



## Summary of Initiative 2066

Prepared for members of the Washington House of Representatives by the House Office of Program Research.

This information has been prepared in response to various requests for a summary of Initiative 2066. It is provided for analytical and legislative policy purposes only. It is not provided as an expression of support for or opposition to any ballot measure. These materials are intended to provide general information and are not intended to be an exhaustive analysis of all issues presented by the measure.

### BRIEF SUMMARY

- Indicates that the existing requirement that gas utilities provide natural gas when requested applies even if other energy services or energy sources may be available.
- Repeals portions of the Washington Decarbonization Act for Large Combination Utilities.
- Prohibits approval of utility plans that would result in the termination of, or cost-prohibitive access to, natural gas service.
- Removes certain planning requirements for a large combination utility.
- Prohibits certain state and local entities from prohibiting or discouraging the use of natural gas.

### BACKGROUND

#### Initiative 2066

Initiative 2066 was certified to the ballot on July 24, 2024. The ballot title and ballot measure summary prepared by the Attorney General are as follows:

#### Ballot Title

Statement of Subject: Initiative Measure No. 2066 concerns regulating energy services, including natural gas and electrification.

Concise Description: This measure would repeal or prohibit certain laws and regulations that discourage natural gas use, and/or promote electrification, and require certain utilities and local governments to provide natural gas to eligible customers.

Should this measure be enacted into law? Yes [ ] No [ ]

### **Ballot Measure Summary**

This measure would require utilities and local governments to provide natural gas to eligible customers, prevent state approval of rate plans requiring or incentivizing gas service termination, restricting access to gas service, or making it cost-prohibitive; and prohibit the State Energy Code, localities, and air pollution control agencies from penalizing gas use. It would repeal sections of chapter 351, Laws of 2024, including planning requirements for cost-effective electrification and prohibitions on gas rebates and incentives.

### **Gas Companies**

#### *Overview*

Gas companies include gas utility companies and cities that own, control, operate, or manage any gas plant within Washington. The Utilities and Transportation Commission (UTC) regulates the rates, services, and practices of investor-owned gas companies, including a large combination utility that served more than 800,000 retail electric customers and 500,000 retail gas customers as of June 30, 2024. The UTC does not have jurisdiction over gas companies owned by cities or towns.

#### *Gas Companies' Obligation to Serve Gas*

Every gas company that sells and distributes gas must provide gas and suitable facilities for providing gas to all people and corporations who may apply for gas service and be reasonably entitled to gas service. Exclusively upon petition of a gas company, and subject to the UTC's approval, a gas company's obligation to serve gas to customers that have access to a thermal energy network may be met by providing thermal energy through a thermal energy network.

### **Greenhouse Gas Emission Reduction Requirements**

Statewide greenhouse gas (GHG) emissions must be reduced to 45 percent below 1990 levels by 2030, 70 percent below 1990 levels by 2040, and 95 percent below 1990 levels by 2050.

Greenhouse gases includes carbon dioxide, methane, and other gases. Natural gas is predominantly made up of methane.

### **Climate Commitment Act**

The Climate Commitment Act (CCA) established a Cap-and-Invest Program to reduce GHG emissions consistent with the statewide statutory emissions limits. Covered entities, which

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include natural gas utilities with qualifying levels of emissions, must either reduce their emissions or obtain allowances to cover any remaining emissions. The total number of allowances will decrease over time to meet statutory limits.

The Department of Ecology (Ecology) must adopt rules for allocating allowances to natural gas utilities at no cost for compliance periods through 2040, with many specifications. Beginning in 2023, 65 percent of the no-cost allowances allocated to natural gas utilities must be consigned to auction for the benefit of customers.

### **The Washington Decarbonization Act for Large Combination Utilities**

The Washington Decarbonization Act for Large Combination Utilities established additional requirements and authorizations for the UTC and for a large combination utility.

#### *Integrated System Plan*

By July 1, 2025, planning requirements for gas and electric services for a large combination utility must be consolidated into a requirement for an integrated system plan, which a large combination utility must file with the UTC by January 1, 2027.

An integrated system plan must, among other things:

- achieve all cost-effective electrification of end uses currently served by natural gas;
- include low-income electrification programs with certain parameters;
- assess the potential for geographically targeted electrification;
- assess nonpipeline alternatives to replacing aging gas infrastructure or expanded gas capacity; and
- establish that the utility has prioritized CCA auction revenues for low-income ratepayer programs, which may include electrification programs, and residential and small commercial customer electrification programs.

When evaluating the lowest reasonable cost of decarbonization measures in an integrated system plan, a large combination utility must apply a risk reduction premium that accounts for the applicable allowance ceiling price pursuant to the CCA.

The UTC must establish a cost test for emissions reduction measures achieved by a large combination utility to comply with state clean energy and climate policies. The cost test must be used for determining the lowest reasonable cost of decarbonization and electrification measures in integrated system plans at the portfolio level and for any other purpose determined by UTC rules.

#### *Integrated System Plan Approval*

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When determining whether to approve, reject, or approve with conditions an integrated system plan, the UTC must evaluate multiple factors, including economic, environmental, and equitable factors; whether the plan would achieve cost effective electrification of end users; and whether the plan would prioritize the transition of utility workers to renewable energy infrastructure work.

#### *Required Depreciation Schedules and Authority to Merge Gas and Electric Rate Bases in Multiyear Plans*

Every utility filing a general rate case with the UTC must include a proposal for a multiyear rate plan. A large combination utility's multiyear rate plan must include an updated depreciation study that reduces the gas rate base consistent with an approved integrated system plan. The UTC may adopt depreciation schedules that accelerate cost recovery and reduce the rate base for any gas plant and must approve a depreciation schedule that depreciates all gas plants no later than January 1, 2050.

The UTC may approve the merger of the electric and gas rate bases of a large combination utility if the UTC finds the proposal will result in a net benefit to customers of the large combination utility and reasonable rate protections for low-income customers.

#### *Rebates, Incentives, and Education*

Beginning January 1, 2025, a large combination utility may not offer any form of rebate, incentive, or other inducement to residential gas customers to purchase any natural gas appliance or equipment.

Until January 1, 2031, this requirement does not apply to:

- electric heat pumps that include natural gas backups; or
- commercial and industrial customers.

Beginning January 1, 2031, a large combination utility may not include electric heat pumps with gas backups as part of its electrification programs.

By November 1, 2025, a large combination utility must initiate and maintain an effort to educate its ratepayers about the benefits of electrification and the availability of rebates, incentives, or other inducements to purchase energy efficient electric appliances and equipment.

#### *Geographically Targeted Electrification*

Geographically targeted electrification is the transition of a portion of a large combination utility's gas customers with an intent to electrify loads of these customers and to reduce capital and operational costs of gas operations.

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When a large combination utility proposes geographically targeted electrification in an area where the large combination utility provides gas service and a consumer-owned utility provides electric service, the large combination utility must plan to provide outreach and specified data to consumer-owned utilities.

Consumer-owned utilities are encouraged to:

- work with a large combination utility providing gas service within their service areas to identify opportunities for electrification;
- account for the costs of GHG emissions, set total energy savings and GHG emissions reduction goals, and develop and implement electrification programs in collaboration with combination utilities providing service; and
- include an electrification plan or transportation electrification program as part of collaboration with a large combination utility.

### **Washington State Energy Code for Buildings**

The State Building Code Council (SBCC) adopts and updates the State Building Code, which provides minimum construction, mechanical, fire, plumbing, and energy code requirements for buildings in the state of Washington.

Among other requirements, the State Energy Code must be designed to require the construction of increasingly energy efficient homes and buildings that help achieve the broader goal of building zero fossil fuel greenhouse gas emission homes and buildings by the year 2031. The SBCC must adopt energy codes to incrementally move towards achieving a 70 percent reduction in annual net energy consumption from the 2006 State Energy Code by 2031.

### **Air Pollution Control Authorities**

Ecology and seven local air pollution control authorities enforce air quality and emissions standards under the federal and state Clean Air Acts. Local air pollution control authorities have primary responsibility in counties that have elected to activate a local air authority or to form a multicounty air authority. In other areas of the state, Ecology is the responsible authority. Ecology may adopt rules establishing air quality and emissions standards.

## **SUMMARY**

### **Gas Companies' Obligation to Serve Gas**

Every gas company or large combination utility must provide natural gas to all persons and corporations in their service area or territory that demand, apply for, and are reasonably entitled

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to receive natural gas, even if other energy services or energy sources may be available. A city or town that furnishes natural gas must provide natural gas to those inhabitants that demand, apply for, and are reasonably entitled to receive natural gas, even if other energy services or energy sources may be available.

### **The Washington Decarbonization Act for Large Combination Utilities**

The following provisions of the Washington Decarbonization Act for Large Combination Utilities that address the following subjects for a large combination utility are repealed:

- requirements for depreciation schedules to depreciate gas plants by 2050, and authority to merge gas and electric rate bases with the Utilities and Transportation Commission (UTC) approval;
- prohibitions on natural gas rebates and incentives, and requirements to educate ratepayers on the benefits of electrification and availability of electrification rebates and incentives; and
- requirements for a large combination utility to provide outreach to a consumer-owned utility when the large combination utility seeks to initiate geographically targeted electrification in an area where a consumer-owned utility provides electric service.

The state severability clause and the intent section of the Washington Decarbonization Act for Large Combination Utilities are also repealed.

#### *Integrated System Plan*

A large combination utility is no longer subject to the following requirements in its integrated system plans:

- achieving all cost-effective electrification of end uses currently served by natural gas;
- providing dedicated funding for electrification readiness in low-income electrification plans;
- assessing the potential for geographically targeted electrification;
- assessing nonpipeline alternatives as alternatives to replacing aging gas infrastructure or expanded gas capacity; and
- applying a risk reduction premium that accounts for the applicable allowance ceiling price pursuant to the Climate Commitment Act (CCA) when evaluating the lowest reasonable cost of decarbonization measures in an integrated system plan.

Backup heat sources that use natural gas are included in the material benefits that must be provided as part of low-income electrification programs. Electrification programs for low-income, residential, and small commercial ratepayers are excluded from the prioritization of the use of CCA auction revenues.

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The cost test that a large combination utility must use to determine the lowest reasonable cost of electrification measures in integrated system plans is limited to use for low-income electrification measures.

### *Utilities and Transportation Commission Approval of Multiyear Rate Plans and Integrated System Plans*

For all gas companies and a large combination utility, the UTC may not approve, with or without conditions, a multiyear rate plan or integrated system plan if the plan:

- requires the utility to terminate natural gas service to customers; or
- authorizes the utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost prohibitive.

Additionally, when determining whether to approve, reject, or approve with conditions an integrated system plan, the UTC no longer must evaluate whether the plan would achieve cost-effective electrification of end uses or would prioritize a transition of utility workers to renewable energy infrastructure work.

### **Washington State Energy Code and Use of Gas in Buildings**

The following entities may not in any way prohibit, penalize, or discourage the use of gas for any form of heating, or for uses related to any appliance or equipment, in any building:

- the State Building Code Council, when amending the State Energy Code for new and renovated nonresidential buildings and the State Energy Code for residential structures;
- cities;
- towns; and
- counties.

The requirement that the State Energy Code be designed to help achieve the broader goal of building zero fossil-fuel greenhouse gas emission homes and buildings is removed.

### **Air Pollution Control Authorities**

A local air pollution control authority may not in any way prohibit, penalize, or discourage the use of gas for any form of heating, or for uses related to any appliance or equipment, in any building.

**Effective Date:** The initiative takes effect 30 days after the election at which it is approved.

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