HOUSE BILL REPORT

ESHB 1022

As Passed House
March 20, 1991

Title: An act relating to state energy policy.

Brief Description: Directing the development of a state energy strategy and authorizing the implementation of conservation savings and sales by state agencies.

Sponsor(s): By House Committee on Energy & Utilities (originally sponsored by Representatives Cooper, May, Bray, Grant, H. Myers, Basich, Wineberry, R. Meyers, Peery, Phillips, R. Johnson, Wang, Sprenkle, Spanel, Sheldon, Miller, Ogden, Rayburn, Jones, Ludwig, Prentice, Kremen, Leonard, Rust, Braddock, R. King, Nelson, Pruitt, Cantwell, G. Fisher, Jacobsen, R. Fisher, Valle, Roland, Hine, Winsley, Rasmussen and Brekke; by request of Governor Gardner).

Brief History:
Reported by House Committee on:
Energy & Utilities, February 21, 1991, DPS;
Capital Fac. & Financing, March 6, 1991, DPS(EN)-A;
Passed House, March 20, 1991, 98-0.

HOUSE COMMITTEE ON
ENERGY & UTILITIES

Majority Report: *That Substitute House Bill No. 1022 be substituted therefor, and the substitute bill do pass.* Signed by 6 members: Representatives Grant, Chair; H. Myers, Vice Chair; Bray; Cooper; R. Fisher; and Rayburn.

Minority Report: *Do not pass.* Signed by 3 members: Representatives May, Ranking Minority Member; Hochstatter, Assistant Ranking Minority Member; and Casada.

Staff: Fred Adair (786-7113).

HOUSE COMMITTEE ON
CAPITAL FACILITIES & FINANCING

Majority Report: *The substitute bill by Committee on Energy & Utilities be substituted therefor and the substitute bill as amended by Capital Facilities & Financing do pass.*

Signed by 9 members: Representatives H. Sommers, Chair; Rasmussen, Vice Chair; Braddock; Fraser; Heavey; Jacobsen; Ogden; Peery; and Wang.

Minority Report: *Do not pass.* Signed by 6 members: Representatives Schmidt, Ranking Minority Member; Neher, Assistant Ranking Minority Member; Beck; Brough; Casada; and Silver.

Staff: Susan Kavanaugh (786-7130).

Background: Several factors have converged to heighten public concern over energy: the recent war in the Middle East increases oil concerns and the regional electric energy surplus has been exhausted. Moreover, environmental concerns have become great enough to have major impacts on energy actions. Uncertainty and confusion afflict many people. A clear state energy strategy can help focus energy actions and promote public understanding of energy issues.

State leadership in carrying out the most prudent energy actions can further public understanding of energy strategy, point the way for private sector actions, and achieve significant beneficial results.

Energy efficiency investment is the agreed top priority action to improve the state's energy situation. Argument centers only about how much potential energy savings is economically available. Energy efficiency programs to date have been below the level of argument and major growth in the programs would have to occur before reaching this level. The State Energy Office predicts that state facility energy bills can be reduced 30 percent, about $31 million annually, through installation of conservation measures.

For these reasons it is proposed to develop a specific state energy strategy and greatly accelerate the pace of energy efficiency improvements in public facilities. A variety of new arrangements may be needed to speed up significantly the pace of energy efficiency improvements.

Summary of Bill:

<u>Overall Summary</u>

The State Energy Office, under the guidance of an advisory committee, shall prepare a state energy strategy by December 1, 1992.

State agencies and school districts shall pursue and maintain energy-efficient operation of their facilities. The State Energy Office shall assist public agencies in identifying, evaluating, and implementing cost-effective energy conservation projects and cogeneration plants at public facilities. In both cases, the Energy Office shall consult with local utilities concerning their possible participation in projects. General obligation and revenue bonding is intended to help finance projects, with bonds to be repaid by energy sales and cost savings.

Energy Strategy

Preparation of the energy strategy shall include extensive public involvement. The advisory committee shall have 19 members of specified representation. The Energy Office director may establish additional technical advisory groups. All forms of energy and each major sector of energy consumption shall be considered.

The strategy shall include a framework in which public decisions and actions affecting energy supply can be evaluated and impacts determined. A progress report is due to the House and Senate Energy and Utilities Committees in January, 1992 with the final report due to the governor and the Legislature by December 1, 1992.

Conservation Projects

Each state agency and school district shall implement conservation improvements and maintain efficient operation of its facilities. The Energy Office shall assist them in identifying, evaluating, and implementing projects. Projects shall be monitored for energy savings. Participation by utilities and other energy conservation suppliers shall be solicited. The Energy Office shall recover participation costs.

The Energy Office shall consult with local utilities to develop project priorities, enmesh planned projects with existing utility programs, and secure utility participation in new projects as desired.

State agencies and school districts shall be compensated fairly for energy savings. The Energy Office shall facilitate sale of energy savings at public facilities. The Energy Office and the agency or district shall plan together and assure the efficacy of planned projects. The Energy Office must approve projects. An agreed independent reviewer shall advise on disputes.

The Energy Office, with the consent of the host agency or school district; universities independently or other agencies through the Department of General Administration; and school districts may:

- Develop and finance conservation projects;

- Contract for energy services, including performance-based contracts; and

- Contract to sell energy savings from a project to local utilities or the Bonneville Power Administration.

The Energy Office may use appropriated moneys, mainly bond proceeds, to finance conservation projects. Repayment of loans shall be sufficient to pay off financing bonds.

Cogeneration Projects

Consistent with regional electric energy needs, the Energy Office shall facilitate state agency investigation, development and operation of cogeneration plants. The office shall be reimbursed for the costs of its participation.

The Energy Office shall set cogeneration project priorities and notify local utilities of intent to do cogeneration project feasibility studies. Local utilities may participate in these and also may initiate projects and include the Energy Office in feasibility studies. Utilities may recover participation costs. If utilities decline participation, other parties may be invited.

Study participants shall be consulted with respect to development of feasible cogeneration projects. The Energy Office or host agency may enter into a sole source development contract with the local utility under a variety of ownership and management arrangements. Also, the Energy Office may contract for cogeneration facility development through competitive negotiation.

Cogeneration projects must be cost-effective. The cogeneration project should be sized to match the host agency's thermal requirements. If the thermal output is to be larger, the Energy Office must obtain legislative approval and funding appropriation. The State may not engage in the retail sale of electricity.

When a cogeneration facility is to by owned by other than the local utility, the Energy Office and host agency shall conclude a written agreement with the local utility on the handling of generated electricity. Thermal energy to be sold outside the host agency may only be sold to a utility.

The State shall be compensated fairly for electricity sold. The State will negotiate mutually beneficial arrangements with utilities and both shall meet regulatory requirements.

Utilities do not have to purchase or wheel energy for the state. Projects must be economical. Any partner in a contemplated development may disapprove of a project. An agreed independent reviewer can be retained to advise regarding a disapproval.

The Energy Office, with the consent of the host agency; a university acting independently; or other state agency acting through the Department of General Administration or as otherwise authorized, may contract to sell electric or thermal energy to a utility.

A university independently, or other agency through the Department of General Administration or as otherwise authorized, may:

- Develop and operate a cogeneration plant at its location;

- Lease state property for installation and operation of a cogeneration facility;

- Purchase part or all of the cogeneration plant's steam or electricity output;

- Buy cogeneration plant fuel; and

- Procure third party cogeneration plant development and operation.

After the effective date of the act, new projects must be coordinated with the Energy Office.

Financing

An Energy Efficiency Construction Account is created in the treasury to fund conservation and cogeneration projects and repay project construction bonds. The Energy Office shall establish project funding criteria.

An Energy Efficiency Services Account is created in the treasury to fund Energy Office conservation and cogeneration project services and to collect funds for transfer to the general fund.

Monetary benefits from conservation and cogeneration projects shall flow as follows:

- For conservation projects, the host agency may retain all net savings from reduced energy costs and one-half of net revenues from energy sales;

- For cogeneration projects, the host agency may retain one-half the net savings and one-eighth of net sales revenues except that higher education institutions may retain one-half; and

- Remaining net revenues from conservation projects and remaining net savings and net revenues from cogeneration projects shall go to the state for facility improvements, with any surplus going into the Energy Efficiency Services Account.

Use of net savings and net revenues by state agencies shall be in addition to and shall not supplant or replace traditional funding.

School districts receiving state funding assistance for conservation projects shall apportion net savings and net revenues as specified above.

The Energy Office shall report annually until 2006 to the director, Office of Financial Management and the chairs of the legislative fiscal committees the amount of savings and revenues retained by host agencies.

Other

The Energy Office shall promulgate life-cycle cost analysis guidelines. The Energy Office may collect fees for review of life-cycle cost analyses.

Fiscal Note: Available.

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

Testimony For: (Energy & Utilities): The need for strategy development is clear both to provide understanding and leadership. The electric energy surplus is gone and the oil situation is uncertain. The State needs to look at all options. The partnership project contemplates $7.5 million start up costs, $366 million leveraged capital, and $807 million total net benefit over the lifetime of measures. The state facilities cogeneration potential is 130-400 average megawatts and the program covered in this bill is looking at a 10 year time frame. School districts have difficulty acquiring sufficient funds but those actively pursuing energy efficiency measures have realized important savings and have worked well with the State Energy Office. The Department of Transportation, working very well with the energy office, has achieved significant energy cost savings. There are many conservation opportunities remaining.

Accelerated conservation efforts will not only save money but also help the environment.

(Capital Facilities & Financing): The energy partnership shows good potential for savings and revenue for state as well as environmental benefits. The Energy Office is experienced in public facilities energy conservation. Administrative costs are low relative to other similar projects. The public utility districts' original concerns were addressed through local control and dispute resolution language.

Testimony Against: (Energy & Utilities): There need to be more certain provisions for utility participation in both conservation and cogeneration projects. The mandatory controls by the energy office are of concern to utilities and there might better be a sharing. There needs to be a more clear basis for investment in projects, especially cogeneration. The lack of clear involvement of utilities potentially forgoes much expertise. There is questionable balance in the equity of dollar flows between the State and utilities in whose service territory a potential project is to be located.

(Capital Facilities & Financing): The bill puts the State in the risky cogeneration business. With a portion of revenues going to the Energy Office there is an incentive for cogeneration projects to be undertaken for their revenue generating potential rather than energy efficiency potential. Utilities can already do much of what is proposed in the bill.

Witnesses: (Energy & Utilities): Dick Watson, Director, and Pat Keegan, Assistant Director, State Energy Office; Jerry O'Keefe, Office of Financial Management; Ray Tobiason, former Puyallup School District Superintendent and for Washington Association of School Administrators; David Arbaugh, Washington Public Utility Districts Association; Jake Fey, Tacoma City Light; Henry Yates, Seattle City Light; Jeff Parsons, National Audubon Society; Dan Johnson, Director of Operations, Battle Ground School District; Jim Lazar, Northwest Conservation Act Coalition; Aaron Jones, Washington Rural Electric Cooperatives Association; Peter Downey, Energy Specialist, State Department of Transportation; and Scott Nelson, Washington Natural Gas Company.

(Capital Facilities & Financing): Jim Harding and Pat Keegan, Washington State Energy Office (in favor); Mike Tracy, Puget Power (opposed); Kris Van Gorkom, WASA (in favor); and Henry Yates, Seattle City Light (opposed).