

## **Clean Heat Standard**

Fuel oil spiked to \$4.80/gallon last week, \$2 higher than a year ago and almost \$3 higher than the last low point in October 2020. Heating bills are more than \$1,000 higher this winter than last. Shocking, but not really surprising. We know petroleum prices go up and down, and between the nagging pandemic and Putin's grotesque invasion of Ukraine — well, things are bound to be unstable.

Unstable isn't the half of it. Fossil fuel prices have always been about as stable as a dirt road in mud season. The forces that drive the prices we pay are vast and unpredictable. The industry is inherently boom-and-bust, as fluctuating commodity prices drive investment and disinvestment in supply, as new technology emerges (directional drilling, fracking), as external events affect demand (pandemic, war). And the mother of all disruptions is at hand, as the world economy finally begins transitioning away from near-complete reliance on fossil fuels. Prudent and responsible policy can only foresee even more price volatility during the transition.

Prudent and responsible leaders therefore must seek strategies to help their communities meet the transition in an orderly fashion. Failing to respond to that imperative — failing to educate, to plan and to act — is a failure of leadership at a pivotal moment. Our children and grandchildren will reap the whirlwind, quite literally, if we fail them now.

What can a tiny state like Vermont do? Obviously we cannot affect global oil markets, nor the unfolding climate disaster triggered by two centuries of fossil-fuel pollution.

We can't save the world perhaps, but we can and we must put our own house in order. Vermont's Climate Action Plan is the first comprehensive effort to envision the transformation of our economy to meet that challenge. The Clean Heat Standard (CHS), H.715, passed by the House last week, is most consequential step yet to execute the Plan, to take responsibility for our own pollution and stabilize our future energy costs.

CHS sets out a planned, progressive process to provide Vermonters with heating options that are more affordable, more efficient, less polluting — and more predictably priced — than fuel oil or propane.

CHS for the first time makes sellers of fossil heating fuels accountable for the greenhouse gas impact of those fuels. Fuel sellers will be required to obtain "clean heat credits" in proportion to their sales. The number of required credits increases gradually over time.

Credits are obtained by helping customers reduce carbon pollution in their homes and businesses, by weatherizing or switching to less-polluting fuels. They are generated by parties who complete clean-heat measures, and their value is based on the calculated reduction in greenhouse gas emissions from the measure. Those "parties" could be independent contractors or the fuel dealers themselves. Importantly, the credits system engages fuel companies in the energy transition by offering a financially viable path from the FUEL business to the HEATING (and cooling and efficiency and comfort) business.

Some other important notes. Fuel customers (households and businesses) will NOT be required to do anything, not undertake weatherization nor change out their heating system. But fuel sellers will be incentivized to help customers consider alternatives when they have to buy or replace a dead furnace or other fossil-burning appliance.

CHS tasks the Public Utility Commission (PUC) with creating the standards and system of credits. CHS is similar to the Renewable Energy Standard implemented by the PUC a dozen years ago to reduce pollution in the electric industry, and similar to clean fuels standards in other states. Implementation will be phased in with predictable, modest reductions over 10 years, providing customers and businesses with clarity and stability. CHS also includes a "circuit breaker" or price-cap mechanism, allowing the PUC to adjust requirements in case of unforeseen adverse financial impacts.

As for expected financial impacts, in terms of upward pressure on fuel oil and propane prices, they are anticipated to be modest, on the order of a few percent. That is, if fuel oil settles at \$4.00/gallon (43% higher than one year ago), CHS might add 2% to 3%, or 8 to 12 cents. That's not nothing, but it pales in comparison to the "natural" volatility of fossil prices.

The world economy is moving away from reliance on fossil fuels. The focus of automobile manufacturers' research and development is electric propulsion and battery storage, not internal-combustion technology. Solar and wind electric generation is already less expensive than building new natural gas or coal plants, and other non-fossil technologies are in rapid development. The end of the fossil-fuel dominance is at hand. The transition to sustainable power sources will be complicated, and only time will tell whether it will be characterized by wisdom or crisis and chaos.

For smaller economies like Vermont's, the transition very well may take longer and be more daunting. The Clean Heat Standard is a well crafted, measured yet assertive step to prepare our state and economy for the inevitable. We cannot afford not to embrace it.