

SENATE BILL REPORT

SB 6027

As Reported By Senate Committee On:
Environment, Energy & Water, February 27, 2001
Ways & Means, March 8, 2001

Title: An act relating to diversification of state electricity supply and demand management.

Brief Description: Creating the diversification of electricity supply and demand management act.

Sponsors: Senators Fraser, Winsley and Finkbeiner; by request of Governor Locke.

Brief History:

Committee Activity: Environment, Energy & Water: 2/20/01, 2/27/01 [DPS-WM, DNP].
Ways & Means: 3/8/01 [DP2S, DNP].

SENATE COMMITTEE ON ENVIRONMENT, ENERGY & WATER

Majority Report: That Substitute Senate Bill No. 6027 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Fraser, Chair; Regala, Vice Chair; Eide, Jacobsen, McDonald and Patterson.

Minority Report: Do not pass.

Signed by Senators Hale, Honeyford and Morton.

Staff: Andrea McNamara (786-7483)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6027 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Kline, Kohl-Welles, Rasmussen, Regala, B. Sheldon, Snyder, Spanel, Thibaudeau and Winsley.

Minority Report: Do not pass.

Signed by Senator Honeyford.

Staff: David Schumacher (786-7474)

Background: Traditionally, electric utilities have engaged in resource planning designed to meet their customer's needs with the least-costly resources. This has resulted in each utility developing its own portfolio of resources, often containing a mixture of its own generating

facilities, long-term contracts to buy electricity from other producers, and in recent years, purchases of some electricity on the short-term or spot market.

Of the electricity generated in Washington, approximately 80 percent comes from hydroelectric projects, nearly 7 percent is generated by coal-fired plants, approximately 5 percent is generated by natural gas, less than 5 percent from nuclear, and less than 3 percent comes from nonhydro renewable resources such as wind, solar, or biomass.

One element of least-cost planning is to pursue demand reduction and utilize demand management, including conservation measures and peak shaving technologies.

In the current energy situation, where supply and demand are growing out of balance and costs are rising to unprecedented levels, interest is high among utilities and consumers in building new generating resources, renewing energy conservation efforts, and implementing new energy efficiency technologies. The current market prices of electricity are making investments in renewable resources more economically viable than in the past when they have been significantly more expensive than fossil fuels. Many view this convergence of events as the appropriate time to establish standards for the long-term sustainability of our state's electricity system.

Summary of Second Substitute Bill: Diversity of Generating Resources Required. A performance standard and time schedule is established by which electric utilities and certain direct service industrial customers (DSIs) must diversify their energy resources. Qualified diversity resources include both alternative energy resources and conservation and efficiency resources. Certain gas utilities are also required to diversify their resources using conservation and efficiency resources.

Definitions of Alternative Energy and Conservation and Efficiency Resources. Alternative energy resources are defined as electricity generation facilities fueled by wind, solar, geothermal, landfill gas, wave or tidal action, gas produced during wastewater treatment, certain hydropower, or certain organic biomass fuels. Conservation and efficiency resources are defined as measures yielding a decrease in energy consumption while providing the same level of energy service. CTED must adopt rules establishing criteria for determining whether resources qualify as alternative energy resources or conservation and efficiency resources. The criteria must be as consistent as practicable with recommendations of the regional technical forum and must include low-income weatherization expenditures as a conservation and efficiency resource.

Performance Standard and Time Lines for Electric Utilities. By January 1, 2007, and through 2011, at least 5 percent of each utility's and DSI's electricity resources must be qualified diversity resources, with no less than 1.25 percent each of alternative energy resources and conservation and efficiency resources.

By January 1, 2012, and each year thereafter, at least 10 percent of each utility's and DSI's electricity resources must be qualified diversity resources, with no less than 2.5 percent each of alternative energy resources and conservation and efficiency resources.

Exceptions/Alternatives. There are four circumstances under which utilities are exempt from the performance standards: (1) Utilities that already own or have under contract sufficient

resources to meet their full energy needs are exempt from the alternative energy resource requirements until January 1, 2009, at the latest. (2) No utility is required to meet the alternative resource requirements in any year that the lowest cost available qualifying alternative energy resource is more than 110 percent of nonqualifying generation. (3) Small utilities are given an alternative way to meet the performance standard (for both alternatives and conservation): by investing twice the amount they have already agreed to invest through BPA's conservation and renewables discount program. (4) The base from which a utility's performance standard for alternative energy resources is measured excludes any portion of load that is met with BPA power.

CTED is authorized to create an alternative way for consumer-owned utilities to meet the performance standard for conservation and energy efficiency, and the WUTC is authorized to create an alternative for investor-owned utilities. For consumer-owned utilities, CTED may create a formula by which investments will be equated with performance: for each 2 percent of a utility's previous year's gross revenues that is invested in conservation and efficiency, the utility may be credited with having met 0.5 percent of its performance standard. For investor-owned utilities, the alternative is developed through rulemaking.

Conservation/Efficiency Performance Standard for Gas Utilities. A new performance standard is added for gas companies that serve in more than one county. They must meet at least 2.5 percent of their load with conservation/efficiency resources by 2005 and 5 percent by 2011. The same reporting and accountability requirements apply as for electrical companies.

Reporting Requirements. Reports are required on the progress being made toward achieving the performance standards. Beginning in March 2003, investor-owned utilities must report annually to the Washington Utilities and Transportation Commission (WUTC) and consumer-owned utilities and affected DSIs must report to the Department of Community, Trade, and Economic Development (CTED). The WUTC and CTED must report jointly to the Legislature and the Governor by July 1, 2003, and each year thereafter on whether and how the standards have been met.

The WUTC must adopt rules to implement the performance standard and reporting requirement for investor-owned utilities. CTED must adopt rules governing the reporting requirement for consumer-owned utilities and affected DSIs.

DSIs. The performance standard applies to a DSI only if it obtains a tax exemption, deferral, or credit for the construction of a new gas-fired generating facility under the terms of legislation being considered this session (in SB 5539/HB 1404).

Credit Trading Program. CTED must also develop and implement by July 1, 2003, a credit-trading program for qualified diversity resources that is designed to provide utilities with a tool for collectively and efficiently achieving the performance standards. CTED must report to the Legislature on the establishment of the program.

Peak Load Reduction Feasibility Studies. All electric utilities must complete a feasibility study by January 1, 2003, to determine effective methods for reducing daily peak loads by at least 3 percent. Factors for consideration in the study are specified.

Second Substitute Bill Compared to Substitute Bill: The second substitute removes tax breaks for smart metering technology.

Substitute Bill Compared to Original Bill: The substitute expands the definition of alternative energy resources by including qualified hydropower facilities. The substitute limits which alternatives may be counted as qualifying alternatives: If they are located inside the state, they may be existing resources but must be fully owned or contracted by a Washington utility in order to count; if they are located outside the state, they must be new resources after March 1, 2001, and only that portion that is metered and verified in Washington counts.

The substitute narrows the circumstances under which utilities may be exempted and creates additional flexibility for how utilities can meet the performance standard.

The substitute adds a new performance standard and timelines for certain gas companies whereby they must meet a portion of their resource requirements using conservation and efficiency.

The substitute creates more stringent reporting requirements for utilities and implementing agencies. It gives more direction to CTED for the rulemaking and accelerates CTED's establishment of the credit trading program.

Other technical and clarifying changes are made.

Appropriation: None.

Fiscal Note: Available on original bill.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For (Environment, Energy & Water): Washington is dangerously reliant on hydropower and natural gas. It is important to diversify our energy resources for several reasons: it's better for the environment, it makes us less vulnerable to bad water years and volatile gas prices, it will bring economic development in the form of new renewable energy industries in the state, and it will be especially helpful for rural economic development where many new wind, biomass, and geothermal projects are best suited. Washington already has a large solar energy industry that mostly sells its products outside the state. Washington also has excellent potential for new wind and geothermal energy production.

Electric utilities reduced their investments in conservation by 73 percent between 1993 and 1998. Statewide demand for electricity would be significantly lower today if those investments would have continued. Studies have shown that reducing peak load consumption by 3 percent can result in a 25 percent reduction in the price of power.

Testimony Against (Environment, Energy & Water): (original bill): The performance standards are not aggressive enough, and the exemptions are too broad. Qualifying alternative resources should be limited to new generating facilities; existing ones should be counted toward meeting the performance standard. The bill lacks sufficient accountability for utilities.

Testified (Environment, Energy & Water): Marc Sullivan, NW Energy Coalition (con); Paul Horton, Climate Solutions (con); Heather Rhoads-Weaver, NW SEED (con); Marilyn Showalter, WUTC (pro); Tom Starrs, Renewable NW Project (concerns); Ed Maddoy, SeaWest Wind Power (concerns); Donna Ewing, LWV, WA (con); William Petitjean, E-Multisource (pro); Aaron Jones, WRECA; Stu Trefry, WPUDA (pro w/concerns); Tim Boyd, ICNU (con); Kristen Sawin, AWB (con); Tom Dukich, Collins Sprague, Avista (pro w/concerns); Terry Oxley, PSE (pro w/concerns); Josh Baldi, WA Env. Council (concerns); Dave Danner, Governor's Office (pro).

Testimony For (Ways & Means): It is an important step to set standards for energy diversity.

Testimony Against (Ways & Means): The state is in the middle of a business and energy crisis; this is not the time to move to high cost energy.

Testified (Ways & Means): Danielle Dixon, NW Energy Coalition; Tom Starrs, Renewable NW Project (pro w/reservations); Tim Boyd, Industrial Customers of NW Utilities (con); Collins Sprague, AVISTA Corp. (concerns); Donna Ewing, League of Women Voters (pro w/concerns); Craig Engecking, Sierra Club (pro w/concerns); Dave Danner, Governor's Office (pro); Dave Warren, OTED Energy Div. (pro).