

SENATE BILL REPORT

SB 6449

As Reported by Senate Committee On:
Energy, Environment & Technology, February 1, 2018

Title: An act relating to promoting renewable natural gas.

Brief Description: Promoting renewable natural gas.

Sponsors: Senators Warnick and Palumbo; by request of Department of Commerce.

Brief History:

Committee Activity: Energy, Environment & Technology: 1/25/18, 2/01/18 [DPS-WM].

Brief Summary of First Substitute Bill

- Requires a report on recommendations on promoting the sustainable development, limiting the the life-cycle carbon intensity, and adopting a procurement standard for renewable natural gas (RNG).
- Requires agencies to explore the development of voluntary gas quality standards.
- Reinstates the property and leasehold tax exemption.
- Expands the types of equipment and services necessary to process biogas from a landfill into marketable coproducts that qualify for the sale and use tax exemption.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TECHNOLOGY

Majority Report: That Substitute Senate Bill No. 6449 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Carlyle, Chair; Palumbo, Vice Chair; Ericksen, Ranking Member; Brown, Hawkins, Hobbs, McCoy, Ranker, Sheldon and Wellman.

Staff: Angela Kleis (786-7469)

Background: Business and Occupation (B&O) Tax. The B&O tax rate for manufacturers of alcohol fuel, biodiesel fuel, or biodiesel feedstock expired on July 1, 2009. Manufacturers of

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wood biomass fuel are eligible for a B&O tax rate equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent.

Wood biomass fuel means a means 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 Exemption. The establishment and operation of an anaerobic digester is eligible for the sales and use tax exemption. The anaerobic digester must be used primarily to treat livestock manure.

The sales and use tax exemption for the sale of machinery and equipment using alternative energy, including anaerobic digestion and landfill gas, expired June 30, 2011. Beginning July 1, 2011, through January 1, 2020, the amount of the sales and use tax exemption is equal to 75 percent of the state and local sales tax paid.

Property and Leasehold Excise Tax Exemption. All leasehold interests in personal property which are used primarily for the manufacturing of alcohol fuel, wood biomass fuel, biodiesel fuel, biodiesel feedstock, or the operation of an anaerobic digester were exempt from leasehold taxes for a period of six years from the date on which the facility or the addition to the existing facility became operational. The exemption expired December 31, 2015.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): Recommendations and Quality Standards. By September 1, 2018, the Washington State University Extension Energy Program and Commerce, in consultation with the Utilities and Transportation Commission (UTC), must submit recommendations to the Governor's Office and the energy committees of the Legislature on:

- promoting the sustainable development of RNG in Washington;
- limiting the life-cycle carbon intensity of the RNG to the extent feasible; and
- whether to adopt a procurement standard for RNG.

Commerce, in consultation with Ecology, the Department of Health, and UTC, must explore the development of voluntary gas quality for injection of RNG into the natural gas pipeline system. Commerce should consult industry groups and identify industry best practices.

B&O Tax Rate. For the purposes of the B&O tax rate for wood biomass fuel manufacturers, wood biomass fuel is redefined to mean a liquid or gaseous fuel that is produced from lignocellulosic feedstocks, including wood, forest, or field residue, and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.

Sales & Use Tax Exemption. 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 the sales and use tax

exemption. An anaerobic digester is eligible for the sales and use tax exemption regardless of whether it is used primarily to treat livestock manure.

Property and Leasehold Excise Tax Exemption. The six-year property and leasehold excise tax exemption is restored for personal property used primarily for the operation of an anaerobic digester until December 21, 2024. The exemption is valid for six assessment years following the date on which the facility or the addition to the existing facility becomes operational and may not be renewed.

EFFECT OF CHANGES MADE BY ENERGY, ENVIRONMENT & TECHNOLOGY COMMITTEE (First Substitute):

- Amends the definition of wood biomass fuel to mean a liquid or gaseous fuel that is produced from lignocellulosic feedstocks, including wood, forest, or field residue, and dedicated energy crops, and that does not include wood treated with chemical preservations such as creosote, pentachlorophenol, or copper-chrome-arsenic.
- Adds compression to the types of equipment eligible for the tax preferences.
- Adds a tax preference performance statement.
- Makes technical clarifications.
- Adds an effective date of July 1, 2018.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony on Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: We are pleased to see the requirement for a robust analysis of waste streams before the agency makes recommendations and are interested in participating in the voluntary gas quality standards discussion. The development of RNG production facilities fosters improved management of waste streams; reduces soil and water impacts; and stimulates the Washington economy. This bill is focused on the production of RNGs in Washington and we would love to have attention on developing a market for RNGs in Washington as well.

Digester development has stalled in recent years as the power sales only model no longer adequately supports digester operations and maintenance. That is why we are seeing biogas producers looking to condition their biogas to natural gas standards so they can sell that renewable gas into the clean transportation market.

OTHER: We have a technical concern regarding the definition of wood biomass fuel. In our opinion, the definition should only include forest not forest biomass.

Persons Testifying: PRO: Eric Fitch, Port of Seattle; Dan Kirschner, Northwest Gas Association; Peter Moulton, Department of Commerce; Dan Evans, Promus Energy; Nina

Kapoor, Coalition for Renewable Natural Gas.

OTHER: Bill Stauffacher, NW Pulp & Paper Association; Rayonier Inc; Arthur West, Washington Retail Association.

Persons Signed In To Testify But Not Testifying: No one.