E2SHB 1303 - S COMM AMD
By Committee on Ways & Means

NOT ADOPTED 04/13/2007

Strike everything after the enacting clause and insert the following:

"NEW SECTION. **Sec. 1.** (1) The legislature finds that excessive dependence on fossil fuels jeopardizes Washington's economic security, environmental integrity, and public health. Accelerated development and use of clean fuels and clean vehicle technologies will reduce the drain on Washington's economy from importing fossil fuels. As fossil fuel prices rise, clean fuels and vehicles can save consumers money while promoting the development of a major, sustainable industry that provides good jobs and a new source of rural prosperity. In addition, clean fuels and vehicles protect public health by reducing toxic air and climate change emissions.

(2) The legislature also finds that climate change is expected to have significant impacts in the Pacific Northwest region in the near and long-term future. These impacts include: Increased temperatures, declining snowpack, more frequent heavy rainfall and flooding, receding glaciers, rising sea levels, increased risks to public health due to insect and rodent-borne diseases, declining salmon populations, and increased drought and risk of forest fires. The legislature recognizes the need at this time to continue to gather and analyze information related to climate protection. This analysis will allow prudent steps to be taken to avoid, mitigate, or respond to climate impacts and protect our communities.

(3) Finally, the legislature finds that to reduce fossil fuel dependence, build our clean energy economy, and reduce climate impacts, the state should develop policies and incentives that help businesses, consumers, and farmers gain greater access to affordable clean fuels and vehicles and to produce clean fuels in the state. These policies and incentives should include: Incentives for replacement of the most polluting diesel engines, especially in school buses; transitional

incentives for development of the most promising in-state clean fuels and fuel feedstocks, including biodiesel crops, ethanol from plant waste, and liquid natural gas from landfill or wastewater treatment gases; reduced fossil fuel consumption by state fleets; development of promising new technologies for displacing petroleum with electricity, such as "plug-in hybrids"; and impact analysis and emission accounting procedures that prepare Washington to respond and prosper as climate change impacts occur, and as policies and markets to reduce climate pollution are developed.

PART 1
INVESTING IN CLEAN AIR

NEW SECTION. **Sec. 101.** A new section is added to chapter 28A.300 RCW to read as follows:

(1) The office of the superintendent of public instruction shall implement a school bus replacement incentive program. As part of the program, the office shall fund up to ten percent of the cost of a new 2007 or later model year school bus that meets the 2007 federal motor vehicle emission control standards and is purchased by a school district by no later than June 30, 2009, provided that the new bus is replacing a 1994 or older school bus in the school district's fleet. Replacement of the oldest buses must be given highest priority.

(2) The office of the superintendent of public instruction shall ensure that buses being replaced through this program are surplused under RCW 28A.335.180. As part of the surplus process, school districts must provide written documentation to the office of the superintendent of public instruction demonstrating that buses being replaced are scrapped and not purchased for road use. The documentation must include bus make, model, year, vehicle identification number, engine make, engine serial number, and salvage yard receipts; and must demonstrate that the engine and body of the bus being replaced has been rendered unusable.

(3) The office of the superintendent of public instruction may adopt any rules necessary for the implementation of this act.

Sec. 102. RCW 70.94.017 and 2005 c 295 s 5 are each amended to read as follows:

(1) Money deposited in the segregated subaccount of the air pollution control account under RCW 46.68.020(2) shall be distributed as follows:

(a) Eighty-five percent shall be distributed to air pollution control authorities created under this chapter. The money must be distributed in direct proportion with the amount of fees imposed under RCW 46.12.080, 46.12.170, and 46.12.181 that are collected within the boundaries of each authority. However, an amount in direct proportion with those fees collected in counties for which no air pollution control authority exists must be distributed to the department.

(b) The remaining fifteen percent shall be distributed to the department.

(2) Money distributed to air pollution control authorities and the department under subsection (1) of this section must be used as follows:

(a) Eighty-five percent of the money received by an air pollution control authority or the department is available on a priority basis to retrofit school buses with exhaust emission control devices or to provide funding for fueling infrastructure necessary to allow school bus fleets to use alternative, cleaner fuels. In addition, the director of ecology or the air pollution control officer may direct funding under this section for other publicly or privately owned diesel equipment if the director of ecology or the air pollution control officer finds that funding for other publicly or privately owned diesel equipment will provide public health benefits and further the purposes of this chapter.

(b) The remaining fifteen percent may be used by the air pollution control authority or department to reduce transportation-related air contaminant emissions and clean up air pollution, or reduce and monitor toxic air contaminants.

(3) Money in the air pollution control account may be spent by the department only after appropriation.

(4) This section expires July 1, 2020.

Sec. 103. RCW 53.08.040 and 1989 c 298 s 1 are each amended to read as follows:

(1) A district may improve its lands by dredging, filling, bulkheading, providing waterways or otherwise developing such lands for

industrial and commercial purposes. A district may also acquire, construct, install, improve, and operate sewer and water utilities to serve its own property and other property owners under terms, conditions, and rates to be fixed and approved by the port commission. A district may also acquire, by purchase, construction, lease, or in any other manner, and may maintain and operate other facilities for the control or elimination of air, water, or other pollution, including, but not limited to, facilities for the treatment and/or disposal of industrial wastes, and may make such facilities available to others under terms, conditions and rates to be fixed and approved by the port commission. Such conditions and rates shall be sufficient to reimburse the port for all costs, including reasonable amortization of capital outlays caused by or incidental to providing such other pollution control facilities((~~: PROVIDED, That~~)). However, no part of such costs of providing any pollution control facility to others shall be paid out of any tax revenues of the port((~~: AND PROVIDED FURTHER, That~~)) and no port shall enter into an agreement or contract to provide sewer and/or water utilities or pollution control facilities if substantially similar utilities or facilities are available from another source (or sources) which is able and willing to provide such utilities or facilities on a reasonable and nondiscriminatory basis unless such other source (or sources) consents thereto.

(2) In the event that a port elects to make such other pollution control facilities available to others, it shall do so by lease, lease purchase agreement, or other agreement binding such user to pay for the use of said facilities for the full term of the revenue bonds issued by the port for the acquisition of said facilities, and said payments shall at least fully reimburse the port for all principal and interest paid by it on said bonds and for all operating or other costs, if any, incurred by the port in connection with said facilities((~~: PROVIDED,~~)). However, ((~~That~~)) where there is more than one user of any such facilities, each user shall be responsible for its pro rata share of such costs and payment of principal and interest. Any port intending to provide pollution control facilities to others shall first survey the port district to ascertain the potential users of such facilities and the extent of their needs. The port shall conduct a public hearing upon the proposal and shall give each potential user an

opportunity to participate in the use of such facilities upon equal terms and conditions.

(3) "Pollution control facility," as used in this section and RCW 53.08.041, does not include air quality improvement equipment that provides emission reductions for engines, vehicles, and vessels.

PART 2
PUBLIC SECTOR FUEL USE

Sec. 201. RCW 43.19.642 and 2006 c 338 s 10 are each amended to read as follows:

(1) ((~~All state agencies are encouraged to use a fuel blend of twenty percent biodiesel and eighty percent petroleum diesel for use in diesel-powered vehicles and equipment.~~

~~(2)~~)) Effective June 1, 2006, for agencies complying with the ultra- low sulfur diesel mandate of the United States environmental protection agency for on-highway diesel fuel, agencies shall use biodiesel as an additive to ultra-low sulfur diesel for lubricity, provided that the use of a lubricity additive is warranted and that the use of biodiesel is comparable in performance and cost with other available lubricity additives. The amount of biodiesel added to the ultra-low sulfur diesel fuel shall be not less than two percent.

((~~(3)~~)) (2) Effective June 1, 2009, state agencies are required to use a minimum of twenty percent biodiesel as compared to total volume of all diesel purchases made by the agencies for the operation of the agencies' diesel-powered vessels, vehicles, and construction equipment.

((~~(4)~~)) (3) All state agencies using biodiesel fuel shall, beginning on July 1, 2006, file ((~~quarterly~~)) biannual reports with the department of general administration documenting the use of the fuel and a description of how any problems encountered were resolved.

NEW SECTION. **Sec. 202.** A new section is added to chapter 43.19 RCW to read as follows:

(1) Effective June 1, 2015, all state agencies and local government subdivisions of the state, to the extent determined practicable by the rules adopted by the department of community, trade, and economic development pursuant to section 204 of this act, are required to

satisfy one hundred percent of their fuel usage for operating publicly owned vessels, vehicles, and construction equipment from electricity or biofuel.

(2) By no later than January 1, 2020, the annual fossil fuel usage by the state must be at least twenty-five percent below the annual usage for the year 2006.

(3) Except for cars owned or operated by the Washington state patrol, when tires on vehicles in the state's motor vehicle fleet are replaced, they must be replaced with tires that have the same or better rolling resistance as the original tires.

NEW SECTION. **Sec. 203.** A new section is added to chapter 43.19 RCW to read as follows:

(1) In order to allow the motor vehicle fuel needs of state and local government to be satisfied by Washington-produced biofuels as provided in RCW 43.19.642, the department of general administration as well as local governments may contract in advance and execute contracts with public or private producers, suppliers, or other parties, for the purchase of appropriate biofuels, as that term is defined in RCW 15.110.010 (as recodified by this act), and biofuel blends. Contract provisions may address items including, but not limited to, fuel standards, price, and delivery date.

(2) The department of general administration may combine the needs of local government agencies, including ports, special districts, school districts, and municipal corporations, for the purposes of executing contracts for biofuels and to secure a sufficient and stable supply of alternative fuels.

NEW SECTION. **Sec. 204.** By June 1, 2010, the department of community, trade, and economic development shall adopt rules to define practicability and clarify how state agencies and local government subdivisions will be evaluated in determining whether they have met the goals set out in section 202(1) of this act. At a minimum, the rules must address:

(1) Criteria for determining how the goal in section 202(1) of this act will be met by June 1, 2015;

(2) Factors considered to determine compliance with the goal in section 202(1) of this act, including but not limited to: The regional

availability of fuels; vehicle costs; differences between types of vehicles, vessels, or equipment; the cost of program implementation; and cost differentials in different parts of the state; and

(3) A schedule for phased-in progress towards meeting the goal in section 202(1) of this act that may include different schedules for different fuel applications, different quantities of biofuels, or changes to the 2015 date.

NEW SECTION. **Sec. 205.** The director of the department of community, trade, and economic development shall appoint a coordinator that is responsible for:

(1) Managing, directing, inventorying, and coordinating state efforts to promote, develop, and encourage a biofuels market in Washington;

(2) Developing, coordinating, and overseeing the implementation of a plan, or series of plans, for the production, transport, distribution, and delivery of biofuels produced predominantly from recycled products or Washington feedstocks;

(3) Working with the departments of transportation and general administration, or other applicable state and local governmental entities, to develop biofuel fueling stations for use by state and local motor vehicle fleets and to provide greater access to public sector fueling capacity for biofuels;

(4) Coordinating with the Western Washington University alternative automobile program for opportunities to support new Washington state technology for conversion of fossil fuel fleets to biofuel, hybrid, or alternative fuel propulsion;

(5) Coordinating with the University of Washington's college of forest management and the Olympic natural resources center for the identification of barriers to using the state's forest resources for fuel production, including the economic and transportation barriers of physically bringing forest biomass to the market;

(6) Coordinating with the department of agriculture and the University of Washington for the identification of other barriers for future biofuels development and development of strategies for furthering the penetration of the Washington state fossil fuel market with Washington produced biofuels, particularly among public entities.

NEW SECTION. **Sec. 206.** A new section is added to chapter 43.01 RCW to read as follows:

(1) It is in the state's interest and to the benefit of the people of the state to encourage the use of electrical vehicles in order to reduce emissions and provide the public with cleaner air. This section expressly authorizes the purchase of power at state expense to recharge privately and publicly owned plug-in electrical vehicles at state office locations where the vehicles are used for state business, are commute vehicles, or where the vehicles are at the state location for the purpose of conducting business with the state.

(2) The director of the department of general administration shall provide reports to the governor and the appropriate committees of the legislature, as deemed necessary by the director, on the estimated amount of state-purchased electricity consumed by plug-in electrical vehicles if the director of general administration determines that the use has a significant cost to the state, and on the number of plug-in electric vehicles using state office locations.

NEW SECTION. **Sec. 207.** A new section is added to chapter 89.08 RCW to read as follows:

In addition to any other authority provided by law, conservation districts are authorized to enter into crop purchase contracts for a dedicated energy crop for the purposes of producing, selling, and distributing biodiesel produced from Washington state feedstocks, cellulosic ethanol, and cellulosic ethanol blend fuels.

NEW SECTION. **Sec. 208.** A new section is added to chapter 35.21 RCW to read as follows:

In addition to any other authority provided by law, public development authorities are authorized to enter into crop purchase contracts for a dedicated energy crop for the purposes of producing, selling, and distributing biodiesel produced from Washington state feedstocks, cellulosic ethanol, and cellulosic ethanol blend fuels.

NEW SECTION. **Sec. 209.** A new section is added to chapter 35.92 RCW to read as follows:

In addition to any other authority provided by law, municipal utilities 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.

NEW SECTION. **Sec. 210.** A new section is added to chapter 54.04 RCW to read as follows:

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.

PART 3
ENERGY FREEDOM PROGRAM

Sec. 301. RCW 15.110.010 and 2006 c 171 s 2 are each amended to read as follows:

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

(1) "Applicant" means any political subdivision of the state, including port districts, counties, cities, towns, special purpose districts, and other municipal corporations or quasi-municipal corporations. "Applicant" may also include federally recognized tribes and state institutions of higher education with appropriate research capabilities.

(2) "Alternative fuel" means all products or energy sources used to propel motor vehicles, other than conventional gasoline, diesel, or reformulated gasoline. "Alternative fuel" includes, but is not limited to, cellulose, liquefied petroleum gas, liquefied natural gas, compressed natural gas, biofuels, biodiesel fuel, E85 motor fuel, fuels containing seventy percent or more by volume of alcohol fuel, fuels

that are derived from biomass, hydrogen fuel, anhydrous ammonia fuel, nonhazardous motor fuel, or electricity, excluding onboard electric generation.

(3) "Assistance" includes loans, leases, product purchases, or other forms of financial or technical assistance.

((~~(3)~~)) (4) "Biofuel" includes, but is not limited to, biodiesel, ethanol, and ethanol blend fuels and renewable liquid natural gas or liquid compressed natural gas made from biogas.

(5) "Biogas" includes waste gases derived from landfills and wastewater treatment plants and dairy and farm wastes.

(6) "Cellulose" means lignocellulosic, hemicellulosic, or other cellulosic matter that is available on a renewable or recurring basis, including dedicated energy crops and trees, wood and wood residues, plants, grasses, agricultural residues, fibers, animal wastes and other waste materials, and municipal solid waste.

(7) "Coordinator" means the person appointed by the director of the department of community, trade, and economic development.

(8) "Department" means the department of ((~~agriculture~~)) community, trade, and economic development.

((~~(4)~~)) (9) "Director" means the director of the department of ((~~agriculture~~)) community, trade, and economic development.

((~~(5)~~)) (10) "Green highway zone" means an area in the state designated by the department that is within reasonable proximity of state route number 5, state route number 90, and state route number 82.

(11) "Peer review committee" means a board, appointed by the director, that includes bioenergy specialists, energy conservation specialists, scientists, and individuals with specific recognized expertise.

((~~(6)~~)) (12) "Project" means the construction of facilities, including the purchase of equipment, to convert farm products or wastes into electricity or gaseous or liquid fuels or other coproducts associated with such conversion. These specifically include fixed or mobile facilities to generate electricity or methane from the anaerobic digestion of organic matter, and fixed or mobile facilities for extracting oils from canola, rape, mustard, and other oilseeds. "Project" may also include the construction of facilities associated with such conversion for the distribution and storage of such feedstocks and fuels.

((~~(7)~~)) (13) "Refueling project" means the construction of new alternative fuel refueling facilities, as well as upgrades and expansion of existing refueling facilities, that will enable these facilities to offer alternative fuels to the public.

(14) "Research and development project" means research and development, by an institution of higher education as defined in subsection (1) of this section, relating to:

(a) Bioenergy sources including but not limited to biomass and associated gases; or

(b) The development of markets for bioenergy coproducts.

Sec. 302. RCW 15.110.020 and 2006 c 171 s 3 are each amended to read as follows:

(1) The energy freedom program is established within the department. The director may establish policies and procedures necessary for processing, reviewing, and approving applications made under this chapter.

(2) When reviewing applications submitted under this program, the director shall consult with those agencies and other public entities having expertise and knowledge to assess the technical and business feasibility of the project and probability of success. These agencies may include, but are not limited to, Washington State University, the University of Washington, the department of ecology, ((~~the department of community, trade, and economic development,~~)) the department of natural resources, the department of agriculture, the department of general administration, local clean air authorities, and the Washington state conservation commission.

(3) Except as provided in subsection (4) of this section, the director, in cooperation with the department of ((~~community, trade, and economic development~~)) agriculture, may approve an application only if the director finds:

(a) The project will convert farm products ((~~or~~)), wastes, cellulose, or biogas directly into electricity or ((~~into gaseous or liquid fuels~~)) biofuel or other coproducts associated with such conversion;

(b) The project demonstrates technical feasibility and directly assists in moving a commercially viable project into the marketplace for use by Washington state citizens;

(c) The facility will produce long-term economic benefits to the state, a region of the state, or a particular community in the state;

(d) The project does not require continuing state support;

(e) The assistance will result in new jobs, job retention, or higher incomes for citizens of the state;

(f) The state is provided an option under the assistance agreement to purchase a portion of the fuel or feedstock to be produced by the project, exercisable by the department of general administration;

(g) The project will increase energy independence or diversity for the state;

(h) The project will use feedstocks produced in the state, if feasible, except this criterion does not apply to the construction of facilities used to distribute and store fuels that are produced from farm products or wastes;

(i) Any product produced by the project will be suitable for its intended use, will meet accepted national or state standards, and will be stored and distributed in a safe and environmentally sound manner;

(j) The application provides for adequate reporting or disclosure of financial and employment data to the director, and permits the director to require an annual or other periodic audit of the project books; and

(k) For research and development projects, the application has been independently reviewed by a peer review committee as defined in RCW 15.110.010 (as recodified by this act) and the findings delivered to the director.

(4) When reviewing an application for a refueling project, the coordinator may award a grant or a loan to an applicant if the director finds:

(a) The project will offer alternative fuels to the motoring public;

(b) The project does not require continued state support;

(c) The project is located within a green highway zone as defined in RCW 15.110.010 (as recodified by this act);

(d) The project will contribute towards an efficient and adequately spaced alternative fuel refueling network along the green highways designated in RCW 47.17.020, 47.17.135, and 47.17.140; and

(e) The project will result in increased access to alternative

fueling infrastructure for the motoring public along the green highways designated in RCW 47.17.020, 47.17.135, and 47.17.140.

(5)(a) The director may approve ((~~an~~)) a project application for assistance under subsection (3) of this section up to five million dollars. In no circumstances shall this assistance constitute more than fifty percent of the total project cost.

((~~(5)~~)) (b) The director may approve a refueling project application for a grant or a loan under subsection (4) of this section up to fifty thousand dollars. In no circumstances shall a grant or a loan award constitute more than fifty percent of the total project cost.

(6) The director shall enter into agreements with approved applicants to fix the terms and rates of the assistance to minimize the costs to the applicants, and to encourage establishment of a viable bioenergy or biofuel industry. The agreement shall include provisions to protect the state's investment, including a requirement that a successful applicant enter into contracts with any partners that may be involved in the use of any assistance provided under this program, including services, facilities, infrastructure, or equipment. Contracts with any partners shall become part of the application record.

((~~(6)~~)) (7) The director may defer any payments for up to twenty-four months or until the project starts to receive revenue from operations, whichever is sooner.

Sec. 303. RCW 15.110.040 and 2006 c 171 s 5 are each amended to read as follows:

(1) If the total requested dollar amount of assistance awarded for projects under RCW 15.110.020(3) (as recodified by this act) exceeds the amount available in the energy freedom account created in RCW 15.110.050 (as recodified by this act), the applications must be prioritized based upon the following criteria:

((~~(1)~~)) (a) The extent to which the project will help reduce dependence on petroleum fuels and imported energy either directly or indirectly;

((~~(2)~~)) (b) The extent to which the project will reduce air and water pollution either directly or indirectly;

((~~(3)~~)) (c) The extent to which the project will establish a viable bioenergy or biofuel production capacity in Washington;

((~~(4)~~)) (d) The benefits to Washington's agricultural producers; ((~~and~~

~~(5)~~)) (e) The benefits to the health of Washington's forests;

(f) The beneficial uses of biogas; and

(g) The number and quality of jobs and economic benefits created by the project.

(2) This section does not apply to grants or loans awarded for refueling projects under RCW 15.110.020(4) (as recodified by this act).

NEW SECTION. **Sec. 304.** If the total requested dollar amount of funds for refueling projects under RCW 15.110.020(4) (as recodified by this act) exceeds the amount available for refueling projects in the energy freedom account created in RCW 15.110.050 (as recodified by this act), the applications must be prioritized based upon the following criteria:

(1) The extent to which the project will help reduce dependence on petroleum fuels and imported energy either directly or indirectly;

(2) The extent to which the project will reduce air and water pollution either directly or indirectly;

(3) The extent to which the project will establish a viable bioenergy production capacity in Washington;

(4) The extent to which the project will make biofuels more accessible to the motoring public;

(5) The benefits to Washington's agricultural producers; and

(6) The number and quality of jobs and economic benefits created by the project.

Sec. 305. RCW 15.110.050 and 2006 c 371 s 223 are each amended to read as follows:

(1) The energy freedom account is created in the state treasury. All receipts from appropriations made to the account and any loan payments of principal and interest derived from loans made under this chapter must be deposited into the account. Moneys in the account may be spent only after appropriation. Expenditures from the account may be used only for assistance for projects consistent with this chapter

or otherwise authorized by the legislature. ((~~Administrative costs of the department may not exceed three percent of the total funds available for this program.~~))

(2) The green energy incentive account is created in the state treasury as a subaccount of the energy freedom account. All receipts from appropriations made to the green energy incentive account shall be deposited into the account, and may be spent only after appropriation. Expenditures from the account may be used only for:

(a) Refueling projects awarded under this chapter;

(b) Pilot projects for plug-in hybrids, including grants provided for the electrification program set forth in section 408 of this act;

(c) Programs to reduce truck stop idling;

(d) Demonstration projects developed with a science museum for the purpose of bringing science education to children by way of a mobile learning vehicle; and

(e) Demonstration projects developed with the University of Washington that result in the design and building of a hydrogen vehicle fueling station.

(3) Any state agency receiving funding from the energy freedom account is prohibited from retaining greater than three percent of any funding provided from the energy freedom account for administrative overhead or other deductions not directly associated with conducting the research, projects, or other end products that the funding is designed to produce unless this provision is waived in writing by the director.

(4) Any university, institute, or other entity that is not a state agency receiving funding from the energy freedom account is prohibited from retaining greater than fifteen percent of any funding provided from the energy freedom account for administrative overhead or other deductions not directly associated with conducting the research, projects, or other end products that the funding is designed to produce.

(5) This section does not apply to assistance awarded for projects under RCW 15.110.020(3) (as recodified by this act).

Sec. 306. RCW 15.110.060 and 2006 c 171 s 7 are each amended to read as follows:

The director shall report to the legislature and governor on the

status of the energy freedom program created under this chapter, on or before December 1, 2006, and annually thereafter. This report must include information on the projects that have been funded, the status of these projects, and their environmental, energy savings, and job creation benefits as well as an assessment of the availability of alternative fuels in the state and best estimates to indicate, by percentage, the types of biofuel feedstocks and sources that contribute to biofuels used in the state and the general geographic origination of such feedstocks and sources. Based on analysis of this information, the report must also recommend appropriate mechanisms, including but not limited to changes in state contracting practices, tax incentives, or renewable fuel standard provisions, that will help Washington farmers and businesses compete in an economically viable manner and will encourage sustained development of an in-state biofuels industry based on feedstocks grown and produced in Washington.

NEW SECTION. **Sec. 307.** (1) Energy freedom program projects funded pursuant to RCW 15.110.050 (as recodified by this act) or by the legislature pursuant to sections 191 and 192, chapter 371, Laws of 2006 for which the department of agriculture has signed loan agreements and disbursed funds prior to June 30, 2007, shall continue to be serviced by the department of agriculture.

(2) Energy freedom program projects funded pursuant to RCW 15.110.050 (as recodified by this act) or by the legislature pursuant to sections 191 and 192, chapter 371, Laws of 2006 for which moneys have been appropriated but loan agreements or disbursements have not been completed must be transferred to the department for project management on July 1, 2007, subject to the ongoing requirements of the energy freedom program.

PART 4
PLANNING FOR THE FUTURE

NEW SECTION. **Sec. 401.** (1) The department of ecology and the department of community, trade, and economic development, in implementing executive order number 07-02 shall include an analysis of, and potential for, vehicle electrification. That analysis may include:

(a) Use by the state of plug-in hybrid vehicles and developing plug-in availability at state locations;

(b) Incentives to encourage the use of plug-in truck auxiliary power units and truck stop electrification;

(c) Use of plug-in shore power for cargo and cruise ship terminals, shipside technology, and use of electric power alternatives for port-related operations and equipment such as switching locomotives, vessels and harborcraft, and cargo-handling equipment;

(d) Potential uses for and availability of plug-in hybrid school buses;

(e) Potential environmental and electrical grid impacts on electrical power consumption of the conversion of a meaningful portion of the state's private and public fleet to plug-in electrical power;

(f) Tax and fee incentives to encourage individual and fleet purchases of plug-in hybrid vehicles;

(g) State laws, rules, tariffs, and policies that impact transportation electrification and plug-in adoption, including pricing with incentives for off-peak charging;

(h) Measures to encourage the use of plug-in vehicles by public fleets, and resulting cost savings, and whether state and local fleets should be required to purchase plug-in hybrid vehicles if it is determined that plug-in hybrid vehicles are commercially available at a reasonably comparable life-cycle cost;

(i) Explore the potential for the use of electrification of fixed transit routes for magnetic levitation propulsion systems;

(j) Actions by the state to help industries located in the state participate in developing and manufacturing plug-in vehicles and vehicle-to-grid technologies;

(k) Additional ways the state can promote transportation electrification in the private and public sectors, including cars and light-duty vehicles, and truck stop and port electrification; and

(l) Potential partners for vehicle-to-grid pilot projects that test the use of parked plug-in vehicles for power grid energy storage and support.

(2) The departments of ecology and community, trade, and economic development shall provide the appropriate committees of the legislature an analysis or report by March 1, 2008. The report may be included within the report produced for executive order number 07-02.

NEW SECTION. **Sec. 402.** A new section is added to chapter 28B.30 RCW to read as follows:

Washington State University is directed to analyze and recommend models for possible implementation by the legislature or the executive office for at least the following potential biofuels incentive programs:

(1) Market incentives to encourage instate production of brassica-based biodiesel, and cellulosic ethanol, including such market methods as direct grants, production tax credits, and the issuance by the state of advance guaranteed purchase contracts;

(2) Possible preferred research programs, grants, or other forms of assistance for accelerating the development of instate production of cellulosic ethanol and in-state biodiesel crops and their coproducts; and

(3) The following should be considered when evaluating potential biofuel incentive programs:

(a) Assisting Washington farmers and businesses in the development of economically viable, sustained instate biofuel and biofuel feedstock production;

(b) Leveraging and encouraging private investment in biofuel production and distribution and biofuel feedstock production; and

(c) Assisting in the development of biofuel feedstocks and production techniques that deliver the greatest net reductions in petroleum dependence and carbon emissions.

NEW SECTION. **Sec. 403.** (1) The department of community, trade, and economic development and the department of ecology shall develop a framework for the state of Washington to participate in emerging regional, national, and to the extent possible, global markets to mitigate climate change, on a multisector basis. This framework must include, but not be limited to, credible, verifiable, replicable inventory and accounting methodologies for each sector involved, along with the completion of the stakeholder process identified in executive order number 07-02 creating the Washington state climate change challenge.

(2) The department of community, trade, and economic development and the department of ecology shall include the forestry sector and

work closely with the department of natural resources on those recommendations.

(3) The department must provide a report to the legislature by December 1, 2008. The report may be included within the report produced for executive order number 07-02.

NEW SECTION. **Sec. 404.** (1) In preparing for the impacts of climate change consistent with executive order number 07-02, the departments of community, trade, and economic development and ecology shall work with the climate impacts group at the University of Washington to produce:

(a) A comprehensive state climate change assessment that includes the impacts of global warming, including impacts to public health, agriculture, the coast line, forestry, infrastructure, and water supply and management;

(b) An analysis of the potential human health impacts of climate change on the state of Washington.

(2) To ensure the appropriateness of these assessments for public agency planning and management, the departments and the climate impacts group shall consult with state and local public health resource planning and management agencies.

(3) If adequate funding is not made available for the completion of all elements required under this section, the departments and the climate impacts group shall list and prioritize which research projects have the greatest cost/benefit ratio in terms of providing information important for planning decisions.

(4) The work under this section that is completed by December 1, 2007, must be included in the final report of the Washington climate change challenge. Any further reports must be completed by December 15, 2008.

Sec. 405. RCW 47.17.020 and 1970 ex.s. c 51 s 5 are each amended to read as follows:

A state highway to be known as state route number 5, and designated as a Washington green highway, is established as follows:

Beginning at the Washington-Oregon boundary line on the interstate bridge over the Columbia river at Vancouver, thence northerly by way of Kelso, Chehalis, Centralia, Olympia, Tacoma, Seattle, Everett and Mt.

Vernon, thence northwesterly to the east of Lake Samish, thence northeasterly and northerly by way of Bellingham to the international boundary line in the vicinity of Blaine in Whatcom county.

Sec. 406. RCW 47.17.135 and 1979 ex.s. c 33 s 3 are each amended to read as follows:

A state highway to be known as state route number 82, and designated as a Washington green highway, is established as follows:

Beginning at a junction with state route number 90 in the vicinity of Ellensburg, thence southerly and easterly by way of Yakima, Union Gap, Sunnyside, Prosser, Kiona, and Goose Gap west of Richland, thence southeasterly near Kennewick and southwesterly by way of the vicinity of Plymouth to a crossing of the Columbia river at the Washington-Oregon boundary line.

Sec. 407. RCW 47.17.140 and 1991 c 56 s 2 are each amended to read as follows:

A state highway to be known as state route number 90, and designated as the American Veterans Memorial Highway as well as a Washington green highway, is established as follows:

Beginning at a junction with state route number 5, thence, via the west approach to the Lake Washington bridge in Seattle, in an easterly direction by way of Mercer Island, North Bend, Snoqualmie pass, Ellensburg, Vantage, Moses Lake, Ritzville, Sprague and Spokane to the Washington-Idaho boundary line.

NEW SECTION. **Sec. 408.** (1) The vehicle electrification demonstration grant program is established within the department of community, trade, and economic development. The director may establish policies and procedures necessary for processing, reviewing, and approving applications made under this chapter.

(2) The director may approve an application for a vehicle electrification demonstration project only if the director finds:

(a) The applicant is a state agency, public school district, public utility district, or a political subdivision of the state, including port districts, counties, cities, towns, special purpose districts, and other municipal corporations or quasi-municipal corporations or a state institution of higher education;

(b) The project partially funds the purchase of or conversion of existing vehicles to plug-in hybrid electric vehicles or battery electric vehicles for use in the applicant's fleet or operations;

(c) The project partners with an electric utility and demonstrates technologies to allow controlled vehicle charging, including the use of power electronics or wireless technologies, to regulate time-of-day and duration of charging;

(d) The project provides matching resources; and

(e) The project provides evaluation of fuel savings, greenhouse gas reductions, battery capabilities, energy management system, charge controlling technologies, and other relevant information determined on the advice of the vehicle electrification work group.

(3) The director may approve an application for a vehicle electrification demonstration project if the project, in addition to meeting the requirements of subsection (2) of this section, also demonstrates charging using on-site renewable resources or vehicle-to-grid capabilities that enable the vehicle to discharge electricity into the grid.

NEW SECTION. **Sec. 409.** A new section is added to chapter 43.19 RCW to read as follows:

(1) During the biennium ending June 30, 2009, the department of general administration is authorized to purchase at least one hundred plug-in electric hybrid vehicles for state agency light duty vehicle uses, when commercially available at comparable life costs to other vehicles. The department of general administration shall assign these vehicles to departments and job functions that on average log the most miles driving light duty vehicles. The vehicles must bear a prominent designation as a plug-in electric hybrid vehicle. The department of general administration shall develop a purchasing contract under which state agencies and local governments may purchase plug-in electric hybrid vehicles.

(2) The use of hybrid vehicles shall include an economic analysis of the total life-cycle cost to the state over the vehicle's estimated useful life, including energy inputs into the production of the vehicle, fuel usage, and all related costs of selection, acquisition, operation, maintenance, and disposal, as far as these costs can

reasonably be determined, minus the salvage value at the end of the vehicle's estimated useful life.

(3) By December 31, 2009, the department of general administration shall provide a report to the transportation and energy committees of the senate and house of representatives on the acquisition of these vehicles and their operational and maintenance performance.

NEW SECTION. **Sec. 410.** (1) The office of Washington state climatologist is created.

(2) The office of Washington state climatologist consists of the director of the office, who is the state climatologist, and appropriate staff and administrative support as necessary to carry out the powers and duties of the office as enumerated in section 411 of this act.

(3) The director of the office of Washington state climatologist must be appointed jointly by the president of Washington State University and the president of the University of Washington. The office of Washington state climatologist is administered as determined jointly by these two presidents.

NEW SECTION. **Sec. 411.** The office of Washington state climatologist has the following powers and duties:

(1) To serve as a credible and expert source of climate and weather information for state and local decision makers and agencies working on drought, flooding, climate change, and other related issues;

(2) To gather and disseminate, and where practicable archive, in the most cost-effective manner possible, all climate and weather information that is or could be of value to policy and decision makers in the state;

(3) To act as the representative of the state in all climatological and meteorological matters, both within and outside of the state, when requested by the legislative or executive branches of the state government;

(4) To prepare, publish, and disseminate climate summaries for those individuals, agencies, and organizations whose activities are related to the welfare of the state and are affected by climate and weather;

(5) To supply critical information for drought preparedness and emergency response as needed to implement the state's drought

contingency response plan maintained by the department of ecology under RCW 43.83B.410, and to serve as a member of the state's drought water supply and emergency response committees as may be formed in response to a drought event;

(6) To conduct and report on studies of climate and weather phenomena of significant socioeconomic importance to the state; and

(7) To evaluate the significance of natural and man-made changes in important features of the climate affecting the state, and to report this information to those agencies and organizations in the state who are likely to be affected by these changes.

NEW SECTION. **Sec. 412.** (1) The legislature finds that:

(a) Washington is especially vulnerable to climate change because of the state's dependence on snow pack for summer stream flows and because the expected rise in sea levels threatens our coastal communities. Extreme weather, a warming Pacific Northwest, reduced snow pack, and sea level rise are four major ways that climate change is disrupting Washington's economy, environment, and communities;

(b) Washington's greenhouse gas emissions are continuing to increase, despite international scientific consensus that worldwide emissions must be reduced significantly below current levels to avert catastrophic climate change;

(c) Washington has been a leader in actions to reduce the increase of emissions, including the adoption of the nation's most stringent carbon dioxide mitigation program for new thermal electric generation facilities, a requirement for integrated resource planning by electric utilities to include life-cycle costs of carbon dioxide emissions, clean car standards, stronger appliance energy efficiency standards, increased production and use of renewable liquid fuels, and increased renewable energy sources by electrical utilities;

(d) Washington state's greenhouse gases are substantially caused by the transportation sector of the economy;

(e) Washington has participated with other Western states in designing regional approaches to reduce greenhouse gas emissions, and a regional cap and trade mechanism will be more effective than if implemented separately in each state;

(f) While these actions are significant, there is a need to assess the trend of emissions statewide over the next several decades, and to

take sufficient actions so that Washington meets its responsibility to contribute to the global actions needed to reduce the impacts and the pace of global warming;

(g) Actions to reduce greenhouse gas emissions will spur technology development and increase efficiency, thus resulting in benefits to Washington's economy and businesses; and

(h) Numerous states and nations have adopted emission reduction goals to assist emission sources with planning for changes in practices and technologies.

(2) The legislature further finds that companies that generate greenhouse gas emissions or manufacture products that generate such emissions are purchasing carbon credits from landowners and from other companies in order to provide carbon credits. Companies that are purchasing carbon credits would benefit from a program to trade and to bank carbon credits. Washington forests are one of the most effective resources that can absorb carbon dioxide from the atmosphere. Forests, and other planted lands and waters, provide carbon storage and mitigate greenhouse gas emissions. Washington contains the most productive forests in the world and both public and private landowners could benefit from a carbon storage trading and banking program. The legislature further finds that catastrophic forest fires are a major source of greenhouse gas emissions, and that federal and state forest land management should seek to manage forests to reduce the risk of such fires.

(3) The legislature intends by this act to establish goals for the statewide reduction in greenhouse gas emissions and reduction in petroleum use, and to adopt the governor's mechanism in Executive Order No. 07-02 to design and recommend a comprehensive set of measures to accomplish the goals. The legislature further intends by this act to authorize immediate actions in the electric power generation sector for the reduction of greenhouse gas emissions and to accelerate efficiency in the transportation sector.

NEW SECTION. **Sec. 413.** The following greenhouse gas emissions reduction and clean energy economy goals are established for Washington state:

(1) By 2020, reduce greenhouse gas emissions in the state to 1990 levels;

(2) By 2035, reduce greenhouse gas emissions in the state to twenty-five percent below 1990 levels;

(3) By 2050, the state will do its part to reach global climate stabilization levels by reducing emissions to fifty percent below 1990 levels or seventy percent below the state's expected emissions that year;

(4) By 2020, increase the number of clean energy sector jobs to twenty-five thousand from the eight thousand four hundred jobs the state had in 2004; and

(5) By 2020, reduce expenditures by twenty percent on fuel imported into the state by developing Washington resources and supporting efficient energy use.

NEW SECTION. **Sec. 414.** (1) Executive Order No. 07-02 shall provide the mechanisms for identifying the policies and strategies necessary to achieve the economic and emission reduction goals of section 413 of this act. Consistent with the Executive Order's directive to seek a healthier and more prosperous future for Washington state, agency and stakeholder representatives participating in the Washington climate change challenge shall also seek emission reduction policies and strategies that, to the maximum extent possible, minimize economic disruptions and protect jobs for Washington state workers, citizens, and businesses, while avoiding policies and strategies that would result in the transfer or outsourcing of economic advantages or jobs to other states, regions, or nations.

(2) In addition to the policies and strategies that the climate change stakeholder group shall develop for the governor and the legislature, the group shall:

(a) Identify economic and regulatory incentives to encourage the replacement of the highest emitting thermal electric plants in the state that have exceeded their expected useful life with newer technologies that have lower greenhouse gases emission levels to facilitate meeting the goals established in this section; and

(b) Identify methods to utilize indigenous resources, such as landfill gas, geothermal resources, and other assets that might reduce greenhouse gases emissions consistent with the purposes of this section.

NEW SECTION. **Sec. 415.** By December 31st of each even-numbered year beginning in 2010, the departments of ecology and community, trade, and economic development shall report to the governor and the appropriate committees of the senate and house of representatives the total greenhouse gas emissions for the preceding two years, and totals in each major source sector.

NEW SECTION. **Sec. 416.** (1) The legislature finds that:

(a) The United Nation's intergovernmental panel on climate change report, released February 2, 2007, states that evidence of the climate's warming "is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global mean sea level";

(b) Global warming will have serious adverse consequences on the economy, health, and environment of Washington;

(c) During the last several years, the state has taken significant strides towards implementing an environmentally and economically sound energy policy through reliance on energy efficiency, conservation, and renewable energy resources in order to promote a sustainable energy future that ensures an adequate and reliable energy supply at reasonable and stable prices;

(d) The governor, in Executive Order No. 07-02, has called for the reduction of Washington's emission of greenhouse gases to 1990 levels by 2020;

(e) To the extent energy efficiency and renewable resources are unable to satisfy increasing energy and capacity needs, the state will rely on clean and efficient fossil fuel fired generation and will encourage the development of cost-effective, highly efficient, and environmentally sound supply resources to provide reliability and consistency with the state's energy priorities;

(f) It is vital to ensure all electric utilities internalize the significant and underrecognized cost of emissions and to reduce Washington's exposure to costs associated with future regulation of these emissions;

(g) A greenhouse gases emissions performance standard for new long-term financial commitments to electric generating resources will reduce potential exposure of Washington's consumers to future reliability problems in electricity supplies;

(h) The state of California recently enacted a law establishing a greenhouse gases emissions performance standard for electric utility procurement of baseload electric generation that is based on the emissions of a combined-cycle thermal electric generation facility fueled by natural gas;

(i) The legislature recognizes that state or federal legislation may be enacted and federal regulation may occur that would provide standards or programs that would preempt, make inconsistent, or render unnecessary emission standards or schedules established in this act; and

(j) The state of Washington has an obligation to provide clear guidance for the procurement of baseload electric generation to alleviate regulatory uncertainty while addressing risks that can affect the ability of electric utilities to make necessary and timely investments to ensure an adequate, reliable, and cost-effective supply of electricity.

(2) The legislature declares that:

(a) A greenhouse gases emissions performance standard for new long-term financial commitments for baseload electric generation should reduce financial risk to electric utilities and their customers from future pollution-control costs, without jeopardizing the state's commitment to lowest reasonable cost resources and the need to maintain a reliable regional electric system.

(b) A greenhouse gases emissions performance standard will complement the state's carbon dioxide mitigation policy for fossil-fueled thermal electric generation facilities under chapter 80.70 RCW.

(c) The need for long-term financial commitments for new baseload electric generation can be reduced over time through the deployment by electric utilities of technologies that improve the efficiency of electricity production, transmission, distribution, and consumption.

NEW SECTION. **Sec. 417.** The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Attorney general" means the Washington state office of the attorney general.

(2) "Auditor" means: (a) The Washington state auditor's office or

its designee for consumer-owned utilities under its jurisdiction; or (b) an independent auditor selected by a consumer-owned utility that is not under the jurisdiction of the state auditor.

(3) "Baseload electric generation" means electric generation from a power plant that is designed and intended to provide electricity at an annualized plant capacity factor of at least sixty percent.

(4) "Cogeneration facility" means a power plant in which the heat or steam is also used for industrial or commercial heating or cooling purposes and that meets federal energy regulatory commission standards for qualifying facilities under the public utility regulatory policies act of 1978 (16 U.S.C. Sec. 824a-3), as amended.

(5) "Combined-cycle natural gas thermal electric generation facility" means a power plant that employs a combination of one or more gas turbines and steam turbines in which electricity is produced in the steam turbine from otherwise lost waste heat exiting from one or more of the gas turbines.

(6) "Commercially available" means that at least one hundred plants of substantially the same design, specifications, and performance characteristics have been in commercial operation for at least three years.

(7) "Commission" means the Washington utilities and transportation commission.

(8) "Consumer-owned utility" means a municipal utility formed under Title 35 RCW, a public utility district formed under Title 54 RCW, an irrigation district formed under chapter 87.03 RCW, a cooperative formed under chapter 23.86 RCW, a mutual corporation or association formed under chapter 24.06 RCW, or port district within which an industrial district has been established as authorized by Title 53 RCW, that is engaged in the business of distributing electricity to more than one retail electric customer in the state.

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

(10) "Distributed generation" has the same meaning as defined in RCW 19.285.030.

(11) "Electrical company" means a company owned by investors that meets the definition of RCW 80.04.010.

(12) "Electric utility" means an electrical company or a consumer-owned utility.

(13) "Governing board" means the board of directors or legislative authority of a consumer-owned utility.

(14) "Greenhouse gases" includes carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride.

(15) "Injected permanently" means the carbon dioxide injected into a geological formation will remain in the target geological formation with only de minimis leakage, as demonstrated using site-specific data.

(16) "Long-term financial commitment" means:

(a) Either a new ownership interest in baseload electric generation or an upgrade to a baseload electric generation facility; or

(b) A new or renewed contract for baseload electric generation with a term of five or more years for the provision of retail power or wholesale power to end-use customers in this state.

(17) "Output-based methodology" means a greenhouse gases emissions performance standard that is expressed in pounds of greenhouse gases emitted per net megawatt-hour produced. For purposes of this subsection, "net" refers to the difference between the heat energy dedicated to power production and the electrical equivalent of useful thermal energy employed for purposes other than the generation of electricity.

(18) "Plant capacity factor" means the ratio of the electricity produced during a given time period, measured in kilowatt-hours, to the electricity the unit could have produced if it had been operated at its rated capacity during that period, expressed in kilowatt-hours.

(19) "Power plant" means a facility for the generation of electricity that includes one or more generating units at the same location.

(20) "Unspecified sources" means baseload electric generation supplied under a power purchase agreement that does not specify or otherwise identify the power plant or power plants that are the source of power delivered to an electric utility.

(21) "Upgrade" means any modification made for the primary purpose of increasing the electric generation capacity of a baseload electric generation facility. "Upgrade" does not include routine or necessary maintenance, installation of emission control equipment, installation, replacement, or modification of equipment that improves the heat rate of the facility, or installation, replacement, or modification of equipment for the primary purpose of maintaining reliable generation

output capability that does not increase the heat input or fuel usage as specified in generation air quality permits that are in effect on the effective date of this section but may result in incidental increases in generation capacity.

NEW SECTION. **Sec. 418.** (1) Beginning July 1, 2008, the greenhouse gases emissions performance standard for all baseload electric generation for which electric utilities enter into long-term financial commitments on or after such date is the lower of:

(a) One thousand one hundred pounds of greenhouse gases per megawatt-hour; or

(b) The rate of emissions of greenhouse gases for a commercially available combined-cycle natural gas thermal electric generation facility that provides baseload electric generation.

(2) Even if their actual emissions are higher than the greenhouse gas emissions performance standard, all baseload electric generation facilities in operation as of June 30, 2008, are deemed to be in compliance with the greenhouse gas emissions performance standard established under this section until the facilities are the subject of long-term financial commitments.

(3) All electric generating facilities or power plants powered by renewable resources, as defined in RCW 19.285.030, are deemed to be in compliance with the greenhouse gas emissions performance standard established under this section.

(4) All electric generating facilities or power plants, including cogeneration, that use either exclusively or in combination with a renewable resource, as defined in RCW 19.285.030, fuel that is a byproduct of pulping or wood manufacturing processes, including but not limited to bark, sawdust, and lignin in spent pulping liquors, are deemed to be in compliance with the greenhouse gas emissions performance standard established under this section.

(5) In determining the rate of emissions of greenhouse gases for baseload electric generation, the total emissions associated with producing electricity shall be included.

(6) The department shall establish an output-based methodology to ensure that the calculation of emissions of greenhouse gases for a cogeneration facility recognizes the total usable energy output of the process, and includes all greenhouse gases emitted by the facility in

the production of both electrical and thermal energy. In developing and implementing the greenhouse gases emissions performance standard, the department shall consider and act in a manner consistent with any rules adopted pursuant to the public utilities regulatory policy act of 1978 (16 U.S.C. Sec. 824a-3), as amended.

(7) Carbon dioxide emissions produced by baseload electric generation owned or contracted through a long-term financial commitment that are injected permanently in geological formations or that are permanently sequestered by other means approved by the department shall not be counted as emissions of the power plant in determining compliance with the greenhouse gases emissions performance standard.

(8) In adopting and implementing the greenhouse gases emissions performance standard, the department, in consultation with the commission, the Bonneville power administration, the western electricity coordination council, the energy facility site evaluation council, the department of community, trade, and economic development energy policy division, electric utilities, public interest representatives, and consumer representatives shall consider the effects of the greenhouse gases emissions performance standard on system reliability and overall costs to electricity customers.

(9) In developing and implementing the greenhouse gases emissions performance standard, the department shall, with assistance of the commission, the department of community, trade, and economic development energy policy division, and electric utilities, and to the extent practicable, address long-term purchases of electricity from unspecified sources in a manner consistent with this chapter.

(10) The department shall adopt the greenhouse gases emissions performance standard by rule pursuant to chapter 34.05 RCW, the administrative procedure act. The department shall adopt rules to enforce the requirements of this section, and adopt procedures to verify the emissions of greenhouse gases from any baseload electric generation supplied directly or under a contract subject to the greenhouse gases emissions performance standard to ensure compliance with the standard. Enforcement of the greenhouse gases emissions performance standard must begin immediately upon the establishment of the standard.

(11) In adopting the rules for implementing this section, the

department shall include criteria to be applied in evaluating the carbon sequestration plan. The rules shall include but not be limited to:

(a) Provisions for financial assurances, as a condition of plant operation, sufficient to ensure successful implementation of the carbon sequestration plan, including construction and operation of necessary equipment, and any other significant costs;

(b) Provisions for geological or other approved sequestration commencing within five years of plant operation, including full and sufficient technical documentation to support the planned sequestration;

(c) Provisions for monitoring the effectiveness of the implementation of the sequestration plan;

(d) Penalties for failure to achieve implementation of the plan on schedule; and

(e) Provisions for public notice and comment on the carbon sequestration plan.

(12)(a) Except as provided in (b) of this subsection, as part of its role enforcing the greenhouse gases emissions performance standard, the department shall determine whether a plan for sequestration will provide safe, reliable, and permanent protection against the greenhouse gases entering the atmosphere from the power plant and all ancillary facilities.

(b) For facilities under its jurisdiction, the energy facility site evaluation council shall contract for review of the carbon sequestration plan with the department, consider the adequacy of the plan in its adjudicative proceedings conducted under RCW 80.50.090(3) and incorporate specific findings regarding adequacy in its recommendation to the governor under RCW 80.50.100.

(13) A project under consideration by the energy facility site evaluation council before the adoption of rules in subsection (11) of this section is required to include all of the requirements of subsection (11) of this section in its carbon sequestration plan submitted as part of the energy facility site evaluation council process.

(14) The department shall adopt the rules necessary to implement this section by June 30, 2008.

NEW SECTION. **Sec. 419.** (1) No electrical company may enter into a long-term financial commitment unless the baseload electric generation supplied under such a long-term financial commitment complies with the greenhouse gases emissions performance standard established under section 418 of this act.

(2) In order to enforce the requirements of this chapter, the commission shall review in a general rate case or as provided in subsection (5) of this section any long-term financial commitment entered into by an electrical company after June 30, 2008, to determine whether the baseload electric generation to be supplied under that long-term financial commitment complies with the greenhouse gases emissions performance standard established under section 418 of this act.

(3) In determining whether a long-term financial commitment is for baseload electric generation, the commission shall consider the design of the power plant and its intended use, based upon the electricity purchase contract, if any, permits necessary for the operation of the power plant, and any other matter the commission determines is relevant under the circumstances.

(4) Upon application by an electrical company, the commission may provide a case-by-case exemption from the greenhouse gases emissions performance standard to address: (a) Unanticipated electric system reliability needs; or (b) catastrophic events or threat of significant financial harm that may arise from unforeseen circumstances.

(5) Upon application by an electrical company, the commission shall make a determination regarding the company's proposed decision to acquire electric generation or enter into a power purchase agreement for electricity that complies with the greenhouse gases emissions performance standard established under section 418 of this act, as to the need for the resource, and the appropriateness of the specific resource selected. The commission shall take into consideration factors such as the company's forecasted loads, need for energy, power plant technology, expected costs, and other associated investment decisions. In addition, the commission shall provide for recovery of the prudently incurred capital and operating cost of these resources and may impose such conditions as it finds necessary to ensure that rates are fair, just, reasonable, and sufficient, coincident with the

in-service date of the project or the effective date of the power purchase agreement.

(6) An electrical company may account for and defer for later consideration by the commission costs incurred in connection with the long-term financial commitment, including operating and maintenance costs, depreciation, taxes, and cost of invested capital. The deferral begins with the date on which the power plant begins commercial operation or the effective date of the power purchase agreement and ends on the effective date of the final decision by the commission regarding recovery in rates of these deferred costs. Creation of such a deferral account does not by itself determine whether recovery of any or all of these costs is appropriate.

(7) In establishing rates for each electrical company regulated under chapter 80.28 RCW, the commission shall adopt policies allowing an additional return on investments to encourage meeting energy requirements through distributed generation as defined in RCW 19.285.030, and to accelerate efficiencies in electric transmission and distribution systems that increase reliability and reduce energy losses or otherwise increase the efficiency of energy delivery to end-use consumers. These policies shall include but are not limited to adding an increment of two percent to the rate of return on common equity permitted on an electrical company's other investments for prudently incurred investments in distributed generation, and in measures that improve, as measured in kilowatt-hour savings, the overall efficiency of transmission, distribution, and end-use consumption of electricity through energy efficiency technologies, including any device, instrument, machine, appliance, or process related to the transmission, distribution, and consumption of electricity to increase energy efficiency, including but not limited to smart grid technology, smart meters, and demand response technologies. The rate of return increment must be allowed for a period, at the commission's discretion, of at least seven but not more than thirty years after the investment is first placed in the rate base. Measures or projects encouraged under this section are those for which construction or installation is begun after July 1, 2007, and before January 1, 2017, and which, at the time they are placed in the rate base, are reasonably expected to save, produce, or generate energy at a total incremental system cost per unit of energy delivered to end use that is less than or equal to the

incremental system cost per unit of energy delivered to end use from new baseload or peaking electric generation and that the electrical company could acquire to meet energy demand in the same time period.

(8) The commission shall apply the procedures adopted by the department to verify the emissions of greenhouse gases from baseload electric generation under section 418 of this act.

(9) The commission shall adopt rules for the enforcement of this section with respect to electrical companies and adopt procedural rules for approving costs incurred by an electrical company under subsection (4) of this section.

(10) The commission shall adopt the rules necessary to implement this section by December 31, 2008.

NEW SECTION. **Sec. 420.** (1) No consumer-owned utility may enter into a long-term financial commitment unless the baseload electric generation supplied under such a long-term financial commitment complies with the greenhouse gases emissions performance standard established under section 418 of this act.

(2) The governing board of a consumer-owned utility shall review and make a determination on any long-term financial commitment by the utility, pursuant to this chapter, to determine whether the baseload electric generation to be supplied under that long-term financial commitment complies with the greenhouse gases emissions performance standard established under section 418 of this act. No consumer-owned utility may enter into a long-term financial commitment unless the baseload electric generation to be supplied under that long-term financial commitment complies with the greenhouse gases emissions performance standard established under section 418 of this act.

(3) In confirming that a long-term financial commitment is for baseload electric generation, the governing board shall consider the design of the power plant and the intended use of the power plant based upon the electricity purchase contract, if any, permits necessary for the operation of the power plant, and any other matter the governing board determines is relevant under the circumstances.

(4) The governing board may provide a case-by-case exemption from the greenhouse gases emissions performance standard to address: (a) Unanticipated electric system reliability needs; or (b) catastrophic

events or threat of significant financial harm that may arise from unforeseen circumstances.

(5) The governing board shall apply the procedures adopted by the department to verify the emissions of greenhouse gases from baseload electric generation pursuant to section 418 of this act, and may request assistance from the department in doing so.

(6) For consumer-owned utilities, the auditor is responsible for auditing compliance with this chapter and rules adopted under this chapter that apply to those utilities and the attorney general is responsible for enforcing that compliance.

NEW SECTION. **Sec. 421.** A new section is added to chapter 43.19 RCW to read as follows:

(1) During the biennium ending June 30, 2009, the department of general administration is authorized to purchase at least one hundred plug-in electric hybrid vehicles for state agency light duty vehicle uses, when commercially available at comparable life costs to other vehicles. The department of general administration shall assign these vehicles to departments and job functions that on average log the most miles driving light duty vehicles. The vehicles must bear a prominent designation as a plug-in electric hybrid vehicle. The department of general administration shall develop a purchasing contract under which state agencies and local governments may purchase plug-in electric hybrid vehicles.

(2) Any agency that owns plug-in hybrid vehicles shall contribute data to an economic analysis of the total life-cycle cost to the state over the vehicle's estimated useful life, including energy inputs into the production of the vehicle, fuel usage, and all related costs of selection, acquisition, operation, maintenance, and disposal, as far as these costs can reasonably be determined, minus the salvage value at the end of the vehicle's estimated useful life.

(3) By December 31, 2009, the department of general administration shall provide a report to the transportation and energy committees of the senate and house of representatives on the acquisition of these vehicles and their operational and maintenance performance.

NEW SECTION. **Sec. 422.** The legislature finds and declares that greenhouse gases offset contracts, credits, and other greenhouse gases

mitigation efforts are a recognized utility purpose that confers a direct benefit on the utility's ratepayers. The legislature declares that this act is intended to reverse the result of *Okeson v. City of Seattle,* No. 77888-4 (January 18, 2007), by expressly granting municipal utilities and public utility districts the statutory authority to engage in mitigation activities to offset their utility's impact on the environment.

NEW SECTION. **Sec. 423.** A new section is added to chapter 35.92 RCW to read as follows:

(1) A city or town authorized to acquire and operate utilities for the purpose of furnishing the city or town and its inhabitants and other persons with electricity for lighting and other purposes may develop and make publicly available a plan to reduce its greenhouse gases emissions or achieve no-net emissions from all sources of greenhouse gases that the utility owns, leases, uses, contracts for, or otherwise controls.

(2) A city or town authorized to acquire and operate utilities for the purpose of furnishing the city or town and its inhabitants and other persons with electricity for lighting and other purposes may, as part of its utility operation, mitigate the environmental impacts, such as greenhouse gases emissions, of its operation and any power purchases. The mitigation may include, but is not limited to, those greenhouse gases mitigation mechanisms recognized by independent, qualified organizations with proven experience in emissions mitigation activities. Mitigation mechanisms may include the purchase, trade, and banking of greenhouse gases offsets or credits. If a state greenhouse gases registry is established, a utility that has purchased, traded, or banked greenhouse gases mitigation mechanisms under this section shall receive credit in the registry.

NEW SECTION. **Sec. 424.** A new section is added to chapter 54.16 RCW to read as follows:

(1) A public utility district may develop and make publicly available a plan for the district to reduce its greenhouse gases emissions or achieve no-net emissions from all sources of greenhouse gases that the district owns, leases, uses, contracts for, or otherwise controls.

(2) A public utility district may, as part of its utility operation, mitigate the environmental impacts, such as greenhouse gases emissions, of its operation and any power purchases. Mitigation may include, but is not limited to, those greenhouse gases mitigation mechanisms recognized by independent, qualified organizations with proven experience in emissions mitigation activities. Mitigation mechanisms may include the purchase, trade, and banking of greenhouse gases offsets or credits. If a state greenhouse gases registry is established, a public utility district that has purchased, traded, or banked greenhouse gases mitigation mechanisms under this section shall receive credit in the registry.

NEW SECTION. **Sec. 425.** A new section is added to chapter 82.16 RCW to read as follows:

(1) Subject to the limitations in this section, an eligible light and power business may claim a credit against the tax imposed under this chapter.

(2) The amount of credit is equal to two percent of the amount of qualifying investments made each fiscal year beginning July 1, 2007, in distributed generation, and in measures that improve, as measured in kilowatt-hour savings, the overall efficiency of transmission, distribution, and end-use consumption of electricity through energy efficiency technologies, including any device, instrument, machine, appliance, or process related to the transmission, distribution, and consumption of electricity to increase energy efficiency, including but not limited to smart grid technology, smart meters, and demand response technologies.

(3) The credit may be claimed only after the qualifying investment has been made. The credit shall be claimed against taxes due for the same fiscal year in which the qualifying investment has been made. The credit for each reporting period shall not exceed the amount of tax otherwise due under this chapter for the reporting period. Credits earned for any fiscal year shall not be carried forward or backward and claimed against taxes due for prior or subsequent fiscal years. Refunds may not be granted in the place of a credit. Any unused credit expires.

(4) The total amount of credit that may be taken by an eligible light and power business for qualifying investments in a fiscal year is

limited to its base credit plus any ratable portion of unused base credit as calculated by the department. The balance of base credits not used by other eligible light and power businesses may be ratably distributed to qualifying applicants under the formula in subsection (7)(a) of this section. The total credit shall be claimed against taxes due for the same fiscal year in which the qualifying investments are made.

(5) The total amount of credit, statewide, that may be taken in any fiscal year shall not exceed one million dollars.

(6) The department of community, trade, and economic development shall determine and certify to the department those investments made by an eligible light and power business that qualify for the credit under this section.

(7) Unless the context clearly requires otherwise, the definitions in this subsection apply throughout this section.

(a) "Base credit" means the maximum amount of credit against the tax imposed by this chapter that each eligible light and power business may take each fiscal year as calculated by the department. The base credit is equal to the proportionate share of in-state retail electricity revenues received by each eligible light and power business in the prior fiscal year that bears to the total amount of in-state retail electricity revenues received by all eligible light and power businesses in the prior fiscal year multiplied by one million dollars.

(b) "Eligible light and power business" means a municipal utility formed under Title 35 RCW, a public utility district formed under Title 54 RCW, an irrigation district formed under chapter 87.03 RCW, a cooperative formed under chapter 23.86 RCW, a mutual corporation or association formed under chapter 24.06 RCW, or port district within which an industrial district has been established as authorized by Title 53 RCW, that is engaged in the business of distributing electricity to more than one retail electric customer in the state.

(c) "Qualifying investment" means investments in distributed generation, and those measures under subsection (2) of this section which, at the time they are placed in the rate base, are reasonably expected to save, produce, or generate energy at a total incremental system cost per unit of energy delivered to end use that is less than or equal to the incremental system cost per unit of energy delivered to

end use from new baseload or peaking electric generation and that the eligible light and power business could acquire to meet energy demand in the same time period.

(8) This section expires July 1, 2037.

NEW SECTION. **Sec. 426.** For the purposes of sections 416 through 420 of this act, the department and the commission shall review the greenhouse gases emission performance standard established in this chapter to determine need, applicability, and effectiveness no less than every five years following the effective date of this section, or upon implementation of a federal or state law or rule regulating carbon dioxide emissions of electrical utilities, and report to the legislature.

PART 5
MISCELLANEOUS

NEW SECTION. **Sec. 501.** Part headings used in this act are not any part of the law.

NEW SECTION. **Sec. 502.** The following sections are codified and recodified as a new chapter in Title 43 RCW entitled "Energy Freedom Program":

RCW 15.110.005;
RCW 15.110.010;
RCW 15.110.020;
RCW 15.110.030;
RCW 15.110.040;
RCW 15.110.050;
RCW 15.110.060;
RCW 15.110.900;
RCW 15.110.901;
Section 204 of this act;
Section 205 of this act;
Section 304 of this act;
Section 307 of this act; and
Section 403 of this act.

NEW SECTION. **Sec. 503.** Sections 410 and 411 of this act constitute a new chapter in Title 43 RCW.

NEW SECTION. **Sec. 504.** Sections 412 through 415 of this act constitute a new chapter in Title 43 RCW.

NEW SECTION. **Sec. 505.** Sections 416 through 420 and 426 of this act constitute a new chapter in Title 80 RCW.

NEW SECTION. **Sec. 506.** A new section is added to chapter 43.135 RCW to read as follows:

RCW 43.135.035(4) does not apply to the transfers established in this act.

NEW SECTION. **Sec. 507.** Sections 204 and 301 through 307 of this act are necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and take effect July 1, 2007."

E2SHB 1303 - S COMM AMD
By Committee on Ways & Means

NOT ADOPTED 04/13/2007

On page 1, line 3 of the title, after "emissions;" strike the remainder of the title and insert "amending RCW 70.94.017, 53.08.040, 43.19.642, 15.110.010, 15.110.020, 15.110.040, 15.110.050, 15.110.060, 47.17.020, 47.17.135, and 47.17.140; adding a new section to chapter 28A.300 RCW; adding new sections to chapter 43.19 RCW; adding a new section to chapter 43.01 RCW; adding a new section to chapter 89.08 RCW; adding a new section to chapter 35.21 RCW; adding new sections to chapter 35.92 RCW; adding a new section to chapter 54.04 RCW; adding a new section to chapter 28B.30 RCW; adding a new section to chapter 54.16 RCW; adding a new section to chapter 82.16 RCW; adding a new section to chapter 43.135 RCW; adding new chapters to Title 43 RCW; adding a new chapter to Title 80 RCW; creating new sections;

recodifying RCW 15.110.005, 15.110.010, 15.110.020, 15.110.030, 15.110.040, 15.110.050, 15.110.060, 15.110.900, and 15.110.901; providing an effective date; providing an expiration date; and declaring an emergency."

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