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## Technology & Economic Development Committee

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### ESSB 5735

**Brief Description:** Providing incentives for carbon reduction investments.

**Sponsors:** Senate Committee on Energy, Environment & Telecommunications (originally sponsored by Senators Ericksen, Rivers, Angel, Baumgartner, Brown, Hewitt, Bailey, Schoesler, Parlette, Honeyford, Braun, Padden, Becker, Hatfield and Sheldon).

#### Brief Summary of Engrossed Substitute Bill

- Amends the definition of "eligible renewable resource" in the Energy Independence Act (EIA) to include carbon reduction investments.
- Beginning January 1, 2016, allows a qualifying utility to use carbon reduction investments to count toward compliance with an annual renewable energy target under the EIA.
- Beginning January 1, 2016, establishes a new alternative compliance pathway that allows a qualifying utility to be considered in compliance with an annual renewable energy target if it invests at least 1 percent of its total annual retail revenue requirement for that year in carbon reduction investments.
- Establishes definitions for "carbon reduction investment" and "greenhouse gas" in the EIA.

**Hearing Date:** 3/24/15

**Staff:** Nikkole Hughes (786-7156).

#### **Background:**

##### The Energy Independence Act.

The Energy Independence Act, also known as Initiative 937 or I-937, was approved by voters in 2006. Initiative 937 requires an electric utility with 25,000 or more customers in the state to

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meet targets for energy conservation and to meet a certain percent of its annual load with eligible renewable resources. Utilities that must comply with I-937 are called qualifying utilities.

#### Eligible Renewable Resource Targets and Compliance Dates.

Each qualifying utility must use eligible renewable resources or acquire equivalent renewable energy credits, or a combination of both, to meet the following annual targets:

- at least 3 percent of its load by January 1, 2012, and each year thereafter through December 31, 2015;
- at least 9 percent of its load by January 1, 2016, and each year thereafter through December 31, 2019; and
- at least 15 percent of its load by January 1, 2020, and each year thereafter.

#### Alternative Compliance Pathways.

A qualifying utility may alternatively be considered in compliance with an annual target if:

- the utility's weather-adjusted load for the previous three years on average did not increase over that time period;
- the utility did not commence or renew ownership or incremental purchases of electricity from resources other than coal transition power or renewable resources other than on a daily spot price basis after December 2006; and
- the utility invested at least 1 percent of its total annual retail revenue requirement that year in eligible renewable resources, renewable energy credits (REC), or a combination of both.

A qualifying utility may also be considered in compliance with an annual target if events beyond the reasonable control of the utility prevented it from meeting the renewable energy target, or if it invested 4 percent of its total annual retail revenue requirement on the incremental costs of eligible renewable resources, the cost of RECs, or a combination of both.

#### Eligible Renewable Resource.

"Eligible renewable resource" includes electricity from a generation facility, powered by a renewable resource other than freshwater, which commences operation after March 31, 1999, where the facility is located in the Pacific Northwest or the electricity from the facility is delivered into the state on a real-time basis.

Electricity from a generation facility power by freshwater, except for incremental hydroelectricity and hydroelectricity from certain irrigation and municipal pipes, is not considered an eligible renewable resource.

#### Renewable Energy Credit.

A REC a tradable certificate of proof, verified by the Western Renewable Energy Generation Information System, of at least one megawatt-hour of an eligible renewable resource, where the generation facility is not power by freshwater. Under I-937, a REC represents all the nonpower attributes associated with the power. Renewable energy credits can be bought and sold in the marketplace to comply with annual renewable energy targets, and they may be used during the year they are acquired, the previous year, or the subsequent year.

#### Accountability and Enforcement under the Energy Independence Act.

The UTC determines compliance with the requirements of I-937 for investor-owned utilities. The State Auditor's Office (Auditor) is responsible for auditing compliance with I-937 for consumer-owned utilities and the Office of the Attorney General is responsible for enforcing that compliance.

A qualifying utility that does not meet an annual renewable energy target is exempt from an administrative penalty for that year if the UTC, for investor-owned utilities, or the Auditor, for consumer-owned utilities, determines that a utility complied with the conditions of an alternative compliance pathway.

### **Summary of Bill:**

#### Eligible Renewable Resource.

The definition of eligible renewable resource is amended to include carbon reduction investments. "Carbon reduction investments" are investments in support of eligible projects or actions that reduce, prevent, or remove emissions of greenhouse gases. An eligible project or action includes, but is not limited to, investment in or purchase of the emissions reductions attributable to installation of electric vehicle chargers and related infrastructure, installation of infrastructure to provide renewable natural gas for motor vehicles, and carbon sequestration programs.

#### Meeting Eligible Renewable Resource Targets.

Beginning January 1, 2016, a qualifying utility may use carbon reduction investments to count toward compliance with an annual target. In order to measure a carbon reduction investment and count it toward an annual target, 0.5 metric ton of carbon dioxide equivalent emissions reduced, prevented, or removed from the atmosphere is equivalent to the compliance equivalent of 1 REC.

Each compliance equivalent must be recognized by the UTC or the Auditor for each year that the emissions reduction is certified to persist. The determination and certification of emissions reduction must be measured, verified, and documented by a third party expert retained by the qualifying utility and subject only to determination or audit by the UTC or the Auditor for compliance with I-937. Emissions reductions certified to persist longer than one year may be carried forward and applied as compliance equivalents in future years.

#### Alternative Compliance Pathway.

Beginning January 1, 2016, a new alternative compliance pathway is established that allows a qualifying utility to be considered in compliance with an annual target if it invests at least 1 percent of its total annual retail revenue requirement for that year in carbon reduction investments.

Each compliance equivalent must be recognized by the UTC or the Auditor for each year that the emissions reduction is certified to persist. The determination and certification of emissions reduction must be measured, verified, and documented by a third party expert retained by the qualifying utility and subject only to determination or audit by the UTC or the Auditor for compliance with I-937. Emissions reductions certified to persist longer than one year may be carried forward and applied as compliance equivalents in future years.

A qualifying utility using this 1 percent revenue investment compliance pathway must resume meeting the annual targets on a time frame comparable in length to what it would have been before using the compliance path.

Defining "Greenhouse Gas".

A definition for greenhouse gas is established under I-937. "Greenhouse gas" means carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and other fluorinated greenhouse gases.

**Appropriation:** None.

**Fiscal Note:** Requested on March 16, 2015.

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