



**DATE:** February 3, 2023  
**TO:** Senate Committee on Natural Resources and Energy  
**FROM:** Neale F. Lunderville, President & CEO  
**SUBJECT:** Comments on S.5 as introduced

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**VGS is the largest thermal energy provider in Vermont and has a 50+ year track record of providing Vermonters with warmth:**

- We serve 55,000 customers in Addison, Chittenden, and Franklin Counties.
- As a distribution utility, energy efficiency utility, and integrated energy services provider, we have a unique understanding of Vermont's energy landscape and the thermal regulatory process.

**If you look at VGS's history, we have always embraced innovation and developed new solutions to help customers achieve their energy goals:**

- In 1966, we started connecting Vermonters to a new energy source that was considered more reliable and affordable than alternatives available at the time.
- In 1992, we pioneered a program to install efficient equipment in customers' homes and businesses, with eventual appointment as one of Vermont's three Energy Efficiency Utilities.
- In 2019, we adopted and began acting on a climate plan that is amongst the most forward-looking of any U.S. gas utility.

**VGS is committed to meeting the GWSA requirements and will do so through affordable and renewable innovation:**

- We are rapidly evolving our business to fight climate change and provide warmth to our customers in new and innovative ways that: 1) reduce energy usage, 2) increase access to the latest and most efficient in-home heating solutions, and 3) displace fossil fuels with low- or no-carbon alternative supply.
- Our team of 135+ dedicated Vermonters is focused on supporting these initiatives in a companywide effort to leverage our system to reduce emissions in line with Global Warming Solutions Act (GWSA) requirements.
- Our infrastructure serves as the link to serve Vermonters in new and innovative ways.
- Our customers regularly access our expert service technicians, energy auditors and counselors, rebates for weatherization services and energy efficient appliances, zero percent financing options, and flexible repayment plans (including on-bill financing).
- We also provide income qualified assistance programs and other services to help our most energy and cost-burdened customers.
- Our long-term objective is to provide net zero emissions energy to customers with the recognition that the principal product we serve today – fossil gas – has significant climate impacts.

**As a fully regulated utility, the pace at which VGS can innovate and reduce emissions is partly based on guidance and direction provided by our regulators:**

- Our team works closely with the Department of Public Service and the Public Utility Commission.
- As examples, we've recently petitioned the PUC to pilot or implement an array of new, decarbonized products and services:
  - *Expanded low- and moderate-income weatherization rebates*
  - *Electric heat pump water heater installation*
  - *Hybrid heat pilot and calculator*
  - *Geothermal research and development*
  - *Jay Peak electric boiler research and development*
  - *Global Foundries green hydrogen pilot (in partnership with UVM)*
  - *In-state RNG potential studies*

This type of pioneering work requires pushing the bounds of traditional services offered by VGS.

- In order to achieve the thermal sector transformation as envisioned by the GWSA, State law requires some updates to provide regulators guidance; otherwise, current planning criteria could favor the comparatively low-cost option of fossil gas.

**VGS participated in EAN's 2021 Clean Heat Standard (CHS) development process:**

- Our in-house experts were active members of the EAN CHS Network Action Team.
- We provided input and technical support throughout development of the CHS Whitepaper.
- We've subsequently spent extensive time reviewing the concepts presented in S.5.

**VGS supports creation of a balanced thermal sector performance standard framework to set clear guidance for reaching the GWSA's thermal sector reduction requirements:**

- A balanced, market-based system would require obligated parties to either develop credits or purchase them in a credit market, promoting lower or least-cost credits.
- It would generate incentives to help Vermonters move to less-carbon or carbon-free alternatives, with approximately one-third of measures being delivered to low- and moderate-income Vermonters, and a large share prioritized as installed measures.
- It would set near- and long-term projections so thermal providers know what's expected of them and can plan for the future with more certainty.
- Importantly, Vermont thermal consumers would not be mandated to change their fuel source or equipment.

**S.5 is a more comprehensive package than last year's bill:**

- VGS supported H.715 of 2022, and we support the foundational concepts set forth in S.5.
- However, our support comes with recognition that S.5 represents a major shift in how thermal services will be delivered to Vermonters, and it will require creativity to successfully navigate the change.

- As compared to H.715, S.5's carbon intensity score process will provide fewer pathways than previous legislation.
- S.5 includes additional specificity on the types and quantities of credits, which will increase complexity within the market
- S.5's timeline is ambitious and achieving thermal sector reductions in line with Vermont's 2030 GWSA requirements will be difficult.
- If successfully implemented, S.5's framework holds promise to spur thermal sector transformation for a generation to come, allowing innovation in balance with the overriding goal of preserving affordability for thermal customers in Vermont.

**The thermal sector transformation proposed in S.5 is not costless. While customers may choose incentives for heat switching or weatherization, there will be near-term fuel cost increases as a clean fuel market is established and fossil sources are reduced:**

- As a fully regulated utility and established company, VGS is well-positioned to manage S.5 and keep rates affordable for customers.
- Customers who take advantage of incentives for installed measures will see their monthly bills, energy usage, and carbon footprint shrink.
- With in-home energy innovation, S.5 can promote a just transition for low- and moderate-income households who currently face a disproportionately large energy burden.
- Leveraging State and Federal incentives will be complex, and policymakers should set realistic expectations on how those dollars will be stretched and realized by Vermonters.

**S.5 sets direction and puts critical decisions where they belong: the PUC and TAG:**

- The TAG process is highly technical and is where core decisions should be made.
- The LCA process will compare fuel sources fairly, and their associated CI score will determine what generates credits and what doesn't, and at what level.
- Adding further restrictions within S.5 or through other policy could alter the pace at which thermal sector transformation proceeds, or at worst could make it more difficult or impossible to implement on the timeline envisioned in the bill.