

HOUSE BILL REPORT

HB 1036

As Reported by House Committee On:
Technology, Energy & Communications
Appropriations

Title: An act relating to the purchasing of renewable energy by public entities.

Brief Description: Regarding the purchase of renewable energy by public entities.

Sponsors: Representatives Morris, Hudgins, Morrell, Linville, B. Sullivan and Goodman.

Brief History:

Committee Activity:

Technology, Energy & Communications: 1/17/07, 2/20/07 [DPS];
Appropriations: 3/1/07, 3/3/07 [DP2S(w/o sub TEC)].

Brief Summary of Second Substitute Bill

- Establishes renewable energy targets for state agencies.
- Creates the Clear Sky Program within the Department of Community, Trade and Economic Development (DCTED).
- Authorizes the DCTED to make loans to state agencies for sustainable energy projects, such as high-efficiency cogeneration and fuel cells.
- Establishes the Clean Streams and Clear Sky Subaccount to the Energy Freedom Account.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass.
Signed by 11 members: Representatives Morris, Chair; McCoy, Vice Chair; Crouse, Ranking
Minority Member; McCune, Assistant Ranking Minority Member; Eddy, Ericksen, Hankins,
Hudgins, Hurst, Takko and VanDeWege.

Staff: Kara Durbin (786-7133).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

Energy Freedom Program

In 2006, the Legislature created the \$17 million Energy Freedom Program within the Department of Agriculture. The purpose of the Energy Freedom Program is to support projects that convert agricultural waste into energy. Five alternative energy projects (totaling \$10.25 million) were earmarked by the Legislature as part of the 2006 Supplemental Capital Budget. The remaining funds (\$6.75 million) were allocated according to a competitive loan process. Six projects were selected. Four loans were awarded to support oilseed processing for biodiesel, and the remaining two loans were awarded to support anaerobic digestion.

State Renewable Energy Purchase Requirements

According to the Pew Center on Global Climate Change, nine states have established renewable energy purchase requirements for state agencies: Connecticut, Iowa, Illinois, Maryland, Maine, New Jersey, New York, Pennsylvania, and Wisconsin. Most of the purchase requirements have been established by executive order, with Connecticut's being the most ambitious: 20 percent by 2010, 50 percent by 2020, and 100 percent by 2050.

Initiative 937

In 2006, the voters of Washington passed Initiative 937 (Initiative). The Initiative sets targets for energy conservation and the use of eligible renewable resources by the state's utilities that serve more than 25,000 customers. The Initiative defines "eligible renewable resource" to include resources such as wind, solar energy, and certain biomass energy. The term "eligible renewable resource" also includes incremental electricity produced from efficiency improvements completed after March 31, 1999, to hydroelectric dams.

Renewable Energy Credit

To promote the use of renewable energy, such as wind and solar power, markets for tradable renewable energy credits (RECs) have been created. These credits, often referred to as "green tags," are sold in the marketplace and represent the environmental attributes of the energy.

Initiative 937 defines "renewable energy credit" as a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource that is verified by a tracking system selected by the Department of Community, Trade and Economic Development (DCTED).

Summary of Substitute Bill:

Renewable Energy Targets for State Agencies

Each state agency is required to meet the following electricity consumption targets:

- at least 20 percent of its total annual electric usage from eligible renewable energy resources by January 1, 2008;
- at least 60 percent of its total annual electric usage from eligible renewable energy resources by January 1, 2010; and
- 100 percent of its total annual electric usage from eligible renewable energy resources by January 1, 2012.

These renewable energy targets shall not apply if the Department of General Administration (GA) is unable to obtain enough renewable energy resources or renewable energy credits from a facility in the state or in the Pacific Northwest region to satisfy the targets.

In meeting the targets, state agencies may include any of the following resources:

- a state agency's proportionate amount of renewable energy resources that are included in their electric utility's base resources;
- direct purchases of renewable energy credits from a provider other than the utility;
- eligible renewable energy resources; or
- the efficiency savings or reduction in carbon dioxide emissions that results from a sustainable energy project.

The GA is authorized to negotiate and purchase on behalf of state agencies renewable energy credits. The GA must retire any renewable energy credit used to satisfy a target.

Clear Sky Program

The Clear Sky Program is established within the Department of Community, Trade and Economic Development (DCTED). The stated purpose of the Clear Sky Program is to encourage the development of sustainable energy technologies such as fuel cells, high-efficiency cogeneration, and other emerging energy technologies that significantly reduce air pollution.

Eligibility

The DCTED may submit a request for proposals for potential sustainable energy projects. The Director of DCTED may only approve a loan application submitted by a state agency for a sustainable energy project if the project meets the following criteria:

- the project will use fuel cells, high-efficiency cogeneration, or an emerging technology that significantly reduces air pollution;
- the project does not require continued state support;
- the project is located at a state facility; and
- the project will be owned by the state once the loan amount has been satisfied.

Criteria for Prioritization

Loan applications will be prioritized by the Director of the DCTED based on the following criteria:

- the extent to which the project will result in carbon dioxide reduction;
- the extent to which the project will result in economic benefits for the citizens of the state; and
- the extent to which the project demonstrates an emerging technology and assists that technology in moving towards commercialization.

Contractual Agreements

The Director of the DCTED must enter into agreements with approved applicants. The agreement must include provisions to protect the state's investment, including a requirement that the applicant enter into contracts with any partners that may be involved in the use of the financial assistance provided under this program.

Any energy efficiency savings generated through operations by a loan recipient must be used for loan payments until the loan award has been satisfied.

Clean Streams and Clear Sky Subaccount

The Clean Streams and Clear Sky Subaccount (Subaccount) is created as a subaccount of the Energy Freedom Account. All receipts from appropriations made to the Subaccount must be deposited into the Subaccount. Expenditures from the Subaccount may only be used for projects and activities authorized by the Clear Sky Program and the Clean Streams Program.

In no circumstances may more than 50 percent of the funds in the Subaccount be used for a single program or technology.

Substitute Bill Compared to Original Bill:

The substitute bill changes the overall renewable energy target from 20 percent in 2007 to a gradually increasing sustainable energy target that starts at 20 percent and increases to 100 percent over a six-year period.

The substitute bill changes what resources qualify towards the annual targets.

The substitute bill specifies what resources can be used towards meeting the annual targets: the proportionate amount of eligible renewable resources or sustainable energy resources that are included in the utility's base resources; direct purchases of renewable energy credits from a provider other than the utility; eligible renewable energy resources; or the efficiency savings or reduction in carbon dioxide emissions that result from a sustainable energy project.

The substitute bill adds a definition of "eligible renewable energy resource," "renewable energy credit," and "sustainable energy project."

The substitute bill removes the definition of "qualified alternative energy resource" from the original bill.

The substitute bill creates the Clear Sky Program within the Department of Community, Trade and Economic Development (DCTED), which provides loans to state agencies for fuel cells, high-efficiency co-generation, and other emerging energy technologies that significantly reduce air pollution.

The substitute bill creates the Clean Streams and Clear Sky Subaccount of the Energy Freedom Account.

The substitute bill makes an appropriation of \$3 million from the General Fund to DCTED to implement the Clear Sky Program.

Appropriation: The sum of \$3 million is appropriated for the fiscal year ending June 30, 2008, from the General Fund to the Department of Community, Trade and Economic Development.

Fiscal Note: Available. Fiscal note requested on substitute bill February 20, 2007.

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

Staff Summary of Public Testimony:

(In support) I would like to see our state be a leader in purchasing renewable energy sources.

This type of program is essential for investment by the farm community. This bill supports sound technologies that we should be encouraging in our state. This is a key benefit of having a voluntary green power program, which allows customers to purchase 100 percent of their power in the form of green power. We support the policy, but would like to see the I-937 definition of "eligible renewable resource" incorporated into this bill.

(With concerns) This bill might complicate implementation of I-937 because it doesn't address the credits associated with the state's purchase of renewable generation.

(Opposed) If the intent is for the state to purchase renewable energy from a power producer at the green tag rate, then we think the language in the bill needs to be modified to reflect that type of transaction.

While we're required to obtain more renewable resources under I-937, we don't want to create an artificial floor for this market. Restricting the purchase of renewable energy to Washington only would be costly for us. We would encourage the state taking a green tag approach towards purchasing of renewable energy. This bill might complicate implementation of I-937 because it doesn't address the credits associated with the state's purchase of renewable generation.

Persons Testifying: (In support) Representative Morris, prime sponsor; Dale Reiner, Qualco Energy; Carolyn Henri, Standwood Bioenergy Producers; Joe Harrison, Washington State University; Andy Werkhoven, Werkhoven Dairy, Inc.; and John Roney, Office of the Snohomish County Executive.

(With concerns) Ken Johnson, Puget Sound Energy.

(Opposed) Kathleen Collins, PacifiCorp; and Collins Sprague, Avista Corp.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology, Energy & Communications. Signed by 22 members: Representatives Sommers, Chair; Dunshee, Vice Chair; Cody, Conway, Darneille, Ericks, Fromhold, Grant, Haigh, Hunt, Hunter, Kagi, Kenney, Kessler, Linville, McDermott, McIntire, Morrell, Pettigrew, Schual-Berke, Seaquist and P. Sullivan.

Minority Report: Do not pass. Signed by 12 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Haler, Assistant Ranking Minority Member; Anderson, Buri, Chandler, Dunn, Hinkle, Kretz, McDonald, Priest and Walsh.

Staff: Owen Rowe (786-7391).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On Technology, Energy & Communications:

The second substitute bill delays the renewable energy targets for state agencies by two years, so that each state agency is required to meet the following electricity consumption targets:

- at least 20 percent of its total annual electric usage from renewable energy resources by January 1, 2010;
- at least 60 percent of its total annual electric usage from eligible renewable energy resources by January 1, 2012; and
- 100 percent of its total annual electric usage from eligible renewable energy resources by January 1, 2014.

The \$3 million General Fund appropriation was removed.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 20, 2007.

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

Staff Summary of Public Testimony:

(In support) None.

(Opposed) None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.