

# HOUSE BILL REPORT

## HB 1767

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### As Reported by House Committee On:

Environment & Energy

**Title:** An act relating to the authority of publicly owned electric utilities to engage in targeted electrification through the adoption of plans that establish a finding that utility outreach and investment in the conversion of its customers' end use equipment from fossil fuels to electricity will provide net benefits to the utility.

**Brief Description:** Concerning the authority of publicly owned electric utilities to engage in targeted electrification through the adoption of plans that establish a finding that utility outreach and investment in the conversion of its customers' end use equipment from fossil fuels to electricity will provide net benefits to the utility.

**Sponsors:** Representatives Ramel, Macri, Berry, Dolan, Fitzgibbon, Ryu, Wicks, Wylie, Bateman, Duerr, Shewmake, Chopp, Tharinger, Valdez, Pollet, Stonier, Goodman, Callan, Harris-Talley, Hackney, Kloba and Frame; by request of Office of the Governor.

### Brief History:

#### Committee Activity:

Environment & Energy: 1/14/22, 1/18/22, 1/20/22 [DP].

#### Brief Summary of Bill

- Authorizes the governing body of municipal electric utilities and public utility districts (PUDs) to adopt a targeted electrification plan that establishes a finding that utility outreach and investment in the electrification of customers' end use equipment in residential and commercial buildings will provide net benefits to the utility or PUD.
- Identifies certain benefits that may, and certain costs that must, be addressed in a targeted electrification plan.
- Authorizes municipal electric utilities and PUDs, upon the adoption of a targeted electrification plan, to offer incentives and establish other programs to accelerate the targeted electrification of homes and

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buildings for their customers.

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## HOUSE COMMITTEE ON ENVIRONMENT & ENERGY

**Majority Report:** Do pass. Signed by 8 members: Representatives Fitzgibbon, Chair; Duerr, Vice Chair; Berry, Fey, Harris-Talley, Ramel, Shewmake and Slatter.

**Minority Report:** Do not pass. Signed by 5 members: Representatives Dye, Ranking Minority Member; Klicker, Assistant Ranking Minority Member; Abbarno, Boehnke and Goehner.

**Staff:** Robert Hatfield (786-7117).

### **Background:**

#### Municipal Electric Utilities and Public Utility Districts.

Municipalities are authorized to operate as utilities and set the rates and charges for the provision of gas, water, sewer, electric power, heating fuel, solid waste removal, and transportation facility services. Public utility districts (PUDs) are a type of special-purpose district authorized for the purpose of generating and distributing electricity, providing water and sewer services, and providing telecommunications services. A PUD may operate on a countywide basis or may encompass a small jurisdiction. A PUD is governed by a board of either three or five elected commissioners.

Municipal utilities are authorized to provide gas and electric service both within and outside of their jurisdictional boundaries. Some municipal utilities provide electricity or natural gas to adjoining areas, both to incorporated cities and to unincorporated areas under county authority.

A PUD may build and operate generation, distribution, and transmission facilities, both within and outside the county boundary, to furnish electricity to the county's inhabitants or other persons, provided that such activity is reasonably related to the PUD's core purpose of serving its own customers. If a PUD wants to build a utility plant inside a city or town, the city's governing body must consent to the service and approve the plan for construction.

#### Transportation Electrification.

The governing body of a municipal electric utility or a PUD may adopt an electrification of transportation plan that, at a minimum, establishes a finding that utility outreach and investment in the electrification of transportation infrastructure does not increase net costs to ratepayers in excess of 0.25 percent.

Upon making a net cost determination, a municipal electric utility or a PUD may offer

incentive programs in transportation electrification for its customers, including the promotion of electric vehicle adoption and advertising programs that promote the utility's services, incentives, or rebates.

Constitutional Limitations on Lending of Credit.

Article VIII, Section 7 of the Washington Constitution prohibits public entities from giving money, and from loaning money or credit, to individuals, unless certain exceptions apply. As one exception to this general rule, Article VIII, Section 10 permits public entities that sell energy to finance consumer conservation measures under some circumstances, but not where such financing results in a conversion from one energy source to another. The Washington Supreme Court has held that in some circumstances, inducements to electrify do not constitute a lending of credit or money.

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**Summary of Bill:**

The governing body of a municipal electric utility or public utility district (PUD) may adopt a plan that establishes a finding that utility outreach and investment in the electrification of its customers' end use equipment in residential and commercial buildings will provide net benefits to the utility or PUD. Such a plan must identify options and program schedules for the targeted electrification of various energy end uses or energy sources.

"Targeted electrification" is defined as the conversion to electricity from a fossil fuel or wood of an energy end use or energy source in a way that provides a net benefit to the utility as determined pursuant to a targeted electrification plan.

In adopting a targeted electrification plan, the governing authority of an electric utility or PUD must determine that the sum of the benefits of a targeted electrification option equals or exceeds the sum of its costs. As part of this determination, the governing authority may differentiate the level of benefits and costs accrued to low-income customers, highly impacted communities, and vulnerable populations in the utility's or PUD's service area.

The benefits of targeted electrification considered by a governing authority may include, but are not limited to, system impacts, as well as the following:

- utility revenue from increased retail load from targeted electrification;
- distribution and transmission system efficiencies resulting from demand response or other load management opportunities associated with the increased retail load;
- system reliability improvements;
- indoor and outdoor air quality benefits to utility and PUD customers;
- reductions in greenhouse gas emissions;
- public health benefits, such as resilience to extreme heat and wildfire smoke; and
- other benefits identified by the governing authority.

The costs of targeted electrification considered by a governing authority must include, but

are not limited to:

- the electricity, which must be demonstrated to have, during the life span of the electric equipment, a lower greenhouse gas emissions profile than direct use natural gas or any other resources used to serve or offset the increased retail load from targeted electrification;
- any upgrades to the utility's or PUD's distribution or transmission system or load management practices and equipment made necessary by the increased retail load; and
- the cost of the incentives, advertising, or other inducements used to encourage customers to electrify an energy end use currently served by a different fuel source.

An electric utility or PUD may, upon adopting a targeted electrification plan, offer incentives and establish other programs to accelerate the targeted electrification of homes and buildings for its customers, including the promotion of electrically powered equipment, advertising targeted electrification programs and projects, educational programs, and customer incentives or rebates. An electric utility or PUD offering these incentives and other programs must prioritize service to vulnerable populations and highly impacted communities in the electric utility's or PUD's service area.

In the course of adopting and implementing a targeted electrification plan, an electric utility or PUD must ensure that all customers are benefiting from the transition to clean energy through the equitable distribution of energy and nonenergy benefits and reduction of burdens to vulnerable populations and highly impacted communities, including long-term and short-term public health and environmental benefits and reduction of costs and risks; and energy security and resiliency.

None of the provisions related to targeted electrification limit the existing authority of an electric utility or PUD to offer incentives and other programs to accelerate the electrification of homes and buildings for its customers if the electrification is in the direct economic interest of the electric utility or PUD.

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**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) Under current law, co-operative electric utilities and investor-owned utilities can offer incentive programs to help customers electrify. This bill clarifies that customer-owned utilities can help customers switch from gas to electric as long as it is mutually

beneficial. Studies show that the operation of indoor gas appliances has an adverse impact on indoor air quality. The bill would not result in the expenditure of public funds. The programs would be completely voluntary on the part of the utility and the customer.

Climate change is causing millions of dollars of damage in Washington each year. Buildings represent a great opportunity to reduce emissions. The state must create an even playing field to get fracked natural gas out of homes. Indoor gas appliances create a risk to human health, including increased rates of asthma. Clean electricity continues to get cheaper.

Five hundred fifty-nine early deaths in Washington each year are attributed to poor outdoor air quality. Customers of customer-owned utilities should have the same access to incentives for appliance upgrades that customers of other utilities have.

The bill includes provisions that ensure electrification programs prioritize vulnerable populations and highly impacted communities. The bill requires that customer-owned utilities consider concerns from the public. Utilities will need to consider potential service disruptions and other factors. Some utilities will likely choose not to offer this program.

The bill would allow a public utility district to consider indoor and outdoor air quality as well as greenhouse gas emissions reductions. Customers should have equal access to the health, climate, and safety benefits of switching from gas to electric.

Electrification helps keep rates affordable when it is properly planned for.

The bill is modeled on House Bill 1512, which the Legislature passed in 2019. A utility can only offer the program if the customer base as a whole is better off. If the utility finds there would be a reliability concern, they would not offer the program.

There needs to be more tools to help with a transition to clean energy, especially for lower income homes. It is not possible to succeed in the climate fight unless there is a focus on the built environment. Building electrification is one of the cheapest solutions available.

The fuel switching provision of the Washington State Constitution is not implicated by the bill.

Heat pumps offer the best solution to heat and cool efficiently. It is surprising that customers of customer-owned utilities do not have the same opportunity for incentives as customers of investor-owned utilities. Targeted electrification will best be accomplished through outreach and investment. It is important to protect, not overwhelm the electrical grid.

(Opposed) Article 8, Section 10 of the Washington Constitution says that financing for energy conservation cannot be used for energy conversion. It is believed that the bill is

unconstitutional. An Attorney General opinion has been sought on the issue.

There is a wood stove change-out program already in place, and it is important that people not get confused about that program. It is important not to leave people in the lurch when the power goes out.

A study is underway at the Utilities and Transportation Commission regarding the use of natural gas. The bill calls for premature action on natural gas. The bill represents a threat to the natural gas industry. The bill stifles innovation on renewable energy. It is important to grow other energy sectors, like renewable hydrogen.

The bill lacks consideration of the stranded assets it would create. There is a large infrastructure in gas piping that can be used to deliver low carbon and renewable natural gas. Washington is in a housing crisis. Consumers look at what it costs to operate a home, and heating and cooling are a major cost. Natural gas offers affordable heating and cooling, and should continue to do so.

Existing policies, such as the low carbon fuel standard and the Climate Commitment Act, will drive needed greenhouse gas emissions reductions, and natural gas companies will comply with those requirements. The focus should be on implementing existing policies; adding other requirements reduces the ability to focus on implementing those existing policies.

Propane is an approved clean fuel under the 1990 Clean Air Act amendments, and propane is part of the solution to reduce greenhouse gas emissions in Washington. A homeowner with a 98 percent efficient propane furnace will not see a carbon benefit by switching to an electric heat pump.

The Pacific Northwest is in danger of having reliability and resource adequacy issues. When there is a shift of customers away from the system that is in place, there are cost shifts for those left behind on the old system.

There is a concern that the growth of load on the electric grid is outpacing the growth of generation. Washington's reliable, cheap energy gives Washington a competitive edge. Natural gas is a very reliable power source. If the bill were to pass, it is possible that public utility districts would modify their criteria to consider social benefit factors.

**Persons Testifying:** (In support) Representative Alex Ramel, prime sponsor; Sadie Carlson, American Institute of Architects; Albert Sardinias, Washington Build-Back Black Alliance; Anna Lising, Office of the Governor; Marquis Mason; Ethan Schaffer; Glenn Blackmon, Department of Commerce; Debra Smith, Seattle City Light; Kelly Hall, Climate Solutions; Amy Wheelless, Northwest Energy Coalition; Alejandra Mejia Cunningham, Natural Resources Defense Council; Logan Bahr, Tacoma Public Utilities; Suraj Lobo, Progressive Comfort Solutions; Jon Grant, Low Income Housing Institute; and Cathryn

Chudy.

(Opposed) Peter Godlewski, Association of Washington Business; Mel Sorensen, Pacific Propane Gas Association; John Rothlin, Avista; Carolyn Logue, Northwest Hearth, Patio, and Barbecue Association; Neil Hartman, Washington Association of the United Association of Plumbers, Pipefitters, and Heating, Ventilation, Air Conditioning and Refrigeration Service Technicians; Leanne Guier, United Association of Plumbers, Pipefitters, and Heating, Ventilation, Air Conditioning and Refrigeration Service Technicians Local 32; Matt Miller, Puget Sound Energy; Dan Kirschner, Northwest Gas Association; Charlie Brown, Cascade Natural Gas and Northwest Natural; Bill Stauffacher, Building Industry Association of Washington; Brandon Housekeeper, Alliance of Western Energy Consumers; and Nicolas Garcia, Washington Public Utility Districts Association.

**Persons Signed In To Testify But Not Testifying:** Justin Fallstrom; and Jonny Kocher, RMI.