

HOUSE BILL REPORT

HB 2102

As Reported by House Committee On:
Technology, Telecommunications & Energy

Title: An act relating to diversification of state electricity supply and demand management.

Brief Description: Creating the diversification of electricity supply and demand management act.

Sponsors: Representatives Poulsen, Crouse, Campbell, Kenney, Linville, Conway, Ruderman and Schual-Berke; by request of Governor Locke.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/19/01, 2/26/01 [DPS].

Brief Summary of Substitute Bill

- Establishes a minimum standard for the mix of energy resources that must be used by electric utilities in meeting the electricity needs of its customers.
- Requires utilities to determine ways to reduce peak daily demand for electricity.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Crouse, Republican Co-Chair; Poulsen, Democratic Co-Chair; Ruderman, Democratic Vice Chair; Berkey, Hunt, Linville, Mielke, Morris, Reardon, Simpson and Wood.

Minority Report: Do not pass. Signed by 8 members: Representatives Casada, Republican Vice Chair; Anderson, Bush, B. Chandler, Cooper, Delvin, Esser and Pflug.

Staff: Pam Madson (786-7166).

Background:

Traditionally, electric utilities have been guided in their efforts to acquire resources for meeting their customers' demand for electricity by a least cost planning analysis.

Utilities choose a mix of supply and demand side resources that minimizes the cost of services to the customer. The mix may include electricity that is generated by the utility itself, purchased on long-term contracts from other producers, or may include some electricity purchased on the short-term or spot market. It may also include conservation and energy efficiency.

In Washington, most of the electricity generated comes from hydroelectric projects. Hydroelectric projects account for 83 percent; coal represents 6.8 percent; nuclear power supplies 4.7 percent; and natural gas supplies 4.3. Non-hydro renewable resources such as wind, solar, or biomass represents 1.1 percent.

Though the Pacific Northwest has had some of the most successful conservation and research programs in the country, the recent history of investment in conservation and energy efficiency is one of decline. Investment in energy efficiency in Washington peaked in 1993 at approximately \$155 million and has declined to an estimated \$44 million in 1998. The Bonneville Power Administration's funding of energy efficiency research and investments has also dropped sharply.

Electricity load is the amount of electricity delivered to electricity customers and electricity demand is the rate of electricity used by customers. Peak load refers to the maximum total energy on a given utility system for a specified time period, for example, certain hours in a day or certain times of the year. In the Pacific Northwest, the peak time of year has been December and January. There are also times of the day when the load is significantly greater. Peak load management seeks to reduce the difference between the average load and the peak load.

The Northwest region has seen a growth in demand for electricity while at the same time has not seen much in the way of new generation. The Northwest Power Planning Council's prediction of an increasing possibility of power supply problems during the next few years and the region's recent experience with unprecedented high prices in the western power markets has focused attention again on conservation and energy efficiency and on development of alternative energy sources. The current market prices of electricity are making investments in renewable resources more economically viable than in the past when they have been significantly more expensive than fossil fuels.

Smart meters represent an innovation in electricity measurement technology. Smart meters are devices that allow utilities and customers to potentially measure the electricity usage of different appliances, to identify the time of day electricity is consumed, and to provide a time history of power and energy demand. Some smart meters are intended to be able to communicate this information back to a utility or central data collection point to potentially allow dynamic adjustments in electricity service.

Summary of Substitute Bill:

Qualified diverse energy resources standard

A standard is established for ensuring that each utility provides a minimum percentage of its electricity resources from qualified diversity resources for its Washington customers. Qualified diversity resources include alternative energy resources or conservation and efficiency resources. Alternative energy resources include wind, solar energy, geothermal energy, landfill gas, wave or tidal action, gas produced during wastewater treatment, certain hydropower that is upgraded or modernize and smaller hydro facilities, or biomass energy based on clean wood waste or energy crops.

Those resources that qualify as qualified diversity resources– are limited to new conservation and efficiency resources. Alternative resources are limited to new resources located either inside or outside of the state of Washington that are physically metered and verified in Washington, or to existing alternative resources located in Washington that are fully owned or contracted by a Washington utility.

Beginning January 1, 2007, each utility must provide at least 5 percent of its electricity resources from qualified diverse energy resources. Of the 5 percent, 1.25 percent must be alternative or renewable energy resources and 1.25 percent must be conservation and efficiency resources. The percentage increases on January 1, 2012, to 10 percent with 2.5 percent from alternative or renewable resources and 2.5 percent from conservation and efficiency resources.

Exemptions

Certain exemptions to the standard are available. A utility that has 100 percent of its supply for Washington customers met by its own generation or by contracted generation is exempt from this requirement until its resources are no longer sufficient to serve at least 95 percent of its annual energy needs or until January 1, 2009, whichever is earlier. A utility need not meet the alternative energy resource requirement in a year when the lowest cost alternative resource available is more than 110 percent of the cost of energy from new generation facilities. Small utilities may meet the performance standard by investing a specified amount in conservation and renewables. A utility is relieved of its obligation to meet the performance standard for that portion of their energy needs that are met by electricity from the Bonneville Power Administration (BPA).

Reporting requirements and establishing criteria

The Department of Community, Trade, and Economic Development (DCTED) must establish, through agency rules, reporting procedures and must establish criteria for alternative resources and conservation and efficiency resources. DCTED must consider savings from smart meter technology and other energy management systems when

establishing criteria. For utilities under its jurisdiction, the Washington Utilities and Transportation Commission (WUTC) must implement the diversity standard and reporting requirements.

By March 1, 2003, public and private utilities must begin reporting their activities undertaken to achieve the 5 percent requirement. Public utilities must present their report in a public meeting and submit a written document to DCTED within 20 days of the meeting. Any direct service industrial customer of BPA that takes the tax credits or deferrals provided in HB 1404 or SB 5539 must comply with the standard for use of diverse resources.

Beginning July 1, 2003, the DCTED and the WUTC must report to the Governor and the Legislature on the manner and the success utilities have had in meeting the standard in the previous five years.

Meeting the standard through investments in conservation and a credit trading program

DCTED and the WUTC are authorized to create a way for public and private utilities to meet the performance standard through investment in conservation. For public utilities, that investment is 2 percent of the previous years gross revenues from the bundled sale of electricity to Washington retail customers. For private utilities, the WUTC may develop an alternative through rule-making.

By July 1, 2003, the DCTED shall develop a resource credit and credit trading program to assist utilities and direct service industrial customers in meeting the resource diversity standard.

Reducing peak demand

By January 1, 2003, electric utilities must complete a feasibility study of ways to reduce daily peak demand by 3 percent. The studies shall consider use of consumer information on cost of electricity during different periods of the day, use of smart meter technology, and other energy management systems as ways of reducing peak demand.

Substitute Compared to Original: The substitute bill adds qualified hydropower to the types of energy sources for electrical generation that constitute an alternative energy resource and defines qualified hydropower. Those resources that qualify as qualified diversity resources— are limited to new conservation and efficiency resources. Alternative resources are limited to new resources located either inside or outside of the state of Washington that are physically metered and verified in Washington, or to existing alternative resources located in Washington that are fully owned or contracted by a Washington utility. Exemptions or exceptions to the performance standard are modified. More frequent reporting is required from both the Department of Community, Trade, and

Economic Development (DCTED) and the Washington Utilities and Transportation Commission (WUTC). Reports must be made to the Legislature and the Governor annually beginning July 1, 2003, rather than once in 2007, and again in 2012. Public utilities must report on activities taken to meet the performance standard in an open public meeting. DCTED must develop a credit and credit trading program by July 1, 2003, rather than develop and make recommendations on a program to the Legislature by July 1, 2002. A qualified diversity credit trading program is defined. DCTED and the WUTC are authorized to create a way for public and private utilities to meet the performance standard through investment in conservation. DCTED must consider energy savings realized from smart meter technology and other energy management systems when establishing criteria for determining what resources qualify as conservation and efficiency resources. The performance standard applies to the resources used to serve retail customers. The sales and use tax exemptions and the public utility tax deduction for smart metering technology are removed.

Appropriation: None.

Fiscal Note: Available.

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

Testimony for: Among the factors that have led to the current energy supply situation, two stand out. There has been a lack of consistent investment in conservation and a decline in investment in energy efficiency. The demand for power is growing. Utilities rely on a small array of energy sources. Diversity of supply is a positive for any portfolio. It provides different ranges of options that are sensitive or not sensitive to different conditions. Utilities are taking steps to diversify the resources used to meet their energy needs. Many utilities are left vulnerable to high market prices and volatility of the market. This bill helps to guard against shortages and volatility in the future. It promotes clean and renewable energy sources and stimulates cost-effective alternative energy technology. Alternative energy resources can bring economic development benefits to rural communities. Reducing peak load can help reduce costs. The bill should recognize what has been done by utilities. Any criteria for renewables should be part of the bill. The more certainty there is, the more it helps with decisions to finance new facilities and encourages new generation. The bill should also recognize hydro upgrades because that makes current generation more efficient. Credit should be given for transmission and distribution line upgrades because that improves efficiency of the system. A number of concerns have been raised that will be looked at. This is a work in progress.

(With concerns) The solution to the current energy situation is aggressive conservation, load management and a diverse energy portfolio beginning with renewables. In the energy world, natural gas generation is a high risk investment, and conservation and

renewables is a low risk investment. The goal is not to supplant the current electricity crisis with a natural gas crisis. A balance must be struck between natural gas-fired generation, which will be part of the energy supply mix, and conservation and renewables. Legislation, to be meaningful, should contain certain critical elements. It should stimulate new investment, apply to all utilities, focus on energy rather than capacity, provide an incentive for Washington based resources and provide some enforcement mechanism. These elements are not currently in the bill but are necessary to a meaningful bill.

Testimony Against: This bill has a number of loop holes. All utilities that have long-term contracts are exempt. There are no penalties for not complying with the standard. There is no investment incentive in Washington renewable energy. This state has a number of businesses in the renewable energy field. There is nothing for low-income customers. There are too many exceptions for utilities to avoid investment in renewable resources. Shaving peaks is a mechanism to achieve conservation but if it is the major mechanism, utilities have blanket authority to raise rates which will hurt low-income customers. Tax incentives are not necessary to pursue smart meter technology. Gas companies should be included as well. This bill won't deliver clean energy resources and doesn't require new investment in renewables or conservation. Many utilities have waivers from the requirements of the bill. The target date for compliance is too far into the future.

Testified: (Pro) Collins Sprague and Tom Dukich, Avista Corporation; and Dave Danner, Governor's Office.

(With concerns) Tom Starrs, Renewable Northwest Project; Ed Maddox, Seawest Windpower; and Bob Kahn, Florida Power and Light.

(Con) Evan Leonard and Robert Pregulman, Washington Public Interest Research Group; Juliet A. Thompson, The Energy Project; Nancy Hirsh, Northwest Energy Coalition; and Heather Rhodes-Weaver, Northwest Seed.