

# HOUSE BILL REPORT

## HB 1106

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**As Reported by House Committee On:**  
Environment

**Title:** An act relating to net metering of electricity.

**Brief Description:** Regarding net metering of electricity.

**Sponsors:** Representatives McCoy, Morris, Ryu and Hudgins.

**Brief History:**

**Committee Activity:**

Environment: 2/13/13, 2/21/13 [DPS].

**Brief Summary of Substitute Bill**

- Provides for third-party ownership of net metering systems.
- Increases the maximum electrical generating capacity of a net metering system from 100 kilowatts (kW) to 199 kW.
- Increases the total amount of kW allowed to be aggregated by a customer-generator under meter aggregation from 100 kW to 199 kW.
- Increases the cumulative generating capacity available to a net metering system as a percentage of an electric utility's peak demand in 1996 to 0.5 percent.

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### HOUSE COMMITTEE ON ENVIRONMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Upthegrove, Chair; McCoy, Vice Chair; Farrell, Fey, Kagi, Lias, Morris and Tharinger.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Short, Ranking Minority Member; Pike, Assistant Ranking Minority Member; Crouse, Nealey and Overstreet.

**Staff:** Scott Richards (786-7156).

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*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:**

### Net Metering.

Net metering allows electricity customers to offset their consumption of purchased electricity with electricity generated by their own small scale renewable systems. Under current law, a net metering system must generate no more than 100 kilowatts (kW) using water, wind, solar energy, or biogas, among other criteria.

### Excess Generation.

On April 30 of each calendar year, any remaining unused kilowatt-hour (kW-hr) credits accumulated during the previous year is granted to the electric utility, without any compensation to the customer-generator.

### Cumulative Generating Capacity of Net Metering Systems.

Electric utilities must offer to make net metering available to eligible customer-generators on a first-come, first-served basis until the cumulative generating capacity of net metering systems equals 0.25 percent of the utility's peak demand during 1996. On January 1, 2014, the cumulative generating capacity available to net metering systems increases to 0.5 percent of the utility's peak demand during 1996.

### Meter Aggregation.

At the request of a customer-generator, electric utilities are required to provide meter aggregation for net metering customer-generators. Meter aggregation means the administrative combination of readings from and billing for all meters, regardless of the rate class, on the premises of a customer-generator located within the service area of a single electric utility. If required by the electric utility, the customer-generator must purchase a production meter and necessary software. No more than a total of 100 kW must be aggregated among all customer-generators participating in a generating facility.

For customer-generators participating in meter aggregation, kilowatt-hour (kW-hr) credits earned by a net metering system during the billing period first must be used to offset electricity supplied by the electric utility. Excess kW-hr credits earned by the net metering system, during the same billing period, must be credited equally by the electric utility to remaining meters located on all of the premises of a customer-generator at the designated rate of each meter. Aggregated meters may not change rate classes due to meter aggregation.

### Third-Party Ownership.

Third-party ownership is when a third party installs a renewable energy system—typically solar energy systems—on a person's property and owns, operates and maintains the system. The property owner and the third party enter into an agreement (known as a power purchase agreement, or PPA) to purchase electricity from the system for a pre determined period and at a locked-in rate. The property owner receives electricity at a set price, while the third party may acquire other benefits such as federal tax credits and depreciation (as well as income from selling the electricity to the property owner.)

### Regulation of Electrical Companies.

The Utilities and Transportation Commission (Commission) regulates private, investor-owned electric utilities (electrical companies) in Washington. It is the Commission's

responsibility to ensure regulated electrical companies provide safe and reliable service to customers at reasonable rates, while allowing them the opportunity to earn a fair profit.

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### **Summary of Substitute Bill:**

#### Third-Party Owners.

A third-party owner is not an electrical company and is not subject to regulation of the Utilities and Transportation Commission (Commission). A third-party owner is defined as an entity that owns a net metering system located on the premises of a customer-generator and has entered into a contract with the customer-generator for provision of power from the net metering system. A third-party owner may not resell the electricity produced from the net metering system. If a customer-generator has entered into a contract with a third-party owner for the provision of power from a net metering system, the electric utility maintains the net metering relationship with the customer-generator.

#### Maximum Electrical Generating Capacity of a Net Metering System.

The maximum electrical generating capacity of a net metering system is increased from 100 kilowatts (kW) to 199 kW.

#### Cumulative Generating Capacity of Net Metering Systems.

The cumulative generating capacity available to net metering systems is increased from 0.25 percent to 0.5 percent of the utility's peak demand during 1996 on the effective date of this act, rather than January 1, 2014.

#### Meter Aggregation.

The maximum electrical generating capacity of the net metering system is 199 kW when used by a customer-generator for meter aggregation. A net metering system must be aggregated among all the meters of a single customer-generator participating in meter aggregation, rather than all customer-generators participating in meter aggregation.

#### Examination of System-wide Costs and System-wide Benefits.

If an electrical company submits a request to the Commission or an electric utility that is not an electrical company submits a request to its governing board seeking to recover costs as a result of net metered systems, the Commission or the governing board must examine both the system-wide costs and system-wide benefits of net metered systems in order to ensure that these costs and benefits are equitably distributed to customer-generators and ratepayers, while maintaining the value of net metering to the participating customer-generators.

#### Granting of Net Metering Credits to the Electric Utility.

For net metering systems generating hydroelectric power, an alternative date of August 31 of each calendar year is provided for the granting of any unused kilowatt-hour credits to the electric utility.

#### Customer-Generator.

A provision is added to the definition of customer-generator that makes the customer-generator responsible to the electric utility for the interconnection, operation, and maintenance of a net metering system.

**Substitute Bill Compared to Original Bill:**

The provision that requires a third-party owner to be a Washington ratepayer is removed. A definition of third-party owner is provided. It is stipulated that a third-party owner may not resell the electricity produced from the net metering system. A provision is added that specifies that the electric utility maintains the net metering relationship with the customer-generator when the customer-generator has entered into a contract with a third-party owner for the provision of power from a net metering system. The maximum electrical generating capacity of a net metering system is increased from 100 kilowatts (kW) to 199 kW. The cumulative generating capacity available to net metering systems is increased to 0.5 percent of the utility's peak demand during 1996 on the effective date of this act, rather than to 1 percent as proposed in the underlying bill. The maximum electrical generating capacity of the net metering system is 199 kW when used by a customer-generator for meter aggregation, rather than 500 kW as proposed in the original bill. It is specified that a net metering system must be aggregated among all the meters of a single customer-generator participating in meter aggregation, rather than all customer-generators participating in meter aggregation. The substitute bill requires the Utilities and Transportation Commission and the governing boards to examine system-wide costs and system-wide benefits of net metered systems when an electric utility they regulate seeks to recover costs as a result of net metered systems. The definition of customer-generator is modified to include additional customer-generator responsibilities.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) With recent remarks from the President during his State of the Union and the Governor about the need for economic development in renewable energy, we need to do something about net metering. All the states around us have higher limits for net metering systems. If we want to compete with some of these states we have to do some progressive things with net metering. Third-party ownership can increase the development of renewable energy systems in the state. This is a win-win for the environment and for business. The National Renewable Energy Laboratory sees third-party ownership as a key to driving the deployment of renewable energy systems. The provision that requires a third-party owner to be a Washington ratepayer is problematic and should be removed.

Third-party ownership is an effective way to increase the use of solar power for those who cannot pay the full cost of a solar system upfront. Currently, there are 22 states that allow third-party ownership. The Utilities and Transportation Commission (Commission) has already updated their interconnection rules to allow for third-party ownership of net metering systems. There are many studies that talk about the costs and benefits of net metering. There are costs associated with providing net metering; however, these costs must be balanced with the many system benefits associated with net metering systems.

(In support with concerns) The most recent State Energy Strategy recommended that the net metering limit for individual net metering systems be increased to a higher amount than currently allowed in law. This bill does not raise the limit. One option to consider as a way to increase and limit the electrical generating capacity of a net metering system is to allow the system to be sized as a percentage of a customer's load, rather than having a numeric limit. Another option to improve net metering for customer-generators is to allow the excess generation credits from a net metering system to rollover indefinitely, rather than having them granted to the the electric utility on an annual basis.

(With concerns) The increase in the cumulative generating capacity available to net metering systems from 0.5 percent to 1 percent will start to shift the cost of net metering onto other ratepayers of utilities. Consumer-owned utilities would like a similar provision in the bill that allows electrical companies to recover the costs of providing net metering to their customers. The Commission is confused about language in the bill that allows for cost recovery for electrical companies and is willing to work with the sponsor to develop language that more adequately addresses how cost recovery would be handled by the Commission. Changes made to the meter aggregation statute to allow for 500 kilowatt net metering systems provides an opportunity to examine the uncertainty of how utilities would implement meter aggregation under current law and as changed by the bill. Industrial customers of electric utilities are concerned about the shifting of costs associated with net metering to other customers of an electric utility. By allowing electrical companies to recover the cost of net metering and the potential loss of revenue, the changes in this bill start to edge toward the decoupling debate.

(Opposed) There is a great deal of concern and confusion surrounding the new electrical generation capacity limits allowed through meter aggregation. There needs to be more clarity in this area.

**Persons Testifying:** (In support) Representative McCoy, prime sponsor; Cliff Traisman, Washington Environmental Council and Washington Conservation Voters; Rob Krehbiel, Environment Washington; Lynne Dial, Northwest Energy Coalition; Linda Irvine, Northwest Sustainable Energy for Economic Development; Meghan Nutting, Solar City; Zack Butler, Global Green Energy Corporation; Nancy Atwood, Puget Sound Energy; Jeremy Hardy, Coastal Kitchen; Alvin Loong; Patricia Holm; and Michael O'Brien, Renewable Northwest Project.

(In support with concerns) Tony Usibelli, Department of Commerce.

(With concerns) Dave Warren, Washington Public Utility District Association; Ann Rendahl, Utilities and Transportation Commission; Tim Boyd, Industrial Customers of Northwest Utilities; and Kathleen Collins, PacifiCorp.

(Opposed) Kent Lopez, Washington Rural Electric Cooperative Association; and John Rothlin, Avista.

**Persons Signed In To Testify But Not Testifying:** None.