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**Technology, Energy & Communications  
Committee**

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**HB 3034**

**Brief Description:** Modifying the energy independence act.

**Sponsors:** Representative McCoy.

**Brief Summary of Bill**

- Increases the eligible renewable resources targets to 10.25 percent for the years 2016 through 2019 and to 16.25 percent for 2020 and beyond.
- Establishes an eligible renewable resource goal of 20 percent for 2024 and beyond.
- Changes the date by which each qualifying utility must identify its achievable, cost-effective conservation potential.
- Expands the geographic region from which eligible renewable resources and renewable energy credits may be derived.
- Allows for additional sources of renewable resources to qualify as an eligible renewable resource.
- Requires qualifying utilities to submit annual implementation plans for meeting eligible renewable resources targets.
- Directs the Joint Legislative Audit and Review Committee to study the costs and benefits of the eligible renewable resources and conservation targets.
- Directs the Department of Commerce to hire an entity to study whether classifying hydroelectric power, that is used to integrate eligible renewable resources, as an eligible renewable resource would further the purposes of Initiative 937.

**Hearing Date:** 1/25/10

**Staff:** Scott Richards (786-7156).

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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 a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### Energy Independence Act (Initiative 937).

In 2006 the voters of Washington approved the Energy Independence Act (Initiative 937). Initiative 937 requires certain electric utilities with 25,000 or more customers to meet targets for the use of renewable energy resources and energy conservation.

### Eligible Renewable Resources Targets.

Each qualifying utility must either use eligible renewable resources, acquire equivalent renewable energy credits, or a combination of both, to meet the following annual targets:

- at least 3 percent of its load by January 1, 2012, and each year thereafter through December 31, 2015;
- at least 9 percent of its load by January 1, 2016, and each year thereafter through December 31, 2019; and
- at least 15 percent of its load by January 1, 2020, and each year thereafter.

### Energy Conservation Assessments and Targets.

Each qualifying electric utility must pursue all available conservation that is cost-effective, reliable, and feasible. By January 1, 2010, each qualifying utility must assess the conservation it can achieve through 2019 using methodologies consistent with the most recently published Northwest Power Plan and update the assessments every two years for the next 10-year period. Beginning January 2010, each qualifying utility must meet biennial conservation targets that are consistent with its conservation assessments.

In meeting its conservation targets, a qualifying utility may count certain types of customer-owned and operated high-efficiency cogeneration facilities. High-efficiency cogeneration is the sequential production of electricity and useful thermal energy from a common fuel source where, under normal operating conditions, the facility has a useful thermal energy output of no less than 33 percent of the total energy output.

### Eligible Renewable Resources.

Under Initiative 937, the following types of resources are defined as renewable resources: (1) water; (2) wind; (3) solar energy; (4) geothermal energy; (5) landfill gas; (6) wave, ocean, or tidal power; (7) gas from sewage treatment facilities; (8) biodiesel fuel that meets statutory motor fuel quality standards and is not derived from crops raised on land cleared from old growth or first-growth forests where the clearing occurred after December 7, 2006; and (9) biomass energy.

Biomass energy may be based on animal waste or solid organic fuels from wood, forest, or field residues, or dedicated energy crops that do not include: (1) wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic; (2) black liquor by-product from paper production; (3) wood from old growth forests; or (4) municipal solid waste.

For renewable resources to be considered an eligible renewable resource, the electricity produced from an eligible renewable resource must be generated in a facility that started operating after March 31, 1999. The facility must either be located in the Pacific Northwest or the electricity from the facility must be delivered into the state on a real-time basis. Incremental electricity produced from efficiency improvements at hydropower facilities owned by qualifying utilities is also an eligible renewable resource, if the improvements were completed after March 31, 1999 and the improvements do not result in new water diversions or impoundments.

#### Renewable Energy Credit.

A renewable energy credit (REC) is a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource where the generation facility is not powered by fresh water. The RECs includes all of the nonpower attributes associated with that one megawatt-hour of electricity, and the REC is verified by the Western Renewable Energy Generation Information System (WREGIS). The RECs may be used to meet eligible renewable resources targets during the year they are acquired, the previous year, or the subsequent year.

#### Nonpower Attributes of Renewable Energy Credits.

The "nonpower attributes" of a REC are all environmentally related characteristics, exclusive of energy, capacity reliability, and other electrical power service attributes, that are associated with the generation of electricity from a renewable resource.

#### Reporting Requirements.

Beginning June 1, 2012, each qualifying utility must annually report to the appropriate state agency on its progress in meeting the renewable resource and energy conservation targets during the preceding year. Each qualifying utility must make these reports available to its customers.

The report must include expected electricity savings from the biennial conservation target, expenditures on conservation, actual electricity savings results, the utility's annual load for the prior two years, the amount of megawatt-hours needed to meet the annual renewable energy target, the amount of megawatt-hours of each type of eligible renewable resource acquired, the type and amount of renewable energy credits acquired, and the percent of its total annual retail revenue requirement invested in the incremental cost of eligible renewable resources and the cost of renewable energy credits.

#### Western Electricity Coordinating Council.

The Western Electricity Coordinating Council (WECC) is a regional electric reliability council that coordinates and ensures the reliability of the Western Interconnection Bulk Power System. Its membership includes transmission operators, utilities, utility customers, and state and provincial regulators. The WECC territory covers all or portions of 14 western states, the provinces of Alberta and British Columbia, and the northern portion of Baja California, Mexico.

#### Sixth Northwest Power Plan.

The Northwest Power Plan is produced every five years by the Pacific Northwest Electric Power and Conservation Planning Council (Council) and advises the Bonneville Power Administration (BPA), the federal agency that is the region's largest electricity supplier with 147 utility customers. The BPA's administrator is required to make decisions about future electricity supplies that are consistent with the Council's power plan. Also, the Northwest Power Plan serves a regional plan to assist electric utilities in their own planning within their service territories.

The Council is expected to release its Sixth Northwest Power Plan in the first half of 2010.

### **Summary of Bill:**

#### Eligible Renewable Resource Targets.

Each qualifying utility may use a combination of eligible renewable resources, RECs, and up to 25 percent of the conservation achieved in excess of its biennial energy conservation targets to meet the following targets:

- at least 3 percent of its load by January 1, 2012, and each year thereafter through December 31, 2015;
- at least 10.25 percent of its load by January 1, 2016, and each year thereafter through December 31, 2019; and
- at least 16.25 percent of its load by January 1, 2020, and each year thereafter.

In addition, it is the goal of the state for each qualifying utility to use eligible renewable resources or acquire equivalent renewable energy credits, or a combination of both, to meet an annual renewable resource goal of at least 20 percent of its load by January 1, 2024, and each year thereafter.

#### Conservation Targets.

The date by which each qualifying utility must identify its achievable cost-effective conservation potential through 2019 using methodologies consistent with the most recently published Northwest Power Plan is changed from January 1, 2010 to the effective date of this act.

In meeting its conservation targets, a qualifying utility may count high-efficiency cogeneration owned and used by a retail electric customer, if the cogeneration facility is designed to have a projected overall thermal conversion efficiency of at least 70 percent.

A qualifying utility may not use incremental electricity produced as a result of efficiency improvements to hydroelectric generation facilities to meet its biennial conservation acquisition target, if the efficiency improvements were used to meet its eligible renewable resources targets.

#### Expansion of Eligible Renewable Resources.

The definition of "eligible renewable resources" is modified to: (1) expand the geographic region in which the renewable resource facility must be located; (2) allow for incremental electricity produced from equipment efficiency improvements at federal hydroelectric generation

facilities; and (3) permit electricity from certain biomass energy generation facilities built before March 31, 1999.

The geographic region in which each qualifying utility may generate or derive eligible renewable resources and RECs is enlarged from the Pacific Northwest to that of the Western Electricity Coordinating Council (WECC). Incremental electricity produced as a result of equipment efficiency improvements to hydroelectric generation facilities whose energy output is marketed by the BPA is considered an eligible renewable resource. Equipment efficiency improvements must have been completed after March 31, 1999 and must not result in new water diversions or an increase in the amount of water storage. Also considered an eligible renewable resource is the electricity from a biomass energy generation facility located in Washington that commenced operation before March 31, 1999, and that has been significantly modified after the effective date of the act. Significantly modified is defined as the installation, replacement, or modification of equipment that improves the heat rate of the facility by at least 25 percent.

#### Biomass Energy.

The definition of "biomass energy" is modified to allow for the following biomass energy resources to qualify as a renewable resource: (1) by-products of pulping and wood manufacturing processes; (2) wooden demolition or construction debris; (3) food waste; (4) liquors derived from algae and other sources; (5) biosolids; and (6) yard waste. Additionally, biodiesel fuel that is derived from first-growth forests where the clearing occurred after December 7, 2006 is allowed as biomass energy resource.

#### Renewable Energy Credits.

A qualifying utility may meet its renewable resource target requirements with renewable energy credits that are generated during that the target year, the preceding two years, or the first three months of the subsequent year.

#### Nonpower Attributes of Anaerobic Digesters and Landfill Gas Collection Systems.

Anaerobic digesters, landfill gas collection systems, and other mechanisms that provides on-site capture and destruction of methane or other greenhouse gases are allowed to separately market their nonpower attributes as either RECs or greenhouse gas emissions reduction credits, offsets, or similar tradable commodities. Greenhouse gases are defined as the following: (1) carbon dioxide, (2) methane, (3) nitrous oxide, (4) hydrofluorocarbons, (5) perfluorocarbons, and (6) sulfur hexafluoride.

#### Solar Energy Multiplier.

Between the effective date of this act and December 31, 2017, a qualifying utility may count the electricity from certain solar energy systems at two times its base value. Eligible solar energy systems include: (1) photovoltaic facilities located in Washington using solar inverters and modules manufactured in Washington, or (2) solar thermal electric systems located and manufactured in Washington. A qualifying utility may count the electricity from these solar energy systems if it: (1) owns or has contracted for the solar energy generation and the

associated renewable energy credits; or (2) has contracted to purchase the associated renewable energy credits.

### Renewable Energy and Conservation Implementation and Progress Reports.

In addition to other reporting requirements, each qualifying utility must also annually submit to the appropriate state agency an implementation plan for meeting the renewable energy targets for the current target year. The plan may not be the basis for enforcement actions or penalties against the qualifying utility.

The plan must include: (1) the qualifying utility's average of its load for the most recent two years; (2) projected load and megawatt-hour target for the current year based on load forecasts in the utility's most recently acknowledged integrated resource plan; and (3) an estimate of the quantity of eligible renewable resources and renewable energy credits, not to include information associated with specific resources or costs, that the qualifying utility will require to meet the target for the current target year.

By June 1st of the year subsequent to the target year, each qualifying utility must annually report to the appropriate state agency on its progress in meeting the renewable energy targets. The report must include: (1) the utility's annual load for the prior two years; (2) the amount of megawatt-hours needed to meet the annual renewable energy target; (3) the amount of megawatt-hours of each type of eligible renewable resource acquired; (4) the type and amount of renewable energy credits acquired; and (5) the percent of its total annual retail revenue requirement invested in the incremental cost of eligible renewable resources and the cost of renewable energy credits.

### Studies.

By June 30, 2013, the Joint Legislative Audit and Review Committee (JLARC) must publish a study on the costs and benefits of the renewable and conservation targets, including an examination of how the targets affect: (1) the cost of electricity for commercial, industrial, and residential customers of each qualifying utility; and (2) the development of renewable energy.

By December 1, 2013, the Department of Commerce must contract with a mutually acceptable person or entity to study the feasibility of measuring hydroelectric power that is used to integrate an eligible renewable resource and whether classifying such hydroelectric power as an eligible renewable resource will further the purposes of Initiative 937. Before selecting the contractor, the Department of Commerce must consult the following: (1) qualifying utilities; (2) large industrial customers; (3) organizations representing environmental interests; and (4) any other directly interested organizations and associations.

**Appropriation:** None.

**Fiscal Note:** Requested.

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