
HOUSE BILL 1096

State of Washington

64th Legislature

2015 Regular Session

By Representative Morris

Prefiled 01/09/15.

1 AN ACT Relating to promoting a more efficient and reliable
2 electric distribution system; and adding a new chapter to Title 80
3 RCW.

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

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

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

13 (2) Washington state needs healthy utilities. The rapid build-out
14 of electricity generation owned by consumers who both produce and
15 consume electricity, known as prosumers, is challenging and rendering
16 obsolete the careful balance of values established by our current net
17 metering law. The state needs to adopt intermediate tools in order to
18 ensure the health of our utilities.

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

4 (1) "Avoided environmental costs" means the costs of compliance
5 with state and federal environmental regulations and also the savings
6 and external environmental benefits, such as mitigation of
7 environmental damage including but not limited to sulfur dioxide
8 emissions, water contamination, and soil erosion, from operating the
9 distributed generation asset instead of operating a natural gas
10 combined cycle turbine with an emissions output equivalent to the
11 average as determined under RCW 80.80.050.

12 (2) "Avoided fuel cost" means the five-year rolling average cost
13 of natural gas fuel at the Sumas index price of the quantity that
14 would have to be purchased for a combined cycle gas turbine plant
15 operating on the margin to meet electric load and related
16 transmission and distribution losses. Whether the utility receives
17 the fuel cost savings directly by avoiding fuel purchases, or
18 indirectly by reducing wholesale power purchases, the method of
19 calculating the avoided fuel cost value is the same.

20 (3) "Avoided generation capacity cost" means the effective load-
21 carrying capability of the fleet of photovoltaic systems or other
22 distributed generation assets, as determined in the case of
23 photovoltaic systems through an analysis of hourly photovoltaic
24 output relative to overall utility load.

25 (4) "Avoided operation and maintenance cost" means the operations
26 and maintenance costs not incurred for operating a combined cycle gas
27 turbine.

28 (5) "Avoided reserve capacity cost" means the difference in
29 planning margin required to ensure reliability of the transmission
30 and distribution grid.

31 (6) "Avoided transmission and distribution capacity costs" means
32 the financial savings resulting from deferring capacity additions.

33 (7) "Consumer-owned utility" means, where such entity is engaged
34 in the business of distributing electricity to one or more retail
35 electric customers in the state, a municipal electric utility formed
36 under Title 35 RCW, a public utility district formed under Title 54
37 RCW, an irrigation district formed under chapter 87.03 RCW, a
38 cooperative formed under chapter 23.86 RCW, a mutual corporation or
39 association formed under chapter 24.06 RCW, a port district formed

1 under Title 53 RCW, or a water-sewer district formed under Title 57
2 RCW.

3 (8) "Electric utility" has the same meaning as in RCW 80.60.010.

4 (9) "Governing board" means the board of directors or legislative
5 authority of a consumer-owned utility.

6 (10) "New customer" means an electric utility customer who is
7 establishing service for the first time at a new meter connected to a
8 utility's distribution system.

9 (11) "Prosumer" means:

10 (a) A customer-generator as defined in RCW 80.60.010;

11 (b) An electric utility customer with a production meter
12 connected to a utility's distribution system that measures production
13 of electricity generated on the customer's premises intended to
14 offset part or all of the customer's electricity requirements; or

15 (c) A utility customer who enters into a special arrangement with
16 a utility to:

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

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

21 NEW SECTION. **Sec. 3.** (1) After the cumulative generating
22 capacity of net metering systems connected to an electric utility's
23 distribution grid equals fifty percent or more of a utility's peak
24 1996 demand, an electric utility may elect, in lieu of charging
25 customer-generators the minimum monthly fee charged to all customers
26 of the same rate class provided in RCW 80.60.020(1)(c), to adopt an
27 alternative to net metering valuation mechanism, as provided in one
28 of the following sections of this chapter: The fixed charge
29 established in section 4 of this act, the value of distributed
30 generation tariff established in section 7 of this act, or the long-
31 term contract established in section 9 of this act.

32 (2) An alternative to net metering valuation mechanism adopted
33 under authority of this chapter must:

34 (a) Be approved by the utilities and transportation commission,
35 in the case of an electrical company; or

36 (b) Be approved by the governing board, in the case of a
37 consumer-owned utility.

1 (3) The commission or governing board must approve the
2 alternative to net metering valuation mechanism if it determines that
3 adopting the alternative mechanism would:

4 (a) Reasonably reflect an appropriate apportionment of the
5 different costs of serving large and small customers;

6 (b) Not impair incentives for conservation and energy efficiency;
7 and

8 (c) Not overburden low-income customers.

9 NEW SECTION. **Sec. 4.** (1) An electric utility may assess the
10 alternative to net metering mechanism authorized under section 3 of
11 this act as a fixed charge to all new customers as provided in this
12 section.

13 (2) The fixed charge may be assessed on a monthly or annual basis
14 or at a billing cycle interval that is intermediate between monthly
15 and annually, at the electric utility's option.

16 (3) The fixed charge may be assessed beginning with the first
17 billing period that a new meter has been interconnected to the
18 utility and for a duration not to exceed the amount of time that the
19 electric utility amortizes the capital investments necessitated by
20 servicing the new customer.

21 (4) The amount of fixed charge that may be assessed to a new
22 customer is equal to but not greater than the amount necessary to
23 avoid cost shifting to existing customers, as established in this
24 subsection. The commission, in the case of an electrical company, or
25 the governing body, in the case of a consumer-owned utility, must
26 establish a methodology for determining the avoided cost shift. The
27 avoided cost shift must account for the incremental additional cost
28 of providing new service to a new customer, including the following:

29 (a) Additional operation and maintenance costs incurred in
30 servicing the customer, including personnel costs;

31 (b) Costs attributable to the customer associated with
32 installing, maintaining, or upgrading wires, transformers, meters,
33 and substations; and

34 (c) Incremental additional costs incurred from the need to
35 provide meter reading, billing, customer service, and service drop
36 response to the customer.

37 (5) An electric utility may charge a new prosumer a fixed charge
38 that is greater than the fixed charge assessed to new customers in

1 the same rate class who are not prosumers only as provided in this
2 subsection.

3 (a) The electric utility may assess the incremental additional
4 cost of providing new service to a new customer, as calculated under
5 subsection (4) of this section and as assessed to all new customers.

6 (b) The electric utility may assess a charge to a new prosumer
7 that is calculated by multiplying: (i) The percentage of the
8 prosumer's annual electricity requirements at the meter that the
9 prosumer meets through its own generation as a customer-generator; by
10 (ii) the additional cost charged to a new customer, as determined in
11 subsection (4) of this section. For example, a prosumer who generates
12 fifty percent of the prosumer's own electricity requirements may be
13 assessed an additional fixed charge that is fifty percent greater
14 than the fixed charge assessed to a new customer who is not a
15 prosumer.

16 NEW SECTION. **Sec. 5.** The legislature finds and declares that it
17 is desirable to develop a fair and transparent value of distributed
18 generation tariff that accounts for the real value of customer-
19 generated electricity and the real value of services that utilities
20 provide to customer generators. A fair and transparent value of
21 distributed generation tariff will provide market signals promoting
22 the adoption of technologies that enhance the value of electricity
23 from distributed generation sources, such as advanced inverters that
24 provide voltage regulation benefits.

25 NEW SECTION. **Sec. 6.** (1) The commission must conduct a rule
26 making to establish a methodology for determining a tariff that
27 compensates prosumers for the value to the electrical company and its
28 customers of installing and operating distributed generation
29 resources interconnected to the utility system.

30 (2) The methodology must include at a minimum a method for
31 calculating the following eight component values of a distributed
32 generation asset, as compared to the comparable cost of generating
33 electricity by operating a combined cycle natural gas turbine:

34 (a) Avoided fuel cost;

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

36 (c) Avoided generation capacity cost;

37 (d) Avoided reserve capacity cost;

38 (e) Avoided transmission and distribution capacity costs; and

1 (f) Avoided environmental costs.

2 (3) In addition to the component values listed in subsection (2)
3 of this section, the commission must develop a methodology for
4 measuring:

5 (a) The value of voltage regulation service, if such service is
6 provided by a utility; and

7 (b) The costs of integrating service to new customers into
8 existing service.

9 (4) As part of the rule making, the commission must publish a
10 calculation table that an electrical company filing for a value of
11 distributed generation tariff may populate with relevant data, as
12 provided in section 7 of this act.

13 (5) A governing board of a consumer-owned utility may:

14 (a) Adopt the methodologies in the value of distributed
15 generation tariff adopted by the commission under subsections (1)
16 through (4) of this section; or

17 (b) Convene a public work group to develop its own value of
18 distributed generation tariff, which must include the minimum avoided
19 cost components outlined in subsections (2) and (3) of this section.

20 NEW SECTION. **Sec. 7.** (1) An electrical company may apply to the
21 commission for approval of a value of distributed generation tariff
22 as an alternative to net metering arrangement authorized under
23 section 3 of this act, as provided in this section.

24 (2) The tariff applies for a term of seven years to all new
25 interconnections established over the one-year period following the
26 date of the tariff's approval.

27 (3)(a) A prosumer must be billed for all electricity usage at the
28 same rate that all customers of that rate class are billed. Energy
29 derived from distributed generation assets may not be used to offset
30 net usage prior to calculating this charge.

31 (b) The prosumer must receive a credit for the gross customer-
32 generated electricity produced by the distributed generation asset at
33 the rate determined under the methodology developed by rule pursuant
34 to section 6 of this act.

35 (c) An electrical company implementing a tariff as provided under
36 this section may not assess a standby charge to prosumers.

37 (4) The commission shall after notice and opportunity for public
38 comment approve the value of distributed generation tariff if it
39 determines that the electrical company has appropriately applied the

1 methodology established by the commission under section 6 of this
2 act.

3 (5) An electrical company that elects to utilize a value of a
4 distributed generation tariff must recalculate the tariff on an
5 annual cycle and must file the recalculated tariff with the
6 commission for approval. The annual recalculation may account for
7 changes, including but not limited to increased or decreased fuel
8 prices or modified hourly utility load profiles. If approved by the
9 commission, the recalculated value of distributed generation rate
10 applies, for a term of seven years to all prosumers entering the
11 tariff for a one-year period from the date of approval.

12 (6) The governing body of a consumer-owned utility that has
13 developed a value of distributed generation tariff as provided in
14 section 6(5) of this act may implement the tariff and bill prosumers
15 for electricity usage as provided in subsections (2) and (3) of this
16 section, and must recalculate the tariff annually as provided in
17 subsection (5) of this section.

18 NEW SECTION. **Sec. 8.** The legislature finds and declares that:

19 (1) The state, national, and global shift toward energy
20 independence and local resiliency is driving a change in transmission
21 and distribution of electricity that requires a network of prosumers
22 who both produce and consume electricity according to their
23 individual profiles, thus giving rise to flows of electricity that
24 continuously vary in magnitude and direction.

25 (2) Such continuous bidirectional fluctuations pose unique
26 challenges to transmission and distribution utilities, but also open
27 up a space for those companies and individuals interested in making
28 long-term investment decisions related to the acquisition of
29 generation or storage capacity and in exploring short-term strategies
30 on trading electricity as an asset.

31 (3) It is desirable to adopt market changes that empower
32 prosumers to act in the electricity market not simply as a producer
33 or essentially price-indifferent consumer, but instead in a manner
34 that maximizes efficiency and allows prosumers and utilities together
35 to act more profitably.

36 (4) The first step towards such market transformation is enacting
37 a policy that allows a prosumer to enter a long-term contract as an
38 alternative net metering agreement. In this long-term contract, the
39 prosumer projects its electricity production for a set period of

1 time, and the utility measures the prosumer's actual electricity
2 production, compensating or charging the prosumer for the difference
3 between what actually was produced by the prosumer and what the
4 prosumer agreed with the utility that the prosumer would produce.

5 NEW SECTION. **Sec. 9.** (1) An electric utility may adopt a long-
6 term contract mechanism as an alternative to the net metering
7 valuation mechanism authorized under section 3 of this act, as
8 provided in this section.

9 (2) The electric utility and the prosumer shall enter into a
10 long-term contract in which the prosumer is guaranteed a fixed price
11 payment at a retail rate for a certain level of electricity that the
12 prosumer commits to generating over a specific interval of time.

13 (a) The interval at which a prosumer's electricity generation
14 must be projected and measured must be at least on a quarterly basis
15 and ideally on an annual basis, as designated in the long-term
16 contract.

17 (b) The utility shall measure the prosumer's actual electricity
18 production and perform a paper calculation that compensates the
19 prosumer at the spot market price for electricity generated in excess
20 of the amount specified in the contract over the designated time
21 interval.

22 (c) If there is a deficit between the prosumer's projected and
23 actual electricity production, the utility shall charge the prosumer
24 for the difference, at the spot market price, for electricity that
25 the prosumer failed to generate over the designated time interval.

26 (3) For purposes of this section, the spot market price is the
27 Mid-Columbia (Mid-C) daily spot price averaged over the designated
28 time interval.

29 NEW SECTION. **Sec. 10.** Sections 1 through 9 of this act
30 constitute a new chapter in Title 80 RCW.

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