

**ESHB 1589 - H AMD 782**

By Representative Dye

1 Strike everything after the enacting clause and insert the  
2 following:

3 "NEW SECTION. **Sec. 1.** (1) The legislature finds that the  
4 state's gas and electrical companies face transformational change  
5 brought on by new technology, emerging opportunities for customers,  
6 and state clean energy laws. Chapter 19.405 RCW, the Washington clean  
7 energy transformation act, and chapter 70A.65 RCW, the Washington  
8 climate commitment act, mean these companies must find innovative and  
9 creative solutions to equitably serve their customers, provide clean  
10 energy, reduce emissions, and keep rates fair, just, reasonable, and  
11 sufficient.

12 (2) Gas companies with over 500,000 customers that are also  
13 electrical companies, or combination utilities, play an important  
14 role in providing affordable and reliable heating and other energy  
15 services, and in leading the implementation of state climate  
16 policies. As the state transitions to cleaner sources of energy,  
17 combination utilities are an important partner in helping their  
18 customers make smart energy choices, and actively supporting the  
19 replacement of fossil fuel-based space and water heating equipment  
20 and other fossil fuel-based equipment with high-efficiency  
21 nonemitting equipment. Programs to accelerate the adoption of  
22 efficient, nonemitting appliances have the potential to allow  
23 combination utilities to optimize the use of energy infrastructure,  
24 improve the management of energy loads, better manage the integration  
25 of variable renewable energy resources, reduce greenhouse gas  
26 emissions from the buildings sector, mitigate the environmental  
27 impacts of utility operations and power purchases, and improve health  
28 outcomes for occupants. Legislative clarity is important for  
29 utilities to offer programs and services, including incentives, in  
30 the decarbonization of homes and buildings for their customers.

31 (3) In order to meet the statewide greenhouse gas limits in the  
32 energy sectors of the economy, more resources must be directed toward

1 achieving decarbonization of residential and commercial heating loads  
2 and other loads that are served with fossil fuels, while continuing  
3 to protect customers, especially low-income customers and vulnerable  
4 communities. The legislature finds that regulatory innovation may be  
5 needed to remove barriers that combination utilities may face to meet  
6 the state's public policy objectives and expectations. The enactment  
7 of chapter 188, Laws of 2021 (Engrossed Substitute Senate Bill No.  
8 5295) began that regulatory transition from traditional cost-of-  
9 service regulation, with investor-owned gas and electrical companies  
10 using forward-looking multiyear rate plans and taking steps toward  
11 performance-based regulation. These steps are intended to provide  
12 certainty and stability to both customers and to investor-owned gas  
13 and electrical companies, aligning public policy objectives with  
14 investments, safety, and reliability.

15 (4) The legislature finds that as Washington transitions to 100  
16 percent clean electricity and as the state implements the Washington  
17 climate commitment act, switching from fossil fuel-based heating  
18 equipment and other fossil fuel-based appliances to high-efficiency  
19 nonemitting equipment will reduce climate impacts and fuel price  
20 risks for customers in the long term. This new paradigm requires a  
21 thoughtful transition to decarbonize the energy system to ensure that  
22 customers are protected, are not subject to sudden price shocks, and  
23 continue to receive needed energy services. This transition will  
24 require careful and integrated planning across utilities and with  
25 customers as well as new regulatory tools.

26 (5) It is the intent of the legislature to require combination  
27 utilities to decarbonize their systems by: (a) Prioritizing efficient  
28 and cost-effective measures to transition customers off of the direct  
29 use of fossil fuels at the lowest reasonable cost to customers; (b)  
30 investing in the energy supply, storage, delivery, and demand-side  
31 resources that will be needed to serve any increase in electrical  
32 demand affordably and reliably; (c) maintaining safety and  
33 reliability as the gas system undergoes transformational changes; (d)  
34 integrating zero-carbon and carbon-neutral fuels to serve high heat  
35 and industrial loads where electrification may not be technically  
36 feasible; (e) managing peak demand of the electric system; and (f)  
37 ensuring an equitable distribution of benefits to, and reduction of  
38 burdens for, overburdened communities that have historically been  
39 underserved by utility energy efficiency programs, and may be

1 disproportionately impacted by rising fuel and equipment costs or  
2 experience high energy burden.

3 (6) It is the intent of the legislature to support this  
4 transition by adopting requirements for combination utilities to  
5 conduct integrated system planning to develop specific actions  
6 supporting gas system decarbonization and electrification.

7 NEW SECTION. **Sec. 2.** The definitions in this section apply  
8 throughout this chapter unless the context clearly requires  
9 otherwise.

10 (1) "Alternative energy resource" means biogas, renewable natural  
11 gas, renewable syngas, renewable hydrogen, carbon dioxide removal,  
12 carbon-free district energy, any electrification programs approved as  
13 part of an electrification plan pursuant to section 3 of this act,  
14 and any carbon-neutral fuel as defined in statute.

15 (2) "Carbon dioxide equivalent" has the same meaning as defined  
16 in RCW 70A.65.010.

17 (3) "Carbon-free district energy" means a network of hot water  
18 pipes and cold water pipes used to provide thermal energy to multiple  
19 buildings that does not result in the emissions of greenhouse gases.

20 (4) "Combination utility" means a public service company that is  
21 both an electrical company and a large gas company that serves more  
22 than 800,000 retail electric customers and 500,000 retail natural gas  
23 customers in the state of Washington as of June 30, 2023.

24 (5) "Commission" means the utilities and transportation  
25 commission.

26 (6) "Cost-effective" means that a project or resource is  
27 forecast:

28 (a) To be reliable and available within the time it is needed;  
29 and

30 (b) To reduce greenhouse gas emissions and meet or reduce the  
31 energy demand or supply an equivalent level of energy service to the  
32 intended customers at an estimated incremental system cost no greater  
33 than that of the least-cost similarly reliable and available  
34 alternative project or resource, or any combination thereof,  
35 including the cost of compliance with chapter 70A.65 RCW, based on  
36 the forward allowance ceiling price of allowances approved by the  
37 department of ecology under RCW 70A.65.160.

38 (7) "Costs of greenhouse gas emissions" means the costs of  
39 greenhouse gas emissions established in RCW 80.28.395.

- 1 (8) "Electrical company" has the same meaning as provided in RCW  
2 80.04.010.
- 3 (9) (a) "Electrification" means the installation of electric end-  
4 use equipment.
- 5 (b) Electrification programs may include, but are not limited to,  
6 programs that facilitate the installation of electric air-source heat  
7 pumps with gas backups in existing buildings. However, electric air-  
8 source heat pumps with gas backups may not be part of any plan filed  
9 after 2030.
- 10 (10) "Emissions baseline" means the actual cumulative greenhouse  
11 gas emissions of a combination utility, calculated pursuant to  
12 chapter 70A.65 RCW, for the five-year period beginning January 1,  
13 2015, and ending December 31, 2019.
- 14 (11) "Emissions reduction period" means one of five periods of  
15 five calendar years each, with the five periods beginning on January  
16 1st of calendar years 2030, 2035, 2040, 2045, and 2050, respectively.
- 17 (12) "Emissions reduction target" means a targeted reduction of  
18 projected cumulative greenhouse gas emissions of a combination  
19 utility approved by the commission for an emissions reduction period  
20 that is at least as stringent as the limits established in RCW  
21 70A.45.020.
- 22 (13) "Gas company" has the same meaning as provided in RCW  
23 80.04.010.
- 24 (14) "Greenhouse gas" has the same meaning as provided in RCW  
25 70A.45.010.
- 26 (15) "Low-income" has the same meaning as provided in RCW  
27 19.405.020.
- 28 (16) "Multiyear rate plan" means a multiyear rate plan of a gas  
29 company filed with the commission pursuant to RCW 80.28.425.
- 30 (17) "Natural gas" has the same meaning as provided in RCW  
31 19.405.020.
- 32 (18) "Overburdened community" has the same meaning as provided in  
33 RCW 70A.65.010.
- 34 (19) "Renewable hydrogen" has the same meaning as provided in RCW  
35 19.405.020.
- 36 (20) "Renewable natural gas" has the same meaning as provided in  
37 RCW 19.405.020.
- 38 (21) "Renewable resource" has the same meaning as provided in RCW  
39 19.405.020.

1 (22) "System cost" means an estimate of all direct costs of a  
2 project or resource over its effective life including, if applicable:  
3 The costs of transmission and distribution to the customers; waste  
4 disposal costs; permitting, siting, mitigation, and end-of-cycle  
5 decommissioning and remediation costs; fuel costs, including  
6 projected increases; resource integration and balancing costs; and  
7 such quantifiable environmental costs and benefits and other energy  
8 and nonenergy benefits as are directly attributable to the project or  
9 resource, including flexibility, resilience, reliability, greenhouse  
10 gas emissions reductions, and air quality.

11 NEW SECTION. **Sec. 3.** (1) The legislature finds that utilities  
12 are subject to a range of reporting and planning requirements as part  
13 of the clean energy transition. To reduce regulatory barriers,  
14 achieve equitable and transparent outcomes, and integrate planning  
15 requirements, the commission may consolidate planning requirements  
16 into a single integrated system plan that is approved by the  
17 commission.

18 (a) By July 1, 2025, the commission shall initiate a process to  
19 consolidate planning requirements and to waive any commission rules  
20 necessary to facilitate an integrated system plan.

21 (b) The commission shall issue a notice and request for comment  
22 and shall hold a public comment hearing.

23 (c) In its order approving the consolidation of planning  
24 requirements, the commission shall include a compliance checklist and  
25 shall provide any additional guidance that is necessary to ensure  
26 that the integrated system plan meets the minimum requirements of all  
27 relevant statutes and rules.

28 (2) Subject to approval by the commission pursuant to subsection  
29 (1) of this section, by January 1, 2026, and every four years  
30 thereafter, a combination utility shall file an integrated system  
31 plan demonstrating how the combination utility plans to:

32 (a) Achieve its obligations under chapters 19.280, 19.405,  
33 19.285, and 70A.65 RCW, RCW 80.28.380, and existing pipeline safety  
34 and replacement plans;

35 (b) Achieve gas utility and electric utility emissions reductions  
36 equal to their proportional share of emissions reductions required  
37 under RCW 70A.45.020;

38 (c) Maximize investments of revenues generated from consigning  
39 allowances pursuant to chapter 70A.65 RCW in programs that

1 incentivize a transition to electric heat pumps and other electric  
2 appliances, conservation and efficiency services, and other programs  
3 that aid in the transition from the direct use of fossil fuels; and

4 (d) Comply with any other obligations under applicable rules,  
5 regulations, or laws.

6 (3) In addition, an integrated system plan filed pursuant to this  
7 section must:

8 (a) Include an emissions reduction target;

9 (b) Present and evaluate a range of resource portfolios and  
10 proposed programs to advance clean energy and gas decarbonization  
11 measures for customers that align with achieving the gas utility's  
12 proportional share of emissions reductions required under RCW  
13 70A.45.020. At a minimum, the range of resource portfolios presented  
14 and evaluated by a combination utility must include:

15 (i) A portfolio of resources that uses cost-effective alternative  
16 energy resources to the maximum practicable extent, which may include  
17 leak reductions approved by the commission, and that meets the  
18 identified emissions reduction targets;

19 (ii) Other portfolios requested by stakeholders;

20 (iii) Other portfolios at the combination utility's discretion;

21 and

22 (iv) Other portfolios as directed by the commission;

23 (c) Include programs targeted to low-income customers, vulnerable  
24 populations, and overburdened communities;

25 (d) Include outreach plans for engagement with all customers, but  
26 prioritizing low-income customers, vulnerable populations, and  
27 overburdened communities to develop programs to support those  
28 customers in every phase of the programs in the combination utility's  
29 integrated system plan, including through incentives offered to  
30 multifamily buildings occupied in full or in part by low-income  
31 households;

32 (e) Prioritize investments that benefit, and reduce burdens to,  
33 low-income customers, vulnerable populations, and overburdened  
34 communities;

35 (f) Prioritize investments in energy efficiency, demand response,  
36 and energy conservation measures, which must achieve at least:

37 (i) Two percent of electric load annually with conservation and  
38 energy efficiency resources, unless the commission finds that a  
39 higher target is cost-effective; and

1 (ii) Annual demand response equal to or greater than 10 percent  
2 of winter and summer peak electric demand, unless the commission  
3 finds that a higher target is cost-effective;

4 (g) Set forth specific actions that the combination utility will  
5 take to reduce greenhouse gas emissions to meet the emissions  
6 reduction target;

7 (h) Quantify projected cumulative greenhouse gas emissions  
8 reductions for each emissions reduction period resulting from each  
9 portfolio presented in the integrated system plan;

10 (i) Propose program budgets resulting from each portfolio  
11 presented in the integrated system plan;

12 (j) Quantify the cost of implementing each portfolio presented in  
13 the integrated system plan;

14 (k) Project annual greenhouse gas emissions reductions that would  
15 result if each portfolio presented in the integrated system plan were  
16 extended through 2050;

17 (l) Describe the effects of the specific actions and investments  
18 of each portfolio presented in the integrated system plan on the  
19 safety, reliability, and resilience of the combination utility's  
20 energy service;

21 (m) Identify potential changes to depreciation schedules or other  
22 actions to align the combination utility's cost recovery with state  
23 laws, including reducing greenhouse gas emissions, minimizing costs,  
24 and minimizing risks to the combination utility and its customers;

25 (n) Explain the combination utility's analysis of the costs and  
26 benefits of an array of alternatives, including the costs of  
27 greenhouse gas emissions in the cost-benefit calculations;

28 (o) Describe the monitoring and verification methodology to be  
29 used in reporting; and

30 (p) Include any other information required by the commission.

31 (4) The commission must approve, reject, or approve with  
32 conditions the integrated system plan within 12 months of receiving  
33 the final plan. Once approved, a combination utility may include an  
34 integrated system plan in a proposal for a multiyear rate plan.

35 (a) In determining whether to approve the plan, the commission  
36 must evaluate whether the plan is in the public interest. This  
37 evaluation includes, but is not limited to, a consideration of:

38 (i) The equitable distribution of energy benefits and reduction  
39 of burdens to vulnerable populations and highly impacted communities;

1 (ii) Long-term and short-term public health, economic, and  
2 environmental benefits and the reduction of costs and risks; and  
3 (iii) Energy security and resiliency.

4 (b) In evaluating whether a proposed integrated system plan is in  
5 the public interest, the commission shall take into account the  
6 following factors:

7 (i) Whether the specific actions in the integrated system plan  
8 achieve reductions in greenhouse gas emissions for each emissions  
9 reduction period;

10 (ii) Whether the integrated system plan demonstrates progress  
11 toward meeting the emissions reduction targets;

12 (iii) Whether investments in the integrated system plan  
13 prioritize serving low-income customers, vulnerable populations, and  
14 overburdened communities;

15 (iv) Whether the integrated system plan and the proposed actions  
16 in the plan are cost-effective and how the integrated system plan is  
17 likely to result in a reasonable cost to customers, where cost-  
18 effectiveness is defined in subsection (5) of this section;

19 (v) Whether the integrated system plan maintains system  
20 reliability and reduces long-term costs and risks to customers; and

21 (vi) Whether the integrated system plan will lead to new  
22 construction career opportunities and prioritizes a transition of  
23 natural gas and electricity utility workers to perform work on  
24 construction and maintenance of new and existing renewable energy  
25 infrastructure.

26 (5) The commission shall establish by rule a cost-effectiveness  
27 test for emissions reduction measures taken by combination utilities  
28 to comply with state clean energy and climate policies.

29 (a) The cost-effectiveness test must be used for the purpose of  
30 determining cost-effectiveness of decarbonization measures taken, at  
31 the portfolio level, by a combination utility under this chapter, and  
32 for any other purpose determined by the commission by rule.

33 (b) In evaluating the cost-effectiveness of gas decarbonization  
34 measures within the integrated system plan, a combination utility  
35 shall apply a risk reduction premium that shall account for: (i) The  
36 most recent allowance ceiling price approved by the department of  
37 ecology pursuant to the climate commitment act, chapter 70A.65 RCW;  
38 or (ii) a forward price index for allowance prices approved by the  
39 department of ecology. For the purpose of this chapter, the risk  
40 reduction premium is necessary to ensure that a combination utility



1 is making appropriate long-term investments to mitigate against the  
2 allowance and fuel price risks to customers of the combination  
3 utility.

4 (c) The commission may approve, or amend and approve, an  
5 integrated system plan that exceeds the cost-effectiveness test and  
6 risk reduction premium requirements identified in this subsection  
7 only if it finds that the plan is in the public interest, costs to  
8 customers are reasonable, the plan includes mitigation of rate  
9 increases for low-income customers, and the benefits of the plan,  
10 including the costs of greenhouse gas emissions, exceed the costs.

11 NEW SECTION. **Sec. 4.** (1) A combination utility must include the  
12 following in calculating its emissions baseline and projected  
13 cumulative emissions for an emissions reduction period, consistent  
14 with chapter 173-441 WAC:

15 (a) Methane leaked from the transportation and delivery of gas  
16 from the gas distribution and service pipelines from the city gate to  
17 customer end use;

18 (b) Greenhouse gas emissions resulting from the combustion of gas  
19 by customers not otherwise subject to federal greenhouse gas  
20 emissions reporting and excluding all transport customers; and

21 (c) Emissions of methane resulting from leakage from delivery of  
22 gas to other gas companies.

23 (2) In calculating an emissions reduction target, a combination  
24 utility must show its emissions baseline and projected cumulative  
25 greenhouse gas emissions for the applicable emissions reduction  
26 period separately and must show that the total emissions reductions  
27 are projected to make progress toward the achievement of the  
28 emissions reduction targets identified in the applicable integrated  
29 system plan. The final calculation must be presented on a carbon  
30 dioxide equivalent basis.

31 (3) All emissions are metric tons of carbon dioxide equivalent as  
32 reported to the federal environmental protection agency pursuant to  
33 40 C.F.R. 98, either subpart W (methane) or subpart NN (carbon  
34 dioxide), or successor reporting requirements.

35 NEW SECTION. **Sec. 5.** (1) In any multiyear rate plan filed by a  
36 combination utility pursuant to RCW 80.28.425, the commission must  
37 adopt depreciation schedules for any gas plant in service as of the  
38 effective date of the depreciation schedules of the multiyear rate

1 plan such that the incremental depreciation for each year of such a  
2 multiyear rate plan resulting from the depreciation is equal to one  
3 percent of the gas revenue requirement for the preceding year.

4 (2) After the approval of an integrated system plan, the  
5 combination utility may propose a merger of the rate bases supporting  
6 gas and electric operations of the combination utility into a single  
7 energy rate base and the adoption of rates for electric and gas  
8 service that support the recovery of such a merged energy rate base.  
9 The commission may approve the merger of electric and gas rate bases  
10 if the commission finds that the proposal will result in a net  
11 benefit to customers of the combination utility.

12 (3) For a combination utility that has merged gas and electricity  
13 rate bases, the combination utility must monetize benefits from any  
14 applicable federal and state tax incentives for the benefit of  
15 customers. These benefits must be separately accounted for and  
16 amortized on a schedule designed to mitigate the rate impacts to  
17 customers after the rate bases are combined. These credits may not be  
18 used for any other purpose.

19 NEW SECTION. **Sec. 6.** (1) For any project in a decarbonization  
20 or targeted electrification plan of a combination utility that is  
21 part of a competitive solicitation and with a cost of more than  
22 \$10,000,000, the combination utility must certify to the commission  
23 that any work associated with such a project will be constructed by a  
24 prime contractor and its subcontractors in a way that includes  
25 community workforce agreements or project labor agreements and the  
26 payment of area standard prevailing wages and apprenticeship  
27 utilization requirements, provided the following apply:

28 (a) The combination utility and the prime contractor and all of  
29 its subcontractors, regardless of tier, have the absolute right to  
30 select any qualified and responsible bidder for the award of  
31 contracts on a specified project without reference to the existence  
32 or nonexistence of any agreements between such a bidder and any party  
33 to such a project labor agreement, and only when such a bidder is  
34 willing, ready, and able to become a party to, signs a letter of  
35 assent, and complies with such an agreement or agreements, should it  
36 be designated the successful bidder; and

37 (b) It is understood that this is a self-contained, stand-alone  
38 agreement, and that by virtue of having become bound to such an  
39 agreement or agreements, neither the prime contractor nor the

1 subcontractors are obligated to sign any other local, area, or  
2 national agreement.

3 (2) Nothing in this section supersedes RCW 19.28.091 or 19.28.261  
4 or chapter 49.17 RCW, without regard to project cost.

5 NEW SECTION. **Sec. 7.** Electrical companies, municipal electric  
6 utilities, public utility districts, irrigation districts,  
7 cooperatives, and mutual corporations providing retail electric  
8 service are encouraged to:

9 (1) Work with large gas companies providing gas service within  
10 their service areas to identify opportunities for electrification and  
11 the provision of energy peaking service by the large gas company;

12 (2) Account for the costs of greenhouse gas emissions, set total  
13 energy savings and greenhouse gas emissions reduction goals, and  
14 develop and implement electrification programs in collaboration with  
15 large gas companies providing gas service in service areas; and

16 (3) Include an electrification plan or transportation  
17 electrification program as part of collaboration with large gas  
18 companies.

19 NEW SECTION. **Sec. 8.** This chapter may be known and cited as the  
20 Washington decarbonization act for large combination utilities.

21 NEW SECTION. **Sec. 9.** Sections 2 through 8 of this act  
22 constitute a new chapter in Title 80 RCW.

23 NEW SECTION. **Sec. 10.** If any provision of this act or its  
24 application to any person or circumstance is held invalid, the  
25 remainder of the act or the application of the provision to other  
26 persons or circumstances is not affected.

27 NEW SECTION. **Sec. 11.** This act is necessary for the immediate  
28 preservation of the public peace, health, or safety, or support of  
29 the state government and its existing public institutions, and takes  
30 effect immediately."

31 Correct the title.

EFFECT: The floor striker makes the following changes relative to  
the engrossed version of the bill:

(1) Removes the prohibition on the extension of natural gas service by a large gas company after June 30, 2023;

(2) Removes the modification to a large gas company's obligation to provide natural gas service; and

(3) Removes provision related to the identification of cost recovery mechanisms for a combination utility to meet its integrated system plan, including that the majority of energy necessary to comply with the clean energy transformation act be supplied from resources owned and operated by the combination utility or an affiliate of the combination utility.

--- END ---