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**SUBSTITUTE HOUSE BILL 1792**

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**State of Washington 67th Legislature 2022 Regular Session**

**By** House Finance (originally sponsored by Representatives Ramel, Orcutt, Abbarno, Fitzgibbon, Goodman, Slatter, Young, and Harris-Talley)

AN ACT Relating to expanding the production, distribution, and use of hydrogen not produced from a fossil fuel feedstock; amending RCW 82.08.816, 82.12.816, 82.29A.125, 54.04.190, and 35.92.050; adding a new section to chapter 82.16 RCW; and creating a new section.

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

**Sec.**  RCW 82.08.816 and 2019 c 287 s 11 are each amended to read as follows:

(1) The tax imposed by RCW 82.08.020 does not apply to:

(a) The sale of batteries or fuel cells for electric vehicles, including batteries or fuel cells sold as a component of an electric bus at the time of the vehicle's sale;

(b) The sale of or charge made for labor and services rendered in respect to installing, repairing, altering, or improving electric vehicle batteries or fuel cells;

(c) The sale of or charge made for labor and services rendered in respect to installing, constructing, repairing, or improving battery or fuel cell electric vehicle infrastructure, including hydrogen fueling stations;

(d) The sale of tangible personal property that will become a component of battery or fuel cell electric vehicle infrastructure during the course of installing, constructing, repairing, or improving battery or fuel cell electric vehicle infrastructure; and

(e) The sale of zero emissions buses.

(2) Sellers may make tax exempt sales under this section only if the buyer provides the seller with an exemption certificate in a form and manner prescribed by the department. The seller must retain a copy of the certificate for the seller's files.

(3) On the last day of January, April, July, and October of each year, the state treasurer, based upon information provided by the department, must transfer from the multimodal transportation account to the general fund a sum equal to the dollar amount that would otherwise have been deposited into the general fund during the prior calendar quarter but for the exemption provided in this section. Information provided by the department to the state treasurer must be based on the best available data, except that the department may provide estimates of taxes exempted under this section until such time as retailers are able to report such exempted amounts on their tax returns.

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

(a) "Battery charging station" means an electrical component assembly or cluster of component assemblies designed specifically to charge batteries within electric vehicles, which meet or exceed any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(b) "Battery exchange station" means a fully automated facility that will enable an electric vehicle with a swappable battery to enter a drive lane and exchange the depleted battery with a fully charged battery through a fully automated process, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(c) "Electric vehicle infrastructure" means structures, machinery, and equipment necessary and integral to support a battery or fuel cell electric vehicle, including battery charging stations, rapid charging stations, battery exchange stations, fueling stations that provide hydrogen for fuel cell electric vehicles, green electrolytic hydrogen production facilities, and renewable hydrogen production facilities.

(d) "Green electrolytic hydrogen" means hydrogen produced through electrolysis, and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

(e) "Rapid charging station" means an industrial grade electrical outlet that allows for faster recharging of electric vehicle batteries through higher power levels, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

((~~(e)~~)) (f) "Renewable hydrogen" means hydrogen produced using renewable resources both as the source for hydrogen and the source for the energy input into the production process.

((~~(f)~~)) (g) "Renewable resource" means (i) water; (ii) wind; (iii) solar energy; (iv) geothermal energy; (v) renewable natural gas; (vi) renewable hydrogen; (vii) wave, ocean, or tidal power; (viii) biodiesel fuel that is not derived from crops raised on land cleared from old growth or first growth forests; or (ix) biomass energy.

((~~(g)~~)) (h) "Zero emissions bus" means a bus that emits no exhaust gas from the onboard source of power, other than water vapor.

(5) This section expires July 1, 2025.

**Sec.**  RCW 82.12.816 and 2019 c 287 s 12 are each amended to read as follows:

(1) The tax imposed by RCW 82.12.020 does not apply to the use of:

(a) Electric vehicle batteries or fuel cells, including batteries or fuel cells sold as a component of an electric bus at the time of the vehicle's sale;

(b) Labor and services rendered in respect to installing, repairing, altering, or improving electric vehicle batteries or fuel cells;

(c) Tangible personal property that will become a component of battery or fuel cell electric vehicle infrastructure during the course of installing, constructing, repairing, or improving battery or fuel cell electric vehicle infrastructure; and

(d) Zero emissions buses.

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

(a) "Battery charging station" means an electrical component assembly or cluster of component assemblies designed specifically to charge batteries within electric vehicles, which meet or exceed any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(b) "Battery exchange station" means a fully automated facility that will enable an electric vehicle with a swappable battery to enter a drive lane and exchange the depleted battery with a fully charged battery through a fully automated process, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(c) "Electric vehicle infrastructure" means structures, machinery, and equipment necessary and integral to support a battery or fuel cell electric vehicle, including battery charging stations, rapid charging stations, battery exchange stations, fueling stations that provide hydrogen for fuel cell electric vehicles, green electrolytic hydrogen production facilities, and renewable hydrogen production facilities.

(d) "Green electrolytic hydrogen" means hydrogen produced through electrolysis, and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

(e) "Rapid charging station" means an industrial grade electrical outlet that allows for faster recharging of electric vehicle batteries through higher power levels, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

((~~(e)~~)) (f) "Renewable hydrogen" means hydrogen produced using renewable resources both as the source for hydrogen and the source for the energy input into the production process.

((~~(f)~~)) (g) "Renewable resource" means (i) water; (ii) wind; (iii) solar energy; (iv) geothermal energy; (v) renewable natural gas; (vi) renewable hydrogen; (vii) wave, ocean, or tidal power; (viii) biodiesel fuel that is not derived from crops raised on land cleared from old growth or first growth forests; or (ix) biomass energy.

((~~(g)~~)) (h) "Zero emissions bus" means a bus that emits no exhaust gas from the onboard source of power, other than water vapor.

(3) On the last day of January, April, July, and October of each year, the state treasurer, based upon information provided by the department, must transfer from the multimodal transportation account to the general fund a sum equal to the dollar amount that would otherwise have been deposited into the general fund during the prior calendar quarter but for the exemption provided in this section. Information provided by the department to the state treasurer must be based on the best available data, except that the department may provide estimates of taxes exempted under this section until such time as retailers are able to report such exempted amounts on their tax returns.

(4) This section expires July 1, 2025.

**Sec.**  RCW 82.29A.125 and 2019 c 287 s 14 are each amended to read as follows:

(1) Leasehold excise tax may not be imposed on leases to tenants of public lands for purposes of installing, maintaining, and operating electric vehicle infrastructure.

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

(a) "Battery charging station" means an electrical component assembly or cluster of component assemblies designed specifically to charge batteries within electric vehicles, which meet or exceed any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(b) "Battery exchange station" means a fully automated facility that will enable an electric vehicle with a swappable battery to enter a drive lane and exchange the depleted battery with a fully charged battery through a fully automated process, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

(c) "Electric vehicle infrastructure" means structures, machinery, and equipment necessary and integral to support an electric vehicle, including battery charging stations, rapid charging stations, battery exchange stations, fueling stations that provide hydrogen for fuel cell electric vehicles, green electrolytic hydrogen production facilities, and renewable hydrogen production facilities.

(d) "Green electrolytic hydrogen" means hydrogen produced through electrolysis, and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

(e) "Rapid charging station" means an industrial grade electrical outlet that allows for faster recharging of electric vehicle batteries through higher power levels, which meets or exceeds any standards, codes, and regulations set forth by chapter 19.28 RCW and consistent with rules adopted under RCW 19.27.540.

((~~(e)~~)) (f) "Renewable hydrogen" means hydrogen produced using renewable resources both as the source for hydrogen and the source for energy input into the production process.

((~~(f)~~)) (g) "Renewable resource" means (i) water; (ii) wind; (iii) solar energy; (iv) geothermal energy; (v) renewable natural gas; (vi) renewable hydrogen; (vii) wave, ocean, or tidal power; (viii) biodiesel fuel that is not derived from crops raised on land cleared from old growth or first growth forests; or (ix) biomass energy.

(3) This section expires July 1, 2025.

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

(1) Beginning July 1, 2022, the tax levied under this chapter does not apply to sales of electricity made by a light and power business to a green electrolytic hydrogen production business, a renewable hydrogen production business, or a business compressing, liquifying, or dispensing green electrolytic hydrogen or renewable hydrogen, for 15 years from the date of commercial operation of the business, provided the commercial operation commences no later than July 1, 2032, and provided the contract for sale of electricity to the business contains the following terms:

(a) The electricity to be used in the green electrolytic hydrogen production process, the renewable hydrogen production process, or the compression, liquification, or dispensing of the green electrolytic hydrogen or renewable hydrogen is separately metered from the electricity used for general operations of the business; and

(b) The price charged for the electricity used in the green electrolytic hydrogen production process, the renewable hydrogen production process, or the compression, liquification, or dispensing of green electrolytic hydrogen or renewable hydrogen is reduced by an amount equal to the tax exemption available to the light and power business under this section.

(2) The exemption provided for in this section does not apply to amounts received from the remarketing or resale of electricity originally obtained by contract for the production of green electrolytic hydrogen, the production of renewable hydrogen, or the compression, liquification, or dispensing of green electrolytic hydrogen or renewable hydrogen.

(3) In order to claim an exemption under this section, a business engaged in the production of green electrolytic hydrogen, the production of renewable hydrogen, or the compression, liquification, or dispensing of green electrolytic hydrogen or renewable hydrogen must provide the light and power business with an exemption certificate in a form and manner prescribed by the department.

(4) A person receiving the benefit of the exemption provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.

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

(a) "Green electrolytic hydrogen" means hydrogen produced through electrolysis and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

(b) "Renewable hydrogen" means hydrogen produced using renewable resources both as the source for the hydrogen and the source for the energy input into the production process.

**Sec.**  RCW 54.04.190 and 2019 c 24 s 1 are each amended to read as follows:

(1) In addition to any other authority provided by law, public utility districts are authorized to produce and distribute biodiesel, ethanol, and ethanol blend fuels, including entering into crop purchase contracts for a dedicated energy crop for the purpose of generating electricity or producing biodiesel produced from Washington feedstocks, cellulosic ethanol, and cellulosic ethanol blend fuels for use in internal operations of the electric utility and for sale or distribution.

(2) In addition to any other authority provided by law:

(a) Public utility districts are authorized to produce renewable natural gas, green electrolytic hydrogen, and renewable hydrogen and utilize the renewable natural gas, green electrolytic hydrogen, or renewable hydrogen they produce for internal operations.

(b) Public utility districts may sell renewable natural gas, green electrolytic hydrogen, or renewable hydrogen that is delivered into a gas transmission pipeline located in the state of Washington or delivered in pressurized containers:

(i) At wholesale;

(ii) To an end-use customer; or

(iii) If delivered in a pressurized container, or if the end-use customer takes delivery of the renewable natural gas, green electrolytic hydrogen, or renewable hydrogen through a pipeline, and the end-use customer is an eligible purchaser of natural gas from sellers other than the gas company from which that end-use customer takes transportation service and:

(A) When the sale is made to an end-use customer in the state of Washington, the sale is made pursuant to a transportation tariff approved by the Washington utilities and transportation commission; or

(B) When the sale to an end-use customer is made outside of the state of Washington, the sale is made pursuant to a transportation tariff approved by the state agency which regulates retail sales of natural gas.

(c) Public utility districts may sell renewable natural gas, green electrolytic hydrogen, or renewable hydrogen at wholesale or to an end-use customer through a pipeline directly from renewable natural gas, green electrolytic hydrogen, or renewable hydrogen production facilities to facilities that compress, liquefy, or dispense compressed natural gas, liquefied natural gas, green electrolytic hydrogen, or renewable hydrogen fuel for end use as a transportation fuel.

(d) Public utility districts may sell green electrolytic hydrogen or renewable hydrogen at wholesale or to an end-use customer in pressurized containers directly from green electrolytic hydrogen or renewable hydrogen production facilities to facilities that utilize green electrolytic hydrogen or renewable hydrogen as a nonutility related input for a manufacturing process.

(3) Except as provided in subsection (2)(b)(iii) of this section, nothing in this section authorizes a public utility district to sell renewable natural gas, green electrolytic hydrogen, or renewable hydrogen delivered by pipeline to an end-use customer of a gas company.

(4)(a) Except as provided in this subsection (4), nothing in this section authorizes a public utility district to own or operate natural gas distribution pipeline systems used to serve retail customers.

(b) For the purposes of subsection (2)(b) of this section, public utility districts are authorized to own and operate interconnection pipelines that connect renewable natural gas, green electrolytic hydrogen, or renewable hydrogen production facilities to gas transmission pipelines.

(c) For the purposes of subsection (2)(c) of this section, public utility districts may own and/or operate pipelines to supply, and/or compressed natural gas, liquefied natural gas, green electrolytic hydrogen, or renewable hydrogen facilities to provide, renewable natural gas, green electrolytic hydrogen, or renewable hydrogen for end use as a transportation fuel if all such pipelines and facilities are located in the county in which the public utility district is authorized to provide utility service.

(5) Exercise of the authorities granted under this section to public utility districts does not subject them to the jurisdiction of the utilities and transportation commission, except that public utility districts are subject only to administration and enforcement by the commission of state and federal requirements related to pipeline safety and fees payable to the commission that are applicable to such administration and enforcement.

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

(a) "Green electrolytic hydrogen" means hydrogen produced through electrolysis, and does not include hydrogen manufactured using steam reforming or any other conversion technology that produces hydrogen from a fossil fuel feedstock.

(b) "Renewable natural gas" means a gas consisting largely of methane and other hydrocarbons derived from the decomposition of organic material in landfills, wastewater treatment facilities, and anaerobic digesters.

((~~(b)~~)) (c) "Renewable hydrogen" means hydrogen produced using renewable resources both as the source for the hydrogen and the source for the energy input into the production process.

((~~(c)~~)) (d) "Renewable resource" means: (i) Water; (ii) wind; (iii) solar energy; (iv) geothermal energy; (v) renewable natural gas; (vi) renewable hydrogen; (vii) wave, ocean, or tidal power; (viii) biodiesel fuel that is not derived from crops raised on land cleared from old growth or first growth forests; or (ix) biomass energy.

((~~(d)~~)) (e) "Gas company" has the same meaning as in RCW 80.04.010.

**Sec.**  RCW 35.92.050 and 2002 c 102 s 3 are each amended to read as follows:

A city or town may also construct, condemn and purchase, purchase, acquire, add to, alter, maintain, and operate works, plants, facilities for the purpose of furnishing the city or town and its inhabitants, and any other persons, with gas, electricity, green electrolytic hydrogen as defined in RCW 54.04.190, renewable hydrogen as defined in RCW 54.04.190, and other means of power and facilities for lighting, including streetlights as an integral utility service incorporated within general rates, heating, fuel, and power purposes, public and private, with full authority to regulate and control the use, distribution, and price thereof, together with the right to handle and sell or lease, any meters, lamps, motors, transformers, and equipment or accessories of any kind, necessary and convenient for the use, distribution, and sale thereof; authorize the construction of such plant or plants by others for the same purpose, and purchase gas, electricity, or power from either within or without the city or town for its own use and for the purpose of selling to its inhabitants and to other persons doing business within the city or town and regulate and control the use and price thereof.

NEW SECTION. **Sec.**  This section is the tax preference performance statement for the tax preference contained in section 4, chapter . . ., Laws of 2022 (section 4 of this act). The performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(1) The legislature categorizes the tax preference as one intended to induce certain designated behavior by taxpayers, as indicated in RCW 82.32.808(2)(a).

(2) It is the legislature's specific public policy objective to: Increase the use of clean alternative fuel vehicles; encourage the use of clean alternative fuels by reducing the cost of the production and dispensing of fuel for clean alternative fuel vehicles; promote the construction and operation of renewable hydrogen and green electrolytic hydrogen production and dispensing facilities in Washington; and provide tax treatment parity for electricity available to produce hydrogen from all of Washington's utilities serving the clean fuels markets, and tax treatment parity with the electricity used to charge and serve other storage technologies and transportation fuel markets. It is the legislature's intent to meet these public policy objectives by providing a public utility excise tax exemption on the sale of electricity used in the production of green electrolytic hydrogen, the production of renewable hydrogen, and the compression, liquification, and dispensing of green electrolytic hydrogen and renewable hydrogen, to reduce the average cost of electricity, which represents between 70 and 75 percent of the overall cost of operation of hydrogen electrolyzers and related infrastructure.

(3) To measure the effectiveness of the tax preferences in section 4, chapter . . ., Laws of 2022 (section 4 of this act) in achieving the public policy objectives described in subsection (2) of this section, the joint legislative audit and review committee must, using calendar year 2021 as the baseline, evaluate the annual volumetric quantity of renewable hydrogen and green electrolytic hydrogen produced in the state, as well as the annual percentage of hydrogen produced in the state that is either green electrolytic hydrogen or renewable hydrogen.

(4) In order to obtain the data necessary to perform the review in subsection (3) of this section, the department of revenue must provide data needed for the joint legislative audit and review committee analysis. In addition to the data source described under this subsection, the joint legislative audit and review committee may use any other data it deems necessary.

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