
**Technology, Energy & Communications
Committee**

HB 1762

Brief Description: Concerning standard offer contracts to eligible clean energy facilities.

Sponsors: Representative Morris.

Brief Summary of Bill

- Requires electric utilities to make available standard offer contracts to eligible clean energy facilities through a competitive auction process.

Hearing Date: 2/9/11

Staff: Scott Richards (786-7156).

Background:

Standard Offer Contract.

A standard offer contract is an energy supply policy that offers a guarantee of payments to renewable energy developers for the electricity they produce and supply to the electric grid. A standard offer contract policy is a type of production-based incentive, where a payment is provided for the actual electricity produced.

Production-based incentives are distinguished from capacity-based incentives like rebates, where a payment is awarded on the basis of how much renewable energy generation capacity is installed.

Standard offer contract policies typically include three primary provisions: (1) guaranteed access to the electric grid; (2) long-term purchase guarantees in the 15 to 20-year range; and (3) electricity production payment rates designed to reflect the costs of renewable energy generation.

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.

Most standard offer contract programs in existence around the world have implemented a ratepayer-based mechanism to finance the payments to the renewable energy system owners. A ratepayer-based financing mechanism distributes equally the additional cost associated with a standard offer contract onto the electricity bills of all end-users. Other financing mechanism may include a taxpayer financed system and utility tax credits.

Summary of Bill:

Clean Energy Standard Offer Contracts.

Beginning January 1, 2012, an electric utility must make available, twice a year for five years, standard offer contracts to eligible clean energy facilities. Standard offer contracts are awarded to owners of eligible clean energy facilities through a competitive clean energy auction process.

An electric utility is required to conduct clean energy auctions until the cumulative generating capacity of eligible clean energy facilities equals one percent of the utility's peak demand during 2007. An electric utility must offer annually no less than 20 percent of the cumulative generating capacity available to the electric utility. Electric utilities must conduct clean energy auctions on April 1 and October 1 of each year. In 2016, an electric utility must offer through a clean energy auction all remaining cumulative generating capacity available to the electric utility.

An electric utility must take the electricity awarded through the clean energy auction process for the duration of the standard offer contract which may not exceed 15 years. An electric utility may weight auctions to favor generation that operates during peak electricity demand periods. When submitting a bid as part of a clean energy auction, an owner must state the length of the contract desired in the owner's bid. The electric utility is required to accept bids with the shortest length of time before other bids. No single owner may contract for more than 50 percent of the capacity available for each auction.

Owners are allowed to bid in multiple clean energy auctions. If an owner is selected by more than one electric utility, the owner must inform all interested electric utilities within five calendar days of which electric utility it intends to enter into a standard offer contract.

Electric Utility Participation in the Clean Energy Auction.

An electric utility is eligible to own an eligible clean energy facility, participate in clean energy auctions, and receive a standard offer contract, if it is the lowest bidder of an auction. An electric utility's is limited to 20 percent of the cumulative generating capacity allowed.

Standard Offer Contract Rate.

At a minimum, an electric utility must provide a standard offer contract rate in kilowatt hours that is equal to the highest rate in kilowatt hours that the electric utility paid for electricity in the previous calendar year through a negotiated power purchase agreement. At a maximum, the standard offer contract rate may not exceed 90 cents per kilowatt hour.

Distribution of Costs.

An electric utility must distribute the cost of the electricity purchased from clean energy facilities through the clean energy auction process evenly across all customer classes.

Interconnection of Eligible Clean Energy Facilities.

By January 1, 2012, an electric utility must develop, publish, and provide transparent and nondiscriminatory rules and forms for interconnecting eligible clean energy facilities to the distribution system of the electric utility and apply these standard rules for interconnecting clean energy systems to its distribution system. An electric utility must prioritize the interconnection of eligible clean energy facilities that have received standard offer contracts from the electric utility.

An owner is responsible for the cost of equipment needed to connect the eligible clean energy facility to the distribution system of an electric utility. Also, an owner is responsible for the cost of equipment necessary to meet applicable safety and power quality requirements.

Standardization of Electric Utility Auctions, Standard Offer Contracts and Forms.

All electric utilities must make every reasonable effort to standardize their auction processes, standard offer contracts, interconnection applications and procedures, and other processes and forms as needed. Electric utilities must strive to have the same forms, format, and substantially common language.

Project Development Security Deposit.

Owners are required to submit a project development security deposit (security deposit) of \$20 per kilowatt upon execution of the standard offer contract. The security deposit must be refunded once the facility is delivering electricity to the electric utility. The owner forgoes the security deposit if, within 18 months, the facility fails to deliver electricity as specified in the standard offer contract. Owners are allowed a one-time, six-month extension if the facility can successfully demonstrate that the cause of the facility delay was due to regulatory processes.

Clean Energy System Owner Eligibility.

In order to be eligible to participate in a clean energy auction, an owner must have previously completed at least one project of similar technology and generating capacity or begun construction of at least one other similar project. An owner must have site control through direct ownership of the property, a lease, or an option to lease or purchase site control that would be exercised upon award of a standard offer contract.

North America Free Trade Agreement NAFTA Manufactured Content.

Electric utilities must offer standard offer contracts that specify the minimum content of an eligible clean energy facility that is manufactured in the countries that are parties to the North America Free Trade Agreement. For eligible clean energy facilities with over 10 kilowatts in generating capacity that use wind to generate electricity, the minimum content is 25 percent before January 1, 2013, and 50 percent on or after January 1, 2013. For eligible clean energy facilities with over 10 kilowatts in generating capacity that use solar photovoltaics to generate electricity, is 50 percent before January 1, 2013, and 60 percent on or after January 1, 2013.

Renewable Energy Cost Recovery Incentive Program.

An owner is not eligible to enter into a standard offer contract with an electric utility if the owner is participating in the Renewable Energy Cost Recovery Incentive Program (Cost Recovery Program). An electric utility may continue to receive the annual public utility tax credit in an amount equal to the payments made to a participant immediately before the participant's withdrawal from the Cost Recovery Program.

Definitions.

"Eligible clean energy facility" means a facility located in Washington that is capable of generating no more than two megawatts of electricity from a net metering system or from distributed generation as defined under the Energy Independence of Act (Initiative 937).

"Owner" includes: Any residential, commercial, or industrial customer of an electric utility located in Washington; an independent power producer; a business; an electric utility; an independent power producer; a federal, state, or local government; a tribal government and its political subdivisions; or a nonprofit agency that owns an eligible clean energy facility.

"Peak hours" means the period of the day between 11:00 a.m. until 7:00 p.m.

"Standard offer contract" means a contract offered by an electric utility to an owner of an eligible clean energy facility that governs the terms and conditions of the sale of electricity generated from the facility to the electric utility.

Appropriation: None.

Fiscal Note: Available.

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