Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Environment & Energy Committee

HB 2131

Brief Description: Promoting the establishment of thermal energy networks.

Sponsors: Representatives Ramel, Slatter, Simmons, Reed, Riccelli, Doglio and Hackney.

Brief Summary of Bill

- Allows gas and most electric utilities to own and operate nonemitting thermal energy networks (TENs), with oversight from the Utilities and Transportation Commission (UTC) for investor-owned utilities (IOU) and with oversight from governing bodies for consumer-owned utilities.
- Establishes a TEN pilot project program in which the Department of Commerce may award grants to gas companies according to specified criteria, the Joint Legislative Audit and Review Committee must evaluate and report on the program after three years, and IOU gas companies must ask for pilot projects in requests for proposals.
- Amends a gas company's obligation to serve to include providing energy through a TEN.
- Authorizes gas and combination utilities to combine gas operations and TENs into a single rate base with approval from the UTC.

Hearing Date: 1/16/24

Staff: Megan McPhaden (786-7114).

Background:

Thermal Energy.

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.

Thermal energy is heat or cold in the form of steam, heated or chilled water, or any other heated or chilled fluid or gas. Thermal energy systems are systems that provide thermal energy for space heating and cooling, or that process uses from a central plant or combined heat and power facility, and that distributes the thermal energy to two or more buildings through a pipe network.

Utilities and Transportation Commission.

The Utilities and Transportation Commission (UTC) is a three-member commission with broad authority to regulate the rates, services, and practices of a variety of businesses in the state, including investor-owned gas and electrical companies. The UTC must ensure rates charged by these companies are fair, just, reasonable, and sufficient. The UTC also oversees gas pipeline safety in the state.

Electric Utilities.

Electric utilities include investor-owned utilities and consumer-owned utilities. There are three investor-owned electric utilities under the regulatory purview of the UTC: Avista Corporation, PacifiCorp, and Puget Sound Energy. Consumer-owned utilities take many forms and include municipal electric utilities, public utility districts, irrigation districts, cooperatives, and certain mutual corporations and associations.

Gas Companies.

Gas companies include companies and cities that own, control, operate, or manage any gas plant within Washington. A gas plant includes all property and fixtures in connection with the manufacture, transmission, distribution, sale, or furnishing of types of gas, but does not include a plant that manufactures natural gas. There are four investor-owned gas companies under UTC jurisdiction in Washington: Avista Corporation, Puget Sound Energy, Cascade Natural Gas Corporation, and Northwest Natural Gas Company. The UTC does not have jurisdiction over gas companies owned by cities and towns. There are two consumer-owned city gas companies: Ellensburg and Enumclaw.

A Gas Company's Obligation to Serve.

Every gas company that sells and distributes gas must provide gas and suitable facilities for providing gas to all people and corporations who may apply for gas service and be reasonably entitled to gas service.

Multiyear Rate Plan.

In 2021 enacted legislation directed every gas or electric utility filing a general rate case to include a proposal for a multiyear rate plan (MYRP) beginning January 1, 2022. The UTC may by order after an adjudicative proceeding, approve, approve with conditions, or reject, an MYRP proposal made by a utility, an alternative proposal made by one or more parties, or any combination of these. The UTC's consideration of a MYRP proposal is subject to the same standards as other related filings, including that it be in the public interest and that the rates be fair, just, reasonable, and sufficient.

Thermal Energy Companies.

Thermal energy companies are those that develop, produce, transmit, distribute, deliver, provide, or sell thermal energy for any beneficial use other than electricity generation. Legislation enacted in 1996 exempted thermal energy companies from oversight by the UTC.

Summary of Bill:

Thermal Energy Networks.

Thermal energy networks are all real estate, fixtures, and property involved in a utility-scale project to supply thermal energy, which is piped noncombustible fluids that transfer heat into and out of buildings for the purpose of eliminating any on-site greenhouse gas emissions from heating and cooling, improving energy efficiency, or both.

Authorization for Gas and Electrical Companies to Deploy a Nonemitting Thermal Energy Network.

Gas companies may own, control, operate, or manage a nonemitting thermal energy network (TEN). Electrical companies, public utility districts, and municipal electric utilities may own, operate, or manage a TEN.

If an investor-owned gas or electrical company intends to deploy a TEN, the company must submit the project to the Utilities and Transportation Commission (UTC) for review and approval. If the UTC approves a TEN, the company may propose to recover the costs of building and operating the project from ratepayers in a rate case filing before the UTC.

If a consumer-owned gas company or electrical company intends to deploy a TEN, the company must submit the project to its governing body for review and approval.

Thermal Energy Network Pilot Project Program.

A TEN pilot project program is established, which requires the UTC to approve a TEN pilot project (TEN pilot project) and the Department of Commerce (Commerce) to award grants for the TEN pilot project.

Gas Company Priority.

A gas company has priority for developing a TEN pilot project in its service territory, subject to: a) the gas company announcing it’s intention to deploy the project in a specific location within a year of the effective date of this bill to the UTC, and then b) deploying the project within 30 months of the effective date of this bill. The UTC may approve an extension requested by the gas company if the UTC determines the gas company is making substantial progress.

The UTC may choose not to provide priority for a gas company in the scenario where an existing thermal energy company deployed or is developing a TEN in a specific location.

Grant Funding for Gas Companies.

Commerce must provide grant funding to gas companies, subject to appropriation and in accordance with the criteria outlined below. These grants are only for gas companies and are to offset the costs of building and operating a TEN pilot project. The grant amount may not be more than the difference between the gas company's lowest reasonable cost resources under its current business practices and the costs of building and operating the TEN pilot project. The UTC must determine what this difference is and provide it to Commerce for making the grant.

Any grant awardee must coordinate with other awardees, the UTC, Commerce, and consultants with expertise on successful TENs to ensure that the TEN pilot projects are diverse and designed to inform the UTC's decisions in the proceeding on the various ownership, market, and rate structures for nonemitting TENs.

Required Criteria for Approval and Funding.

When approving a TEN pilot project and awarding grants, respectively, UTC and Commerce must consider the following criteria:

- the number and type of customers served by the project, including the percent of low-income customers;
- the use of existing gas workforce and other labor considerations;
- the ability to maintain infrastructure safety and reliability;
- the ability to meet 100 percent of the customers' demand for space heating with the TEN pilot project;
- whether the TEN pilot project benefits customers, communities, and society at large, including public health benefits in disadvantaged communities and increased affordability of thermal energy options;
- coordination with electric utilities;
- inclusion of customer protection plans;
- whether the project furthers state climate justice and emissions reduction requirements;
- whether the project advances financial and technical ways to make building electrification equitable and affordable;
- whether the project will develop useful information for the UTC's TENs rules;
- enrollment in an electric utility demand response program; and
- the potential to both enable gas pipe decommissioning and supplant the need for replacing gas pipes.

Optional Criteria for Approval and Funding.

The UTC and Commerce may also consider the following criteria when approving a TEN pilot project or providing grant funding:

- greenhouse gas emissions reductions;
- the use of waste heat, ground-source heat, geothermal resources, other nonfossil fuel and noncombustion sources, and electric heat pumps;
- the ability to provide the TEN pilot project customers' hot water demands and cooling demands; and
- the consideration of options to provide nonemitting thermal energy storage.

<u>Investor-Owned Utility Gas Company Requests for Proposals</u>.

Investor-owned gas companies must include a solicitation for nonemitting thermal energy network pilot projects in requests for proposals for energy resources. If the investor-owned gas company determines it can deploy a pilot project at the lowest reasonable cost rather than through a heat purchase agreement or energy services agreement, the company can deploy the project.

<u>A Gas Company's Obligation to Serve</u>.

A gas company's obligation to serve may be met by providing thermal energy through a TEN.

<u>Multiyear Rate Plan</u>.

In any multiyear rate plan proposed by a natural gas company or a company that provides both gas and electric service, the company may propose to merge its gas operations with its nonemitting TEN into a single rate base. The UTC may approve this merger if it finds it is in the public interest.

If the UTC approves such a merger:

- the UTC must avoid the subsidization of industrial rates by commercial and residential rates; and
- the company must monetize benefits received from any tax and other incentives for the benefit of customers. These benefits must be separately accounted for an amortized on a schedule designed to mitigate the combined rate impacts to customers.

<u>Implementation Report</u>.

The Joint Legislative Audit and Review Committee must evaluate the implementation of the TEN pilot project program, and provide a report to the Legislature no later than three years after the effective date of the bill. The report must evaluate how all TEN pilot projects address the criteria for UTC approval of a pilot project and Commerce approval of grant funding.

Thermal Energy Companies.

Thermal energy companies already exempt from UTC oversight are not subject to UTC regulation of TENs.

Appropriation: None.

Fiscal Note: Requested on January 10, 2024.

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