Proposed Second Substitute House Bill 1314

Original Bill: Relating to a carbon pollution market program to reduce greenhouse gas emissions.

Proposed substitute bill (staff draft circulated on May 6, 2015) compared to the Substitute House Bill 1314:

- Specifies that the Department of Commerce must establish an emissions assumption for electricity imported from unspecified out-of-state generation sources that is based on the estimated rate of emissions from an average combined-cycle natural gas power plant as of January 1, 2015.

- Clarifies that the compliance obligation of refinery facilities is based on facility process emissions and the emissions associated with fuels supplied for both in-state and out-of-state use.

- Directs the Department of Ecology to adopt rules to identify first jurisdictional deliverers of electricity for imported electricity in a manner similar to and consistent with systems in other jurisdictions with carbon market programs and that use established electricity market tracking mechanisms.

- Eliminates the business & occupation tax credit to energy-intense and trade-exposed industries for half of their program compliance costs, and instead establishes a rebate for their full program compliance costs through the end of 2020 and a rebate of 80 percent of their program compliance costs through the end of 2026, as determined by multiplying the average allowance auction clearance price by the compliance obligations of the each qualifying entity.

- Specifies that, at minimum, the Department of Commerce must identify the following as energy intense and trade-exposed industries that are eligible for rebates: Primary metal manufacturing, paper manufacturing, wood products manufacturing, non-metallic mineral manufacturing, chemical manufacturing, computer and electronic product manufacturing, and food manufacturing.

- Establishes a rebate of 75 percent of refinery facility and fuel supplier program compliance costs of that are associated with the use of fuel they supply for use in Washington, but without rebating costs associated with those entities' process emissions or the emissions associated with the combustion of fuel they supply that is used out of state.

- Requires fuel suppliers and refinery facilities to provide certain information to the Department of Ecology and fuel purchasers regarding the effect of the program and rebates on fuel prices, and prohibits fuel suppliers and refinery facilities from receiving rebates for any fuel for which purchasers are charged a fee or surcharge associated with the program.

Committee: *House Appropriations Committee*
Staff: *Jacob Lipson (786-7196), Office of Program Research*
Date: *May 6, 2015*
Draft: *Staff Draft Circulated May 6, 2015*

- Creates a working forests and local mills economic program that provides payments to certain forest landowners that deliver timber to mills registered in the program with the Department of Natural Resources and that pay state business and occupation tax or are located on tribal lands in Washington.
    - Establishes a payment rate of no less than 4.5 cents per board foot of timber delivered by landowners to registered mills, with the rate adjusted in future years by the Department of Natural Resources based on appropriations to the program and harvest volumes.
    - Requires that large forest landowners maintain 80 percent of their forestland in each county open for public recreational access at a cost of no more than fifty dollars per family or vehicle per year.
    - Provides that if a forest harvest area for which a per-boardfoot payment has been received is closed to recreational access within twenty years of the payment date, the landowner or its successor must reimburse the Department of Natural Resources.

- Creates a business and occupation tax credit of $10,000 per employee that mills hire beyond baseline employment assumptions. Credits may be carried over to subsequent years until used. New employees must be assigned for two calendar quarters before credit is claimed, and mills are barred from claiming credits for a year if a credited employee is subsequently discharged without cause. **¢**

- Creates a public utility tax credit of three cents per gallon of gas, diesel, or special fuel purchased by bulk transporters of logs or agricultural products. Credits may be carried over for up to two years.

- Moves the geospatial work by the Department of Ecology from the Office of the Governor to a task force under the Interagency Council on Health Disparities, and expands the scope of communities identified from those subject to disproportionate climate, carbon pollution, and program impacts to those communities affected by cumulative environmental hazard impacts or that face economic or social disparities, including adverse impacts from the program.

- <u>Makes the following changes to the allocations of program revenues in the Carbon Pollution Reduction Account:</u>
    - Eliminates the allocations of program revenue to transportation projects, the business and occupation tax credit for energy intense and trade-exposed industries, and to the Department of Commerce for economic assistance to rural Washington businesses.
    - Increases the program revenue allocated to education from $380 million per year to $500 million per year.
    - Allocates program revenues to rebates for energy intense trade-exposed industries, fuel suppliers and refinery facilities.
    - Allocates program revenues to establish and implement the working forests and local mills support program that provides payments to certain forest landowners based on the boardfeet of timber they deliver to registered Washington mills.
    - Beginning in the 2017-2019 biennium, allocates up to $70 million per year to address cumulative environmental hazard impacts and social and economic disparities in

communities identified by the cumulative impacts taskforce that is to be formed under the Interagency Council on Health Disparities.

- Makes the following operating budget appropriations for the 2015-2017 biennium:

  - $390 million of total program revenues to the Department of Ecology, including $5 million from the Carbon Pollution Reduction Account for program implementation, for identifying highly impacted communities, and for rebates to energy-intense and trade-exposed industries, fuel suppliers, and refinery facilities.
  - $142 million in total to the Department of Revenue, including $35 million from the carbon pollution reduction account and $107 million from the general fund to implement the program, including the working families tax credit, the public utilities tax credit for bulk log and agricultural product transporters, and the mill employment business and occupation tax credit.
  - $177 million in total to the Department of Natural Resources to implement the program, to establish and implement the working forest and local mills support program, for emergency fire suppression, and for the forests and fish adaptive management program.
  - Slightly less than $2 million in total to the University of Washington and Washington State University for their costs associated with the program.
  - Between $400,000 and $600,000 to the Attorney General's Office, the Department of Commerce, and the Department of Health for costs associated with the program.
  - Makes a transfer of $15 million from the Carbon Pollution Reduction Account to the Housing Trust Fund.

- Makes the following capital budget appropriations for the 2015-2017 biennium:

  - State Conservation Commission:
    - $3.8 million for the voluntary stewardship program; and
    - $1.3 million for the conservation reserve enhancement program for the state match for riparian cost sharing.
  - Department of Natural Resources:
    - $10 million for forest hazard reduction treatments on state or private lands;
    - $7.6 million for the forest riparian easement program, including an assessment of that program's effectiveness; and
    - $30 million for trust land property and lease transfers based on a list to be compiled by January 31, 2016, that prioritizes parcels using carbon sequestration, habitat, connectivity, and water quality metrics;
  - Recreation and Conservation Commission/Funding Board:
    - $8.2 million for the coastal restoration initiative; and
    - $6.5 million for the family forest fish passage program, including a study of fish passage barrier removal needs that prioritizes climate adaptation, and that estimates future funding needs.
