

HOUSE BILL REPORT

ESHB 2580

As Amended by the Senate

Title: An act relating to promoting renewable natural gas.

Brief Description: Promoting renewable natural gas.

Sponsors: House Committee on Technology & Economic Development (originally sponsored by Representatives Morris, Lytton, Fey and Doglio; by request of Department of Commerce).

Brief History:

Committee Activity:

Technology & Economic Development: 1/24/18, 1/25/18, 1/30/18 [DPS];

Finance: 2/5/18 [DPS(TED)].

Floor Activity:

Passed House: 3/6/18, 98-0.

Senate Amended.

Passed Senate: 3/7/18, 47-1.

Brief Summary of Engrossed Substitute Bill

- Requires the Washington State University Extension Energy Program and the Department of Commerce (Department), in consultation with the Utilities and Transportation Commission, to submit recommendations to the Governor and the energy committees of the Legislature by September 1, 2018, on how to promote the sustainable development of renewable natural gas (RNG).
- Requires the Department, in consultation with other state agencies, to explore development of voluntary gas quality standards for the injection of RNG into the natural gas pipeline system.
- Amends certain tax preferences.

HOUSE COMMITTEE ON TECHNOLOGY & ECONOMIC DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Morris, Chair; Kloba, Vice Chair; Tarleton, Vice Chair; DeBolt, Assistant Ranking Minority Member; Doglio, Fey, Hudgins, McDonald, Nealey, Santos, Slatter, Steele, Wylie and Young.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Without recommendation. Signed by 1 member: Representative Manweller.

Staff: Nikkole Hughes (786-7156).

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Technology & Economic Development be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Lytton, Chair; Frame, Vice Chair; Nealey, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Dolan, Pollet, Springer and Wylie.

Minority Report: Without recommendation. Signed by 2 members: Representatives Stokesbary and Wilcox.

Minority Report: Do not pass. Signed by 1 member: Representative Condotta.

Staff: Serena Dolly (786-7150).

Background:

Business and Occupation Tax Preferences.

A preferential business and occupation (B&O) tax rate for manufacturers of alcohol fuel, biodiesel fuel, or biodiesel feedstock expired on July 1, 2009. Manufacturers of wood biomass fuel are eligible for a preferential B&O tax rate equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent.

"Wood biomass fuel" is defined to mean a pyrolytic liquid fuel or synthesis gas-derived liquid fuel, used in internal combustion engines, and produced from wood, forest, or field residue, or dedicated energy crops that do not include wood pieces that have been treated with chemical preservatives such as creosote, pentachlorophenol, or copper-chrome-arsenic.

Sales and Use Tax Preferences.

A sales and use tax exemption is available for establishing or operating an anaerobic digester. The anaerobic digester must be used primarily to treat livestock manure.

Until July 30, 2011, a sales and use tax exemption was available for the sale of machinery and equipment used directly in generating electricity using alternative energy resources, including anaerobic digestion and landfill gas. Beginning on July 1, 2011, and until January 1, 2020, the sales and use tax exemption is equal to 75 percent of the state and local sales tax paid and is available in the form of a remittance.

Property Tax and Leasehold Excise Tax Preferences.

Until December 31, 2015, all buildings, machinery, equipment, and other personal property which are used primarily for the manufacturing of alcohol fuel, biodiesel fuel, biodiesel

feedstock, or the operation of an anaerobic digester were exempt from property taxes and leasehold taxes for a period of six years following the date on which the facility or the addition to the existing facility became operational. Buildings and other personal property which are used primarily for the manufacturing of wood biomass fuel were exempt from leasehold taxes for a period of six years following the date on which the facility or the addition to the existing facility became operational.

Summary of Engrossed Substitute Bill:

Renewable Natural Gas.

The Washington State University Extension Energy Program (WSU Energy Program) and Department of Commerce (Department), in consultation with the Utilities and Transportation Commission (UTC), must submit recommendations to the Governor and the energy committees of the Legislature by September 1, 2018, on how to promote the sustainable development of renewable natural gas (RNG) in the state. The recommendations must include a detailed inventory of the practical opportunities and costs associated with RNG production in the state, specific opportunities for state agencies and public facilities to take advantage of RNG potential, recommendations for limiting the life-cycle carbon intensity of the RNG gas to the extent feasible, and whether to adopt a procurement standard for RNG.

The Department, in consultation with the Department of Ecology, the UTC, and the Department of Health, must explore development of voluntary gas quality standards for the injection of RNG into the natural gas pipeline system. The purpose of the standards should be to identify acceptable levels of constituents of concern for safety and environmental purposes, including ensuring pipeline integrity, while providing reasonable and predictable access to pipeline transmission and distribution facilities. The Department must consult industry groups and identify industry best practices in developing its recommendations.

"Renewable natural gas" means a methane-rich gas derived from organic feedstocks that has been conditioned to meet standards for natural gas derived from fossil fuel sources.

Tax Preferences.

An expired preferential business and occupation (B&O) tax rate for manufacturers of alcohol fuel, biodiesel fuel, or biodiesel feedstock is repealed. For the purposes of a preferential B&O tax rate for manufacturers of wood biomass fuel, the definition of "wood biomass fuel" is amended to mean a fuel used in internal combustion engines that is produced from lignocellulosic feedstocks, including wood, forest, field residue, and dedicated energy crops, and does not include wood treated with chemical preservations.

Sales and use of equipment and services necessary to process biogas from a landfill into marketable coproducts, including but not limited to biogas conditioning, compression, and electrical generation equipment, are eligible for a sales and use tax exemption.

A sales and use tax exemption is available for establishing or operating an anaerobic digester, regardless of whether the anaerobic digester is used primarily to treat livestock manure.

An expired sales and use tax exemption for the sale and use of machinery and equipment used directly in generating electricity using alternative energy resources is repealed. References to anaerobic digestion and landfill gas are removed from a sales and use tax exemption for the sale of machinery and equipment used directly in generating electricity using alternative energy resources that is equal to 75 percent of the state and local sales taxes paid.

References to buildings, machinery, equipment, and other personal property used primarily for the manufacturing of alcohol fuel, biodiesel fuel, wood biomass fuel, and biodiesel feedstock are removed from an expired six-year property tax and leasehold excise tax exemption. A six-year property tax and leasehold excise tax exemption is restored for personal property used primarily for the operation of an anaerobic digester until December 31, 2024. A six-year property tax exemption is extended to exemption to all buildings, machinery, equipment, and other personal property which are used primarily for the processing of biogas from a landfill into marketable coproducts.

A tax preference performance statement is established which specifies that it is the Legislature's intent to reinstate and expand tax incentives for certain landfills and anaerobic digesters in order to stimulate investment in biogas capture and conditioning, compression, nutrient recovery, and use of RNG for heating, electricity generation, and transportation fuel. To measure the effectiveness of the tax preferences, the Joint Legislative Audit and Review Committee must evaluate the number of public and private landfills and anaerobic digesters producing RNG in the state and the extent to which they are utilizing the incentives.

EFFECT OF SENATE AMENDMENT(S):

The Senate amendment:

- amends the definition of "eligible person" for the purpose of a sales and use tax exemption for sales in respect to equipment necessary to process biogas from a landfill into marketable coproducts; and
- removes the extension of a six-year property tax exemption to all buildings, machinery, equipment, and other personal property which are used primarily for the processing of biogas from a landfill into marketable coproducts.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on July 1, 2018.

Staff Summary of Public Testimony (Technology & Economic Development):

(In support) There is a need for a robust analysis of renewable natural gas (RNG) potential in the state like the one called for in this bill. The development of RNG facilities will stimulate the state's clean energy economy. Renewable natural gas is the lowest-carbon fossil fuel available and is the most cost-effective way to reduce carbon emissions. The Department of Commerce has been working with a wide range of stakeholders to explore waste-to-energy

opportunities in the state. By installing and restoring a suite of market signals, this bill will stimulate economic development in the energy sector.

(Opposed) None.

(Other) The definition for "wood biomass fuel" in this bill neglects to include "forest biomass."

Staff Summary of Public Testimony (Finance):

(In support) None.

(Opposed) None.

Persons Testifying (Technology & Economic Development): (In support) Peter Moulton, Washington Department of Commerce; Dan Kirschner, Northwest Gas Association; Nina Kapoor, Coalition for Renewable Gas; and Dan Evans, Promus Energy.

(Other) Bill Stauffacher, Northwest Pulp & Paper Association and Rayonier, Inc.

Persons Testifying (Finance): None.

Persons Signed In To Testify But Not Testifying (Technology & Economic Development): Jay Gordon, Washington State Dairy Federation.

Persons Signed In To Testify But Not Testifying (Finance): None.