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HOUSE BILL 2045

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State of Washington

64th Legislature

2015 Regular Session

By Representative Morris

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1 AN ACT Relating to promoting development of reliable distributed  
2 energy resources through extending and modifying an existing tax  
3 incentive for certain net metering systems, preserving the existing  
4 ground rules for net metering until net metering systems' generating  
5 capacity equals 0.5 percent of the utility's 1996 peak demand,  
6 requiring distribution resources planning, and authorizing a  
7 reliability charge and other alternatives to existing ground rules  
8 for net metering, for a utility that has achieved the existing 0.5  
9 percent interconnection requirement for net metering systems; adding  
10 a new chapter to Title 80 RCW; and creating a new section.

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

12 NEW SECTION. **Sec. 1.** The legislature finds and declares that:

13 (1) It is the intent of the legislature to promote development of  
14 reliable distributed energy resources through extending and modifying  
15 an existing tax incentive for certain net metered systems, while  
16 providing rate-recovery mechanisms to ensure the integration of such  
17 distributed energy resources into the utility grid after the existing  
18 net metering threshold of 0.5 percent is reached does not impact  
19 reliability of the distribution system.

20 (2) Altering the ground rules for net metered systems, prior to  
21 reaching the 0.5 percent threshold in existing law, would provide

1 undue uncertainty for utility customers about the value of  
2 distributed generation investments, undermine the policy of promoting  
3 development of these distributed energy resources until there is  
4 sufficient distributed energy resources installed on the grid to  
5 allow objective determination of any cost shifts caused by such  
6 resources, and is inconsistent with the intent of this legislation.

7 (3) Rapidly changing market conditions are occurring in our  
8 electric utility sector, and 2012 may well be the peak year for per  
9 capita energy consumption. When combined with Washington state  
10 citizens' desire for energy independence and self-generation of  
11 electricity, utilities are finding less revenue in the current  
12 volumetric rate recovery system they utilize to pay for  
13 infrastructure costs as well as more competition from distributed  
14 generation technologies.

15 (4) Washington state needs healthy utilities and competition.  
16 After the existing net metering threshold of 0.5 percent is reached,  
17 rapid build-out of electricity generation owned by consumers who both  
18 produce and consume electricity, known as prosumers, can challenge  
19 and render obsolete the careful balance of values established by our  
20 current net metering law. The state needs to adopt intermediate tools  
21 in order to ensure the healthy transition to our electric grid of the  
22 future.

23 (5) The legislature intends to modify the existing renewable  
24 energy investment cost recovery incentive program, improve  
25 utilization of the incentive by residents, utilities, and businesses  
26 in the state, streamline program administration, and incubate the  
27 development of clean energy manufacturing. The clean technology  
28 sector of Washington's economy has been experiencing rapid growth,  
29 even in a time when other sectors have been stagnant or in a  
30 recession. In extending and modifying tax incentives for renewable  
31 energy systems, the legislature intends to continue to grow a vibrant  
32 clean technology sector in Washington state.

33 NEW SECTION. **Sec. 2.** The definitions in this section apply  
34 throughout this chapter unless the context clearly requires  
35 otherwise.

36 (1) "Avoided environmental cost" means the costs of compliance  
37 with state and federal environmental regulations and the savings and  
38 external environmental benefits, such as mitigation of environmental  
39 damage, including but not limited to sulfur dioxide emissions, water

1 contamination, and soil erosion, from operating the distributed  
2 resources instead of operating the benchmark generation asset.

3 (2)(a) "Avoided fuel cost" means:

4 (i) In the case of a nonacquiring utility, the five-year rolling  
5 average cost, if any, of fuel for the benchmark generation asset; or

6 (ii) In the case of all other electric utilities, the five-year  
7 rolling average cost of natural gas fuel at the Sumas index price of  
8 the quantity that would be purchased for a combined cycle gas turbine  
9 plant operating on the margin to meet electric load and related  
10 transmission and distribution losses.

11 (b) For the purposes of (a)(ii) of this subsection, whether the  
12 electric utility receives the fuel cost savings directly by avoiding  
13 fuel purchases, or indirectly by reducing wholesale power purchases,  
14 the method of calculating the avoided fuel cost value is the same.

15 (3) "Avoided generation capacity cost" means the effective load-  
16 carrying capability of the fleet of photovoltaic systems or other  
17 distributed generation assets, as determined in the case of  
18 photovoltaic systems through an analysis of hourly photovoltaic  
19 output relative to overall utility load.

20 (4) "Avoided operation and maintenance cost" means any operations  
21 and maintenance costs not incurred as a result of operating the  
22 distributed resources instead of operating the benchmark generation  
23 asset.

24 (5) "Avoided reserve capacity cost" means the difference in  
25 planning margin required to ensure reliability of the transmission  
26 and distribution grid due to operation of the distributed resources.

27 (6) "Avoided transmission and distribution capacity costs" means  
28 the financial savings resulting from deferring capacity additions  
29 attributable to the distributed resources.

30 (7) "Benchmark generation asset" means one of the following:

31 (a) In the case of a nonacquiring utility, the existing  
32 generation asset that generates electricity from the dominant  
33 resource in the utility's portfolio, which is the resource with the  
34 highest percentage in the fuel mix disclosure required under RCW  
35 19.29A.060.

36 (b) In the case of all other electric utilities, a natural gas  
37 combined cycle turbine with an emissions output equivalent to the  
38 average as determined under RCW 80.80.050.

39 (8) "Consumer-owned utility" means, where such entity is engaged  
40 in the business of distributing electricity to one or more retail

1 electric customers in the state, a municipal electric utility formed  
2 under Title 35 RCW, a public utility district formed under Title 54  
3 RCW, an irrigation district formed under chapter 87.03 RCW, a  
4 cooperative formed under chapter 23.86 RCW, a mutual corporation or  
5 association formed under chapter 24.06 RCW, a port district formed  
6 under Title 53 RCW, or a water-sewer district formed under Title 57  
7 RCW.

8 (9) "Distributed resources" means distributed renewable  
9 generation resources, energy efficiency, energy storage, electric  
10 vehicle infrastructure, and demand response technologies.

11 (10) "Electric utility" has the same meaning as in RCW 80.60.010.

12 (11) "Governing body" means the board of directors or legislative  
13 authority of a consumer-owned utility.

14 (12) "New customer" means an electric utility customer who is  
15 establishing service for the first time at a new meter connected to a  
16 utility's distribution system.

17 (13) "Nonacquiring utility" means an electric utility that:

18 (a) Within twenty-four months prior to the effective date of this  
19 section, has not acquired a generation resource, whether through  
20 ownership or a long-term power purchase agreement; and

21 (b) Has not acquired a generation resource through ownership or  
22 long-term power purchase agreement after the effective date of this  
23 section by the date that the electric utility adopts one of the  
24 alternative plans or mechanisms authorized in sections 3 through 6 of  
25 this act.

26 (14) "Prosumer" means:

27 (a) A customer-generator as defined in RCW 80.60.010 or an  
28 electric utility customer with a production meter connected to a  
29 utility's distribution system that measures production of electricity  
30 generated on the customer's premises, and such electricity is  
31 intended to offset part or all of the customer's electricity  
32 requirements; or

33 (b) An electric utility customer who enters into a special  
34 arrangement with a utility to:

35 (i) Obtain premium services, such as enhanced reliability or  
36 voltage control, requiring extraordinary capital investment; or

37 (ii) Provide premium services such as demand response, energy  
38 storage, and load management.

1        NEW SECTION.        **Sec. 3.**        (1) After an electric utility has  
2 interconnected net metering systems pursuant to RCW 80.60.020 such  
3 that the cumulative generating capacity allocated to net metering  
4 systems by that utility equals 0.5 percent or more of the utility's  
5 peak 1996 demand, the electric utility shall submit to the  
6 commission, in the case of an electrical company, or to the  
7 appropriate governing body, in the case of other electric utilities,  
8 a distribution resources plan proposal to identify optimal locations  
9 and circumstances for the deployment of distributed resources. Each  
10 proposal must:

11        (a) Evaluate locational benefits and costs of distributed  
12 resources located on the distribution system based on reductions or  
13 increases in local generation capacity needs, avoided or increased  
14 investments in distribution infrastructure, safety benefits,  
15 reliability benefits, and any other savings the distributed resources  
16 provide to the electrical grid or costs to ratepayers of the  
17 electrical corporation;

18        (b) Propose or identify standard tariffs, contracts, or other  
19 mechanisms for the deployment of cost-effective distributed resources  
20 that could assist in satisfying distribution planning objectives;

21        (c) Propose cost-effective methods of effectively coordinating  
22 existing approved programs, incentives, and tariffs to maximize the  
23 locational benefits and minimize the incremental costs of distributed  
24 resources;

25        (d) Identify any additional utility spending necessary to  
26 integrate cost-effective distributed resources into distribution  
27 planning consistent with the goal of yielding net benefits to  
28 ratepayers; and

29        (e) Identify barriers to the deployment of distributed resources,  
30 including but not limited to safety standards related to technology  
31 or operation of the distribution circuit in a manner that ensures  
32 reliable service.

33        (2)(a) The commission or the governing body shall review the  
34 distribution resources plan proposal and approve, modify and approve,  
35 or reject the distribution resources plan for the utility.

36        (b) The commission or governing body may modify any plan as  
37 appropriate to minimize overall system costs and maximize ratepayer  
38 benefit from investments in distributed resources.

39        (3)(a) Expenditures identified in an approved distribution  
40 resources plan for ensuring reliability, including the acquisition or

1 operation of infrastructure necessary to accomplish the plan, may be  
2 recovered as a reliability charge through an application to or  
3 proceeding before the commission, in the case of an electrical  
4 company, or an application to or proceeding before the governing  
5 body, in the case of other electric utilities.

6 (b) A reliability charge issued under this section is not an  
7 additional standby, capacity, interconnection, or other fee or charge  
8 for purposes of RCW 80.60.020(1)(c).

9 (4) The commission or the governing body may approve recovering  
10 proposed expenditures as a reliability charge or adopt one of the  
11 mechanisms provided in sections 4 through 6 of this act if it  
12 concludes that:

13 (a) Ratepayers would realize net benefits from the expenditure;

14 (b) The associated costs are just and reasonable; and

15 (c) The proposed reliability charge or mechanism does not  
16 discriminate between classes of customers that generate more revenues  
17 for the utility and prosumers who generate less revenues on the basis  
18 of the difference in revenues generated.

19 (5) The commission or governing body may adopt criteria,  
20 benchmarks, and accountability mechanisms that assist evaluation of  
21 the success of any investment authorized pursuant to a distribution  
22 resources plan under this section.

23 NEW SECTION. **Sec. 4.** (1) Upon the request of an electrical  
24 company, the commission shall conduct rule making to establish a  
25 methodology for determining a tariff that compensates prosumers for  
26 the value to the electrical company and its customers of installing  
27 and operating distributed resources interconnected to the utility  
28 system.

29 (2) The methodology must include, at a minimum, a method for  
30 calculating the following eight component values generated by  
31 operation of the distributed resources:

32 (a) Avoided fuel cost;

33 (b) Avoided operation and maintenance fixed and variable costs;

34 (c) Avoided generation capacity cost;

35 (d) Avoided reserve capacity cost;

36 (e) Avoided transmission and distribution capacity costs;

37 (f) The value of voltage regulation service, if such service is  
38 provided by a utility;

1 (g) The costs of integrating service to new customers into  
2 existing service; and

3 (h) Avoided environmental costs.

4 (3) As part of the rule making, the commission must publish a  
5 calculation table that an electrical company filing for a value of  
6 distributed generation tariff must populate with relevant data.

7 (4) An electrical company that has an approved distribution  
8 resources plan as provided in section 3 of this act may apply to the  
9 commission for approval of a value of distributed generation tariff  
10 if such tariff is consistent with the plan.

11 (a) The electrical company shall populate the calculation table  
12 created by the commission with company-specific data and submit it  
13 with its application for a tariff under this section.

14 (b) An electrical company may determine that one or more of the  
15 component values listed in subsection (2) of this section may not be  
16 included in calculating the value of distributed resources for that  
17 utility. An electrical company who opts to omit one or more of the  
18 component values must submit to the commission a written statement  
19 explaining its decision not to incorporate each component value in  
20 the calculation of the value of distributed resources and its reasons  
21 for determining that such exclusion is not discriminatory to  
22 prosumers.

23 (c) An electrical company may also consider other components or  
24 criteria not listed in subsection (2) of this section, but in order  
25 to include such components in the methodology, the electrical company  
26 must issue a written statement explaining the additional components  
27 considered and the reason for the inclusion of each additional  
28 component, including its reasons for determining that such inclusion  
29 is not discriminatory to prosumers.

30 (5) An electrical company implementing a tariff as provided under  
31 this section may not assess a standby charge to prosumers.

32 (6) Under the tariff, a prosumer must be billed for all  
33 electricity usage at the same rate that all customers of that rate  
34 class are billed.

35 (a) Energy derived from distributed generation assets may not be  
36 used to offset net usage prior to calculating this charge.

37 (b) The prosumer must receive a credit against its monthly bill  
38 for the gross customer-generated electricity produced by the  
39 distributed generation asset, discounted or enhanced at the rate  
40 determined through application of the methodology developed by rule,

1 and based on the calculation performed under subsection (4) of this  
2 section.

3 (7) The commission shall, after notice and opportunity for public  
4 comment, approve the value of distributed generation tariff if it  
5 determines that the electrical company:

6 (a) Has correctly applied the methodology established by the  
7 commission; and

8 (b) Has issued the required statement or statements explaining  
9 its decision not to incorporate any of the component values or to  
10 include additional component values and why such decisions are  
11 nondiscriminatory to prosumers.

12 (8) An electrical company that elects to utilize a value of a  
13 distributed generation tariff may recalculate the tariff and file the  
14 recalculated tariff with the commission for approval if the  
15 electrical company deems such recalculation necessary in light of  
16 changed circumstances, including but not limited to increased or  
17 decreased fuel prices or modified hourly utility load profiles.

18 NEW SECTION. **Sec. 5.** (1) A consumer-owned utility that has an  
19 approved distribution resources plan as provided in section 3 of this  
20 act may implement a value of distributed generation rate that is  
21 consistent with the plan as provided in this section.

22 (2) The governing body may use a methodology developed by the  
23 commission under this section or may establish a methodology for  
24 calculating the value of distributed generation rate through a public  
25 process. The public process must include, at a minimum, consideration  
26 of each of the components listed in section 4(2) of this act.

27 (3) As part of public process, the governing body must publish a  
28 calculation table that the consumer-owned utility must use in  
29 calculating the value of distributed generation rate by populating it  
30 with relevant data.

31 (a) The governing body may determine that one or more of the  
32 component values listed in section 4(2) of this act may not be  
33 included in the methodology and calculation of the value of  
34 distributed resources for that utility. A governing body that opts to  
35 omit one or more of the component values must publicly issue a  
36 written statement explaining its decision and reasons for not  
37 incorporating those component values in the calculation of the value  
38 of distributed resources and the reasons that such decision is not  
39 discriminatory against prosumers.

1 (b) The governing body may also include in the methodology and  
2 calculation table other components or criteria not listed in section  
3 4(2) of this act, but in order to include such components, the  
4 governing body must issue a written statement explaining the  
5 additional components considered and the reason for their inclusion,  
6 including the reason that such inclusion is not discriminatory  
7 against prosumers.

8 (4) A consumer-owned utility seeking to implement a value of  
9 distributed generation rate shall populate the calculation table  
10 developed by its governing body with utility-specific data.

11 (5) A consumer-owned utility implementing a rate as provided in  
12 this section may not assess a standby charge to prosumers.

13 (6) Under the rate, a prosumer must be billed for all electricity  
14 usage at the same rate that all customers of that rate class are  
15 billed.

16 (a) Energy derived from distributed generation assets may not be  
17 used to offset net usage prior to calculating this charge.

18 (b) The prosumer must receive a credit against its monthly bill  
19 for the gross customer-generated electricity produced by the  
20 distributed generation asset, discounted or enhanced at the rate  
21 determined through application of the methodology developed by the  
22 governing body, and based on the calculation performed under  
23 subsection (4) of this section.

24 (7) The governing body may, after notice and opportunity for  
25 public comment, approve the value of distributed generation rate if:

26 (a) It determines that the staff of the consumer-owned utility  
27 have correctly applied the methodology; and

28 (b) The governing body has issued the required statement or  
29 statements explaining the decision not to incorporate any of the  
30 component values or to include additional component values and why  
31 such decisions are nondiscriminatory to prosumers.

32 (8) A governing body that elects to utilize a value of a  
33 distributed generation rate may recalculate the rate and adopt the  
34 revised rate through a public process if it deems such recalculation  
35 necessary in light of changed circumstances, including but not  
36 limited to increased or decreased fuel prices or modified hourly  
37 utility load profiles.

1        NEW SECTION.    **Sec. 6.**    (1) An electric utility that has an  
2 approved distribution resources plan may adopt a long-term contract  
3 mechanism as provided in this section.

4        (2) The electric utility and the prosumer shall enter into a  
5 long-term contract in which the prosumer is guaranteed a fixed price  
6 payment at a retail rate for a certain level of electricity that the  
7 prosumer commits to generating over an interval of time, such as  
8 quarter over quarter or year over year, as specified in the contract.

9        NEW SECTION.    **Sec. 7.**    Sections 2 through 6 of this act  
10 constitute a new chapter in Title 80 RCW.

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