
**Technology & Economic Development
Committee**

HB 2045

Brief Description: Promoting development of reliable distributed energy resources through extending and modifying an existing tax incentive for certain net metering systems, preserving the existing ground rules for net metering until net metering systems' generating capacity equals 0.5 percent of the utility's 1996 peak demand, requiring distribution resources planning, and authorizing a reliability charge and other alternatives to existing ground rules for net metering, for a utility that has achieved the existing 0.5 percent interconnection requirement for net metering systems.

Sponsors: Representative Morris.

Brief Summary of Bill

- Requires investor-owned and consumer-owned utilities to conduct "Distribution Resources Planning," after net-metered systems' cumulative generating capacity has reached one half of a percent of the utility's 1996 peak demand.
- Authorizes a utility to recover expenditures identified in a Distribution Resources Plan as necessary for the integration of cost-effective distributed resources, through a reliability charge, a Value of Distributed Generation Tariff, a long-term contract, or other mechanism.
- States that the Legislature intends to modify and extend the tax preference provided in the Renewable Energy Investment Cost Recovery Incentive Program.

Hearing Date: 2/17/15

Staff: Jasmine Vasavada (786-7301).

Background:

[Utilities and Transportation Commission.](#)

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.

The Washington Utilities and Transportation Commission (UTC) is a three-member commission that has broad authority to regulate the rates, services, and practices of private or investor-owned utilities, including electrical companies. The UTC regulates the rates, services, and practices of privately-owned utilities and transportation companies, including electrical companies. The UTC is required to ensure that rates charged are "fair, just and reasonable."

Consumer-Owned Utilities.

A "consumer-owned utility" is not regulated by the UTC. "Consumer-owned utilities" include municipal electric utilities, public utility districts, irrigation districts, cooperatives, mutual corporations or associations, port districts, or water-sewer districts, where such entities are engaged in the business of distributing electricity to one or more retail electric customers in the state. Consumer-owned utilities are regulated by their own governing boards, which may be a board of directors or other legislative authority. The State Auditor is responsible for auditing compliance with certain state environmental and energy laws, and the Attorney General is responsible for enforcement.

Net Metering.

Net metering allows customer-generators to offset their consumption of purchased electricity with electricity generated by their own small-scale renewable energy generation system. "Customer-generators" are utility customers who generate at least a portion of their own electricity with distributed generation technologies such as fuel cells, solar panels, or small wind turbines. "Net metering" means measuring the difference between the electricity supplied by an electric utility and the electricity generated by a customer-generator over the applicable billing period. At the end of the billing period, the customer is billed for the net electricity supplied by the utility, in accordance with normal metering practices. Any excess electricity generated by the customer during the billing period is credited to the customer's next bill as a kilowatt-hour credit. On April 30 of each calendar year, any remaining unused kilowatt-hour credit accumulated during the previous year is granted to the electric utility, without any compensation to the customer-generator.

Net Metering Threshold.

Under state net metering law, investor-owned and consumer-owned utilities must offer to make net metering available to customer-generators on a first-come, first-serve basis until the cumulative generating capacity available to net metering systems equals 0.5 percent of the utility's 1996 peak demand.

Requiring Additional Net Metering Equipment.

Utilities must generally allow customer-generators to use a single standard meter, which must be a bi-directional meter capable of measuring the electricity flow in two directions, to measure the electricity produced by a net metering system. This requirement does not apply if the UTC, in the case of an investor-owned utility, or the governing body, in the case of a consumer-owned utility, determines that requiring an additional meter is necessary and appropriate. A utility seeking to require additional metering equipment must establish how the costs of purchasing and installing an additional meter shall be allocated between the customer-generator and the utility.

Net Metering Fees and Charges.

Electric utilities may charge customer-generators a minimum monthly fee that is the same as other customers of the electric utility in the same rate class. A customer-generator may not be

charged any additional standby, capacity, interconnection, or other fee or charge, without a determination by the UTC, in the case of an electrical company, or the appropriate governing body, in the case of other electric utilities, after notice and opportunity for comment, that:

- (1) the electric utility will incur direct costs associated with interconnecting or administering net metering systems that exceed any offsetting benefits associated with these systems; and
- (2) public policy is best served by imposing these costs on the customer-generator, rather than allocating these costs among the utility's entire customer base.

Distribution Resources Planning.

At least one state has established the requirement that electrical companies file distribution resources plan proposals with the state's regulatory entity. State law in California requires electrical companies to submit to the California Public Utilities Commission a distribution resource plan proposal to identify optimal locations for the deployment of distributed resources. Any electrical corporation spending on on distribution infrastructure necessary to accomplish the plan can be proposed and considered as part of the next general rate case.

Utility Rate Design.

Rate structures affect the allocation of costs and benefits of distributed generation among customer-generators, utilities, and society. According to the National Renewable Energy Laboratory, options for rate designs to address expanded adoption of distributed generation include a variety of traditional ratemaking elements, such as fixed monthly customer charges, demand charges, standby-rates, and time-based pricing. Other options include two-way rates, such as value-of-solar tariffs, disaggregated rates, or treating customer-generators as a separate customer class.

Value of Solar Tariff.

A Value of Solar rate is a type of two-way rate that compensates customer-generators uniformly for all the electricity they produce. Customers continue to pay for all the energy consumed at the utility retail rate, and are compensated by the utility for all of the electricity they produce, at a different rate. Value of Solar differs from net metering, in that the compensation for excess generation is no different than that for generation consumed on-site. The Value of Solar rate is determined by evaluating the relative costs and benefits the distributed generation provides to the utility system. This may include the value of line loss savings and energy savings, among other benefits, minus appropriate costs. Thus, compensation to customer-generators can be based on the specific benefits and costs of the distributed generation within a particular utility system, rather than being based on the fixed retail rate, as in the case of net metering.

Fixed Charge.

Through assessing a fixed monthly customer charge, a utility can be less dependent on collecting revenue through volumetric energy charges and demand charges. A fixed monthly charge can be designed to recover a utility's fixed costs. Fixed costs may include the capital and operating costs of the distribution and transmission network.

Renewable Energy Investment Cost Recovery Incentive Program.

The Renewable Energy Investment Cost Recovery Incentive Program (Cost-Recovery Program) was created in 2005 and is scheduled to expire in 2020.

Annual Incentive Payments.

An individual, business, or local government that owns and operates an eligible renewable energy system installed on property owned by the applicant may apply to receive an annual incentive payment from the applicant's electric utility for each kilowatt-hour (kW-hr) of electricity produced by an eligible renewable energy system. Such incentives are sometimes called "production incentives". Eligible renewable energy systems are solar energy systems, wind generators, and anaerobic digesters. These systems are generally net metering systems under state law. In addition to providing a base rate of \$0.15 per kW-hr, multipliers are available if certain system components are manufactured in Washington. Taking multipliers into account, the highest incentive rate available is \$0.54 per kW-hr, for solar energy systems with modules and inverters manufactured in Washington.

Community Solar Program Eligibility.

In 2009, the Cost-Recovery Program was expanded to provide annual incentive payments for electricity generated by "Community Solar" projects. Community Solar projects include: (1) solar energy systems placed on local government property that are owned by local individuals, households, or non-utility businesses; (2) utility-owned solar energy systems voluntarily funded by the utility's ratepayers in exchange for credits on their utility bills; and (3) company-owned solar energy systems, where the owner is a limited liability company, a cooperative, or a mutual corporation or association. The base rate of \$0.30 per kW-hr for Community Solar Projects also may be increased by multipliers, such that the highest rate available under the Community Solar Program is \$1.08 kW-hr.

Cap on Total Public Utility Tax Credits Available.

Utility participation in the Cost-Recovery Program is voluntary. A utility is allowed a credit against its public utility tax (PUT) in return for annual incentive payments made, capped annually at \$100,000 or 0.5 percent of its taxable power sales, whichever is greater.

The amount of the total allowable credit that can be allocated as payments to participants in Community Solar projects is limited, as follows:

- utility-owned Community Solar project payments may only account for up to 25 percent; and
- company-owned Community Solar project payments may only account for up to 5 percent.

Administration of the Cost-Recovery Program.

The Department of Revenue (DOR), with technical assistance from the Washington State University Energy Program (WSU), administers the Cost-Recovery Program.

Net-Metered Systems Owned by Third Parties.

In lieu of purchasing a renewable energy system, a customer can access the electricity produced by such a system hosted on the customer's property but owned by a third party. Third-party vendors (also called third-party owners) own the equipment and enter contractual arrangements with customers. For third-party-owned solar energy systems, the contract is most commonly structured as a lease or a power purchase agreement (PPA).

In July 2013, the UTC determined that a customer hosting a leased system is eligible for net metering under state law. In July 2014, the UTC issued an interpretive statement finding that, although the inquiry must be made on a case-by-case basis, a third-party owner providing access

to a solar energy system through a lease or PPA would generally be under the jurisdiction of the UTC, who may regulate such a third-party owner as an electrical company

The Cost-Recovery Program production incentive payments are not currently available for third-party-owned renewable energy systems.

Summary of Bill:

Net Metering.

Legislative findings are made, establishing that the intent of the legislation is to preserve existing "ground rules" for net metered systems until the existing net metering threshold, equal to 0.5 percent of a utility's peak 1996 demand, has been achieved.

Distribution Resources Planning.

After the existing net metering threshold is achieved, an electric utility shall prepare a distribution resources plan proposal to identify optimal locations and circumstances for the deployment of distributed resources. "Distributed resources" means distributed renewable generation resources, energy efficiency, energy storage, electric vehicle infrastructure, and demand response technologies. An electrical company must submit the proposal to the Utilities and Transportation Commission (UTC), and a consumer-owned utility must submit the proposal to its governing body.

The proposal must identify locational benefits and costs of distributed resources, taking into account how such resources might address local generation capacity needs, avoid or increase the need for investments in distribution infrastructure, enhance safety and reliability, or drive other savings to the electrical grid or costs to the ratepayers. The proposal must, for example, identify and propose standards tariffs, contracts, or other mechanisms that could assist in satisfying distribution planning objectives, and any utility spending necessary for integrating cost-effective distributed resources in a manner that yields net benefits to ratepayers.

The UTC or governing body shall review the proposal and approve, modify, or reject the plan. Expenditures identified in the plan as necessary for ensuring reliability, including acquisition or operation of infrastructure, may be recovered through a reliability charge, a value of distributed generation tariff, or other mechanism. The charge, tariff, or mechanism may be adopted if the UTC or governing body determines that: (1) ratepayers would realize net benefits; (2) associated costs are just and reasonable; and (3) the proposed mechanism does not discriminate between customers that generate more revenues for the utility and "prosumers" who generate less revenues.

Prosumer means: (1) A customer-generator or an electric utility customer with a production meter connected to a utility's distribution system that measures production of electricity generated on the customer's premises, where such electricity is intended to offset part or all of the customer's electricity requirements; or (2) An electric utility customer who enters into a special arrangement with a utility to obtain premium services, such as enhanced reliability or voltage control, requiring extraordinary capital investment, or provide premium services, such as demand response, energy storage, and load management.

Utility Rate Design.

Value of Distributed Generation Tariff.

Upon request by an electrical company, the UTC must by rule establish a methodology for a value of distributed generation (VODG) tariff. In the case of a consumer-owned utility, the VODG tariff must be developed through a public process by the governing body, who may develop its own or adopt one that the UTC has developed. This tariff must compensate prosumers for the value to the utility and its customers of installing and operating distributed generation resources interconnected to the utility system. The methodology must include a method for calculating eight component values, such as avoided fuel costs and avoided transmission costs, as well as the costs of integrating service to new customers into existing service. The UTC or governing body must publish a calculation table, to be populated by the utility.

A utility with an approved distribution resources plan may implement a VODG tariff. The utility need not utilize all the values established in the methodology when calculating the VODG tariff, but if it decides not to incorporate a value or to incorporate different values, the utility must issue a statement explaining its decision. Such statement must describe why the decision is not discriminatory against prosumers. The tariff may be recalculated when the utility deems such recalculation necessary, in light of changed circumstances.

In the VODG tariff, the relative value of the distributed generation asset must be determined, as compared to a "benchmark generation asset." "Benchmark generation asset" generally means a natural gas combined cycle turbine with an emissions output equivalent to the average reported by the Department of Commerce, as required under the state Greenhouse Gas Emissions Performance Standard. However, in the special case of a utility that is not acquiring new generation (such utilities are often described as "long on power"), the benchmark generation asset is the existing generation asset that generates electricity from the dominant resource in the utility's portfolio, which is the resource with the highest percentage as documented in the utility's Fuel Mix Disclosure statement

Long-term Contract Mechanism.

An electric utility with an approved distribution resources plan may adopt a long-term contract mechanism. A prosumer is guaranteed a fixed price payment at a retail rate for a certain level of electricity that the prosumer commits to generating over an interval of time specified in the contract, such as quarter over quarter or year over year.

Renewable Energy Investment Cost Recovery Incentive Program.

Legislative findings indicate that the Legislature intends to extend and modify the Renewable Energy Investment Cost Recovery Incentive Program in order to: (1) improve utilization of the incentive by residents, utilities, and businesses; (2) streamline program administration; and (3) incubate the development of clean energy manufacturing.

Appropriation: None.

Fiscal Note: Requested February 13, 2015.

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