SENATE BILL REPORT
SB 5867

As of February 19, 2001

Title: An act relating to the restoration of investments in energy conservation, renewable energy resources, and low-income energy services.

Brief Description: Establishing standards to diversify resources and invest in energy efficiency.

Sponsors: Senators Fairley, Finkbeiner, Jacobsen, Kohl-Welles, Fraser, Regala, Kline, Kastama, Winsley and Patterson.

Brief History:
Committee Activity: Environment, Energy & Water: 2/20/01.

SENATE COMMITTEE ON ENVIRONMENT, ENERGY & WATER

Staff: Andrea McNamara (786-7483)

Background: One of the unintended consequences of recent changes in electricity industry has been the reduction of investments by utilities in energy conservation, low-income energy services, and renewable resource development. Even though Washington State has not deregulated its retail electricity markets, the perceived need by utilities to position themselves to become more competitive has arguably shortened their planning horizons and reduced their incentives to make these types of investments. In a traditional, fully regulated environment, utilities could recover the reasonable costs of these types of investments through rates.

Many states that have enacted comprehensive electricity restructuring have recognized this phenomenon and have attempted to address it through different mechanisms as part of the restructured market; most notably, system benefits charges and renewable portfolio standards.

A system benefits charge is a non-bypassable, competitively neutral mechanism for ensuring a designated level of investment in specified public purposes. It is typically charged to all end-users and collected by the distribution utility. A renewable portfolio standard is a performance standard that requires that a minimum amount of renewable energy must be included in the portfolio of electricity resources serving a state. It is typically an incrementally increasing requirement and often involves the use of a credit trading program.

Summary of Bill: <u>Investment standards</u>. Beginning July 1, 2002, an annual statewide investment standard is established whereby at least 3 percent of the total annual revenues from retail electricity sales in Washington must be dedicated to investments in energy conservation, renewable energy research and development, and low-income energy services, and at least 2 percent of the total annual revenues from retail natural gas sales in Washington must be dedicated to investments in energy conservation and low-income energy services.

Electricity standard. Electric utilities must annually allocate 3 percent of their retail electricity revenues toward this investment standard, and direct service industrial customers (DSIs) must annually allocate 3 percent of their expenditures on electricity toward the standard. An exception is made for low-density utilities which may spend no less than 1.5 percent during the first five years of the program.

Collection of the revenues must be accomplished through a non-bypassable mechanism, which the Washington Utilities and Transportation Commission (WUTC) establishes for investor-owned utilities and governing boards establish for consumer-owned utilities. DSIs may invest all or a portion of their 3 percent in qualifying expenditures or forward it to the nearest utility to invest on their behalf.

Funds collected through the electricity standard must be invested in conservation, energy efficiency and low-income services according to a specified allocation formula.

DSIs and other large consumers may receive credit for up to 49.5 percent of their investment responsibilities for qualified cost-effective conservation investments made at their facilities, subject to certain conditions. DSIs may also receive credit for up to 14 percent of the investment standard for contributions made to the Northwest Energy Efficiency Alliance through their Bonneville Power Administration (BPA) contract rates.

Natural gas investment standard. Gas utilities that serve in two or more counties must annually allocate 2 percent of their retail gas revenues toward this investment standard. Collection of the revenues must be accomplished through a nonbypassable charge, determined by the WUTC for investor-owned gas companies and by the governing boards of consumer-owned gas companies.

Funds collected through the natural gas standard must also be invested in conservation, energy efficiency and low-income services, but according to a different allocation formula.

Compliance with investment standards. Compliance must be demonstrated annually, beginning no later than October 1, 2003, by each utility and DSI. Investor-owned utilities must demonstrate compliance to the WUTC, and consumer-owned utilities and DSIs must demonstrate compliance to the State Auditor or by independent audit. Consumer-owned utilities may comply with the investment standards in the aggregate by participating in collaborative/consortia efforts.

Remedial actions are specified for utilities that fail to comply with the standard.

Conservation investments must be approved and verified by the WUTC for investor-owned utilities and by the governing boards of consumer-owned utilities.

Renewable energy performance standard. A performance standard for renewable energy is established for all retail electricity suppliers in the state. By 2003, at least 5 percent of each supplier’s total kilowatt hours sold to retail customers must come from eligible renewable resources. Eligible renewable resources must equal 10 percent by 2005, increase by at least 1 percent per year up to 2015, and remain at 20 percent thereafter. Limited exceptions are made for full requirements customers and for low-density discount customers of BPA.

Eligible renewable resources include electricity generating facilities or fuel cells fueled by wind; solar; geothermal; methane gas from landfills, sewage treatment plants, or animal wastes; and biomass energy using clean organic fuels.

A renewable energy resource credit trading program is established. Electricity suppliers must meet the performance standard through ownership of valid credits. CTED or its agent is authorized to develop, administer, and enforce the program.

Compliance with performance standard. Remedial actions and administrative penalties are authorized for noncomplying utilities.

Federal action on renewable performance standard. If the federal government enacts a lower renewable energy performance standard, Washington's standard must be maintained at the higher level. If the federal standard is higher, CTED must make recommendations to conform the state's goals and standards with the federal standard.

CTED implementation activities and reporting requirements. CTED must develop, with the advice of a stakeholder group including the WUTC, criteria for energy conservation, market transformation, low-income energy services, renewable energy credits, program implementation guidelines, and a dispute resolution process. Consideration of existing criteria, guidelines, and regional power planning committee work is required. The WUTC must approve the criteria and implementation guidelines for investor-owned utilities. Rules for reporting energy conservation expenditures, energy savings, and renewable energy resource purchases must be adopted by CTED.

CTED must make biennial reports to the Legislature beginning in December 2004, on the accomplishments of the investment and performance standards and include recommendations for revisions to the standards. An additional report is due by January 1, 2015 to review and recommend modification of the investment and performance standards.

Appropriation: None.

Fiscal Note: Requested on February 11, 2001.

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