plan to offer financing or connect households to financing opportunities to encourage increased installation of clean heat measures?
- Manufactured homes
- Households living in older homes
    - Does the organization have experience working with contractors on installed measures?
    - Does the organization have a plan for serving homes in need of significant repair, and connecting those households with available resources supporting enabling upgrades?
- Households with Limited English Proficiency (LEP)
    - Does the organization have a Language Access Plan (LAP) or other plan to provide translated materials and/or translated materials to serve individuals with LEP?
    - Does the organization have experience in community outreach, particularly among First Generation or immigrant communities?

Since the Commission is permitted under Act 18 to select more than one DDA, it may be possible that the DDAs will be sector-specific and not all applicants would have a plan to serve all these demographic groups. However, in this case, the Commission should carefully review applicants to ensure that the selected DDAs jointly have the capacity and experience to serve all the impacted populations described above.

To support these groups and an equitable implementation of the CHS overall, EAG encourages the Commission to require that DDA(s) have a DEI Plan or equivalent organizational framework. Such a plan should include clearly defined goals and actions that increase diversity, equity, and inclusion in all areas of the organization and its work.

Finally, although Act 18 requires that the DDA offer statewide services, the Commission should review applicants to ensure that the entity has sufficient experience and capacity to effectively serve the entire State of Vermont, including rural areas that have historically experienced underinvestment.