Multiple Agency Fiscal Note Summary

Bill Number: 5659 SB	**Title:** Gas companies/renewable res.

Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	0	0	(140,000)	0	0	(200,000)	0	0	(200,000)
Department of Ecology	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Total $	**0**	**0**	**(140,000)**	**0**	**0**	**(200,000)**	**0**	**0**	**(200,000)**

Agency Name	2023-25		2025-27		2027-29	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other		(59,400)		(79,200)		(79,200)
Local Gov. Total		(59,400)		(79,200)		(79,200)

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Joint Legislative Audit and Review Committee	.1	13,300	13,300	13,300	.0	4,400	4,400	4,400	.0	4,400	4,400	4,400
Department of Revenue	.2	72,000	72,000	72,000	.1	18,800	18,800	18,800	.1	18,800	18,800	18,800
Utilities and Transportation Commission	.0	0	0	10,141	.0	0	0	0	.0	0	0	0
Department of Ecology	.7	193,469	193,469	226,475	.1	0	0	33,006	.1	0	0	33,006
Total $	**1.0**	**278,769**	**278,769**	**321,916**	**0.2**	**23,200**	**23,200**	**56,206**	**0.2**	**23,200**	**23,200**	**56,206**

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Expenditures

FNPID 66982

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Joint Legislative Audit and Review Committee	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Utilities and Transportation Commission	.0	0	0	.0	0	0	.0	0	0
Department of Ecology	.0	0	0	.0	0	0	.0	0	0
Total $	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2023-25			2025-27			2027-29		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Local Gov. Total									

Estimated Capital Budget Breakout

Prepared by: Cheri Keller, OFM	**Phone:** (360) 584-2207	**Date Published:** Final 2/14/2023

Individual State Agency Fiscal Note

Bill Number: 5659 SB	Title: Gas companies/renewable res.	Agency: 014-Joint Legislative Audit and Review Committee

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.1	0.0	0.0
Account					
General Fund-State 001-1	13,300	0	13,300	4,400	4,400
Total $	13,300	0	13,300	4,400	4,400

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Kim Cushing	Phone: (360) 786-7421	Date: 02/01/2023
Agency Preparation:	Stephanie Hoffman	Phone: 360 786-5297	Date: 02/06/2023
Agency Approval:	Eric Thomas	Phone: 360 786-5182	Date: 02/06/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/14/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

The bill creates a new sales and use tax preference to incentivize gas companies to develop and acquire renewable energy resources.

TAX PERFORMANCE STATEMENT DETAILS

SECTION 2 provides a tax preference performance statement that categorizes the preference as one intended to induce certain designated behaviors by taxpayers, as indicated under RCW 82.32.808(2)(a). The specific public policy objective is stated to promote development of renewable natural gas (RNG) projects in the state.

If a review finds that the total number of methane emission capture projects increase in number over the time of adoption of the exemption and the majority of those projects process the methane into RNG that is sold in Washington, the Legislature intends to extend the expiration date of the preference.

JLARC staff is to access and use any relevant data collected by the state.

REST OF BILL AND TAX PREFERENCE DETAILS

SECTION 3 and 4 create new sections in chapters 82.08 and 82.12 RCW creating the following new preferences, each beginning January 1, 2024:
• A sales/use tax exemption for machinery and equipment used directly in generating RNG, or charges for labor/services rendered to install such machinery and equipment, including but not limited to machinery, equipment, and services for a facility capable of connecting to the existing natural gas infrastructure.
• A sales/use tax exemption for machinery and equipment used directly in connecting an RNG facility to an end user of the RNG or to the existing natural gas infrastructure or labor/services charges rendered for installation of such items.

Definitions are provided. Persons claiming an exemption under this section must keep records necessary for the department to verify eligibility. Persons using the preference must file an annual tax preference report with the Department of Revenue. The sections expire January 1, 2035.

SECTION 5 creates a new section in chapter 80.28 to allow gas companies to construct and maintain certain facilities and projects that reduce greenhouse gas emissions. Gas companies may factor certain investments specified in the section into these facilities and projects into rates and charges.

SECTION 6 adds a new section to chapter 19.27A specifying that state or local restrictions or limitations on the use of natural gas in buildings do not apply to buildings that fulfil certain conditions and that dual fuel heat pumps that use both natural gas and electricity may be installed in any building for use as a peaking resource alternative.

SECTION 8 adds a new section to chapter 70A.65 to allow gas companies to claim investments in residential and commercial rooftop solar as reductions against its carbon compliance obligations. To do so, the company must surrender renewable energy credits produced by the utility's investments, where one renewable energy credit equates to one ton of carbon dioxide equivalent.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

JLARC staff would contact and work with the Department of Revenue and other appropriate agencies or organizations immediately after passage of the bill to ensure project contacts are established and any other necessary data for JLARC staff's future evaluation needs are identified and collected. JLARC will likely review these preferences in 2032.

The expenditure detail reflects work conducted to prepare for the future review of the preferences. Costs associated with the review are not included in this fiscal note. This fiscal note reflects only the costs associated with establishing data collection.

This tax preference review may require additional resources. The audit will be conducted and presented to JLARC consistent with the processes used for other tax preference reviews. Based on all tax preference legislation that is passed, JLARC may subsequently determine that it can absorb the costs for this proposed bill in its base budget, if the workload of other enacted tax preference legislation does not exceed current staffing. JLARC will assess all of the tax preference reviews mandated in the 2023 legislative session.

This audit will require an estimated 1 audit months.

JLARC Audit Months: JLARC calculates its staff resources in "Audit Months" to estimate the time and effort to undertake and complete its studies. An "Audit Month" reflects a JLARC analyst's time for a month, together with related administrative, support, and goods/services costs. JLARC's anticipated 2021-23 costs are calculated at approximately $22,100 per audit month.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	13,300	0	13,300	4,400	4,400
		Total $	13,300	0	13,300	4,400	4,400

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.1		
A-Salaries and Wages	8,600		8,600	2,800	2,800
B-Employee Benefits	2,700		2,700	1,000	1,000
C-Professional Service Contracts					
E-Goods and Other Services	1,800		1,800	600	600
G-Travel	200		200		
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	13,300	0	13,300	4,400	4,400

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Research Analyst	126,694	0.1		0.1		
Support staff	89,671					
Total FTEs		0.1		0.1		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 5659 SB	Title: Gas companies/renewable res.	Agency: 140-Department of Revenue

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
General Long-Term Obligations Account Group-State 01 - Taxes 01 - Retail Sales Tax	(40,000)	(100,000)	(140,000)	(200,000)	(200,000)
Total $	(40,000)	(100,000)	(140,000)	(200,000)	(200,000)

Estimated Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	0.1	0.2	0.1	0.1
Account					
GF-STATE-State 001-1	61,600	10,400	72,000	18,800	18,800
Total $	61,600	10,400	72,000	18,800	18,800

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Kim Cushing	Phone: (360) 786-7421	Date: 02/01/2023
Agency Preparation:	Alex Merk-Dyes	Phone: 360-534-1601	Date: 02/08/2023
Agency Approval:	Marianne McIntosh	Phone: 360-534-1505	Date: 02/08/2023
OFM Review:	Cheri Keller	Phone: (360) 584-2207	Date: 02/08/2023

Request # 5659-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

This fiscal note only addresses sections 3 and 4 of the bill, which impact the Department of Revenue (department).

CURRENT LAW:
The law provides sales and use tax exemptions for machinery and equipment (M&E) used directly in manufacturing renewable natural gas (RNG) and processing biogas using an anaerobic digester. Labor and services used to install, repair, alter, or improve the M&E are also exempt.

PROPOSAL:
Beginning January 1, 2024, this bill proposes a sales and use tax exemption for M&E, labor, and services necessary for the production of RNG to include M&E used directly in connecting a renewable natural gas facility to an end user or the existing natural gas infrastructure.

A taxpayer claiming this new tax preference must file an annual tax performance report.

The exemption expires January 1, 2035.

EFFECTIVE DATE:
The bill takes effect 90 days after final adjournment of the session.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
- Local impacts use the statewide average local sales and use tax rate of 2.92%.
- One new RNG facility connects to the existing natural gas infrastructure every three years. RNG facilities maintain the pipeline connections on a yearly basis.
- The proposed exemption takes effect January 1, 2024, impacting five months of collections in fiscal year 2024.

DATA SOURCES
- U.S. Environmental Protection Agency, pipeline costs and RNG facilities
- Department of Commerce, Energy Promoting RNG in Washington State report

REVENUE ESTIMATES
This bill decreases state revenues by an estimated $40,000 in the five months of impacted collections in fiscal year 2024, and by $100,000 in fiscal year 2025, the first full year of impacted collections.

This bill also decreases local revenues by an estimated $20,000 in the five months of impacted collections in fiscal year 2024, and by $40,000 in fiscal year 2025, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, $000):
FY 2024 - ($ 40)
FY 2025 - ($ 100)

FY 2026 - ($ 100)
FY 2027 - ($ 100)
FY 2028 - ($ 100)
FY 2029 - ($ 100)

Local Government, if applicable (cash basis, $000):
FY 2024 - ($ 20)
FY 2025 - ($ 40)
FY 2026 - ($ 40)
FY 2027 - ($ 40)
FY 2028 - ($ 40)
FY 2029 - ($ 40)

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:
Approximately 20 buyers using a certificate.

FIRST YEAR COSTS:
The department will incur total costs of $61,600 in fiscal year 2024. These costs include:

Labor Costs - Time and effort equate to 0.36 FTE.
- Amend one administrative rule.
- Computer system testing, monitoring, and maintenance.

Object Costs - $22,000.
- Contract computer system programming.

SECOND YEAR COSTS:
The department will incur total costs of $10,400 in fiscal year 2025. These costs include:

Labor Costs - Time and effort equate to 0.1 FTE.
- Attend implementation meetings, monitor reports, prepare statistics, train examiners, and test system changes.
- Conduct audit case reviews and work complex accounts.

ONGOING COSTS:
Ongoing costs for the 2025-27 biennium equal $18,800 and include similar activities described in the second-year costs. Time and effort equate to 0.1 FTE each year.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.4	0.1	0.2	0.1	0.1
A-Salaries and Wages	24,400	6,200	30,600	12,400	12,400
B-Employee Benefits	8,100	2,000	10,100	4,000	4,000
C-Professional Service Contracts	22,000		22,000		
E-Goods and Other Services	4,800	1,500	6,300	1,800	1,800
J-Capital Outlays	2,300	700	3,000	600	600
Total $	$61,600	$10,400	$72,000	$18,800	$18,800

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EXCISE TAX EX 3	61,632		0.1	0.1	0.1	0.1
MGMT ANALYST4	73,260	0.3		0.2		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.0		0.0		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		0.4	0.1	0.3	0.1	0.1

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5659 SB	**Title:** Gas companies/renewable res.	**Agency:** 215-Utilities and Transportation Commission

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1	0.0	0.0	0.0	0.0
Account					
Public Service Revolving Account-State 111-1	10,141	0	10,141	0	0
Total $	10,141	0	10,141	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☒ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Kim Cushing	Phone: (360) 786-7421	Date: 02/01/2023
Agency Preparation:	Amy Andrews	Phone: 360-481-1335	Date: 02/07/2023
Agency Approval:	Amy Andrews	Phone: 360-481-1335	Date: 02/07/2023
OFM Review:	Tiffany West	Phone: (360) 890-2653	Date: 02/07/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Sections 2-4 change tax preferences for renewable natural gas projects and connected equipment and machinery. UTC assumes this may change the number and nature of gas projects proposed by its regulated companies, but that this will not change workload, since the changes will be absorbed into current UTC processes, and since UTC is undergoing training on these topics as a result of other legislation.

Section 5 adds a section to chapter 80.28 qualifying that gas companies may propose projects that reduce greenhouse gas emissions, and that gas companies may seek recovery of these investments from the UTC. It also clarifies that UTC should consider purchases of and investments in these projects in the state's interest. UTC assumes this will not change workload for the reasons explained above regarding sections 2-4.

Section 6 adds a section to RCW 19.27A to exempt buildings from state and local energy code restrictions on natural gas if the buildings are served by renewable natural gas. The exemption includes (1)(c), whereby a gas company will provide a certification to the UTC that the gas serving the building is only renewable. UTC assumes training and review of this certification, as informed by other new sections of this legislation, will incrementally increase workload in the short term.

Section 7 removes the maximum customer charge to retail customers for renewable natural gas program. While this may change the content of company tariffs or filings, UTC assumes this will not change workload for the reasons explained above regarding sections 2-4.

Section 8 allows gas companies to claim investments in solar and battery through renewable natural gas as part of compliance with RCW 70A.65, the Climate Commitment Act. UTC assumes training and review of such projects will require training and incrementally increase workload in the short term.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

None

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

UTC assumes the following increase in workload due to training and review of project certification.
Sections 6 & 8
Training and certification review related to renewable natural gas projects and Climate Commitment Act compliance
UTC assumes two Regulatory Analysts will assume the brunt of the analysis training other Staff, adjusting materials and resources, and preparing filings with an eye for the substantive changes these sections will create for how renewable natural gas projects are analyzed for prudency, how they affect Climate Commitment Act compliance, and how certification for these projects per Section 6 will intersect with the state energy code. A Deputy Assistant Director and Director of regulatory services will review analysis and updated resources. A policy advisor, Assistant Director of Policy, and Administrative Law Judge will also need minimal incremental training to review related filings. UTC also assumes these positions may need to review the certification outlined in Section 6. UTC assumes this work will occur in the beginning of 2024 on a one-time basis.

FY 2024 - $10,141
(Regulatory Analyst 2, .02 FTE; Regulatory Analyst 3, .01 FTE; Deputy Assistant Director Regulatory Services, .01 FTE; Policy Advisor, .01 FTE; Assistant Director Policy, .01 FTE; Administrative Law Judge, .01 FTE)

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
111-1	Public Service Revolving Account	State	10,141	0	10,141	0	0
		Total $	10,141	0	10,141	0	0

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.1		0.0		
A-Salaries and Wages	6,899		6,899		
B-Employee Benefits	2,414		2,414		
C-Professional Service Contracts					
E-Goods and Other Services	828		828		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	10,141	0	10,141	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Administrative Law Judge	119,088	0.0		0.0		
Asst. Director, Policy	110,064	0.0		0.0		
Deputy Asst. Director | Regulatory Services	101,136	0.0		0.0		
Policy Advisor	100,008	0.0		0.0		
Regulatory Analyst 2	82,896	0.0		0.0		
Regulatory Analyst 3	93,840	0.0		0.0		
Total FTEs		0.1		0.1		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Individual State Agency Fiscal Note

Bill Number: 5659 SB	Title: Gas companies/renewable res.	Agency: 461-Department of Ecology

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.3	0.1	0.7	0.1	0.1
Account					
General Fund-State 001-1	193,469	0	193,469	0	0
Climate Investment Account-State 26B-1	16,503	16,503	33,006	33,006	33,006
Total $	209,972	16,503	226,475	33,006	33,006

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Kim Cushing	Phone: (360) 786-7421	Date: 02/01/2023
Agency Preparation:	Pete Siefer	Phone: 360-485-7648	Date: 02/13/2023
Agency Approval:	Erik Fairchild	Phone: 360-407-7005	Date: 02/13/2023
OFM Review:	Lisa Borkowski	Phone: (360) 742-2239	Date: 02/13/2023

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Background: Currently, under chapter 70A.65 RCW (the Climate Commitment Act or CCA), natural gas (NG) utilities are considered covered entities and are required to meet carbon compliance obligations by obtaining and submitting carbon allowances for each metric ton of greenhouse gas (GHG) emissions they produce in a compliance year. Under chapter 19.285 RCW, the Washington Energy Independence Act allows utilities to meet their renewable energy obligations with either actual energy from renewable projects or renewable energy credits (RECs). One REC is equal to one megawatt-hour of electricity generated by a qualifying project. Per RCW 19.285.070, each qualifying utility is required to report to Department of Commerce (Commerce) on its progress in the preceding year in meeting the targets established in RCW 19.285.040.

Section 8 of this bill would modify chapter 70A.65 RCW to allow NG utilities to claim investments in residential and commercial rooftop solar, including battery storage, and community solar projects undertaken in Section 5 of this bill as reductions against its carbon compliance obligations under the CCA. A NG utility would be required to surrender RECs produced by the utility's investments made under this section. Upon surrendering RECs, the NG utility would be eligible to reduce their compliance obligation under the CCA by one metric ton of GHG for each REC.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

The cash receipts impact to Ecology is indeterminate for section 8.

Under chapter 70A.65 RCW, certain carbon allowances are auctioned and proceeds are deposited into climate accounts created as part of the CCA and funds are then invested under the CCA to support program administration, climate resilience, and investments in Washington's transition to a clean energy economy. Changes to the number of compliance obligations and/or allowances available for auction could have significant impacts on auction proceeds and available funds for the climate accounts. The cap and invest program became effective January 1, 2023, with auctions to be held four times each year.

Under WAC 173-446-240, NG utilities receive no cost allowances equal to the percentage of the utility's baseline as set in law in order to meet their carbon compliance obligations. For example, in the emissions year 2023 the total number of no cost allowances distributed to a NG utility is equal to 93 percent of the utility's allocation baseline. Furthermore, the total number of no cost allowances for emissions years 2024 through 2030 distributed to a NG utility decreases annually relative to the previous year by an additional seven percent of the utility's allocation baseline. A NG utility must continue to be in compliance with chapter 173-441 WAC to continue receiving no cost allowances.

Section 8 of this bill would allow NG utilities to claim investments in residential and commercial rooftop solar, including battery storage, and community solar projects undertaken in Section 5 as reductions to their compliance obligation under the CCA by one metric ton of GHG for each REC.

Ecology assumes that NG utilities would use these alternatives to offset an indeterminate portion of their carbon compliance obligations ranging from zero up to a total possible maximum of 8.9 million allowances per year. A portion of these compliance obligations would have been purchased at auction and demand for state-owned allowances would be reduced by the number of carbon compliance obligations met through these alternatives.

Ecology assumes that removing the NG utilities' demand for allowances could reduce state auction demand at a maximum 8.9 million allowances each year in FY 2024-2029. Based on the current estimated allowance price per year, this could reduce state revenue by up to $327 million in FY 2024, increasing in future years as the allowance value increases.

The number of RECs and how NG utilities would use them to meet their compliance obligations is unknown and therefore the impact to cash receipts is indeterminate.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

The expenditure impact to Ecology under this bill is estimated to be greater than $50,000 in FY 2024 and less than $50,000 in FY 2025 and ongoing to implement the requirements of Section 8.

Currently, RECs are tracked by the Department of Commerce (Commerce). The changes in this bill would require the Department of Ecology (Ecology) to contact Commerce to request the number of RECs retired by the natural gas companies for this purpose for each of the NG utilities. Once the data is received from Commerce, Ecology would multiply the data by one metric ton and then the calculated total amounts would be the total metric tons of emissions that would be subtracted from each of the compliance obligations for each natural gas utility.

Ecology assumes that this process would be conducted four times per year to align with the CCA auctions, and that there would be four natural gas utilities. We assume that we would be required to compose, respond, and manage the data request to Commerce and to then apply the data received in the manner described above. Ecology assumes the following staff time would be required to receive, process, and adjust the compliance obligations associated with the natural gas utilities:

0.05 FTE Environmental Engineer 3 in FY 2024 and ongoing – this position would compose, respond, and manage the data request to Commerce quarterly, and then apply the data received to all natural gas utilities' compliance obligations.

0.05 FTE Environmental Planner 3 in FY 2024 and ongoing – this position would support the adjustment of each natural gas utilities' compliance obligation, as well as documenting it in the auction platform system.

Ecology assumes that the data required to be reported in this bill would require a new IT data management solution. By leveraging existing IT tools based on a reusable platform that can house this additional data, Ecology assumes the following staff time would be required: (Annual maintenance is not assumed for this project)

0.25 FTE IT Application Development- Journey in FY 2024 – this position would make the necessary software adjustments

0.2 FTE IT Application Development- Senior/Specialist in FY 2024 – this position would apply architecture changes and software adjustments.

0.2 FTE IT Business Analyst- Journey in FY 2024 – this position would gather documentation and conduct user training.

0.25 FTE IT Project Management- Journey in FY 2024 – this position would support the project manager.

0.1 FTE IT Project Management- Senior/Specialist in FY 2024 – this position would be the project manager.

Ecology assumes rulemaking would not be required to implement section 8.

SUMMARY: The expenditure impact to Ecology under this bill is:

Section 8 Adjustments to CCA Compliance Obligations is estimated to require:
FY 2024 and ongoing: $16,503 and 0.1 FTEs (Climate Investment Account)

Section 8 one-time IT impacts is estimated to require:
FY 2024: $193,469 and 1.2 FTEs (General Fund State)

THE TOTAL EXPENDITURE IMPACT to Ecology under this bill is estimated to be:
FY 2024: $209,972 and 1.3 FTEs
FY 2025 and ongoing: $16,503 and 0.1 FTEs

Notes on costs by object:

Salary estimates are current biennium actual rates at Step L.
Benefits are the agency average of 36% of salaries.
Goods and Services are the agency average of $5,224 per direct program FTE.
Travel is the agency average of $1,563 per direct program FTE.
Equipment is the agency average of $1,031 per direct program FTE.
Agency Administrative Overhead is calculated at the federally approved agency indirect rate of 28.75% of direct program salaries and benefits, and is shown as object 9. Agency Administrative Overhead FTEs are included at 0.15 FTE per direct program FTE, and are identified as Fiscal Analyst 2 and IT App Development - Journey.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
001-1	General Fund	State	193,469	0	193,469	0	0
26B-1	Climate Investment Account	State	16,503	16,503	33,006	33,006	33,006
		Total $	209,972	16,503	226,475	33,006	33,006

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	1.3	0.1	0.7	0.1	0.1
A-Salaries and Wages	115,004	8,978	123,982	17,956	17,956
B-Employee Benefits	41,401	3,232	44,633	6,464	6,464
E-Goods and Other Services	5,746	522	6,268	1,044	1,044
G-Travel	1,720	156	1,876	312	312
J-Capital Outlays	1,135	104	1,239	208	208
9-Agency Administrative Overhead	44,966	3,511	48,477	7,022	7,022
Total $	209,972	16,503	226,475	33,006	33,006

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
ENVIRONMENTAL ENGINEER 3	98,592	0.1	0.1	0.1	0.1	0.1
ENVIRONMENTAL PLANNER 3	80,952	0.1	0.1	0.1	0.1	0.1
FISCAL ANALYST 2		0.1	0.0	0.1	0.0	0.0
IT APP DEV-JOURNEY	100,032	0.3		0.1		
IT APP DEV-JOURNEY (Admin)		0.1	0.0	0.0	0.0	0.0
IT APP DEV-SR/SPECIALIST	115,824	0.2		0.1		
IT BUSINESS ANALYST-JOURNE`	100,032	0.2		0.1		
IT PROJECT MGMT-JOURNEY	105,060	0.3		0.1		
IT PROJECT MGMT-SR/SPEC	115,824	0.1		0.1		
Total FTEs		1.3	0.1	0.7	0.1	0.1

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5659 SB	**Title:** Gas companies/renewable res.

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [X] Cities: Minor loss in sales tax revenue, local permitting adjustment costs, potential market shift
- [X] Counties: Minor loss in sales tax revenue, local permitting adjustment costs
- [X] Special Districts: Minor loss in sales tax revenue, local permitting adjustment costs, potential market shift
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [ ] No fiscal impacts.
- [X] Expenditures represent one-time costs: Local permitting adjustment due to less restrictions/limitations
- [ ] Legislation provides local option:
- [X] Key variables cannot be estimated with certainty at this time: Market shift impact upon consumer-owned utilities

Estimated revenue impacts to:

Jurisdiction	FY 2024	FY 2025	2023-25	2025-27	2027-29
City	(5,897)	(11,794)	(17,691)	(23,588)	(23,588)
County	(7,249)	(14,498)	(21,747)	(28,996)	(28,996)
Special District	(6,654)	(13,308)	(19,962)	(26,616)	(26,616)
TOTAL $	(19,800)	(39,600)	(59,400)	(79,200)	(79,200)
GRAND TOTAL $					(217,800)

Estimated expenditure impacts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Part III: Preparation and Approval

Fiscal Note Analyst: Angie Hong	Phone: 360-725-5041	Date: 02/08/2023
Leg. Committee Contact: Kim Cushing	Phone: (360) 786-7421	Date: 02/01/2023
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/08/2023
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/09/2023

Part IV: Analysis

A. SUMMARY OF BILL

Description of the bill with an emphasis on how it impacts local government.

The following sections of this bill have a local government impact:

Section 3 adds a section to chapter 82.08 RCW [Retail sales tax] to create a retail sales tax exemption, starting 1/1/2024, for:
- sales of machinery and equipment used directly in generating renewable natural gas, or the charges made for labor and services rendered in respect to installing such machinery and equipment.
- sales of machinery and equipment used directly in connecting a renewable natural gas facility to an end user of the renewable natural gas or to the existing natural gas infrastructure, or the charges made for labor and services rendered in respect to installing such machinery and equipment.

Definitions for "machinery and equipment," "used directly," and "renewable natural gas."
This retail sales tax exemption expires 1/1/2035.

Section 4 adds a new section to chapter 82.12 RCW [Use tax] to create a corresponding use tax exemption.

Section 5 adds a new section to chapter 80.28 [Public Utilities: gas, electrical, and water companies] to allow gas companies to construct and maintain facilities and projects…, and to allow gas companies to factor investments into facilities and projects into rates and charges. The Utilities and Transportation Commission will consider purchases of energy derived from and investments in eligible projects as being in the state's interest.

Section 6 adds a new section to chapter 19.27A RCW [Energy-Related Building Standards] to remove state and local restrictions or limitations on the use of natural gas in buildings under certain conditions. In addition, this section describes an option: using dual fuel heat pumps.

B. SUMMARY OF EXPENDITURE IMPACTS

Expenditure impacts of the legislation on local governments with the expenditure provisions identified by section number and when appropriate, the detail of expenditures. Delineated between city, county and special district impacts.

This bill will result in an indeterminate increase in expenditures for counties, cities, and possibly: special purpose districts (specifically, consumer-owned utilities).

MARKET SHIFT
It is unknown if the facilities and projects that gas companies may construct or maintain (as described in section 5) are limited to the areas that the gas companies service or not. If these facilities and projects are not geographically limited by service area, this bill will indeterminately shift the costs of providing services to customers for consumer-owned utilities (Public Utility Districts, municipal-owned electric utilities, and cooperatives) within Washington. The scale of the shift of costs is indeterminable and depend on the geographic limitations of this bill, which are not evident. However, if the shift is significant, consumer-owned utilities will likely adjust service rates to cover these costs, as necessary.

ONE-TIME, INCREASED COSTS FOR LOCAL GOV PERMITTING ADJUSTMENT
Section 6 of this bill removes local restrictions/limitations on the use of natural gas in buildings under certain conditions. This change is expected to result in one-time, increased costs for local planning departments to make adjustments. These costs are expected to be minor and are indeterminate.

C. SUMMARY OF REVENUE IMPACTS

Revenue impacts of the legislation on local governments, with the revenue provisions identified by section number, and when appropriate, the detail of revenue sources. Delineated between city, county and special district impacts.

According to the Dept. of Revenue, section 3-4 of this bill (which creates a retail sales and use tax exemption) decreases local revenues by an estimated $20,000 in the five months of impacted collections in fiscal year 2024, and by $40,000 in fiscal year 2025, the first full year of impacted collections.

LOCAL GOV (DOR #s)
FY 2024 - ($20,000)
FY 2025 - ($40,000)
FY 2026 - ($40,000)
FY 2027 - ($40,000)
FY 2028 - ($40,000)
FY 2029 - ($40,000)

METHODOLOGY
The distributions in this note for cities, counties, and special districts are based on DOR data for local sales and use tax distributions from Calendar Year 2021. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. The result is a distribution of 36.61 percent to counties, 29.78 percent to cities, and 33.61 percent to special districts. The one percent DOR administrative fee has also been deducted.

COUNTIES
FY 2024 -$7,249
FY 2025 -$14,498
FY 2026 -$14,498
FY 2027 -$14,498
FY 2028 -$14,498
FY 2029 -$14,498

CITIES
FY 2024 -$5,897
FY 2025 -$11,794
FY 2026 -$11,794
FY 2027 -$11,794
FY 2028 -$11,794
FY 2029 -$11,794

SPECIAL DISTRICTS
FY 2024 -$6,654
FY 2025 -$13,308
FY 2026 -$13,308
FY 2027 -$13,308
FY 2028 -$13,308
FY 2029 -$13,308

SOURCES
Department of Revenue Fiscal Note
Department of Revenue Local Tax Distributions
Washington Public Utilities District Association