

# Clean Heat Standard

Summary and Recommendations - Fall 2023



## WHAT IS THE CLEAN HEAT STANDARD (CHS)?

A Clean Heat Standard is a credit-based performance standard that would be applied to suppliers of heating energy, notably gas utilities and providers of heating oil and propane, and possibly electricity suppliers in some instances. These heat providers would be required to obtain a certain amount of credits, and credit would be generated by deploying ‘clean heat measures’ such as building energy efficiency improvements or installation of heat pumps that reduce greenhouse gas (GHG) emissions. Through this approach, a CHS ties real monetary value to the reduction of GHG emissions in buildings. Over time, the number of credits each heat provider is required to obtain ratchets up to match the pace of state-level GHG reduction targets.



## WHICH STATES IN THE REGION HAVE IMPLEMENTED A CHS?

At a national level, only Colorado and Vermont have adopted a CHS. Northeastern states outside of Vermont are left to play catch-up, not just with the CHS, but with their state climate goals that would be greatly aided by adopting a CHS. The Affordable Heat Act in Vermont that passed in 2023 directs Vermont’s Public Utility Commission to create a CHS, but many details of the policy have yet to be fleshed out.



## HOW DO STATES BENEFIT FROM A CHS?

Fossil fuels benefited from a development period in which their actual costs were either unknown or hidden. Now that we know the true societal cost associated with emissions from the combustion of these fuels, it’s essential to design policies, like a CHS, that financially incentivize swiftly moving away from reliance on these destructive fuels. Currently, state-run energy efficiency programs are disproportionately funded through the electric bill – the amount that an individual customer contributes to these programs is based mainly on how much electricity they consume in a given month. Homes that use fossil fuels for heating – particularly fuel oil and propane customers – simply don’t pay as much into these programs as customers that rely on electricity for heat.

This method for funding energy efficiency programs is not sustainable as we move toward a more electrified society, and it is only fair to fund the transition through policies that equitably distribute the cost of the transition across all homes and businesses, regardless of what fuel they use to heat their building. A CHS – if properly designed – can help spread the costs of the building decarbonization transition over the next several decades more equitably and provide a much-needed source of funding to complement existing energy efficiency and electrification programs. A CHS will simultaneously provide additional clean energy jobs to help workers transition from jobs reliant on the unsustainable fossil fuel economy.



## HOW CAN WE MAKE THE CHS EQUITABLE?

Disadvantaged communities disproportionately live in older and less efficiently heated households and suffer from high energy burdens. These communities have also been disproportionately impacted by the negative health impacts associated with society’s reliance on fossil fuels. Disadvantaged communities must be involved at every step in the design of the CHS program and must not bear the financial brunt of the energy transition. Numerous opportunities exist that can ensure an equitably designed CHS. For example, a “Just Transition Fee” can be applied to projects that don’t support equitable outcomes, and the revenue generated from this fee can be used to offset any increased cost burden placed on disadvantaged communities as a result of CHS compliance. The CHS is not a cure-all, and coordination with other policy solutions, including rate reform for low- and moderate-income residents, will be essential to ensuring a just transition.



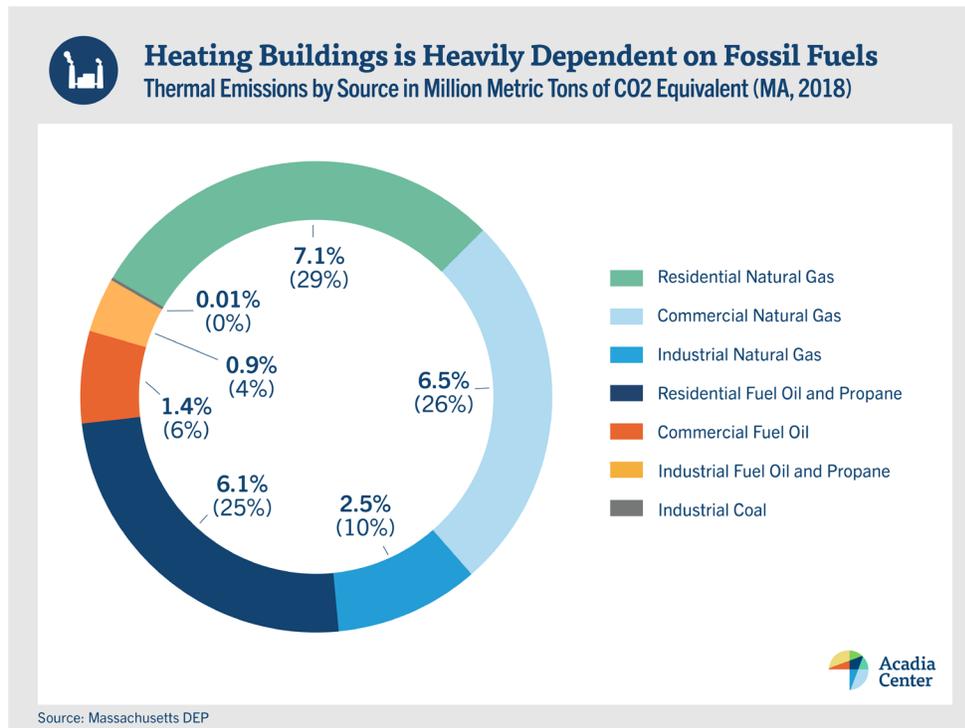
## WHAT ARE THE KEY CHALLENGES OF ESTABLISHING A CLEAN HEAT STANDARD?

If poorly implemented, a CHS could undermine decarbonization goals. Of particular importance will be which “alternative fuels” such as biomethane and hydrogen, are deemed eligible under a CHS, and, if deemed eligible, how will the GHG emissions reduction benefit of switching from fossil fuels to alternative fuels be calculated. Evaluating the benefits of these alternative fuels requires complex “lifecycle accounting” that considers the GHG emissions associated with fuel production, transportation, and use. While Vermont has adopted a CHS, these details related to alternative fuels have yet to be fleshed out. The final design of the program will be critical in determining which alternative fuels are eligible under the program. Getting the biofuels question right is of critical importance, not only in Vermont but for all states considering a CHS, and will be vital in determining the overall effectiveness of a CHS in tangibly reducing GHG emissions.

It's also critical for states to develop long-term plans for the natural gas distribution system and a CHS in tandem. Designing an effective CHS is nearly impossible when there is no coherent, long-term vision for strategically retiring the gas distribution system over the next several decades. The two policies go hand-in-hand. For example, it doesn't make sense for the CHS to incentivize near-term investments in producing biomethane to be injected into the gas distribution system if another policy process highlights the need to strategically retire that same gas distribution system. These types of make-or-break decisions can cause the policy to sink or swim. Therefore, states looking to adopt a CHS must get the details of its proposal correct.

## CASE STUDY: MASSACHUSETTS

In March of 2023, the Massachusetts Department of Environmental Protection (MassDEP) released a Clean Heat Standard Program Design Discussion Document designed to solicit stakeholders' feedback on the overall design of a potential CHS in the state. Acadia Center worked with stakeholders, including Conservation Law Foundation, Green Energy Consumers Alliance, Home Energy Efficiency Team (HEET), and Pipe Line Awareness for the Northeast, to develop a response document that more than 35 organizations signed. With our colleagues, Acadia Center produced a comprehensive 22-page document responding to the DEP's questions and outlined our vision for a successful CHS for Massachusetts. This document forms the basis for our priorities on CHS in the coming year. These top priorities include a CHS that ensures adequate equity protections and an energy efficiency and electrification-only compliance program, particularly for gas utilities. Our coalition has also produced a subsequent comment document reaffirming our previous comments and calling for improvements to the process. Acadia Center will continue actively participating in this process, attending stakeholder meetings, submitting technical comments, and working with coalition partners.



**For more information, visit our website:**

<https://acadiacenter.org/why-massachusetts-needs-a-clean-heat-standard/>

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