

May 1, 2024

Senate Environment and Agriculture Committee
Rhode Island State House
82 Smith Street
Providence, RI 02903

Acadia Center Testimony in Support of Senate Bill 2848, The Rhode Island Clean Heat Standard Act

Chairperson Bennett and Members of the House Environment and Natural Resources Committee,

Acadia Center appreciates the opportunity to provide testimony in support of House Bill 7782, the Rhode Island Clean Heat Standard Act. Acadia Center is a non-profit research and advocacy organization committed to advancing the clean energy future. Acadia Center's work is characterized by reliable information, comprehensive advocacy, and collaborative, innovative problem-solving.

The Act on Climate requires statewide emissions reductions of 45% below 1990 levels by 2030, 80% by 2040 and net-zero emissions by 2050. Currently, the state is not on track to meet these mandated targets in the Act on Climate. The majority of Rhode Island's building heating load is served by fossil fuels, and residential and commercial heating make up over a quarter of Rhode Island's gross greenhouse gas emissions. A Clean Heat Standard (CHS) is a key policy solution to transition our heating away from fossil fuels at the scale and speed required to meet the state's Act on Climate mandates.

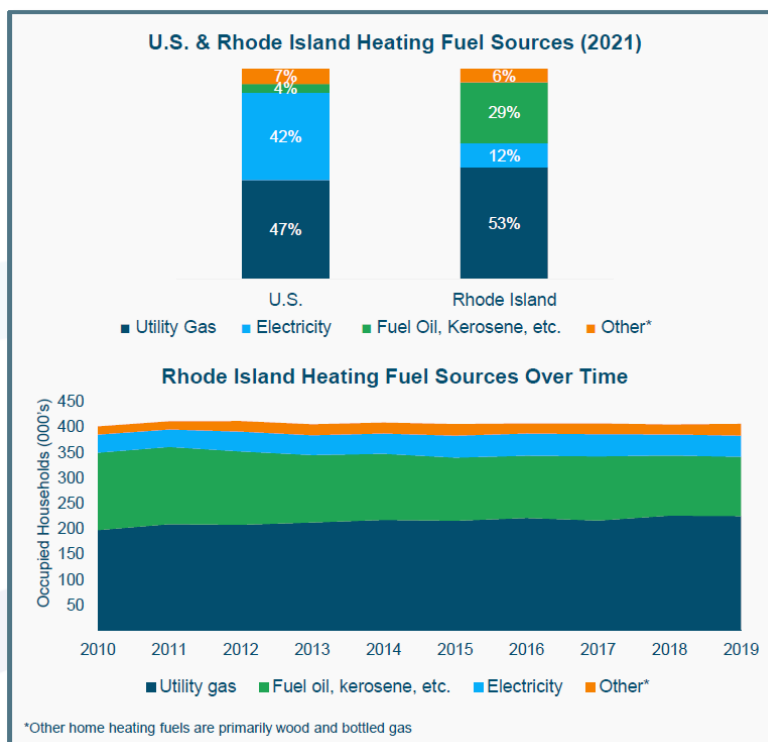


Figure 1

Rhode Island Energy, Gas Operations
101 Presentation. Future of Gas
Stakeholder Committee, January 24,
2024.

Data sources and years reviewed:

- U.S. Census, Decennial Census (2000)
- U.S. Census, American Community Survey, 1-Year Estimates (2010-2021)

What is a Clean Heat or Renewable Thermal Standard?

A Clean Heat Standard (CHS) 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.

The State of Rhode Island has long explored statewide thermal targets to spur and accelerate deployment of renewable thermal technologies.¹ The 2022 Climate Update produced and approved by the RI Executive Climate Change Coordinating Council (EC4) specifically includes the development of a renewable thermal standard as a top priority for the thermal sector.

In September of 2023, Rhode Island joined the U.S. Climate Alliance, a bipartisan coalition of 25 governors, to agree to collectively reach 20 million heat pump installations across the coalition by 2030, with the aim of ensuring at least 40 percent of benefits flow to disadvantaged communities. Through this agreement, the State of Rhode Island was among eight members that committed to exploring the development of clean heat standards. Most recently, Rhode Island joined eight other states through NESCAUM to set a goal for highly efficient heat pumps to make up 65% of residential heating, cooling, and water heating equipment sales by 2030. **This level of acceleration of heat pump adoption to meet these collective targets, as well as Rhode Island’s Act on Climate mandates, requires a comprehensive building decarbonization policy such as a Clean Heat Standard.**

A comprehensive Clean Heat Standard has also emerged as a critical policy solution as a result of the Future of Gas proceeding.

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 is 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. This counterproductively serves as a disincentive against increases in electricity consumption resulting from the electrification of heating appliances. 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

¹ Meister Consultants Group, Prepared for Rhode Island Office of Energy Resources. “Rhode Island Renewable Thermal Market Development Strategy.” January 2017.

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 homes 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 within the CHS program design process to ensure equitable design. 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 and the implementation of a comprehensive process to strategically limit stranded assets in the gas distribution system, will be essential to ensuring a just transition.

What are the Key Challenges of Establishing a Clean Heat Standard?

Acadia Center fully supports the development of a CHS, but careful steps must be taken to ensure responsible program design. 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. Getting the biofuels question right is of critical importance and will be vital in determining the overall effectiveness of a CHS in tangibly reducing GHG emissions in a cost-effective manner.

It is also critical for Rhode Island 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 to minimize stranded asset risk associated with the system. 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, as Rhode Island considers adoption of a CHS, it must get the details of any proposal correct.

Transitioning our heating away from fossil fuels is critical to meeting our state's climate targets and will require a coordinated effort by policymakers, regulators, industry, and stakeholders. Acadia Center urges the legislature to do its part in spurring this critical shift in the thermal sector by thoughtfully considering the adoption of an economy-wide Clean Heat Standard.

Thank you for your consideration.

Sincerely,

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