SENATE BILL REPORT

SB 5770

AS REPORTED BY COMMITTEE ON ENERGY & UTILITIES, MARCH 1, 1991

Brief Description: Authorizing obtaining electrical supplies through conservation and generation.

SPONSORS: Senators Thorsness and Saling.

SENATE COMMITTEE ON ENERGY & UTILITIES

Majority Report: That Substitute Senate Bill No. 5770 be substituted therefor, and the substitute bill do pass.
Signed by Senators Thorsness, Chairman; Jesernig, Nelson, Roach, and Stratton.

Staff: Dave Monthie (786-7198)

Hearing Dates: February 26, 1991; March 1, 1991

BACKGROUND:

The Northwest Electric Power and Conservation Planning Council has issued a draft plan to guide power planning in the region for the next 20 years. The plan states that the region's electrical power surplus of the 1980's is gone, and that a number of strategies should be pursued in order to acquire additional electrical resources to insure an adequate and reliable supply into the next century. Two of these strategies are (1) the acquisition of all cost-effective conservation and efficiency--including approximately 660 megawatts in the commercial and industrial sector in the next 10 years, and (2) the review by public service commissions of their regulatory policies to insure that utilities receive appropriate rate treatment in pursuing generating resources.

Privately-owned electrical utilities operating in Washington are regulated by the Utilities and Transportation Commission. The rates authorized by the UTC are based on a rate of return on the fair value of the property "used and useful for service." The Supreme Court has interpreted this statutory language to mean that capital construction costs of privately-owned utilities cannot be used by the UTC in setting rates until construction is completed and the facility is in service. It is contended that this is an impediment to obtaining major new generating resources, and ultimately increases the costs to the customer because of higher financing costs. Nonregulated utilities do not have this statutory constraint.

In 1990, the Legislature modified the State Energy Code with regard to new residential construction, requiring more energy-efficient homes. It did not amend existing provisions with regard to nonresidential buildings, which were adopted by the

Legislature in 1985. Existing law simply requires adoption of a nonresidential code for new buildings that is designed to achieve a 10 percent reduction in energy consumption relative to buildings constructed under the previous code adopted in 1980.

SUMMARY:

The Legislature finds that the state is facing an electrical shortage, and that the Northwest Power Planning Council has recommended empowering utility commissions with more flexibility in rate regulation and updating commercial energy codes. The Utilities and Transportation Commission, in determining what property is used and useful for rate making purposes, may include the reasonable costs of construction work in progress to the extent that these costs create a revenue requirement necessary to maintain the company's financial and economic viability.

The 1986 edition of the Washington State Energy Code is declared the minimum code for new nonresidential buildings. The Building Code Council is authorized to amend that code by rule, provided that (1) the amendments increase energy efficiency for typical new nonresidential buildings, and (2) new measures must be technically feasible, commercially available, and cost-effective to owners and tenants. The council must consider differences in energy costs in different counties, and define cost-effective by rule. In developing any amendments to the code, the council must establish and consult with a technical advisory group with a broad range of interests represented, as specified. Decisions to amend the code must be made by the council by December 15 of any year, shall not take effect before the following July 1, and substantial amendments may only be adopted no more frequently that every three years.

EFFECT OF PROPOSED SUBSTITUTE:

The linkage of the allowance in rates for construction work in progress to the utility's revenue requirement is eliminated. The allowance is limited to major projects that are part of a company's least cost plan. A new section is added that permits the Utilities and Transportation Commission (UTC) to consider expenses associated with research, development, and demonstration activities for conservation and generating resources, included in a least cost plan, in setting rates of return. The requirement that the Building Code Council adopt by rule a definition of cost effective that takes into account differences in energy costs between counties is eliminated.

Appropriation: none

Revenue: none

Fiscal Note: none requested

TESTIMONY FOR:

The UTC needs additional flexibility to encourage utilities to begin pursuing new energy resources. The nonresidential energy code needs updating in order to achieve additional conservation.

TESTIMONY AGAINST:

Allowing the recovery of costs for construction work in progress unfairly shifts a financial burden to ratepayers for projects that may never generate power. Tying the recovery of costs to a revenue requirement would improperly guarantee a utility a certain rate of return. County-by-county definitions of cost-effective would be difficult to set up and difficult for contractors to work with.

TESTIFIED: Tom Trulove, Northwest Power Planning Council (pro); Marc Sullivan, Northwest Conservation Act Coalition (pro); Carol Monohon, Utilities and Transportation Commission; Tony Usibelli, WSEO; Chuck Adams, Attorney General's Office