

## Washington Clean Energy Transformation Act Establishes Aggressive Mandates for Grid Decarbonization and Renewable Energy Production



After several years of fruitless effort, Washington's 2019 legislature passed and Governor Inslee signed the [Washington Clean Energy Transformation Act](#) (CETA), which requires Washington's electric utilities to phase out greenhouse-gas emitting generation. CETA is one of a package of bills passed by the legislature aimed at reducing Washington's greenhouse gas emissions that includes bills limiting emissions of [hydrofluorocarbons](#) (gases used in refrigeration and other industrial processes), imposing new [energy efficiency requirements on commercial buildings](#), and encouraging the [use of electricity and alternative fuels in Washington's transportation system](#).

CETA imposes three major mandates on Washington utilities, including both investor-owned and consumer-owned utilities, such as PUDs and municipal utilities. First, the legislation mandates that all coal-fired resources must be eliminated from the portfolio of generation resources used to serve Washington consumers by December 31, 2025. Second, all electricity sold at retail in Washington must be greenhouse gas (GHG) neutral by January 1, 2030. Third, all electricity sold in Washington after January 1, 2045, must be produced either from renewable resources or non-emitting generators.

### Coal-Free by 2025

The mandate to eliminate coal from the utility generation portfolios by the end of 2025 primarily affects Washington's investor-owned utilities (IOUs), which are regulated by the [Utilities & Transportation Commission](#) (UTC). Because the only coal-fired generation in

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Washington, the Centralia Steam Plant, is already slated to shut down by 2025, the legislation affects imported coal-fired electricity. In particular, CETA is likely to drive the early retirement of Units 3 and 4 of the Colstrip Plant in Montana (in which each of the Washington IOUs has an ownership share – Units 1 and 2 will close at [the end of this year](#)) and several other PacifiCorp coal plants scattered across the interior west.

If the IOUs fail to comply with the coal-free mandate, they must pay an administrative penalty of \$150 per MWh. The legislation requires the UTC to accelerate depreciation schedules for plants whose existing depreciation schedules extend beyond 2025, although the utilities can continue to collect prudently-incurred costs for decommissioning and remediation of the plants after that date.

The UTC is also permitted to accelerate depreciation for the transmission lines associated with the retired plants if the UTC determines those lines are no longer used and useful and there is no likelihood they will be used in the future. There is, however, a good chance some or all of this transmission capacity will be repurposed to transmit power generated from the interior west's abundant wind, solar and geothermal resources to West Coast markets.

## GHG-Neutral by 2030

CETA requires all electricity delivered to Washington consumers to be GHG-neutral by 2030. Utilities can achieve this goal using a combination of non-emitting resources, renewable resources, and "alternative compliance options" that produce GHG reductions equivalent to what would be achieved by the use of non-emitting resources. Utilities may use alternative compliance options to satisfy up to 20% of the GHG neutrality requirement.

The legislation allows for a variety of alternative compliance options. The simplest are to make an "alternative compliance payment" (\$84 per MWh for gas peaking plants, \$60 per MWh for combined-cycle plants) or to use unbundled Renewable Energy Credits (RECs), a compliance option that has long been used to meet Washington's Renewable Portfolio Standard, [Initiative 937](#). Utilities may also invest in "energy transformation projects," which include energy conservation programs that would achieve conservation above targets required under Initiative 937, support for electrification of the transportation sector and for hydrogen as a transportation fuel, investments in distributed energy resources such as small rooftop solar systems, investments in renewable natural gas systems, and projects to improve efficiency and achieve emissions reductions in the agricultural sector.

## 100% Non-Emitting by 2045

Starting on January 1, 2045, all utilities in the state must obtain their entire electric supply from non-emitting or renewable resources. That is, the ability to satisfy a portion of utility obligations through alternative compliance options ends on that date.

## Hydropower: The Love-Hate Relationship Continues

CETA defines "non-emitting" resources to include any generation resource that does not emit GHGs and that is not defined as a "renewable" resource. Washington's [abundant hydroelectric resources](#), which already provide much of the electricity consumed in the state, will provide the lion's share of non-emitting resources to meet CETA obligations, along with nuclear power from [Columbia Generating Station](#). However, the legislation strongly discourages construction of new hydroelectric projects, allowing new

hydropower projects to count toward CETA compliance only if it is constructed on irrigation canals or other artificial waterways. On the other hand, the legislation implicitly acknowledges that a carbon-free grid will require large additions of new energy storage and balancing capacity by permitting new [pumped storage](#) to count toward the non-emitting goal. The legislation also adds limitations on RECs produced from hydro projects that are stricter than RECs produced from other renewable resources.

## What Is Renewable?

CETA largely adopts the I-937 definition of “eligible renewable resources” as the resources that may be used to satisfy CETA’s requirements. CETA also keeps in place the existing I-937 requirement that utilities provide 15% of their electricity from renewable resources by 2020. The “renewable” definition is generally unsurprising and includes solar, wind, geothermal, biomass, renewable natural gas, and renewable hydrogen. The definition, however, includes a few important wrinkles. First, it eliminates I-937’s requirement (which likely violates the [dormant Commerce Clause](#)) that only renewable energy from the Pacific Northwest region can be counted toward the renewable energy goals set out in CETA.

Second, it retains I-937’s exclusion of electricity generated from municipal solid waste from the definition of “renewable,” and permits electricity from waste-to-energy facilities to be counted toward CETA goals only if from plants constructed prior to 1992, so permits only electricity produced by [Spokane’s waste-to-energy facility](#) to be used for CETA compliance. This exclusion seems short-sighted given the rapid advances in waste-to-energy technology in Europe, which have demonstrated [significant reductions in GHG](#) over landfilling waste, while at the same time greatly improving recovery of recycled materials and drastically reducing emissions as compared to earlier generations of waste-to-energy plants.

## Cost Caps and Off-Ramps

CETA includes several provisions designed to head off unintended expense, reliability problems, or other unintended consequences of the act’s carbon reduction goals. It includes a cost cap, which allows utilities to seek relief from the GHG neutrality and 100% non-emitting requirements (but not from coal phase-out). For IOUs, the cost cap allows a utility to be considered in compliance if the incremental costs of CETA compliance reach 2% of the utility’s weather-adjusted sales revenue over a four-year planning period. For consumer-owned utilities, the cost cap is 2% of the utility’s retail revenue requirement.

Utilities may also obtain compliance relief if compliance threatens to create a violation of electric reliability standards established by the [North American Electric Reliability Corporation](#), or if the utility is unable to obtain access to renewable or non-emitting resources because of unavailability of transmission, mechanical failure, failure of a third-party supplier to meet its contractual obligations or similar uncontrollable forces. In addition, CETA empowers the governor to invoke emergency powers to suspend CETA compliance obligations if the Department of Commerce reports that compliance is creating systematic problems with electric reliability.

**Washington joins  
California, Oregon,  
Nevada, Hawaii, and New  
Mexico in this mandate.**

## Integration Resource Planning and the Social Cost of Carbon

CETA adds considerably to the long-term planning obligations already applied to Washington utilities through the state's [integrated resource planning statute](#). That statute requires utilities to develop and update integrated resource plans every two years. CETA adds several new requirements to the integrated planning process. Most notably, utilities must now include a ten-year "clean energy action plan" documenting the utility's long-term path to comply with CETA and utilities must use the social cost of carbon calculation developed by the Obama Administration in the planning process. That [calculation](#), published in August 2016, was intended for use in planning and review of federal regulations under [Executive Order 12866](#). This provision should help clarify how GHG emissions are treated in the IRP process, an issue that has bedeviled many Washington utilities as well as regulators.

## Help on the Way for Transmission Construction?

Recognizing that the construction of substantial amount of new renewable generation is likely to require a substantial amount of new transmission and distribution infrastructure to carry that generation to consumers, CETA includes a provision that may result in expedited environmental review for such projects. CETA requires the [Energy Facilities Siting and Evaluation Council](#) to convene a workgroup composed of representatives from cities, counties, tribes, PUDs, environmental organizations, and a number of state agencies to review whether new or upgraded transmission and distribution facilities are necessary to meet CETA's goals, and, if so, to identify transmission or distribution corridors where environmental review may be expedited. While any solution is well down the road, this provision of CETA may provide a means to ease the development of needed electrical infrastructure. Without such action, CETA's aggressive goals may be stymied by the kind of local opposition that has stopped or significantly delayed major transmission projects in Washington, making it substantially more difficult to remedy transmission congestion that now regularly arises at key points across the Pacific Northwest's transmission system.

## What's Next?

The law requires both the UTC and the [Washington Department of Commerce](#), which has primary responsibility for overseeing the consumer-owned utilities' compliance with CETA, to develop a variety of rules to implement the statute. We anticipate rulemaking processes will be launched in the near future and will play out over the next several months.

## CETA in Context

Washington joins [California](#), [Oregon](#), [Nevada](#), [Hawaii](#), and [New Mexico](#) in mandating that 100% of electricity be produced without GHG emissions by mid-century, and [Colorado](#) appears likely to follow suit. These western states join several eastern states, most recently [New York](#), in adopting similar legislative goals. In addition, more than [100 cities](#) and [hundreds of corporations](#) have adopted policies requiring that they transition to renewable energy. The trend even extends to utilities like [Xcel Energy](#) and [Idaho Power](#). Thus, while the federal government has largely stepped away from GHG regulation, states and local governments have stepped into the breach and adopted aggressive GHG mandates, and corporate action

has followed that trend. Taken together, these actions may represent the most significant development in energy policy this century.

The new legislation, of course, augurs continued strong growth in the renewable energy sector. The decline of coal generation in the West, already well underway, is likely to accelerate. Together, these trends will create strong demand for both [new energy capacity and energy storage resources](#) and may challenge the ability of system operators to maintain system reliability as the West's energy generation mix rapidly evolves.

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