

REPORT TO THE VERMONT LEGISLATURE

Act 18 – Clean Heat Standard Funding Report

Submitted by the Vermont Public Utility Commission to the General Assembly

February 12, 2024

I. Introduction and Statutory Basis

On May 11, 2023, Section 6 of Act 18 (S.5) of the 2022-2023 Vermont legislative session took effect. In Act 18, lawmakers established the potential Clean Heat Standard, which would aim to reduce greenhouse gas emissions in the thermal sector consistent with the requirements of the Vermont Global Warming Solutions Act. The legislation directs the Vermont Public Utility Commission (“PUC” or “Commission”) to create a proposed regulatory structure to implement the potential Clean Heat Standard. Section 6(h) of Act 18 directs the Commission to:

report to the General Assembly on suggested revenue streams that may be used or created to fund the Commission’s administration of the Clean Heat Standard program and shall include programs to support market transformation such as workforce development, market uplift, and training that may be administered by a third party.

In response, the Commission initiated a public process to explore funding streams to support the Commission’s administration of the program. The Commission requested comments on this topic on November 3, 2023, held a workshop on December 19, 2023, and provided a reply comment period that ended on January 8, 2024. In response to participant suggestions, the Commission also solicited feedback on this topic from the Clean Heat Standard Equity Advisory Group.¹

The Commission’s recommendation is to fund the administration of the program with the General Fund at least until the General Assembly approves the Commission’s final proposed rules to implement the potential Clean Heat Standard. Because much of the program is yet to be designed, and the magnitude of the cost of programs to support market transformation is unknown, the Commission will continue to consider the question of long-term funding sources as it develops the rules to implement the potential Clean Heat Standard. We will provide further funding recommendations when the Commission submits its proposed rule on or before January 15, 2025.

II. Potential Funding Streams

The Commission requested comments and recommendations from the public on the following funding issues:

¹ As required by Act 18, the Commission has established “the Clean Heat Standard Equity Advisory Group to assist the Commission in developing and implementing the Clean Heat Standard in a manner that ensures an equitable share of clean heat measures are delivered to Vermonters with low income and moderate income and that Vermonters with low income and moderate income who are not early participants in clean heat measures are not negatively impacted in their ability to afford heating fuel.” 30 V.S.A. § 8129(a).

- Funding proposals to support the Commission’s ongoing Act 18 work during FY25, including whether the State of Vermont General Fund is again an appropriate short-term funding source;
- Long-term funding proposals to support the Commission’s future administration of the Clean Heat Standard if the Legislature approves a final rule;
- Suggested revenue streams that may be used or created to fund programs to support market transformation;
- Whether the Commission’s report should also address funding for the Vermont Department of Public Service (“Department”), both for its Act 18 work in FY25 and in future years if a Clean Heat Standard is approved, and if so, whether the source(s) of funding should be the same as for the Commission; and
- Recommendations for further process, if any, to inform the Commission’s funding report.²

The common theme across various participants’ feedback was that any chosen funding source should be equitable, sustainable, and progressive. Another common theme among commenters was the view that it is premature to identify a suitable long-term funding source without having more information on the scope of funding needed. For instance, the Department’s potential study, which is scheduled to be completed no later than September 1, 2024, will consider and evaluate market conditions for the delivery of clean heat measures in Vermont, including an assessment of workforce characteristics capable of meeting consumer demand and the emission reduction requirements of the Global Warming Solutions Act.³ According to some commenters, essential elements such as the development of the default delivery agent’s budget, market transformation costs, and the scope of the program will be decisively guided by the final results of the Department’s potential study.

In general, many participants were apprehensive to propose potential long-term funding streams before gaining clarity on the scope of the administrative costs, scale of market transformation needed, resulting default delivery agent costs, or even size of the newly regulated industry, all of which may affect the magnitude of administrative costs.⁴

With that background, the Commission reports on potential funding streams at this stage so that the Legislature has ample time to consider appropriate funding leading to the program’s potential future implementation. In the following subsections we discuss the three most practical funding sources that the Commission considered. In Appendix B, we discuss additional funding sources that were identified during our investigation.

² *Order Seeking Recommendations for Funding Report*, Case No. 23-2220-RULE, Order of 11/3/23.

³ 30 V.S.A. § 8125(e)(1)(A).

⁴ Vermont Fuel Dealer’s Association comments of 12/4/23 at 3.

A. General Fund

The Legislature appropriated \$1,725,000 from the General Fund for fiscal year 2024 for the Commission and the Department to begin work on the potential Clean Heat Standard.⁵

There are both advantages and drawbacks to continuing to use the General Fund for the short- or long-term administration of the potential Clean Heat Standard. Among the advantages, the General Fund allows for a straightforward and transparent allocation of resources without the need to create a new tax or fee. It is also a flexible funding mechanism that can be adjusted based on the real costs of the program. And - for the reason most frequently mentioned by participants throughout the public process on this topic -this funding source is progressive and does not risk concentrating the burden on those least able to afford higher heating costs.

However, on the downside, reliance on the General Fund may compete with other State budget priorities and introduce uncertainty into the fiscal stability of the program. The program may be particularly vulnerable in its initial implementation given the uncertainty of the level of funding needed to establish a new regulatory structure.

The Equity Advisory Group recommended the General Fund as the most appropriate funding source, resolving at its meeting on January 30, 2024, that "the Equity Advisory Group advises the Commission to recommend to the Legislature that any money needed for the Clean Heat Standard through Fiscal Year 2025 be funded from the General Fund."⁶

There was little objection from other participants to recommending this funding source in the short term. Both the Commission and the Department have significant Clean Heat Standard program design work to accomplish in fiscal year 2025, and commenters acknowledged that attempting to establish a new tax or fee to support that short-term work was not realistic.

In sum, while there was robust discussion on whether it is appropriate to use the General Fund for program administration in the long term, most commenters agreed it is a progressive source of funding and distributes the program administration costs more equitably than other funding options.

B. Surcharge on Fossil Fuel Sales

The Commission specifically asked case participants to weigh in on a funding stream suggested in the Energy Action Network's Clean Heat Standard whitepaper to support the Department's work, specifically, "a small surcharge on fossil fuel sales [that] could be levied to provide funding necessary to support the [Department's] role in verification of compliance and evaluation."⁷ The Commission has also considered such a surcharge to fund the program's administrative costs

⁵ The Commission has requested \$878,346 to fund its fiscal year 2025 work required by the Affordable Heat Act.

⁶ Clean Heat Standard Equity Advisory Group January 30, 2024, Meeting.

⁷ Cowart, R. & Neme, C. (2021 December). The Clean Heat Standard [An Energy Action Network White Paper]. <https://eanvt.org/wp-content/uploads/2021/12/CHS-Final-December-16-2021-copy.pdf>

more broadly. The following discussion is also relevant to options that include raising the fuel tax⁸ or instituting a thermal efficiency charge.

The potential benefit of a surcharge on fossil fuel sales is that it would be simple to administer and would be sourced from the sector that the program would regulate. In addition, a surcharge, tax, or efficiency charge on fossil fuels may serve as a price signal that encourages the transition to cleaner heating sources.

During the public process, few commenters expressed the view that instituting a surcharge, tax, or efficiency charge on fossil fuels would be an equitable or appropriate source of funding. The most cited concern was that customers would shoulder the full impact of such cost increases and that those customers with low income who are unable to transition immediately to cleaner heating sources (due to cost or program capacity) would pay a disproportionate share relative to their income. There was also a concern that such households already have a high energy burden.

A potential fix for the regressive effects of a surcharge, tax, or efficiency charge was included in the 2021 Act 62 All-Fuels Energy Efficiency report to the Legislature authored by the Commission:

To mitigate the potential for low-income Vermonters to end up paying more for their heating fuel, lawmakers could consider options to make low-income Vermonters whole. For example, a tax rebate could be issued to participants in the LIHEAP program in the amount of the increased fuel cost that a LIHEAP participant would experience as a result of adding a Thermal Efficiency Benefit Charge and raising the fuel tax.⁹

This kind of funding source may also be unsustainable in the long run if the program is successful. As more Vermonters transition to cleaner heating solutions, there would be fewer households paying into the fund supporting the administration of the program. This mismatch of lower sales volumes to support more administrative or verification work would be fundamentally unsustainable.

C. Extending a Gross Receipts Tax to Newly Regulated Entities

A gross receipts tax most closely matches the funding model for the Commission and Department's existing regulated entities.¹⁰ The benefit of this funding stream is that it connects

⁸ 33 V.S.A. § 2503.

⁹ Vermont Public Utility Commission. (2021). *Report to the Vermont State Legislature: Act 62 – Final Report on All-Fuels Energy Efficiency*.

¹⁰ No state tax money or general funds are used to fund the Vermont Public Utility Commission. "The Commission is funded completely through a gross receipts tax paid by the utilities that we regulate, fees paid by applicants for CPGs who are not paying a gross receipts tax, and billbacks for out-of-pocket costs, such as court reporters and outside consultants, associated with hearings conducted by the Commission." [The State of Vermont Public Utility Commission Annual Report 2022, p. 5](#) (last accessed on February 9, 2024). Similarly, "[t]he Department of Public Service is primarily funded by the gross revenue tax on utility bills

the cost of regulation to the regulated entity in a transparent way. This funding stream, however, is subject to similar risks as the surcharge, tax, or efficiency charge options discussed above. As mentioned by commenters on this option, this mechanism may also prove unsustainable and inequitable – unsustainable because revenue to administer the program would diminish as customers reduce their reliance on fossil fuel, and inequitable in that increased costs would almost certainly be passed on to all customers, including customers with low income.

III. Conclusion

The Commission has considered the various funding streams suggested by participants. We conclude that the General Fund is the best short-term funding source for the Commission’s administration of the Clean Heat Standard program because it is transparent, efficient, and equitable. As we continue development of the Clean Heat Standard proposal, we will continue to consider long-term funding sources, including those that would support market transformation activities.

pursuant to 30 V.S.A. § 21, with some programs funded through federal grants and the Energy Efficiency Charge.” State of Vermont, [Budget & Performance Measures | Department of Public Service \(vermont.gov\)](#) (last accessed on February 7, 2024). See also [Sustainable Funding for the Public Utility Commission and the Public Service Department](#), November 15, 2018 (last accessed on February 8, 2024).

Appendix A --- Participants That Filed Comments or Provided Comments in the Funding-Streams Workshop (*listed alphabetically*)

Ashley Adams

David Hillman

Efficiency Vermont

Luce Hillman

Donna Leban

Louise Diamond Committee to Protect Next Generations

Pike Porter

Vermont Department of Public Service

Vermont Fuel Dealers Association

Vermont Gas Systems, Inc.

Vermonters for a Clean Environment

Thomas Weiss

Appendix B --- Additional Funding Sources Identified

A. Federal Funding

Recent federal funding for environmental measures presents Vermonters with an unprecedented opportunity to fund the mitigation of climate change. Below, we summarize what we know about several federally funded programs that will assist Vermonters in the clean energy transition. Even so, none of these funds are allocated for the purpose of funding the Commission's administration of the potential Clean Heat Standard program, and none of the funds have been allocated for the types of market transformation activities described in Section 6(h) of Act 18.

1. Inflation Reduction Act – High-Efficiency Electric Home Rebate Program¹¹

Market transformation can be improved by providing point-of-sale rebates to low- and moderate-income households for a variety of electric technologies, including heat pumps for space heating and cooling, heat-pump water heaters, electric stoves and ovens, and electric service upgrades. Vermont has been allocated \$29,362,920 for this program. Under the High-Efficiency Electric Home Rebate Program, eligible households will receive up to \$14,000 for installing energy efficient electric equipment, including up to \$8,000 for heat pumps, \$1,750 for heat-pump water heaters, and \$840 for electric stoves. Applications for this program are due from the Department of Public Service to the Department of Energy by January of 2025, and federal funds must be expended by Vermont by September of 2031.

2. Inflation Reduction Act – The Home Energy Performance-Based Whole-House Rebates (HOMES) Program¹²

Market transformation will also be assisted by the HOMES Program, which will provide eligible households with rebates of \$2,000 to \$8,000 for whole-home energy-saving retrofits and weatherization such as improving insulation and methodically sealing air leaks. Vermont has been allocated \$29,192,160 for this program. Applications are due from the Department of Public Service to the Department of Energy by January of 2025, and federal funds must be expended by September of 2031. These rebates will help Vermont make progress towards its goal of weatherizing an additional 90,000 homes by 2030.¹³

¹¹ [Inflation Reduction Act to Bolster Vermont Weatherization and Electrification Efforts | Department of Public Service](#) (last accessed on January 29, 2024).

¹² [Inflation Reduction Act to Bolster Vermont Weatherization and Electrification Efforts | Department of Public Service](#) (last accessed on January 29, 2024).

¹³ *Id.*

3. Inflation Reduction Act – Energy Efficiency Contractor Training Grants

Vermont has been allocated \$1,048,680 to support workforce development to help ensure that qualified contractors are available to do this crucial work.¹⁴ These funds will be used to: reduce the costs of training contractor employees; provide testing and certifications of contractors; and partner with non-profit organizations to develop and implement a State-sponsored workforce program.

4. Climate Pollution Reduction Grant

Vermont is likely to be awarded a total of \$90 million in federal climate funding via the Climate Pollution Reduction Grants.¹⁵ These grants must be used for actions that show a measurable reduction in climate pollution, which could include weatherization, switching from fossil fuels to electricity for low- and moderate-income Vermonters, and energy coaching to access these services.

B. Additional Funding Streams Suggested by Participants:

- An additional tax on Vermont’s wealthiest (a “wealth tax”)
- Increased vehicle registration fee on combustion vehicles, with a higher fee on luxury vehicles
- A tax or fee on fossil-fuel combustion systems such as jets and gas-powered lawnmowers, gas-powered leaf-blowers, power boats, etc.
- Surcharge on the sale of new vehicles
- Grants
- The clean heat credit market may be valuable enough to provide some degree of funding.
- Funds generated by the obligated parties themselves
- Electric utility fee
- Tax on ALL fuels (not limited to fossil fuels) – wood, fossil, renewable
- The Transportation Fund
- Charge on customers’ fossil fuel heating bills that is an equivalent percentage to the energy efficiency charge paid by electric utility customers on their monthly utility bills. The fee would be “refunded” to low-income customers in the form of system upgrades to their residences.
- Carbon tax

¹⁴ [ALRD for State-Based Home Energy Efficiency Contractor Training Grants \(CTG\) Program - Modified 10/6/2023](#) (last accessed on January 29, 2024).

¹⁵ *Vermont’s Opportunity for Federal Climate Funding*, [PowerPoint Presentation \(vermont.gov\)](#) (last accessed on February 5, 2024); see also [Climate Pollution Reduction Grants | US EPA](#) (last accessed on February 5, 2024).

Appendix C --- Public Comments

All public comments filed with the Commission on this issue can be found in ePUC by searching under Case No. 23-2220-RULE. Written public comments on this issue were due on December 4, 2023, and January 8, 2024, and are assigned the topic tag "9 Other." The transcript for the funding-streams workshop can be found in the "All Other Documents" tab in ePUC under the panel "Transcripts."