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December 8, 2023

Holly Anderson, PUC Clerk
Vermont Public Utility Commission
112 State Street
Montpelier, VT 05620-2701

Re: Case No. 23-2220-RULE – Proceeding to Design the Potential Clean Heat Standard, Efficiency Vermont Comments Regarding Clean Heat Credit Ownership

Dear Ms. Anderson,

On November 17, 2023, The Vermont Public Utilities Commission (“Commission” or “PUC”) issued an Order requesting comments on suggested standard methodology that should be used to determine what party or parties will be the owner of a clean heat credit upon its creation. This filing provides Efficiency Vermont’s response.

- 1. Efficiency Vermont recommends that nothing within the Clean Heat Standard should prevent an Energy Efficiency Utility (“EEU”) or Distribution Utility (“DU”) from claiming energy savings and environmental attributes from a project that is supported by their direct activities.*

As a general matter, nothing within the Clean Heat Standard should alter, amend, or reduce the ability for Efficiency Vermont, or any EEU, from claiming energy savings and environmental attributes from a project that is supported by the EEU through financial incentives, technical services, midstream support, or any other intervention that produces verified energy savings and environmental attributes as claimed by EEUs under current practices. Further, nothing within the Clean Heat Standard should affect or alter the ability for Efficiency Vermont and the Distribution Utilities to maintain their current agreements on allocation and distribution of thermal and fuel switching savings, which have had a demonstrated and significant effect on market transformation in the thermal sector.

The EEU savings standards are well documented and independently verified, annually by the Department and triennially by the Commission. These documentation and verification practices should be considered the standard for establishing ownership of clean heat credits. Efficiency Vermont claims the energy savings and environmental attributes from efficiency projects on the principle that the project would not have occurred *but for* the influence or intervention from Efficiency Vermont. The Department of Public Service also oversees a third-party evaluation of program effectiveness to determine causation of resulting savings, which forms the basis of a methodology for the EEU to claim savings against its regulated performance criteria. One way to determine causation is to evaluate whether absent a specific party’s intervention, no other

party would be capable, authorized, or empowered to provide an equivalent or compelling intervention that ensures the project is completed. In this sense, the determination is intended to reflect whether an entity's involvement is the critical pathway for having a project completed.

Through its services and programs, Efficiency Vermont generates claimable electric and thermal energy savings and environmental attributes through the several significant activities, including; direct financial incentives to the consumer, midstream incentives through distributors and suppliers, and direct delivery, install, or payment for high efficiency materials. These services are subject to the *but for* test, combined with annual verification and periodic evaluations to establish the reasonableness of Efficiency Vermont's claim on savings and should not be compromised in any form or fashion by generation of clean heat credits.

2. *Efficiency Vermont recommends the Commission consider the impacts of indirect market support on the transformation of Vermont's thermal sector when establishing rules for clean heat credit ownership.*

In addition to direct interventions, EEU's also support Vermont's electric and thermal efficiency markets through activities that are harder to quantify in terms of direct savings claims, because they provide critical indirect support to markets overall. The Commission has long recognized the importance of EEU indirect market support in its approval of such activities in the EEU Demand Resources Plan, and the annual review of the EEU's Development and Support Services budget. Indirect market support activities include, but are not limited to:

- workforce development through trainings, certifications, and codes and standards support, in order to ensure the availability of a high-quality workforce to complete projects;
- demonstrations for piloting or testing novel efficient technologies and energy services, in order to ensure their applicability and efficacy in Vermont and create confidence among consumers and contractors;
- supply chain development to assure the availability of new and innovative products in Vermont and help scale their deployment, technical review, and project identification with customers; and
- marketing, community outreach, and education to improve access and consumer demand for measures, programs, and services.

Act 18 recognizes the importance of indirect market support by directing programs to support market transformation such as workforce development, market uplift, and training that may be administered by a third party. *Section 6(h)* of Act 18 includes an assessment of workforce characteristics capable of meeting consumer demand and GWSA requirements in the Department's Potential Study (§8125(e)(A)); and allows a default delivery agent to propose a portion of its budget towards promotion and market uplift, workforce development, and trainings for clean heat measures (§8125(e)(B)).

Act 18 makes it clear that indirect methods for growing the clean heat market will be critical for the successful implementation of the Clean Heat Standard and growing the number of clean heat projects in Vermont. Nonetheless, the EEU's are already providing a significant level of market

support, and the Commission should be cautious to avoid duplication of these efforts by new actors and parallel efforts. In a small market like Vermont, duplication of efforts could create misconceptions of current market development activities (e.g., the Efficiency Excellence Network), or the appearance of competition and differences among workforce training programs. Such outcomes would undermine the Commission’s and Efficiency Vermont’s long-running investment in workforce development and should be avoided.

3. *Clean heat credit formulation and ownership methodology should support both the direct interventions and indirect market support needed to grow the market for thermal efficiency and other forms of clean heat measures to meet Potential Study and/or Global Warming Solutions Act requirements.*

Direct interventions and indirect market support impact the market, therefore both direct activities and indirect market support should be recognized in credit formation and credit ownership. If the intent of the Clean Heat Standard is to raise the total volume of efficiency, fuel switching, and decarbonization projects in Vermont’s thermal energy sector, then the market used to buy and sell those credits should be substantial enough to support both the direct interventions and indirect market support that are required to grow the total clean heat market to meet the Potential Study and/or Global Warming Solutions Act (“GWSA”) requirements. This requires that the Commission recognize all market activities, both direct and indirect, that lead to credit formation (i.e., project completion). Under a market-based construct, ownership of clean heat credits must therefore be distributed among all parties that created opportunities for the clean heat market to grow, and the *but for* test should be applied to determine ownership of clean heat credits upon completion of a clean heat measure. Absent a fair methodology for allocation of credit ownership that acknowledges the actions and agreements among current market actors, there is a risk of significant disruption to the market.

For clean heat measures or projects involving direct or mid-stream incentives, in keeping with the *but for* test, clean heat credits created by the project should be allocated amongst entities that provide an incentive for the project, which could include the DDA, EEU, DU, or fuel dealer if they provide an incentive; the Commission should assign the Technical Advisory Group (“TAG”) with determining how credits are allocated across entities if there is more than one entity providing an incentive on a project. Such a construct is necessary for driving incremental decarbonization of Vermont’s thermal sector.

For example, any clean heat credits that are owned by Efficiency Vermont, created through completed EEU projects with claimed savings, would be a marketable asset to sell in the Clean Heat Standard market. The revenue generated from Efficiency Vermont’s sold credits would then be used by Efficiency Vermont to implement more clean heat projects; this financial relationship is necessary to create *incremental* clean heat projects as a result of the Clean Heat Standard. In this way, credit ownership by current market participants would drive additional projects and expand the total size of the clean heat market.

For clean heat measures that are supported by indirect market support, Efficiency Vermont recommends the Commission direct the TAG to evaluate the impact of indirect market support on clean heat measure uptake; such impacts could be documented in the Clean Heat Standard

Technical Reference Manual with a proportional amount of allocated credit ownership being determined as appropriate based on the level of market intervention for a specific measure.

Efficiency Vermont will also note that the current agreements in place among the DUs and Efficiency Vermont should continue to be in effect once the clean heat market is in effect. This would necessitate that credits should be transferable across parties and allow for exchange of credits on the basis of bilateral agreements between parties.

Conclusion

Efficiency Vermont believes that under a market-based construct, ownership of clean heat credits must be distributed among all parties that created opportunities for the clean heat market to grow in accordance with the size and scope necessary to meet the GWSA requirements. This would necessitate ownership of sellable credits on the basis of both direct and indirect market interventions. Given the complexities of establishing a clean heat credit ownership methodology, Efficiency Vermont will appreciate the opportunity for a workshop and reply comments to respond to the comments filed today and elaborate further on the ideas shared in this filing. Efficiency Vermont also looks forward to discussing the topic further at the Commission's December 15th, 2023 workshop.

Sincerely,



David C. Westman

Director, Regulatory and State Agency Affairs