CERTIFICATION OF ENROLLMENT

SECOND SUBSTITUTE HOUSE BILL 1390

Chapter 291, Laws of 2023

68th Legislature
2023 Regular Session

CAMPUS DISTRICT ENERGY SYSTEMS—DECARBONIZATION PLANS

EFFECTIVE DATE: July 23, 2023

Passed by the House April 14, 2023
Yeas 91 Nays 5

LAURIE JINKINS

Speaker of the House of Representatives

Passed by the Senate April 12, 2023
Yeas 44 Nays 5

DENNY HECK

President of the Senate

Approved May 4, 2023 3:17 PM

JAY INSLEE

Governor of the State of Washington

CERTIFICATE

I, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **SECOND SUBSTITUTE HOUSE BILL 1390** as passed by the House of Representatives and the Senate on the dates hereon set forth.

BERNARD DEAN

Chief Clerk

FILED

May 5, 2023

Secretary of State
State of Washington

SECOND SUBSTITUTE HOUSE BILL 1390

AS AMENDED BY THE SENATE

Passed Legislature - 2023 Regular Session

State of Washington 68th Legislature 2023 Regular Session

By House Capital Budget (originally sponsored by Representatives Ramel, Berry, Duerr, Doglio, Pollet, and Reed)

READ FIRST TIME 02/24/23.

AN ACT Relating to district energy systems; amending RCW 19.27A.210; adding a new section to chapter 19.27A RCW; and creating a new section.

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

NEW SECTION. **Sec. 1.** The legislature recognizes that building decarbonization is necessary to achieve the state's climate goals. Washington is a member of the national building performance standards coalition and is leading the nation with existing building performance standards. District energy policy could be used in coordination with any future statewide building performance standards policies to reduce commercial and large state-owned building emissions.

Due to the increased prevalence of extreme summer heat events, the ability to cool space at our state-run campus facilities, including correctional facilities, is an essential function of maintaining humane living, working, and learning conditions.

Upgrading existing district energy systems has great potential to increase efficiency, oftentimes more so than a building-by-building approach.

Upgrading and constructing district energy systems will employ skilled labor, including trades that have historically performed work

on fossil fuel energy sources. This work will be an important part of a just transition to a clean energy economy.

For state-owned facilities connected to district energy systems, the legislature recognizes that it may take years, multiple budget cycles, and commitments as anchor customers to develop and upgrade campus district energy systems, but remains committed to steadily investing in plans developed by these agencies and their selected providers. Having plans for multiyear customer commitments or spending programs will set the state and private sector up well for applying for federal grants and resources and to appropriately plan capital, operating, and climate commitment act funding for these investments over time.

NEW SECTION. **Sec. 2.** A new section is added to chapter 19.27A RCW to read as follows:

(1) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Campus" means a collection of buildings served by a district heating, cooling, water reuse, or power system.

(b) "Campus district energy system" means a district energy system that provides heating, cooling, or heating and cooling to a campus through a distributed system providing steam, hot water, or cool water to three or more buildings with more than 100,000 square feet of combined conditioned space, where the system and all connected buildings are owned by:

(i) A single entity;

(ii) A public-private partnership in which a private entity owns the systems providing heating, cooling, or heating and cooling to buildings owned by one public entity; or

(iii) Two private entities in which one private entity owns the connected buildings and another private entity owns the system providing heating, cooling, or heating and cooling to the buildings.

(c) "State campus district energy system" means a district energy system that provides heating, cooling, or heating and cooling to a campus through a distributed system providing steam, hot water, or cool water to five or more buildings with more than 100,000 square feet of combined conditioned space, where the system and all connected buildings are owned by the state of Washington or by a public-private partnership including one public buildings owner and one private entity.

(2)(a) The owner of a state campus district energy system must develop a decarbonization plan that provides a strategy for up to 15 years for the state campus district energy system. The department of commerce may approve a decarbonization plan that is based on a planning time frame longer than 15 years. The decarbonization plan must include:

(i) Mechanisms to replace fossil fuels in the heating plants, including a schedule for replacement;

(ii) An evaluation of possible options to partner with nearby sources and uses of waste heat and cooling;

(iii) An examination of opportunities to add buildings or other facilities to the system once it is decarbonized, a strategy to incentivize growth of a decarbonized system, and requirements for facilities joining the system; and

(iv) An evaluation, prioritization, and scheduled plan of reducing energy use through conservation efforts both at the central plant and in the buildings connected to district energy systems that results in meeting the campus energy use intensity target.

(b) The owner of a state campus district energy system is encouraged to include the following considerations in a decarbonization plan:

(i) Distribution network upgrades;

(ii) On-site energy storage facilities;

(iii) Space cooling for residential facilities;

(iv) Labor and workforce, including state registered apprenticeship utilization;

(v) Options for public-private partnerships;

(vi) Incorporation of industrial symbiosis projects or networks as described in chapter 308, Laws of 2021.

(c) The owner of a state campus district energy system must consult with the electric utility and the natural gas utility serving the site of the system during decarbonization plan development.

(3)(a) The owner of a state campus district energy system must begin developing a decarbonization plan by June 30, 2024, and must submit a final decarbonization plan to the department of commerce by June 30, 2025.

(b) Upon submittal to the department of commerce, decarbonization plans must be reviewed and approved by the department of commerce. The department of commerce may ask for a decarbonization plan to be

revised and resubmitted if it does not meet standards as determined by the department of commerce.

(c) Every five years after June 30, 2025, the owner of a state campus district energy system must resubmit the decarbonization plan, along with a progress report on the implementation of the decarbonization plan, to the department of commerce.

(4) The department of commerce must provide a summary report on the decarbonization plans required in subsection (3) of this section to the governor and the appropriate committees of the legislature by December 1, 2025.

(5) The owner of a state campus district energy system is not required to meet the energy use intensity target in all the connected buildings that are heated, cooled, or heated and cooled by the system, or to conduct an investment grade audit, to otherwise comply with the state energy performance standard requirements in RCW 19.27A.200 through 19.27A.250 if the following conditions for an alternative compliance pathway are met:

(a) The owner of a state campus district energy system is implementing a department of commerce-approved decarbonization plan or has fully implemented a department of commerce-approved decarbonization plan for the state campus district energy system and all of its connected buildings that, when fully implemented, meets the energy use intensity target established for the campus at the time of required measurement and verification. The owner may apply for phased implementation through conditional compliance in accordance with requirements of the decarbonization plan;

(b) The owner of the state campus district energy system meets the benchmarking, energy management, and operations and maintenance planning requirements under RCW 19.27A.200 through 19.27A.250 for the state campus district energy system and all of its connected buildings; and

(c) The owner of a state campus district energy system submits a request to the department of commerce once during every five-year compliance cycle as part of documentation submitted in accordance with RCW 19.27A.210(7), and the department of commerce approves the request.

(6) The owner of a campus district energy system may submit a request to the department of commerce to opt-in to the process for approval of an alternative compliance pathway as outlined in this section. If approved by the department of commerce, the campus

district energy system must follow all of the requirements outlined for a state campus district energy system in this section, and the department of commerce must apply all authorities granted under this section for state campus district energy systems to such a campus district energy system.

Sec. 3. RCW 19.27A.210 and 2021 c 65 s 19 are each amended to read as follows:

(1)(a) By November 1, 2020, the department must establish by rule a state energy performance standard for covered commercial buildings.

(b) In developing energy performance standards, the department shall seek to maximize reductions of greenhouse gas emissions from the building sector. The standard must include energy use intensity targets by building type and methods of conditional compliance that include an energy management plan, operations and maintenance program, energy efficiency audits, and investment in energy efficiency measures designed to meet the targets. The department shall use ANSI/ASHRAE/IES standard 100-2018 as an initial model for standard development. The department must update the standard by July 1, 2029, and every five years thereafter. Prior to the adoption or update of the standard, the department must identify the sources of information it relied upon, including peer-reviewed science.

(2) In establishing the standard under subsection (1) of this section, the department:

(a) Must develop energy use intensity targets that are no greater than the average energy use intensity for the covered commercial building occupancy type with adjustments for unique energy using features. The department must also develop energy use intensity targets for additional property types eligible for incentives in RCW 19.27A.220. The department must consider regional and local building energy utilization data, such as existing energy star benchmarking data, in establishing targets for the standard. Energy use intensity targets must be developed for two or more climate zones and be representative of energy use in a normal weather year;

(b) May consider building occupancy classifications from ANSI/ ASHRAE/IES standard 100-2018 and the United States environmental protection agency's energy star portfolio manager when developing energy use intensity targets;

(c) May implement lower energy use intensity targets for more recently built covered commercial buildings based on the state energy code in place when the buildings were constructed;

(d)(i) Must adopt a conditional compliance method that ensures that covered commercial buildings that do not meet the specified energy use intensity targets are taking action to achieve reduction in energy use, including investment criteria for conditional compliance that ensure that energy efficiency measures identified by energy audits are implemented to achieve a covered commercial building's energy use intensity target. The investment criteria must require that a building owner adopt an implementation plan to meet the energy intensity target or implement an optimized bundle of energy efficiency measures that provides maximum energy savings without resulting in a savings-to-investment ratio of less than 1.0, except as exempted in (d)(ii) of this subsection. The implementation plan must be based on an investment grade energy audit and a life-cycle cost analysis that accounts for the period during which a bundle of measures will provide savings. The building owner's cost for implementing energy efficiency measures must reflect net cost, excluding any costs covered by utility or government grants. The implementation plan may exclude measures that do not pay for themselves over the useful life of the measure and measures excluded under (d)(ii) of this subsection. The implementation plan may include phased implementation such that the building owner is not required to replace a system or equipment before the end of the system or equipment's useful life;

(ii) For those buildings or structures that are listed in the state or national register of historic places; designated as a historic property under local or state designation law or survey; certified as a contributing resource with a national register listed or locally designated historic district; or with an opinion or certification that the property is eligible to be listed on the national or state registers of historic places either individually or as a contributing building to a historic district by the state historic preservation officer or the keeper of the national register of historic places, no individual energy efficiency requirement need be met that would compromise the historical integrity of a building or part of a building;

(e) Must provide an alternative compliance pathway for an owner of a state campus district energy system, in accordance with section

2 of this act, and more broadly for the owner of any campus district energy system that is approved by the department to opt-in in accordance with section 2(6) of this act;

(f) Must guarantee that the owner of a state campus district energy system is not required to implement more than one energy management plan and more than one operations and maintenance plan for the campus;

(g) Must guarantee that a state campus district energy system, as defined in section 2 of this act, and all buildings connected to a state campus district energy system, are in compliance with any requirements for campus buildings to implement energy efficiency measures identified by an energy audit if:

(i) The energy audit demonstrates the energy savings from the state campus district energy system energy efficiency measures will be greater than the energy efficiency measures identified for the campus buildings; and

(ii) The state campus district energy system implements the energy efficiency measures.

(3) Based on records obtained from each county assessor and other available information sources, the department must create a database of covered commercial buildings and building owners required to comply with the standard established in accordance with this section.

(4) By July 1, 2021, the department must provide the owners of covered buildings with notification of compliance requirements.

(5) The department must develop a method for administering compliance reports from building owners.

(6) The department must provide a customer support program to building owners including, but not limited to, outreach and informational material, periodic training, phone and email support, and other technical assistance.

(7) The building owner of a covered commercial building must report the building owner's compliance with the standard to the department in accordance with the schedule established under subsection (8) of this section and every five years thereafter. For each reporting date, the building owner must submit documentation to demonstrate that:

(a) The weather normalized energy use intensity of the covered commercial building measured in the previous calendar year is less than or equal to the energy use intensity target; or

(b) The covered commercial building has received conditional compliance from the department based on energy efficiency actions prescribed by the standard; or

(c) The covered commercial building is exempt from the standard by demonstrating that the building meets one of the following criteria:

(i) The building did not have a certificate of occupancy or temporary certificate of occupancy for all ((~~twelve~~)) 12 months of the calendar year prior to the building owner compliance schedule established under subsection (8) of this section;

(ii) The building did not have an average physical occupancy of at least ((~~fifty~~)) 50 percent throughout the calendar year prior to the building owner compliance schedule established under subsection (8) of this section;

(iii) The sum of the building's gross floor area minus unconditioned and semiconditioned spaces, as defined in the Washington state energy code, is less than ((~~fifty thousand~~)) 50,000 square feet;

(iv) The primary use of the building is manufacturing or other industrial purposes, as defined under the following use designations of the international building code: (A) Factory group F; or (B) high hazard group H;

(v) The building is an agricultural structure; or

(vi) The building meets at least one of the following conditions of financial hardship: (A) The building had arrears of property taxes or water or wastewater charges that resulted in the building's inclusion, within the prior two years, on a city's or county's annual tax lien sale list; (B) the building has a court appointed receiver in control of the asset due to financial distress; (C) the building is owned by a financial institution through default by a borrower; (D) the building has been acquired by a deed in lieu of foreclosure within the previous ((~~twenty-four~~)) 24 months; (E) the building has a senior mortgage subject to a notice of default; or (F) other conditions of financial hardship identified by the department by rule.

(8) A building owner of a covered commercial building must meet the following reporting schedule for complying with the standard established under this section:

(a) For a building with more than ((~~two hundred twenty thousand~~)) 220,000 gross square feet, June 1, 2026;

(b) For a building with more than ((~~ninety thousand~~)) 90,000 gross square feet but less than ((~~two hundred twenty thousand and one~~)) 220,001 gross square feet, June 1, 2027; and

(c) For a building with more than ((~~fifty thousand~~)) 50,000 gross square feet but less than ((~~ninety thousand and one~~)) 90,001 square feet, June 1, 2028.

(9)(a) The department may issue a notice of violation to a building owner for noncompliance with the requirements of this section. A determination of noncompliance may be made for any of the following reasons:

(i) Failure to submit a compliance report in the form and manner prescribed by the department;

(ii) Failure to meet an energy use intensity target or failure to receive conditional compliance approval;

(iii) Failure to provide accurate reporting consistent with the requirements of the standard established under this section; and

(iv) Failure to provide a valid exemption certificate.

(b) In order to create consistency with the implementation of the standard and rules adopted under this section, the department must reply and cite the section of law, code, or standard in a notice of violation for noncompliance with the requirements of this section when requested to do so by the building owner or the building owner's agent.

(10) The department is authorized to impose an administrative penalty upon a building owner for failing to submit documentation demonstrating compliance with the requirements of this section. The penalty may not exceed an amount equal to ((~~five thousand dollars~~)) $5,000 plus an amount based on the duration of any continuing violation. The additional amount for a continuing violation may not exceed a daily amount equal to ((~~one dollar~~)) $1 per year per gross square foot of floor area. The department may by rule increase the maximum penalty rates to adjust for the effects of inflation.

(11) Administrative penalties collected under this section must be deposited into the low-income weatherization and structural rehabilitation assistance account created in RCW 70A.35.030.

(12) The department must adopt rules as necessary to implement this section, including but not limited to:

(a) Rules necessary to ensure timely, accurate, and complete reporting of building energy performance for all covered commercial buildings;

(b) Rules necessary to enforce the standard established under this section; and

(c) Rules that provide a mechanism for appeal of any administrative penalty imposed by the department under this section.

(13) Upon request by the department, each county assessor must provide property data from existing records to the department as necessary to implement this section.

(14) By January 15, 2022, and each year thereafter through 2029, the department must submit a report to the governor and the appropriate committees of the legislature on the implementation of the state energy performance standard established under this section. The report must include information regarding the adoption of the ANSI/ASHRAE/IES standard 100-2018 as an initial model, the financial impact to building owners required to comply with the standard, the amount of incentives provided under RCW 19.27A.220 and 19.27A.230, and any other significant information associated with the implementation of this section.

Passed by the House April 14, 2023.
Passed by the Senate April 12, 2023.
Approved by the Governor May 4, 2023.
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