HOUSE BILL REPORT
HB 1589

As Reported by House Committee On:
Environment & Energy

Title: An act relating to supporting Washington's clean energy economy and transitioning to a clean, affordable, and reliable energy future.

Brief Description: Supporting Washington's clean energy economy and transitioning to a clean, affordable, and reliable energy future.

Sponsors: Representatives Doglio, Fitzgibbon, Berry, Alvarado, Bateman, Ramel, Peterson, Lekanoff, Hackney, Macri and Kloba.

Brief History:

Committee Activity:

Environment & Energy: 2/6/23, 2/13/23 [DPS].

Brief Summary of Substitute Bill

- Prohibits any large gas company that serves more than 500,000 retail natural gas customers in Washington as of June 30, 2023, from providing natural gas service to any commercial or residential location that did not receive gas service or have filed applications for gas service as of June 30, 2023.
- Requires a large gas company to file a gas decarbonization plan and an electrification plan with the Utilities and Transportation Commission (UTC) as part of any multiyear rate plan filed on or after January 1, 2026.
- Requires the UTC to establish a cost target for a gas decarbonization plan and a cost target for an electrification plan, each of which must be 2.5 percent of the gas revenue requirement and electric revenue requirement, respectively, approved by the UTC for each year of the multiyear rate plan.
- Requires that 60 percent of the total capacity and energy needed for a

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combination utility to meet the requirements of the Clean Energy Transformation Act must be supplied from resources owned and operated by the combination utility or an affiliate of the combination utility, and 40 percent must be supplied through power purchase agreements with third parties.

- Requires the UTC to adopt specified depreciation schedules for any gas plant in service as part of any multiyear rate plan filed by a combination utility.
- Directs the UTC to adopt a merger of the rate bases supporting gas and electric operations of a combination utility into a single rate base if the ratio of the rate base for gas operations to the combined rate base of gas and electric operations is less than or equal to 0.2.
- Establishes labor requirements for any project in a gas decarbonization plan or electrification plan with a cost of more than $10 million.

HOUSE COMMITTEE ON ENVIRONMENT & ENERGY

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Doglio, Chair; Mena, Vice Chair; Berry, Duerr, Fey, Lekanoff, Ramel, Slatter and Street.

Minority Report: Do not pass. Signed by 6 members: Representatives Dye, Ranking Minority Member; Ybarra, Assistant Ranking Minority Member; Abbarno, Barnard, Couture and Goehner.

Staff: Robert Hatfield (786-7117).

Background:

Utilities and Transportation Commission.
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 four natural gas companies. The UTC must ensure rates charged by these companies are fair, just, reasonable, and sufficient. In 2021 the Legislature directed every gas or electric utility filing a general rate case to include a proposal for a multiyear rate plan beginning January 1, 2022.

Greenhouse Gas Emission Reduction Limits.
In 2020 the Legislature updated statewide greenhouse gas (GHG) emissions reduction limits to 45 percent below 1990 levels by 2030, 70 percent below 1990 levels by 2040, and 95 percent below 1990 levels, as well as net-zero emissions by 2050.

Clean Energy Transformation Act.
In 2019 the Legislature enacted the Clean Energy Transformation Act (CETA), which requires Washington's electric utilities to meet 100 percent of their retail electric load using non-emitting and renewable resources by January 1, 2045. Additionally, the CETA requires electric utilities to eliminate coal-fired resources from their allocation of electricity by December 31, 2025, and to make all retail sales of electricity GHG neutral by January 1, 2030.

Summary of Substitute Bill:

Prohibition on Gas Service Expansion.
A large gas company is prohibited from furnishing or supplying gas service, instrumentalities, and facilities to any commercial or residential location that did not receive gas service or file an application for gas service as of June 30, 2023. A large gas company is defined as a gas company that serves more than 500,000 retail natural gas customers in Washington on June 30, 2023.

Gas Decarbonization Plan.
A large gas company must file a gas decarbonization plan as part of any multiyear rate plan filed on or after January 1, 2026, and every four years thereafter. The plan must aim to achieve the gas company's proportional share of the statewide statutory greenhouse gas (GHG) emissions reductions. A gas decarbonization plan must, among other things:

- include proposed programs to advance customer gas decarbonization measures;
- include outreach plans, targeted programs, and prioritized investments for low-income customers, vulnerable populations, and highly impacted communities;
- set forth the following portfolios that the large gas company will use to reduce GHG emissions to meet its identified emissions reduction target:
    1. a portfolio of resources that uses alternative energy resources to the maximum practicable extent, that meets the applicable cost target, that may include leak reductions, and that may or may not meet one or more of the emission reduction targets but demonstrates reductions in GHG emissions;
    2. portfolios at the company's discretion; and
    3. portfolios directed by the Utilities and Transportation Commission (UTC);
- quantify projected cumulative GHG emissions reductions for each specified five-year reduction period for each portfolio and the cost of implementing each portfolio; and
- describe what effect the actions and investments of each portfolio has on the safety, reliability, and resilience of the company's gas service.

The terms of a gas decarbonization plan filed by a large gas company are binding on any entity that subsequently acquires an ownership interest in all or part of the large gas company's gas storage, transmission, or distribution network.

Electrification Plan.
A large gas company must file with the UTC an electrification plan as part of a gas decarbonization plan on or after January 1, 2026.

Electrification plans may be combined with demand-side management strategic issues or transportation electrification plans, but must include at a minimum:
- proposed programs to advance electrification for customers;
- outreach plans and targeted programs for low-income customers, vulnerable populations, and highly impacted communities;
- budgets, targeted numbers of installations, projected fuel savings, cost-effectiveness, and reduction in GHG emissions; and other relevant information for the electrification plan as required by the UTC;
- documentation and data showing the electrification plan maintains the reliability of the electric grid; and
- incentives to facilitate electrification and that require eligible products to be Energy Star-certified.

Electric air-source heat pumps with gas backups may not be part of any electrification plan.

Cost Targets.
The UTC must establish a cost target for a gas decarbonization plan that is 2.5 percent of a large gas company's gas revenue requirement for each year of the multiyear rate plan. The UTC must calculate the gas revenue requirement net of the program budget for any electrification plan filed as part of the gas decarbonization plan.

For any electrification plan that is filed as part of a gas decarbonization plan, the UTC must establish a cost target for the electrification plan that is 2.5 percent of the combination utility's electric revenue requirement for each year of the multiyear rate plan. The UTC must calculate the electric revenue requirement net of the program budget for the gas decarbonization plan filed by the combination utility.

Approval of Gas Decarbonization Plans and Electrification Plans.
The UTC must approve a gas decarbonization plan or electrification plan if it finds the plan to be in the public interest. The UTC may modify a proposed plan if the modifications are necessary to ensure the plan is in the public interest. To evaluate whether a proposed plan is in the public interest, the UTC must take into account the following factors for whether the gas decarbonization or electrification plan:
- achieves reductions in GHG emissions for each five-year emission reduction period;
- demonstrates progress toward meeting the emission reduction targets identified in the gas decarbonization plan through maximizing the use of alternative energy resources;
- prioritizes serving low-income customers, vulnerable populations, and highly impacted communities;
- results in a reasonable cost to customers; and
- maintains system reliability.

The UTC may require a large gas company to achieve the maximum level of GHG emissions reductions practicable using alternative energy resources at or below the applicable cost target. The UTC may approve, or amend and approve, a gas decarbonization or electrification plan with costs greater than the cost target only if the UTC finds that the plan is in the public interest, costs to customers are reasonable, the plan mitigates rate increases for low-income customers, and the benefits of the plan exceed the costs.

Any procurement by a combination utility with an electrification plan approved by the UTC is subject to the following requirements:
- 40 percent of the total capacity and energy necessary to meet the requirements of the CETA must be supplied through the execution of power purchase agreements with third parties, which allow the combination utility rights to dispatch, operate, and control the solicited resource in the same manner as its own generating resources; and
- 60 percent of the total capacity and energy necessary to meet the requirements of the CETA must be supplied from resources owned and operated by the combination utility or an affiliate.

Upon UTC approval of a power purchase agreement for acquisition of resources by a combination utility with an approved electrification plan, the utility may:
- recover the cost of purchases of energy, capacity, and environmental attributes from renewable resources under the power purchase agreement; and
- earn a return on such purchases in an amount determined by the following equation: a rate of return that is no less than the authorized cost of debt and no greater than the authorized rate of return of the combination utility, multiplied by the operating expense incurred by the combination utility under the power purchase agreement.

<u>Depreciation Schedules and Single Energy Rate Base</u>.
In any multiyear rate plan filed by a combination utility, the UTC must adopt depreciation schedules for any gas plant in service. The incremental depreciation for each year of a multiyear rate plan is equal to 1 percent of the gas revenue requirement for the preceding year.

If a combination utility's ratio of its rate base for gas operations to its combined rate bases for gas and electric operations is less than or equal to 0.2, then in the next multiyear rate plan the combination utility may propose, and the UTC must adopt, a merger of the rate bases supporting gas and electric operations into a single energy rate base. The combination utility may also adopt rates for electric and gas service that support the recovery of such a merged energy rate base.

<u>Project Labor Agreements</u>.
For any project in a gas decarbonization or electrification plan that is part of a competitive

solicitation and that costs more than $10 million, the large gas company must certify to the UTC that any work on the project will be constructed by contractors in a way that includes community workforce agreements or project labor agreements, the payment of area standard prevailing wages, and apprenticeship utilization requirements, provided the following apply:

- the large gas company and contractors have the absolute right to select any qualified and responsible bidder for the award of contracts on a specified project without referring to existing agreements, and a successful bidder is designated only when a bidder is willing, ready, and able to become a party to an agreement, signs a letter of assent, and complies with such an agreement; and
- it is a self-contained, stand-alone agreement, and the contractors are not obligated to sign any other local, area, or national agreement.

Electric Utilities.

Investor-owned and consumer-owned electric utilities are encouraged to:

- work with large gas companies providing gas service within their service areas to identify opportunities for electrification and the provision of energy peaking service by the large gas company;
- account for the costs of GHG emissions, set total energy savings and GHG emissions reduction goals, and develop and implement electrification programs in collaboration with large gas companies providing service; and
- include an electrification plan or transportation electrification program as part of a clean energy plan.

Emissions Reduction Target.

When calculating an emissions baseline and projected cumulative emissions of an emissions reduction period, a large gas company and combination utility must include emissions from:

- methane leaked from the transportation and delivery of gas from the distribution and service pipelines to the customer and from the delivery of gas to other gas companies; and
- GHG emissions from combustion of gas by natural gas customers not subject to federal GHG emissions reporting and excluding transport customers.

Definitions.

Several terms are defined including alternative energy resource, electrification, emissions reduction period, and renewable syngas.

Substitute Bill Compared to Original Bill:

The substitute bill adds an intent section.

The substitute bill amends the definition of several terms, including the definitions of combination utility and electrification. The definition of deep energy retrofit is removed.

The substitute bill requires that the terms of a gas decarbonization plan filed by a large gas company are binding on any entity that subsequently acquires an ownership interest in all or part of the large gas company's gas storage, transmission, or distribution network.

The substitute bill provides that the Utilities and Transportation Commission (UTC) may, rather than must, require a large gas company to achieve the maximum level of greenhouse gas emissions reductions practicable using alternative energy resources at or below the applicable cost target.

The substitute bill provides that a combination utility with an electrification plan approved by the UTC is subject to the following requirements:

- the combination utility is required to meet at least 2 percent of electric load annually with conservation and energy efficiency resources, unless the UTC finds that a higher target is cost-effective;
- the combination utility is required to achieve annual demand response equal to or greater than 10 percent of winter and summer peak electric demand, unless the UTC finds that a higher target is cost-effective; and
- if the combination utility does not comply with the requirements of listed above, the UTC may impose a penalty, to be dedicated to customer bill assistance programs for the combination utility.

The substitute bill provides that the labor provisions in the act apply to projects with a cost greater than $10 million, rather than a cost greater than $1 million.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 13, 2023.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This bill represents a complementary policy to the Clean Energy Transformation Act and the Climate Commitment Act, both of which set aggressive decarbonization goals for gas and electric utilities. It will be a steep hill to climb to achieve those goals. This bill provides the right tools for Puget Sound Energy (PSE) to achieve those goals in the most cost effective way possible. The bill ensures PSE will have a balanced portfolio between purchased and owned resources. The bill would allow PSE to equitably distribute the benefits and burdens of electrification and decarbonization. It used to be that if the rates for everyone were the same, that was considered equitable, but some of those past assumptions are being reexamined and more equitable ways of approaching rates are being considered.

Climate change disproportionately affects low-income and BIPOC communities. The bill is an important step in reducing natural gas expansion. Natural gas in the residential sector is currently responsible for almost half of Seattle's current carbon emissions. Electrification will cause a load increase, so it is important to work to prepare the electrical grid.

The bill prioritizes creation of family wage jobs through the use of project labor agreements and community workforce agreements.

It is important to transition to a clean energy economy, and businesses must be involved in that transition.

Buildings represent the fastest-growing sector of greenhouse gas emissions in Washington. The bill provides a pathway for the transition to clean energy. Recently adopted building codes require heat pumps. There is support for limiting the expansion of natural gas infrastructure. Converting from natural gas to electricity is a challenge. Some cities are promoting heat pump conversions in a number of ways, including through funding and streamlined permitting.

This bill is bold, complicated, and necessary. As natural gas sales decline, gas utilities will be unable to survive on their gas revenues. The bill provides a merger of the natural gas and electric rate bases. One policy question to address is whether the natural gas rate base should be shifted to other consumers of PSE, or whether the rate base should be shifted to the electric utilities that provide electricity to areas that get their natural gas, but not their electricity, from PSE.

The bill provides a pathway for incentivizing electric transmission and generation facilities. There is important labor and workforce language in the bill. The bill provides both certainty and opportunity.

(Opposed) There need to be some changes to make the bill workable. There are significant consumer protection concerns with the bill. There is no meaningful cost protection for customers related to the decarbonization and electrification plans. Nothing in the bill limits what PSE can spend on these plans, and cost control measures are very important to consumers. The requirement that PSE get 60 percent of its electricity from resources that PSE owns will increase costs to customers. Also, requiring a rate of return to PSE for its power purchase agreements is a windfall to PSE.

There is strong opposition for the anti-competitive provisions regarding electricity in the bill. There is intense interest in how to decarbonize the power structure. Carving out 60 percent of the clean energy market to be owned by one utility sacrifices the integrity of the whole sector in order to keep one utility whole. The bill gives PSE a profit center on each contract it enters into, with no benefit to customers. The bill undermines the premise of competition. Utilities received major advantages in the Inflation Reduction Act, including making it easier to monetize federal tax credits.

(Other) Natural gas is a fossil fuel, and decarbonizing a gas utility is a challenging endeavor. There is much work to be done on the bill, and the devil is in the details. It is important that the bill allow the Utilities and Transportation Commission the authority to manage costs and ensure greenhouse gas reductions. If this bill is done right, it could provide a national model for transitioning utilities to electricity. Natural gas prices are one of the largest drivers of utility rates, and gas prices have been increasing significantly recently. It is important to understand the low-income provisions in the bill.

There need to be mandatory emissions reduction targets in the bill.

The bill should have language that calls for a reporting element with regard to labor usage.

Avista has a company goal of being carbon-neutral in natural gas by 2045. Full electrification for Avista would require doubling its current electrical consumption. Gas backup heat pumps are helpful. It is important to maintain the resilience and reliability of the electrical grid while advancing decarbonization goals in a cost sensitive way.

There is a recognition that there is a commitment to have the bill apply only to PSE, and no one else. The provisions in the bill do not work for a gas-only utility. There is a need to address how to handle rates in those areas where customers get their electricity from PSE but their gas from someone else. It is important to make sure the state does not create overburdened customers as a result of this bill.

It is important to ensure that labor standards and safety standards are met.

Hospitals are required to maintain redundant power services, so there needs to be a slight change in the wording of the bill. Hospitals have to have access to reliable power. As currently written, hospitals would not be able to access new gas connections. New hospitals, or current hospital in new locations, would need to have access to natural gas connections.

It is important to think through what it looks like to decarbonize the energy sector. There are both climate impacts and health impacts to burning natural gas inside the home. It is critical to begin planning now to make sure the transition to clean energy is affordable for all customers. The mechanisms in the bill are new, and it is important to continue to talk through their implementation.

There is support for the intent of the bill. One concern is that the bill provides certainty to the utility company, but there is a need to make changes to provide assurances to customers, including emissions reduction and cost control. The bill does not address protections for low-income customers, which is important to do.

The transition to clean energy needs to consider impacts on people, including people who manage the energy delivery system.

Persons Testifying: (In support) Representative Beth Doglio, prime sponsor; Mendy Droke, Seattle City Light; Sam Hem, Northwest Regional Council Sheet Metal, Air, Rail and Transportation Workers Local 66; Ken Johnson, Puget Sound Energy; Jim Lazar, Regulatory Assistance Project; Matthew Hepner, Certified Electrical Workers of Washington; Donny Donovan, International Association of Machinists and Aerospace Workers 751; and Jay Arnold, City of Kirkland.

(Opposed) Sommer Moser, Alliance of Western Energy Consumers; and Spencer Gray, Northwest and Intermountain Power Producers Coalition.

(Other) John Worthington; Anna Lising, Office of the Governor; Dave Danner, Utilities and Transportation Commission; Jennifer Ziegler, National Construction Alliance; Zosia Stanley, Washington State Hospital Association; Kurt Swanson, Washington State Association Plumbers and Pipefitters; Charlie Brown, Northwest Natural and Cascade Natural Gas; Christine Reid, International Brotherhood of Electrical Workers 77; Lauren McCloy, Northwest Energy Coalition; Kelly Hall, Climate Solutions; and John Rothlin, Avista.

Persons Signed In To Testify But Not Testifying: None.