
Environment & Energy Committee

HB 1766

Brief Description: Modifying the regulation of gas companies to achieve reductions in greenhouse gas emissions.

Sponsors: Representatives Ramel, Slatter, Berry, Dolan, Ryu, Wylie, Bateman, Davis, Duerr, Fitzgibbon, Goodman, Macri, Peterson, Valdez, Harris-Talley, Kloba and Frame; by request of Office of the Governor.

Brief Summary of Bill

- Requires gas companies regulated by the Utilities and Transportation Commission to develop and implement Clean Heat Transition Plans, with the first due by January, 2024.
- Limits gas companies' ability to provide new gas service and to install new gas equipment to meet energy conservation targets.
- Allows gas companies to provide renewable hydrogen and hydrogen produced by electrolysis as part of a renewable gas program.

Hearing Date: 1/28/22

Staff: Megan McPhaden (786-7114).

Background:

Regulation of Gas Companies by the Utilities and Transportation Commission.

Gas companies include companies and cities that own, control, operate, or manage any gas plant within Washington. A "gas plant" includes all property and fixtures in connection with the manufacture, transmission, distribution, sale, or furnishing of types of gas, but does not include a plant that manufactures natural gas.

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

The Utilities and Transportation Commission (UTC) regulates certain public service companies to ensure fair pricing, availability, reliability, and safety. The UTC does not have jurisdiction over gas companies owned by cities and towns. To operate in Washington, gas companies must have first obtained a "certificate of public convenience and necessity" from the UTC. Gas companies must provide gas service that is safe, adequate, and efficient, and their rates for gas service must be fair, just, reasonable, and sufficient. There are currently four gas companies under UTC jurisdiction in Washington: Avista, Cascade Natural Gas, NW Natural Gas, and Puget Sound Energy.

Gas Conservation Targets.

Gas companies must identify and acquire all conservation measures, which reduce natural gas consumption from increases in the efficiency of energy use or distribution, that are available and cost-effective. A cost-effectiveness analysis is required and must include the societal costs of greenhouse gas emissions from the use natural gas, which includes gathering, transmitting and distributing the gas. Gas companies must set targets for acquiring conservation resources and demonstrate that these targets will be met. Conservation targets must be approved by the UTC and the initial targets must take effect by 2022.

Renewable Natural Gas Programs.

Natural gas companies may propose a renewable natural gas program where the company supplies renewable natural gas as a portion of the natural gas provided to its customers. Renewable natural gas is a gas consisting largely of methane and other hydrocarbons derived from the decomposition of organic material in landfills, wastewater treatment facilities, and anaerobic digesters. The customer charge for a renewable natural gas program may not exceed five percent of the amount charged to retail customers for natural gas. Renewable gas programs are subject to UTC review and approval, including that the UTC may approve inclusion of other sources of gas produced as long as they are produced without consuming fossil fuels. Each gas company must offer a voluntary renewable natural gas service to all customers to replace any portion of the natural gas that would otherwise be provided by the gas company. This service must be offered by tariff and the tariff may provide reasonable limits on participation based on the availability of renewable natural gas.

Greenhouse Gas Emission Limits.

In 2008, Washington enacted legislation that sets a series of limits on the emission of greenhouse gases (GHGs) within the state. The Department of Ecology (Ecology) is responsible for monitoring and tracking the state's progress toward the emission limits. In 2020, additional legislation was enacted to update the state limits to the following:

- by 2020, reduce overall emissions of GHGs in the state to 1990 levels, or 90.5 million metric tons;
- by 2030, reduce GHG emissions to 45 percent below 1990 levels, or 50 million metric tons;
- by 2040, reduce overall emissions of GHGs in the state to 70 percent below 1990 levels, or 27 million metric tons; and
- by 2050, reduce overall emissions of GHGs in the state to 95 percent below 1990 levels, or

5 million metric tons, and achieve net-zero GHG emissions.

The UTC received funds in the 2021-2023 Operating Budget to examine feasible and practical pathways for investor-owned electric and natural gas utilities to contribute their share to these GHG emission reductions, and to report the results of this examination to the Legislature by June 1, 2023.

Washington State Energy Strategy.

The Department of Commerce's State Energy Office must coordinate with state agencies, other governmental units, and private interests to prioritize and implement the state energy strategy elements. The Department of Commerce must review the state energy strategy in order to align it with the principles of the state energy strategy as outlined in state law, Ecology's recommended GHG reduction emission reductions, the purposes of the Clean Energy Transformation Act, and the Energy Independence Act.

Summary of Bill:

Clean Heat Transition Plans.

Each gas company under the regulation of the Utilities and Transportation Commission (UTC) must develop and implement Clean Heat Transition (CHT) Plans. During the development of its CHT Plan, gas companies must consult with any electric utility serving customers in the gas company's service area. The first CHT Plans are due to the UTC by January 1, 2024, and then every four years thereafter. The UTC must determine proportional obligations for each gas company for reducing greenhouse gas (GHG) emissions to the levels set in state law, and these obligations must be incorporated into the plans. CHT Plans are subject to review, modification, and approval by the UTC. The UTC may require a gas company to modify its CHT Plan if the UTC determines it is out of compliance with requirements.

Purpose.

CHT Plans are required for the purposes of:

- meeting the state's GHG emissions limits with respect to fossil natural gas combustion;
- limiting the expansion of the natural gas system for residential and commercial space and water heating;
- advancing the use of high-efficiency electric equipment and production and distribution of clean fuels; and
- ensuring the safe and equitable transition of the natural gas system.

Low-Income Customers, Overburdened Communities, and Vulnerable Populations.

CHT Plans must ensure that:

- energy assistance is adequately provided to low-income customers;
- the transition results in benefits to low-income households, overburdened communities, and vulnerable populations; and
- energy and nonenergy benefits of utility programs and infrastructure are equitably distributed to overburdened communities and vulnerable populations, including the

reduction of energy burdens and improvement of indoor and outdoor air quality.

Required Content.

Each CHT Plan must:

- include a plan with specific actions to reduce GHG emissions from natural gas sold or delivered by the company to the level established by the UTC;
- include a cost-benefit analysis of alternative transition actions, including the costs and benefits that will accrue to vulnerable populations and overburdened communities. The cost-benefit analysis must incorporate the social cost of GHG emissions resulting from the use of natural gas as determined by the UTC;
- be based on a comprehensive evaluation and comparison of multiple emissions reduction strategies to identify the combination of strategies that comply with the requirements at the lowest reasonable cost;
- consider recommendations from the latest Washington State Energy Strategy;
- identify changes to depreciation schedules or rate design to be consistent with specific actions in the CHT Plan;
- prioritize the remaining use of fossil natural gas by residential and commercial customers in consultation with electric utilities;
- include an assessment of current conditions, including:
 - the economic, public health, and environmental conditions within the gas company's service territory; and
 - the energy and nonenergy benefits and burdens associated with the utility's infrastructure and programs, including those caused by utility actions outside the utility's service area;
- assess the relative impact of alternative emissions reduction strategies on the amount of indoor air pollution and the health of customers; and
- support an equitable transition for overburdened communities and low-income customers through no-cost grant programs for low-income residents and low-cost or specially targeted incentive programs for moderate income or fixed income seniors.

Required Considerations on Emissions Reduction Strategies.

Each gas company must consider the following emissions reduction strategies in developing each CHT Plan:

- measures to increase the efficiency of energy use in residential, industrial, and commercial buildings through building thermal load reduction strategies such as envelope efficiency improvements, hot water conservation, or process load reductions;
- development of geothermal heat, industrial waste heat, and other thermal heat sources that may be obtained without substantial emissions of GHGs;
- development of district heating systems using waste heat from industrial processes or fuels that do not result in GHG emissions; and
- reduction of the carbon content of delivered gas by incorporating renewable natural gas or renewable hydrogen.

Additional Authorized Considerations.

Each gas company may consider the following emissions reduction strategies in developing each CHT Plan:

- expansion of voluntary renewable natural gas programs;
- implementation during a transition period of dual fuel heating configurations in which use of fossil natural gas is limited to periods of peak energy demand;
- conversion of existing customers to high-efficiency electric equipment;
- geographically targeted programs to permanently decommission portions of a gas company's distribution systems;
- use of offset credits to the extent permitted under the Cap and Invest Program; and
- replacement of pipelines with a demonstrated elevated risk of failure to likely reduce GHG emissions through the reduction of nonhazardous leaks.

Limitations on Using New Gas Equipment to Meet Gas Conservation Targets.

Unless the UTC finds that the following conservation measures are consistent with a gas company's CHT plan and do not result in a net increase in GHG emissions over the expected useful life of the equipment being installed, beginning in 2025, a gas company may not: (1) include conservation measures that require the installation of new gas-fired appliances, furnaces, water heaters, or other end-use equipment in its conservation target; or (2) offer financial incentives to acquire any such conservation measures.

Limitations on New Gas Service.

A gas company may not offer new service to any customer located outside of the area it is authorized to provide service in as of July 1, 2022, unless the UTC finds that this extension of service is: (1) consistent with the gas company's CHT Plan; and (2) does not result in a net increase in GHG emissions over the expected useful life of the gas plant to be installed in the expanded area.

Beginning in 2023, a gas company may only extend service to a new location if the customer pays the full cost of the service extension.

Beginning in 2025, a gas company may not extend service to a location not already receiving gas service, unless the UTC finds that this extension of service is consistent with the gas company's CHT Plan and does not result in a net increase in GHG emissions over the expected useful life of the line extension.

Gas companies are no longer required to provide gas to people and corporations who apply for gas service.

Hydrogen Added to Renewable Gas Programs.

Renewable natural gas programs are expanded to allow gas companies to acquire and include renewable hydrogen and hydrogen produced by electrolysis as a portion of the gas they provide to customers. Renewable hydrogen is hydrogen produced using renewable resources both as the source for the hydrogen and the source for the energy input into the production process. These are the only types of renewable gas programs that the UTC may now approve.

Gas companies must demonstrate that these renewable gas programs will result in a reduction in the greenhouse gas intensity per therm, including the life-cycle emissions of GHGs, and will not adversely affect the safety or reliability of its service. The UTC must establish safety standards for use of hydrogen before approving a renewable gas program that includes hydrogen. The UTC may authorize a charge over the 5 percent limit if the UTC determines that it is necessary under an approved CHT Plan.

Before the UTC establishes standards for the distribution of hydrogen by gas pipeline, the UTC must consult with the Department of Labor and Industries.

Deferral of Costs for Later Consideration by the UTC.

If a gas company incurs costs related to major projects in their UTC-approved CHT Plans, the company may account for and defer these costs for later consideration by the UTC. The costs that may be deferred include contracts to purchase renewable natural gas or renewable hydrogen. They also include operating and maintenance costs, depreciation, taxes, and capital costs associated with the applicable resource.

A deferral begins on the date when the resource begins commercial operation or the effective date of the renewable natural gas or renewable hydrogen purchase agreement, and may not exceed 36 months. If during the deferral the gas company files a general rate case or other proceeding for the recovery of these costs, the deferral ends on the effective date of the final decision by the UTC in such a proceeding. Creation of such a deferral account does not by itself determine the actual costs of the resource or renewable natural gas or renewable hydrogen purchase agreement, whether recovery of any or all of these costs is appropriate, or other issues to be decided by the commission in a general rate case or other proceeding.

Appropriation: None.

Fiscal Note: Requested on January 23, 2022.

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