HOUSE BILL REPORT

HB 1022

As Reported By House Committee on:
Energy & Utilities
Capital Facilities & Financing

Title: An act relating to state energy policy.

Brief Description: Directing the development of a state energy strategy and authorizing the implementation of conservation savings and sales by state agencies.

Sponsor(s): Representatives Cooper, May, Bray, Grant, H. Myers, Basich, Wineberry, R. Meyers, Peery, Phillips, R. Johnson, Wang, Sprenkle, Spanel, Sheldon, Miller, Ogden, Rayburn, Jones, Ludwig, Prentice, Kremen, Leonard, Rust, Braddock, R. King, Nelson, Pruitt, Cantwell, G. Fisher, Jacobsen, R. Fisher, Valle, Roland, Hine, Winsley, Rasmussen and Brekke; by request of Governor Gardner.

Brief History:
Reported by House Committee on:
Energy & Utilities, February 21, 1991, DPS;
Capital Fac. & Financing, March 6, 1991, DPS(EN)-A.

HOUSE COMMITTEE ON
ENERGY & UTILITIES

Majority Report: *That Substitute House Bill No. 1022 be substituted therefor, and the substitute bill do pass.* Signed by 6 members: Representatives Grant, Chair; H. Myers, Vice Chair; Bray; Cooper; R. Fisher; and Rayburn.

Minority Report: *Do not pass.* Signed by 3 members: Representatives May, Ranking Minority Member; Hochstatter, Assistant Ranking Minority Member; and Casada.

Staff: Fred Adair (786-7113).

Background: Several factors have converged to heighten public concern over energy: the current war in the Middle East increases oil concerns and the regional electric energy surplus has been exhausted. Moreover, environmental concerns have become great enough to have major impacts on energy actions. Uncertainty and confusion afflict many people. A clear state energy strategy can help focus energy actions and promote public understanding of energy issues.

State leadership in carrying out the most prudent energy actions can further public understanding of energy strategy, point the way for private sector actions, and achieve significant beneficial results.

Energy efficiency investment is the agreed top priority action to improve the state's energy situation. Argument centers only about how much potential energy savings is economically available. Energy efficiency programs to date have been below the level of argument and major growth in the programs would have to occur before reaching this level. The State Energy Office predicts that state facility energy bills can be reduced 30 percent, about $31 million annually, through installation of conservation measures.

For these reasons it is proposed to develop a specific state energy strategy and greatly accelerate the pace of energy efficiency improvements in public facilities. A variety of new arrangements may be needed to speed up significantly the pace of energy efficiency improvements.

Summary of Substitute Bill: The State Energy Office, in consultation with an advisory committee, shall prepare a state energy strategy by December 1, 1992. The advisory committee shall have 18 members from around the State and 13 are of specified representation. The director may establish additional technical advisory groups. The sum of $1 million is included in the governor's operating budget for this purpose.

State agencies and school districts shall pursue and maintain energy-efficient operation of their facilities. The State Energy Office shall assist public agencies in identifying, evaluating, and implementing cost-effective energy efficiency projects at public facilities. Also, the State Energy Office shall assist in identifying, evaluating, and establishing cogeneration facilities at certain public facilities. In both cases, the Energy Office shall consult with local utilities concerning their possible participation in projects. Ultimately $40 million in general obligation bonds for conservation projects and $150 million in revenue bonds for cogeneration projects are envisioned, with bonds to be repaid by energy sales and cost savings.

The State Energy Office shall, in coordination with the host institutions and local utilities, facilitate the sale, exchange, and transmission of energy generated and saved at state agency or school district facilities. The office shall participate in all phases of the state agency or school district energy projects unless the office waives participation. Participation shall include project review and approval except as waived. The office shall prepare guidelines and compliance procedures by January 1, 1992.

Public agency finance methods for energy efficiency projects may include capital budget appropriations, multi-year contracting with biennially appropriated installments, third party financing, energy service contracts, and disbursements from the Energy Efficiency Account created by this act.

The State Energy Office, with state agency or school district consent, may develop and finance conservation at state and school district facilities, contract for energy services, contract to sell or exchange electric energy generated or saved by energy efficiency projects at public facilities, contract to sell or exchange thermal energy produced at state facilities, procure third party development of energy efficiency projects at state facilities, and participate in negotiations for these purposes. State and regional universities, and other state agencies acting through the Department of General Administration, may in coordination with the State Energy Office unless coordination is waived by the Office, do as delineated earlier in this paragraph and also may obtain energy efficiency measures or equipment for their facilities, lease state property to others for installation and operation of energy efficiency equipment at their facilities, purchase all or part of the electric or thermal output of cogeneration plants at their facilities, and purchase or otherwise acquire fuel or other energy sources needed to operate cogeneration plants at their facilities. The State Energy Office must be consulted in connection with cogeneration projects. Leasing and contracting terms may be up to 30 years. These actions must produce lower energy use, higher energy efficiency, or other net benefits.

The State Energy Office may make loans from bond sales to school districts for energy conservation projects.

An Energy Efficiency Account is created in the treasury. It shall be administered by the State Energy Office and used to finance energy efficiency projects at public facilities. Disbursements from this account are subject to appropriation.

An Energy Services Account is created in the treasury. It shall be administered by the State Energy Office and its uses include providing energy efficiency services to public entities, repaying bonds, and paying administrative costs. The office shall prepare a biennial business plan for this account.

Moneys saved from conservation and other energy efficiency projects shall be apportioned as follows:

- state host institutions may retain all conservation savings and one-half of net revenues from conservation transactions;
- state host institutions may retain one-half of the savings from other energy efficiency projects and 20 percent of net revenues generated;
- remaining net savings and net revenues accrue to the state;
- state receipts from state host institutions' projects other than conservation and all net revenues go into the Energy Services Account;
- state host institutions shall place net revenues and net savings from projects other than conservation into a special local fund to be used for maintenance and facility improvements.

State host institution net savings and net revenues from energy efficiency projects shall be in addition to and shall not supplant nor replace traditional funding.

School district net savings and net revenues from projects funded wholly or in part with state funds shall be apportioned as specified above.

The State Energy Office shall prepare guidelines and procedures for determining net savings and net revenues by April 1, 1992.

Unless directed otherwise by the State Finance Committee, interest shall accrue to the account, of this bill, that generates it.

The State Energy Office shall prepare guidelines for the conduct of life-cycle cost analyses.

The State Energy Office may impose fees for the review of life-cycle cost analyses and shall deposit any fees collected in the Energy Services Account.

The State Energy Office may issue rules concerning this act and there is a severability clause.

Substitute Bill Compared to Original Bill: An advisory is created to assist with development of the energy strategy. More specific provisions for notification of utilities by the energy office and participation roles for utilities are included.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The need for strategy development is clear both to provide understanding and leadership. The electric energy surplus is gone and the oil situation is uncertain. The State needs to look at all options. The partnership project contemplates $7.5 million start up costs, $366 million leveraged capital, and $807 million total net benefit over the lifetime of measures. The state facilities cogeneration potential is 130-400 average megawatts and the program covered in this bill is looking at a 10 year time frame. School districts have difficulty acquiring sufficient funds but those actively pursuing energy efficiency measures have realized important savings and have worked well with the State Energy Office. The Department of Transportation, working very well with the energy office, has achieved significant energy cost savings. There are many conservation opportunities remaining. Accelerated conservation efforts will not only save money but also help the environment.

Testimony Against: There need to be more certain provisions for utility participation in both conservation and cogeneration projects. The mandatory controls by the energy office are of concern to utilities and there might better be a sharing. There needs to be a more clear basis for investment in projects, especially cogeneration. The lack of clear involvement of utilities potentially forgoes much expertise. There is questionable balance in the equity of dollar flows between the State and utilities in whose service territory a potential project is to be located.

Witnesses: Dick Watson, Director, and Pat Keegan, Assistant Director, State Energy Office; Jerry O’Keefe, Office of Financial Management; Ray Tobiason, former Puyallup School District Superintendent and for Washington Association of School Administrators; David Arbaugh, Washington Public Utility Districts Association; Jake Fey, Tacoma City Light; Henry Yates, Seattle City Light; Jeff Parsons, National Audubon Society; Dan Johnson, Director of Operations, Battle Ground School District; Jim Lazar, Northwest Conservation Act Coalition; Aaron Jones, Washington Rural Electric Cooperatives Association; Peter Downey, Energy Specialist, State Department of Transportation; and Scott Nelson, Washington Natural Gas Company.

HOUSE COMMITTEE ON CAPITAL FACILITIES & FINANCING

Majority Report: *The substitute bill by Committee on Energy & Utilities be substituted therefor and the substitute bill as amended by Capital Facilities & Financing do pass.* Signed by 9 members: Representatives H. Sommers, Chair; Rasmussen, Vice Chair; Braddock; Fraser; Heavey; Jacobsen; Ogden; Peery; and Wang.

Minority Report: *Do not pass.* Signed by 6 members: Representatives Schmidt, Ranking Minority Member; Neher, Assistant Ranking Minority Member; Beck; Brough; Casada; and Silver.

Staff: Susan Kavanaugh (786-7130).

Summary of Recommendation of Committee on Capital Facilities & Financing Compared to Recommendation of Committee on Energy & Utilities: The two accounts created in the bill are renamed and restructured. The Energy Efficiency Construction Account may be used only for construction-related costs and debt retirement. The Energy Efficiency Services Account must be appropriated and may be used only for energy efficiency services and transfers to the general fund. The requirement that interest earned on these accounts be retained by them is deleted. State agencies and school districts are prohibited from selling excess energy for heating or cooling systems to external customers other than utility companies. Transactions between utilities and state agencies or school districts must be approved by the Energy Office according to a procedure designed to ensure benefits are allocated fairly. A process is established for reconsideration of an Energy Office decision to disapprove a transaction. The Energy Office is required to make annual reports specifying the level of savings and revenue from conservation and cogeneration retained by state agencies. Other minor wording and technical changes are made.

Fiscal Note: Available.

Effective Date of Substitute Bill as Amended: Ninety days after adjournment of session in which bill is passed.

Testimony For: The energy partnership shows good potential for savings and revenue for state as well as environmental benefits. The Energy Office is experienced in public facilities energy conservation. Administrative costs are low relative to other similar projects. The public utility districts' original concerns were addressed through local control and dispute resolution language.

Testimony Against: The bill puts the State in the risky cogeneration business. With a portion of revenues going to the Energy Office there is an incentive for cogeneration projects to be undertaken for their revenue generating potential rather than energy efficiency potential. Utilities can already do much of what is proposed in the bill.

Witnesses: Jim Harding and Pat Keegan, Washington State Energy Office (in favor); Mike Tracy, Puget Power (opposed); Kris Van Gorkom, WASA (in favor); and Henry Yates, Seattle City Light (opposed).