

**CHS Equity Advisory Group**

**Credit Ownership Subgroup**

April 15, 2024, Meeting

10 am – 11:30 am ET

Meeting Link: <https://meet.goto.com/552661509>

*Participant Agenda*

5 Minutes	Opening	Dominic
70 Minutes	Discussion	Subgroup
10 Minutes	Public Comments	Dominic
5 Minutes	Closing	Dominic

## **Staff Proposal: Initial Ownership of Clean Heat Credits**

### **Introduction**

The delivery or installation of clean heat measures for end-use customers in Vermont will create clean heat credits.<sup>1</sup> A clean heat credit is a tradeable, nontangible commodity that represents the amount of greenhouse gas reductions attributable to a particular clean heat measure.<sup>2</sup> A clean heat credit can be divided, traded, transferred, bought, sold, or held until it is retired.<sup>3</sup> Customers and entities are free to enter into contracts transferring ownership of credits as they see fit. We acknowledge that different clean heat measures have different characteristics and distinguish installed measures (e.g., weatherization, heat pumps, etc.) and delivered measures (e.g., biofuels, renewable natural gas, etc.).

Obligated parties consist of a regulated natural gas utility serving customers in Vermont, entities that import heating fuel for ultimate consumption within the state, and entities that produce, refine, manufacture, or compound heating fuel within Vermont for ultimate consumption within the state.<sup>4</sup> The Commission must establish the number of clean heat credits that each obligated party is required to obtain and retire each calendar year.”<sup>5</sup> An “obligated party may seek to meet its requirement, in whole or in part, through one or more of the following ways: by delivering eligible clean heat measures, by contracting for delivery of eligible clean heat measures, or through the market purchase of clean heat credits.” 30 V.S.A. § 8125(d)(1). “All eligible clean heat measures that are delivered in Vermont beginning on January 1, 2023, shall be eligible for clean heat credits.” Section 8127(k).

Pursuant to 30 V.S.A. § 8127(b), the Commission must establish a standard methodology for determining what party or parties will be the owner of a clean heat credit upon its creation.

The Commission has issued orders requesting comment and held a workshop regarding the methodology to apply to the initial credit ownership determination.

Public input included the following suggestions for determining initial credit ownership:

- Clean heat credits would initially go to the installer or deliverer.

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<sup>1</sup> 30 V.S.A. § 8123(3): “Clean heat measure” means fuel delivered and technologies installed to end-use customers in Vermont that reduce greenhouse gas emissions from the thermal sector. Clean heat measures shall not include switching from one fossil fuel use to another fossil fuel use. The Commission may adopt a list of acceptable actions that qualify as clean heat measures.

<sup>2</sup> 30 V.S.A. § 8123(2): “Clean heat credit” means a tradeable, nontangible commodity that represents the amount of greenhouse gas reduction attributable to a clean heat measure. The Commission shall establish a system of management for clean heat credits pursuant to this chapter.

<sup>3</sup> 30 V.S.A. § 8127(k)(2): The owner or owners of a clean heat credit are not required to sell the credit.

<sup>4</sup> 30 V.S.A. § 8123(12).

<sup>5</sup> 30 V.S.A. §§ 8124(a)(1) and 8122(c).

- Clean heat credits would go to the entity, including customers, that induces, pays for, or incentivizes the clean heat measure.

**Clean Heat Credit Ownership Structure, Staff Proposal:**

For the purpose of receiving feedback from the Equity Advisory Group and the Technical Advisory Group, Commission staff offer the following proposal on clean heat credit ownership.

Staff proposes distinguishing initial credit ownership based on whether the clean heat measure was installed or delivered, using the following methodology:

- For installed clean heat measures, end-use customers are awarded all clean heat credits.
- For clean heat measures impacting multi-owner properties, the initial credit ownership will be divided amongst the customers by a pre-arranged agreement.
- For delivered measures, ownership would hinge on the question of who initiated the measure:
  - If a customer opts for the delivered measure (e.g., voluntary purchase of renewable natural gas or higher biofuel blends), the customer will initially own the credit;
  - If a fuel dealer initiates the delivery of a delivered CHM of up to 20% biofuel blend, the deliverer owns the credit;
  - If a natural gas utility initiates the delivery of a delivered CHM of up to the amount of renewable natural gas authorized in its alternative regulation plan, the utility owns the credit;
  - If fuel dealers initiate the delivery of a delivered CHM above a 20% biofuel blend, the fuel dealers must first inform the customer and confirm the customer's heating equipment is able to handle the fuel blend and then the deliverer will own the credit.

**Staff Considerations:**

Commission staff acknowledges that there are multiple reasonable approaches to this decision and has considered, among other things, the following regarding this proposed methodology.

- Customers, installers, and deliverers are the entities at the center of the clean heat standard. Customers may enter into contracts transferring ownership of clean heat credits to the installer or deliverer, a number of whom may also be obligated parties. Customer credit ownership will give customers negotiating power in their contractual agreements with their installer or deliverer, which could result in an exchange of incentives for the credit, likely reducing the cost of the clean heat measure to the customer.
- To ease concerns that customers may be unduly pressured by their installer or deliverer to implement a clean heat measure for credit-creation purposes, the Commission could require installers and deliverers to provide Commission-approved information about the Clean Heat Standard program, alternative technologies and fuels, and information about what programs are available to help pay for measures.

- Awarding proportional credits to every party that supports and/or pays for a clean heat measure: would complicate the initial determination of credit ownership; could create market confusion about ownership; could potentially raise equity concerns; and could complicate subsequent transactions. Allowing credit ownership to originate with the end-use customer is simpler for all parties involved. Note, though, that parties are not prohibited from entering into contracts regarding the ownership of credits, including for an exchange of funds or other incentives or services.

**Specific Requested Feedback:**

Input is now requested from the Technical and Equity Advisory Groups<sup>6,7</sup> regarding Staff's proposed methodology to address initial clean heat credit ownership. Staff specifically seeks feedback on the following questions but welcomes all thoughts on this subject.

- Whether a different methodology should be applied to pipeline renewable natural gas deliveries?
- Whether all credits for installed and delivered measures should be awarded directly to customers?
- Should customers first evaluate and give informed consent to a deliverer-initiated use of a delivered clean heat measure, no matter the blend percentage?
- Whether a different methodology should be applied to clean heat credits for early action clean heat measures?

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<sup>6</sup> 30 V.S.A. § 8127(b): The Commission, in consultation with the Technical Advisory Group, shall establish a standard methodology for determining what party or parties shall be the owner of a clean heat credit upon its creation. The owner or owners may transfer those credits to a third party or to an obligated party.

<sup>7</sup> 30 V.S.A. § 8129(a)(5): providing feedback to the Commission on the impact of the Clean Heat Standard on the experience of Vermonters with low income and moderate income.”