BILL ANALYSIS

Environment & Energy Committee

HB 1589

Brief Description: Supporting Washington's clean energy economy and transitioning to a clean, affordable, and reliable energy future.

Sponsors: Representatives Doglio, Fitzgibbon, Berry, Alvarado, Bateman, Ramel, Peterson, Lekanoff, Hackney, Macri and Kloba.

Brief Summary of Bill

- Prohibits any large gas company that serves more than 500,000 retail natural gas customers in Washington as of June 30, 2023, from furnishing or supplying gas service, instrumentalities, and facilities to any commercial or residential location that did not receive gas service or have filed applications for gas service as of June 30, 2023.
- Requires a large gas company to file a gas decarbonization plan and an electrification plan with the Utilities and Transportation Commission (UTC) as part of any multi-year rate plan filed on or after January 1, 2026.
- Requires the UTC to establish a target for a gas decarbonization plan and a cost target for an electrification plan, each of which must be 2.5 percent of the gas revenue requirement and electric revenue requirement, respectively, approved by the UTC for each year of the multiyear rate plan.
- Requires that 60 percent of the total capacity and energy needed for a combination utility to meet the requirements of the Clean Energy Transformation Act must be supplied from resources owned and operated by the combination utility or an affiliate of the combination utility.
- Directs the UTC to adopt a merger of the rate bases supporting gas and

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electric operations of a combination utility into a single rate base if the ratio of the rate base for gas operations to the combined rate base of gas and electric operations is less than or equal to 0.2.

- Establishes labor requirements for any project in a gas decarbonization plan or electrification plan with a cost of more than $1 million.
- Encourages a variety of types of electric utilities to work with large gas companies providing gas service within the service areas of the electric utilities to identify opportunities for electrification and the provision of peaking service by the large gas companies.

Hearing Date: 2/6/23

Staff: Robert Hatfield (786-7117).

Background:

Utilities and Transportation Commission.
The Utilities and Transportation Commission (UTC) is a three-member commission with broad authority to regulate the rates, services, and practices of a variety of businesses in the state, including four natural gas companies. The UTC must ensure rates charged by these companies are fair, just, reasonable, and sufficient. In 2021, the Legislature directed every gas or electric utility filing a general rate case to include a proposal for a multiyear rate plan beginning January 1, 2022.

Greenhouse Gas Emission Reduction Limits.
In 2020, the Legislature updated statewide greenhouse gas (GHG) emissions reduction limits to 45 percent below 1990 levels by 2030, 70 percent below 1990 levels by 2040, and 95 percent below 1990 levels, as well as net- zero emissions, by 2050.

Clean Energy Transformation Act.
In 2019, the Legislature enacted the Clean Energy Transformation Act (CETA), which requires Washington's electric utilities to meet 100 percent of their retail electric load using non-emitting and renewable resources by January 1, 2045. Additionally, the CETA requires electric utilities to eliminate coal-fired resources from their allocation of electricity by December 31, 2025, and to make all retail sales of electricity GHG neutral by January 1, 2030.

Summary of Bill:

Prohibition on Gas Service Expansion.
A large gas company is prohibited from furnishing or supplying gas service, instrumentalities, and facilities to any commercial or residential location that did not receive gas service or file an

application for gas service as of June 30, 2023. A large gas company is defined as a gas company that serves more than 500,000 retail natural gas customers in Washington on June 30, 2023.

Gas Decarbonization Plan.
A large gas company must file a gas decarbonization plan as part of any multi-year rate plan filed on or after January 1, 2026, and every four years thereafter. The plan must aim to achieve the gas company's proportional share of the statewide statutory greenhouse gas (GHG) emissions reductions. A gas decarbonization plan must, among other things:

- include proposed programs to advance customer gas decarbonization measures;
- include outreach plans, targeted programs, and prioritized investments for low-income customers, vulnerable populations, and highly impacted communities;
- set forth the following portfolios that the large gas company will use to reduce GHG emissions to meet its identified emissions reduction target:
    1. a portfolio of resources that uses alternative energy resources to the maximum practicable extent, that meets the applicable cost target, may include leak reductions, and may or may not meet one or more of the emission reduction targets but demonstrates reduction sin-GHG emissions;
    2. portfolios at the company's discretion; and
    3. portfolios directed by the UTC;
- quantify projected cumulative GHG emissions reduction for each specified five-year reduction period for each portfolio and the cost of implementing each portfolio; and
- describe what effect the actions and investments of each portfolio has on the safety, reliability, and resilience of the company's gas service

Electrification Plan.
A combination utility must file with the UTC an electrification plan as part of a gas decarbonization plan on or after January 1, 2026. A combination utility is a public service company that is both an electrical company and a large gas company.

Electrification plans may be combined with demand-side management strategic issues or transportation electrification plans, but must include at a minimum:

- proposed programs to advance electrification for customers;
- outreach plans and targeted programs for low-income customers, vulnerable populations, and highly impacted communities;
- budgets, targeted numbers of installations, projected fuel savings, cost-effectiveness, and reduction in GHG emissions; and other relevant information for the electrification plan as required by the UTC;
- documentation and data showing the electrification plan maintains the reliability of the electric grid; and
- incentives to facilitate electrification and that require eligible products to be energy-star certified.

Electrification programs may include programs that facilitate deep energy retrofits or, until 2030, the installation of electric air-source heat pumps with gas backups in existing buildings.

Cost Targets.
The UTC must establish a cost target for a gas decarbonization plan that is 2.5 percent of a large gas company's gas revenue requirement for each year of the multi-year rate plan. The UTC must calculate the gas revenue requirement net of the program budget for any electrification plan filed as part of the gas decarbonization plan.

For any electrification plan that is filed as part of a gas decarbonization plan, the UTC must establish a cost target for the electrification plan that is 2.5 percent of the combination utility's electric revenue requirement for each year of the multi-year rate plan. The UTC must calculate the electric revenue requirement net of the program budget for the gas decarbonization plan filed by the combination utility.

The Utilities and Transportation Commission Gas Decarbonization or Electrification Plan Approval.
The UTC must approve a gas decarbonization or electrification plan if it finds the plan to be in the public interest. The UTC may modify a proposed plan if the modifications are necessary to ensure the plan is in the public interest. To evaluate whether a proposed plan is in the public interest, the UTC must take into account the following factors for whether the gas decarbonization or electrification plan:
- achieves reductions in GHG emissions for each five-year emission reduction period;
- demonstrates progress toward meeting the emission reduction targets identified in the gas decarbonization plan through maximizing the use of alternative energy resources;
- prioritizes serving low-income customers, vulnerable populations, and highly impacted communities;
- results in a reasonable cost to customers; and
- maintains system reliability.

The UTC must require a large gas company to achieve the maximum level of GHG emissions reductions practicable using alternative energy resources at or below the applicable cost target. The UTC may approve, or amend and approve, a gas decarbonization or electrification plan with costs greater than the cost target only if the UTC finds that the plan is in the public interest, costs to customers are reasonable, the plan mitigates rate increases for low-income customers, and the benefits of the plan exceed the costs.

Any procurement by a combination utility with an electrification plan approved by the UTC is subject to the following requirements:
- 40 percent of the total capacity and energy necessary to meet the requirements of CETA must be supplied through the execution of power purchase agreements with third parties, which allows the combination utility rights to dispatch, operate, and control the solicited resource in the same manner as its own generating resources; and
- 60 percent of the total capacity and energy necessary to meet the requirements of CETA must be supplied from resources owned and operated by the combination utility or an

affiliate.

Upon UTC approval of a power purchase agreement for acquisition of resources by a combination utility with an approved electrification plan, the utility may:

- recover the cost of purchases of energy, capacity, and environmental attributes from renewable resources under the power purchase agreement; and
- earn a return on such purchases in an amount determined by the following equation: a rate of return that is no less than the authorized cost of debt and no greater than the authorized rate of return of the combination utility, multiplied by the operating expense incurred by the combination utility under the power purchase agreement.

Depreciation Schedules and Single Energy Rate Base.
In any multi-year rate plan filed by a combination utility, the UTC must adopt depreciation schedules for any gas plant in service. The incremental depreciation for each year of a multi-year rate plan is equal to 1 percent of the gas revenue requirement for the preceding year.

If a combination utility's ratio of its rate base for the gas operations to its combined rate bases for gas and electric operations is less than or equal to 0.2, then in the next multi-year rate plan the combination utility may propose, and the UTC must adopt, a merger of the rate bases supporting gas and electric operations into a single energy rate base. The combination utility may also adopt rates for electric and gas service that support the recovery of such a merged energy rate base.

Project Labor Agreements.
For any project in a gas decarbonization or electrification plan that is part of a competitive solicitation and costs more than $1 million, the large gas company must certify to the UTC that any work on the project will be constructed by contractors in a way that includes community workforce agreements or project labor agreements, the payment of area standard prevailing wages, and apprenticeship utilization requirements, provided the following apply:

- the large gas company and contractors have the absolute right to select any qualified and responsible bidder for the award of contracts on a specified project without referring to existing agreements, and a successful bidder is designated only when a bidder is willing, ready, and able to become a party to an agreement, signs a letter of assent, and complies with such an agreement; and
- it is a self-contained, stand-alone agreement, and the contractors are not obligated to sign any other local, area, or national agreement.

Electric Utilities.
Investor-owned and consumer-owned electric utilities are encouraged to:

- work with large gas companies providing gas service within their service areas to identify opportunities for electrification and the provision of energy peaking service by the large gas company;
- account for the costs of GHG emissions, set total energy savings and GHG emissions reduction goals, and develop and implement electrification programs in collaboration with

large gas companies providing service; and
- include an electrification plan or transportation electrification program as part of a clean energy plan.

Emissions Reduction Target.
When calculating an emissions baseline and projected cumulative emissions of an emissions reduction period, a large gas company and combination utility must include emissions from:
- methane leaked from the transportation and delivery of gas from the distribution and service pipelines to the customer and from the delivery of gas to other gas companies; and
- GHG emissions from combustion of gas by natural gas customers not subject to federal GHG emissions reporting and excluding transport customers.

Definitions.
Several terms are defined including alternative energy resources and electrification.

Appropriation: None.

Fiscal Note: Available.

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