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VIA EMAIL

The Honorable Senator Christopher Bray
Chair, Senate Committee on Natural Resources & Energy

Re: **H.715- Clean Heat Standard**

Dear Senator Bray:

I write to provide additional input on the material issue of how H.715 – in present form – needs to be revised to provide the Public Utility Commission (PUC) with flexibility to craft a Clean Heat Standard (CHS) that rationally reconciles the treatment of Tier 3 Credits generated under the Renewable Energy Standard (RES) with CHS credits. This is a foundational matter that must be resolved to ensure that the CHS program delivers the intended benefits of decarbonization without imposing unnecessary costs on Vermonters.

H.715 contemplates that the Department of Public Service will be responsible for administering the verification process for CHS Credits under the CHS program to be designed by the PUC. As previously expressed, the Department continues to have significant concerns regarding the treatment of Tier 3 credits under the current bill language. The interaction between existing Tier 3 programs (and Energy Efficiency Programs) should be reviewed and worked through in the PUC process for designing the CHS implementation rather than adopting a prescriptive approach in statute that has not been informed by the regulatory experience gained to date in administering RES Tier 3.

The measures contemplated under the CHS in H.715 are duplicative of what is currently required by law under RES Tier 3. The collective energy regulatory experience in the early years of RES Tier 3 implementation shows that having two sets of regulated entities delivering the same measures produces confusion and unnecessary cost for customers.

Under H.715 as presently drafted, both distribution utilities and fuel dealers will be able to claim Clean Heat Credit for the *same measure*, such as a heat pump. It is unclear whether there would need to be *payment* from the fuel dealers in order to claim that credit. It is also unclear whether the Department is intended to oversee those credit sharing agreements as it currently does with the distribution utilities and efficiency utilities.

Moreover, the tracking system envisioned under H.715 will be vastly more complicated than the existing tracking system for renewable energy credits (RECs) that is used to document compliance in the electric sector with renewable energy portfolio obligations. It is unclear that bringing RES Tier 3 – a successful program – under the CHS umbrella will yield additional benefits that outweigh the costs of doing so.

As matters stand now with H.715, Vermont will have two overlapping policies mandated by law to reduce fuel use in the thermal sector. When both traditionally regulated electric utilities and newly regulated fuel dealers are charged with reducing fossil fuel usage and realizing the accompanying GHG reductions, there is significant risk for detrimental competition and confusion that do not serve Vermont customers. Such overlap introduces significant complexity and the decided risk of needlessly raising the overall cost of the CHS program. Thus, while the CHS can be designed to avoid double counting of GHG reductions, H.715 in present form neither achieve that essential objective nor provides the PUC with the flexibility needed to do so.

In sum, as the Department has previously sought to explain, these are material policy issues that require more debate and deliberation with a far more robust representation of the affected stakeholders than has been possible in the legislative process to date during this session. The Department therefore strongly urges your committee to revised H.715 to move consideration and resolution of this issue to the PUC for a proceeding with the affected entities present for the discussion. To this end, the Department proposes the following language for your consideration:

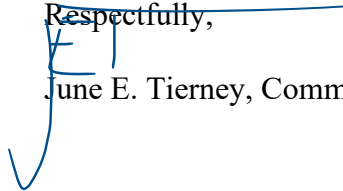
§ 8124. TRADEABLE CLEAN HEAT CREDITS

(g) All eligible clean heat measures that are delivered in Vermont shall be accounted for in the Commission's design of the program. The Commission shall determine whether emission reductions resulting from programs delivered under 30 V.S.A. §209 or 30 V.S.A. §8005 should be eligible for clean heat credits.

(1) This determination shall be made after consideration of at least the overall costs and benefits to Vermonters of including the clean heat measures installed through existing programs under the Clean Heat Standard, including impacts of competition between regulated entities and the administrative and transaction costs of doing so.

I hope you will find this letter helpful in informing the public record your committee has worked so diligently to develop under considerable time constraints.

Respectfully,


June E. Tierney, Commissioner