H-2438.1			
11 7420°T			

SECOND SUBSTITUTE HOUSE BILL 1819

State of Washington 61st Legislature 2009 Regular Session

By House General Government Appropriations (originally sponsored by Representatives Upthegrove, Dunshee, Dickerson, McCoy, Rolfes, Eddy, Hunt, White, Appleton, Carlyle, Darneille, Kagi, Pedersen, Conway, Sells, Nelson, Chase, Ormsby, Kenney, and Williams; by request of Governor Gregoire)

READ FIRST TIME 03/02/09.

- 1 AN ACT Relating to reducing greenhouse gas emissions; amending RCW
- 2 70.235.010, 70.94.151, and 43.21B.110; adding new sections to chapter
- 3 70.235 RCW; and creating new sections.

11

12 13

1415

16

17

18

19

- 4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:
- NEW SECTION. Sec. 1. The legislature finds that Washington should maintain its leadership on climate change policy by implementing a cap on carbon emissions and developing strategies to achieve those reductions, including continuing Washington's participation in the design of a regional cap-and-trade program with the western climate initiative.
 - The legislature finds that by continuing Washington's participation in the design of a regional cap-and-trade program, Washington is in a unique position to help influence and guide the creation of a potential federal cap-and-trade program that would reflect Washington's emissions portfolio and aid Washington's forest resources and agricultural land.
 - The legislature finds that acting now provides predictability for business, drives investment in the new clean energy economy, creates jobs, positions Washington business to receive credit for early reductions of greenhouse gases, and maximizes Washington's ability to

p. 1 2SHB 1819

- 1 shape the development of any potential federal cap-and-trade program.
- 2 However, the legislature does not intend for a carbon auction to take
- 3 place in Washington without prior approval from the legislature.
- 4 **Sec. 2.** RCW 70.235.010 and 2008 c 14 s 2 are each amended to read 5 as follows:
- The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.
- 8 (1) "Agriculture carbon working group" means the stakeholder group
 9 formed by the department and the department of community, trade, and
 10 economic development to develop the recommendations required under RCW
 11 70.235.030(3)(g).
- 12 <u>(2)</u> "Carbon dioxide equivalents" means a ((metric)) measure used to 13 compare the emissions from various greenhouse gases based upon their 14 global warming potential.
- 15 $((\frac{(2)}{(2)}))$ "Climate advisory team" means the stakeholder group 16 formed in response to executive order 07-02.
- 17 $((\frac{3}{3}))$ $\underline{(4)}$ "Climate impacts group" means the University of Washington's climate impacts group.
- 19 $((\frac{4}{1}))$ (5) "Department" means the department of ecology.
- 20 (((5))) <u>(6)</u> "Direct emissions" means emissions of greenhouse gases 21 from sources of emissions, including stationary combustion sources, 22 mobile combustion emissions, process emissions, and fugitive emissions.
 - $((\frac{6}{1}))$ <u>(7)</u> "Director" means the director of the department.
- (((7))) (8) "Early reduction allowance" means an allowance for reductions in greenhouse gas emissions that occur after January 1, 1990, and before January 1, 2012, and that are approved by the department.
- 28 (9) "Forest carbon working group" means the stakeholder group
 29 formed by the departments of ecology and community, trade, and economic
 30 development to develop the recommendations required under RCW
 31 70.235.030(3)(g).
- 32 (10) "Greenhouse gas" and "greenhouse gases" includes carbon 33 dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, 34 and sulfur hexafluoride.
- $((\frac{(8)}{(8)}))$ <u>(11)</u> "Indirect emissions" means emissions of greenhouse gases associated with the purchase of electricity, heating, cooling, or steam.

- 4 $((\frac{10}{10}))$ <u>(13)</u> "Program" means the department's climate change program.
- 6 $((\frac{(11)}{)})$ <u>(14)</u> "Total emissions of greenhouse gases" means all direct emissions and all indirect emissions.
- 8 (((12))) (15) "Transportation fuel" means any carbon based fossil 9 <u>fuel including combustible gas or liquid used for the propulsion of</u> 10 equipment and vehicles.
- 11 (16) "Western climate initiative" means the collaboration of 12 states, Canadian provinces, Mexican states, and tribes to design a 13 multisector market-based mechanism as directed under the western 14 regional climate action initiative signed by the governor on February 15 22, 2007.
- NEW SECTION. Sec. 3. (1) The forecasting office of the office of financial management, in consultation with members of the governor's council of economic advisors, shall initiate an independent economic analysis of the impact to Washington consumers, businesses, and citizens if Washington entered into a regional or federal cap-and-trade program. The economic analysis must include:
- 22 (a) Various economic scenarios, such as when Washington has a 23 robust economy and when Washington is in an economic downturn;
- (b) The economic impact sector by sector, including the impact to the forest products manufacturing sector and Washington's port districts;
- 27 (c) How to address trade competition from countries and states that 28 are not participating in a cap-and-trade program;
- 29 (d) How to ensure that economic benefits are available to both 30 urban and rural communities; and
- 31 (e) The impact on the cost and affordability of food, housing, 32 energy, transportation, and other routine expenses on low and moderate-33 income people.
- 34 (2) The forecasting office of the office of financial management 35 shall submit the report to the legislature by December 1, 2010.

p. 3 2SHB 1819

- NEW SECTION. Sec. 4. A new section is added to chapter 70.235 RCW to read as follows:
 - (1) In 2012, the cap must cover emissions that meet or exceed twenty-five thousand metric tons of carbon dioxide equivalents annually from:
 - (a) Electricity that is generated or consumed within the state;
 - (b) Combustion at industrial and commercial facilities; and
 - (c) Industrial processes.

3

5

6

7

8

13

14

18

19

2021

22

23

24

2526

- 9 (2) In addition to the emissions covered in subsection (1) of this 10 section, in 2015 the cap must cover emissions that meet or exceed 11 twenty-five thousand metric tons of carbon dioxide equivalents annually 12 from:
 - (a) Transportation fuel combustion within the state;
 - (b) Residential fuel combustion within the state; and
- 15 (c) Fuel delivered or sold for industrial and commercial combustion 16 within the state where the fuel is used by persons not otherwise 17 covered by the cap in 2012.
 - (3) Except for purposes of reporting, the following carbon dioxide emissions are not covered by the cap:
 - (a) Emissions from industrial combustion of biomass in the form of fuel wood, wood waste, wood by-products, and wood residuals as long as the region's silvicultural sequestration capacity is maintained or increased;
 - (b) Emissions from the combustion of biofuels or the biofuel component of blended fuels as the term "biofuel" is defined in RCW 43.325.010; and
 - (c) Manufacturing-related emissions from pulp and paper production.
- (4) With respect to energy facilities covered under chapter 80.50 RCW and notwithstanding RCW 80.50.120, this chapter applies to all energy facilities, as that term is defined in RCW 80.50.020. Nothing in this chapter may be construed as conflicting with chapter 80.50 RCW.
- NEW SECTION. Sec. 5. A new section is added to chapter 70.235 RCW to read as follows:
- 34 (1) The annual allowance caps and other complementary policies must 35 ensure that Washington will meet the emission reduction requirements in 36 RCW 70.235.020.

(2) The allowance caps for each year from 2012 to 2014 must be set 1 2 in advance of 2012. Allowance caps for each year after 2014 must be 3 set at least three years in advance of the start of the next compliance 4 period.

5

6 7

8

9 10

13

14

15

18

19

20 21

26

28 29

31 32

33 34

- (3) The allowance caps must decline each year until Washington's greenhouse gas emissions are reduced as required by RCW 70.235.020.
- (4)(a) The allowance cap for 2012 must be set based on the department's best estimate of the expected actual emissions covered by the cap in that year as adjusted by the reallocation provided for in subsection (7) of this section, if any.
- 11 (b) The price of an allowance may not exceed twelve dollars for the 12 years 2012 and 2013.
 - (5) The allowance cap for 2015 will be increased by the department's best estimate of expected new emissions to be included in the cap in that year, after the annual reduction is made to the cap.
- (6) The allowance caps may not take into account early reduction 16 17 allowances.
 - (7) If Washington's participation in a regional cap-and-trade program is authorized by the legislature, Washington must set aside one percent of its 2012 allowance cap in order to participate in a regional redistribution allocation.
- 22 (8) The allowance cap may also be adjusted as necessary to account 23 for expansion of the capped region or discovery of incorrect or 24 inaccurate data used to determine the allowance cap.
- 25 NEW SECTION. Sec. 6. The department of ecology, in consultation with the forest practices board, the department of natural resources, and the forest carbon working group, shall develop and deliver to the 27 legislature by December 31, 2010, legislation to implement a financial incentives program for forestry and forest products that will recognize activities such as: 30
 - (1) Forest landowners maintaining and actively managing their forestland using management activities such as thinning, lengthening of rotations, increased retention of trees at harvest, fertilization, genetics, timber stand improvement, and fire management;
- 35 (2) Forest landowners utilizing transfer development 36 programs;

2SHB 1819 p. 5

1 (3) Forest landowners continuing the production of wood products 2 while maintaining or increasing their carbon stocks on the ground;

- (4) Retention by forest landowners of high carbon stocks where there is no obligation to retain such stocks; and
- (5) The use by developers and builders of wood building materials instead of more intensive fossil fuel products such as concrete and steel.
- NEW SECTION. Sec. 7. The department of ecology, in consultation with the forest practices board, the department of natural resources, and the forest carbon working group, shall develop recommendations for the state's policy for forestry offset projects within Washington. The agencies and the forest carbon working group shall use the 2008 report of the forest carbon working group as the starting point in developing the policy. A report on the progress of the development of this policy, including any preliminary drafts of the policy, must be submitted to the legislature for review by December 31, 2010. The final policy must be submitted to the legislature by July 1, 2011. The policy recommendations must include:
 - (1) Specific standards and guidelines that will support carbon accounting in managed forests participating in an offset program;
 - (2) How to ensure that any carbon that is reduced or sequestered by a forestry offset project will be eligible for an offset credit within a regional cap-and-trade program;
 - (3) Recognition of management activities that increase carbon stocks including, but not limited to, thinning, lengthening rotations, increased retention of trees after harvest, fertilization, genetics, timber stand improvement, fire management, and specific site class and productivity of a managed forest;
 - (4) Specific standards and guidelines to support wood products accounting, recognizing that carbon is stored in products after trees are harvested including the use of the one hundred year method which estimates the amount of carbon stored in the wood products that are projected to remain in use after one hundred years;
 - (5) Guidelines on how forestry offset projects and forestry financial incentive programs can work together so that Washington's forest landowners will not be disadvantaged in comparison to other jurisdictions participating in a regional cap-and-trade program; and

- 1 (6) How to verify or certify carbon stocks that will not be administratively burdensome.
- 3 NEW SECTION. Sec. 8. The department of ecology, in consultation 4 with Washington State University and the Washington state department of 5 agriculture shall reestablish the agriculture carbon working group to 6 develop recommendations for agricultural offset projects within 7 Washington. A report on the progress of the agriculture carbon working group must be submitted to the legislature for review by December 31, 8 9 The final recommendations of the agriculture carbon working 10 group must be submitted to the legislature by July 1, 2011. The policy 11 recommendations must include:
- 12 (1) A process and timeline to survey and catalog Washington soils 13 in order to establish the carbon emission soil sequestration level of 14 the soils;
- 15 (2) Activities that would qualify for carbon emission soil sequestration offset projects;
- 17 (3) Guidelines and standards for carbon emission soil sequestration 18 offset projects; and
- 19 (4) How Washington agricultural lands can participate in a 20 regional, national, and international offset market.
- NEW SECTION. Sec. 9. A new section is added to chapter 70.235 RCW to read as follows:
- 23 (1) The department must consult with tribal governments upon 24 request on any elements of a cap-and-trade program that may impact 25 tribal governments, such as their voluntary development of offset 26 projects.
- 27 (2) Nothing in this chapter is intended to expand state authority 28 over Indian country as that term is defined in 18 U.S.C. Sec. 1151.
- 29 **Sec. 10.** RCW 70.94.151 and 2008 c 14 s 5 are each amended to read 30 as follows:
- 31 (1) The board of any activated authority or the department, may 32 classify air contaminant sources, by ordinance, resolution, rule or 33 regulation, which in its judgment may cause or contribute to air 34 pollution, according to levels and types of emissions and other 35 characteristics which cause or contribute to air pollution, and may

p. 7 2SHB 1819

require registration or reporting or both for any such class or classes. Classifications made pursuant to this section may be for application to the area of jurisdiction of such authority, or the state as a whole or to any designated area within the jurisdiction, and shall be made with special reference to effects on health, economic and social factors, and physical effects on property.

1 2

3 4

5

7

8

10 11

12

13

14

15 16

17

18 19

20

21

22

23

24

2526

27

2829

30

3132

33

3435

36

37

(2) Except as provided in subsection (3) of this section, any person operating or responsible for the operation of air contaminant sources of any class for which the ordinances, resolutions, rules or regulations of the department or board of the authority, require registration or reporting shall register therewith and make reports containing information as may be required by such department or board concerning location, size and height of contaminant outlets, processes employed, nature of the contaminant emission and such other information as is relevant to air pollution and available or reasonably capable of being assembled. In the case of emissions of greenhouse gases as defined in RCW 70.235.010 the department shall adopt rules requiring reporting of those emissions. The department or board may require that such registration or reporting be accompanied by a fee, and may determine the amount of such fee for such class or classes: PROVIDED, That the amount of the fee shall only be to compensate for the costs of administering such registration or reporting program which shall be defined as initial registration and annual or other periodic reports from the source owner providing information directly related to air pollution registration, on-site inspections necessary to verify compliance with registration requirements, data storage and retrieval systems necessary for support of the registration program, emission inventory reports and emission reduction credits computed from information provided by sources pursuant to registration program requirements, staff review, including engineering or other reliable analysis for accuracy and currentness, of information provided by sources pursuant to registration program requirements, clerical and other office support provided in direct furtherance of the registration program, and administrative support provided in directly carrying out the registration program: PROVIDED FURTHER, That any such registration made with either the board or the department shall preclude a further registration and reporting with any other board or the department,

2SHB 1819 p. 8

except that emissions of greenhouse gases as defined in RCW 70.235.010 must be reported as required under subsection (5) of this section.

All registration program and reporting fees collected by the department shall be deposited in the air pollution control account. All registration program fees collected by the local air authorities shall be deposited in their respective treasuries.

(3) If a registration or report has been filed for a grain warehouse or grain elevator as required under this section, registration, reporting, or a registration program fee shall not, after January 1, 1997, again be required under this section for the warehouse or elevator unless the capacity of the warehouse or elevator as listed as part of the license issued for the facility has been increased since the date the registration or reporting was last made. If the capacity of the warehouse or elevator listed as part of the license is increased, any registration or reporting required for the warehouse or elevator under this section must be made by the date the warehouse or elevator receives grain from the first harvest season that occurs after the increase in its capacity is listed in the license.

This subsection does not apply to a grain warehouse or grain elevator if the warehouse or elevator handles more than ten million bushels of grain annually.

- (4) For the purposes of subsection (3) of this section:
- (a) A "grain warehouse" or "grain elevator" is an establishment classified in standard industrial classification (SIC) code 5153 for wholesale trade for which a license is required and includes, but is not limited to, such a licensed facility that also conducts cleaning operations for grain;
- (b) A "license" is a license issued by the department of agriculture licensing a facility as a grain warehouse or grain elevator under chapter 22.09 RCW or a license issued by the federal government licensing a facility as a grain warehouse or grain elevator for purposes similar to those of licensure for the facility under chapter 22.09 RCW; and
 - (c) "Grain" means a grain or a pulse.
- (5)(a) The department shall adopt rules requiring the reporting of emissions of greenhouse gases as defined in RCW 70.235.010. The rules must include a de minimis amount of emissions below which reporting will not be required for both indirect and direct emissions. The rules

p. 9 2SHB 1819

must require that emissions of greenhouse gases resulting from the burning of fossil fuels be reported separately from emissions of greenhouse gases resulting from the burning of biomass.

1 2

3

5

6

7

9

1112

13

14

15

16

17

18 19

20

21

22

2324

25

2627

2829

30

3132

33

34

3536

37

38

(b) Except as provided in $((\frac{b}{b}))$ (f) of this subsection, the department shall, under the authority granted in subsection (1) of this section, adopt rules requiring: (i) Any owner or operator((: (i)))) of a fleet of on-road motor vehicles that as a fleet emit at least twentyfive hundred metric tons of greenhouse gas annually in the state to report the emissions of greenhouse gases generated from or emitted by that fleet; ((or)) and (ii) any owner or operator of a source or combination of sources that emit at least ten thousand metric tons of greenhouse gas annually in the state to report their total annual emissions of greenhouse gases; (iii) the importer, seller, deliverer, or distributor of fuels for use in Washington where the annual emissions in the state associated with the combustion of the fuel delivered equal or exceed ten thousand metric tons of greenhouse gas to report the emissions of greenhouse gases associated with the combustion of those fuels; and (iv) the importer, seller, deliverer, or distributor of electricity from outside Washington for consumption in Washington to report the emissions of greenhouse gases associated with the generation of the electricity delivered into the state where the annual emissions associated with electricity equal or exceed ten thousand metric tons of greenhouse gas. Reporting required in (b)(i) and (ii) of this subsection must begin in 2010 for emissions in 2009. Reporting required in (b)(iii) and (iv) of this subsection must begin in 2011 for emissions in 2010. The department must adopt rules that require that emissions from electricity generation within the state be reported separately from emissions from electricity generation located outside the state.

(c) In calculating emissions of greenhouse gases for purposes of determining whether or not reporting is required, only direct emissions shall be included. For purposes of reporting emissions of greenhouse gases in chapter 14, Laws of 2008, "source" means any stationary source as defined in RCW 70.94.030, or mobile source used for transportation of people or cargo. The emissions of greenhouse gases must be reported as carbon dioxide equivalents.

(d) The rules must require that persons report 2009 emissions starting in 2010. The rules must establish an annual reporting

2SHB 1819 p. 10

schedule that takes into account the time needed to allow the owner or operator reporting emissions of greenhouse gases to gather the information needed and to verify the emissions being reported. However, in no event may reports be submitted later than October 31st of the year in which the report is due.

(e) The department may phase in the reporting requirements for sources or combinations of sources under $((\frac{1}{2}))$ (b)(ii) of this subsection until the reporting threshold is met, which must be met by January 1, 2012. The department may from time to time amend the rules to include other persons that emit less than the annual greenhouse gas emissions levels set out in this subsection if necessary to comply with any federal reporting requirements for emissions of greenhouse gases.

 $((\frac{b}{b}))$ (f) In its rules, the department may defer the reporting requirement under (a) of this subsection for emissions associated with interstate and international commercial aircraft, rail, truck, or marine vessels until (i) there is a federal requirement to report these emissions; or (ii) the department finds that there is a generally accepted reporting protocol for determining interstate emissions from these sources.

(((c))) (g) The department shall share any reporting information reported to it with the local air authority in which the owner or operator reporting under the rules adopted by the department operates.

 $((\frac{d}{d}))$ (h) The fee provisions in subsection (2) of this section apply to reporting of emissions of greenhouse gases. Owners and operators required to report under (a) of this subsection who fail to report or pay the fee required in subsection (2) of this section are subject to enforcement penalties under this chapter. The department shall enforce the reporting rule requirements unless it approves a local air authority's request to enforce the requirements for sources operating within the authority's jurisdiction.

 $((\frac{e}{e}))$ (i) The energy facility site evaluation council shall, simultaneously with the department, adopt rules that impose greenhouse gas reporting requirements in site certifications on owners or operators of a facility permitted by the energy facility site evaluation council. The greenhouse gas reporting requirements imposed by the energy facility site evaluation council must be the same as the greenhouse gas reporting requirements imposed by the department. The department shall share any information reported to it from facilities

p. 11 2SHB 1819

permitted by the energy facility site evaluation council with the council, including notice of a facility that has failed to report as required. The energy facility site evaluation council shall contract with the department to monitor the reporting requirements adopted under this section.

- $((\frac{f}{f}))$ (j) In developing its rules, the department shall, with the assistance of the department of transportation, identify a mechanism to report an aggregate estimate of the annual emissions of greenhouse gases generated from or emitted by otherwise unreported on-road motor vehicles.
- ((g))) (<u>k)</u> The inclusion or failure to include any person, source, classes of persons or sources, or types of emissions of greenhouse gases into the department's rules for reporting under this section does not indicate whether such a person, source, or category is appropriate for inclusion in the multisector market-based system designed under RCW 70.235.020.
 - ((\(\frac{(h)}{(h)}\)) (1) Should the federal government adopt rules sufficient to track progress toward the emissions reductions required by chapter 14, Laws of 2008 governing the reporting of greenhouse gases, the department shall amend its rules, as necessary, to seek consistency with the federal rules to ensure duplicate reporting is not required. Nothing in this section requires the department to increase the reporting threshold established in (a) of this subsection or otherwise require the department's rules be identical to the federal rules in scope.
- $((\frac{1}{1}))$ (m) The definitions in RCW 70.235.010 apply throughout this subsection (5) unless the context clearly requires otherwise. However, for the purposes of this subsection (5), the term "person" has the same meaning as defined in RCW 70.94.030.
- (n) For violations of this subsection (5), in addition to other
 enforcement authority under this chapter, the department may issue
 penalties of up to ten thousand dollars per day per violation for each
 day that emissions are not reported beyond the deadline to report
 established by rule.
- **Sec. 11.** RCW 43.21B.110 and 2003 c 393 s 19 are each amended to read as follows:
- 37 (1) The hearings board shall only have jurisdiction to hear and

2SHB 1819 p. 12

- decide appeals from the following decisions of the department, the director, local conservation districts, and the air pollution control boards or authorities as established pursuant to chapter 70.94 RCW, or local health departments:
- 5 (a) Civil penalties imposed pursuant to RCW 18.104.155, 70.94.431, 70.105.080, 70.107.050, 88.46.090, 90.03.600, 90.48.144, 90.56.310, 7 ((and)) 90.56.330, and chapter 70.235 RCW.
- 8 (b) Orders issued pursuant to RCW 18.104.043, 18.104.060, 9 43.27A.190, 70.94.211, 70.94.332, 70.105.095, 86.16.020, 88.46.070, 10 90.14.130, 90.48.120, ((and)) 90.56.330, and chapter 70.235 RCW.

- (c) Except as provided in RCW 90.03.210(2), the issuance, modification, or termination of any permit, certificate, or license by the department or any air authority in the exercise of its jurisdiction, including the issuance or termination of a waste disposal permit, the denial of an application for a waste disposal permit, the modification of the conditions or the terms of a waste disposal permit, or a decision to approve or deny an application for a solid waste permit exemption under RCW 70.95.300.
- (d) Decisions of local health departments regarding the grant or denial of solid waste permits pursuant to chapter 70.95 RCW.
- (e) Decisions of local health departments regarding the issuance and enforcement of permits to use or dispose of biosolids under RCW 70.95J.080.
- (f) Decisions of the department regarding waste-derived fertilizer or micronutrient fertilizer under RCW 15.54.820, and decisions of the department regarding waste-derived soil amendments under RCW 70.95.205.
- (g) Decisions of local conservation districts related to the denial of approval or denial of certification of a dairy nutrient management plan; conditions contained in a plan; application of any dairy nutrient management practices, standards, methods, and technologies to a particular dairy farm; and failure to adhere to the plan review and approval timelines in RCW 90.64.026.
- (h) Any other decision by the department or an air authority which pursuant to law must be decided as an adjudicative proceeding under chapter 34.05 RCW.
- 36 (2) The following hearings shall not be conducted by the hearings 37 board:

p. 13 2SHB 1819

- 1 (a) Hearings required by law to be conducted by the shorelines 2 hearings board pursuant to chapter 90.58 RCW.
 - (b) Hearings conducted by the department pursuant to RCW 70.94.332, 70.94.390, 70.94.395, 70.94.400, 70.94.405, 70.94.410, and 90.44.180.
 - (c) Proceedings conducted by the department, or the department's designee, under RCW 90.03.160 through 90.03.210 or 90.44.220.
 - (d) Hearings conducted by the department to adopt, modify, or repeal rules.
- 9 (e) Appeals of decisions by the department as provided in chapter 10 43.21L RCW.
- 11 (3) Review of rules and regulations adopted by the hearings board 12 shall be subject to review in accordance with the provisions of the 13 Administrative Procedure Act, chapter 34.05 RCW.

--- END ---

3

4

5

6