

# HOUSE BILL REPORT

## HB 2403

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**As Reported by House Committee On:**  
Technology, Energy & Communications

**Title:** An act relating to promoting distributive generation.

**Brief Description:** Promoting distributive generation.

**Sponsors:** Representatives Morris, B. Sullivan and Miloscia.

**Brief History:**

**Committee Activity:**

Technology, Energy & Communications: 1/13/06, 1/24/06 [DPS].

**Brief Summary of Substitute Bill**

- Increases the maximum generating capacity on a net metering system to 500 kilowatts and establishes the maximum generating capacity for distributive generation at 500 kilowatts.
- Specifies 0.5 percent of a utility's peak demand may be made up of net metering system power of which not less than 0.25 percent of that amount generated by renewable energy.
- Changes the date which unused credits generated by net metering systems are granted to the electric utility to April 30 of each year.
- Allows for the wheeling of electricity.
- Provides a definition for renewable energy.

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### HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Morris, Chair; Kilmer, Vice Chair; Ericks, Hudgins, P. Sullivan, Takko and Wallace.

**Minority Report:** Without recommendation. Signed by 5 members: Representatives Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Hankins, Nixon and Sump.

**Staff:** Scott Richards (786-7156).

## **Background:**

### Net Metering

Net metering allows electricity customers to offset (over a predetermined time-period) their consumption of purchased electricity with electricity generated by their own small scale renewable system. Under net metering, the customer's renewable energy system is connected to a utility's electrical distribution system and electricity is fed back to the electric utility over an applicable billing period.

As of September 2005, 35 states allow net metering statewide, including Washington. State law varies on the amount of electricity that is fed into a utility's electrical distribution system through net metering. Amounts can range from 10 kW to as high as 1MW in California and 2 MW in New Jersey. Of the states that allow statewide net metering, 21 states have net metering limits in the 25 kW to 100 kW range. Ohio does not place size limits on eligible systems (except for microturbines – 100 kW), but specifies that overall enrollment shall not represent more than 1 percent of a utility's peak demand.

State laws also vary in the amount of electricity that is fed back into an utility's system. Of the 35 states with statewide net metering, 18 of those states place no cumulative limit on the amount of electric that is fed back into a utility's distribution system. Most of the remaining 17 states place limits in the .05 percent to 0.5 percent range. Nevada, Ohio and Vermont allow for 1 percent of an utility's peak capacity to come from net metering systems.

### Excess Generation Credits

States vary in their approach to excess generation credits. According to Database of State Incentives for Renewable Energy, two states have no expiration date for excess generation credit. Twelve states grant credits back to the utility at the end of a 12-month billing cycle. Two states grant credits back to the utility monthly. Some states purchase credits at an avoided-cost rate at either the end of a 12-month billing cycle or monthly.

### Distributive Generation

According to the U.S. Environmental Protection Agency, distributive generation is typically small, modular, decentralized, grid-connected or off-grid energy systems located in or near the place where energy is used. Distributive generation connects directly to the low voltage distribution electricity grid rather than the high voltage transmission grid. The maximum size of distributive generation can vary from a few kilowatts to five megawatts. In contrast, central generation units such as coal, natural gas and nuclear power plants range between 500 to 3,000 megawatts and may be located at a distance from where the energy is consumed. Distributive generation may use either renewable or non-renewable sources of fuel to generation electricity.

### Wheeling

Wheeling is access to transmit one's power through the transmission or distribution facilities of another for sale to a third party at a given price. Wheeling can be used to indicate large, bulk transactions in the wholesale market and also the retail wheeling of power from producers directly to retail customers.

### Current Law

Under current law, a net metering system is defined as an electrical production facility that: (1) is a fuel cell or uses solar, wind, or hydro power; (2) has a generating capacity of 25 kilowatts or less; (3) is located on the customer-generator's premises; (4) operates in parallel with the electrical utility's distribution and transmission system; and (5) is intended primarily to offset part or all of the customer's electricity requirements.

Current law requires electric utilities to offer net metering to eligible customer-generators on a first-come, first-serve basis until the cumulative generating capacity of net metering systems equals 0.1 percent of the utility's peak demand during 1996, of which not less than .05 percent shall be attributable to net metering systems that use as its fuel either solar, wind, or hydro power.

If electricity generated by the customer-generator exceeds the electricity supplied by the electric utility, the customer-generator shall be (a) billed for the appropriate customer charges for that billing period; and (b) credited for the excess kilowatt-hours generated during the billing period. This kilowatt-hour credit will appear on the bill for the following billing period.

At the beginning of each calendar year, any remaining unused credits in excess of kilowatt-hours generated by the customer-generator, shall be granted to the electric utility, without compensation to the customer-generator.

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### **Summary of Substitute Bill:**

#### Distributive Generation Definition

The definition of distributed generation means generation below 500 kilowatts that is connected to the distribution transmission of an electric utility.

#### Net Metering Systems Definition

Net metering systems means a fuel cell or a facility for the production of electrical energy that uses renewable energy; has a generating capacity of not more than 500 kilowatts; is located on the customer-generator's premises; operates in parallel with the electric utility's transmission and distribution facilities; and is intended primarily to offset part or all of the customer-generator's requirements for electricity.

#### Renewable Energy Definition

Renewable energy means resources whose common characteristic is that they are nondepletable or are naturally replenishable, existing or emerging non-fossil fuel energy sources or technologies, and shall include but not be limited to the following: solar photovoltaic or solar thermal electric energy; wind energy; ocean thermal, wave, or tidal energy; fuel cells; landfill gas; incremental gains in energy production from capital improvements in naturally flowing water and hydroelectric or run of river hydropower generation; and advanced biomass power conversion technologies, such as gasification using such biomass fuels as wood, agricultural, or food wastes, energy crops, biogas, biodiesel, or

organic refuse-derived fuel. The following technologies or fuels shall not be considered renewable energy supplies: coal, oil, nuclear power or fuel gases, excluding fuel gases that are used in a combined heat and power plant designed to produce both heat and electricity from a single heat source.

#### Cumulative Generating Capacity

An electricity utility shall offer to make net metering available to eligible customer-generators on a first-come, first-serve basis until the cumulative generating capacity of net metering systems equals .5 percent of the utility's peak demand during 1996, of which less than 0.25 percent shall be attributable to net metering systems that use renewable energy.

Allowable net metering systems interconnected include those systems that meet the following criteria:

- by January 2, 2008, the generating capacity is less than 100 kilowatts;
- by January 2, 2010, the generating capacity is less than 300 kilowatts; or
- after January 1, 2010, the generating capacity is less than 300 kilowatts, unless the net metering system involves three phase power lines, in which case generating capacity shall be allowed up to 500 kilowatts.

#### Excess Generating Credits

On April 30 of each calendar year, any unused kilowatt-hour credits accumulated during the previous year shall be granted to the electric utility, without compensation to the customer-generator.

#### Wheeling

A customer-generator may solicit power purchase agreements to sell the customer generator's output to any other Washington utility to the extent that transactions are not preempted by Federal Energy Regulatory Commission rule, regulation or order. The local utility has the option to match the proposed price or must wheel the qualifying facility's output at a flat rate price not to exceed 1 percent of the value of the power actually delivered under the contracted price. For purposes of this section, a customer-generator is any renewable energy generation facility having 500 kilowatt capacity or less.

A utility is exempt if 0.5 percent of its power originates from distributive generation. If a utility is exempt, the utility must report their exemption to the relevant standing committees in the Legislature. If one or more utilities are found to be exempt under this section, the Legislature may review the generation thresholds contained in this section for potential modification.

#### **Substitute Bill Compared to Original Bill:**

Renewable energy is added to the definition of net metering systems. A definition is provided for renewable energy. The cumulative generating capacity of net metering systems as a percentage of a utilities peak demand is limited to 0.5 percent, of which not less than 0.25 percent shall be attributable to net metering systems that use renewable energy. A customer-generator may solicit power purchase agreements to sell the customer-generator's output to any other Washington utility to the extent that transactions are not preempted by

Federal Energy Regulatory Commission rule, regulation or order. The flat rate price utilities charge to wheel a customer-generator's output is reduced to 1 percent.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** (In support) This bill helps distributed generation get the best price for its power and not be locked into a utility's rate. A local utility can match the price offered by another utility and if it chooses not to buy the energy from a generator it can wheel the electricity at a fixed rate.

(With concerns) Utilities should not be soliciting businesses for customer-generators. Most often wheeling is scheduled in one megawatt amounts, so the 500 kW limit may be out of line with industry norm. One percent aggregate threshold may be too high. A threshold in the 0.3 percent to 0.5 percent range may be more appropriate.

**Testimony Against:** (Opposed) Increasing the aggregate threshold to 1 percent for net metering and setting 500 kW limit for net metering systems can increase the cost to utilities and their customers. The Federal Energy Regulatory Commission most often has authority over the wheeling of electricity and states are limited in what they can permit.

**Persons Testifying:** (In support) Representative Jeff Morris, prime sponsor.

(With concerns) Dave Warren, Washington Public Utility Districts; and Al Aldrich, Snohomish Public Utility District.

(Opposed) Collins Sprague, Avista Corporation; and Chris McCabe, Association of Washington Business.

**Persons Signed In To Testify But Not Testifying:** None.