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**SUBSTITUTE HOUSE BILL 1226**

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**State of Washington 66th Legislature 2019 Regular Session**

**By** House Environment & Energy (originally sponsored by Representatives DeBolt and Stokesbary)

AN ACT Relating to encouraging investment in and reducing the costs of transitioning to the clean energy future; amending RCW 19.285.030, 19.285.040, and 82.16.055; adding new sections to chapter 19.285 RCW; adding new sections to chapter 82.08 RCW; adding new sections to chapter 82.12 RCW; adding new sections to chapter 82.16 RCW; adding a new section to chapter 82.04 RCW; creating new sections; and providing expiration dates.

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

**Sec.**  RCW 19.285.030 and 2017 c 315 s 1 are each amended to read as follows:

The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Attorney general" means the Washington state office of the attorney general.

(2) "Auditor" means: (a) The Washington state auditor's office or its designee for qualifying utilities under its jurisdiction that are not investor‑owned utilities; or (b) an independent auditor selected by a qualifying utility that is not under the jurisdiction of the state auditor and is not an investor‑owned utility.

(3)(a) "Biomass energy" includes: (i) Organic by-products of pulping and the wood manufacturing process; (ii) animal manure; (iii) solid organic fuels from wood; (iv) forest or field residues; (v) untreated wooden demolition or construction debris; (vi) food waste and food processing residuals; (vii) liquors derived from algae; (viii) dedicated energy crops; and (ix) yard waste.

(b) "Biomass energy" does not include: (i) Wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic; (ii) wood from old growth forests; or (iii) municipal solid waste.

(4) "Coal transition power" has the same meaning as defined in RCW 80.80.010.

(5) "Commission" means the Washington state utilities and transportation commission.

(6) "Conservation" means any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution.

(7) "Cost-effective" has the same meaning as defined in RCW 80.52.030.

(8) "Council" means the Washington state apprenticeship and training council within the department of labor and industries.

(9) "Customer" means a person or entity located in Washington state that purchases electricity for ultimate consumption and not for resale.

(10) "Department" means the department of commerce or its successor.

(11) "Distributed generation" means an eligible renewable resource where the generation facility or any integrated cluster of such facilities has a generating capacity of not more than five megawatts.

(12) "Eligible renewable resource" means:

(a) Electricity from a generation facility powered by a renewable resource other than freshwater that commences operation after March 31, 1999, where: (i) The facility is located in the ((~~Pacific Northwest~~)) western interconnection; or (ii) the electricity from the facility is delivered into Washington state on a real‑time basis without shaping, storage, or integration services;

(b) Incremental electricity produced as a result of efficiency improvements completed after March 31, 1999, to hydroelectric generation projects owned by a qualifying utility and located in the ((~~Pacific Northwest~~)) western interconnection where the additional generation does not result in new water diversions or impoundments;

(c) Hydroelectric generation from a project completed after March 31, 1999, where the generation facility is located in irrigation pipes, irrigation canals, water pipes whose primary purpose is for conveyance of water for municipal use, and wastewater pipes located in Washington where the generation does not result in new water diversions or impoundments;

(d) Qualified biomass energy;

(e) For a qualifying utility that serves customers in other states, electricity from a generation facility powered by a renewable resource other than freshwater that commences operation after March 31, 1999, where: (i) The facility is located within a state in which the qualifying utility serves retail electrical customers; and (ii) the qualifying utility owns the facility in whole or in part or has a long-term contract with the facility of at least twelve months or more; ((~~or~~))

(f)(i) Incremental electricity produced as a result of a capital investment completed after January 1, 2010, that increases, relative to a baseline level of generation prior to the capital investment, the amount of electricity generated in a facility that generates qualified biomass energy as defined under subsection (18)(c)(ii) of this section and that commenced operation before March 31, 1999.

(ii) Beginning January 1, 2007, the facility must demonstrate its baseline level of generation over a three-year period prior to the capital investment in order to calculate the amount of incremental electricity produced.

(iii) The facility must demonstrate that the incremental electricity resulted from the capital investment, which does not include expenditures on operation and maintenance in the normal course of business, through direct or calculated measurement;

(g) Beginning January 1, 2019, the portion of incremental electricity produced as a result of efficiency improvements completed after March 31, 1999, attributable to a qualifying utility's share of electricity output from hydroelectric generation projects whose energy output is marketed by the Bonneville power administration, where the additional generation does not result in new water diversions or impoundments; or

(h) The environmental attributes, including renewable energy credits, from (g) of this subsection transferred to investor-owned utilities pursuant to the Bonneville power administration's residential exchange program.

(13) "Investor-owned utility" has the same meaning as defined in RCW 19.29A.010.

(14) "Load" means the amount of kilowatt-hours of electricity delivered in the most recently completed year by a qualifying utility to its Washington retail customers.

(15)(a) "Nonpower attributes" means all environmentally related characteristics, exclusive of energy, capacity reliability, and other electrical power service attributes, that are associated with the generation of electricity from a renewable resource, including but not limited to the facility's fuel type, geographic location, vintage, qualification as an eligible renewable resource, and avoided emissions of pollutants to the air, soil, or water, and avoided emissions of carbon dioxide and other greenhouse gases.

(b) "Nonpower attributes" does not include any aspects, claims, characteristics, and benefits associated with the on-site capture and destruction of methane or other greenhouse gases at a facility through a digester system, landfill gas collection system, or other mechanism, which may be separately marketable as greenhouse gas emission reduction credits, offsets, or similar tradable commodities. However, these separate avoided emissions may not result in or otherwise have the effect of attributing greenhouse gas emissions to the electricity.

(16) "Pacific Northwest" has the same meaning as defined for the Bonneville power administration in section 3 of the Pacific Northwest electric power planning and conservation act (94 Stat. 2698; 16 U.S.C. Sec. 839a).

(17) "Public facility" has the same meaning as defined in RCW 39.35C.010.

(18) "Qualified biomass energy" means electricity produced from a biomass energy facility that: (a) Commenced operation before March 31, 1999; (b) contributes to the qualifying utility's load; and (c) is owned either by: (i) A qualifying utility; or (ii) an industrial facility that is directly interconnected with electricity facilities that are owned by a qualifying utility and capable of carrying electricity at transmission voltage.

(19) "Qualifying utility" means an electric utility, as the term "electric utility" is defined in RCW 19.29A.010, that serves more than twenty‑five thousand customers in the state of Washington. The number of customers served may be based on data reported by a utility in form 861, "annual electric utility report," filed with the energy information administration, United States department of energy.

(20) "Renewable energy credit" means a tradable certificate of proof of at least one megawatt-hour of an eligible renewable resource where, except as provided in subsection (12)(h) of this section, the generation facility is not powered by freshwater. The certificate includes all of the nonpower attributes associated with that one megawatt-hour of electricity, and the certificate is verified by a renewable energy credit tracking system selected by the department.

(21) "Renewable resource" means: (a) Water; (b) wind; (c) solar energy; (d) geothermal energy; (e) landfill gas; (f) wave, ocean, or tidal power; (g) gas from sewage treatment facilities; (h) biodiesel fuel as defined in RCW 82.29A.135 that is not derived from crops raised on land cleared from old growth or first-growth forests where the clearing occurred after December 7, 2006; or (i) biomass energy.

(22) "Rule" means rules adopted by an agency or other entity of Washington state government to carry out the intent and purposes of this chapter.

(23) "Year" means the twelve-month period commencing January 1st and ending December 31st.

(24) "Carbon reduction investment" means an investment in support of eligible projects or actions that reduce, prevent, or remove from the atmosphere the emissions of greenhouse gases in the state. An eligible project or action includes, but is not limited to, investment in the following: (a) Installation of electric vehicle chargers and related infrastructure and other transportation electrification measures; (b) demand side management of electricity consumption, including energy efficiency, demand response, and changes to codes and standards; (c) energy storage technologies; and (d) carbon sequestration programs, including forest health investments.

(25) "Clean energy resource" includes: (a) A resource that emits no greenhouse gas pollution as part of its generation activity; or (b) a renewable resource.

(26) "Consumer-owned utility" has the same meaning as defined in RCW 19.29A.010.

(27) "Greenhouse gas" means carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and other fluorinated greenhouse gases.

(28) "New energy or capacity need" means any electricity generation needed to serve Washington retail electric customers by an electric utility, as the term "electric utility" is defined in RCW 19.29A.010, to meet any of the following:

(a) Electricity load growth;

(b) Changes in capacity needs;

(c) Changes in ancillary services needs;

(d) Changes in reliability needs;

(e) Changes in flexibility needs;

(f) Needs arising due to replacing electricity generation; or

(g) Needs arising due to replacing expiring electricity resource contracts.

(29) "North American electric reliability corporation" means the electricity reliability organization designated by the federal energy regulatory commission to ensure legal compliance with mandatory electricity reliability standards in accordance with the energy policy act of 2005 (119 Stat. 941; 16 U.S.C. Sec. 824o).

(30) "Utility-scale renewable resource" means a renewable generation resource or energy storage device that delivers electricity onto an electric utility's system at transmission voltage.

(31) "Western interconnection" means the geographic area spanning the western United States in which the operation of bulk power system components is synchronized for the purpose of maintaining reliability.

**Sec.**  RCW 19.285.040 and 2017 c 315 s 2 are each amended to read as follows:

(1) Each qualifying utility ((~~shall~~)) must pursue all available conservation that is cost-effective, reliable, and feasible.

(a) By January 1, 2010, using methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council in the most recently published regional power plan as it existed on June 12, 2014, or a subsequent date as may be provided by the department or the commission by rule, each qualifying utility ((~~shall~~)) must identify its achievable cost-effective conservation potential through 2019. Nothing in the rule adopted under this subsection precludes a qualifying utility from using its utility specific conservation measures, values, and assumptions in identifying its achievable cost-effective conservation potential. At least every two years thereafter, the qualifying utility ((~~shall~~)) must review and update this assessment for the subsequent ten-year period.

(b) Beginning January 2010, each qualifying utility ((~~shall~~)) must establish and make publicly available a biennial acquisition target for cost-effective conservation consistent with its identification of achievable opportunities in (a) of this subsection, and meet that target during the subsequent two-year period. At a minimum, each biennial target must be no lower than the qualifying utility's pro rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period.

(c)(i) Except as provided in (c)(ii) and (iii) of this subsection, beginning on January 1, 2014, cost-effective conservation achieved by a qualifying utility in excess of its biennial acquisition target may be used to help meet the immediately subsequent two biennial acquisition targets, such that no more than twenty percent of any biennial target may be met with excess conservation savings.

(ii) Beginning January 1, 2014, a qualifying utility may use single large facility conservation savings in excess of its biennial target to meet up to an additional five percent of the immediately subsequent two biennial acquisition targets, such that no more than twenty-five percent of any biennial target may be met with excess conservation savings allowed under all of the provisions of this section combined. For the purposes of this subsection (1)(c)(ii), "single large facility conservation savings" means cost-effective conservation savings achieved in a single biennial period at the premises of a single customer of a qualifying utility whose annual electricity consumption prior to the conservation savings exceeded five average megawatts.

(iii) Beginning January 1, 2012, and until December 31, 2017, a qualifying utility with an industrial facility located in a county with a population between ninety-five thousand and one hundred fifteen thousand that is directly interconnected with electricity facilities that are capable of carrying electricity at transmission voltage may use cost-effective conservation from that industrial facility in excess of its biennial acquisition target to help meet the immediately subsequent two biennial acquisition targets, such that no more than twenty-five percent of any biennial target may be met with excess conservation savings allowed under all of the provisions of this section combined.

(d) In meeting its conservation targets, a qualifying utility may count high-efficiency cogeneration owned and used by a retail electric customer to meet its own needs. High-efficiency cogeneration is the sequential production of electricity and useful thermal energy from a common fuel source, where, under normal operating conditions, the facility has a useful thermal energy output of no less than thirty-three percent of the total energy output. The reduction in load due to high-efficiency cogeneration ((~~shall~~)) must be: (i) Calculated as the ratio of the fuel chargeable to power heat rate of the cogeneration facility compared to the heat rate on a new and clean basis of a best‑commercially available technology combined‑cycle natural gas‑fired combustion turbine; and (ii) counted towards meeting the biennial conservation target in the same manner as other conservation savings.

(e) The commission may determine if a conservation program implemented by an investor-owned utility is cost‑effective based on the commission's policies and practice.

(f) The commission may rely on its standard practice for review and approval of investor‑owned utility conservation targets.

(2)(a) Except as provided in (j) of this subsection, each qualifying utility ((~~shall~~)) must use eligible renewable resources or acquire equivalent renewable energy credits, or any combination of them, to meet the following annual targets:

(i) At least three percent of its load by January 1, 2012, and each year thereafter through December 31, 2015;

(ii) At least nine percent of its load by January 1, 2016, and each year thereafter through December 31, 2019; and

(iii) At least fifteen percent of its load by January 1, 2020, and each year thereafter.

(b) A qualifying utility may count distributed generation at double the facility's electrical output if the utility: (i) Owns or has contracted for the distributed generation and the associated renewable energy credits; or (ii) has contracted to purchase the associated renewable energy credits.

(c) In meeting the annual targets in (a) of this subsection, a qualifying utility ((~~shall~~)) must calculate its annual load based on the average of the utility's load for the previous two years.

(d) A qualifying utility ((~~shall be~~)) is considered in compliance with an annual target in (a) of this subsection if: (i) The utility's weather-adjusted load for the previous three years on average did not increase over that time period; (ii) after December 7, 2006, the utility did not commence or renew ownership or incremental purchases of electricity from resources other than coal transition power or renewable resources other than on a daily spot price basis and the electricity is not offset by equivalent renewable energy credits; and (iii) the utility invested at least one percent of its total annual retail revenue requirement that year on eligible renewable resources, renewable energy credits, or a combination of both.

(e) The requirements of this section may be met for any given year with renewable energy credits produced during that year, the preceding year, or the subsequent year. Each renewable energy credit may be used only once to meet the requirements of this section.

(f) In complying with the targets established in (a) of this subsection, a qualifying utility may not count:

(i) Eligible renewable resources or distributed generation where the associated renewable energy credits are owned by a separate entity; or

(ii) Eligible renewable resources or renewable energy credits obtained for and used in an optional pricing program such as the program established in RCW 19.29A.090.

(g) Where fossil and combustible renewable resources are cofired in one generating unit located in the ((~~Pacific Northwest~~)) western interconnection where the cofiring commenced after March 31, 1999, the unit ((~~shall be~~)) is considered to produce eligible renewable resources in direct proportion to the percentage of the total heat value represented by the heat value of the renewable resources.

(h)(i) A qualifying utility that acquires an eligible renewable resource or renewable energy credit may count that acquisition at one and two-tenths times its base value:

(A) Where the eligible renewable resource comes from a facility that commenced operation after December 31, 2005; and

(B) Where the developer of the facility used apprenticeship programs approved by the council during facility construction.

(ii) The council ((~~shall~~)) must establish minimum levels of labor hours to be met through apprenticeship programs to qualify for this extra credit.

(i) A qualifying utility ((~~shall be~~)) is considered in compliance with an annual target in (a) of this subsection if events beyond the reasonable control of the utility that could not have been reasonably anticipated or ameliorated prevented it from meeting the renewable energy target. Such events include weather‑related damage, mechanical failure, strikes, lockouts, and actions of a governmental authority that adversely affect the generation, transmission, or distribution of an eligible renewable resource under contract to a qualifying utility.

(j)(i) Beginning January 1, 2016, only a qualifying utility that owns or is directly interconnected to a qualified biomass energy facility may use qualified biomass energy to meet its compliance obligation under this subsection.

(ii) A qualifying utility may no longer use electricity and associated renewable energy credits from a qualified biomass energy facility if the associated industrial pulping or wood manufacturing facility ceases operation other than for purposes of maintenance or upgrade.

(k) An industrial facility that hosts a qualified biomass energy facility may only transfer or sell renewable energy credits associated with qualified biomass energy generated at its facility to the qualifying utility with which it is directly interconnected with facilities owned by such a qualifying utility and that are capable of carrying electricity at transmission voltage. The qualifying utility may only use an amount of renewable energy credits associated with qualified biomass energy that are equivalent to the proportionate amount of its annual targets under (a)(ii) and (iii) of this subsection that was created by the load of the industrial facility. A qualifying utility that owns a qualified biomass energy facility may not transfer or sell renewable energy credits associated with qualified biomass energy to another person, entity, or qualifying utility.

(l) Beginning January 1, 2019, a qualifying utility may use eligible renewable resources as identified under RCW 19.285.030(12) (g) and (h) to meet its compliance obligations under this subsection (2). A qualifying utility may not transfer or sell these eligible renewable resources to another utility for compliance purposes under this chapter.

(m) Renewable energy credits allocated under RCW 19.285.030(12)(h) may not be transferred or sold to another qualifying utility for compliance under this chapter.

(3) Utilities that become qualifying utilities after December 31, 2006, ((~~shall~~)) must meet the requirements in this section on a time frame comparable in length to that provided for qualifying utilities as of December 7, 2006.

NEW SECTION. **Sec.**  A new section is added to chapter 19.285 RCW to read as follows:

(1) Subject to sections 4 and 5 of this act, beginning January 1, 2029, each electric utility must use clean energy resources to meet any new energy or capacity need for Washington retail electric customers.

(2)(a) The requirement established under subsection (1) of this section applies, at a minimum, to: (i) Any new or increased ownership interest in a new or existing electricity generation facility or unit; and (ii) any new or increased contractual commitment that obligates or allows an electric utility to purchase a specified amount of megawatts or megawatt-hours from an electricity generation facility or unit, or a specified percentage of an electricity generation facility or unit.

(b) An electric utility may not enter into a contract for electricity generation to meet new energy or capacity needs if the contract does not specify the sources or origins of the electricity generation.

(3) Except as provided in RCW 19.285.030(15)(b), any tradable certificate of proof of a clean energy resource, including but not limited to a renewable energy credit, associated with the portion of any resource or resources used to meet new energy or capacity needs under this section must be retired for the purposes of this section and cannot be sold, transferred, or used for other purposes. An electric utility may not use a tradable certificate or proof of a clean energy resource, including but not limited to a renewable energy credit, to meet the requirements of this section if the associated energy or capacity has been sold, transferred, or otherwise used separately.

(4) Nothing in this section precludes the use of any of the following resources to meet new energy or capacity needs:

(a) Any purchase at any time by a consumer-owned qualifying utility or small utility from the Bonneville power administration up to a designated amount. The designated amount is the same as the consumer-owned qualifying utility's or small utility's contract high water mark amount identified in their Bonneville regional dialogue power sales contract on the effective date of this section. Any new public utility forming after the effective date of this section would still be eligible for this exemption based on the contract high water mark provided to them by the Bonneville power administration;

(b) Short-term spot market purchases;

(c) Renewal or extension of contracts in effect as of January 1, 2020, where the renewal or extension does not lead to any increase in the energy or capacity provided;

(d) Coal transition power;

(e) Generation resources owned as of the effective date of this section by an electric utility and used by that utility to meet the needs of its customers, until the generation resources are at the end of the facility's useful life, are retired, or cease operations;

(f) Increased megawatt-hours from a generation facility that is owned by an electric utility as of the effective date of this section where the utility uses the increased megawatt-hours to serve the utility's customers and where the utility's ownership interest in the facility does not increase;

(g) Incremental generation from a utility-scale renewable resource or distributed energy resource that results from additional generation that is achieved from increased efficiency or additions of capacity made on or after the effective date of this section; and

(h) Electricity generation that is found by the commission, in accordance with section 3 of this act, or the utility's governing board, in accordance with section 4 of this act, to be required to maintain reliable service and comply with applicable standards of the North American electric reliability corporation or its successor.

(5) An electric utility may procure one or more natural gas-fired generation units if such natural gas-fired generation is necessary to avoid potential conflicts with or compromises to the electric utility's obligation to comply with the mandatory and enforceable reliability standards of the North American electric reliability corporation.

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

(a) "Short-term spot market purchase" means: (i) The purchase of energy on the spot market for immediate delivery; or (ii) a contract for the purchase of electricity on the spot market that is for a term of one month or less.

(b) "Spot market" means a public financial market in which electricity is bought, sold, or traded for immediate delivery.

NEW SECTION. **Sec.**  A new section is added to chapter 19.285 RCW to read as follows:

(1) Upon its own motion or at the request of an investor-owned utility, the commission must suspend the requirements of section 3 of this act if:

(a) It is likely to result in conflicts with or compromises to the investor-owned utility's obligation to comply with the mandatory and enforceable reliability standards of the North American electric reliability corporation or compromises to the integrity of the investor-owned utility's electrical system; or

(b) The utility demonstrates that the cost of compliance with section 3 of this act would result in costs that would exceed the lowest reasonable cost resource by five percent. An investor-owned utility making a request under this subsection must submit an application to the commission that includes:

(i) An explanation of the reliability or integrity issue and how a temporary exemption from complying with the requirements of section 3 of this act will avoid the reliability or integrity issue; or

(ii) An analysis that demonstrates that the cost of compliance with section 3 of this act would exceed the lowest reasonable cost resource by five percent.

(2)(a) A suspension of the requirements of section 3 of this act must be granted at the time of the motion for such by the utility. The suspension may not be lifted until such time as the commission determines that none of the conditions for the suspension under subsection (1) of this section apply.

(b)(i) As long as a suspension of the requirements in section 3 of this act is in place, the investor-owned utility must file a progress report at least annually, or within an amount of time determined to be reasonable by the commission, on achieving full compliance with the requirements of section 3 of this act; and

(ii) Directing the investor-owned utility to take specific actions to achieve full compliance with the requirements of section 3 of this act.

(3) This section does not permanently relieve an investor-owned utility of its obligation to comply with the requirements of section 3 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 19.285 RCW to read as follows:

(1) Upon its own motion or at the request of a consumer-owned utility, the governing board of a consumer-owned utility must suspend the requirements of section 3 of this act if:

(a) It is likely to result in conflicts with or compromises to the consumer-owned utility's obligation to comply with the mandatory and enforceable reliability standards of the North American electric reliability corporation or compromises to the integrity of the consumer-owned utility's electrical system; or

(b) The utility demonstrates that the cost of compliance with section 3 of this act would result in costs that would exceed the lowest reasonable cost resource by five percent. A consumer-owned utility making a request under this subsection must submit an application to the governing board that includes:

(i) An explanation of the reliability or integrity issue and how a temporary exemption from complying with the requirements of section 3 of this act will avoid the reliability or integrity issue; or

(ii) An analysis that demonstrates that the cost of compliance with section 3 of this act would exceed the lowest reasonable cost resource by five percent.

(2)(a) A suspension of the requirements of section 3 of this act must be granted at the time of the motion for such by the utility. The suspension may not be lifted until such time as the governing board determines that none of the conditions for the suspension under subsection (1) of this section apply.

(b)(i) As long as a suspension of the requirements in section 3 of this act is in place, the consumer-owned utility must file a progress report at least annually, or within an amount of time determined to be reasonable by the governing board, on achieving full compliance with the requirements of section 3 of this act; and

(ii) Directing the consumer-owned utility to take specific actions to achieve full compliance with the requirements of section 3 of this act.

(3) This section does not permanently relieve a consumer-owned utility of its obligation to comply with the requirements of section 3 of this act.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preferences established in sections 7 through 12, chapter . . ., Laws of 2019 (sections 7 through 12 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes the tax preferences created under sections 7 through 12, chapter . . ., Laws of 2019 (sections 7 through 12 of this act) as intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(3) It is the legislature's specific public policy objective to reduce the cost of transitioning to electric generation sources that have very low or zero carbon dioxide emissions. It is the intent of the legislature to provide a suite of tax preferences in order to reduce the cost to ratepayers of constructing and operating new renewable energy generation capacity equal to or greater than necessary to serve projected Washington electricity load growth, as measured by projections in the most recently adopted Northwest power and conservation council power plan.

(4) The legislature does not intend to extend the expiration date of the tax preferences contained in this act.

(5) Because the tax preferences contained in this act are not for the primary purpose of creating or retaining jobs or attracting or attaining businesses, and because the legislature does not intend to extend the expiration of the tax preferences, the legislature does not intend for a review by the joint legislative audit and review committee.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1) A person who has paid tax under RCW 82.08.020 for personal property used for carbon reduction investments at, or to offset the greenhouse gas emissions of, an energy-intensive trade-exposed facility; tangible personal property that will be incorporated as an ingredient or component of buildings or other structures for carbon reduction investments at, or to offset the greenhouse gas emissions of, an energy-intensive trade-exposed facility; or for labor and services rendered with respect to such buildings, structures, or personal property, is eligible for an exemption from the state share of the tax in the form of a credit, as provided in this section. A person claiming an exemption must pay the tax and then take a credit equal to the state share of retail sales tax paid under RCW 82.08.020. The person must submit information, in a form and manner prescribed by the department, specifying the amount of qualifying purchases or acquisitions for which the exemption is claimed and the amount of exempted tax.

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

(a) "Carbon reduction investment" means an investment in support of eligible projects or actions that reduce, prevent, or remove from the atmosphere the emissions of greenhouse gases in the state. An eligible project or action includes, but is not limited to, investment in the following: (i) Installation of electric vehicle chargers and related infrastructure and other transportation electrification measures; (ii) demand side management of electricity consumption, including energy efficiency, demand response, and changes to codes and standards; (iii) energy storage technologies; and (iv) carbon sequestration programs, including forest health investments.

(b) "Energy-intensive trade-exposed facility" means a facility with a primary North American industry classification system (NAICS) code, as those codes existed as of January 1, 2019, included in the following list:

(i) 311411: Frozen fruit, juice, and vegetable manufacturing;

(ii) 311423: Dried and dehydrated food manufacturing;

(iii) 311611: Animal (except poultry) slaughtering;

(iv) 322110: Pulp mills;

(v) 322121: Paper (except newsprint) mills;

(vi) 322122: Newsprint mills;

(vii) 322130: Paperboard mills;

(viii) 325188: All other basic inorganic chemical manufacturing;

(ix) 325199: All other basic organic chemical manufacturing;

(x) 325311: Nitrogenous fertilizer manufacturing;

(xi) 327211: Flat glass manufacturing;

(xii) 327213: Glass container manufacturing;

(xiii) 327310: Cement manufacturing;

(xiv) 327410: Lime manufacturing;

(xv) 327420: Gypsum product manufacturing;

(xvi) 327992: Ultra high purity silicon manufacturing;

(xvii) 331111: Iron and steel mills;

(xviii) 331312: Primary aluminum production;

(xix) 331315: Aluminum sheet, plate, and foil manufacturing;

(xx) 331419: Primary smelting and refining of nonferrous metal (except copper and aluminum);

(xxi) 334413: Semiconductor and related device manufacturing;

(xxii) 336411: Aircraft manufacturing;

(xxiii) 336413: Other aircraft parts and auxiliary equipment manufacturing.

(c) "Greenhouse gas" includes carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and other fluorinated greenhouse gases.

(3) A person claiming the tax preference provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

(4) Credits may not be claimed under this section for taxable events occurring on or after January 1, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) A person who is subject to tax under RCW 82.12.020 for personal property used for carbon reduction investments at, or to offset the greenhouse gas emissions of, an energy-intensive trade-exposed facility, or for tangible personal property that will be incorporated as an ingredient or component of buildings or other structures for carbon reduction investments at, or to offset the greenhouse gas emissions of, an energy-intensive trade-exposed facility, or for labor and services rendered with respect to such buildings, structures, or personal property, is eligible for an exemption from the state share of the tax in the form of a credit, as provided in this section. The amount of the credit equals the state share of use tax computed to be due under RCW 82.12.020. The person must submit information, in a form and manner prescribed by the department, specifying the amount of qualifying purchases or acquisitions for which the exemption is claimed and the amount of exempted tax.

(2) For the purposes of this section, the terms "energy-intensive trade-exposed facility," "carbon reduction investment," and "greenhouse gas" have the same meaning as provided in section 7 of this act.

(3) A person reporting under the tax rate provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

(4) Credits may not be claimed under this section for taxable events occurring on or after January 1, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1) A person who has paid tax under RCW 82.08.020 for machinery and equipment used to reduce the greenhouse gas emissions associated with the transportation of gas through a gas pipeline, or to sales of or charges made for labor and services rendered in respect to installing such machinery and equipment, is eligible for an exemption from the state share of the tax in the form of a credit, as provided in this section. A person claiming an exemption must pay the tax and then take a credit equal to the state share of retail sales tax paid under RCW 82.08.020. The person must submit information, in a form and manner prescribed by the department, specifying the amount of qualifying purchases or acquisitions for which the exemption is claimed and the amount of exempted tax.

(2) The definitions in this subsection apply throughout this section and section 10 of this act unless the context clearly requires otherwise.

(a) "Gas" means natural gas, flammable gas, or toxic or corrosive gas.

(b)(i) "Gas pipeline" means all parts of a pipeline facility through which gas moves in transportation, including, but not limited to, line pipe, valves, and other appurtenances connected to line pipe, compressor units, metering stations, regulator stations, delivery stations, holders, and fabricated assemblies.

(ii) "Gas pipeline" does not include any pipeline facilities, other than a master meter system, owned by a consumer or consumers of the gas, located exclusively on the consumer or consumers' property, and none of the gas leaves that property through a pipeline.

(c) "Greenhouse gas" includes carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and other fluorinated greenhouse gases.

(d)(i) "Machinery and equipment" includes fixtures, devices, and support facilities that are integral and necessary to the transportation of gas through a gas pipeline.

(ii) "Machinery and equipment" does not include: (A) Hand-powered tools; (B) property with a useful life of less than one year; (C) repair parts required to restore machinery and equipment to normal working order; (D) replacement parts that do not increase productivity, improve efficiency, reduce greenhouse gas emissions, or extend the useful life of machinery and equipment; (E) buildings; or (F) building fixtures that are not integral and necessary to the transportation of gas that are permanently affixed to and become a physical part of a building.

(3) A person claiming the tax preference provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

(4) Credits may not be claimed under this section for taxable events occurring on or after January 1, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) A person who has paid tax under RCW 82.12.020 for machinery and equipment used to reduce the greenhouse gas emissions associated with the transportation of gas through a gas pipeline, or to sales of or charges made for labor and services rendered in respect to installing such machinery and equipment, is eligible for an exemption from the state share of the tax in the form of a credit, as provided in this section. A person claiming an exemption must pay the tax and then take a credit equal to the state share of use tax paid under RCW 82.12.020. The person must submit information, in a form and manner prescribed by the department, specifying the amount of qualifying purchases or acquisitions for which the exemption is claimed and the amount of exempted tax.

(2) A person reporting under the tax rate provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

(3) Credits may not be claimed under this section for taxable events occurring on or after January 1, 2029.

(4) The definitions in section 9 of this act apply to this section.

**Sec.**  RCW 82.16.055 and 1980 c 149 s 3 are each amended to read as follows:

(1) In computing tax under this chapter there ((~~shall be~~)) is deducted from the gross income:

(a) An amount equal to the cost of production at the plant for consumption within the state of Washington of:

(i) Electrical energy produced or generated from ((~~cogeneration~~)) combined heat and power as defined in RCW ((~~82.35.020~~)) 19.280.020; and

(ii) Electrical energy or gas produced or generated from renewable ((~~energy~~)) resources ((~~such as solar energy, wind energy, hydroelectric energy, geothermal energy, wood, wood wastes, municipal wastes, agricultural products and wastes, and end-use waste heat~~)) as defined in RCW 19.285.030; and

(b) Those amounts expended to improve consumers' efficiency of energy end use or to otherwise reduce the use of electrical energy or gas by the consumer.

(2) This section applies only to the following facilities:

(a) New facilities for the production or generation of energy from ((~~cogeneration or renewable energy resources~~)) combined heat and power or renewable resources or measures to improve the efficiency of energy end use on which construction or installation is begun after June 12, 1980, and before January 1, 1990; and

(b) New facilities for the production or generation of electricity from renewable resources on which construction or installation is begun after January 1, 2020, and before January 1, 2028.

(3) Deductions under subsection (1)(a) of this section ((~~shall be~~)) are allowed for a period not to exceed thirty years after the project is placed in operation.

(4) Measures or projects encouraged under this section ((~~shall~~)) at the time they are placed in service must be reasonably expected to save, produce, or generate energy at a total incremental system cost per unit of energy delivered to end use which is less than or equal to the incremental system cost per unit of energy delivered to end use from similarly available conventional energy resources which utilize nuclear energy or fossil fuels and which the gas or electric utility could acquire to meet energy demand in the same time period.

(5) The department of revenue, after consultation with the utilities and transportation commission in the case of investor-owned utilities and the governing bodies of locally regulated utilities, ((~~shall~~)) must determine the eligibility of individual projects and measures for deductions under this section.

(6) This section expires January 1, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.16 RCW to read as follows:

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

(a) "Carbon reduction investment" means an investment in support of eligible projects or actions that reduce, prevent, or remove from the atmosphere the emissions of greenhouse gases in the state. An eligible project or action includes, but is not limited to, investment in the following: (i) Installation of electric vehicle chargers and related infrastructure and other transportation electrification measures; (ii) demand side management of electricity consumption; (iii) energy storage technologies; and (iv) carbon sequestration programs, including forest health investments.

(b) "Greenhouse gas" means carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, sulfur hexafluoride, hydrofluorocarbons, perfluorocarbons, and other fluorinated greenhouse gases.

(2) In computing the tax imposed under this chapter, a credit is authorized for persons who reduce their own greenhouse gas emissions through carbon reduction investment projects.

(3)(a) The credit is equal to the total amount of carbon reduction investment project expenditures of a person.

(b) Credit may be earned by a person for multiple carbon reduction investment projects.

(c) Credit earned under this section may equal or exceed the tax otherwise due under this chapter for the tax reporting period. Any unused credit may be accrued and carried over until it is used.

(4) No application is necessary for the tax credit. The person must keep records necessary for the department to verify eligibility under this section. The person is subject to all of the requirements of chapter 82.32 RCW. No refunds may be granted for credits under this section.

(5) If at any time the department finds that a person is not eligible for the tax credit under this section, the amount of taxes for which a credit has been claimed is immediately due. The department must assess interest, but not penalties, on the taxes for which the person is not eligible. The interest must be assessed at the rate provided for delinquent excise taxes under chapter 82.32 RCW, is retroactive to the date the tax credit was taken, and accrues until the taxes for which a credit has been used are repaid.

(6) A person claiming the credit under this section must file a complete annual report with the department under RCW 82.32.534.

(7) The total statewide amount of credit allowed under this section must not exceed fifty million dollars.

(8) This section expires January 1, 2029.

NEW SECTION. **Sec.**  A new section is added to chapter 82.04 RCW to read as follows:

(1) A person who is subject to tax under this chapter on gross income from sales of natural or manufactured gas, timber, timber products, wood products, or agricultural products, or an energy-intensive trade-exposed business, is allowed a credit against the tax due under this chapter for forest fire risk reduction activities, as provided in this section. The credit equals fifteen dollars multiplied by the forest fire risk reduction factor, as determined by this section.

(2) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and section 14 of this act during each fiscal year. The department may not allow credits that would cause the total credits taken under this section and section 14 of this act to exceed eighty-three million dollars in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the limit on total credits for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within thirty days from the date of notice. The department may not assess penalties or interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(3) The credit allowed under this section may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (2) of this section. No refunds may be granted for credits under this section.

(4) Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize. No application is required to claim the credit, but the taxpayer must keep records necessary for the department to determine eligibility under this section.

(5) No person may claim a credit against taxes due under both this chapter and chapter 82.16 RCW for the same forest fire risk reduction activity.

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

(a) "Energy-intensive trade-exposed business" means a business that has a primary North American industry classification system (NAICS) code included in the following list:

(i) 311411: Frozen fruit, juice, and vegetable manufacturing;

(ii) 311423: Dried and dehydrated food manufacturing;

(iii) 311611: Animal (except poultry) slaughtering;

(iv) 322110: Pulp mills;

(v) 322121: Paper (except newsprint) mills;

(vi) 322122: Newsprint mills;

(vii) 322130: Paperboard mills;

(viii) 325188: All other basic inorganic chemical manufacturing;

(ix) 325199: All other basic organic chemical manufacturing;

(x) 325311: Nitrogenous fertilizer manufacturing;

(xi) 327211: Flat glass manufacturing;

(xii) 327213: Glass container manufacturing;

(xiii) 327310: Cement manufacturing;

(xiv) 327410: Lime manufacturing;

(xv) 327420: Gypsum product manufacturing;

(xvi) 327992: Ultra high purity silicon manufacturing;

(xvii) 331111: Iron and steel mills;

(xviii) 331312: Primary aluminum production;

(xix) 331315: Aluminum sheet, plate, and foil manufacturing;

(xx) 331419: Primary smelting and refining of nonferrous metal (except copper and aluminum);

(xxi) 334413: Semiconductor and related device manufacturing;

(xxii) 336411: Aircraft manufacturing;

(xxiii) 336413: Other aircraft parts and auxiliary equipment manufacturing.

(b) "Forest fire risk reduction factor" means the percentage of risk reduced by engaging in a forest management, fuel treatment practice, or other forest fire risk reduction activity as determined by the department of natural resources in consultation with the Washington forest protection association and the Washington friends of farms and forests.

(7) For the purposes of this section, "timber," "timber products," and "wood products" have the same meanings as provided in RCW 82.04.260.

(8) Credits allowed under this section can be earned for tax reporting periods through June 30, 2029. No credits can be claimed after June 30, 2030.

NEW SECTION. **Sec.**  A new section is added to chapter 82.16 RCW to read as follows:

(1) A person who is subject to tax under this chapter for sales of natural or manufactured gas or sales of electricity is allowed a credit against the tax due under this chapter for forest fire risk reduction activities, as provided in this section. The credit equals fifteen dollars multiplied by the forest fire risk reduction factor, as determined by this section.

(2) Credits are available on a first-in-time basis. The department must keep a running total of all credits allowed under this section and section 13 of this act during each fiscal year. The department may not allow credits that would cause the total credits taken under this section and section 13 of this act to exceed eighty-three million dollars in any fiscal year. If all or part of a claim for credit is disallowed under this subsection, the disallowed portion is carried over to the next fiscal year. However, the carryover into the next fiscal year is only permitted to the extent that the limit on total credits for the next fiscal year is not exceeded. Priority must be given to credits carried over from a previous fiscal year. The department must provide written notice to any person who has claimed tax credits in excess of the limitation in this subsection. The notice must indicate the amount of tax due and provide that the tax be paid within thirty days from the date of notice. The department may not assess penalties or interest as provided in chapter 82.32 RCW on the amount due in the initial notice if the amount due is paid by the due date specified in the notice, or any extension thereof.

(3) The credit allowed under this section may be used against any tax due under this chapter, and may be carried over until used, except as provided in subsection (2) of this section. No refunds may be granted for credits under this section.

(4) Credits earned under this section may be claimed only on returns filed electronically with the department using the department's online tax filing service or other method of electronic reporting as the department may authorize. No application is required to claim the credit, but the taxpayer must keep records necessary for the department to determine eligibility under this section.

(5) No person may claim a credit against taxes due under both this chapter and chapter 82.04 RCW for the same forest fire risk reduction activity.

(6) The definitions in section 13 of this act apply throughout this section.

(7) Credits allowed under this section can be earned for tax reporting periods through June 30, 2029. No credits can be claimed after June 30, 2030.

NEW SECTION. **Sec.**  This act may be known and cited as the carbon free Washington act.

**--- END ---**