

August 9, 2024

Via ePUC

Ms. Holly Anderson, Clerk
Vermont Public Utilities Commission
112 State Street
Montpelier, Vermont 05620-2701

Re: **23-2220-RULE**, Proceeding to Design the Potential Clean Heat Standard, EAG Memo on LMI Credit Frontloading

Dear Clerk Anderson,

The Equity Advisory Group (EAG) for the Clean Heat Standard (CHS) submits the following memo on the topic of Low-and Moderate Income CHS credit frontloading. While Commission Staff did not specifically request comments on the topic of LMI Equitable Distribution in the recent Staff Straw Proposal on Pacing – Part I, the EAG wishes to provide feedback on the matter to consider as the Commission continues its rulemaking.

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 state¹. As a result of this, the LMI population in Vermont is 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.”

¹ <https://www.encyclopedia.com/energy/energy-articles/energy-efficiency-vermont-white-papers/2019-vermont-energy-burden-report>

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 by increases in heating fuel costs and promoting equitable implementation of the CHS. Policies that increase costs of heating fuel are inherently 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 measures³.

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

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"

than the credits from generic sources, having distinct categories of credits appears necessary to set credit values that reflect the variance in costs.

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.

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 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.

Thank you for your consideration.

Sincerely,

Ben Bolaski

On behalf of the Clean Heat Standard Equity Advisory Group