

PHILIP B. SCOTT
Governor



State of Vermont
OFFICE OF THE GOVERNOR

January 25, 2018

Climate Action Commission Members
c/o Peter Walke, Chair and Paul Costello, Co-Chair
Agency of Natural Resources
1 National Life Drive, Davis 2
Montpelier, VT 05620-3901

Dear Climate Action Commission Members:

Climate change has already impacted our way of life in Vermont, but our fate is not predetermined. So much work is being done already to advance Vermont toward our clean energy and carbon reduction goals. I created the Vermont Climate Action Commission to further advance and focus that progress.

I believe strongly that all efforts to mitigate climate change must advance our goals to strengthen the economy, make Vermont more affordable and protect the most vulnerable.

In addition to the charge in Executive Order 12-17, I also made a challenging request – to develop at least three recommendations we could move forward within 2018. You should be very proud of the work you did in a brief period to develop the recommendations. I have considered all the recommendations and intend to continue working on the majority.

I will provide feedback on your recommendations below, but I do want to make clear that I evaluate them in terms of how they fit within the other challenges facing Vermont. I am committed to growing the economy and making Vermont more affordable to reverse our demographic trends. Many of your recommendations cost more money than is reasonably available in the near-term, but because I believe they represent important opportunities, I will explore opportunities to allocate funding in future years.

Foster the Climate Economy

Working to address climate change and meet our clean energy goals and clean water goals present real and immediate opportunities to strengthen the economy. We have an opportunity to grow our existing businesses and attract new businesses and entrepreneurs as environmental innovation can also be economic innovation and we can't do one without the other. Recently I spoke about how my Administration is working to help create a commercial enterprise that

captures a large amount of Vermont's excess phosphorous to convert it to a wholesale or retail product. This is one example of actively seeking technology that will not only have an environmental benefit, but will create jobs and industry. I am also very excited by some of the cutting-edge work that is being done right here on battery storage technology and if there are ways we can foster this sector to become the nation's leading manufacturer. That said, I think we need to first define "climate economy" businesses in a meaningful way. To build effective public policy around an issue, we must be able to name it and have some way to differentiate it from other activities.

Therefore, I request the Commission consider more tightly defining what the climate economy is and then work with the Agency of Commerce and Community Development (ACCD) and the Department of Taxes to determine the appropriate, cost-effective mechanisms that would enable Vermont to compete for climate economy businesses. The one recommendation in this menu of options where I have concerns is the adjustment of our state contracting process. I understand from the Department of Buildings and General Services this would not work in practice and could lead to awarding contracts to entities that do not represent the best overall value for the State, which must remain paramount. We cannot compromise good governance in the name of policy initiatives.

Support Advanced Wood Heat

I agree with your recommendation that advanced wood heat (AWH) must play a central role in increasing our use of renewable fuels and driving local economic activity. I believe investing in wood stove changeouts will have a tremendous air quality benefit and is a critical foundation to achieving the carbon and air quality benefits of AWH. I have included \$300,000 to support those changeouts in my budget. I also believe schools have an opportunity to be leaders in the transition to AWH, so I have asked the Agency of Education to explore how we might reignite school construction aid for these types of projects. I have also directed the State Wood Energy Team (SWET) to consider long-term, sustained funding for pellet boiler and wood stove changeout incentives. The SWET will also continue to work to address the other market barriers to greater uptake of AWH.

Increase the Pace of Weatherization

In concept, I am very supportive of the proposal to expand the weatherization of low and moderate-income Vermont homes, but I have questions about the gap that needs to be filled, how much expense would be eliminated in future years and whether bonding is appropriate at this time. That said, the overall energy burden on Vermonters, particularly in rural areas is high. Additionally, wasted fuel use makes Vermont's housing stock even less affordable. I have asked my Administration to examine the proposal and better understand the need as I think it's important we consider all options moving forward. I will work with the Treasurer and the

Legislature to better understand the topic to determine whether the return on investment of a weatherization bond makes sense for Vermont or whether there are alternatives for Vermont to pursue.

Study All Regulatory and Market Decarbonization Mechanisms

I appreciate your effort to move us beyond the Vermont-only carbon tax discussion. However, I do not support another study that considers Vermont, or the region, alone. We know Vermonters cannot afford a carbon tax. It would also be highly regressive. A regional carbon pricing system would also put the region – which currently has the highest wholesale energy prices in the nation – at another competitive disadvantage when we're trying to retain and attract working age residents and create more and better paying jobs. To fully and accurately evaluate the advantages and disadvantages of these approaches on individual states, any study should be done on a national scale, in collaboration with the federal government and many other states. As I mentioned above, Vermont has significant challenges, and we must prioritize where we spend our time and energy. This is why I look to your recommendations that will have an immediate and measurable benefit for Vermonters or provide the opportunity for Vermonters to take advantage of policies that make their lives more affordable while reducing Vermont's carbon footprint.

Electrify the Transportation Sector

I am incredibly supportive of fostering electric vehicle use in Vermont and of encouraging the charging network necessary to make it a reality. EVs represent a critical strategy to making transportation more affordable for Vermonters while meeting our greenhouse gas emissions reductions goals. On average, EV drivers spend \$1200 less on maintenance and roughly half what they previously did on gasoline or diesel. Beyond greenhouse gas emissions, the use of EVs also improves air quality. Having a robust charging network in place positions Vermont to take advantage of the 100,000 electric vehicles (EV) that Quebec plans to put on the streets by 2020. I think you have made recommendations to advance EV and charging that make sense.

As you further evaluate ways to promote EV usage, I would like you to consider how Vermonters contribute to the funding of our transportation system as we transition to EVs. Vermont's transportation funding is based primarily on the gas tax, and it's imperative as we support the expansion of EVs that we also address how to replace that lost revenue that's critical to keeping our roads and bridges safe.

I also believe the concept of short-term, low-risk EV leases makes a ton of sense. There are many Vermonters who do not yet know whether an EV would make sense for them, so giving them the opportunity to really try one on for size makes a lot of sense. I have asked the Agency of Transportation and ACCD to refine the concept further in discussions with you.

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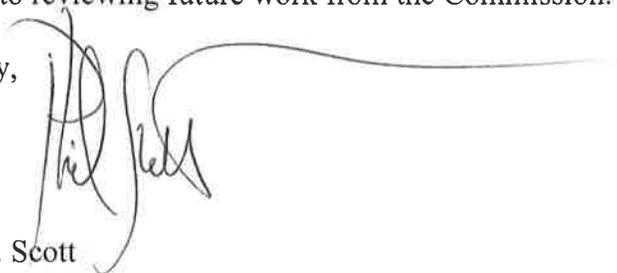
As for your recommendations on how to utilize the Volkswagen settlement funds, I am eager to see what Vermonters have had to say about the draft plan the Agency of Natural Resources (ANR) developed in partnership with other state agencies. ANR is reviewing those comments now, and I look forward to that review and continuing the conversation with the Legislature about how to appropriate those funds.

I have a few initial thoughts in response to the VW settlement-related recommendations, though. I believe, as you do, we should set aside the maximum allowed 15 percent for charging infrastructure and have said so publicly. As you allude to in your comments, I believe heavy duty electric vehicles ultimately will be an important part of Vermont's transportation future. I am concerned, however, those technologies remain to be proven with our geography and climate. Therefore, I believe it's imperative that we evaluate the potential of all heavy duty electric vehicle classes before we rush to invest these resources. I'd be interested to see what approaches Vermont might pilot with these funds to test their viability.

Thank you again for these recommendations. They are well thought through and will advance Vermont towards its climate goals in line with the charge I gave you. I also want to call your attention to additional policies my administration is pursuing related to mitigating climate change. We're renewing our focus on workforce development, and the green jobs sector is a major focus of that effort. You may be able to play a role in helping to define where the needs lie. Additionally, I proposed to increase expand funding for the revitalization of downtowns for the second year in a row. Downtown revitalization is a core smart growth strategy that will help Vermont reduce greenhouse gas emissions across the board.

Vermont will continue to confront the looming crisis of climate change. We will do so in a way that acknowledges our other challenges and does not leave Vermonters behind. I understand you are already back at work understanding the issues and developing your next round of recommendations. I appreciate the commitment you have made to this process, and I look forward to reviewing future work from the Commission.

Sincerely,



Philip B. Scott
Governor

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