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## SENATE BILL 5447

State of Washington 68th Legislature 2023 Regular Session

By Senators Billig, King, Nguyen, MacEwen, Mullet, Wellman, Gildon, Keiser, Shewmake, Lovick, Boehnke, Warnick, and Randall

AN ACT Relating to promoting the alternative jet fuel industry in Washington; amending RCW 70A.535.010, 43.330.565, and 43.330.570; adding a new section to chapter 70A.65 RCW; adding a new section to chapter 70A.535 RCW; adding a new section to chapter 28B.30 RCW; adding new sections to chapter 82.04 RCW; adding a new section to chapter 82.16 RCW; creating new sections; providing effective dates; providing an expiration date; and declaring an emergency.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. The legislature intends to use funds from 9 NEW SECTION. 10 the climate commitment act to promote the production and use of 11 sustainable aviation fuels, thereby growing the clean energy sector, 12 addressing greenhouse gas emissions, and creating family 13 manufacturing jobs in Washington. Sustainable aviation fuels 14 represent the most significant near and midterm opportunity for 15 aviation to reduce its greenhouse gas emissions. The use 16 sustainable aviation fuels will also improve air quality for airport 17 workers and communities surrounding airports. While many efforts are 18 underway to advance the use of sustainable aviation fuels, this act 19 is intended to assist and accelerate those efforts.

20 PART I

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2 **Sec. 2.** RCW 70A.535.010 and 2022 c 182 s 409 are each amended to read as follows:

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

- 6 (1) "Carbon dioxide equivalents" has the same meaning as defined 7 in RCW 70A.45.010.
- 8 (2) "Carbon intensity" means the quantity of life-cycle greenhouse gas emissions, per unit of fuel energy, expressed in grams of carbon dioxide equivalent per megajoule (gCO2e/MJ).
  - (3) "Clean fuels program" means the requirements established under this chapter.
- 13 (4) "Cost" means an expense connected to the manufacture, 14 distribution, or other aspects of the provision of a transportation 15 fuel product.
  - (5) "Credit" means a unit of measure generated when a transportation fuel with a carbon intensity that is less than the applicable standard adopted by the department under RCW 70A.535.025 is produced, imported, or dispensed for use in Washington, such that one credit is equal to one metric ton of carbon dioxide equivalents. A credit may also be generated through other activities consistent with this chapter.
  - (6) "Deficit" means a unit of measure generated when a transportation fuel with a carbon intensity that is greater than the applicable standard adopted by the department under RCW 70A.535.025 is produced, imported, or dispensed for use in Washington, such that one deficit is equal to one metric ton of carbon dioxide equivalents.
    - (7) "Department" means the department of ecology.
- 29 (8) "Electric utility" means a consumer-owned utility or 30 investor-owned utility, as those terms are defined in RCW 19.29A.010.
- 31 (9) "Greenhouse gas" has the same meaning as defined in RCW 32 70A.45.010.
- 33 (10) "Military tactical vehicle" means a motor vehicle owned by 34 the United States department of defense or the United States military 35 services and that is used in combat, combat support, combat service 36 support, tactical or relief operations, or training for such 37 operations.
- 38 (11) "Motor vehicle" has the same meaning as defined in RCW 39 46.04.320.

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(12) "Price" means the amount of payment or compensation provided as consideration for a specified quantity of transportation fuel by a consumer or end user of the transportation fuel.

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- (13) "Regulated party" means a producer or importer of any amount of a transportation fuel that is ineligible to generate credits under this chapter.
- (14)(a) "Tactical support equipment" means equipment using a portable engine, including turbines, that meets military specifications, owned by the United States military services or its allies, and that is used in combat, combat support, combat service support, tactical or relief operations, or training for such operations.
- 13 (b) "Tactical support equipment" includes, but is not limited to, 14 engines associated with portable generators, aircraft start carts, 15 heaters, and lighting carts.
  - (15) "Transportation fuel" means electricity and any liquid or gaseous fuel sold, supplied, offered for sale, or used for the propulsion of a motor vehicle or that is intended for use for transportation purposes.
- (16) "Alternative jet fuel" means a fuel made from petroleum or 20 21 nonpetroleum sources that can be blended and used with conventional 22 petroleum jet fuels without the need to modify aircraft engines and 23 existing fuel distribution infrastructure, and that have a lower carbon intensity than the applicable annual carbon intensity standard 24 in Table 2 of WAC 173-424-900. Alternative jet fuel includes jet 25 fuels derived from co-processed feedstocks at a conventional 26 27 petroleum refinery.
- NEW SECTION. Sec. 3. A new section is added to chapter 70A.65 29 RCW to read as follows:
- The department must amend the energy economy ratio for alternative jet fuel relative to conventional jet fuel from the value of 1.0 to 1.3 within ten years after the in-state production capacity of alternative jet fuel is sufficient to satisfy the requirements under sections 10 and 11 of this act. The energy economy ratio must be reduced at a rate of 0.1 every three years until it is equal to 1.0.
- NEW SECTION. Sec. 4. A new section is added to chapter 70A.535 RCW to read as follows:

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- 1 (1) By no later than December 31, 2023, the department must allow one or more carbon intensity pathways for alternative jet fuel.
  - (2) The department must allow biomethane to be claimed as the feedstock for renewable diesel and alternative jet fuel consistent with that allowable for compressed natural gas, liquified natural gas, liquified compressed natural gas, or hydrogen production.
- 7 (3) The department must notify the department of revenue within 8 30 days when a facility capable of producing at least 20,000,000 gallons of alternative jet fuel is operating in this state.
- NEW SECTION. Sec. 5. A new section is added to chapter 28B.30 RCW to read as follows:
  - (1) The office of clean technology at the Washington State University must convene an alternative jet fuels work group to further the development of alternative jet fuel as a productive industry in Washington. The work group must include members from the legislature and sectors involved in alternative jet fuel research, development, production, and utilization. The work group must provide a report including any pertinent recommendations to the governor and appropriate committees of the legislature by December 1, 2024, and December 1st of every even-numbered year until December 1, 2028.
  - (2) This section expires January 1, 2029.

- **Sec. 6.** RCW 43.330.565 and 2022 c 292 s 102 are each amended to 23 read as follows:
  - (1) The statewide office of renewable fuels is established within the department. The office shall report to the director of the department. The office may employ staff as necessary to carry out the office's duties as prescribed by chapter 292, Laws of 2022, subject to the availability of amounts appropriated for this specific purpose.
- 30 (2) The purpose of the office is to leverage, support, and 31 integrate with other state agencies to:
  - (a) Accelerate comprehensive market development with assistance along the entire life cycle of renewable fuel projects;
  - (b) Support research into and development and deployment of renewable fuel and the production, distribution, and use of renewable and green electrolytic hydrogen and their derivatives, as well as product engineering and manufacturing relating to the production and use of such hydrogen and its derivatives;

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- 1 (c) Drive job creation, improve economic vitality, and support 2 the transition to clean energy;
- 3 (d) <u>Further the development and use of alternative jet fuels as a</u> 4 <u>productive industry in Washington;</u>
- 5 <u>(e)</u> Enhance resiliency by using renewable fuels, alternative jet 6 <u>fuels</u>, and green electrolytic hydrogen to support climate change 7 mitigation and adaptations; and
- 8 ((<del>(e)</del>)) <u>(f)</u> Partner with overburdened communities to ensure 9 communities equitably benefit from renewable and clean fuels efforts.
- 10 **Sec. 7.** RCW 43.330.570 and 2022 c 292 s 103 are each amended to 11 read as follows:
  - (1) The office shall:

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- (a) Coordinate with federally recognized tribes, local government, state agencies, federal agencies, private entities, the state's public four-year institutions of higher education, labor unions, and others to facilitate and promote multi-institution collaborations to drive research, development, and deployment efforts in the production, distribution, and use of alternative jet fuels and renewable fuels including, but not limited to, green electrolytic hydrogen;
- (b) Review existing renewable fuels, alternative jet fuels, and green electrolytic hydrogen initiatives, policies, and public and private investments;
- (c) Consider funding opportunities that provide for the coordination of public and private funds for the purposes of developing and deploying renewable fuels, alternative jet fuels, and green electrolytic hydrogen;
- (d) Assess opportunities for and barriers to deployment of renewable fuels, alternative jet fuels, and green electrolytic hydrogen in hard to decarbonize sectors of the state economy;
- (e) Request recommendations from the Washington state association of fire marshals regarding fire and other safety standards adopted by the United States department of energy and recognized national and international fire and safety code development authorities regarding renewable fuels, alternative jet fuels, and green electrolytic hydrogen;
- 37 (f) By December 1, 2023, develop a plan and recommendations for 38 consideration by the legislature and governor on renewable fuels, 39 <u>alternative jet fuels</u>, and green electrolytic hydrogen policy and

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- 1 public funding including, but not limited to, project permitting, 2 state procurement, and pilot projects; and
  - (g) Encourage new and support existing public-private partnerships to increase coordinated planning and deployment of renewable fuels, alternative jet fuels, and green electrolytic hydrogen.
  - (2) The office may take all appropriate steps to seek and apply for federal funds for which the office is eligible, and other grants, and accept donations, and must deposit these funds in the renewable fuels accelerator account created in RCW 43.330.575.
  - (3) In carrying out its duties, the office must collaborate with the department, the department of ecology, the department of transportation, the utilities and transportation commission, electric utilities in Washington state, the Washington State University extension energy program, the alternative jet fuel work group established in section 5 of this act, and all other relevant state agencies. The office must also consult with and seek to involve federally recognized tribes, project developers, labor and industry trade groups, and other interested parties, in the development of policy analysis and recommended programs or projects.
- 21 (4) The office may cooperate with other state agencies in 22 compiling data regarding the use of renewable fuels and green 23 electrolytic hydrogen in state operations, including motor vehicle 24 fleets, the state ferry system, and nonroad equipment.

## 25 PART II

## ALTERNATIVE JET FUEL TAX INCENTIVES

- NEW SECTION. Sec. 8. (1) This section is the tax preference performance statement for the tax preferences contained in sections 9 through 12, chapter . . ., Laws of 2023 (sections 9 through 12 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or to be used to determine eligibility for preferential tax treatment.
- (2) The legislature categorizes these tax preferences as ones intended to improve industry competitiveness as indicated in RCW 82.32.808(2)(b).
- (3) It is the legislature's specific public policy objective to encourage the production and use of alternative jet fuels. It is also

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- the legislature's intent to support the development of the alternative jet fuels industry in Washington by providing targeted tax relief for such businesses.
- 4 (4) If a review finds that the production and use of alternative 5 jet fuels has increased because of the tax preferences contained in 6 this act, then the legislature intends to extend the expiration date 7 of these tax preferences.
- 8 (5) In order to obtain the data necessary to perform the review 9 in subsection (4) of this section, the joint legislative audit and 10 review committee may refer to any data collected by the state.
- NEW SECTION. Sec. 9. A new section is added to chapter 82.04 12 RCW to read as follows:

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- (1) Upon every person engaging within the state in the business of manufacturing alternative jet fuel; as to such persons, the amount of the tax with respect to such business is, in the case of manufacturers, equal to the value of the product manufactured, or in the case of processors for hire, equal to the gross income of the business, multiplied by the rate of 0.275 percent.
- (2) Upon every person engaging in making sales, at retail or wholesale, of manufactured alternative jet fuel; as to such persons, the amount of the tax with respect to such business is equal to the gross proceeds of sales of the alternative jet fuel, multiplied by the rate of 0.275 percent.
- (3) For the purposes of this section, "alternative jet fuel" has the same meaning as in RCW 70A.535.010.
- (4) A person reporting under the tax rate provided in this section must file a complete annual tax performance report with the department under RCW 82.32.534.
- (5) The tax rate under subsections (1) and (2) of this section applies for a period of 10 calendar years beginning on the first day of the month immediately following the month in which the department receives notification from the department of ecology that a facility capable of producing at least 20,000,000 gallons of alternative jet fuel is operating in this state, as required in section 4 of this act.
- 36 <u>NEW SECTION.</u> **Sec. 10.** A new section is added to chapter 82.04 37 RCW to read as follows:

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(1) (a) Subject to the limits and provisions of this section, a credit is allowed against the tax otherwise due under this chapter for persons engaged in the manufacturing of alternative jet fuel.

- (b) Except as provided in (c) of this subsection, the credit under this section is equal to \$1.00 for each gallon of alternative jet fuel that has at least 50 percent less carbon dioxide equivalent emissions than conventional jet fuel and is sold during the prior calendar year by:
- 9 (i) A business that produces alternative jet fuel and is located 10 in a qualifying county; or
- 11 (ii) A business's designated alternative jet fuel blender that is 12 located in this state.
  - (c) The credit amount under (b) of this subsection must increase by 2 cents for each additional one percent reduction in carbon dioxide equivalent emissions beyond 50 percent, not to exceed \$2 for each gallon of alternative jet fuel.
  - (d) A person may not receive credit under both (b)(i) and (ii) of this subsection.
    - (e) The credit under this section is calculated only on the portion of jet fuel that is considered alternative jet fuel and does not include conventional jet fuel when such fuels are blended or otherwise used in a jet fuel mixture.
    - (f) A credit under this section may not be claimed until the department of ecology verifies that there is at least one facility operating in this state that is capable of producing at least 20,000,000 gallons of alternative jet fuel per year and has provided such notice to the department.
    - (g) The credit under this section applies only to alternative jet fuel that meets the appropriate ASTM international standards as it existed on the effective date of this section, or a subsequent date as may be provided by the department by rule, consistent with the purposes of this section.
    - (h) Contract pricing for sales of alternative jet fuel between a person claiming the credit under this section and the final consumer must reflect the per gallon credit under (b) and (c) of this subsection.
- 37 (2) A person may not receive credit under this section for 38 amounts claimed as credits under section 11 of this act.
- 39 (3) To claim a credit under this section a person must 40 electronically file with the department all returns, forms, and any

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- other information required by the department, in an electronic format as provided or approved by the department.
- 3 (4) To claim a credit under this section, the person applying 4 must:

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- (a) Complete an application for the credit which must include:
- 6 (i) The name, business address, and tax identification number of the applicant;
- 8 (ii) Documentation of the total amount of alternative jet fuel 9 manufactured and sold in the prior calendar year;
- (iii) Documentation sufficient for the department to verify that the alternative jet fuel for which the credit is being claimed meets the carbon intensity reduction benchmarks under subsection (1)(b) and (c) of this section, as certified by the department of ecology under section 4 of this act;
- 15 (iv) Documentation sufficient to verify compliance with 16 subsection (1)(h) of this section; and
  - (v) Any other information deemed necessary by the department to support administration or reporting of the program.
- 19 (b) Obtain a carbon intensity score from the department of 20 ecology prior to submitting an application to the department.
- 21 (5) The department must notify applicants of credit approval or 22 denial within 60 days of receipt of a final application and 23 documentation.
- 24 (6) If a person fails to supply the information as required in 25 subsection (4) of this section, the department must deny the 26 application.
- 27 (7)(a) The credit under this section may only be claimed against 28 taxes due under section 9 of this act.
- 29 (b) The credit may be carried over until used, as provided in 30 subsection (9) of this section.
  - (c) No refunds may be granted for credits under this section.
  - (8) For the purposes of this section:
- 33 (a) "Alternative jet fuel" has the same meaning as in RCW 70A.535.010.
- 35 (b) "Carbon dioxide equivalent" has the same meaning as in RCW 36 70A.45.010.
- 37 (c) "Qualifying county" means a county that has a population less 38 than 650,000 at the time an application for a credit under this 39 section is received by the department.

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1 (9) Credits may be earned and claimed for a period of 10 calendar years beginning on the first day of the month immediately following the month in which notification under subsection (1)(f) of this 3 section was received by the department. 4

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- (10) A person claiming the credit provided in this section must 5 6 file a complete annual tax performance report with the department 7 under RCW 82.32.534.
- NEW SECTION. Sec. 11. A new section is added to chapter 82.04 8 RCW to read as follows: 9
- (1)(a) Subject to the limits and provisions of this section, a 10 credit is allowed against the tax otherwise due under this chapter 11 for persons engaged in the use of alternative jet fuel. 12
  - (b) Except as provided in (c) of this subsection, the credit under this section is equal to \$1.00 for each gallon of alternative jet fuel that has at least 50 percent less carbon dioxide equivalent emissions than conventional jet fuel and is purchased during the prior calendar year by a business for use as alternative jet fuel for flights originating in this state.
  - (c) The credit amount under (b) of this subsection must increase by 2 cents for each additional one percent reduction in carbon dioxide equivalent emissions beyond 50 percent, not to exceed \$2 for each gallon of alternative jet fuel.
  - (d) The credit under this section is calculated only on the portion of jet fuel that is considered alternative jet fuel and does not include conventional jet fuel when such fuels are blended or otherwise used in a jet fuel mixture.
  - (e) A credit under this section may not be claimed until the department of ecology verifies that there is at least one facility operating in this state that is capable of producing at least 20,000,000 gallons of alternative jet fuel per year and has provided such notice to the department.
  - (f) The credit under this section applies only to alternative jet fuel that meets the appropriate ASTM international standards as it existed on the effective date of this section, or a subsequent date as may be provided by the department by rule, consistent with the purposes of this section.
- (2) A person may not receive credit under this section for 37 amounts claimed as credits under section 10 of this act or chapter 38 82.16 RCW. 39

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- 1 (3) To claim a credit under this section a person must 2 electronically file with the department all returns, forms, and any 3 other information required by the department, in an electronic format 4 as provided or approved by the department.
- 5 (4) To claim a credit under this section, the person applying 6 must:
  - (a) Complete an application for the credit which must include:
- 8 (i) The name, business address, and tax identification number of 9 the applicant;

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- 10 (ii) Documentation of the amount of alternative jet fuel 11 purchased by the business in the prior calendar year;
- (iii) Documentation sufficient for the department to verify that
  the alternative jet fuel for which the credit is being claimed meets
  the carbon intensity reduction benchmarks under subsection (1)(b) and
  (c) of this section, as certified by the department of ecology under
  section 4 of this act; and
- 17 (iv) Any other information deemed necessary by the department to 18 support administration or reporting of the program.
- 19 (b) Obtain a carbon intensity score from the department of 20 ecology prior to submitting an application to the department.
- 21 (5) The department must notify applicants of credit approval or 22 denial within 60 days of receipt of a final application and 23 documentation.
- 24 (6) If a person fails to supply the information as required in 25 subsection (4) of this section, the department must deny the 26 application.
- (7) (a) The credit under this section may be used against any tax due under this chapter.
- 29 (b) The credit may be carried over until used, as provided in 30 subsection (9) of this section.
  - (c) No refunds may be granted for credits under this section.
  - (8) For the purposes of this section:
- 33 (a) "Alternative jet fuel" has the same meaning as in RCW 70A.535.010.
- 35 (b) "Carbon dioxide equivalent" has the same meaning as in RCW 36 70A.45.010.
- 37 (c) "Qualifying county" means a county that has a population less 38 than 650,000 at the time an application for a credit under this 39 section is received by the department.

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- (9) Credits may be earned and claimed for a period of 10 calendar years beginning on the first day of the month immediately following the month in which notification under subsection (1)(e) of this section was received by the department.
- 5 (10) A person claiming the credit provided in this section must 6 file a complete annual tax performance report with the department 7 under RCW 82.32.534.
- 8 <u>NEW SECTION.</u> **Sec. 12.** A new section is added to chapter 82.16 9 RCW to read as follows:

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- (1) (a) Subject to the limits and provisions of this section, a credit is allowed against the tax otherwise due under this chapter for persons engaged in the use of alternative jet fuel.
- (b) Except as provided in (c) of this subsection, the credit under this section is equal to \$1.00 for each gallon of alternative jet fuel that has at least 50 percent less carbon dioxide equivalent emissions than conventional jet fuel and is purchased during the prior calendar year by a business for use as alternative jet fuel for flights originating in this state.
- (c) The credit amount under (b) of this subsection must increase by 2 cents for each additional one percent reduction in carbon dioxide equivalent emissions beyond 50 percent, not to exceed \$2 for each gallon of alternative jet fuel.
- (d) The credit under this section is calculated only on the portion of jet fuel that is considered alternative jet fuel and does not include conventional jet fuel when such fuels are blended or otherwise used in a jet fuel mixture.
- (e) A credit under this section may not be claimed until the department of ecology verifies that there is at least one facility operating in this state that is capable of producing at least 20,000,000 gallons of alternative jet fuel per year and has provided such notice to the department.
- (f) The credit under this section applies only to alternative jet fuel that meets the appropriate ASTM international standards as it existed on the effective date of this section, or a subsequent date as may be provided by the department by rule, consistent with the purposes of this section.
- 37 (2) A person may not receive credit under this section for 38 amounts claimed as credits under section 11 of this act or chapter 39 82.04 RCW.

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- 1 (3) To claim a credit under this section a person must 2 electronically file with the department all returns, forms, and any 3 other information required by the department, in an electronic format 4 as provided or approved by the department.
- 5 (4) To claim a credit under this section, the person applying 6 must:
  - (a) Complete an application for the credit which must include:
- 8 (i) The name, business address, and tax identification number of 9 the applicant;

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- 10 (ii) Documentation of the amount of alternative jet fuel 11 purchased by the business in the prior calendar year;
- (iii) Documentation sufficient for the department to verify that the alternative jet fuel for which the credit is being claimed meets the carbon intensity reduction benchmarks under subsection (1)(b) and (c) of this section, as certified by the department of ecology under section 4 of this act; and
- 17 (iv) Any other information deemed necessary by the department to 18 support administration or reporting of the program.
  - (b) Obtain a carbon intensity score from the department of ecology prior to submitting an application to the department.
- 21 (5) The department must notify applicants of credit approval or 22 denial within 60 days of receipt of a final application and 23 documentation.
- 24 (6) If a person fails to supply the information as required in 25 subsection (7) of this section, the department must deny the 26 application.
  - (7) (a) The credit under this section may be used against any tax due under this chapter.
- 29 (b) The credit may be carried over until used, as provided in 30 subsection (9) of this section.
  - (c) No refunds may be granted for credits under this section.
- 32 (8) The definitions in section 11 of this act apply to this 33 section.
  - (9) Credits may be earned and claimed for a period of 10 calendar years beginning on the first day of the month immediately following the month in which notification under subsection (1)(e) of this section was received by the department.
- 38 (10) A person claiming the credit provided in this section must 39 file a complete annual tax performance report with the department 40 under RCW 82.32.534.

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- NEW SECTION. Sec. 13. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.
- 5 <u>NEW SECTION.</u> **Sec. 14.** RCW 82.32.805 does not apply to this act.
- 6 <u>NEW SECTION.</u> **Sec. 15.** Sections 9 through 12 of this act take 7 effect July 1, 2024.
- NEW SECTION. Sec. 16. Sections 1 through 7 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, 2023.

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