



**COMMISSION
AGENDA MEMORANDUM**

Item No. 9a

REVISED BRIEFING ITEM

Date of Meeting October 9, 2018

DATE: October 2, 2018 **(Revised October 5, 2018 – the entire text of this memo has been replaced from the executive summary up to and not including the list of attachments and previous commission actions)**

TO: Stephen P. Metruck, Executive Director

FROM: Eric ffitich, Manager, State Government Relations Manager

SUBJECT: Presentation on Washington Initiative 1631, state carbon “pollution fee” proposal

BALLOT TITLE: Initiative Measure No. 1631 concerns pollution. This measure would charge pollution fees on sources of greenhouse gas pollutants and use the revenue to reduce pollution, promote clean energy, and address climate impacts, under oversight of a public board. *[As filed March 13, 2018: An Act relating to reducing pollution by investing in clean air, clean energy, clean water, healthy forests, and healthy communities by imposing a fee on large emitters based on their pollution; and adding a new chapter to Title 70 RCW.]*

EXECUTIVE SUMMARY

The following summary of Initiative Measure No. 1631 was taken from the website of the Washington Secretary of State.

The Law as It Presently Exists

Under existing law, Washington has set goals to reduce greenhouse gases emitted in Washington. Those gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, and other gases designated by the Department of Ecology. The goals are to reduce greenhouse gas emissions in the state to 1990 levels by 2020 and to continue reducing greenhouse gas emissions to achieve fifty percent of 1990 levels by 2050. The Department of Commerce is responsible for developing a plan to reduce greenhouse gas emissions and reporting progress toward meeting the state’s goals. State agencies are required to reduce greenhouse gas emissions by certain specified levels.

Various laws and state agency rules relate to the reduction of greenhouse gas emissions. These include emission standards for certain power plants, renewable fuel standards, building codes, requirements for utilities to use renewable resources, converting state vehicles to clean fuels, motor vehicle emission standards, and land use laws such as the Growth Management Act, which encourage efficient transportation systems.

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Under the State Environmental Policy Act (SEPA), state and local government must engage in a variety of public processes to review, avoid, or minimize environmental impacts. These processes include analyzing greenhouse gases and considering input from individuals and Indian tribes concerning environmental impacts of state permitting or other action.

The Effect of the Proposed Measure if Approved

This measure would impose a pollution fee on large emitters of greenhouse gases. Money raised by the fee would be used for certain environmental programs and projects. The measure would create a public oversight board to implement the measure and approve funding for programs and projects. It also sets forth procedures for proposing and approving the programs and projects that could be funded by money generated from the new fee.

The pollution fee imposed by the measure would apply to fossil fuels sold or used within this state and electricity generated within or imported into this state. Fossil fuels include motor vehicle fuel and other petroleum products intended for combustion, natural gas, coal, coke, and any form of fuel created from these products. The pollution fee would be collected only one time on any particular unit of fossil fuels or energy. This means that the fee would not have to be paid again by subsequent sellers or users of the same fuel or energy.

The fee imposed on fossil fuels would be collected from various persons or companies. For motor vehicle fuel and “special fuel” (diesel and certain other fuels), the fee would be collected from fuel licensees who currently pay the motor vehicle fuel taxes on those fuels. For natural gas, the fee would be collected from natural gas public utilities or entities that pay the state’s natural gas use tax. For refinery facilities, the fee would be collected from the refinery for fossil fuels consumed or used by the refinery. The fee may also be collected from a seller of fossil fuels to end users or consumers, a seller of fuel used for certain combined heat and power, or from other persons designated by the Department of Revenue.

The fee imposed on electricity would be collected from importers of electricity generated using fossil fuels, importers of electricity generated from an unspecified source, or a power plant located in Washington that generates electricity using fossil fuels.

The fee charged would be based on the amount of carbon content in the fossil fuels. In the case of electricity, the fee would be based on the carbon content of the fossil fuels used to generate the electricity. “Carbon content” means the carbon dioxide equivalent released from burning or oxidation of fossil fuels. Carbon dioxide equivalent is a measure used to compare emissions from various greenhouse gases based on their global warming potential. So the carbon content of a fossil fuel is a measure of the carbon dioxide and other greenhouse gases that are released when the fossil fuel is burned or otherwise consumed. For purposes of calculating the fee, the Department of Ecology is responsible for determining the carbon content of fossil fuels or inherent in electricity.

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Beginning January 1, 2020, the pollution fee is set at fifteen dollars per metric ton of carbon content. The fee increases by two dollars per metric ton each year and is also adjusted for inflation each year. The two-dollar annual increases continue until the state's existing greenhouse gas reduction goal for 2035 is met and the state is on pace and likely to meet the 2050 greenhouse gas reduction goal. At that time, the pollution fee will be fixed, except for the annual inflation adjustments.

The measure would not impose the fee in certain circumstances. For example, the fee would not apply to fossil fuels brought into Washington in the fuel supply tank of a motor vehicle, vessel, locomotive, or aircraft. It would not apply to fossil fuels exported or sold for export outside Washington. It would not apply to fossil fuels supplied to a light and power business for purposes of generating electricity. It would not apply to fossil fuels and electricity sold to and used by certain facilities designated by the Department of Commerce as within energy-intensive and trade-exposed industries. It would not apply to aircraft fuels, certain fuel used for agricultural purposes, and motor vehicle fuel or special fuel currently exempt from taxation. It would not apply to Indian tribes and Indians in circumstances where they are exempt from state taxation. The fee would not apply to facilities that generate electricity by burning coal, if those facilities are legally bound to close by 2025 or to comply with certain emission standards by 2025.

The measure also allows for credits in certain circumstances. For example, a fee-payer may receive a credit if the fossil fuel or electricity is subject to a similar fee on carbon content in another jurisdiction and the fee-payer receives approval from the Department of Commerce. A light and power business or gas distribution business, also known as a utility, may receive a credit up to the full amount of the fee for investments in programs, activities, or projects consistent with a clean energy investment plan. But to receive that credit, the utility's clean energy investment plan must be approved by the state Utilities and Transportation Commission (for investor-owned utilities) or the Department of Commerce (for consumer-owned utilities).

The measure would establish a public oversight board to implement the new law. The board would have fifteen voting members: the chair; the Commissioner of Public Lands; the directors of the Department of Commerce, the Department of Ecology, and the Recreation and Conservation Office; four at-large positions; and six co-chairs of three investment panels. The three investment panels would be created by the measure and would provide advice and recommendations to the board and assist in developing criteria for approving spending on certain projects. There would be certain requirements for the at-large positions and the six co-chairs.

The board would have numerous powers and duties. It would make decisions about which projects and programs to fund with the moneys raised by the pollution fee. It would review and approve rules developed by other agencies that set guidelines for the various programs required or funded by the measure. The board would consult with other agencies and government bodies, Indian tribes, and others in developing projects. It would report to the Governor and Legislature regarding progress and challenges in implementing the measure.

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The measure would require consultation with Indian tribes by any state agency implementing the law, or receiving funding for projects, on decisions that may directly affect Indian tribes and tribal lands. The board could not approve spending on projects that directly affect an Indian tribe's lands or usual and accustomed fishing areas without first engaging in this formal consultation and following a mutually agreed timeline for the consultation. If a project is funded without this consultation and directly affects lands owned or controlled by an Indian tribe or affects lands where a tribe has a significant interest, action on the project must cease upon request by an affected Indian tribe.

The measure would place all pollution fees collected in the state treasury in an account called the "clean up pollution fund." Expenditures from the fund would be limited to certain investments defined in the measure. The measure includes certain criteria that must be considered when approving funding.

The measure would allow money from the clean up pollution fund to be used for reasonable administrative costs. After administrative costs, the clean up pollution fund must be used for certain categories of investments: seventy percent of the clean up pollution fund must be spent on clean air and clean energy investments, twenty-five percent for clean water and healthy forest investments, and five percent for healthy communities investments. The board may allow different percentages in certain circumstances.

The measure defines clean air and clean energy investments as programs, activities, or projects that reduce pollution or that assist affected workers or people with lower incomes. As noted above, seventy percent of the fund would be spent in this category. The measure identifies some programs that fit this spending category, including those that promote renewable energy such as solar and wind power; that increase energy efficiency; that reduce transportation-related carbon emissions through use of electric vehicles or public transportation; and that promote the capturing and storing of carbon in water, soil, forests, or other natural areas. At least fifteen percent of the clean air and clean energy investments must be used to reduce the energy burden of people with lower incomes through programs such as assistance with paying energy bills, promoting public or shared transportation, and reducing energy consumption. In addition, within four years, a minimum of \$50 million would be set aside for a program to support fossil-fuel workers who are affected by the transition away from fossil fuels. The program may include wage replacement, health benefits, pension contributions, retraining costs, and other services.

The Department of Commerce, in consultation with others, must propose rules and criteria for disbursing funds for clean air and clean energy investments. The proposed rules and criteria must be approved by the board. The measure includes certain requirements for the rules and criteria for disbursing funds and includes certain goals for reducing carbon emissions and global temperature increases.

The second spending category for the clean up pollution fund is to address the impacts of climate change on the state's waters and forests. Twenty-five percent of the fund will be spent in

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this category. Examples for this category include spending to restore and protect state waters, to address ocean acidification, to reduce flood risk, to reduce risk of wildfires, and to address other impacts of climate change. Various state agencies are responsible for proposing rules and criteria for eligible programs. The rules and criteria for these programs must be approved by the board.

Finally, the third spending category for the clean up pollution fund is to prepare communities for the impacts of climate change and to help certain populations who are particularly affected by climate change. Five percent of the fund will be spent in this category. In this category, funds can be used for wildfire prevention and preparedness, relocation of communities on tribal lands affected by sea level rise and floods, and public school education about the impacts of climate change and ways to reduce pollution. A portion of this fund must be used to help communities participate in carrying out the measure, such as help in preparing proposals for projects.

In addition to the spending requirements for these three categories, the measure imposes other requirements on spending. At least thirty-five percent of spending from the clean up pollution fund must provide direct and meaningful benefits to what the measure calls “pollution and health action areas.” The Department of Health designates those areas based on University of Washington analyses of vulnerable populations and environmental burdens. A particular area partially or fully within Indian reservations or other Indian lands would also qualify as a pollution and health action area. At least ten percent of funds must be spent for projects formally supported by a resolution of an Indian tribe, and ten percent must be spent for projects located in and benefiting a pollution and health action area.

The following information is from the Washington State Office of Financial Management (https://ofm.wa.gov/sites/default/files/public/budget/ballot/2018/I-1631_Fiscal_Impact_Statement-082418.pdf)

I-1631 Reducing Pollution

FISCAL IMPACT SUMMARY

Initiative 1631 imposes a pollution fee on large emitters of greenhouse gases. The fee will raise \$2, 295,785,000 during the first five fiscal years. The additional Utilities and Transportation Commission regulatory fee will raise \$9,685,072 during the first five fiscal years. A public oversight board is established to supervise revenue expenditures to reduce carbon pollution, promote clean energy and address climate impacts to the environment and communities. Twelve state agencies and two higher education institutions are estimated to expend \$27,178,592. The remaining expenditures cannot be estimated until the public board approves investment plans. Local government expenditures are estimated to be \$158,623,072.

GENERAL ASSUMPTIONS

- The effective date of the initiative is Dec. 6, 2018.
- The provisions of the initiative apply prospectively, not retroactively.

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- Because the pollution fee will not be collected until Jan. 1, 2020, it is assumed that all costs for state agencies, except the Utilities and Transportation Commission (UTC), to implement the initiative before this date will be paid from the State General Fund. UTC costs are paid from the Public Service Revolving Account.
- Estimates use the state’s fiscal year of July 1 through June 30. Fiscal year 2019 is July 1, 2018, to June 30, 2019.

REVENUE

Local Revenue

The initiative will not impact local revenue.

State Revenue

The initiative would generate an estimated \$2,305,470,073 over five fiscal years from the state pollution fee and UTC regulatory fees.

State Pollution Fee

The initiative would impose a pollution fee on large emitters of fossil fuels based upon the carbon content of fossil fuels sold or used within the state, electricity generated within the state (including out-of-state sales) and electricity imported for consumption in the state. Beginning Jan. 1, 2020, the pollution fee is set at \$15 per metric ton of carbon content. The fee would increase by \$2 per metric ton each year and is also adjusted for inflation each year. The \$2 annual increases would continue until the state’s existing greenhouse gas reduction goal for 2035 is met and the state is on pace and likely to meet the 2050 greenhouse gas reduction goal. At that time, the pollution fee would be fixed, except for annual inflation adjustments. The initiative would provide exemptions from the fee for certain fossil fuels and facilities.

The initiative would allow qualifying light and power businesses or gas distribution businesses to claim credits up to 100 percent of the pollution fee for investments made through clean energy investment plans that are approved by the UTC for investor-owned utilities and by the Department of Commerce for consumer-owned utilities.

All revenues from the pollution fee are deposited into the Clean Up Pollution Fund.

STATE REVENUE ASSUMPTIONS

Revenue estimates are based on: 1) the U.S. Energy Information Agency (EIA) 2018 Annual Energy Outlook; 2) the IHS Markit June 2018 forecast of the Consumer Price Index for All Urban Consumers (CPI-U); and 3) the Washington State Department of Commerce, State Energy Office, Carbon Tax Assessment Model (CTAM) – version 3.5. The Department of Commerce periodically updates data in the CTAM. Any data updates to the CTAM made between preparation and publication of this fiscal impact statement are not reflected in the estimates displayed here. Although the initiative specifies that the US Bureau of Labor Statistic price index for all urban wage earners and clerical workers (CPI-W) is used to calculate the inflationary increase in the carbon fee, the Department of Revenue does not have access to a forecast for CPI-W so the CPI-U is used instead.

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The following assumptions are made in the CTAM for modeling purposes:

- Year one is set to calendar year 2020 to most closely correspond to the Jan. 1, 2020, effective date of the proposed pollution fee.
- The baseline reference energy forecast (option A) is specified, which corresponds to the EIA Annual Energy Outlook 2018 reference case.
- Marine fuels are exempted.
- Aircraft fuels are exempted.
- “Transition coal,” i.e., power generated from coal plants scheduled to close by 2025, is exempted.
- Power generated from Colstrip plants 1 and 2 are exempted since they are legally bound to cease operations by Dec. 31, 2025.

The following have been factored into the modeling to the extent possible:

- An exemption for aircraft fuels.
- An exemption for maritime fuels.
- An exemption for pollution emissions from coal closure facilities.
- An exemption for the fossil fuels and electricity sold to or used onsite by facilities with a primary activity that falls into an Energy Intensive Trade Exposed (EITE) sector. (Note that due to lack of available data, no attempt has been made to model the impact of this exemption for qualifying support facilities.)
- Facility-specific emissions data has been drawn from the Washington State Department of Ecology’s Greenhouse Gas Reporting Program, which requires facilities that emit at least 10,000 metric tons of CO₂ per year in Washington to report. Note that facilities that emit fewer than 10,000 metric tons of CO₂ per year in Washington are not included in the data set used for estimating the EITE exemption.
- Emissions estimates have been adjusted to the extent possible to remove biogenic fuel emissions, non-CO₂ emissions and industrial process emissions.
- Zero growth is assumed for EITE facility emissions into the future.
- The initiative defines “carbon content” to include both CO₂ emissions and other CO₂ equivalents (methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, nitrogen trifluoride) released through the combustion or oxidation of fossil fuels. The revenue from this proposal could be approximately 1 percent higher than modeled because the CTAM does not apply a tax or fee to CO₂ equivalents.
- Five months of cash collections are reflected in fiscal year 2020 due to the Jan. 1, 2020, effective date for the pollution fee.
- No credits are granted for payment of a similar fee in other jurisdictions.
- Qualifying light and power businesses or gas distribution businesses are assumed to claim credit for 100 percent of the pollution fees for which they are liable.

State Revenue Impacts

Table 1. Pollution fee revenues deposited into the Clean Up Pollution Fund

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State Revenue Impact	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Clean Up Pollution Fund	\$0	\$238,374,000	\$610,047,000	\$686,365,000	\$760,999,000

ATTACHMENTS TO THIS BRIEFING

- (1) Presentation slides
- (2) Ballot title letter for Initiative 1631
- (3) Complete Initiative 1631 text
- (4) Letters to Senator Carlyle and Governor Inslee, re: carbon tax proposed in State Legislature, dated February 10, 2018

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 24, 2017 – The commission approved state legislative and policy priorities for 2018 that included “Support and advocate for continued state investment in environmental cleanup programs and state-level policies that promote the adoption and implementation of clean energy sources to reduce the state’s reliance on fossil fuels and seek to eliminate greenhouse gas emissions.”