

# HOUSE BILL REPORT

## HB 1514

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**As Reported by House Committee On:**  
Environment & Energy

**Title:** An act relating to encouraging the deployment of low carbon thermal energy networks.

**Brief Description:** Encouraging the deployment of low carbon thermal energy networks.

**Sponsors:** Representatives Ramel, Berry, Doglio, Hunt, Reed and Parshley.

**Brief History:**

**Committee Activity:**

Environment & Energy: 1/27/25, 2/6/25 [DPS].

**Brief Summary of Substitute Bill**

- Brings thermal energy companies under the regulatory jurisdiction of the Utilities and Transportation Commission (UTC) with certain exemptions.
- Requires electric and gas utilities to incorporate thermal energy networks (TENs) into planning.
- Directs the Department of Commerce to award grants to local governments for mapping and developing technical expertise for TENs.
- Allows electric utilities to provide discounted rates to companies operating TENs under certain conditions with UTC authorization.

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### HOUSE COMMITTEE ON ENVIRONMENT & ENERGY

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Doglio, Chair; Hunt, Vice Chair; Dye, Ranking Minority Member; Klicker, Assistant Ranking Member; Abbarno, Abell, Barnard, Berry, Duerr, Fey, Fitzgibbon, Kloba, Ley, Mena, Ramel, Stearns, Stuebe, Wylie and Ybarra.

**Minority Report:** Without recommendation. Signed by 1 member: Representative

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*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.*

Mendoza.

**Staff:** Megan McPhaden (786-7114).

**Background:**

Utilities and Transportation Commission Regulation of Utilities.

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.

Thermal Energy Companies Exempt from UTC Regulation.

Thermal energy companies are those that develop, produce, transmit, distribute, deliver, provide, or sell thermal energy to or for the public for any beneficial use other than electricity generation. Thermal energy companies are exempt from oversight by the UTC.

Combined heat and power facilities engaged in thermal energy services are also not subject to UTC regulation.

Thermal Energy Networks.

Thermal energy networks (TENs) are all real estate, fixtures, and property involved in a utility-scale project to supply thermal energy. Thermal energy 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. A TEN may not rely on combustion to create thermal energy, except for emergency backup purposes.

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

Gas companies may own, control, operate, or manage a TEN. Electrical companies and public utility districts 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 UTC for review and validation of costs assessments. If the UTC validates the costs assessments selection of 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. Such a validation by the UTC does not constitute a prudency finding or a finding that the resource is used and useful for ratemaking purposes. 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.

TEN Pilot Projects.

The UTC must evaluate the TEN pilot projects and the Department of Commerce

(Commerce) must grant awards for the TEN pilot projects under a TEN pilot project program. A gas company has priority for developing a TEN pilot project in its service territory, subject to certain requirements. 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.

#### Electric Utility Planning.

All electric utilities must do resource planning, and investor-owned and consumer-owned electric utilities in the state with more than 25,000 customers must develop integrated resource plans (IRPs). An IRP must include a number of components, such as the mix of generating resources and conservation and efficiency resources that will meet current and projected needs at the lowest reasonable cost to the utility and its ratepayers. The IRPs must be updated every two years. Investor-owned utilities must submit their plans to the UTC.

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### **Summary of Substitute Bill:**

#### Regulation of Thermal Energy Companies.

Thermal energy companies are subject to UTC regulation comparable to UTC regulation of electric and gas utilities, except for thermal energy companies:

- operating a thermal energy system with less than five independent customers and less than 250 households in a unit of a residential building served by a thermal energy company; and
- in operation or under development before July 1, 2025.

Thermal energy companies not subject to UTC regulation may opt in to regulation by providing the UTC with a request to opt in in writing. If a company chooses this path the company must remain under UTC regulation and cannot opt out of UTC regulation. Combined heat and power facilities engaged in thermal energy services may also opt in to UTC regulation with a request to opt in in writing.

Thermal energy companies with a thermal energy system under development by July 1, 2025, are not subject to UTC regulation if a company notifies the UTC in writing of the company's plans to operate the thermal energy system.

Thermal energy companies are not:

- gas companies, electrical companies, or public utility districts that own, control, operate, or manage a TEN;
- a homeowners' association providing service to units solely within its own buildings; or
- a company that develops, produces, or provides thermal energy for a TEN independently from the company involved in the TEN distribution system.

Thermal energy systems include the TENs. A thermal energy system is any system

providing thermal energy for space heating, space cooling, or process uses from a central plant, distributed plant, or combined heat and power facility, and that distributes the thermal energy to two or more buildings through a network of pipes.

The UTC may issue rules if it finds a thermal energy resource provider is injecting thermal energy into a thermal energy system that exceeds system needs and creates system imbalance.

The UTC may authorize an electrical company to provide discounted rates to a company operating a TEN in the electrical company's service area if the TEN allows the electrical company to deliver electricity more efficiently than the electrical company's standard electrical service, including if the TEN shifts load off of peak demand. If the UTC approves such discounted rates, the UTC must consider the benefits of reduced input costs to operate a TEN in future rate setting proceedings from the TENs.

#### Electric Utility Planning for Thermal Energy Networks.

Electric utilities subject to IRP requirements must include an assessment of where and how to include TENs into their service areas within their IRPs. This assessment must include consulting with gas companies in the electric utility's service area on the installation and operation of the TENs, including the location of the TENs and how the TENs can be deployed. Utilities must consider information from any relevant thermal energy resource maps to evaluate opportunities to meet load growth with the TENs. Electric utilities subject to IRP requirements must also include a consideration of providing discounted rates to the TENs in the scenarios where the UTC is allowed to approve discounted rates.

All other electric utilities must also consider the value of the TENs by including a consideration of providing discounted rates to a company operating a TEN in their resource plans.

#### Reporting on TENs Interoperability Standards.

The UTC must follow the development of interoperability standards for the TENs and report to the Legislature by December 1, 2027, on the readiness for adoption of these standards.

#### Thermal Energy Network Grant Program for Local Governments.

Subject to appropriation for this specific purpose, Commerce must award grants to local governments for mapping the TENs or for developing technical expertise to design, plan, or permit the TENs.

#### Rulemaking for Gas Companies to Incorporate TENs.

The UTC must adopt rules to require gas companies to incorporate a TEN plan in annual filings with the UTC.

#### **Substitute Bill Compared to Original Bill:**

As compared to the original bill, the substitute bill:

- clarifies that the regulation exemption for thermal energy companies is for companies that operate thermal energy systems, and not only for companies that operate thermal energy networks, and that thermal energy systems include TENs;
- adds to the Integrated Resource Plan TEN assessment by requiring that electric utilities consult with gas companies in the electric utility's service area on the installation and operation of TENs;
- requires the UTC to adopt rules to require each gas company to incorporate a TEN plan into the company's annual UTC filings;
- extends the date by which the UTC must report to the Legislature on TEN interoperability standards from December 1, 2026, to December 1, 2027;
- modifies the discounted rates provision by specifying that this provision is for an electrical company providing discounted rates to a company operating a TEN in the electrical company's service territory;
- requires the UTC to consider the benefits of reduced input costs to operate TENs in future rate setting proceedings for TENs, if the UTC allows an electrical company to provide discounted rates;
- authorizes thermal energy companies of a smaller size that are exempt from regulation to opt in to regulation in the same way that the other exempt thermal energy companies may opt in; and
- includes intent language that gas companies maintain their existing priority for TEN pilot projects.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available. New fiscal note requested on February 6, 2025.

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

**Staff Summary of Public Testimony:**

(In support) This builds on Engrossed Substitute House Bill 2131 from 2024 and provides regulatory certainty for thermal energy companies and customers. Regulation of thermal energy companies is welcome, provided the regulation is proportional to a company's size. The Utilities and Transportation Commission (UTC) should be directed to do rulemaking to determine the appropriate regulation for these systems, as the UTC gains experience with the gas utility pilot projects. The bill supports electric utility thermal energy network (TEN) planning and daylights TEN data and expertise. Gas utilities should also be required to evaluate TENs in their Integrated Resource Plans (IRPs). This bill envisions more buildings benefitting from TENs and builds on the state's expertise in engineering design and skilled trades.

(Opposed) None.

(Other) Regulatory oversight will ensure customers are best served by TENs investments. There is concern with the section 25 requirement for electrical utilities to model TENs in their IRPs, which would be very difficult, and as TENs are more generally associated with gas utilities rather than electric utilities, removing this section is recommended. Gas utilities should be explicitly included in the bill. Thermal energy companies should be required to acquire a certificate of public convenience and necessity from the UTC, similar to gas utilities. Technical feedback was submitted related to understanding the implications for older systems. There's an interest in better understanding the interoperability standards provision.

**Persons Testifying:** (In support) Representative Alex Ramel, prime sponsor; Laura Feinstein, Sightline Institute; Michael Hogan, Port of Bellingham; Bonnie Frye Hemphill, UMC, Inc.; and Clarence Clipper, Corix.

(Other) John Rothlin, Avista Corp; Natasha Jackson, Northwest Gas Association; and Isaac Kastama, CenTrio.

**Persons Signed In To Testify But Not Testifying:** None.