H-1438.1

SUBSTITUTE HOUSE BILL 1409

State of Washington 69th Legislature 2025 Regular Session

By House Environment & Energy (originally sponsored by Representatives Fitzgibbon, Doglio, Berry, Duerr, Parshley, Reed, Ormsby, Hill, and Macri)

READ FIRST TIME 02/20/25.

AN ACT Relating to the clean fuels program; amending RCW 70A.535.025, 70A.15.3150, 70A.15.3160, and 70A.535.130; reenacting and amending RCW 70A.535.010 and 43.21B.110; adding new sections to chapter 70A.535 RCW; and prescribing penalties.

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

6 Sec. 1. RCW 70A.535.025 and 2022 c 182 s 408 are each amended to 7 read as follows:

8 (1) The department shall adopt rules that establish standards 9 that reduce carbon intensity in transportation fuels used in 10 Washington. The standards established by the rules must be based on 11 the carbon intensity of gasoline and gasoline substitutes and the 12 carbon intensity of diesel and diesel substitutes. The standards:

(a) Must reduce the overall, aggregate carbon intensity oftransportation fuels used in Washington;

(b) May only require carbon intensity reductions at the aggregate level of all transportation fuels and may not require a reduction in carbon intensity to be achieved by any individual type of transportation fuel;

(c) Must assign a compliance obligation to fuels whose carbon intensity exceeds the standards adopted by the department, consistent with the requirements of RCW 70A.535.030; and

1 (d) Must assign credits that can be used to satisfy or offset 2 compliance obligations to fuels whose carbon intensity is below the 3 standards adopted by the department and that elect to participate in 4 the program, consistent with the requirements of RCW 70A.535.030.

5 (2) The clean fuels program adopted by the department must be 6 designed such that:

7 (a) Regulated parties generate deficits and may reconcile the
8 deficits, and thus comply with the clean fuels program standards for
9 a compliance period, by obtaining and retiring credits;

(b) Regulated parties and credit generators may generate creditsfor fuels used as substitutes or alternatives for gasoline or diesel;

12 (c) Regulated parties, credit generators, and credit aggregators13 shall have opportunities to trade credits; and

(d) Regulated parties shall be allowed to carry over to the nextcompliance period a small deficit without penalty.

16 (3) The department shall, throughout a compliance period, 17 regularly monitor the availability of fuels needed for compliance 18 with the clean fuels program.

(4) (a) Under the clean fuels program, the department shall monthly calculate the volume-weighted average price of credits and, no later than the last day of the month immediately following the month for which the calculation is completed, post the formula and the nonaggregated data the department used for the calculation and the results of the calculation on the department's website.

(b) In completing the calculation required by this subsection, the department may exclude from the data set credit transfers without a price or other credit transfers made for a price that falls two standard deviations outside of the mean credit price for the month. Data posted on the department's website under this section may not include any individually identifiable information or information that would constitute a trade secret.

32 (5)(((a) Except as provided in this section, the)) The rules 33 adopted under this section must reduce the greenhouse gas emissions 34 attributable to each unit of the fuels to ((20)) 55 percent below 35 2017 levels by ((2038)) no earlier than January 1, 2038, based on the 36 following schedule:

37 (((i))) (a) No more than 0.5 percent each year in 2023 and 2024; 38 (((ii))) (b) No more than an additional one percent each year 39 beginning in 2025 ((through 2027;

1 (iii) No more than an additional 1.5 percent each year beginning

2 in 2028 through 2031; and

3 (iv) No change in 2032 and 2033.

4 (b) The rules must establish a start date for the clean fuels 5 program of no later than January 1, 2023.

6 (6) Beginning with the program year beginning in calendar year 7 2028, the department may not increase the carbon intensity reductions 8 required by the applicable clean fuels program standard adopted by 9 the department under subsection (5) of this section beyond a 10 10 percent reduction in carbon intensity until the department 11 demonstrates that the following have occurred:

12 (a) At least a 15 percent net increase in the volume of in-state 13 liquid biofuel production and the use of feedstocks grown or produced 14 within the state relative to the start of the program; and

15 (b) At least one new or expanded biofuel production facility representing an increase in production capacity or producing, in 16 total, in excess of 60,000,000 gallons of biofuels per year has or 17 have received after July 1, 2021, all necessary siting, operating, 18 and environmental permits post all timely and applicable appeals. As 19 part of the threshold of 60,000,000 gallons of biofuel under this 20 subsection, at least one new facility producing at least 10,000,000 21 gallons per year must have received all necessary siting, operating, 22 and environmental permits. Timely and applicable appeals must be 23 24 determined by the attorney general's office.

25 (7) Beginning with the program year beginning in calendar year
26 2031, the department may not increase the carbon intensity reductions
27 required by the applicable clean fuels program standard adopted by
28 the department under subsection (5) of this section beyond a 10
29 percent reduction in carbon intensity until the:

30 (a) Joint legislative audit and review committee report required 31 in RCW 70A.535.140 has been completed; and

32 (b) 2033 regular legislative session has adjourned, in order to 33 allow an opportunity for the legislature to amend the requirements of 34 this chapter in light of the report required in (a) of this 35 subsection.

36 (8)) and on January 1, 2026;

37 (c) No more than an additional eight percent beginning on January 38 <u>1, 2027; and</u>

39 (d) No more than an additional four percent each year beginning
 40 January 1, 2028, through January 1, 2038.

1 <u>(6)</u> Transportation fuels exported from Washington are not subject 2 to the greenhouse gas emissions reduction requirements in this 3 section.

4 (((9))) <u>(7)</u> To the extent the requirements of this chapter 5 conflict with the requirements of chapter 19.112 RCW, the 6 requirements of this chapter prevail.

NEW SECTION. Sec. 2. A new section is added to chapter 70A.535
RCW to read as follows:

9 (1)(a) All regulated parties and credit generators are required 10 to submit reports under RCW 70A.535.070 in a timely manner to meet 11 the entities' compliance obligations and shall comply with all 12 requirements for recordkeeping, reporting, transacting credits, 13 obtaining a carbon intensity calculation, and other provisions of 14 this chapter.

15 (b) The department may issue a corrective action order to a 16 person that does not comply with a requirement of this chapter.

(2) Each deficit for which a registered party does not retire a corresponding credit at the end of a compliance period constitutes a separate violation of this chapter unless that registered party participates in the credit clearance market as required under RCW 70A.535.030(8). For each violation, the department may issue a penalty of up to four times the maximum posted price of the most recent credit clearance market.

24 (3) The department may issue a penalty for any misreporting by a party that results in the claim of credits that does not meet the 25 requirements of this chapter or the failure to report a deficit. The 26 27 penalty issued under this subsection may be up to \$1,000 per credit or deficit in violation of the requirements of this chapter. A 28 registered party may not be penalized under this subsection if any 29 30 misreporting in a quarterly report is corrected by the end of that 31 quarter's reporting period.

32 (4) The department may issue a penalty of up to \$10,000 per day 33 each day a registered party does not submit a report under RCW 34 70A.535.070 by the reporting deadline.

(5) The department may issue a penalty for credits generated in exceedance of a carbon intensity standard adopted by the department for that year of up to \$1,000 per credit for each illegitimate credit generated as a result of the incorrect carbon intensity score.

1 (6) The department may issue a penalty of up to \$25,000 per month 2 that a regulated party is not registered with the department in 3 violation of RCW 70A.535.070.

4 (7) The department may issue to any participating electric
5 utility a penalty of up to four times the credit revenue improperly
6 spent in violation of RCW 70A.535.080 or rules adopted to implement
7 that section.

8 (8) The department may issue a penalty of up to \$50,000 or 9 \$10,000 per day for a violation of the third-party verification 10 requirements adopted by the department under RCW 70A.535.030(3)(c) 11 for as long as the registered party remains out of compliance with 12 these requirements.

(9) For violations other than those described in subsections (2) through (8) of this section, the department may issue a penalty of up to \$10,000 per day per violation for each day any registered party violates the terms of this chapter or an order issued under this chapter.

18 (10) An electric utility must notify its retail customers in 19 published form within three months of paying a monetary penalty under 20 this section.

(11) Penalties and orders issued under this section may be appealed to the pollution control hearings board created in chapter 43.21B.RCW. Penalties collected under this chapter must be deposited in the carbon emissions reduction account created in RCW 70A.65.240.

25 <u>NEW SECTION.</u> Sec. 3. A new section is added to chapter 70A.535
26 RCW to read as follows:

(1) The department shall provide analysis and forecasts of thecredit markets created by this chapter, including:

29 (a) The prices of credits;

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(b) Trends in credit supply and demand and prices;

31 (c) Activities in the credit markets, categorized by type of 32 registered party;

33 (d) The share of deficits generated by various categories of 34 registered parties, and the share of credits generated by various 35 categories of registered parties; and

36 (e) Trends in in-state biofuel feedstock production types and 37 volumes. 1 (2) The department must consider the analysis in subsection (1) 2 of this section in adopting rules and otherwise implementing the 3 requirements of this chapter.

4 Sec. 4. RCW 70A.535.010 and 2023 c 232 s 2 are each reenacted 5 and amended to read as follows:

6 The definitions in this section apply throughout this chapter 7 unless the context clearly indicates otherwise.

8 (1) "Alternative jet fuel" means a fuel that can be blended and 9 used with conventional petroleum jet fuels without the need to modify 10 aircraft engines and existing fuel distribution infrastructure, and 11 that have a lower carbon intensity than the applicable annual carbon 12 intensity standard in Table 2 of WAC 173-424-900, as it existed on 13 July 1, 2023. Alternative jet fuel includes jet fuels derived from 14 coprocessed feedstocks at a conventional petroleum refinery.

15 (2) "Carbon dioxide equivalents" has the same meaning as defined 16 in RCW 70A.45.010.

17 (3) "Carbon intensity" means the quantity of life-cycle 18 greenhouse gas emissions, per unit of fuel energy, expressed in grams 19 of carbon dioxide equivalent per megajoule (gCO2e/MJ).

20 (4) "Clean fuels program" means the requirements established 21 under this chapter.

(5) "Cost" means an expense connected to the manufacture, distribution, or other aspects of the provision of a transportation fuel product.

25 (6) "Credit" means a unit of measure generated when а transportation fuel with a carbon intensity that is less than the 26 27 applicable standard adopted by the department under RCW 70A.535.025 28 is produced, imported, or dispensed for use in Washington, such that one credit is equal to one metric ton of carbon dioxide equivalents. 29 30 A credit may also be generated through other activities consistent 31 with this chapter.

32 (7) "Deficit" means a unit of measure generated when a 33 transportation fuel with a carbon intensity that is greater than the 34 applicable standard adopted by the department under RCW 70A.535.025 35 is produced, imported, or dispensed for use in Washington, such that 36 one deficit is equal to one metric ton of carbon dioxide equivalents.

(8) "Department" means the department of ecology.

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(9) "Electric utility" means a consumer-owned utility or
 investor-owned utility, as those terms are defined in RCW 19.29A.010.

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1 (10) "Greenhouse gas" has the same meaning as defined in RCW 2 70A.45.010.

3 (11) "Military tactical vehicle" means a motor vehicle owned by 4 the United States department of defense or the United States military 5 services and that is used in combat, combat support, combat service 6 support, tactical or relief operations, or training for such 7 operations.

8 (12) "Motor vehicle" has the same meaning as defined in RCW 9 46.04.320.

10 (13) "Price" means the amount of payment or compensation provided 11 as consideration for a specified quantity of transportation fuel by a 12 consumer or end user of the transportation fuel.

13 ((((14))) "Registered party" means a regulated party or credit 14 generator registered under RCW 70A.535.070.

15 <u>(15)</u> "Regulated party" means a producer or importer of any amount 16 of a transportation fuel that is ineligible to generate credits under 17 this chapter.

18 (((15))) (16)(a) "Tactical support equipment" means equipment 19 using a portable engine, including turbines, that meets military 20 specifications, owned by the United States military services or its 21 allies, and that is used in combat, combat support, combat service 22 support, tactical or relief operations, or training for such 23 operations.

(b) "Tactical support equipment" includes, but is not limited to,
 engines associated with portable generators, aircraft start carts,
 heaters, and lighting carts.

27 (((16))) <u>(17)</u> "Transportation fuel" means electricity and any 28 liquid or gaseous fuel sold, supplied, offered for sale, or used for 29 the propulsion of a motor vehicle or that is intended for use for 30 transportation purposes.

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 Sec. 5.
 RCW 43.21B.110 and 2024 c 347 s 5, 2024 c 340 s 4, and

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 2024 c 339 s 16 are each reenacted and amended to read as follows:

(1) The hearings board shall only have jurisdiction to hear and decide appeals from the following decisions of the department, the director, local conservation districts, the air pollution control boards or authorities as established pursuant to chapter 70A.15 RCW, local health departments, the department of natural resources, the department of fish and wildlife, the parks and recreation commission, and authorized public entities described in chapter 79.100 RCW:

1 (a) Civil penalties imposed pursuant to chapter 70A.230 RCW and RCW 18.104.155, 70A.15.3160, 70A.300.090, 70A.20.050, 70A.230.020, 2 70A.205.280, 70A.355.070, 70A.430.070, 70A.500.260, 70A.505.100, 3 70A.505.110, 70A.530.040, 70A.350.070, 70A.515.060, 70A.245.040, 4 70A.245.050, 70A.245.070, 70A.245.080, 70A.245.130, 70A.245.140, 5 70A.65.200, 70A.455.090, section 2 of this act, 70A.550.030, 6 70A.555.110, 70A.560.020, 70A.565.030, 76.09.170, 7 77.55.440, 78.44.250, 88.46.090, 90.03.600, 90.46.270, 90.48.144, 90.56.310, 8 90.56.330, and 90.64.102. 9

(b) Orders issued pursuant to RCW 18.104.043, 18.104.060,
18.104.130, 43.27A.190, 70A.15.2520, 70A.15.3010, 70A.15.4530,
70A.15.6010, 70A.205.280, 70A.214.140, 70A.300.120, 70A.350.070,
70A.245.020, 70A.65.200, section 2 of this act, 70A.505.100,
70A.555.110, 70A.560.020, 70A.565.030, 86.16.020, 88.46.070,
90.03.665, 90.14.130, 90.46.250, 90.48.120, 90.48.240, 90.56.330, and
90.64.040.

17 (c) Except as provided in RCW 90.03.210(2), the issuance, modification, or termination of any permit, certificate, or license 18 by the department or any air authority in the exercise of its 19 jurisdiction, including the issuance or termination of a waste 20 21 disposal permit, the denial of an application for a waste disposal permit, the modification of the conditions or the terms of a waste 22 23 disposal permit, a decision to approve or deny a solid waste management plan under RCW 70A.205.055, approval or denial of an 24 25 application for a beneficial use determination under RCW 70A.205.260, an application for a change under RCW 90.03.383, or a permit to 26 27 distribute reclaimed water under RCW 90.46.220.

(d) Decisions of local health departments regarding the granting
 or denial of solid waste permits pursuant to chapter 70A.205 RCW,
 including appeals by the department as provided in RCW 70A.205.130.

31 (e) Decisions of local health departments regarding the issuance 32 and enforcement of permits to use or dispose of biosolids under RCW 33 70A.226.090.

34 (f) Decisions of the department regarding waste-derived 35 fertilizer or micronutrient fertilizer under RCW 15.54.820.

36 (g) Decisions of local conservation districts related to the 37 denial of approval or denial of certification of a dairy nutrient 38 management plan; conditions contained in a plan; application of any 39 dairy nutrient management practices, standards, methods, and 40 technologies to a particular dairy farm; and failure to adhere to the

1 plan review and approval timelines in RCW 90.64.026 as provided in 2 RCW 90.64.028.

3 (h) Any other decision by the department or an air authority 4 which pursuant to law must be decided as an adjudicative proceeding 5 under chapter 34.05 RCW.

6 (i) Decisions of the department of natural resources, the 7 department of fish and wildlife, and the department that are 8 reviewable under chapter 76.09 RCW, and the department of natural 9 resources' appeals of county, city, or town objections under RCW 10 76.09.050(7).

(j) Forest health hazard orders issued by the commissioner of public lands under RCW 76.06.180.

(k) Decisions of the department of fish and wildlife to issue, deny, condition, or modify a hydraulic project approval permit under chapter 77.55 RCW, to issue a stop work order, to issue a notice to comply, to issue a civil penalty, or to issue a notice of intent to disapprove applications.

18 (1) Decisions of the department of natural resources that are 19 reviewable under RCW 78.44.270.

20 (m) Decisions of an authorized public entity under RCW 79.100.010 21 to take temporary possession or custody of a vessel or to contest the 22 amount of reimbursement owed that are reviewable by the hearings 23 board under RCW 79.100.120.

(n) Decisions of the department of ecology that are appealable under RCW 70A.245.020 to set recycled minimum postconsumer content for covered products or to temporarily exclude types of covered products in plastic containers from minimum postconsumer recycled content requirements.

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(o) Orders by the department of ecology under RCW 70A.455.080.

30 (2) The following hearings shall not be conducted by the hearings 31 board:

(a) Hearings required by law to be conducted by the shorelines
 hearings board pursuant to chapter 90.58 RCW, except where appeals to
 the pollution control hearings board and appeals to the shorelines
 hearings board have been consolidated pursuant to RCW 43.21B.340.

36 (b) Hearings conducted by the department pursuant to RCW 37 70A.15.3010, 70A.15.3070, 70A.15.3080, 70A.15.3090, 70A.15.3100, 38 70A.15.3110, and 90.44.180.

39 (c) Appeals of decisions by the department under RCW 90.03.110 40 and 90.44.220.

(d) Hearings conducted by the department to adopt, modify, or
 repeal rules.

3 (3) Review of rules and regulations adopted by the hearings board 4 shall be subject to review in accordance with the provisions of the 5 administrative procedure act, chapter 34.05 RCW.

6 Sec. 6. RCW 70A.15.3150 and 2023 c 470 s 1017 are each amended 7 to read as follows:

8 (1) Any person who knowingly violates any of the provisions of 9 this chapter, chapter $70A.25((\tau))$ or $70A.60((\tau - or - 70A.535))$ RCW, or 10 any ordinance, resolution, or regulation in force pursuant thereto is 11 guilty of a gross misdemeanor and upon conviction thereof shall be 12 punished by a fine of not more than ((ten thousand dollars)) \$10,000, 13 or by imprisonment in the county jail for up to ((three hundred 14 sixty-four)) <u>364</u> days, or by both for each separate violation.

15 (2) Any person who negligently releases into the ambient air any substance listed by the department of ecology as a hazardous air 16 17 pollutant, other than in compliance with the terms of an applicable permit or emission limit, and who at the time negligently places 18 another person in imminent danger of death or substantial bodily harm 19 20 is guilty of a gross misdemeanor and shall, upon conviction, be punished by a fine of not more than ((ten thousand dollars)) \$10,000, 21 or by imprisonment for up to ((three hundred sixty-four)) 364 days, 22 23 or both.

24 (3) Any person who knowingly releases into the ambient air any 25 substance listed by the department of ecology as a hazardous air pollutant, other than in compliance with the terms of an applicable 26 27 permit or emission limit, and who knows at the time that he or she thereby places another person in imminent danger of death or 28 substantial bodily harm, is guilty of a class C felony and shall, 29 30 upon conviction, be punished by a fine of not less than ((fifty thousand dollars)) \$50,000, or by imprisonment for not more than five 31 years, or both. 32

33 (4) Any person who knowingly fails to disclose a potential 34 conflict of interest under RCW 70A.15.2000 is guilty of a gross 35 misdemeanor, and upon conviction thereof shall be punished by a fine 36 of not more than ((five thousand dollars)) \$5,000.

37 Sec. 7. RCW 70A.15.3160 and 2022 c 179 s 15 are each amended to 38 read as follows:

1 (1) (a) Except as provided in RCW 43.05.060 through 43.05.080 and 43.05.150, and in addition to or as an alternate to any other penalty 2 provided by law, any person who violates any of the provisions of 3 this chapter, chapter 70A.25, 70A.60, 70A.450, ((70A.535,)) 4 or 70A.540 RCW, RCW 76.04.205, or any of the rules in force under such 5 6 chapters or section may incur a civil penalty in an amount not to exceed ((ten thousand dollars)) \$10,000 per day for each violation. 7 Each such violation shall be a separate and distinct offense, and in 8 case of a continuing violation, each day's continuance shall be a 9 separate and distinct violation. Enforcement actions related to 10 violations of RCW 76.04.205 must be consistent with the provisions of 11 12 RCW 76.04.205.

(b) Any person who fails to take action as specified by an order issued pursuant to this chapter shall be liable for a civil penalty of not more than ((ten thousand dollars)) <u>\$10,000</u> for each day of continued noncompliance.

(2) (a) Penalties incurred but not paid shall accrue interest, beginning on the ninety-first day following the date that the penalty becomes due and payable, at the highest rate allowed by RCW 19.52.020 on the date that the penalty becomes due and payable. If violations or penalties are appealed, interest shall not begin to accrue until the thirty-first day following final resolution of the appeal.

(b) The maximum penalty amounts established in this section may be increased annually to account for inflation as determined by the state office of the economic and revenue forecast council.

(3) Each act of commission or omission which procures, aids or abets in the violation shall be considered a violation under the provisions of this section and subject to the same penalty. The penalties provided in this section shall be imposed pursuant to RCW 43.21B.300.

31 (4) (a) Except as provided in (b) of this subsection, all 32 penalties recovered under this section by the department or the department of natural resources shall be paid into the state treasury 33 and credited to the air pollution control account established in RCW 34 70A.15.1010 or, if recovered by the authority, shall be paid into the 35 36 treasury of the authority and credited to its funds. If a prior penalty for the same violation has been paid to a local authority, 37 the penalty imposed by the department under subsection (1) of this 38 39 section shall be reduced by the amount of the payment.

(b) All penalties recovered for violations of chapter 70A.60 RCW
 must be paid into the state treasury and credited to the refrigerant
 emission management account created in RCW 70A.60.050.

4 (5) To secure the penalty incurred under this section, the state
5 or the authority shall have a lien on any vessel used or operated in
6 violation of this chapter which shall be enforced as provided in RCW
7 60.36.050.

8 (6) Public or private entities that are recipients or potential 9 recipients of department grants, whether for air quality related 10 activities or not, may have such grants rescinded or withheld by the 11 department for failure to comply with provisions of this chapter.

12 (7) In addition to other penalties provided by this chapter, 13 persons knowingly underreporting emissions or other information used 14 to set fees, or persons required to pay emission or permit fees who 15 are more than ninety days late with such payments may be subject to a 16 penalty equal to three times the amount of the original fee owed.

17 (8) The department shall develop rules for excusing excess 18 emissions from enforcement action if such excess emissions are 19 unavoidable. The rules shall specify the criteria and procedures for 20 the department and local air authorities to determine whether a 21 period of excess emissions is excusable in accordance with the state 22 implementation plan.

23 Sec. 8. RCW 70A.535.130 and 2021 c 317 s 14 are each amended to 24 read as follows:

25 (1) The department may require that persons that are required or elect to register or report under this chapter pay a fee. If the 26 27 department elects to require program participants to pay a fee, the department must, after an opportunity for public review and comment, 28 adopt rules to establish a process to determine the payment schedule 29 30 and the amount of the fee charged. The amount of the fee must be set 31 so as to equal but not exceed the projected direct and indirect costs to the department for developing and implementing the program and the 32 projected direct and indirect costs to the department of commerce to 33 carry out its responsibilities under RCW 70A.535.100. The department 34 35 and the department of commerce must prepare a biennial workload analysis and provide an opportunity for public review of and comment 36 the workload analysis. The department 37 shall enter into on an 38 interagency agreement with the department of commerce to implement this section. 39

1 (2) The clean fuels program account is created in the state 2 treasury. All receipts from fees ((and penalties)) received under the 3 program created in this chapter must be deposited into the account. 4 Moneys in the account may be spent only after appropriation. The 5 department may only use expenditures from the account for carrying 6 out the program created in this chapter.

7 (3) All rule making authorized under chapter 317, Laws of 2021
8 must be conducted according to the standards for significant
9 legislative rules provided in RCW 34.05.328.

10 <u>NEW SECTION.</u> Sec. 9. If any provision of this act or its 11 application to any person or circumstance is held invalid, the 12 remainder of the act or the application of the provision to other 13 persons or circumstances is not affected.

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