

# SENATE BILL REPORT

## ESHB 2580

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As Passed Senate - Amended, March 7, 2018

**Title:** An act relating to promoting renewable natural gas.

**Brief Description:** Promoting renewable natural gas.

**Sponsors:** House Committee on Technology & Economic Development (originally sponsored by Representatives Morris, Lytton, Fey and Doglio; by request of Department of Commerce).

**Brief History:** Passed House: 3/06/18, 98-0.

**Committee Activity:** Ways & Means: 3/07/18, 3/07/18 [DP].

**Floor Activity:**

Passed Senate - Amended: 3/07/18, 47-1.

### Brief Summary of Bill (As Amended by Senate)

- Requires the Washington State University Extension Energy Program and the Department of Commerce (Commerce), in consultation with the Utilities and Transportation Commission, to submit recommendations to the Governor and the energy committees of the Legislature by September 1, 2018, on how to promote the sustainable development of renewable natural gas (RNG).
- Requires Commerce, in consultation with other state agencies, to explore development of voluntary gas quality standards for the injection of RNG into the natural gas pipeline system.
- Expands a sales and use tax exemption for anaerobic digesters.
- Reinstates a property tax exemption and leasehold tax exemption for anaerobic digesters.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair; Braun, Ranking Member; Honeyford, Assistant Ranking Member; Bailey, Becker, Billig, Brown, Carlyle, Conway,

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Darneille, Fain, Hunt, Keiser, Mullet, Palumbo, Pedersen, Ranker, Rivers, Schoesler, Van De Wege, Wagoner and Warnick.

**Staff:** Jeffrey Mitchell (786-7438)

**Background:** Business and Occupation Tax Preferences. A preferential business and occupation (B&O) tax rate for manufacturers of alcohol fuel, biodiesel fuel, or biodiesel feedstock expired on July 1, 2009. Manufacturers of wood biomass fuel are eligible for a preferential B&O tax rate equal to the value of wood biomass fuel manufactured, multiplied by the rate of 0.138 percent. Wood biomass fuel is defined to mean a pyrolytic liquid fuel or synthesis gas-derived liquid fuel, used in internal combustion engines, and produced from wood, forest, or field residue, or dedicated energy crops that do not include wood pieces that have been treated with chemical preservatives such as creosote, entachlorophenol, or copper-chrome-arsenic.

Sales and Use Tax Preferences. A sales and use tax exemption is available for establishing or operating an anaerobic digester. The anaerobic digester must be used primarily to treat livestock manure. A sales and use tax exemption was available until July 30, 2011, for the sale of machinery and equipment used directly in generating electricity using alternative energy resources, including anaerobic digestion and landfill gas. Beginning on July 1, 2011, and until January 1, 2020, the sales and use tax exemption is equal to 75 percent of the state and local sales tax paid and is available in the form of a remittance.

Property Tax and Leasehold Excise Tax Preferences. Until December 31, 2015, all buildings, machinery, equipment, and other personal property which are used primarily for the manufacturing of alcohol fuel, biodiesel fuel, biodiesel feedstock, or the operation of an anaerobic digester were exempt from property taxes and leasehold taxes for a period of six years following the date on which the facility or the addition to the existing facility became operational. Buildings and other personal property which are used primarily for manufacturing wood biomass fuel were exempt from leasehold taxes for a period of six years following the date on which the facility or the addition to the existing facility became operational.

**Summary of Amended Bill:** Renewable Natural Gas. The Washington State University Extension Energy Program (WSU Energy Program) and Commerce, in consultation with the Utilities and Transportation Commission (UTC), must submit recommendations to the Governor and the energy committees of the Legislature by September 1, 2018, on how to promote the sustainable development of RNG in the state. The recommendations must include a detailed inventory of the practical opportunities and costs associated with RNG production in the state, specific opportunities for state agencies and public facilities to take advantage of RNG potential, recommendations for limiting the life-cycle carbon intensity of RNG to the extent feasible, and whether to adopt a procurement standard for RNG.

Commerce, in consultation with the Department of Ecology, the UTC, and the Department of Health, must explore development of voluntary gas quality standards for the injection of RNG into the natural gas pipeline system. The purpose of the standards should be to identify acceptable levels of constituents of concern for safety and environmental purposes, including ensuring pipeline integrity, while providing reasonable and predictable access to pipeline

transmission and distribution facilities. Commerce must consult industry groups and identify industry best practices in developing its recommendations.

Renewable natural gas means a methane-rich gas derived from organic feedstocks that has been conditioned to meet standards for natural gas derived from fossil fuel sources.

Tax Preferences. For the purposes of a preferential B&O tax rate for manufacturers of wood biomass fuel, the definition of wood biomass fuel is amended to mean a fuel used in internal combustion engines that is produced from lignocellulosic feedstocks, including wood, forest, field residue, and dedicated energy crops, and does not include wood treated with chemical preservations.

A sales and use tax exemption for anaerobic digesters is expanded to include equipment and services necessary to process biogas from a landfill into marketable coproducts, including but not limited to biogas conditioning, compression, and electrical generation equipment. Also, the requirement that an anaerobic digester must be used primarily to treat livestock manure is eliminated.

References to anaerobic digestion and landfill gas are removed from the renewable energy sales and use tax exemption statute since the exemptions are moved into the sales and use tax exemption statute for anaerobic digesters..

A six-year property tax and leasehold excise tax exemption is restored for personal property used primarily for the operation of an anaerobic digester until December 31, 2024.

A tax preference performance statement is established which specifies that it is the Legislature's intent to reinstate and expand tax incentives for certain landfills and anaerobic digesters in order to stimulate investment in biogas capture and conditioning, compression, nutrient recovery, and use of RNG for heating, electricity generation, and transportation fuel. To measure the effectiveness of the tax preferences, the Joint Legislative Audit and Review Committee must evaluate the number of public and private landfills and anaerobic digesters producing RNG in the state and the extent to which they are utilizing the incentives.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on July 1, 2018.

**Staff Summary of Public Testimony:** None.

**Persons Testifying:** No one.

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