

Proposed Substitute House Bill 1390 (H-1145.1)

House Environment & Energy Committee

By Representative Ramel

Original Bill:

Concerning district energy systems.

Proposed Substitute (H-1145.1) compared to the original bill:

- Applies all provisions for a state-owned campus district energy system to district energy systems owned by a public-private partnership, including one public buildings owner and one private entity.
- Authorizes campus district energy systems owned by a single entity other than the state, or by or a public-private partnership in which a private entity owns the systems providing heating, cooling, or heating and cooling, to buildings owned by one public entity, to opt-into the authorities provided to state-owned campus district energy systems if the owner submits a request to the Department of Commerce (Commerce) and that request is approved.
- Clarifies that campus district energy systems may meet an alternative compliance pathway for the state energy performance standard, meaning the system is not required to conduct an investment-grade audit and is not required to meet the energy use intensity target, rather than not make capital investments.
- Changes requirements for the decarbonization plans in the following ways:
 - The plans must include a: (1) 15-year timeframe for the plan, with a longer timeframe allowed if approved by Commerce; (2) schedule for replacement of fossil fuels in heating plants; and (3) prioritization and scheduled plan of reducing energy use both at the central plant and in the connecting buildings that results in meeting the campus energy use intensity target.
 - Commerce has review and approval authority for plans.
 - Plans must be resubmitted to Commerce every five years with an implementation progress report.
- Clarifies that a fully implemented decarbonization plan must meet the energy use intensity target established for the campus at the time of required measurement and verification for an owner to comply with the alternative compliance pathway.
- Adds that as part of the alternative compliance pathway, the owner of a campus district energy system may apply for phased implementation through conditional compliance in accordance with requirements of the decarbonization plan.

Committee: House Environment & Energy Committee
Staff: Megan McPhaden (786-7114), Office of Program Research
Date: February 9, 2023
Draft: H-1145.1

1 AN ACT Relating to district energy systems; amending RCW
2 19.27A.210; adding a new section to chapter 19.27A RCW; and creating
3 a new section.

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

5 NEW SECTION. **Sec. 1.** The legislature recognizes that building
6 decarbonization is necessary to achieve the state's climate goals.
7 Washington is a member of the national building performance standards
8 coalition and is leading the nation with existing building
9 performance standards. District energy policy could be used in
10 coordination with any future statewide building performance standards
11 policies to reduce commercial and large state-owned building
12 emissions.

13 Due to the increased prevalence of extreme summer heat events,
14 the ability to cool space at our state-run campus facilities,
15 including correctional facilities, is an essential function of
16 maintaining humane living, working, and learning conditions.

17 Upgrading existing district energy systems has great potential to
18 increase efficiency, oftentimes more so than a building-by-building
19 approach.

20 Upgrading and constructing district energy systems will employ
21 skilled labor, including trades that have historically performed work

1 on fossil fuel energy sources. This work will be an important part of
2 a just transition to a clean energy economy.

3 For state-owned facilities connected to district energy systems,
4 the legislature recognizes that it may take years, multiple budget
5 cycles, and commitments as anchor customers to develop and upgrade
6 campus district energy systems, but remains committed to steadily
7 investing in plans developed by these agencies and their selected
8 providers. Having plans for multiyear customer commitments or
9 spending programs will set the state and private sector up well for
10 applying for federal grants and resources and to appropriately plan
11 capital, operating, and climate commitment act funding for these
12 investments over time.

13 NEW SECTION. **Sec. 2.** A new section is added to chapter 19.27A
14 RCW to read as follows:

15 (1) The definitions in this subsection apply throughout this
16 section unless the context clearly requires otherwise.

17 (a) "Campus" means a collection of buildings served by a district
18 heating, cooling, water reuse, or power system.

19 (b) "Campus district energy system" means a district energy
20 system that provides heating, cooling, or heating and cooling to a
21 campus through a distributed system providing steam, hot water, or
22 cool water to five or more buildings with more than 100,000 square
23 feet of combined conditioned space, where the system and all
24 connected buildings are owned by a single entity, or a public-private
25 partnership in which a private entity owns the systems providing
26 heating, cooling, or heating and cooling to buildings owned by one
27 public entity.

28 (c) "State campus district energy system" means a campus district
29 energy system owned by the state of Washington or by a public-private
30 partnership including one public buildings owner and one private
31 entity.

32 (2)(a) The owner of a state campus district energy system must
33 develop a decarbonization plan that provides a strategy for up to 15
34 years for the state campus district energy system. The department of
35 commerce may approve a decarbonization plan that is based on a
36 planning time frame longer than 15 years. The decarbonization plan
37 must include:

38 (i) Mechanisms to replace fossil fuels in the heating plants,
39 including a schedule for replacement;

1 (ii) An evaluation of possible options to partner with nearby
2 sources and uses of waste heat and cooling;

3 (iii) An examination of opportunities to add buildings or other
4 facilities to the system once it is decarbonized, a strategy to
5 incentivize growth of a decarbonized system, and requirements for
6 facilities joining the system; and

7 (iv) An evaluation, prioritization, and scheduled plan of
8 reducing energy use through conservation efforts both at the central
9 plant and in the buildings connected to district energy systems that
10 results in meeting the campus energy use intensity target.

11 (b) The owner of a state campus district energy system is
12 encouraged to include the following considerations in a
13 decarbonization plan:

14 (i) Distribution network upgrades;

15 (ii) On-site energy storage facilities;

16 (iii) Space cooling for residential facilities;

17 (iv) Labor and workforce, including state registered
18 apprenticeship utilization;

19 (v) Options for public-private partnerships;

20 (vi) Incorporation of industrial symbiosis projects or networks
21 as described in chapter 308, Laws of 2021.

22 (c) The owner of a state campus district energy system must
23 consult with the electric utility serving the site of the system
24 during decarbonization plan development.

25 (3)(a) The owner of a state campus district energy system must
26 begin developing a decarbonization plan by June 30, 2024, and must
27 submit a final decarbonization plan to the department of commerce by
28 June 30, 2025.

29 (b) Upon submittal to the department of commerce, decarbonization
30 plans must be reviewed and approved by the department of commerce.
31 The department of commerce may ask for a decarbonization plan to be
32 revised and resubmitted if it does not meet standards as determined
33 by the department of commerce.

34 (c) Every five years after June 30, 2025, the owner of a state
35 campus district energy system must resubmit the decarbonization plan,
36 along with a progress report on the implementation of the
37 decarbonization plan, to the department of commerce.

38 (4) The department of commerce must provide a summary report on
39 the decarbonization plans required in subsection (3) of this section

1 to the governor and the appropriate committees of the legislature by
2 December 1, 2025.

3 (5) The owner of a state campus district energy system is not
4 required to meet the energy use intensity target in all the connected
5 buildings that are heated, cooled, or heated and cooled by the
6 system, or to conduct an investment grade audit, to otherwise comply
7 with the state energy performance standard requirements in RCW
8 19.27A.200 through 19.27A.250 if the following conditions for an
9 alternative compliance pathway are met:

10 (a) The owner of a state campus district energy system is
11 implementing a department of commerce-approved decarbonization plan
12 or has fully implemented a department of commerce-approved
13 decarbonization plan for the state campus district energy system and
14 all of its connected buildings that, when fully implemented, meets
15 the energy use intensity target established for the campus at the
16 time of required measurement and verification. The owner may apply
17 for phased implementation through conditional compliance in
18 accordance with requirements of the decarbonization plan;

19 (b) The owner of the state campus district energy system meets
20 the benchmarking, energy management, and operations and maintenance
21 planning requirements under RCW 19.27A.200 through 19.27A.250 for the
22 state campus district energy system and all of its connected
23 buildings; and

24 (c) The owner of a state campus district energy system submits a
25 request to the department of commerce once during every five-year
26 compliance cycle as part of documentation submitted in accordance
27 with RCW 19.27A.210(7), and the department of commerce approves the
28 request.

29 (6) The owner of a campus district energy system may submit a
30 request to the department of commerce to opt-in to the process for
31 approval of an alternative compliance pathway as outlined in this
32 section. If approved by the department of commerce, the campus
33 district energy system must follow all of the requirements outlined
34 for a state campus district energy system in this section, and the
35 department of commerce must apply all authorities granted under this
36 section for state campus district energy systems to such a campus
37 district energy system.

38 **Sec. 3.** RCW 19.27A.210 and 2021 c 65 s 19 are each amended to
39 read as follows:

1 (1) (a) By November 1, 2020, the department must establish by rule
2 a state energy performance standard for covered commercial buildings.

3 (b) In developing energy performance standards, the department
4 shall seek to maximize reductions of greenhouse gas emissions from
5 the building sector. The standard must include energy use intensity
6 targets by building type and methods of conditional compliance that
7 include an energy management plan, operations and maintenance
8 program, energy efficiency audits, and investment in energy
9 efficiency measures designed to meet the targets. The department
10 shall use ANSI/ASHRAE/IES standard 100-2018 as an initial model for
11 standard development. The department must update the standard by July
12 1, 2029, and every five years thereafter. Prior to the adoption or
13 update of the standard, the department must identify the sources of
14 information it relied upon, including peer-reviewed science.

15 (2) In establishing the standard under subsection (1) of this
16 section, the department:

17 (a) Must develop energy use intensity targets that are no greater
18 than the average energy use intensity for the covered commercial
19 building occupancy type with adjustments for unique energy using
20 features. The department must also develop energy use intensity
21 targets for additional property types eligible for incentives in RCW
22 19.27A.220. The department must consider regional and local building
23 energy utilization data, such as existing energy star benchmarking
24 data, in establishing targets for the standard. Energy use intensity
25 targets must be developed for two or more climate zones and be
26 representative of energy use in a normal weather year;

27 (b) May consider building occupancy classifications from ANSI/
28 ASHRAE/IES standard 100-2018 and the United States environmental
29 protection agency's energy star portfolio manager when developing
30 energy use intensity targets;

31 (c) May implement lower energy use intensity targets for more
32 recently built covered commercial buildings based on the state energy
33 code in place when the buildings were constructed;

34 (d) (i) Must adopt a conditional compliance method that ensures
35 that covered commercial buildings that do not meet the specified
36 energy use intensity targets are taking action to achieve reduction
37 in energy use, including investment criteria for conditional
38 compliance that ensure that energy efficiency measures identified by
39 energy audits are implemented to achieve a covered commercial
40 building's energy use intensity target. The investment criteria must

1 require that a building owner adopt an implementation plan to meet
2 the energy intensity target or implement an optimized bundle of
3 energy efficiency measures that provides maximum energy savings
4 without resulting in a savings-to-investment ratio of less than 1.0,
5 except as exempted in (d) (ii) of this subsection. The implementation
6 plan must be based on an investment grade energy audit and a life-
7 cycle cost analysis that accounts for the period during which a
8 bundle of measures will provide savings. The building owner's cost
9 for implementing energy efficiency measures must reflect net cost,
10 excluding any costs covered by utility or government grants. The
11 implementation plan may exclude measures that do not pay for
12 themselves over the useful life of the measure and measures excluded
13 under (d) (ii) of this subsection. The implementation plan may include
14 phased implementation such that the building owner is not required to
15 replace a system or equipment before the end of the system or
16 equipment's useful life;

17 (ii) For those buildings or structures that are listed in the
18 state or national register of historic places; designated as a
19 historic property under local or state designation law or survey;
20 certified as a contributing resource with a national register listed
21 or locally designated historic district; or with an opinion or
22 certification that the property is eligible to be listed on the
23 national or state registers of historic places either individually or
24 as a contributing building to a historic district by the state
25 historic preservation officer or the keeper of the national register
26 of historic places, no individual energy efficiency requirement need
27 be met that would compromise the historical integrity of a building
28 or part of a building;

29 (e) Must provide an alternative compliance pathway for an owner
30 of a state campus district energy system, in accordance with section
31 2 of this act, and more broadly for the owner of any campus district
32 energy system that is approved by the department to opt-in in
33 accordance with section 2(6) of this act;

34 (f) Must guarantee that the owner of a state campus district
35 energy system is not required to implement more than one energy
36 management plan and more than one operations and maintenance plan for
37 the campus;

38 (g) Must guarantee that a state campus district energy system, as
39 defined in section 2 of this act, and all buildings connected to a
40 state campus district energy system, are in compliance with any

1 requirements for campus buildings to implement energy efficiency
2 measures identified by an energy audit if:

3 (i) The energy audit demonstrates the energy savings from the
4 state campus district energy system energy efficiency measures will
5 be greater than the energy efficiency measures identified for the
6 campus buildings; and

7 (ii) The state campus district energy system implements the
8 energy efficiency measures.

9 (3) Based on records obtained from each county assessor and other
10 available information sources, the department must create a database
11 of covered commercial buildings and building owners required to
12 comply with the standard established in accordance with this section.

13 (4) By July 1, 2021, the department must provide the owners of
14 covered buildings with notification of compliance requirements.

15 (5) The department must develop a method for administering
16 compliance reports from building owners.

17 (6) The department must provide a customer support program to
18 building owners including, but not limited to, outreach and
19 informational material, periodic training, phone and email support,
20 and other technical assistance.

21 (7) The building owner of a covered commercial building must
22 report the building owner's compliance with the standard to the
23 department in accordance with the schedule established under
24 subsection (8) of this section and every five years thereafter. For
25 each reporting date, the building owner must submit documentation to
26 demonstrate that:

27 (a) The weather normalized energy use intensity of the covered
28 commercial building measured in the previous calendar year is less
29 than or equal to the energy use intensity target; or

30 (b) The covered commercial building has received conditional
31 compliance from the department based on energy efficiency actions
32 prescribed by the standard; or

33 (c) The covered commercial building is exempt from the standard
34 by demonstrating that the building meets one of the following
35 criteria:

36 (i) The building did not have a certificate of occupancy or
37 temporary certificate of occupancy for all (~~twelve~~) 12 months of
38 the calendar year prior to the building owner compliance schedule
39 established under subsection (8) of this section;

1 (ii) The building did not have an average physical occupancy of
2 at least (~~(fifty)~~) 50 percent throughout the calendar year prior to
3 the building owner compliance schedule established under subsection
4 (8) of this section;

5 (iii) The sum of the building's gross floor area minus
6 unconditioned and semiconditioned spaces, as defined in the
7 Washington state energy code, is less than (~~(fifty-thousand)~~) 50,000
8 square feet;

9 (iv) The primary use of the building is manufacturing or other
10 industrial purposes, as defined under the following use designations
11 of the international building code: (A) Factory group F; or (B) high
12 hazard group H;

13 (v) The building is an agricultural structure; or

14 (vi) The building meets at least one of the following conditions
15 of financial hardship: (A) The building had arrears of property taxes
16 or water or wastewater charges that resulted in the building's
17 inclusion, within the prior two years, on a city's or county's annual
18 tax lien sale list; (B) the building has a court appointed receiver
19 in control of the asset due to financial distress; (C) the building
20 is owned by a financial institution through default by a borrower;
21 (D) the building has been acquired by a deed in lieu of foreclosure
22 within the previous (~~(twenty-four)~~) 24 months; (E) the building has a
23 senior mortgage subject to a notice of default; or (F) other
24 conditions of financial hardship identified by the department by
25 rule.

26 (8) A building owner of a covered commercial building must meet
27 the following reporting schedule for complying with the standard
28 established under this section:

29 (a) For a building with more than (~~(two hundred twenty thousand)~~)
30 220,000 gross square feet, June 1, 2026;

31 (b) For a building with more than (~~(ninety thousand)~~) 90,000
32 gross square feet but less than (~~(two hundred twenty thousand and~~
33 ~~one)~~) 220,001 gross square feet, June 1, 2027; and

34 (c) For a building with more than (~~(fifty thousand)~~) 50,000 gross
35 square feet but less than (~~(ninety thousand and one)~~) 90,001 square
36 feet, June 1, 2028.

37 (9)(a) The department may issue a notice of violation to a
38 building owner for noncompliance with the requirements of this
39 section. A determination of noncompliance may be made for any of the
40 following reasons:

1 (i) Failure to submit a compliance report in the form and manner
2 prescribed by the department;

3 (ii) Failure to meet an energy use intensity target or failure to
4 receive conditional compliance approval;

5 (iii) Failure to provide accurate reporting consistent with the
6 requirements of the standard established under this section; and

7 (iv) Failure to provide a valid exemption certificate.

8 (b) In order to create consistency with the implementation of the
9 standard and rules adopted under this section, the department must
10 reply and cite the section of law, code, or standard in a notice of
11 violation for noncompliance with the requirements of this section
12 when requested to do so by the building owner or the building owner's
13 agent.

14 (10) The department is authorized to impose an administrative
15 penalty upon a building owner for failing to submit documentation
16 demonstrating compliance with the requirements of this section. The
17 penalty may not exceed an amount equal to (~~five thousand dollars~~)
18 \$5,000 plus an amount based on the duration of any continuing
19 violation. The additional amount for a continuing violation may not
20 exceed a daily amount equal to (~~one dollar~~) \$1 per year per gross
21 square foot of floor area. The department may by rule increase the
22 maximum penalty rates to adjust for the effects of inflation.

23 (11) Administrative penalties collected under this section must
24 be deposited into the low-income weatherization and structural
25 rehabilitation assistance account created in RCW 70A.35.030.

26 (12) The department must adopt rules as necessary to implement
27 this section, including but not limited to:

28 (a) Rules necessary to ensure timely, accurate, and complete
29 reporting of building energy performance for all covered commercial
30 buildings;

31 (b) Rules necessary to enforce the standard established under
32 this section; and

33 (c) Rules that provide a mechanism for appeal of any
34 administrative penalty imposed by the department under this section.

35 (13) Upon request by the department, each county assessor must
36 provide property data from existing records to the department as
37 necessary to implement this section.

38 (14) By January 15, 2022, and each year thereafter through 2029,
39 the department must submit a report to the governor and the
40 appropriate committees of the legislature on the implementation of

1 the state energy performance standard established under this section.
2 The report must include information regarding the adoption of the
3 ANSI/ASHRAE/IES standard 100-2018 as an initial model, the financial
4 impact to building owners required to comply with the standard, the
5 amount of incentives provided under RCW 19.27A.220 and 19.27A.230,
6 and any other significant information associated with the
7 implementation of this section.

--- **END** ---