## SENATE BILL 6236

## State of Washington 61st Legislature 2010 Regular Session

**By** Senators Hargrove, Jacobsen, Morton, Schoesler, Swecker, Marr, Fraser, and Parlette; by request of Commissioner of Public Lands

Read first time 01/11/10. Referred to Committee on Natural Resources, Ocean & Recreation.

AN ACT Relating to the department of natural resources authority to enter into forest biomass supply agreements; amending RCW 79.02.010, 43.30.020, 76.04.465, 76.06.180, 79.15.100, 79.15.220, 79.15.510, and 79.15.510; adding a new chapter to Title 79 RCW; providing an effective date; and providing an expiration date.

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

NEW SECTION. 7 Sec. 1. The legislature finds that the utilization of forest biomass materials located on state lands will assist in 8 9 achieving the purposes of the forest biomass energy demonstration 10 project under RCW 43.30.835, facilitate and support the emerging forest 11 biomass market and clean energy economy, and enable the department to encourage biomass energy development on state trust lands for the trust 12 13 land's potential long-term benefits to trust beneficiaries.

14 <u>NEW SECTION.</u> Sec. 2. The department may maintain a list of all 15 potential sources of forest biomass on state lands for the purposes of 16 identifying and making forest biomass available for sale, exploration, 17 collection, processing, storage, stockpiling, and conversion into 18 energy, biofuels, for use in a biorefinery, or any other similar use.

1 The department may utilize the list to establish available supply 2 limitations to limit the sale of forest biomass under biomass supply 3 contracts authorized under this act when the department finds the 4 overall supply of forest biomass in a region or watershed is depleted 5 such that further exploration and collection of forest biomass may not 6 be sustainable or might otherwise threaten long-term forest health.

7 Sec. 3. (1) The department is authorized to enter NEW SECTION. forest biomass supply contracts on terms and conditions acceptable to 8 the department for terms of up to five years for the purpose of 9 10 providing a supply of forest biomass during the term of the contract 11 except as the term of the contract may be limited under subsection (2) 12 this section, provided that such a contract must terminate of automatically upon the removal of the agreed volume of biomass and the 13 14 completion of other conditions of the contract.

(2) The department may authorize the sale of forest biomass in a 15 16 contract for the sale of valuable materials under chapter 79.15 RCW 17 provided that the department complies with the provisions of this 18 chapter and: (a) Requires a separate bid and selects an apparent highest bidder for the forest biomass separately from the sale of 19 20 valuable materials; (b) expressly includes forest biomass as an element 21 of the sale of the valuable materials to be sold in the sales contract; or (c) a combination of (a) and (b) of this subsection. 22 The term of 23 the contract for the removal of biomass, if the sale is made in conformance with this subsection, must not exceed the term of the 24 25 contract for valuable materials sold under chapter 79.15 RCW.

(3) The department may: (a) Enter into direct sales contracts for forest biomass, without public auction, based upon procedures adopted by the board to ensure competitive market prices and accountability; or (b) enter into contracts for forest biomass at public auction or by sealed bid to the highest bidder in a manner consistent with the sale procedures established for the sale of valuable materials in chapter 79.15 RCW or as may be adopted by the board.

(4) The department must specify in each contract an annual volumetric limit of the total cubic volume or tons of forest biomass to be supplied from a specific unit, geographically delineated area, or region within a watershed or watersheds based upon the department's determination of forest biomass available in that unit, area, region,

or watershed or watersheds on a sustainable basis. The department may unilaterally amend the volume to be supplied by providing the contracting party with a minimum of six months notice prior to reducing the contract volume to be supplied if the department determines, under section 2 of this act, that the available supply has been depleted such that further removal of forest biomass may not be sustainable or may adversely affect long-term forest health.

8 (5) At the expiration of the contract term, the department may 9 renew the contract for up to three additional five year periods on 10 terms and conditions acceptable to the department, if the department 11 finds: (a) A sustainable supply of forest biomass is available for the 12 term of the contract; (b) the payment under the contract represents the 13 fair market value at the time of the renewal; and (c) the purchaser 14 agrees to the estimated amount of biomass material available.

15 NEW SECTION. Sec. 4. The department is authorized to lease state 16 lands for the purpose of the sale, exploration, collection, processing, 17 storage, stockpiling, and conversion of biomass into energy or biofuels, the development of a biorefinery, or for any other resource 18 use derived from biomass if the department is able to obtain a fair 19 20 market rental return to the state or the appropriate constitutional or 21 statutory trust and if the lease is in the best interest of the state and the affected trust, as follows: 22

(1) Leases authorized under this chapter may be entered into by
 public auction, in accordance with the provisions of RCW 79.13.140, or
 by negotiation.

(2) All leases must contain such terms and conditions as may be prescribed by the rules adopted by the department in accordance with the provision of this act. Leases authorized under this act may be for a term of no more than fifty years.

(3) For leases that involve the development of biomass processing, 30 31 biofuel manufacturing, or biomass energy production facilities, the department may include provisions for reduced rent until an approved 32 plan of development is completed and the facility is operational, 33 34 provided that provisions are included to require: (a) Adequate 35 assurances to protect the department's interest in a future rental 36 income stream; (b) the demonstration of reasonable progress consistent 37 with an approved plan of development; and (c) a lump sum payment to the

1 department in the amount of the difference between the fair market rent 2 and the reduced rent, if the approved plan of development is not 3 completed in the time required in the plan.

4 (4) The department may require the payment of production rent or other compensation for the use of the land and biomass materials on the 5 If the department is not entering a supply contract under б land. 7 section 3 of this act for any forest biomass to be supplied for the 8 lease purposes from the leased land, then the department must require a royalty payment for the contribution to value of any product created 9 10 by the lessee that is associated with forest biomass removed from the leased land in an amount fixed by the board. 11

12 **Sec. 5.** RCW 79.02.010 and 2004 c 199 s 201 are each amended to 13 read as follows:

14 The definitions in this section apply throughout this title unless 15 the context clearly requires otherwise.

(1) "Aquatic lands" means all state-owned tidelands, shorelands,
 harbor areas, and the beds of navigable waters as defined in ((chapter
 79.90)) RCW 79.105.060 that are administered by the department.

19 (2) "Board" means the board of natural resources.

20 (3) "Commissioner" means the commissioner of public lands.

(4) "Community and technical college forest reserve lands" means
 lands managed under RCW 79.02.420.

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(5) "Department" means the department of natural resources.

(6) "Improvements" means anything considered a fixture in law placed upon or attached to lands administered by the department that has changed the value of the lands or any changes in the previous condition of the fixtures that changes the value of the lands.

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(7) "Land bank lands" means lands acquired under RCW 79.19.020.

(8) "Person" means an individual, partnership, corporation, association, organization, cooperative, public or municipal corporation, or agency of a federal, state, or local governmental unit, however designated.

33 (9) "Public lands" means lands of the state of Washington 34 administered by the department including but not limited to state 35 lands, state forest lands, and aquatic lands.

36 (10) "State forest lands" means lands acquired under RCW 79.22.010,
 37 79.22.040, and 79.22.020.

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(11) "State lands" includes:

2 (a) School lands, that is, lands held in trust for the support of 3 the common schools;

4 (b) University lands, that is, lands held in trust for university 5 purposes;

6 (c) Agricultural college lands, that is, lands held in trust for 7 the use and support of agricultural colleges;

8 (d) Scientific school lands, that is, lands held in trust for the 9 establishment and maintenance of a scientific school;

10 (e) Normal school lands, that is, lands held in trust for state 11 normal schools;

(f) Capitol building lands, that is, lands held in trust for the purpose of erecting public buildings at the state capital for legislative, executive, and judicial purposes;

(g) Institutional lands, that is, lands held in trust for state charitable, educational, penal, and reformatory institutions; and

(h) Land bank, escheat, donations, and all other lands, except aquatic lands, administered by the department that are not devoted to or reserved for a particular use by law.

(12) "Valuable materials" means any product or material on the
lands, such as forest products, forage or agricultural crops, stone,
gravel, sand, peat, and all other materials of value except: (a)
<u>Mineral</u>, coal, petroleum, and gas as provided for under chapter 79.14
RCW; and (b) forest biomass as provided for under chapter 79.-- RCW
(the new chapter created in section 13 of this act).

26 (13)(a) "Forest biomass" means the by-products of: Current forest 27 practices prescribed or permitted under chapter 76.09 RCW; current 28 forest protection treatments prescribed or permitted under chapter 29 76.04 RCW; or the by-products of forest health treatment prescribed or 30 permitted under chapter 76.06 RCW.

31 (b) "Forest biomass" does not include wood pieces that have been 32 treated with chemical preservatives such as: Creosote, 33 pentachlorophenol, or copper-chrome-arsenic; wood from old growth 34 forests, except wood removed for forest health treatments under chapter 35 76.06 RCW and RCW 79.15.540; wood required by chapter 76.09 RCW for 36 large woody debris recruitment; or municipal solid waste. 1 Sec. 6. RCW 43.30.020 and 2009 c 163 s 6 are each amended to read
2 as follows:

3 The definitions in this section apply throughout this chapter 4 unless the context clearly requires otherwise.

5 (1) "Administrator" means the administrator of the department of 6 natural resources.

7 (2) "Agency" and "state agency" means any branch, department, or
8 unit of the state government, however designated or constituted.

(3) "Board" means the board of natural resources.

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(4) "Commissioner" means the commissioner of public lands.

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(5) "Department" means the department of natural resources.

12 (6) (("Forest biomass" means the by-products of: Current forest 13 practices prescribed or permitted under chapter 76.09 RCW; current 14 forest protection treatments prescribed or permitted under chapter 15 76.04 RCW; or the by products of forest health treatments prescribed or permitted under chapter 76.06 RCW. "Forest biomass" does not include 16 wood pieces that have been treated with chemical preservatives such as: 17 18 Creosote, pentachlorophenol, or copper-chrome-arsenic; wood from old 19 growth forests, except wood removed for forest health treatments under 20 chapter 76.06 RCW and RCW 79.15.540; wood required by chapter 76.09 RCW 21 for large woody debris recruitment; or municipal solid waste.

22 (7)) "Supervisor" means the supervisor of natural resources.

23 **Sec. 7.** RCW 76.04.465 and 1986 c 100 s 30 are each amended to read 24 as follows:

25 Standing dead trees constitute a substantial deterrent to effective 26 fire control action in forest areas, but are also an important and 27 essential habitat for many species of wildlife. To ((insure)) ensure continued existence of these wildlife species and continued forest 28 29 growth while minimizing the risk of destruction by conflagration, only 30 certain snags must be felled currently with the logging. The department shall adopt rules relating to effective fire control action 31 32 to require that only certain snags be felled, taking into consideration the need to protect the wildlife habitat. Snags felled for effective 33 fire control action under this section on land managed by the 34 35 department may be utilized by the department for purposes of providing 36 a supply of forest biomass as provided in chapter 79. -- RCW (the new

1 <u>chapter created in section 13 of this act</u>), subject to rules adopted

2 <u>under this section.</u>

3 Sec. 8. RCW 76.06.180 and 2007 c 480 s 7 are each amended to read 4 as follows:

5 (1) Prior to issuing a forest health hazard warning or forest б health hazard order, the commissioner shall consider the findings and 7 recommendations of the forest health technical advisory committee and shall consult with county government officials, forest landowners and 8 9 forest land managers, consulting foresters, and other interested parties to gather information on the threat, 10 opportunities or 11 constraints on treatment options, and other information they may 12 provide. The commissioner, or a designee, shall conduct a public 13 hearing in a county within the geographical area being considered.

14 (2) The commissioner of public lands may issue a forest health 15 hazard warning when he or she deems such action is necessary to manage 16 the development of a threat to forest health or address an existing 17 threat to forest health. A decision to issue a forest health hazard 18 warning may be based on existing forest stand conditions and:

(a) The presence of an uncharacteristic insect or disease outbreak that has or is likely to (i) spread to multiple forest ownerships and cause extensive damage to forests; or (ii) significantly increase forest fuel that is likely to further the spread of uncharacteristic fire;

(b) When, due to extensive physical damage from wind or ice storm or other cause, there are (i) insect populations building up to large scale levels; or (ii) significantly increased forest fuels that are likely to further the spread of uncharacteristic fire; or

28 (c) When otherwise determined by the commissioner to be 29 appropriate.

30 (3) The commissioner of public lands may issue a forest health 31 hazard order when he or she deems such action is necessary to address 32 a significant threat to forest health. A decision to issue a forest 33 health hazard order may be based on existing forest stand conditions 34 and:

(a) The presence of an uncharacteristic insect or disease outbreakthat has (i) spread to multiple forest ownerships and has caused and is

1 likely to continue to cause extensive damage to forests; or (ii) 2 significantly increased forest fuels that are likely to further the 3 spread of uncharacteristic fire;

(b) When, due to extensive physical damage from wind or ice storm
or other cause (i) insect populations are causing extensive damage to
forests; or (ii) significantly increased forest fuels are likely to
further the spread of uncharacteristic fire;

8 (c) Insufficient landowner action under a forest health hazard 9 warning; or

10 (d) When otherwise determined by the commissioner to be 11 appropriate.

12 (4) A forest health hazard warning or forest health hazard order 13 shall be issued by use of a commissioner's order. General notice of the commissioner's order shall be published in a newspaper of general 14 circulation in each county within the area covered by the order and on 15 the department's web site. The order shall specify the boundaries of 16 17 the area affected, including federal and tribal lands, the forest stand 18 conditions that would make a parcel subject to the provisions of the 19 order, and the actions landowners or land managers should take to reduce the hazard. If the forest health hazard warning or order 20 21 relates to land managed by the department, the warning or order may 22 also contain provisions for the department's utilization of any forest biomass pursuant to chapter 79.-- RCW (the new chapter created in 23 24 section 13 of this act).

25 (5) Written notice of a forest health hazard warning or forest 26 health hazard order shall be provided to forest landowners of 27 specifically affected property.

28 (a) The notice shall set forth:

29 (i) The reasons for the action;

30 (ii) The boundaries of the area affected, including federal and 31 tribal lands;

32 (iii) Suggested actions that should be taken by the forest 33 landowner under a forest health hazard warning or the actions that must 34 be taken by a forest landowner under a forest health hazard order;

(iv) The time within which such actions should or must be taken;
(v) How to obtain information or technical assistance on forest

37 health conditions and treatment options;

(vi) The right to request mitigation under subsection (6) of this
 section and appeal under subsection (7) of this section;

3 (vii) These requirements are advisory only for federal and tribal 4 lands.

5 (b) The notice shall be served by personal service or by mail to 6 the latest recorded real property owner, as shown by the records of the 7 county recording officer as defined in RCW 65.08.060. Service by mail 8 is effective on the date of mailing. Proof of service shall be by 9 affidavit or declaration under penalty of perjury.

10 (6) Forest landowners who have been issued a forest health hazard order under subsection (5) of this section may apply to the department 11 12 for the remission or mitigation of such order. The application shall 13 be made to the department within fifteen days after notice of the order 14 has been served. Upon receipt of the application, the department may remit or mitigate the order upon whatever terms the department in its 15 discretion deems proper, provided the department deems the remission or 16 17 mitigation to be in the best interests of carrying out the purposes of 18 The department may ascertain the facts regarding all this chapter. 19 such applications in such reasonable manner and under such rule as it 20 deems proper.

(7) Forest landowners who have been issued a forest health hazard order under subsection (5) of this section may appeal the order to the forest practices appeals board.

(a) The appeal shall be filed within thirty days after notice of
the order has been served, unless application for mitigation has been
made to the department. When such an application for mitigation is
made, such appeal shall be filed within thirty days after notice of the
disposition of the application for mitigation has been served.

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(b) The appeal must set forth:

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(i) The name and mailing address of the appellant;

31 (ii) The name and mailing address of the appellant's attorney, if 32 any;

(iii) A duplicate copy of the forest health hazard order;

34 (iv) A separate and concise statement of each error alleged to have 35 been committed;

36 (v) A concise statement of facts upon which the appellant relies to 37 sustain the statement of error; and

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(vi) A statement of the relief requested.

(8) A forest health hazard order issued under subsection (5) of 1 2 this section is effective thirty days after date of service unless application for remission or mitigation is made or an appeal is filed. 3 When an application for remission or mitigation is made, the order is 4 effective thirty days after notice setting forth the disposition of the 5 application is served unless an appeal is filed from such disposition. 6 7 Whenever an appeal of the order is filed, the order shall become 8 effective only upon completion of all administrative and judicial review proceedings and the issuance of a final decision confirming the 9 10 order in whole or in part.

(9) Upon written request, the department may certify as adequate a 11 12 forest health management plan developed by a forest landowner, before 13 or in response to a forest health hazard warning or forest health 14 hazard order, if the plan is likely to achieve the desired result and the terms of the plan are being diligently followed by the forest 15 16 landowner. The certification of adequacy shall be determined by the 17 department in its sole discretion, and be provided to the requestor in 18 writing.

19 Sec. 9. RCW 79.15.100 and 2004 c 177 s 5 are each amended to read 20 as follows:

(1) Valuable materials may be sold separately from the land as a "lump sum sale" or as a "scale sale."

(a) "Lump sum sale" means any sale offered with a single totalprice applying to all the material conveyed.

(b) "Scale sale" means any sale offered with per unit prices to beapplied to the material conveyed.

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(2) Payment for lump sum sales must be made as follows:

(a) Lump sum sales under five thousand dollars appraised valuerequire full payment on the day of sale.

30 (b) Lump sum sales appraised at over five thousand dollars but 31 under one hundred thousand dollars may require full payment on the day 32 of sale.

33 (c) Lump sum sales requiring full payment on the day of sale may be 34 paid in cash or by certified check, cashier's check, bank draft, or 35 money order, all payable to the department.

36 (3) Except for sales paid in full on the day of sale or sales with

1 adequate bid bonds, an initial deposit not to exceed twenty-five 2 percent of the actual or projected purchase price shall be made on the 3 day of sale.

4 (a) Sales with bid bonds are subject to the day of sale payment and 5 replacement requirements prescribed by RCW 79.15.110.

6 (b) The initial deposit must be maintained until all contract 7 obligations of the purchaser are satisfied. However, all or a portion 8 of the initial deposit may be applied as the final payment for the 9 valuable materials in the event the department determines that adequate 10 security exists for the performance or fulfillment of any remaining 11 obligations of the purchaser under the sale contract.

12 (4) Advance payments or other adequate security acceptable to the 13 department is required for valuable materials sold on a scale sale 14 basis or a lump sum sale not requiring full payment on the day of sale.

(a) The purchaser must notify the department before any operationtakes place on the sale site.

(b) Upon notification as provided in (a) of this subsection, the department must require advanced payment or may allow purchasers to submit adequate security.

(c) The amount of advanced payments or security must be determined by the department and must at all times equal or exceed the value of timber cut and other valuable materials processed or removed until paid for.

(d) Security may be bank letters of credit, payment bonds,
assignments of savings accounts, assignments of certificates of
deposit, or other methods acceptable to the department as adequate
security.

(5) All valuable material must be removed from the sale area withinthe period specified in the contract.

30 (a) The specified period may not exceed five years from date of 31 purchase except for stone, sand, gravel, fill material, or building 32 stone.

33 (b) The specified period for stone, sand, gravel, fill material, or34 building stone may not exceed thirty years.

35 (c) In all cases, any valuable material not removed from the land 36 within the period specified in the contract reverts to the state. <u>The</u> 37 <u>department may utilize any remaining forest biomass in accordance with</u> 38 <u>chapter 79.-- RCW (the new chapter created in section 13 of this act).</u> 1 (6) The department may extend a contract beyond the normal 2 termination date specified in the sale contract as the time for removal 3 of valuable materials when, in the department's judgment, the purchaser 4 is acting in good faith and endeavoring to remove the materials. The 5 extension is contingent upon payment of the fees specified below.

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(a) The extended time for removal shall not exceed:

7 (i) Forty years from date of purchase for stone, sand, gravel, fill
8 material, or building stone;

9 (ii) A total of ten years beyond the original termination date for 10 all other valuable materials.

(b) An extension fee fixed by the department will be charged based on the estimated loss of income per acre to the state resulting from the granting of the extension plus interest on the unpaid portion of the contract. The board must periodically fix and adopt by rule the interest rate, which shall not be less than six percent per annum.

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(c) The sale contract shall specify:

17 (i) The applicable rate of interest as fixed at the day of sale and18 the maximum extension payment; and

(ii) The method for calculating the unpaid portion of the contractupon which interest is paid.

(d) The minimum extension fee is fifty dollars per extension plusinterest on the unpaid portion of the contract.

(e) Moneys received for any extension must be credited to the same
 fund in the state treasury as was credited the original purchase price
 of the valuable material sold.

(7) The department may, in addition to any other securities, require a performance security to guarantee compliance with all contract requirements. The security is limited to those types listed in subsection (4) of this section. The value of the performance security will, at all times, equal or exceed the value of work performed or to be performed by the purchaser.

32 (8) The department does not need to comply with the provisions of 33 this chapter for forest biomass except as described in the provisions 34 of chapter 70.-- RCW (the new chapter created in section 13 of this 35 act). Forest biomass may not be included in any sales contract 36 authorized under this chapter unless the department has complied with 37 the provisions of chapter 79.-- RCW (the new chapter created in section 38 <u>13 of this act).</u> 1 (9) The provisions of this section apply unless otherwise provided 2 by statute.

3 **Sec. 10.** RCW 79.15.220 and 2001 c 250 s 14 are each amended to 4 read as follows:

5 When the department finds valuable materials on state land that are б damaged by fire, wind, flood, or from any other cause, it shall 7 determine if the salvage of the damaged valuable materials is in the best interest of the trust for which the land is held, which may 8 include the salvage of forest biomass under chapter 79. -- RCW (the new 9 10 chapter created in section 13 of this act). If salvaging the valuable 11 materials is in the best interest of the trust, the department shall 12 proceed to offer the valuable materials for sale. The valuable materials, when offered for sale, must be sold in the most expeditious 13 14 and efficient manner as determined by the department. In determining if the sale is in the best interest of the trust the department shall 15 consider the net value of the valuable materials and relevant elements 16 17 of the physical and social environment.

18 Sec. 11. RCW 79.15.510 and 2009 c 418 s 2 are each amended to read 19 as follows:

(1) The department may establish a contract harvesting program for directly contracting for the removal of timber and other valuable materials from state lands and for conducting silvicultural treatments consistent with RCW 79.15.540.

(2) The contract requirements must be compatible with the office offinancial management's guide to public service contracts.

26 (3) The department may not use contract harvesting for more than twenty percent of the total annual volume of timber offered for sale. 27 28 However, volume removed primarily to address an identified forest 29 health issue under RCW 79.15.540 may not be included in calculating the 30 ((ten [twenty] percent)) annual limit of contract harvesting sales. Forest biomass resulting from harvesting to address an identified 31 forest health issue under RCW 79.15.540 may be utilized in accordance 32 33 with chapter 79.-- RCW (the new chapter created in section 13 of this 34 act).

1 Sec. 12. RCW 79.15.510 and 2004 c 218 s 6 are each amended to read 2 as follows:

3 (1) The department may establish a contract harvesting program for 4 directly contracting for the removal of timber and other valuable 5 materials from state lands and for conducting silvicultural treatments 6 consistent with RCW 79.15.540.

7 (2) The contract requirements must be compatible with the office of
8 financial management's guide to public service contracts.

(3) The department may not use contract harvesting for more than 9 ten percent of the total annual volume of timber offered for sale. 10 However, volume removed primarily to address an identified forest 11 12 health issue under RCW 79.15.540 may not be included in calculating the 13 ((ten percent)) annual limit of contract harvesting sales. Forest biomass resulting from harvesting to address an identified forest 14 health issue under RCW 79.15.540 may be utilized in accordance with 15 chapter 79.-- RCW (the new chapter created in section 13 of this act). 16

17 <u>NEW SECTION.</u> Sec. 13. Sections 1 through 4 of this act constitute
 18 a new chapter in Title 79 RCW.

<u>NEW SECTION.</u> Sec. 14. Section 11 of this act expires January 1,
20 2014.

21 <u>NEW SECTION.</u> Sec. 15. Section 12 of this act takes effect January 22 1, 2014.

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