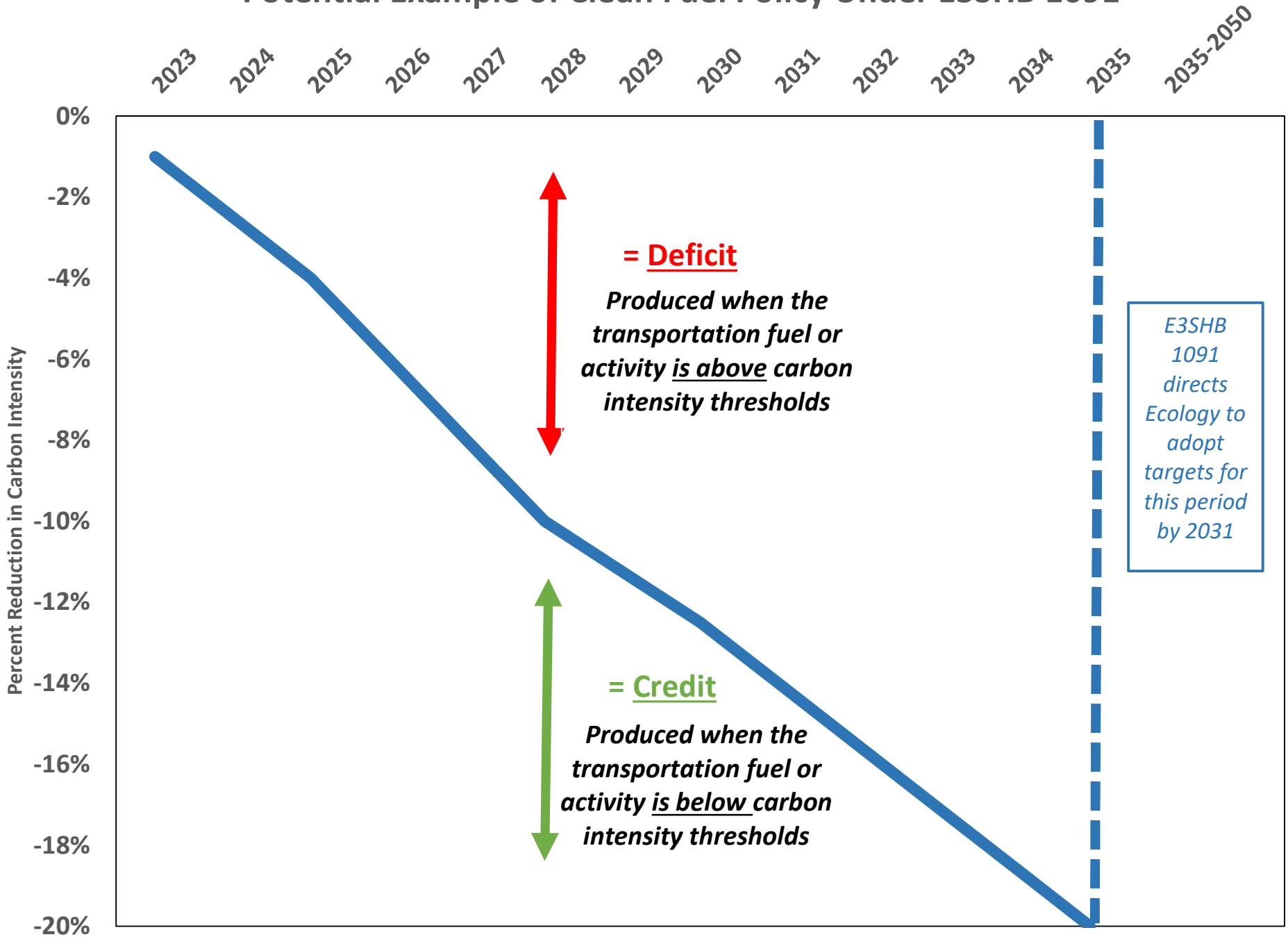
Potential Example of Clean Fuel Policy Under E3SHB 1091



High Level Overview of E3SHB 1091 (Clean Fuels Program)

Provision	Summary of E3SHB 1091
Main Goal	Department of Ecology (Ecology) must create a Clean Fuels Program designed to reduce greenhouse gas (GHG) emissions attributable to each unit of transportation fuel to 10% below 2017 levels by 2028 and 20% below 2017 levels by 2035, with a start date no later than January 2023. Ecology must also adopt rules before December 2031 establishing annual carbon intensity targets for transportation fuel through 2050, based on achieving the state's overall emission limits.
Unit of Measurement	Carbon intensity (CI) is measured as the GHG emissions per unit of transportation fuel energy.
Types of Fuels Required to be Covered	Transportation fuels that are ineligible to generate credits because they exceed CI levels established by Ecology (e.g. gasoline and diesel).
Exempted Fuels	<u>Permanent Exemptions</u> • Exported transportation fuel; • Aircraft, vessels, or railroad locomotives propulsion fuel; • Military tactical vehicles and tactical support equipment fuel; • Transportation fuels below certain thresholds; and • Other fuels as determined by Ecology to align with other similar programs or standards. <u>Temporary Exemptions (until January 1, 2028)</u> • Special fuel used off-road in vehicles used primarily to transport logs; • Dyed special fuel used in vehicles that are not designed to transport persons or property, not designed to be operated on highways, and that are used primarily for construction work, including timber harvest and mining; and • Dyed special fuel used for agricultural purposes that are exempt from state fuel taxation.
Entities Required to Register & Report in Program (Deficit generator)	Producers or importers of transportation fuels that are ineligible to generate credits because they exceed the CI levels.
Entities Allowed to Register in Program (Credit generator)	Electric vehicle manufacturers and producers, importers, distributors, users, and retailers of transportation fuels that are eligible to generate credits because their fuels are below CI level levels electing to participate in the Clean Fuels Program.

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Ecology Rule Making & Other Clean Fuel Policy Provisions	Ecology Rules: The rules adopted by Ecology include: • Setting standards for assigning levels of GHG emissions attributable to transportation fuels based on a lifecycle analysis, including transport of fuel and changes in land use and permanent GHG sequestration activities. • Determining the carbon intensity of electricity and hydrogen supplied by electric utilities participating in the program based on the mix of generating resources used by each electric utility. • Establishing processes for assigning and verifying bankable, tradeable credits for fuels produced, imported, or dispensed for use in Washington State. • Establishing registration & reporting requirements for program participants. • Creating cost containment mechanisms that are harmonized with other states with similar program requirements, and may include a credit clearance market or similar procedures. Ecology must consider a credit price cap or other cost containment measures if necessary to harmonize market credit costs with other states with similar CFP requirements. • Harmonizing the Clean Fuels Program with other similar programs. • Charging participants of the Clean Fuels Program an administrative fee for direct and indirect costs. Credit Generation: Credits may be generated by: • Transportation fuels produced, imported, or dispensed for use in Washington with associated lifecycle GHG emissions that are less than CI levels established by Ecology. • Zero emission vehicle refueling infrastructure, including DC fast charging and hydrogen refueling infrastructure and other low-carbon fuel infrastructure. • Ecology's rules may allow credits for: a. Specified carbon capture and sequestration projects, including crude oil production projects, project-based refinery mitigation, direct air capture, deployment of machinery and equipment used for certain non-fossil feedstocks, and broadband access infrastructure investments; b. Non-utility fueling of battery or fuel cell electric vehicles by a commercial, nonprofit, or public entities; and c. Smart vehicle charging technology.
Electric Utility Credit Revenues	50% of the revenues earned by electric utilities from selling credits must be used for transportation electrification. Of this, 60% must be in or directly benefit federal Clean Air Act maintenance or nonattainment areas or areas identified by the Dept. of Health as disproportionately impacted communities, within the service area of the utility. Ecology, in consultation with the UTC, must adopt requirements for spending the other 50% of the revenues. Some portion of these revenues must be contributed by each utility to a statewide Clean Fuel Reward Program, established by Ecology to provide light duty vehicle consumers with reasonable purchase incentives on electric vehicles at the time of purchase or lease.

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Emergency Deferral	Ecology must issue an emergency deferral of the Clean Fuels Program for at least 30 days if there is a forecasted low carbon fuel shortage of at least 5% during the effective compliance period, or upon the issuance of a Governor's declaration of an energy emergency under existing statutory processes.
Reporting Requirements	• Directs Commerce to develop a periodic fuel supply forecast to project the availability of fuels and credits necessary for compliance. • Directs Ecology to submit an annual report to the Legislature, starting in 2025, detailing various kinds of information on the Clean Fuel Program which includes, the impact on GHG emissions, impacts on gas and diesel prices, and public health benefits. This information is required to be posted at least annually on Ecology's website. • Ecology must also contract for an ex ante analysis for probable costs or cost savings to impute price impacts using multiple methodologies and submit it to the Legislature by July 1, 2022. • Requires a JLARC analysis of the program's first 5 years, by December 1, 2029, including the costs and benefits of the program.
Select Other Provisions	• Exempts credit market transactions under the Cleans Fuel Program from business and occupation tax provisions. • The Washington State University (WSU) Energy Program, in coordination with specified state agencies, must initiate a program to identify least conflict priority sites for clean energy projects with the potential to produce significant volumes of low carbon transportation fuel. • Ecology must periodically convene stakeholders, specified agencies, and Indian tribes to identify and discuss mitigation of significant likely environmental impacts associated with clean energy projects with the potential to produce significant volumes of transportation fuel with a low carbon intensity, or that support the production of such transportation fuel, in Washington.
Clean Fuel Policy & Dedication of Certain Transportation Funds	The current distribution is retained for revenues granted by the 2015 Transportation revenue package, eliminating changes that would have been triggered as a result of the establishment of a clean fuels standard.

Comparison of Different Estimates of Clean Fuel Policy Impacts on Gasoline*

(Amounts on a Per Gallon Basis)

	10 Percent Reduction	20 Percent Reduction
CA Air Resources Board Data Dashboard Model *- Information displays a range based on $80 - $200 credit prices and a 10% ethanol blend*	9.1 cents - 22.8 cents	18.3 cents - 45.8 cents
Oregon Dept of Environmental Quality *- Information based on original proposal displays a range based on $50 - $200 credit prices and a 10% ethanol blend.*	5.7 cents - 22.7 cents	No Information
CA Legislative Analyst Office *- Does not adjust for ethanol blend, 10 percent reflects 2022 estimate provided by LAO based on $185 credit price.*	24 cents	46 cents

** This information reflects a price impact associated with passing the calculated cost completely on to consumers. Some of the agencies producing these estimates have characterized this as a "worst case" scenario. Others believe this is a relatively reasonable assumption. Regardless, these estimates should all be seen as a rough sizing of the potential impacts. The actual impacts are heavily dependent on unknown factors, including credit prices, the phase-in schedule adopted by the Department of Ecology, biofuel supply and demand issues, and technological innovations.*