

HOUSE BILL REPORT

HB 1976

As Passed Legislature

Title: An act relating to changing the incentive structure for tier 1 and tier 2 buildings.

Brief Description: Changing the incentive structure for tier 1 and tier 2 buildings.

Sponsors: Representatives Fosse, Doglio, Fitzgibbon, Ramel, Reed, Lekanoff, Reeves and Pollet; by request of Department of Commerce.

Brief History:

Committee Activity:

Environment & Energy: 1/8/24, 1/16/24 [DP].

Floor Activity:

Passed House: 2/7/24, 97-0.

Passed Senate: 2/29/24, 47-2.

Passed Legislature.

Brief Summary of Bill

- Permits the Department of Commerce to provide higher incentive payments under the Early Adoption Incentive Program to owners of buildings that comply with the State Energy Performance Standard.

HOUSE COMMITTEE ON ENVIRONMENT & ENERGY

Majority Report: Do pass. Signed by 14 members: Representatives Doglio, Chair; Mena, Vice Chair; Dye, Ranking Minority Member; Ybarra, Assistant Ranking Minority Member; Abbarno, Barnard, Berry, Duerr, Fey, Goehner, Ramel, Sandlin, Slatter and Street.

Staff: Zachary Blinkinsop (786-7296) and Megan McPhaden (786-7114).

Background:

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.

State Energy Performance Standard.

The State Energy Performance Standard (Standard), established in 2019, requires the Department of Commerce (Commerce) to establish rules for energy performance standards for covered commercial buildings. The Standard seeks to reduce greenhouse gas emissions from the building sector. The Standard applies to two tiers of covered commercial buildings.

Tier 1 covered commercial buildings are buildings whose sum of nonresidential, hotel, motel, and dormitory floor areas exceeds 50,000 square feet, excluding any parking garage area. Commerce notified Tier 1 covered building owners of its adopted rules for energy management and benchmarking on or before July 1, 2021. Tier 1 covered building owners must meet the following reporting schedule for complying with the Standard:

- June 1, 2026, for buildings larger than 220,000 square feet;
- June 1, 2027, for buildings larger than 90,000 square feet but not larger than 220,001 square feet; and
- June 1, 2028, for buildings larger than 50,000 square feet but not larger than 90,001 square feet.

Tier 2 covered commercial buildings are commercial buildings larger than 20,000 square feet but smaller than 50,000 square feet, and multifamily residential buildings larger than 20,000 square feet. Commerce must notify Tier 2 covered building owners of Commerce's adopted rules for energy management and benchmarking by July 1, 2025. Tier 2 covered building owners must report compliance with the Standard and send their compliance plans to Commerce by July 1, 2027, and every five years thereafter.

Early Adoption Incentive Program.

The Standard includes an Early Adoption Incentive Program for covered building owners who comply with the Standard before the required date.

Tier 1 covered building owners can receive a one-time base incentive payment of \$0.85 per gross square foot of floor area, excluding any parking area, unconditioned space, or semiconditioned space. The owner must demonstrate compliance with the applicable energy use intensity target under the Standard to receive the incentive payment. There is a statutory limit of \$75 million for Tier 1 incentive payments.

Tier 2 covered building owners can receive a one-time base incentive payment of \$0.30 per gross square foot of floor area, excluding any parking area, unconditioned space, or semiconditioned space. The owner must demonstrate compliance with the applicable benchmarking, energy management, and operations and maintenance planning requirements under the Standard to receive the incentive payment. Commerce may implement a tiered incentive structure for upgrading multifamily buildings for multifamily building owners willing to commit to antidisplacement provisions. There is a statutory limit of \$150 million

for Tier 2 incentive payments.

A building owner may submit an incentive payment application through Commerce's Clean Buildings Portal. An owner of multiple buildings may submit one application per building. Commerce certifies the application and calculates the amount of the incentive payment. Commerce then authorizes certain utilities—consumer-owned or investor-owned gas or electric utilities that serve more than 25,000 customers in Washington—to make the incentive payment to the building owner. These qualified utilities must administer the incentive payment, provided that they are allowed a tax credit in an amount equal to the incentive payment plus documented administrative costs not more than 8 percent of the incentive payment. Other utilities may voluntarily participate in the Early Adoption Incentive Program.

Beginning in 2025, Commerce must report every two years to the Legislature on the results of the Early Adoption Incentive Program.

Summary of Bill:

Commerce may provide incentives greater than the base incentive payment for upgrading Tier 1 and Tier 2 buildings.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Washingtonians are concerned about the threat of climate change. The cheapest way to save energy is to curtail unused energy. This bill was requested by the Department of Commerce because there have been few applications to the Early Adoption Incentive Program. When the state introduced the State Energy Performance Standard, it introduced incentive payments to offset the cost of upgrading buildings. The Department of Commerce has determined that the base incentive payment is not high enough for large energy efficiency projects. Allowing larger incentive payments would lower barriers to participation in the program. However, while the new incentive rates will help, they will not go very far. There are approximately 8,000 Tier 1 buildings and upgrades cost as much as \$8 per square foot. These upgrades could account for half of operating costs for some large buildings. Industry should have access to even greater incentives to meet efficiency standards and the Legislature should allocate more money for that purpose.

(Opposed) None.

(Other) Lowering barriers to participation in the program means spending more taxpayer money. The base incentive payment is already reasonable. The State Energy Performance Standard introduces operational disruptions and administrative difficulties. The effectiveness of the standard is in question. Billions of dollars have already been spent on these sorts of programs and the state has not yet reached its environmental policy goals, so the state should be cautious about spending even more money.

Persons Testifying: (In support) Representative Mary Fosse, prime sponsor; Emily Salzberg, Department of Commerce; Krystelle Purkey, NAIOP Washington State Chapter; and Chester Baldwin, Building Owners and Managers Association.

(Other) Eric Pratt; and Michael Easton.

Persons Signed In To Testify But Not Testifying: None.