

SENATE BILL REPORT

SB 6138

As of January 24, 2024

Title: An act relating to promoting the establishment of thermal energy networks.

Brief Description: Promoting the establishment of thermal energy networks.

Sponsors: Senators Shewmake, Hasegawa, Nobles and Saldaña.

Brief History:

Committee Activity: Environment, Energy & Technology: 1/24/24.

Brief Summary of Bill

- Authorizes gas and most electrical companies to own or operate nonemitting thermal energy networks (networks), subject to oversight from the Utilities and Transportation Commission (UTC) for investor-owned companies, or a governing body for others.
- Establishes a network pilot project program for gas companies to be administered by the Department of Commerce according to specified criteria.
- Amends a gas company's obligation to serve to include providing thermal energy through a network.
- Authorizes a gas company or combination utility to combine gas operations and networks into a single rate base with approval from the UTC.

SENATE COMMITTEE ON ENVIRONMENT, ENERGY & TECHNOLOGY

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Background: Thermal Energy. Thermal energy is heat or cold in the form of steam, heated

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or chilled water, or any other heated or chilled liquid or gas. A thermal energy system provides thermal energy for space heating, space cooling, or 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 network of pipes.

Utilities and Transportation Commission. The Utilities and Transportation Commission (UTC) regulates the rates, services, and practices of privately-owned utilities and transportation companies. Among the companies regulated by the UTC are investor-owned electrical and natural gas 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.

Electrical and Gas Companies. Under current law, an electrical company includes every corporation, company, association, partnership, city, and town—owning, operating, or managing any electrical plant in Washington. A gas company includes every corporation, company, association, partnership, city, and town—owning, controlling, operating, or managing any gas plant in Washington.

Thermal Energy Company. A thermal energy company develops, produces, transmits, distributes, delivers, furnishes, or sells to the public thermal energy services for any beneficial use other than electricity generation. In Washington, these companies are exempted from the UTC's oversight.

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 Nonemitting Thermal Energy Networks. Any gas company and any electrical company may deploy a nonemitting thermal energy network (network) within their service territories.

An investor-owned gas or electrical company must submit the project for review and approval to the UTC. If the network is approved by the UTC, the company may propose to recover the costs of building and operating the project from ratepayers in a rate case. A Public Utility District or municipal electric utility may own, operate, or manage a network in Washington, provided it submits the project for review and approval to its governing body.

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

Nonemitting Thermal Energy Network Pilot Project Program. A network pilot project

program is established for gas companies. The UTC must provide project approval and the Department of Commerce (Commerce) must award grants for pilot projects, subject to the availability of amounts appropriated.

Priority is given to a gas company for developing network pilot projects in its service territory. The gas company must provide in writing its intention to deploy a pilot project in a specific location within 12 months of the effective date of this bill and then deploy a pilot project within 30 months to maintain its priority. The gas company may request, and the UTC may approve, an extension of this deadline if the UTC determines the gas company is making substantial progress toward deploying its network. The UTC must provide a public comment period that is no less than 30 days for network pilot projects under review.

If an existing thermal energy company has deployed or is developing a network in a specific location, the UTC may choose not to provide priority to the gas company for that location.

Commerce may award grant funding to offset the gas company's costs necessary to build and operate the pilot project. The grant amount may not exceed the difference between the company's lowest reasonable cost resources under current business practices and the costs of building and operating the network pilot project. The UTC must determine this cost difference and provide the amount to Commerce for making the grant. Gas companies receiving a grant from Commerce must coordinate with other grant awardees, the UTC, Commerce, and consultants with network expertise to ensure that the pilot projects are diverse and inform the UTC's decisions in the network proceeding on the various ownership, market, and rate structures.

When approving a network pilot project and awarding grants, respectively, the 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 inclusion of customer protection plans;
- the ability to meet 100 percent of the customers' demand for space heating with the project;
- whether the project benefits customers, communities, and society at large, including public health benefits in disadvantaged communities and increased affordability of thermal energy options;
- whether the project furthers state climate justice and emissions reduction requirements; advances methods for making building electrification equitable and affordable; and develops useful information for the UTC's network rules;
- coordination with electric utilities and 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.

The UTC and Commerce may also consider the following criteria when approving a network 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 project customers' hot water and cooling demands; and
- the consideration of options to provide nonemitting thermal energy storage.

Requests for Proposals for Energy Resources. Each investor-owned gas company must include a solicitation for network pilot projects in requests for proposals (RFP) for energy resources. The company may pursue a network pilot project, if it determines that it can deploy the project at the lowest reasonable cost instead of through a heat purchase agreement or energy services agreement.

Obligation to Serve. A gas company's statutory obligation to furnish gas to any person or corporation who applies for gas service may be met by providing thermal energy through a nonemitting thermal energy network.

Gas and Thermal Energy Rate Base Merger. In a multiyear rate plan proposed by a gas company or combination utility, the company may propose a merger into a single rate base of its regulated gas operations with its operation of a nonemitting thermal energy network. The UTC may approve the rate base merger, if it finds that it is in the public interest. The UTC must avoid commercial and residential rate classes subsidizing industrial rate classes. A company that has merged rate bases must monetize benefits from any federal and state tax or other incentives for the benefit of customers. These benefits must be separately accounted for and amortized on a schedule designed to mitigate the rate impacts to customers.

Evaluation of Pilot Projects. The Joint Legislative Audit and Review Committee must evaluate the implementation of the network pilot project program and report to the Legislature no later than three years after the effective date of the act.

Appropriation: The bill contains a section or sections to limit implementation to the availability of amounts appropriated for that specific purpose.

Fiscal Note: Requested on January 15, 2024.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: Thermal energy network moves heat around, often with water or by using waste heat; they work as a battery that you can put under a

building. This is an example of district heating. We can get 100 percent efficiency by moving heat around. The bill would bring these companies under the UTC and authorize them specifically; they should be regulated because they are a monopoly. The bill allows gas and electric companies to think about energy as a service. Thermal energy networks (TENS) use a shared network of pipes to connect multiple buildings and provide year-around heating and cooling through water-sourced heat pumps powered by electricity. They are designed to opportunistically use resources of the location, using heat that would otherwise be wasted. TENS hold great appeal, rely on tried and true technology, are highly efficient, emit zero pollution, rely on utility expertise, and could keep pipefitters employed for generations. Washington is faced with a formidable challenge to build enough electric transmission and generation, but decarbonization with ground source heat pumps is superior as an electric grid cost-reduction strategy.

The bill offers gas utilities a viable alternative to decarbonize space heat, retain customers, minimize expansion of transmission facilities, and benefits Washington families with clean and accessible heating and cooling services. The bill creates an opportunity for the UTC to express authority for the gas companies to operate in this arena. This is another tool to serve heating loads with nonemitting technology. Please keep parameters for the pilot project as flexible as possible.

Persons Testifying: PRO: Senator Sharon Shewmake, Prime Sponsor; Laura Feinstein, Sightline Institute; Natasha Jackson, Northwest Gas Association; John Rothlin, Avista; Charlie Brown, Cascade Natural Gas and NW Natural.

Persons Signed In To Testify But Not Testifying: No one.