

MASSACHUSETTS CLEAN HEAT STANDARD

TECHNICAL SESSION:

**COMPLIANCE FLEXIBILITY/BANKING &
ALTERNATIVE COMPLIANCE PAYMENT LEVEL**

JULY 2023

MassDEP



CLEAN HEAT STANDARD TECHNICAL SESSIONS

Monday, July 24

- Compliance flexibility/banking
- Alternative Compliance Payment level

Tuesday, July 25

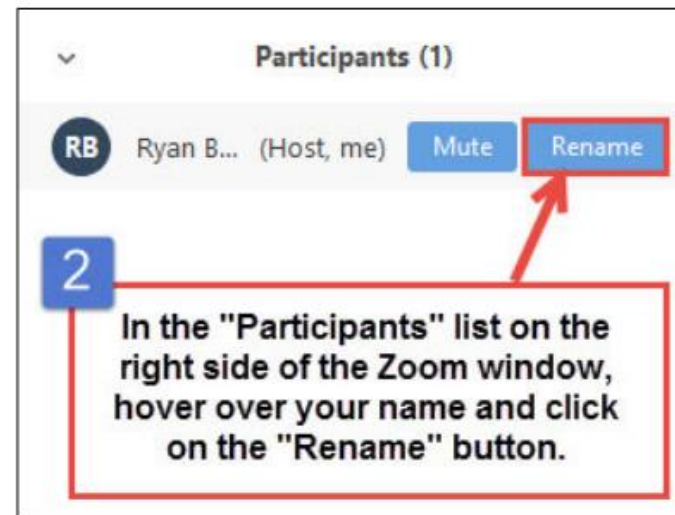
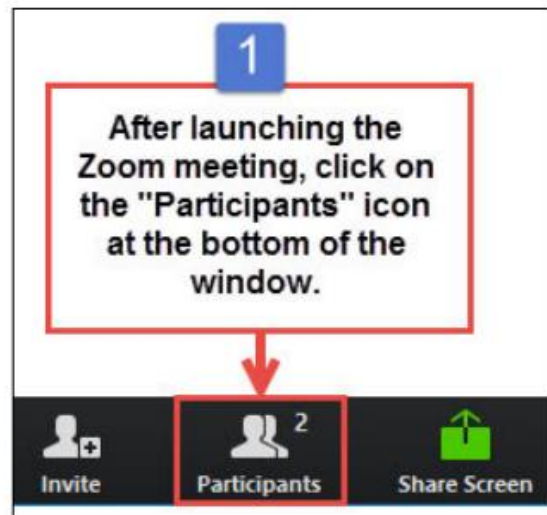
- Calculation of credits by technology
- Hybrid heat system credits

Wednesday, July 26

- Mass Save coordination
- Measure verification

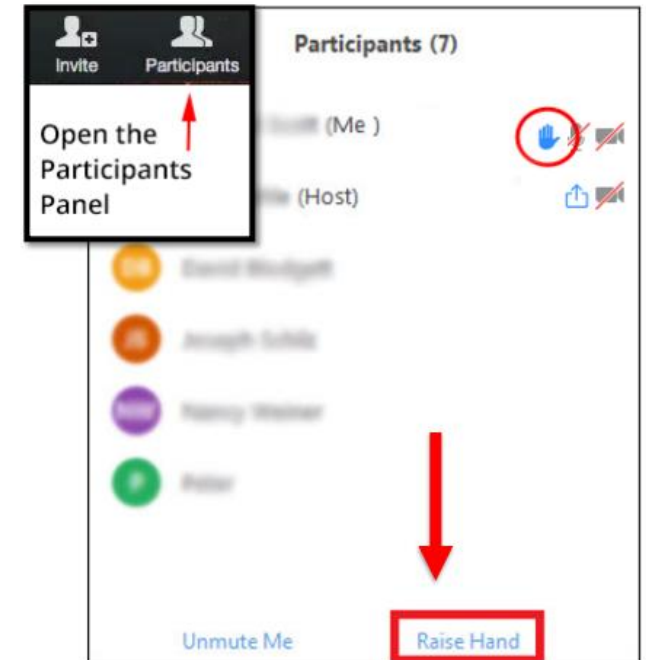
ZOOM MEETING LOGISTICS

- This meeting is being recorded
- To minimize background noise, attendees are on mute
- Please enter your full name, and affiliation if relevant, in the Participants panel



HOW TO PARTICIPATE VIRTUALLY

- There will be opportunities for clarifying questions throughout the presentation and the latter half of the meeting will be dedicated to receiving substantive questions and comments
- To ask a question or provide a comment, raise your hand
- When it is your turn, we will:
 - Notify you by chat
 - Announce your name
 - Unmute you and lower your raised hand

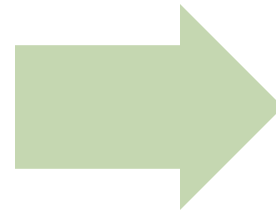


AGENDA

Part I (approx. 60 min)

Alternative Compliance Payments and other compliance flexibility mechanisms

- Background
- Summary of comments received
- Questions and Comments



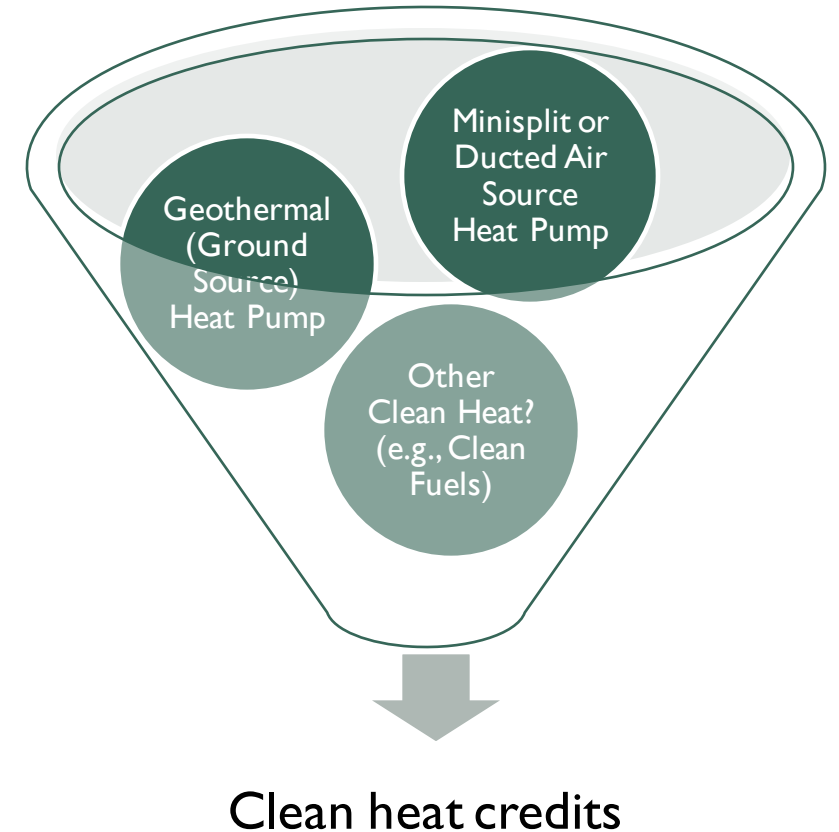
Part II (approx. 30 min)

Setting the Alternative Compliance Payment level

- Background
- Summary of comments received
- Questions and Comments

WHAT IS A CLEAN HEAT STANDARD?

- A Clean Heat Standard is a regulatory program that requires heating energy suppliers to reduce their GHG emissions over time by acquiring clean heat credits
- Regulated companies (suppliers) would include suppliers of heating oil, propane, natural gas, and possibly electricity
- Suppliers would demonstrate emissions reductions through clean heat credits
- Suppliers could implement clean heat themselves or purchase credits from third parties, such as heat pump installers
- Clean heat credits would be generated by implementing clean heat, such as electric heat pumps



MassDEP is evaluating and seeking stakeholder input on program design details

COMPLIANCE FLEXIBILITY MECHANISMS

- The use of marketable credits to demonstrate compliance provides significant compliance flexibility compared to a hypothetical requirement for each heating energy supplier to achieve emission reductions among their own customers.
- Additional flexibility may be appropriate, particularly as a way to limit compliance costs and address weather variability. Options for compliance flexibility include:

Alternative
Compliance
Payments

Credit banking
and borrowing

Transfer of
obligation to a
third party

Multi-year
compliance
periods

From MassDEP Stakeholder Discussion Document

QUESTIONS TO STAKEHOLDERS

Should the standard include an alternative compliance payment (ACP) option?

Are there other flexibility components that may be appropriate, such as multi-year compliance or credit banking?

ALTERNATIVE COMPLIANCE PAYMENTS

- With an **alternative compliance payment (ACP)** option, “regulated energy suppliers could make a payment in lieu of holding compliance credits.”
- An ACP “assists regulated companies in planning for compliance by placing an upper limit on compliance costs.”
- MassDEP could “use the payments to fund additional reductions in future years,” and/or fund “projects that benefit LMI consumers, renters, or communities that suffer from poor air quality.”

From MassDEP Stakeholder Discussion Document

SUMMARY OF STAKEHOLDER COMMENTS ON ALTERNATIVE COMPLIANCE PAYMENTS

- Commenters were generally supportive of compliance flexibility, including an alternative compliance payment (ACP) in the program.
- Commenters also supported the following options for compliance flexibility: compliance over multiple years, credit banking, with no limits on the amount of credits that can be banked or the number of years they can be rolled over, transfer of compliance obligation between entities via contractual agreements, and inclusion of an emissions reduction fund.

Benefits discussed	Concerns discussed	Proposed uses for payments
<ul style="list-style-type: none"> ➤ Incentivize electrification (<i>many</i>) ➤ Support obligated entities in achieving compliance (<i>several</i>) ➤ Prevent price volatility (<i>few</i>) ➤ Strengthen program participation (<i>few</i>) ➤ Reduce illiquidity risk (<i>few</i>) 	<ul style="list-style-type: none"> ➤ Costs of ACP could be passed along to consumers (<i>several</i>) ➤ Oversupply of credits could depress prices (<i>few</i>) ➤ Undersupply of credits could prevent obligated parties from meeting their obligation (<i>few</i>) 	<ul style="list-style-type: none"> ➤ Bill relief for LMI customers (<i>many</i>) ➤ Clean heat projects (<i>many</i>) ➤ Other financial and project support for LMI/EJ communities (<i>several</i>) ➤ Clean heat research and development (such as renewable thermal) (<i>few</i>)

OTHER COMPLIANCE FLEXIBILITY MECHANISMS

Credit banking

- In a program with **credit banking**, “obligated parties may acquire more clean heat credits than they need to meet their obligation for a given year and may ‘bank’ those credits for use in a later year.”
- Credit banking can “lower the cost of meeting the state’s emissions reduction goals” and “enhance the likelihood of meeting annual goals by lowering the cost of overcompliance.”

Credit transfer to a third party

- In some cases, a ‘**credit transfer**’ can offer additional flexibility to obligated entities.
- A credit transfer effectively transfers an obligated entity’s compliance obligation to a third party through “a purchase and sale in exchange for other valuable consideration.”

SUMMARY OF COMMENTS: OTHER COMPLIANCE FLEXIBILITY MECHANISMS

Commenters that discussed compliance flexibility mechanisms supported:

General
compliance
flexibility (*many*)

Credit banking
(*many*)

Compliance via
many different
technologies
(*many*)

Multi-year
compliance
periods (*several*)

Credit transfers
(*few*)

Credit borrowing
(*few*)

ANY QUESTIONS OR COMMENTS ON COMPLIANCE FLEXIBILITY/BANKING?

QUESTIONS TO STAKEHOLDERS

Are there other mechanisms for compliance flexibility used by existing programs that MassDEP should consider for the CHS?

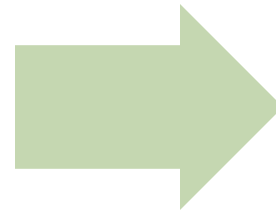
What existing programs should MassDEP consider as potential models for compliance flexibility?

AGENDA

Part I (approx. 60 min)

Alternative Compliance Payments and other compliance flexibility mechanisms

- Background
- Summary of comments received
- Questions and Comments



Part II (approx. 30 min)

Setting the Alternative Compliance Payment level

- Background
- Summary of comments received
- Questions and Comments

SETTING THE ALTERNATIVE COMPLIANCE PAYMENT LEVEL

- If the CHS includes an ACP, it must set an "appropriate ACP price to ensure creation of credits is preferable, while also ensuring the cost-burden of ACPs does not unduly burden businesses and ratepayers."

From MA Commission on Clean Heat Final Report

- "The ACP level could be established with reference to the social cost of carbon or with reference to anticipated technology costs. Using anticipated technology costs might be particularly appropriate for an electrification requirement, as the Mass Save program has already established \$10,000 as an appropriate incentive for conversions to a fully electrified home."

From MassDEP Stakeholder Discussion Document

QUESTIONS TO STAKEHOLDERS

If the CHS includes an alternative compliance payment (ACP), how should the payment level be established?

Level Design	Relation to Existing Metrics	Other Proposed Considerations
<ul style="list-style-type: none"> ➤ The ACP level should: <ul style="list-style-type: none"> ➤ Increase each year (<i>few</i>) ➤ Be complemented by a price floor to protect program stability (<i>few</i>) ➤ Be set carefully (<i>few</i>) 	<ul style="list-style-type: none"> ➤ The ACP level may not necessarily match the Mass Save incentive (<i>many</i>) ➤ The ACP should align with the social cost of carbon (<i>few</i>) 	<ul style="list-style-type: none"> ➤ The ACP should be high enough to: <ul style="list-style-type: none"> ➤ Incentivize the electrification of a home (<i>many</i>) ➤ Incentivize heat pump adoption at a scale that will meet CECP emissions targets (<i>many</i>) ➤ Encourage decarbonizing behavior (<i>few</i>) ➤ Prevent price spikes (<i>few</i>) ➤ Prevent depressed credit prices (<i>few</i>)

ANY QUESTIONS OR COMMENTS ON SETTING THE ACP LEVEL?

QUESTIONS TO STAKEHOLDERS

What existing programs should MassDEP consider as potential models when setting the ACP level?

Are there additional factors MassDEP should consider when setting the ACP?

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GENERAL QUESTIONS AND COMMENTS



MassDEP [CHS web page](#)



Submit comments and questions
to climate.strategies@mass.gov



[Sign up](#) for the CHS email list