WASHINGTON STATE'S ENERGY OFFICE: A Review and Options

A Report to the Washington State Legislature:

- ***Senate Ways and Means Committee***
- ***House Appropriations Committee***
- ***Senate Energy, Telecommunications & Utilities Committee***
- ***House Energy & Utilities Committee***

This report was mandated by the 1995 Washington Legislature in its 1995-97 Budget—ESHB 1410, section 301, 1995 session.

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Executive Summary

Assignment: The 1995 Washington Legislature directed the Washington State Institute for Public Policy, in consultation with the Office of Financial Management and State Energy Office, to:

- **Review options regarding distribution of state energy-related functions located in the Energy Office**.

- **Develop an implementation plan for the closure of the Washington State Energy Office**. *[Engrossed Substitute House Bill 1410, Section 301]*

This proviso also directed the Institute to: 1) explore the feasibility of using non-profit organizations to provide energy-related services; 2) explore options for distributing these services to other state entities; and 3) consider the time schedule and statutory changes necessary for this distribution. The Legislature also directed that options should continue the flow of oil overcharge restitution funds and federal energy conservation funds into Washington State.

Review: Washington's Energy Office has, since 1975, provided a focal point for energy policy issues in state government and operated a broad range of programs and efforts to advance and promote energy efficiency and conservation in Washington State. These many public programs have been the consequences of both broad and specific policy directives from the Washington Legislature since 1976. The fiscal resources to support almost all of these efforts, however, have come from funding sources outside Washington's state general fund. The flow of these resources was on a steady, increasing slope from 1980 to 1993. Since then, funding instability, especially from federal sources, is a basis for looking at the future direction, and proposing the future shape, of these state energy efficiency and conservation efforts.

Assumptions: The future shape of energy functions, provided through state government, will be different than the current arrangement:

- There will be **no separate state agency** focused exclusively on energy efficiency and conservation issues and activities.

- Approximately **12 to 15 current energy programs will be restructured, redesigned, downsized or eliminated**.

- The equivalent of the current **staffing levels**, reflected in September 1995 Washington State Energy Office staff FTEs, will be **reduced by** approximately **one-half**.

Options: Considerable remaining financial resources will allow for a significant state effort in energy efficiency and conservation—operated directly or indirectly through Washington State agencies. There are **three** options that are considered for this state effort:

- **OPTION ONE** looks at a **redefined, but central, state role** for energy functions, with some activities moving to the non-profit sector. Key features of Option One are:

  - ✔ **Accountability** and **direction** for energy funding and key energy efforts are located in **state agency(ies)**.

  - ✔ Some energy-related services are **contracted out**, or provided through a non-profit, or Cooperative Extension, model.

- **OPTION TWO** looks at **greater emphasis on the non-profit sector** for energy activities, with a much smaller role for state government. Key features of Option Two are:

  - ✔ **Minimal state government role** is limited to a coordinating energy policy function.

  - ✔ **Applied technologies** and their access to **business**, **industry** and the **public** becomes the focus of Washington's energy-related services.

  - ✔ **Cooperative Extension** becomes the mechanism for delivering energy-related services, which are in turn **self-supporting**.

  - ✔ **Funding** possibilities may **increase**.

- **OPTION THREE** looks at a **very minimal role for state government**, confined to specific statutes dealing with transportation, public buildings, energy codes and energy facility siting. Key features of Option Three are:

  - ✔ A **coordinated state role** in energy conservation and efficiency would **cease**.

  - ✔ **Energy functions** that remain in Washington State would be **limited**.

  - ✔ Washington's **access to outside funds** for energy-related activities would **decrease**.

Timetable: Implementation choices for each of these options is described in the full report. Each option could be implemented between now and June 30, 1996.

Statutory Changes: Implementation of any of these options would require changes in all the state statutes that have created a role for the Washington State Energy Office. The principal statutes are outlined in the full report.

I. BACKGROUND

A. Legislative Assignment

In its 1995-97 biennial budget, the 1995 Washington Legislature directed the Washington State Institute for Public Policy, in consultation with Washington's Office of Financial Management and State Energy Office, to:

- **Review options regarding distribution of state energy-related functions located in the Energy Office**.

- **Develop an implementation plan for the closure of the Washington State Energy Office**. *[Engrossed Substitute House Bill 1410, Section 301]*

This proviso also directed the Institute, in this review, to determine:

- The feasibility of providing energy functions through non-profit organizations.

- Options for the distribution of energy functions to other entities.

- Those statutory changes necessary to distribute energy functions.

- A time schedule for eliminating or transferring energy functions.

The overall legislative intent is to ensure the continuation of oil overcharge restitution funds and federal funds for energy conservation. Both of these funding sources comprise a major portion of current state energy-related activities.

B. Study Purposes

This study has three major purposes:

- Provide an **overview** of key program functions, statutory authorization, fiscal patterns, and accomplishments for the current Washington State Energy Office.

- Present **three options** for the distribution of state energy-related functions.

- Outline a **timetable** for these options.

C. Study Approach

The Institute began reviewing the functions of the Washington State Energy Office on July 1, 1995, in order to propose options for consideration by the Washington State Legislature. The review drew upon considerable input from management and staff of the Washington State Energy Office. The main report, including the discussion of options, is the work of the Institute. The appendix material is the work of the Energy Office.

Development of the material and presentation of the options also drew upon discussions with a wide range of sources. These included: directors, managers and staff from other state agencies in Washington; individuals from the non-profit sector; individuals from energy suppliers, both investor-owned and public; individuals representing employers from the private and public sectors in Washington; representatives from local governments; and representatives from higher education institutions. Staff from the Washington Office of Financial Management, and committee staff from the House of Representatives and the Senate also assisted in the review.

This report is an analysis of location options for a state role in energy conservation and energy efficiency efforts. It is NOT a review or study of current energy policy or issues.

D. What's Happening in Other States?

Some location and operation information regarding state energy office functions in other states was collected. Across the nation, as in Washington State, creation of these functions in state government was an outgrowth of the national energy "crisis" of the early 1970s. Highlights of this review include:

- About 10 states, including Washington, had separate state agencies dealing exclusively with energy issues in early 1995. By September 1995, this number had been reduced to 6. New York and Texas eliminated their state energy functions completely. The Oregon Legislature, in 1995, merged the Oregon Department of Energy into another state agency—one focused on business and consumer affairs.

- Where state energy functions are part of larger, more multi-focused state agencies, they are most likely located in state commerce or economic development agencies.

- Most state energy functions operate with fewer than 50 staff. After the elimination of the state energy function in New York, Washington's Energy Office was the second largest in the nation—after California's.

II. PERSPECTIVES

A. Overview

The Washington State Energy Office was created through executive order in November 1975 in the context of the national oil crises of the early to mid-1970s. The 1976 Washington Legislature ratified, through statute, this executive order [**RCW 43.21F**]. Reflecting legislative policy changes over the past 18 years, major responsibilities currently include:

- Serving as a repository of data, information and policy analysis on energy issues.
- Planning for energy shortages or emergencies.
- Providing energy information to the public.
- Implementing federally-funded state energy conservation activities.
- Providing technical assistance for implementing state energy codes.
- Facilitating implementation of transportation demand activities.

This section outlines and describes the major **functions**, or program perspectives, of Washington's Energy Office. These functions are linked to Washington State **statutes**. A variety of **fiscal resources** support state energy programs. Finally, overall **accomplishments** of state energy efforts are described.

B. Key Energy Programs and Functions

The Washington State Energy Office has developed a wide array of programs and activities since the mid-1970s in its role to provide "...innovative leadership for a sustainable energy future that is environmentally and economically sound." These programs and activities focus on policy leadership, energy information and education, and promotion of promising energy practices.

Washington's Energy Strategy, adopted in 1994, is the major guide for developing the state's energy policies. This Strategy sets forth recommendations to increase energy efficiency, improve environmental quality, and assure adequate, cost-effective future energy supplies. Current activities and programs of the Energy Office are linked with the directions contained in this Energy Strategy:

- ***Energy Resource Policy and Planning:*** The Energy Office provides the Governor, the Legislature, and other state agencies with information, analyses and expert testimony to facilitate the development of energy policy. The development of Washington's Energy Strategy, and its adoption in 1994 by the Governor and the Legislature, guides the agency's efforts and sets priorities for its program directions. By statute, the Energy Office is responsible for coordinating responses to petroleum and electricity supply shortages, as well as administering the Governor's energy emergency powers. The Energy Office has also developed the resources and expertise to be made available to utilities as they develop integrated resource plans.

- ***Education and Information:***

  Public Information and Education: Efficient use of energy is part of Washington's Energy Strategy and is one of the ingredients in meeting future consumer demand. The Energy Office operates numerous education and information services to help Washington's citizens make informed decisions about energy use in their homes and vehicles. This information is provided on a wide basis throughout the state, and for all energy resources—natural gas, electricity, wood heat, and petroleum products. Resources include a toll-free hotline, information fact sheets, weekly newspaper columns, a library, and community workshops and events.

  Commerce, Industry and Agriculture: The Energy Office provides education and information to encourage energy efficiency in business, industry and agriculture. Via a technical hotline, electronic bulletin board, and library, the Energy Ideas Clearinghouse provides up-to-date information on trends in energy technologies, their installation, operation and maintenance, and environmental aspects of energy use. Customers include a broad base of energy professionals and users, including utility staff, engineers, building owners and operators, and energy consultants.

- ***Building Codes—Compliance and Revisions:*** Washington State has enacted rigorous energy-efficient building codes, with applications to both residential and commercial structures. Energy Office activities focus on providing information and technical assistance to builders, building inspectors, and local governments. This assistance includes code interpretation, as well as information on building techniques and products. The Energy Office also administers pass-through funding from utilities to local governments. For potential revisions to the energy code, the Energy Office organizes information and data to identify cost-effective technologies.

- ***Energy-Efficient Technologies and Practices:***

  Residential Research and Development: Energy-efficient residential building practices, heating systems and appliances can help control the demand for additional, expensive energy generation capacity. More recently, the work of the Energy Office in this area has focused on the manufactured housing industry, with the goal of increasing the share of energy-efficient manufactured homes.

  Industry Applications: Energy-efficient practices can increase the competitive position of Washington's industries and businesses. Washington's Energy Office links information about new energy-efficient technologies with those industries that might use them.

- ***Public Sector Energy Efficiency—Existing and New Buildings:*** The Energy Office works with public facilities operated by state agencies, school districts, public colleges and universities, and local governments to improve energy management practices to achieve cost-savings. With new construction in the public sector, energy life-cycle cost analysis (**ELCCA**) can show the long-term operating costs associated with proposed design and construction decisions. ELCCA guidelines, developed through the Energy Office, apply to construction of all new public facilities and significant remodels.

- ***Resource Technologies—Renewables and Integrated Systems:*** Apart from existing major hydroelectric facilities, which are Washington's largest renewable energy resources, other sources such as solar, wind, small hydro, geothermal, and biomass can play an important role in the state's energy future. As part of its mission, and linked to the Energy Strategy, Washington's Energy Office works to remove institutional barriers, provide technical assistance to project developers, prepare resource and technology assessments for policymakers, and support demonstrations of renewable technologies. Integrated systems suggest opportunities to conserve water, reduce air pollution, and maximize local energy resources such as waste heat.

- ***Transportation, Land Use, and Urban Planning:*** Transportation accounts for one-half of the energy used in Washington State. The Energy Office is the lead agency implementing Washington's 1991 Commute Trip Reduction [CTR] Law, which requires major employers in eight metropolitan counties to reduce the number of commute trips made by their employees in single-occupancy vehicles. It also supports the CTR task force, provides technical assistance to employers and local governments, and administers the funds that are passed through to local governments. The Energy Office is also a state resource for information on telecommuting and its impacts on vehicle emissions, energy consumption, commute trip behavior, and worker productivity.

  The Energy Office coordinates Washington's response to the alternative fuels provisions of the federal 1992 Energy Policy Act [EPACT], tracks developments in alternative fuels technology, and gives technical assistance to public and private car/truck fleet operators.

- ***Facility Siting and Nuclear Safety—Energy Facility Site Evaluation Council [EFSEC]:*** The Energy Office houses EFSEC, a "one-stop" siting process for major (non-hydroelectric) energy facilities in Washington. Applicants for energy facility siting receive all of their necessary state and local environmental permits and other required permits from EFSEC. Involving all relevant state and federal agencies, EFSEC also ensures that appropriate nuclear emergency response plans are operational for the WNP-2 nuclear power plant in the Tri-Cities.

C. Link: Energy Functions With State Statutes

The enabling legislation named Washington's Energy Office as the official state agency for the coordination of energy-related activities. [**RCW 43.21F.045**] This mandate gives direction for most of the major programs:

- Education and Information: *Public Information and Education*.
- Education and Information: *Commerce, Industry and Agriculture*.
- Energy-Efficient Technologies and Practices: *Residential Research and Development*.
- Energy-Efficient Technologies and Practices: *Industry Applications*.
- Public Sector Energy Efficiency: *Existing and New Buildings*.
- Resource Technologies: *Renewables and Integrated Systems.*
- Transportation, Land Use, and Urban Planning.

Other statutes give the legal basis for other specific policy directions:

- ***Energy Codes:*** Washington is one of 12 states with a residential energy code [in effect since 1991], contained in **RCW 19.27A.015**. Its non-residential code [in effect since 1994] is also in state statute in **RCW 19.27A.025**.

- ***Public Sector Buildings:*** **RCW 39.35** requires that energy conservation practices and renewable energy systems be used in the design and operation of public facilities.

- ***Transportation:*** Washington's Commute Trip Reduction [CTR] law, adopted in 1991, was incorporated into the Washington Clean Air Act [**RCW 70.94.521-551**]. The Alternative Fuels program is also part of the Clean Air Act [**RCW 70.120**].

- ***EFSEC:*** **RCW 80.50** is the Energy Facility Site Evaluation Council's basic enabling legislation.

Federal legislation also provides a backdrop to the current activities of Washington's Energy Office. An emphasis on conservation and efficient use of renewable resources is found in the Northwest Power Planning Act of 1980 [PL 96-501] and the National Energy Policy Act of 1992 (EPACT) [PL 102-486].

*[Note: For a more detailed description of statutes, see **Appendix Two: Linking State Energy Programs to Authorizing Statutes.***]

D. Fiscal History and Fiscal Patterns

Context: The composition of the fiscal resources for Washington's Energy Office has been fairly unique among state agencies. Most of the resources flowing to the Washington State Energy Office have come from sources other than the state general fund. The fiscal context has been one of growth in the level and sources of external funding resources since 1980. As can be seen in **Chart 1**, the following funding sources have supported State energy functions:

- Bonneville Power Administration [**BPA**].
- U.S. Department of Energy [**USDOE**].
- Oil Overcharge Resources, administered through USDOE.
- Washington's Air Pollution Control Account.
- Private/Local Funds from Washington Public Power Supply System and Utilities.
- Northwest Power Planning Council.
- General Fund-State and miscellaneous funding sources.

For state Fiscal Year 1996, beginning July 1, 1995, (see **Chart 2**) resources have shifted somewhat. State general fund resources now comprise 3 percent of the over $17 million anticipated to be available. Resources from the Northwest Power Planning Council, formerly used to provide offices and staff support to Washington's two Council members, have largely been eliminated. **Federal funds** from the Bonneville Power Administration and the U.S. Department of Energy are anticipated to make up more than **40 percent of the resources available**.

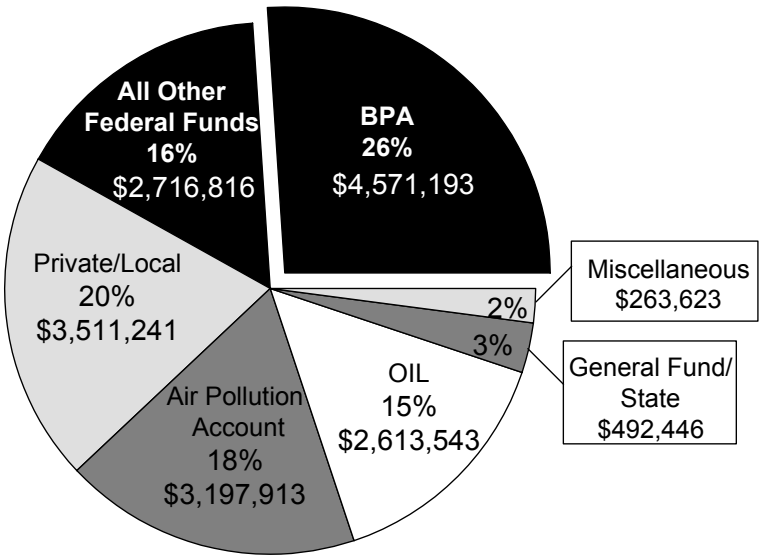
Chart 1

Energy Office Funding by Source: 1980 - 1997

Chart 2

FY 1996 Funding Sources

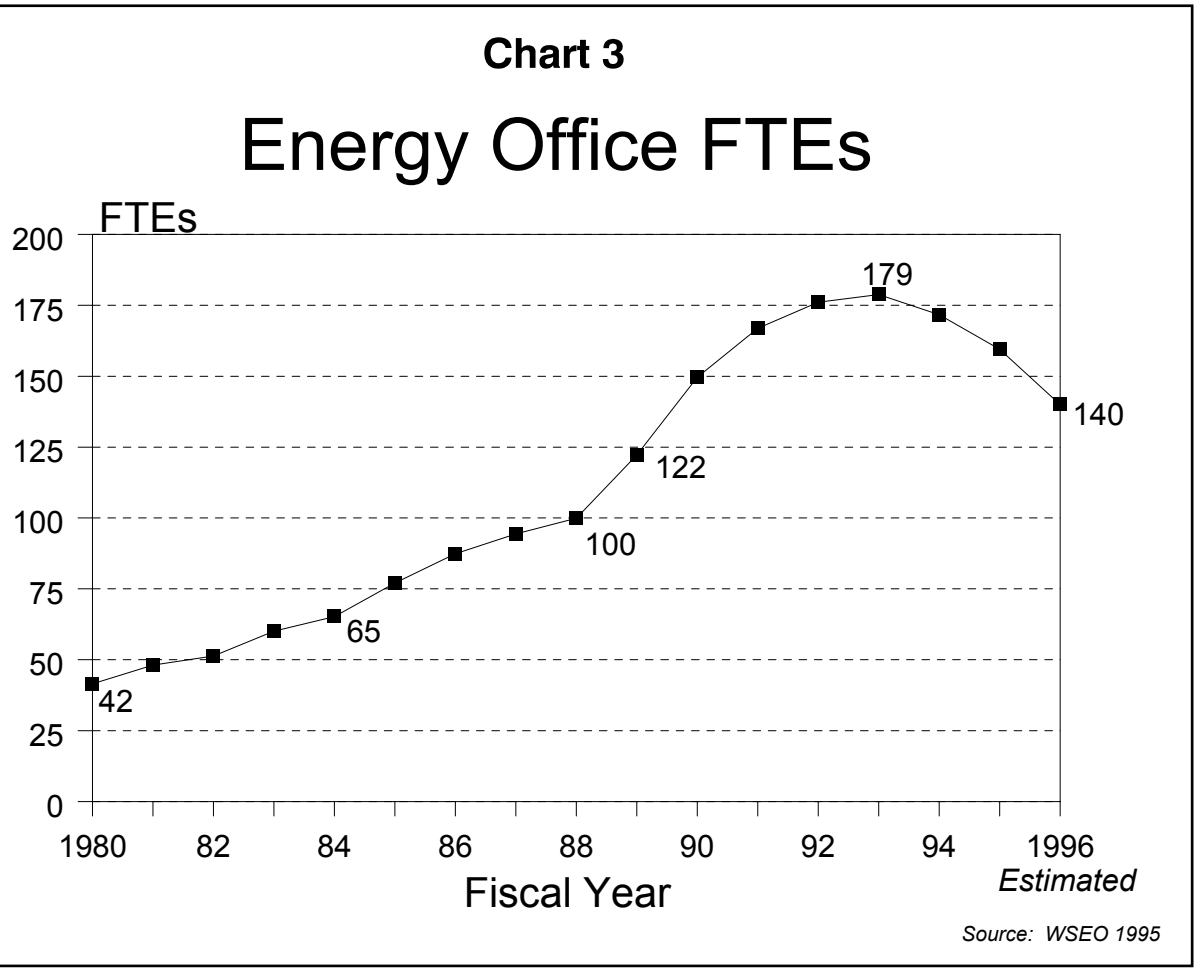
Total = Over $17 Million



Source: WSEO 1995

Chart 3 tracks the growth and decline in Energy Office staff as fiscal resources have grown and declined. The history of Washington's Energy Office has largely been one of staff growth since 1980, with a peak of **179** staff FTEs reached in 1993, followed by a gradual decline. In 1989, Energy Extension activities, which had previously been contracted out, were brought into the Energy Office proper. New activities have been assigned by the legislature to the Energy Office since 1990—Commute Trip Reduction, Energy Codes, Public Facilities, and the Energy Facilities Site Evaluation Council. Each of these policy and management decisions yielded a larger number of staff FTEs to Washington's Energy Office. Some decline in the resources available from external funding sources, a projected 15 percent annual decline in oil overcharge resources, and a ratcheting down of general fund/state resources has meant a corresponding reduction in staff FTEs. This reduced staffing level, however, has yet to reach the level of 1988—approximately 100 staff FTEs.

Chart 3



Future Fiscal Scenario: Over 40 percent of the fiscal resources available for state energy functions in Washington are derived from declining federal sources—Bonneville Power Administration and the U.S. Department of Energy. Bonneville's funding picture is unlikely to improve. The U.S. Department of Energy's support for some categorical activities will continue, but some major activities are likely to be rolled into a proposed energy block grant. The total amount available will be first reduced somewhat at the national level, as part of overall national policies of deficit reduction. Moreover, the oil overcharge restitution funds that flow into Washington State are on a scheduled annual decline of 15 percent, with these resources exhausted by the year 2001.

To review the funding future for state energy functions:

Major Funding Sources	***Percentage of Resources FY 1996 (est.)***	***Future $$$ Scenarios***
Bonneville Power Administration	26%	*Mixed Prospects*
U.S. Department of Energy	16%	*Mixed Prospects*
Private/Local Resources	20%	***Firm*** *to Mixed Prospects*
Air Pollution Control Account	18%	***Firm*** *Prospects*
Oil Overcharge Resources	15%	***Firm*** *Prospects (but 15% Decrease/Year to 2001)*
General Fund/State	3%	*Unlikely to Continue*
Northwest Power Planning Council	< 2%	*Unlikely to Continue*

From a fiscal perspective, the patterns of growth and expansion experienced for state energy functions and programs from 1980 to 1993 appear to have ceased. The future, however, is unclear.

[Note: For a more detailed documentation of individual energy program funding sources for state FY 1996, and an estimate for FY 1997, combined with some discussion of essential and optional state responsibilities, see ***Appendix Three: Linking Fiscal Resources to Energy Program Perspectives****.]*

E. What Have Washington's Energy Programs Accomplished?

- ***Background:*** Standards of success in the private sector—for a firm, an enterprise, a product line—are conventionally rooted in the profitability of any activity. Those producing a net return of profit over costs continue, grow and thrive; those that do not, eventually fold.

  The public sector does not operate with this calculus. Instead, some measure of "**program outcome**" is a surrogate for the profitability measure in the private economy. This demand for accountability is increasingly more vocal—and refined. Once, talking about the numbers of citizens who receive services was sufficient in referring to the "outcomes" of public programs. This is no longer the case, as policymakers increasingly demand that an intervention through a public program **must** yield measurable results:

  > *What behaviors changed? Which bad situations got better? By how much? After carefully measuring the **costs** of an intervention, what are the **benefits**—rigorously measured? Which public policy goals have been advanced—and how can policymakers know that? Which public activities were stopped and which programs were "closed," when a review showed few, if any, positive results?*

- ***Evaluating Energy Accomplishments:*** Washington's Energy Office has built program evaluation into its efforts at energy conservation. Program review and evaluation has allowed for redesign, restructuring and refocusing Energy Office efforts. With uncertainty about future funding, these results can guide decisions about what energy activities might be considered essential state efforts.

  Washington's Energy Office has documented **three** areas of **accomplishment:**

  - ✔ **Transforming Markets:** Has encouraged substituting **energy-efficient products** for those that consume more energy.

  - ✔ **Changing Practices:** Has helped individuals and organizations change the way they use energy.

  - ✔ **Influencing Policy Changes:** Has served as a coordinating point to represent all energy interests in Washington State government.

*[Note: For a full discussion of program accomplishments, compiled by Energy Office Staff, see **Appendix Four: Linking Outcomes to State Energy Programs**.]*

F. Summary

Washington's Energy Office has, since 1975, been a focal point for energy policy issues in state government and has operated a broad range of programs and efforts to advance and promote energy efficiency and conservation in Washington State. These many public programs were consequences of both broad and specific policy directives from the Washington Legislature since 1976. The fiscal resources to support almost all of these efforts have increasingly come from funding sources outside Washington's state general fund. The flow of these resources was on a steady, increasing slope from 1980 to 1993. Funding instability is, however, a basic reality in setting the future direction and shape of these energy efficiency and conservation efforts.

Washington's Legislature, in its 1995-97 biennial budget, decided that a separate energy office, as a state cabinet-level agency, would not exist beyond June 30, 1996. The Legislature also directed the development of options to maximize external funding sources for future energy conservation efforts. This report turns to those options.

III. FUTURE DIRECTIONS FOR WASHINGTON'S ENERGY FUNCTIONS

A. Background

The future of those energy efficiency and conservation efforts that are provided through Washington State government will change. Much of this future will reflect the consequences of likely changes in funding patterns for the near term. However, the policy direction of the Washington Legislature is to eliminate a separate state agency focused exclusively on energy efficiency and conservation efforts and to consider other options for providing energy-related functions and activities.

B. Assumptions

The future shape of energy functions, provided through the state public sector in Washington State, will be different from the current arrangement by June 30, 1996:

- There will be **no separate state agency** focused exclusively on energy efficiency and conservation issues and activities.

- Approximately **12 to 15 current programs will be restructured, redesigned, downsized or eliminated**.

- The equivalent of the current **staffing levels**, reflected in September 1995 Washington State Energy Office staff FTEs, will be **reduced by** approximately **one-half**.

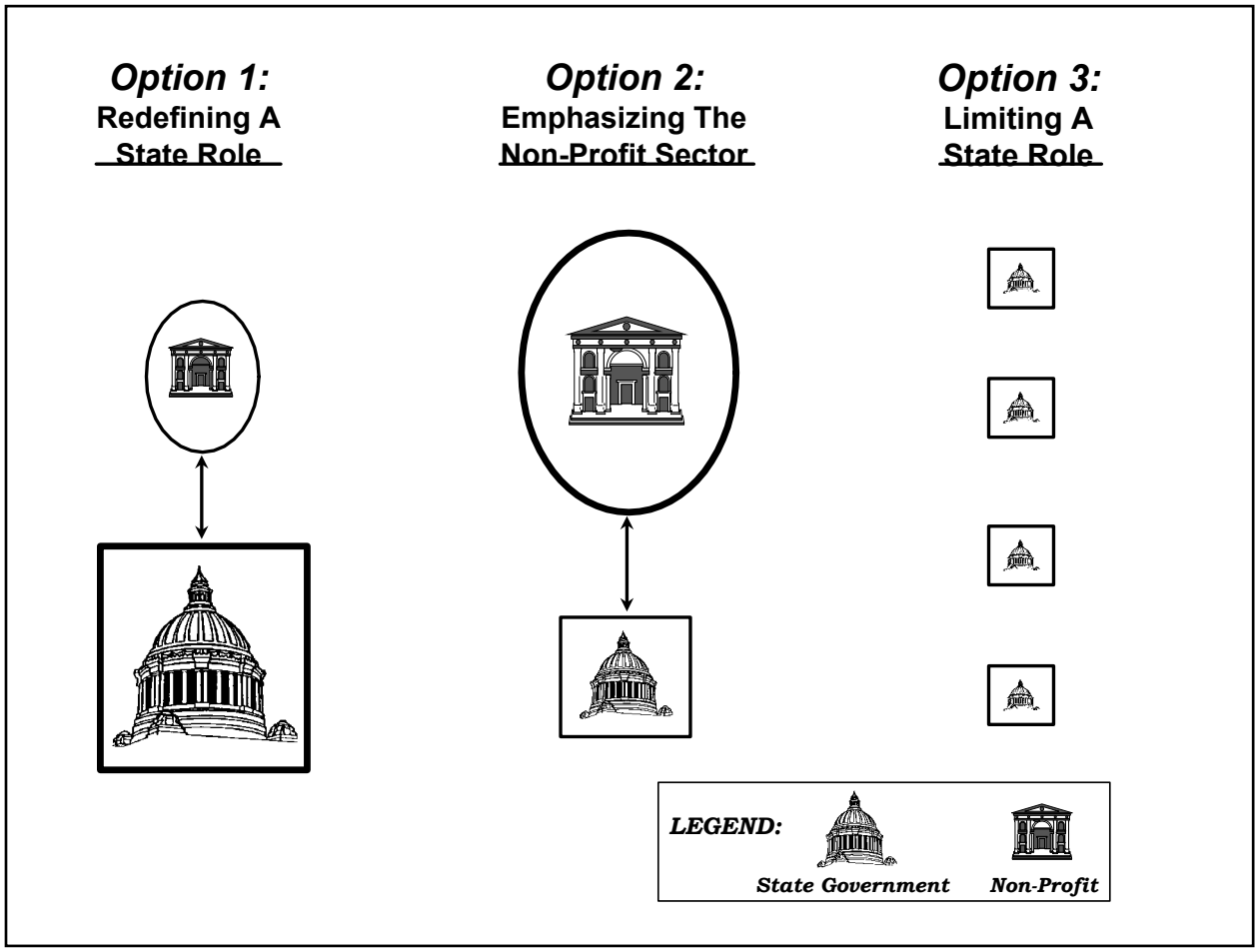
Considerable financial resources will remain, however, that will allow for a significant state effort in energy efficiency and conservation—operated directly or indirectly through Washington State agencies. Chapters IV through VI develop **three options** for providing this state effort:

- **Option One** looks at a **redefined**, but central, role for **state energy functions**, with some activities moving to the non-profit sector.

- **Option Two** looks at a greater emphasis on the **non-profit sector** for energy activities, with a much smaller role for state government.

- **Option Three** looks at a very **minimal role for state government**, confined to specific statutes that deal with transportation, public buildings, energy codes, and energy facility siting.

Visually, these three options are highlighted in the following chart:



IV. OPTION ONE: REDEFINING A STATE ROLE

A. Background

A redefined state role in promoting energy conservation and energy efficiency begins with a **smaller effort**, **fewer resources** and **fewer activities** than characterized the operations of the Washington State Energy Office between 1988 and 1994. This new role centers on those functions essential to maintaining a state presence.

Option One looks at **state agencies** as the most appropriate location for most of these activities and functions, with some lesser emphasis on a **non-profit setting** for energy extension, public outreach/education, and training/technical assistance. The most feasible non-profit setting is Cooperative Extension at Washington State University, Washington's land-grant university.

While **Option One** concentrates on state agencies for the future direction of state energy activities, some **choice** is laid out for consideration. As part of the discussion and analysis since July 1995, the following features were considered in suggesting "locations" for a particular state energy activity:

- **Mission:** Does this energy function—or set of functions—fit with this agency's mission and direction?

- **Capacity:** Can the agency accommodate this energy function, **and** does it offer the organizational environment for an energy activity to thrive?

- **Service Focus:** What is the balance in the agency between being a regulator, involved with carrying out necessary public laws and regulations, and a provider of useful services to Washington residents? The work of the Energy Office to date has been largely service, rather than regulatory, in purpose and direction.

B. Perspective and Direction

A "redefined state role" means a visible, viable, **but smaller**, state role in energy conservation and energy efficiency activities, located in one or more existing agencies in Washington State government. Input from a variety of sources during this review process has suggested that attention be paid to some **critical mass** of such activities, which means one or a few such agencies, rather than many. This state government "presence" should be able to ensure direction and access on energy issues of importance to Washington State residents, industries, as well as state and local governments.

What Are the Activities That Stay in Government? A redefined, but central, state role must still attract non-state financial resources—the bulk of financial resources currently available for state energy activities. This redefined role would entail the following functions:

Energy Policy:

- Providing information and analysis on energy policy to the governor, the state legislature, and other state agencies.
- Monitoring, implementing and updating Washington's Energy Strategy.
- Collecting, analyzing, and disseminating energy resource information and data for Washington State.
- Coordinating responses to state energy emergencies and assuring an effective, coordinated method to site energy facilities in Washington.

Energy Codes/Resource Management:

- Initiating forums to give input on energy policy and resource management issues.
- Coordinating research, development, and demonstration of renewable energy technologies.

Energy Efficiency:

- Continuing those advances in energy codes that support affordable housing and efficient energy practices in public facilities.
- Transforming energy efficiency markets to assist consumers, business, industry and agriculture to hold down energy costs and thus improve their competitive positions in domestic and international markets.

Transportation:

- Continuing state roles in commute trip reduction, telecommuting, and alternative fuels efforts.

Energy Extension:

- *Sponsoring, encouraging and facilitating a customer-directed delivery of energy extension, public information and technical assistance through cooperative extension or other non-profit model*.

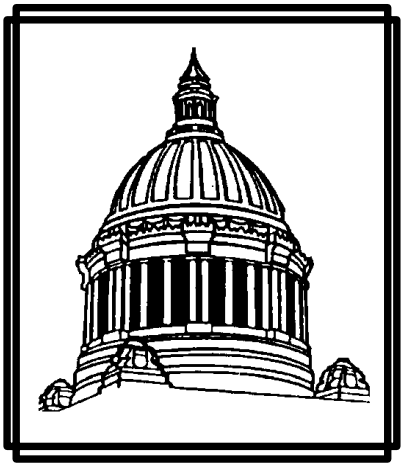
Key features of Option One are:

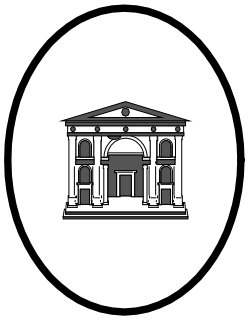
- ✔ **Accountability** and **direction** for energy funding and key energy efforts are located in state agency(ies).

- ✔ Some service delivery is **contracted out**, or provided through a non-profit, or WSU/Cooperative Extension, model.

Visually, this future focus of Option One can be seen in the accompanying chart, which shows a larger role for state agencies and a correspondingly smaller role for a non-profit:

Option 1: Redefining A State Role





STATE GOVERNMENT ⟷ **NON-PROFIT/WSU**

- **Community, Trade & Economic Development**
- **Department of Transportation**
- **Department of Ecology**
- **General Administration**

C. Option One: Implementation Choices

Centering on the energy policy function in state government, many of the key activities listed above could be in a single agency. Washington's Department of **Community, Trade and Economic Development** [**CTED**] is a likely location for a concentration of state energy activities. Washington's **Department of Ecology** was also mentioned, in the review work done for this study, as a vehicle for Option One.

Even with some concentration of energy efforts in one agency, other state responsibilities, currently in Washington's Energy Office, could shift to other agencies. Washington's **Department of Transportation** could assume responsibility for the Commute Trip Reduction, and related alternative fuels and telecommuting activities currently housed in the Energy Office. Washington's **Department of General Administration** could expand somewhat its role in energy code efforts.

1. *Community, Trade and Economic Development—The Rationale:*

The Washington Department of Community, Trade and Economic Development [**CTED**] is a location option that would put energy functions within an "economic and community development" **mission**. Moreover, many other states (more than 20) have placed their state energy functions within broader economic development, community development or commerce departments.

CTED has the orientation to incorporate public activities with a customer **service** direction. This link would also be to a state agency with strong connections to the private sector, both for profit and non-profit, as well as to local governments and community organizations. CTED has, at times, provided a planning function for state government, a role that continues with Washington's Growth Management Act. CTED, then, could be a logical setting for the energy policy/planning function, as well as for further work on implementing and refining Washington's Energy Strategy.

CTED's **capacity** to provide direct services to consumers is less than that of the current Energy Office. CTED's role, conversely, has been to act as the "wholesale" distribution point of funds and services, leaving direct provision (or "retailing") of economic development, trade support, housing, and community development activities to local organizations and governments. With the reduced state role implicit in **Option One**, the CTED direction is an appropriate future direction. Direct services could be provided through contracts with a variety of vendors and organizations, or through a connection with Cooperative Extension.

- ***How to Do It:*** The organizational device to locate some, or most, of the remaining state energy functions could be as an integrated "Energy Division" of CTED, thus ensuring that a "critical mass" of staff and programs could be maintained in a single organizational unit. Another device could be to blend in activities, efforts and staff within an integrated CTED agency structure that would add, or "blend," all of these with the mission, capacity and service focus of this larger agency. Either direction could work, although a separate division, or "energy unit," might not ensure the best

fit with a broader economic development role for energy functions in state government.

- **Impediments:** CTED resulted from the merger of the former Department of Trade and Economic Development and Department of Community Development. This merger created some organizational difficulties, problems in accommodating personnel changes between the two agencies, as well as unanticipated expenses attending the merger's completion.

  Emergency Services and Fire Safety functions, which had been attached as separate units to the former Department of Community Development, were never integrated into the larger agency, and were eventually spun off through legislative action into other agencies in 1995. These experiences have generated concerns, both internal and external to CTED, about the most appropriate way to "fit" energy functions into this agency. None of these impediments is insurmountable, but the role of each in any transition should be recognized.

2. ***Other State Agencies:***

Considering an existing state agency other than the Department of Community, Trade and Economic Development as a location for a critical mass of state energy functions does not yield many alternatives. Other states have located these functions in environmental agencies—stressing the energy conservation nature of the policy direction. The Washington **Department of Ecology** presents some possibilities, as it would tie together the environmental side of state energy policy and energy conservation into an agency with a broad **mission** regarding environmental concerns. Ecology's **capacity** to coordinate these services, especially in their more economic development guise, is less clear. Moreover, in the balance between a regulatory and service **focus**, the strongest perception of Ecology's role is one more weighted to a regulatory focus.

3. ***Distributing Energy Functions to Several State Agencies:***

Concentrating several or many state energy functions in a single agency, such as CTED, would not preclude moving some of these functions to other agencies. So, for example, the Commute Trip Reduction, and associated transportation and alternative fuels efforts, could move to the **Department of Transportation** [**DOT**], thus enlarging somewhat its capacity in the area of Transportation Demand Management [**TDM**].

Similarly, the engineering functions associated with developing standards for new construction in the public sector, and with building life-cycle cost analysis [**LCCA**], could be moved to the **Department of General Administration** [**GA**].

Under **Option One**, apart from the more specialized functions going to Transportation and General Administration, the set of energy conservation and energy efficiency activities centered around energy policy and the state Energy Strategy would appear most appropriately located in a single agency. Washington's Department of Community, Trade and Economic Development appears the likely choice.

4. ***Developing a Non-Profit Option*:**

Under **Option One** the coordination and direction of energy conservation and efficiency activities would stay with a state agency. This choice, however, would allow the development of a non-profit vehicle for a broad range of consumer-oriented education, information, technical assistance and training activities to residents of Washington State. For these activities, either a separate public, non-profit entity could be created through legislative action, or **Cooperative Extension** at Washington State University could serve this role.

D. Redefining A State Role: A Summary

Focusing on state agencies, but putting energy extension activities in a non-profit, cooperative extension setting, could result in the following distribution of those current Energy Office functions that would remain:

OPTION ONE **LOCATIONS OF ENERGY FUNCTIONS**

	State Government	Non-profit/Cooperative Extension
REDEFINING A STATE ROLE	**Community, Trade and Economic Development** Policy Codes Industrial Programs Renewables Integrated Systems Library EFSEC **Department of Transportation** CTR/Transportation **Department of General Administration** Public Sector-New Construction LCCA	Industrial Research Software Education and Information Network including training: Building Operator Training Energy Code Training Clearinghouse

V. OPTION TWO: EMPHASIZING THE NON-PROFIT SECTOR

A. Background

As with Option One, **Option Two** begins with a redefined state role in promoting energy conservation and energy efficiency that is a smaller effort, consumes fewer resources and has fewer activities than was typical of Washington's Energy Office between 1988 and 1994. With Option Two, however, the direct state role would be even smaller, as more of those activities and programs associated with the current Energy Office would move to the non-profit arena.

Option Two looks at a **non-profit setting** as the most appropriate location for a redefined state energy role that would provide energy knowledge, tools, training, and technical assistance to citizens, businesses, industry, and local governments in Washington. Here, a direct role for **state agencies** would be limited to those activities required in specific statutes, and a guiding role in energy policy.

The proviso in the 1995-97 biennial budget, directing this review, said to examine "...(1) the feasibility of providing energy-related services through a nonprofit organization or organizations..." *[ESHB 1410, Sec. 301]* Underlying the "feasibility" of moving these services was the time constraint of proposing an option that could be implemented relatively soon (that is, close to June 30, 1996), and the legal constraint of an option that would allow for the transfer of public assets and programs from the state public sector.

This review began by first assessing, in a general manner, the capacity of the private, nonprofit sector to provide some or all of the energy services currently in Washington's Energy Office. A brief review revealed some excellent efforts and organizations, but little existing capacity to operate such services on a statewide basis. A second approach would have required legislative action to create a nonprofit entity, give it a public charter, work out details of transferring public assets, and attend to other issues involved in creating a new system. The lead time of 18 months to two years that had been consumed, for example, in creating the Western Library Network made that approach much less feasible.

On the **feasibility** dimension, then, a **non-profit option** centered on **Cooperative Extension** at **Washington State University** [**WSU**]. The Energy Office once contracted with WSU until the early 1980s to provide energy extension services. Moreover, in several other states, including Oregon, Cooperative Extension at the public, land grant university provides this range of energy-related services to the general public, businesses, industry and local government. Washington's Cooperative Extension program, as an arm of a higher education institution, has a non-profit orientation, but can also receive funds and resources through the mechanisms of state government. Washington's Cooperative Extension has been undergoing a redirection and refocus of its mission to include a range of economic development and public education efforts similar to the energy-related

activities under examination. Finally, Cooperative Extension is a non-profit approach that could assure a continuation of external resources for energy conservation into Washington State and is feasible within a reasonable time frame.

B. Perspective and Direction

Emphasizing the non-profit sector means placing a priority on energy related "services" to this state's citizens. This service orientation need not have a direct tie—but could have an indirect link—to those functions remaining in state government. The state government role, under **Option Two,** would become more limited—a coordinating energy policy role—and would continue those responsibilities associated with specific state statutes.

1. *What Are the Activities That Would Move to Cooperative Extension?*

Those services and activities moving to Extension would still need to attract non-state financial resources. Although Bonneville Power Administration [**BPA**] has been a major source for energy extension activities in recent years, oil overcharge restitution funds have also been channeled into these activities. Whatever is available, and appropriate, from these funding sources would have to continue with the Cooperative Extension Option.

Moving the operation of these services out of state government to Extension could give access to potential funding directly from individual public and investor-owned utilities, from other regional private and public organizations, and from philanthropic foundations. In short, this new focus could open up financial support not available to a state government agency.

This redefined "service" role for energy activities would entail the following functions that are part of **technical assistance**, "**tools**" to assist energy conservation, and **training** in energy conservation techniques:

Technical Assistance:

- ***Energy Ideas Clearinghouse***—providing information and assistance on energy efficiency technologies and practices to consumers, businesses and industry.

- ***Industrial Research***—carrying out and assessing existing applied research on industrial energy topics such as motor efficiency, electrical distribution, and other industry needs.

- ***Renewables***—giving technical assistance to the renewable industry, such as producers of electronic components for photovoltaics.

- ***Integrated Systems***—giving technical assistance to district heating/cogeneration developers on the costs/benefits of integrated systems, such as work with Boeing/METRO and Fort Lewis.

- ***Industrial Forums***—conducting meetings, seminars and workshops to disseminate information on industrial energy efficiency.

- ***Community Services***—providing a broad range of energy efficiency and conservation services to the general public through the **Energy Hotline**, **Home Columns** in newspapers, **K-12** energy education efforts, and a variety of **community education** forums, demonstrations, meetings and presentations.

Tools:

- ***Software***—developing and marketing software tools for energy code compliance, energy accounting, district heating, and energy efficient motor purchasing.

- ***Library Resources***—providing access to energy information to support extension programs.

Training:

- ***Industry***—providing training to commercial/institutional building operators and on the commercial/industrial energy code.

- ***Community***—providing training and education services to the general public.

Key features of Option Two are:

- ✔ **Minimal state government role** is limited to the coordinating energy policy function.

- ✔ Focus of energy-related programs in Washington State becomes **applied technologies** and their access to **business, industry,** and the **public**.

- ✔ **Cooperative Extension** becomes the delivery mechanism for energy-related services, which are in turn **self-supporting**.

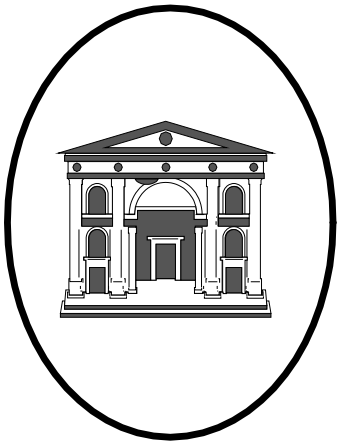
- ✔ **Funding** possibilities may **increase**.

2. *What Are the Activities That Stay in State Government?*

This option limits the role of state government considerably from that delineated in Option One. Specifically, the energy policy function, together with the statutory responsibilities of facility siting, energy code oversight, public sector building efficiency and commute trip reduction coordination functions, remain in state government. While not extensive on the service dimension, these latter activities consume approximately one-third of the current funding available to Washington's Energy Office.

Visually, this future focus of Option Two can be seen in the accompanying chart, which reverses the magnitude of each sector—state government and non-profit—seen in Option One:

Option 2: Emphasizing The Non-Profit Sector



NON-PROFIT/WSU ⟷ **STATE GOVERNMENT**

- **Community, Trade & Economic Development**
- **Department of Transportation**
- **Department of Ecology**
- **General Administration**

C. Option Two: Implementation Choices

Again, the principal difference between Option One and Option Two is the level of effort in energy conservation that remains within state government agencies. **Cooperative Extension**'s role in **Option Two** would become much broader, going beyond the information, education and training activities associated with energy extension work. **Option Two** allows additional responsibilities for technical assistance in several areas, development and dissemination of energy conservation software, and developmental/ applied research on renewable energy resources.

Those energy functions remaining in state government are limited. For all the reasons discussed in Chapter IV, Washington's **Department of Community, Trade and Economic Development** [**CTED**] is a likely location for the energy policy function, energy code functions, and facility siting processes [**EFSEC**]. If the industrial programs and related activities that provide economic development and technical assistance kinds of services were **not** to be shifted to Cooperative Extension, CTED would also be a likely venue for this work.

Placing these core functions within CTED would not preclude two other state agencies from playing a role in the distribution of those energy activities that should stay in state government. Because of their linkage with specific state statutes, and legislative policy decisions, the combined **transportation** activities currently in the Energy Office [Commute Trip Reduction, telecommuting and alternative fuels efforts] could move to Washington's **Department of Transportation**. DOT could thus expand its efforts in the realm of Transportation Demand Management. Similarly, those engineering functions associated with developing standards for new construction in the public sector, and with life-cycle cost analysis, could be shifted to Washington's **Department of General Administration** [**GA**].

D. Emphasizing the Non-Profit Sector: A Summary

While the emphasis at Cooperative Extension would be on energy education, training, tools and technical assistance, the **policy direction** on energy, together with transportation, energy codes and facility siting processes, would remain in state government. This state policy capacity could also involve a governance role for state agencies in the operation of those energy functions located at Cooperative Extension. Additional activities, assigned to state government as part of current state policy, would also stay so focused under **Option Two**.

The following gives a brief layout of functions and their locations under Option Two:

OPTION TWO **LOCATIONS OF ENERGY FUNCTIONS**

	State Government	Non-profit/Cooperative Extension
EMPHASIZING THE NON-PROFIT SECTOR	**Community, Trade and Economic Development** Policy Codes EFSEC Industrial Programs **Department of Transportation** CTR/Transportation **Department of General Administration** Public Sector	Industrial Research Software Education and Information Network including training: Building Operator Training Energy Code Training Renewables Integrated Systems Clearinghouse Library

Finally, although this review has concentrated on Washington State University's Cooperative Extension as the only non-profit option under consideration, other approaches in the non-profit arena were discussed. These would include going through an executive and legislative process to create either a public or a private non-profit entity to house, manage and operate the energy-related services currently in Washington's Energy Office. This direction might be an energy institute that could be created, either free-standing or attached to an institution of higher education. Other states have taken up these approaches, although not as responses to a policy directive to close a separate, cabinet-level agency for energy matters. Any of these other approaches could take considerable time, and none of them would use existing organizational and state agency structures. The non-profit option considered here, as directed by the Washington Legislature, adheres closely to the **feasibility** criterion. That is, the option proposed is one that could be implemented by June 30, 1996.

VI. OPTION THREE: LIMITING A STATE ROLE

A. Background

Options One and Two took the broad range of energy-related functions and services currently housed within Washington's Energy Office, reduced their scope and size by one-half, and distributed them in two possible directions: existing state agencies and an existing non-profit entity—Cooperative Extension at Washington State University. **Option Three** would curtail this current effort further, and limit state energy responsibilities to **four** specific statutes that require correspondingly specific state activities:

- **Energy Codes**—continuing state responsibilities and assignments in the implementation of Washington's residential and non-residential energy codes **[RCW 19.27A]**.

- **Public Sector Buildings**—incorporation of energy conservation practices and renewable energy systems in the design and operation of public facilities in Washington **[RCW 39.35]**.

- **Transportation**—maintaining the state role in commute trip reduction and alternative fuels efforts in the state Clean Air Act **[RCW 70.94 and 70.120]**.

- **Facility Siting**—state policy currently requires a coordinated state process for siting new, non-hydroelectric energy facilities **[RCW 80.50]**.

The general mandate contained in the Energy Office's authorizing legislation of 1976 would be deleted, and the energy related functions that would remain would be those outlined above.

B. Perspective and Direction

Under **Option Three**, major energy-related activities now available would be eliminated. There would be no energy policy role, providing information, data and policy analyses on broad energy issues to the executive and legislative branches of state government. All of the energy information, education, training and technical assistance activities now occurring—and the reduced efforts that would occur under Options One and Two—would not be provided under state direction. Only very limited activities would remain, and there would be little or no coordination among them.

The legislative directive in the 1993-95 budget proviso, to ensure that Washington continues to receive oil overcharge restitution funds and federal resources for energy

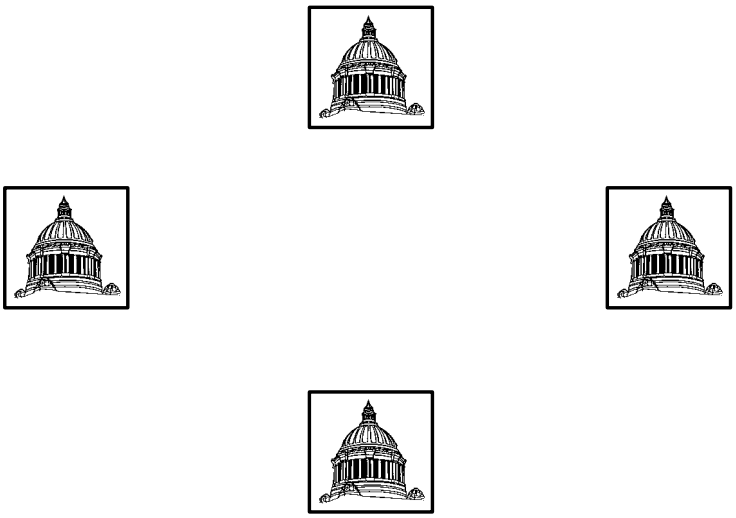
conservation purposes, might be compromised in Option Three. On the other hand, some of the federal sources of energy conservation funding, especially through the Bonneville Power Administration, are already shrinking. Whether oil overcharge restitution funds would be available for, or could be concentrated on, commute trip reduction, alternative fuels, energy code and public sector building activities is not presently known.

Key features of Option Three are:

- ✔ A **coordinated state role** in energy conservation and efficiency efforts would **cease.**
- ✔ Remaining **energy functions** would be **limited**.
- ✔ Washington's access to **outside funds** would **decrease**.

Visually, this new focus can be seen in the following chart:

Option 3: Limiting A State Role



C. Option Three: Implementation Choices

Distribution of these limited energy-related functions would be relatively simple under Option Three:

- **Energy Codes:** The state Building Code Council currently operates through the Washington Department of Community, Trade and Economic Development. Responsibility for the remaining technical assistance efforts on energy code issues could be shifted to this function in CTED.

- **Public Sector Buildings:** As mentioned in Options One and Two, Washington's Department of General Administration has responsibilities in this area. Those duties assigned in statute to the current Energy Office could be transferred to GA.

- **Transportation:** Washington's Department of Transportation, under Options One and Two, would be a possible location for commute trip reduction and alternative fuels efforts under the state Clean Air Act. Under Option Three, this transfer of responsibility could be easily accommodated.

- **Facility Siting:** This coordinated permitting process, through the Energy Facility Site Evaluation Council, could be transferred either to the Department of Ecology or the Department of Community, Trade and Economic Development.

Again, with Option Three, there would be no energy policy or coordination function in state government. A place for overall energy policy direction, including energy emergencies, would not be available. Energy "program efforts" would become blended into the missions of the state agencies noted above.

OPTION THREE **LOCATIONS OF ENERGY FUNCTIONS**

	State Government
LIMITING **A** **STATE** **ROLE**	**Community, Trade and Economic Development** Codes EFSEC **Department of Transportation** CTR/Transportation **Department of General Administration** Public Sector

VII. STATUTORY CHANGES AND TIME SCHEDULES

Time Schedule: The assumption behind each of the three options presented for **closing Washington's Energy Office** is that each of the options ***could be*** implemented by **June 30, 1996,** and that each could be accomplished through changes in or elimination of existing state statutes. Only if a separate, new non-profit entity were to be created through legislative action would the time schedule for closure and transfer of energy functions have to extend beyond that date. In this latter instance, the time schedule might be as long as one year, or more, beyond that date.

Statutory Changes: The major state statutes that undergird current state energy functions have been reviewed in this report [see Chapter II, 6, and Appendix Two]. Each will be summarized here, in terms of the likely general impacts of implementing each of the three options:

- **RCW 43.21F.045** is the **general authorizing statute** for the broad range of state energy functions. Some of the statute's direction centers around energy policy and the implementation of Washington's Energy Strategy. In both **Options One** and **Two**, the energy policy and planning activities would be located in the Department of Community, Trade and Economic Development, or some other state agency—such as Ecology. This statute would have to be altered to reflect the agency location option selected. In **Option Three**, this statute would have to be greatly reduced in scope, or eliminated.

  If Cooperative Extension were to be a location option for some or many of the energy extension, public information and technical assistance functions implicitly part of this general statute, either Washington State University would be so directed in this statute to undertake these functions, or a state agency could be assigned these responsibilities and allowed to contract with Cooperative Extension or other non-profit entities.

- **RCW 19.27A** is the statute which defines state **energy codes**, both residential and commercial. Responsibilities assigned to the Washington State Energy Office in this statute would have to be reassigned to other state agencies—Community, Trade and Economic Development or General Administration in **Options One** through **Three**.

- **RCW 39.35** is the statute requiring energy conservation and renewable energy practices in the design and operation of **public facilities**. Those responsibilities assigned to WSEO would have to be reassigned to other state agencies—probably CTED and GA in **Options One** through **Three**.

- **RCW 70.94 and RCW 70.120** include those sections of Washington's Clean Air Act that assign **commute trip reduction** and **alternative fuels** functions to the Energy Office. In **Options One** through **Three**, these functions would likely be reassigned to the

Department of Transportation—or possibly to Ecology or Community, Trade and Economic Development.

- **RCW 80.50** is the Energy Facility Site Evaluation Council's [**EFSEC**] basic enabling legislation. Under **Options One** through **Three**, EFSEC would move to the Department of Community, Trade and Economic Development or Ecology. The statute would have to reflect this location decision.

The above sketch is but a first cut on the state statutory changes required to implement any of the three options outlined in this report—or some hybrid that would contain elements of any of them. New agreements, arrangements, and contracts would have to be negotiated with all funding sources external to Washington State government. It is unlikely that federal funding sources, for example, would require a particular type of state agency to be in place to receive federal funds, although procedural requirements would always be present. Legal expertise from the legislative and executive branches of state government would have to thoroughly assess the legal and statutory context for any of these options—or others not outlined in the report.