

SENATE BILL REPORT

SB 6306

As of January 25, 2016

Title: An act relating to creating a fossil fuel carbon pollution tax.

Brief Description: Creating a fossil fuel carbon pollution tax.

Sponsors: Senator Hobbs.

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 1/21/16.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Staff: Kimberly Cushing (786-7421)

Background: Under current law, fossil fuel means natural gas, petroleum, coal, or any form of solid, liquid, or gaseous fuel derived from such material to produce heat for the generation of electricity.

Stormwater Financial Assistance Program (SFAP). In 2013, the Legislature appropriated \$150,000 in the capital budget to the Department of Ecology to develop an ongoing comprehensive, statewide SFAP to be implemented by July 1, 2015. The purpose of the program is to provide grants to local governments for the protection and improvement of statewide water quality and to improve watershed functionality by reducing the transport of toxics and other pollutants through stormwater runoff and by reducing uncontrolled runoff flows.

Fish Barrier Correction Projects. In 2001, 21 Western Washington treaty tribes filed suit in U.S. District Court, *United States v. Washington*, alleging that the existence of state-owned barrier culverts under roads that restrict or completely block salmon and trout access to historic spawning and rearing habitat is a violation of treaty rights. In March 2013, a permanent injunction was issued requiring the State of Washington to accelerate barrier correction on salmon and steelhead streams within specified areas. The Washington State Department of Transportation (WSDOT) is correcting fish passage barriers for dedicated fish passage projects and those completed as part of transportation projects.

Renewable Energy and Energy Efficiency Projects. The Washington State Energy Office within the Department of Commerce (Commerce) has a variety of programs that help

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improve energy efficiency for homeowners, businesses, public facilities, and low-income residents, improve access to financing for energy-efficiency upgrades, and to support the development and deployment of clean energy technologies.

In 2005, the Legislature created a Renewable Energy Cost-Recovery Incentive Program (Cost-Recovery Program) to promote renewable energy systems located in Washington that produce electricity from solar, wind, or anaerobic digesters. A utility providing incentive payments is allowed a credit against its public utility tax (PUT) for incentives paid. The Cost-Recovery Program expires June 30, 2020.

Summary of Bill: Defining Fossil Fuel and First Taxable Event. Fossil fuel is defined as coal, natural gas, crude oil, and petroleum products. First taxable event means (1) the first possession of (a) natural gas acquired by a gas distribution business, or a person subject to the use tax levied on natural gas; (b) coal acquired by a person using coal for the generation of electricity, heat, or steam in Washington; and (c) petroleum product subject to a hazardous substance tax; and (2) the use of fossil fuels in a Washington facility that results in carbon dioxide (CO₂) emissions in conjunctions with the process of distilling, fractionating, refining, or processing of crude oil or petroleum products.

Fossil Fuel Carbon Pollution Tax (Carbon Tax). A carbon tax is levied and imposed at the time of the first taxable event and upon the first taxable person in Washington on the carbon content of fossil fuels extracted, manufactured, or introduced into this state equal to \$8 per metric ton of CO₂.

Fossil fuels exempt from the carbon tax are those (1) used for air or marine travel between Washington and another state or county; (2) purchased in Washington for export for use outside of Washington; and (3) brought into this state in the fuel tank of a motor vehicle, vessel, locomotive, or aircraft. Reductions to the carbon tax rates are not a credit and cannot be transferred, traded, or banked.

The Department of Revenue (DOR), with the Department of Ecology, must calculate the carbon content of fossil fuels, using relevant methods established by the U.S. Department of Energy or U.S. Environmental Protection Agency. The carbon tax is to be collected in addition to all other taxes imposed on fossil fuels. To the extent practical, DOR must integrate the administration and collection of the carbon taxes with all other taxes imposed on taxpayers.

Expenditures from the Carbon Pollution Revenues Account (Account). All receipts from the carbon tax must be deposited into the Account, which is created in the state treasury. The following activities must each receive a quarter of the revenues from the Account:

1. Project-specific planning, design, and construction projects that reduce storm water impacts from existing infrastructure and development. Grants to cities and counties must be provided through the SFAP. Grants also may be provided for projects sponsored by other public or private entities.
2. Fish barrier correction projects at state highways as required by the federal injunction. If the amount exceeds the current biennial appropriation for compliance with the injunction, WSDOT may provide funding for projects with the greatest restoration of fish habitat access for fish barrier correction projects on state or local roadways.

3. Programs that advance renewable energy and energy efficiency administered by Commerce, including funding:
 - a. for projects that provide a benefit to the public through development, demonstration, and deployment of clean energy technologies that save energy, reduce energy costs, reduce harmful air emissions, or otherwise increase energy independence for the state;
 - b. for community energy efficiency programs with an emphasis on low-income housing; and
 - c. to offset some or all of the state fiscal impacts of the credits against taxes owed by utilities under the Cost-Recovery Program.
4. Projects and programs that advance the use of public transportation and other multimodal transportation options throughout the state.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on January 1, 2017.

Staff Summary of Public Testimony: PRO: The bill was introduced to start a discussion. The Legislature has been in situations where it could have done something, but an initiative was thrust upon it instead. My biggest fear is an initiative will implement cap and trade, which is a bad policy in a small market. The fiscal note is larger than expected, so let's lower it. We can change the bill to allow exemptions for certain sectors of the economy or to make it a progressive tax. We can change the four pots of money and spend it on water projects instead of transportation. We don't put out a lot of carbon in our state, but storm water going into Puget Sound is a problem. We can help Washington with this bill. We are glad to have public transportation as part of the conversation.

CON: Washington State emissions are at 10 tons per person, which is below the national average, but more than twice the world average and five times the average that scientists consider safe for climate stability, which is 2 tons. There is strong support for climate stability around the world. As a result of the Paris Agreement, the U.S. and other nations have pledged to keep temperatures well below 2 degree Celsius. Washington should put a price on carbon of at least \$25 a ton in order to make a significant contribution to the U.S. pledge.

OTHER: \$8 a ton is one half of what the initiative starts at. If a tax is placed on natural gas users, i.e., home owners, the people who pay should be able to benefit. We want to discuss getting energy efficiency into homes. We are concerned about the tax increase to the cost of Washington's electricity, which is cleanest in the country. Economists agree a carbon tax is the single most effective strategy for reducing carbon emissions. A price on carbon is long overdue. A much higher price than \$8 a ton is needed. But to achieve higher prices, a revenue neutral policy is needed. If the Legislature needs new revenue, we don't know if these are the right buckets. It is important to figure out ways to pay for storm water. A carbon tax will increase conservation and revenue. It is our moral responsibility to protect

children and future generations. This is an alternative solution to cap and trade or a ballot initiative.

Persons Testifying: PRO: Senator Hobbs, prime sponsor; Michael Shaw, Washington State Transit Association.

CON: William McPherson, President, Unitarian Universalist Voices for Justice, Washington.

OTHER: Ron Main, Greg Rock, Carbon WA; Charlie Brown, Cascade Natural Gas; Isaac Kastama, Washington Business Alliance; David Williams, Association of Washington Cities.

Persons Signed In To Testify But Not Testifying: No one.