2025 tax preference review:

Natural Gas for Transportation

PRELIMINARY REPORT | JULY 2025

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Legislative Auditor's conclusion

Three preferences reduce the cost of using natural gas as a transportation fuel. However, the emissions reduction objective for the preferences is not met.

Key points

- The Legislature passed four tax preferences to support the use of natural gas as a transportation fuel.
- The preferences aim to provide uniform tax treatment to sellers of natural gas, reduce emissions, promote economic development, and lower fuel costs.
- Two preferences meet legislative intent to provide uniform tax treatment for natural gas. A Department of Revenue work group will make recommendations about taxation of liquefied natural gas as a marine fuel by December 2025.
- The preferences met the economic development objective by lowering the cost to build a liquefied natural gas plant. The status of the employment objective is not disclosable.
- The emissions reduction objective of the tax preference is not met: Use of natural gas as a transportation fuel is less than originally anticipated. State ferries did not convert to liquefied natural gas, and on-road use of natural gas remains limited.

About this preference

Estimated savings: \$5.1m-\$19.2m	**Tax type:** Multiple taxes	**Expiration date:** One preference: July 2028 Two preferences: No expiration date.

Executive summary

Joint Legislative Audit and Review Committee (JLARC) reviewed three preferences that support the manufacture and sale of natural gas as a transportation fuel

In 2014, the Legislature enacted four preferences that support the manufacture and sale of natural gas as a transportation fuel:

- A public utility tax (PUT) exemption for natural gas used as a transportation fuel.
- An exemption from the state and local natural gas use tax if the consumer uses the gas for transportation fuel.
- A sales tax exemption for liquefied natural gas for certain marine uses.
- A sales and use tax exemption for purchases by a gas utility of machinery and equipment used to manufacture compressed or liquefied natural gas as a transportation fuel.

JLARC reviewed three of them. The fourth preference was omitted from JLARC's review. JLARC is statutorily prohibited from evaluating exemptions for sales of machinery and equipment for manufacturing, R&D, or testing.

In 2019, the Legislature also created a PUT exemption for renewable gas for all uses, including transportation. It is not a part of this JLARC review.

Beneficiaries of the preferences are projected to save an estimated $5.1 million to $19.2 million total in the 2027-29 biennium

Public data indicates the beneficiaries of the preferences are Puget Sound Energy (PSE), TOTE Maritime Alaska (TOTE), and other buyers of natural gas used as a transportation fuel.

- In years that beneficiaries claim the machinery and equipment exemption, they must submit an annual tax performance report. The report must include sales of compressed natural gas and liquefied natural gas as a transportation fuel.
- Beneficiaries of the PUT exemption are not required to submit an annual tax performance report and disclose such sales.
- JLARC staff requested data about liquefied natural gas production, sales, and consumption to estimate tax savings for the PUT exemption and the sales tax exemption.
- JLARC staff did not receive permission from all beneficiaries to disclose tax savings. Staff instead relied on public data to estimate a range of beneficiary savings.
- Beneficiaries are estimated to save $5.1 million to $19.2 million total in the 2027-29 biennium.

Figure 1: Beneficiaries estimated to save $5.1 million to 19.2 million in the 2027-29 biennium

Dollars in millions

Fiscal Year	Public Utility Tax Exemption: Natural Gas for Transportation	Sales Tax Exemption: Marine LNG	Natural Gas Use Tax Exemption: CNG, LNG for Transportation	Sales and Use Tax Exemption: M&E for CNG and LNG Manufacturing	Total
FY28	$0.6 — $2.6	$1.5 — $6.50	$0.5	$0	$2.5 — $9.6
FY29	$0.6 — $2.6	$1.5 — $6.50	$0.5	$0	$2.5 — $9.6

Fiscal Year	Public Utility Tax Exemption: Natural Gas for Transportation	Sales Tax Exemption: Marine LNG	Natural Gas Use Tax Exemption: CNG, LNG for Transportation	Sales and Use Tax Exemption: M&E for CNG and LNG Manufacturing	Total
2027-29 biennium	$1.2 — $5.3	$2.9 — $13.0	$0.9	$0	$5.1 — $19.2

Note: Sum may not equal the total shown due to rounding.

Source: JLARC staff analysis of Department of Energy (DOE) data.

Beneficiaries of the machinery and equipment sales and use tax exemption must report compressed natural gas and liquefied natural gas sales in years they use this exemption. However, no beneficiary has used the preference since 2021. Requiring beneficiaries of the PUT exemption to report the amount of compressed natural gas and liquefied natural gas sold for use as transportation fuel would facilitate future reviews of the tax preferences.

Two preferences provide uniform tax treatment for sellers of natural gas

The Legislature's intent is to give uniform tax treatment of natural gas as a transportation fuel regardless of the seller. By providing both the PUT and the natural gas use tax exemptions, the preferences meet that intent.

The sales tax exemption does not provide uniform tax treatment of natural gas compared to other marine fuels

The partial sales tax exemption does not provide uniform tax treatment for liquefied natural gas compared to other marine fuels, such as diesel.

Diesel used in marine interstate commerce is fully exempt from sales tax, while the exemption for liquefied natural gas is limited to 90%. When the partial liquefied natural gas exemption expires in July 2028, its use will be subject to sales tax.

The Legislature directed the Department of Revenue (DOR) to convene a work group to review the taxation of liquefied natural gas as a marine fuel. DOR must make a recommendation by December 1, 2025.

Tax preferences met one of the four tax preference objectives

Figure 2: Tax preferences met one of four objectives

Objective	Target	Results
Estimated cost to build and equip liquefied natural gas facility.	$250 million.	**Met.** The facility cost between $366-$489 million.

Objective	Target	Results
Number of employment positions and wages at a Washington liquefied natural gas facility. Facility must be run by a gas utility that sells liquefied natural gas as transportation fuel.	18 jobs at liquefied natural gas facility. Average wages at least $35,000 per year.	**Not disclosable**. PSE did not give JLARC staff permission to disclose the information.
Estimated fuel savings by Washington State Ferries & other public entities using liquefied natural gas bought from a gas utility.	No stated target.	**Not met.** Washington State Ferries' vessels do not run on liquefied natural gas. PSE told JLARC staff that it had no liquefied natural gas sales to public entities.
Estimated reduction in CO_2, SO_2, NO_2, and particulate matter (PM) from use of compressed natural gas and liquefied natural gas as transportation fuel compared to diesel.	300 million pounds of CO_2. 200,000 pounds of PM. 400,000 pounds of SO_2. 450,000 pounds of NO_2.	**Not met** except for N02 target.

Source: JLARC staff analysis.

Legislative Auditor's recommendations

If the legislative intent continues to be to support the use of natural gas as a transportation fuel, the Legislative Auditor makes three recommendations.

1. **Continue** the PUT and natural gas use tax exemptions to ensure uniform taxation of natural gas as a transportation fuel regardless of the seller.
2. **Continue** the sales tax exemption for liquefied natural gas in interstate commerce. In determining the level of benefit, the Legislature should consider recommendations from DOR's work group on taxation of marine use of liquefied natural gas.
3. **Modify** the PUT exemption to require beneficiaries to report the amount of compressed natural gas and liquefied natural gas produced and sold. This information would facilitate future reviews.

You can find additional information in the **Recommendations section**.

Commission recommendation

To be included in proposed final report.