

HOUSE BILL REPORT

HB 1544

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

Title: An act relating to an energy resource portfolio standard.

Brief Description: Concerning energy efficiency and renewable energy standards.

Sponsors: Representatives Hudgins, Sullivan, Morris, Romero, Simpson, Ruderman, Upthegrove and Rockefeller.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/18/03, 3/4/03 [DPS].

Brief Summary of Substitute Bill

- Establishes a minimum standard for the mix of energy resources, both renewable resources and energy efficiency resources, that must be used by electric utilities in meeting the electricity needs of its customers and by direct service industrial customers.
- Requires natural gas distribution companies to meet a conservation and energy efficiency performance standard.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Morris, Chair; Ruderman, Vice Chair; Sullivan, Vice Chair; Blake, Hudgins, Kirby, Romero, Wallace and Wood.

Minority Report: Do not pass. Signed by 7 members: Representatives Crouse, Ranking Minority Member; Nixon, Assistant Ranking Minority Member; Anderson, Bush, Delvin, McMahan and Tom.

Staff: Pam Madson (786-7166).

Background:

In Washington, most of the electricity generated comes from hydroelectric projects. According to the U.S. Energy Information Administration's latest available summary (1999), hydroelectric power generation accounts for 83 percent of electricity generated; coal represents 7.4 percent; nuclear power supplies 5.2 percent; and natural gas supplies 3.4 percent. Non-hydro renewable resources such as wind, solar, or biomass represents 1.1 percent.

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.

While the vast majority of the electricity that the Bonneville Power Administration (BPA) sells is to utilities for resale, BPA does sell electricity for direct consumption to a small number of direct-service industrial customers in Washington. These companies are large industrial manufacturers, mostly aluminum producers, which consume significant amounts of electricity in their operations. In addition, there are some large industrial users of electricity that purchase some of their electric power on the open market.

Beginning January 1, 2002, all electric utilities (other than small electric utilities) had to offer their customers an option to purchase electricity generated using alternative energy resources. This was a voluntary approach to encouraging the use and development of electricity generation using a mix of renewable resources. The Department of Community, Trade, and Economic Development (DCTED) and the Washington Utilities and Transportation Commission (WUTC) must report annually on the products offered to customers, customer participation, and the investments made by each utility in qualifying alternative energy resources.

Though the Pacific Northwest has had some of the most successful conservation and research programs in the country, the history of investment in conservation and energy efficiency is not one of stable, consistent investment. Investment in energy efficiency in Washington peaked in 1993 at approximately \$155 million and declined to an estimated \$44 million in 1998. The most recent report from the Northwest Power Planning Council on energy conservation indicates that 2001 was the largest annual development of conservation since 1993. About \$150 million was spent in new energy conservation activities and the region achieved energy savings of about 150 megawatts.

Summary of Substitute Bill:

Diversity of Generating Resources Required. A performance standard and time schedule is established by which electric utilities and certain direct service industrial customers (DSIs) must diversify their energy resources. Qualified diversity resources include both alternative energy resources and conservation and efficiency resources. Certain gas utilities are also required to diversify their resources using conservation and efficiency resources.

Definitions of Alternative Energy and Conservation and Efficiency Resources.

Alternative energy resources are defined as electricity generation facilities fueled by wind, solar, geothermal, landfill gas, wave or tidal action, gas produced during wastewater treatment, certain hydropower, or certain organic biomass fuels.

Conservation and efficiency resources are defined as measures yielding a decrease in energy consumption while providing the same level of energy service. The DCTED must adopt rules establishing criteria for determining whether resources qualify as alternative energy resources or conservation and efficiency resources. The criteria must be as consistent as practicable with recommendations of the regional technical forum and must include low-income weatherization expenditures as a conservation and efficiency resource.

Performance Standard and Time Lines for Electric Utilities. By January 1, 2009, and through 2013, at least 5 percent of each utility's and DSI's electricity resources must be qualified diversity resources, with no less than 1.25 percent each of alternative energy resources and conservation and efficiency resources.

By January 1, 2014, and each year thereafter, at least 10 percent of each utility's and DSI's electricity resources must be qualified diversity resources, with no less than 2.5 percent each of alternative energy resources and conservation and efficiency resources.

Exceptions/Alternatives. There are four circumstances under which utilities are exempt from the performance standards: (1) Utilities that already own or have under contract sufficient resources to meet their full energy needs are exempt from the alternative energy resource requirements until January 1, 2011, at the latest; (2) No utility is required to meet the alternative resource requirements in any year that the lowest cost available qualifying alternative energy resource is more than 110 percent of non-qualifying generation; (3) Small utilities are given an alternative way to meet the performance standard (for both alternatives and conservation): by investing twice the amount they have already agreed to invest through BPA's conservation and renewables discount program; and (4) The base from which a utility's performance standard for alternative energy resources is measured excludes any portion of load that is met with BPA power.

The DCTED is authorized to create an alternative way for consumer-owned utilities to meet the performance standard for conservation and energy efficiency, and the WUTC is authorized to create an alternative for investor-owned utilities. For consumer-owned utilities, the DCTED may create a formula by which investments will be equated with

performance: for each 2 percent of a utility's previous year's gross revenues that is invested in conservation and efficiency, the utility may be credited with having met 0.5 percent of its performance standard. For investor-owned utilities, the alternative is developed through rulemaking.

Conservation/Efficiency Performance Standard for Gas Utilities. A new performance standard is added for gas companies that serve in more than one county. They must meet at least 2.5 percent of their load with conservation/efficiency resources by 2005 and 5 percent by 2011. The same reporting and accountability requirements apply as for electrical companies.

Reporting Requirements. Reports are required on the progress being made toward achieving the performance standards. Beginning in March 2005, investor-owned utilities must report annually to the WUTC and consumer-owned utilities and affected DSIs must report to the DCTED. The WUTC and DCTED must report jointly to the Legislature and the Governor by July 1, 2005, and each year thereafter on whether and how the standards have been met.

The WUTC must adopt rules to implement the performance standard and reporting requirement for investor-owned utilities. The DCTED must adopt rules governing the reporting requirement for consumer-owned utilities and affected DSIs.

Credit Trading Program. The DCTED must also develop and implement by July 1, 2005, a credit-trading program for qualified diversity resources that is designed to provide utilities with a tool for collectively and efficiently achieving the performance standards. The DCTED must report to the Legislature on the establishment of the program.

Peak Load Reduction Feasibility Studies. All electric utilities must complete a feasibility study by January 1, 2005, to determine effective methods for reducing daily peak loads by at least 3 percent. Factors for consideration in the study are specified.

Substitute Bill Compared to Original Bill:

The substitute bill proposes a different approach to requiring utilities and direct service industrial customers to increase energy efficiencies and add electric generation powered by renewable resources. Gas distribution companies are included in an energy efficiency standard and market customers are not included. Additional exemptions from compliance with the standard are provided. Certain alternative methods of compliance are removed. Public utilities report to the DCTED rather than the State Auditor. Time lines for compliance are changed. A peak load reduction feasibility study requirement is included.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: (In support) Despite the generous endowment of renewable resources in the region, the many cost-competitive projects that have been started, and the lessons learned from the recent energy crisis, renewables still face market barriers. They have high up front costs even though over the long term, costs are very low. There is no good way to include the benefits of renewables into the cost. This bill is a modest and gradual increase of the amount of renewables that suppliers would use to meet customer needs. It provides for an orderly development of renewable resources and creates a market. Wind is cost competitive today. Wind will develop where the stable markets are. A renewable standard helps create that market. It creates competition and allows the most cost-effective projects to go forward first. It can help rural areas and the local tax base. It helps farms obtain revenue from their land from wind turbines. It helps diversify energy resources and avoid the volatility in the energy market in recent years. The bill provides a reasonable standard for renewables that doesn't apply until 2010. There is flexibility in meeting the standard to help each utility meet their needs. Fourteen states have portfolio standards. Incentives and credits are uncertain and they must be paired with a standard. It will help us be energy independent. The energy efficiency industry provides jobs in this state and having standards creates a stable and predictable environment in which these companies can operate. A consistent conservation program will provide an incentive for people who want to save energy. Energy efficiency that reduces energy consumption does help a company's bottom line. An economic analysis of the impact of the bill is that it may produce slightly higher electric rates but lower total electric bills. Over time, the economic benefits increase. There is concern that the bill should provide a voluntary incentive to use local workers involved in apprenticeship programs when constructing renewable resource generation facilities.

(With concerns) Mandates take away local control. Requiring a purchase of certain power sources could cause increased costs to public utilities that have already had to increase rates. Increasing rates and costs are of great concern. Another concern is the lack of credit for work already done particularly for efficiencies already in place. Federal programs that provide an incentive for public agencies, if funded, would go a long way to get public agencies investing in renewables.

Testimony Against: Existing regulations already require consideration of all cost-effective resources including renewables. This bill is a one size fits all and is not a market driven bill. The bill is a concern for costs to consumers. Investor-owned utilities may not be able to get cost recovery for higher cost renewables. There is a lot of renewable resource development going on. A more appropriate approach is incentives. Government shouldn't guarantee markets. Locally controlled utilities cannot support mandates on how they should acquire resources. Now is not the time to impose

requirements that can increase costs.

Testified: (In support) Representative Hudgins, prime sponsor; Rachel Shimshak, Renewable Northwest Project; Don Miller, FPL Energy; Barrett Stambler, PPM Energy, Inc.; Scott Kringen, Vestas - American Wind Technology, Inc.; Jeff Trucksess, RES North America, LLC; Heather Rhoads-Weaver, Northwest Sustainable Energy for Economic Development; Bruce Morley, Landowner; Rick Anderson, Landowner; Rhys Roth, Harvesting Clean Energy, Washington Network; Stan Price, Northwest Energy Efficiency Council; David Allen, McKinstry Company; Lisa Rosenow, Coffman Engineers; Mark Longmeier, Northwest Energy Services, Inc.; Steve Dunnivant, EMP2, Inc.; Robert Pregulman, Washington Public Interest Research Group; Jim Lazar, Consulting Economist; Doug Holbrook, Seattle-Tacoma International Airport; Linda Vernooy, Global Warming Action; Donna Ewing, League of Women Voters of Washington; Joseph Heineck, Heineck Associates; Paul Horton, Climate Solutions; John Littel, King County Building Trades; Matt Carr, Sierra Club; Kathleen Collins, PacifiCorp; and Sara Patton, Northwest Energy Coalition.

(With concerns) Stu Trefry, Washington Public Utility District Association.

(Opposed) Dave Clinton, Washington Rural Electric Co-op Association; Tim Boyd, Industrial Customers of Northwest Utilities; Bruce Folsom, Avista; Al Aldrich, Snohomish Public Utility District; and Kristen Sawin, Association of Washington Business.