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January 19, 2024

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

Re: Case No. 23-2221-INV, Investigation into the Clean Heat Standard Default Delivery Agent Costs and Quantities, VEIC comments regarding DDA number, geographic scope, obligations, and responsibilities

Dear Ms. Anderson,

On December 11, 2023 the Vermont Public Utility Commission ("Commission") requested comments in this proceeding on the number and geographic scope of Default Delivery Agents (DDA), and the obligations and responsibilities of the DDA, including addressing the "program offerings" of a DDA. By this letter, VEIC provides responses to the Commission's request for comments.

Summary

VEIC holds an Order of Appointment to serve as the Statewide Energy Efficiency Utility ("EEU"), Efficiency Vermont. VEIC has held this appointment for over two decades. Given that the DDA responsibilities could fall under a new or existing Order of Appointment, VEIC provides comments to the Commission's questions from the perspective of how a DDA as appointed through an Order of Appointment could effectively operate:

1. A DDA appointment should be statewide to achieve a level of scale and equity that can only be reached through a statewide regulated service.
2. The Commission should consider requirements for obligated parties to obtain low- and moderate-income credits from incremental weatherization projects administered through a DDA
3. The Commission should consider the DDA as an administrator for market development and retain flexibility in the methods to encourage clean heat measures.
4. If the DDA is assigned market uplift responsibilities, the total budget should be reflective of this cost with revenues to match.
5. If the DDA is assigned responsibilities for administering incentives for clean heat measures that have high upfront costs with long measure lives, the project's lifetime clean heat credits should be dispersed at the completion of the project.

By these comments VEIC provides further discussion of these recommendations.

Discussion

1. *VEIC believes that DDA appointments should be made at the statewide level to reach an economy of scale that matches the legislative ambition of Act 18.*

VEIC believes that a DDA appointment should encompass an obligation to provide the entire state with services at an economy of scale that minimizes the costs passed on to obligated parties. Act 18 describes the DDA as one or more statewide entities capable of providing a variety of clean heat measures,[1] which contains a broad suite of measures that will qualify for credit under the Clean Heat Standard. However, VEIC believes no single entity will be able to provide the full scope of services for all identified clean heat measures. A DDA administering incentives for installed measures, for example, may not be appropriate or capable of delivering biofuels. Instead, the greatest value proposition for appointing a statewide DDA will follow from having a clearly defined scope of work to implement fair and equitable programs that create opportunities for customers to participate in the clean heat decarbonization called for under Act 18.

2. *The Commission should consider requirements for obligated parties to obtain low- and moderate-income credits from incremental weatherization projects administered through a DDA.*

VEIC recommends the Commission consider what portion of clean heat credit formation should be delivered through efficiency, fuel switching, fuel substitution, and other clean heat measures. During their consideration of S.5 in 2023 and its predecessor bill in the prior biennium, the Vermont General Assembly took significant testimony on the importance of generating incremental weatherization projects as part of the matrix of clean heat measures, and as a means for Vermonters to equitably and efficiently meet the requirements of the GWSA. In effect, weatherization prior to fuel switching or other thermal measures will assure a lower upfront capital investment (i.e. optimized heating equipment sizing) and lower lifetime energy bills for the customer. This sequencing of clean heat measures will be especially important for low- and moderate-income customers.

However, when treated as a separate measure, the anticipated cost per ton of carbon would preclude weatherization from being competitive under a market-based system as established by Act 18. If obligated parties can secure low-cost credits from other sources, direct

[1] § 8125 Act 18

install weatherization or a DDA focusing on incremental weatherization services may be underutilized by obligated parties. That may produce a cost-effective reduction of greenhouse gases but may not meet the long-term interests of low- and moderate-income Vermonters, and in that situation, very few weatherization projects beyond those already supported by existing programs would be installed under the Clean Heat Standard.

If weatherization is intended to be used to any great degree as a clean heat measure, as suggested in 30 V.S.A. §8124(d)(2), VEIC suggests that the Commission should explore whether a portion of the low- and moderate-income credits be required to come from incremental weatherization projects administered by a statewide DDA. VEIC's ongoing successful implementation of the statewide EEU, Efficiency Vermont, shows that low- and moderate-income Vermonters will need additional technical and financial resources to reduce economic, structural, and administrative barriers. This lends itself to the Commission requiring obligated parties to acquire low- and moderate-income clean heat credits from a statewide DDA capable of delivering incremental weatherization projects to supplement those supported by existing programs.[2]

The appointment of a DDA that is capable of delivering weatherization services should be built on the platform of existing weatherization providers at the State, local, and EEU levels, and should be easy for customers to understand and access. Such services should be scaled appropriately to fulfill a large or substantial portion of the total anticipated weatherization clean heat obligations and generate incremental projects above current programs. This will also entail increased customer interactions, market development, and workforce recruitment. These considerations point squarely at a statewide DDA capable of providing multiple sources of market intervention.

3. *VEIC believes an administrator would be a functionally valuable role for a DDA, which can be used to grow the general workforce and market capacity for providing clean heat measures while generating credits for obligated parties at a cost overseen by regulators.*

VEIC's ongoing successful implementation and administration of the statewide EEU, Efficiency Vermont, is based in part on combining financial support to customers with programs that expand the capacity of the market to deliver energy efficiency services and offer efficient equipment. The market uplift and transformation programs Efficiency Vermont delivers, however, are currently scaled to meet EEU performance measures. Act 18 envisions the delivery of measures at a scale that is sufficient to meet the larger GWSA targets. Therefore, VEIC

[2] VEIC makes additional recommendations on how the Commission can further ameliorate the cost of DDA credits derived from weatherization projects in recommendation 4, below.

believes that the Commission must consider how to further transform the market to meet the Act 18 requirements while assuring costs for that effort are fairly spread across all obligated parties.[3]

The responsibilities of the DDA could be numerous and would need to be considered within an Order of Appointment to be evaluated thoroughly. Nonetheless, the responsibilities of a DDA could be structured as the EEU's administrator responsibilities are now, which include general and broad obligations to encourage market innovation while providing flexibility in implementation for the measures or scope of work it is assigned. As a general matter, VEIC believes the administrator role to foster growth in the clean heat market would be a more functionally valuable role for the DDA compared to the role of a direct-installer. A direct-installer can be useful for time-sensitive projects that are limited in both scope and purpose, but an administrator can make long-term investments that grow the general workforce and market capacity for providing clean heat measures into the future while working under a general set of responsibilities and a defined portion of the market.

Additionally, VEIC anticipates that direct installers would participate in the market for the sale of clean heat credits. In this market, direct installers would be unregulated parties pursuant to the Clean Heat Standard RULE being developed by the Commission, and capable of earning credits for performing direct install services. Those credits will be bid directly into the clean heat credit market, which could be then used to affect the price of services and overall competitiveness. VEIC believes direct install services should be separate from the role of the DDA, which should instead focus on providing services, administration, and market support for clean heat measures that are harder to attain and therefore would benefit from a form of regulated service. As such, the DDA would perform its responsibilities at a cost approved by regulators, and unlike a competitive direct-installer, the DDA would not be determinative of market clearing prices.

4. *A DDA's scope of work and compensation structure is important for the recruitment and maintenance of a long term DDA presence. If market transformation activities are assigned to the DDA, as described in statute, then the costs should be distributed amongst all obligated parties who benefit, versus only obligated parties who purchase credits through a DDA.*

VEIC believes the financial structure of a DDA must be sustainable over many years or the State may have difficulty recruiting and maintaining a long term DDA presence. The administration of the DDA must be economically sustainable to implement, and not solely focused on direct

[3] As explained in the next recommendation, a statewide DDA may be an appropriate place for such work to be assigned, but to the extent that general market uplift is a responsibility of the DDA, the costs should not be borne solely by those obligated parties who choose to purchase their credit obligations from the DDA.

procurement of credits but also supportive of indirect processes that grow the workforce and allow for engagement and training with this market.[4] For these reasons, the manner in which a DDA is compensated is of considerable weight and importance toward the end-result of program delivery and achieving the requirements of the GWSA.

Maintaining a long-term DDA presence would be advantageous for creating a consistent and accessible customer experience. Stable, consistent programs that match customer decision-making timelines should be a primary goal of the Commission in appointing a DDA. Under Act 18, however, VEIC can envision a scenario where all obligated parties opt out of securing credits from a DDA on an annual basis, which would make it incredibly challenging for any entity to implement. Therefore, VEIC believes that the scope of work and manner of compensation must be designed in a manner that is economically sustainable and administratively feasible over time. Otherwise, the State may have difficulty recruiting and maintaining long-term DDAs.

Nonetheless, Act 18 does not provide sufficient guidance to the Commission as to how the capacity of the Vermont thermal energy savings market will be developed to match the ambition of the GWSA. Under 30 V.S.A. §8125(e)(1)(b), the DDA's budget and scope of work may extend to promotion and market uplift, as well as workforce development. Lack of a stable presence of a DDA could result in difficulty maintaining the workforce necessary to generate the required number of clean heat credits. If market uplift/transformation activities are assigned to a DDA, then the costs should be spread to all obligated parties benefiting from such services, not simply those that purchase credits from a DDA, as all parties receive a direct benefit from a market capable of delivering sufficient clean heat measures. VEIC does not have a ready explanation or proposal for how such revenues can or should be collected, but raises this as a general matter for the Commission to consider, and invites further discussion among stakeholders.

5. *The DDA's cost structure should be used to reduce the upfront costs associated with completion of clean heat measures and allow lifetime credits to be retained on behalf of the obligated parties paying for DDA services.*

During testimony in front of the Vermont General Assembly, the DDA was compared to the services provided by an EEU. Under the EEU model, incremental projects are generated through upfront technical and financial assistance. For a DDA to perform the same level of services, it would need to have sufficient resources upfront to support the projects it is anticipated to complete. For an obligated party to pay for these services in exchange for credits, the DDA would need to secure the lifetime of credits for those projects it supports financially, and deliver

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[4] As a general matter, the VEIC believes a DDA should not also be an obligated party and that the DDA would need to be compensated for credits generated on *behalf of* the obligated parties.

those credits to the obligated parties who pay for DDA services. VEIC suggests that this process should be done in an upfront manner, wherein the DDA delivers the full lifetime credit of a completed project to the obligated party paying for the DDA's services. The alternative is both administratively burdensome and difficult to implement, wherein individual customers' annual reduction in fuel use is measured and tracked through a long-term market mechanism that awards credits over the lifetime of individual projects, which are passed to the DDA, who would in turn sell those credits to obligated parties at a cost. However, it is unrealistic to think that customers would proceed with projects on the basis of a promise for future revenue based on the future sale of credits and highly speculative pricing for clean heat credits, nor is it reasonable to assume that a DDA should complete projects on extended credit, which would both increase the cost to administer the DDA and create significant long term financial risk for the DDA administrator.

For simplicity and ease of administration, VEIC recommends that the Commission adopt a model wherein the DDA receives the full lifetime credits after completion of a project. While it is not clear what the market impact would be for an obligated party to purchase a lifetime of credits upfront from a DDA, the process would be consistent with the financial reality that a substantial investment is required upfront to deliver 15+ years of future emission savings from a single project. VEIC believes the upfront costs can be paid by obligated parties to the DDA for delivery of the lifetime credits. This would create the capacity to generate revenue flow that is sufficient for paying the initial project cost upfront.

Scheduling revenue is also an important consideration given the high cost of project completion for projects like weatherization. The budget for the DDA must be known and irrevocable, with a means for collecting revenue that is matched to the rate of expenditures. To this end, VEIC also suggests that the DDA should receive revenue no less frequent than monthly – just as the EEU is currently provided revenue from EEC collections to perform its obligated duties and responsibilities.

Conclusion

In the comments above, VEIC has presented recommendations for structural and administrative responsibilities for a DDA that support market formation and financial assistance of the Clean Heat Standard program. In future comments, or reply comments, VEIC may elaborate further on specific responsibilities, obligations, or limitations of liabilities for taking on obligated parties' credit fulfillment based on the direction of the Commission.

VEIC requests these recommendations be considered by the Commission in an interim order to assure that DDA services are intended to be consistent and sustainable over time. Without such assurance, the time-consuming and expensive process of securing a DDA Order of appointment could be a significant barrier to a request for proposals by the Commission.

Sincerely,

David C. Westman

Director, Regulatory and State Agency Affairs