CERTIFICATION OF ENROLLMENT

**HOUSE BILL 1777**

Chapter 309, Laws of 2023

68th Legislature

2023 Regular Session

PUBLIC CONTRACTS—ENERGY SERVICES AND EQUIPMENT—PERFORMANCE-BASED CONTRACTING

EFFECTIVE DATE: July 23, 2023

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| Passed by the House April 17, 2023Yeas 96 Nays 0LAURIE JINKINS**Speaker of the House of Representatives**Passed by the Senate April 11, 2023Yeas 47 Nays 2DENNY HECK**President of the Senate** | CERTIFICATEI, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 1777** as passed by the House of Representatives and the Senate on the dates hereon set forth.BERNARD DEANChief Clerk |
| Approved May 4, 2023 3:41 PM | May 5, 2023 |
| JAY INSLEE**Governor of the State of Washington** | **Secretary of State** **State of Washington** |

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**HOUSE BILL 1777**

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AS AMENDED BY THE SENATE

Passed Legislature - 2023 Regular Session

**State of Washington 68th Legislature 2023 Regular Session**

**By** Representatives Doglio, Fitzgibbon, Duerr, Lekanoff, Stearns, McEntire, Ramel, and Pollet

AN ACT Relating to authorizing the use of performance-based contracting for energy services and equipment; amending RCW 39.35A.020, 39.35C.010, 39.35C.050, and 39.35C.060; adding a new section to chapter 39.35C RCW; and providing expiration dates.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  A new section is added to chapter 39.35C RCW to read as follows:

(1) The objective of this act is to promote private-public partnerships to reduce the amount of deferred maintenance required by the clean building performance standard and decarbonize buildings and central energy systems in public facilities in a cost-effective manner.

(2) By June 30, 2031, the department must submit a report to the governor and the appropriate committees of the legislature on the adoption rate and cost-effectiveness of the performance-based contract authorized under this act. The report must include:

(a) The number of performance-based contracts issued;

(b) The cost-effectiveness of performance-based contracts issued, compared to alternative available financing mechanisms, including certificates of participation;

(c) Recommendations to improve the use of performance-based contracts; and

(d) Any other significant information associated with the implementation of this act.

(3) It is the intent of the legislature to consider the findings of the report and extend the expiration date of this act if performance-based contracts are achieving the legislative objective.

(4) This section expires June 30, 2033.

**Sec.**  RCW 39.35A.020 and 2022 c 128 s 2 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1)(a) "Conservation" includes reduced:

(i) Energy consumption;

(ii) Energy demand;

(iii) Energy cost; or

(iv) Greenhouse gas emissions.

(b)(i) "Conservation" includes reductions in the use or cost of water, wastewater, or solid waste.

(ii) "Conservation" does not include thermal or electric energy production from cogeneration.

(2) "Energy equipment and services" means:

(a) Energy management systems and any equipment, materials, supplies, or conservation projects that are expected, upon installation, to reduce the energy use, reduce the energy demand, reduce the energy cost, or reduce the greenhouse gas emissions, of a facility; and

(b) The services associated with the equipment, materials, supplies, or conservation projects including, but not limited to, design, engineering, financing, installation, project management, guarantees, operations, and maintenance. Reduction in energy use or energy cost may also include reductions in the use or cost of water, wastewater, or solid waste.

(3) "Energy management system" has the definition provided in RCW 39.35.030.

(4) "Facility" includes a building, structure, group of buildings or structures at a single site, site improvement, or other facility owned by a municipality.

(5) "Municipality" has the definition provided in RCW 39.04.010.

(6) "Performance-based contract" means one or more contracts for water conservation services, solid waste reduction services, or energy equipment and services between a municipality and any other persons or entities, if the payment obligation for each year under the contract, including the year of installation, is either: (a) Set as a percentage of the annual energy cost savings, water cost savings, solid waste cost savings, or benefits achieved through conservation projects attributable under the contract; or (b) guaranteed by the other persons or entities to be less than the annual energy cost savings, water cost savings, solid waste cost savings, or other benefits attributable under the contract. Such guarantee shall be, at the option of the municipality, a bond or insurance policy, or some other guarantee determined sufficient by the municipality to provide a level of assurance similar to the level provided by a bond or insurance policy. Payment obligations may include regular service payments made by a municipality to any persons or entities that own energy equipment and services under a performance-based contract.

**Sec.**  RCW 39.35C.010 and 2022 c 128 s 1 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Cogeneration" means the sequential generation of two or more forms of energy from a common fuel or energy source. If these forms are electricity and thermal energy, then the operating and efficiency standards established by 18 C.F.R. Sec. 292.205 and the definitions established by 18 C.F.R. Sec. 292.202 (c) through (m) apply.

(2)(a) "Conservation" includes reduced:

(i) Energy consumption;

(ii) Energy demand;

(iii) Energy cost; or

(iv) Greenhouse gas emissions.

(b) "Conservation" does not include thermal or electric energy production from cogeneration.

(c) "Conservation" also includes reductions in the use or cost of water, wastewater, or solid waste.

(3)(a) "Cost-effective" means that the present value to a state agency or school district of the benefits reasonably expected to be achieved or produced by a facility, conservation activity, measure, or piece of equipment over its useful life, including any compensation received from a utility or the Bonneville power administration, is greater than the net present value of the costs of implementing, maintaining, and operating such facility, activity, measure, or piece of equipment over its useful life, when discounted at the cost of public borrowing.

(b) The expected value of energy equipment and services at the time of contract execution that are provided through a performance-based contract may exceed the fair market value.

(4) "Department" means the state department of enterprise services.

(5) "Energy" means energy as defined in RCW 43.21F.025(5).

(6) "Energy as a service" means a performance-based contract in which a state agency, public school district, public university, or municipality makes service payments to a third party or entity for energy services, which may include the provision of energy equipment that is owned and operated by a third party or entity.

(7) "Energy audit" has the definition provided in RCW 43.19.670, and may include a determination of the water or solid waste consumption characteristics of a facility.

((~~(7)~~)) (8) "Energy efficiency project" means a conservation or cogeneration project.

((~~(8)~~)) (9) "Energy efficiency services" means assistance furnished by the department to state agencies and school districts in identifying, evaluating, and implementing energy efficiency projects.

((~~(9)~~)) (10) "Local utility" means the utility or utilities in whose service territory a public facility is located.

((~~(10)~~)) (11) "Performance-based contracting" means contracts for which payment ((~~is~~)) or payment obligations are conditional on achieving contractually specified energy savings, which may include regular service payments made by a state agency, public school district, public university, or municipality to any persons or entities that own energy equipment and services under a performance-based contract.

((~~(11)~~)) (12) "Public agency" means every state office, officer, board, commission, committee, bureau, department, and all political subdivisions of the state.

((~~(12)~~)) (13) "Public facility" means a building, structure, group of buildings or structures at a single site, site improvement, or other facility owned by a state agency or school district.

((~~(13)~~)) (14) "State agency" means every state office or department, whether elective or appointive, state institutions of higher education, and all boards, commissions, or divisions of state government, however designated.

((~~(14)~~)) (15) "State facility" means a building or structure, or a group of buildings or structures at a single site, owned by a state agency.

((~~(15)~~)) (16) "Utility" means privately or publicly owned electric and gas utilities, electric cooperatives and mutuals, whether located within or without Washington state.

**Sec.**  RCW 39.35C.050 and 2015 c 79 s 10 are each amended to read as follows:

In addition to any other authorities conferred by law:

(1) The department, with the consent of the state agency or school district responsible for a facility, a state or regional university acting independently, and any other state agency or school district acting through the department or ((~~as otherwise authorized by law~~)) acting independently, may:

(a) Develop and finance conservation at public facilities in accordance with express provisions of this chapter;

(b) Contract for energy services, including through a performance-based ((~~contracts~~)) contract; and

(c) Contract to sell energy savings from a conservation project at public facilities to local utilities or the Bonneville power administration.

(2)(a) This subsection authorizes state agencies, public school districts, public universities, and municipalities to enter into energy as a service contracts. Pursuant to this subsection, a state agency, public school district, public university, or municipality may, whether acting independently or through the department:

(i) Develop conservation projects and services that require the ownership of energy equipment to be held by other persons or entities;

(ii) Contract for energy services, including through a performance-based contract;

(iii) Contract to sell energy savings from a conservation project at public facilities to local utilities or the Bonneville power administration; and

(iv) Contract with a person or entity for energy equipment or services.

(b) Any contract for energy as a service entered into pursuant to the authority of this subsection is subject to the following conditions:

(i) The contract may include terms that transfer ownership of energy equipment from the state agency, public school district, public university, or municipality to the person or entity;

(ii) The person or entity is responsible for cost-savings and performance guarantees through the terms of the contract;

(iii) The value of energy equipment or services at the time of contract execution may exceed the fair market value;

(iv) At the end of the term of the contract, equipment ownership may be transferred back to the state agency, public school district, public university, or municipality;

(v) The state agency, public school district, public university, or municipality will ensure that a contract does not directly result in loss of any position of employment by state employees in the classified service under RCW 41.06.020, employees included in the Washington management service under RCW 41.06.022, or school district employees under RCW 28A.150.203;

(vi) Training must be offered in the preventative maintenance and other related activities of energy equipment and services as detailed in the contract for energy services to existing classified employees who currently provide maintenance of energy equipment for the state agency, public school district, public university, or municipality; and

(vii) Prior to entering into a contract, the state agency, public school district, public university, or municipality must coordinate with the department to analyze the cost-effectiveness of the proposed performance-based contract compared to alternative available financing and service mechanisms, including certificates of participation. The state agency, public school district, public university, or municipality may enter into a contract only if the cost-effectiveness is greater than other available alternatives.

(3) A state or regional university acting independently, and any other state agency acting through the department or as otherwise authorized by law, may undertake procurements for third-party development of conservation at its facilities.

((~~(3)~~)) (4) A school district may also:

(a) Develop and finance conservation at school district facilities; and

(b) ((~~Contract for energy services, including performance-based contracts at school district facilities; and~~

~~(c)~~)) Contract to sell energy savings from energy conservation projects at school district facilities to local utilities or the Bonneville power administration directly or ((~~to local utilities or the Bonneville power administration~~)) through third parties.

((~~(4)~~)) (5) Direct financial grants and incentives received on behalf of the state agency, public school district, public university, or municipality will be passed on to the state agency, public school district, public university, or municipality.

(6) In exercising the authority granted by subsections (1), ((~~(2), and~~)) (3), and (4) of this section, a school district or state agency must comply with the provisions of RCW 39.35C.040.

**Sec.**  RCW 39.35C.060 and 1996 c 186 s 410 are each amended to read as follows:

State agencies, public school districts, public universities, and municipalities may use financing contracts under chapter 39.94 RCW, as well as performance-based contracts, to provide all or part of the funding for conservation projects. The department shall determine the eligibility of such projects for financing contracts. The repayments of the financing contracts or performance-based contracts shall be sufficient to pay, when due, the principal and interest on the contracts or the services payments over the agreed upon term. Performance-based contracts entered into by state agencies, public school districts, public universities, and municipalities under this act that include the purchase of real or personal property are subject to the requirements of chapter 39.94 RCW. Pursuant to chapter 39.94 RCW, no later than December 31, 2023, the department shall complete development of approved model contracts authorized by this act.

NEW SECTION. **Sec.**  Sections 2 through 5 of this act expire June 30, 2033. Contracts entered into under the authority granted by this act may remain in effect following expiration of this act.

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Passed by the House April 17, 2023.

Passed by the Senate April 11, 2023.

Approved by the Governor May 4, 2023.

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