

HOUSE BILL REPORT

ESB 5692

As Passed House
March 2, 1994

Title: An act relating to financing conservation investment by electrical, gas, and water companies.

Brief Description: Financing conservation investment by electrical, gas, and water companies.

Sponsors: Senators Sutherland, Moore, Prentice, Jesernig, Williams, A. Smith, Amondson, Hochstatter, Roach, West and Oke.

Brief History:

Reported by House Committee on:
Energy & Utilities, February 24, 1994, DP;
Passed House, March 2, 1994, 94-0.

HOUSE COMMITTEE ON ENERGY & UTILITIES

Majority Report: Do pass. Signed by 9 members:
Representatives Bray, Chair; Finkbeiner, Vice Chair; Casada,
Ranking Minority Member; Chandler, Assistant Ranking
Minority Member; Caver; Johanson; Kessler; Kremen and Long.

Staff: Fred Adair (786-7110).

Background: The bill relates to the financing of conservation measures by regulated electrical, gas, and water utilities.

Conservation can be less costly and have less environmental impact than adding generating resources.

Investment in conservation creates customer-owned assets, such as building insulation or high-efficiency appliances. Because these expenditures do not result in property owned by the utility, the utility cannot finance the expenditures by the traditional method of issuing mortgage bonds secured by utility property.

At present, capital markets do not view unearned future rate surcharges for recovery of conservation expenditures to be a credit worthy borrowing base. Passage of this bill is considered by a number of prominent financing institutions to provide greater certainty with respect to the future

recovery of conservation investments and would permit creation of a new class of secured debt specifically designed to finance conservation assets.

Summary of Bill: A regulated utility may file a conservation service tariff with the Utilities and Transportation Commission. The commission has its usual authority concerning tariff submissions.

The utility may ask the commission to determine that specific expenditures under the tariff are bondable conservation investments. Bondable conservation investments shall be included in the utility's rate base. The commission shall approve rates sufficient to recover bondable conservation investments in the rate base and costs associated with the investments.

The commission is not precluded from adopting or continuing other conservation policies or programs so long as they do not impair conservation investment assets.

If a customer discontinues utility service, the commission may require that the customer's share of conservation expenditures be removed from the rate base of the utility.

Utilities may issue conservation bonds upon approval by the commission, with conservation investment assets as collateral. Conservation investment assets are property for the purpose of securing conservation bonds.

Commingling of revenues does not defeat or adversely affect the relative priority of a security interest. Bondholders have a limited perfected security interest in the conservation investment assets.

A transfer of conservation investment assets, approved by the commission, is a true sale. A successor to a bankrupt utility shall satisfy all obligations concerning conservation bonds.

Conservation investments made prior to the effective date of the bill may be qualified as collateral for conservation bonds.

Fiscal Note: Not requested.

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

Testimony For: Puget Power has been a leader in conservation investment. It has been done by borrowing, but conservation measures are not bond collateral. This bill

can create a statutory promise that could be bond collateral. This would raise bond ratings and enable cheaper and more conservation. This is important because conservation measures are still needed and are cost effective, but there is a perception that generating costs are cheaper.

There is no lessening of the Utilities and Transportation Commission's powers. The bill was worked out closely with the commission. The basic commission role would be unchanged.

Contractors cited specific conservation savings they have achieved, the good jobs that conservation activity provides, and the importance of steady programs so as to avoid the turbulence of firing and rehiring with a fluctuating workload.

Testimony Against: None.

Witnesses: (Pro) Senator Sutherland, prime sponsor; William Weaver, Puget Sound Power and Light; Wally Gibson, Northwest Power Planning Council; Arnold French, Betschart Electric of Olympia; Scott Thomson, Holaday-Parks, Inc. of Seattle; Jim McKillip, Wescor Distributing, Inc. of Portland; Al Elwin, HVAC engineer of Kirkland; George Caan, state Energy Office; Dave Furgason, Cochran Electric of Seattle; Brian Butz, AWCSW of Seattle; Einar Johanson, E. Johanson Insulation and Glass of Seattle; Jack Challender, Northstar Electric of Kenmore; and Martin Worth, lighting business, Seattle.