

HOUSE BILL REPORT

HB 1257

As Reported By House Committee On:

Energy & Utilities

Title: An act relating to the taxation of coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

Brief Description: Providing tax exemptions and credits for coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

Sponsors: Representatives DeBolt, Alexander, Pennington, Sheldon, Kessler, Poulsen, McMorris, Mielke, Van Luven, Grant, Crouse, Mastin, Doumit and Hatfield.

Brief History:

Committee Activity:

Energy & Utilities: 2/4/97, 2/5/97 [DP].

HOUSE COMMITTEE ON ENERGY & UTILITIES

Majority Report: Do pass. Signed by 11 members: Representatives Crouse, Chairman; DeBolt, Vice Chairman; Poulsen, Ranking Minority Member; Morris, Assistant Ranking Minority Member; Bush; Cooper; Honeyford; Kastama; Kessler; Mielke and Mulliken.

Minority Report: Do not pass. Signed by 1 member: Representative B. Thomas.

Staff: Margaret Allen (786-7110).

Background: The Centralia Steam Plant and adjacent coal mine are located in Lewis County approximately five miles northeast of Centralia. PacifiCorp operates the steam plant and owns the largest share, 47.5 percent. Other owners include Washington Water Power (15.0 percent), Seattle City Light, Tacoma Public Utilities, and Snohomish County PUD (each with 8.0 percent), Puget Power (7.0 percent), Grays Harbor PUD (4.0 percent), and Portland General Electric (2.5 percent). The plant has two coal-fired units capable of producing 1,300 megawatts of electricity, enough to serve Seattle.

The steam plant is the sole customer of the Centralia Coal Mine, which is operated by the Centralia Mining Company, a wholly owned subsidiary of PacifiCorp.

Together, the steam plant and coal mine employ approximately 670 people.

Air Pollution Control Requirements: The Centralia Steam Plant is the largest single source of sulfur dioxide pollution in the state. Sulfur dioxide emissions have been blamed for impairing visibility of Mount Rainier.

In the early 1990s, the federal and state clean air acts were revised to require existing industrial pollution sources to meet reasonably available control technology—standards.

In 1995, the Southwest Washington Air Pollution Control Authority issued an order requiring the Centralia Steam Plant to reduce sulfur dioxide emissions by 50 percent by the year 2001. When the order was issued, the National Park Service and the U.S. Forest Service argued greater emission reductions were needed. The Centralia plant owners then met with the National Park Service, U.S. Forest Service, U.S. Environmental Protection Agency, state Department of Ecology, Southwest Washington Air Pollution Control Agency, and the Puget Sound Air Pollution Control Agency to develop a recommendation on further emission reductions.

The final recommendation of this collaborative decision-making group was to require the Centralia Steam Plant to construct two scrubbers on site. The first scrubber would be in operation by December 31, 2001, and the second in operation by December 31, 2002, with an expected 90 percent reduction in sulfur dioxide emissions by the year 2003.

The two scrubbers reportedly are expected to cost approximately \$264 million (nominal value, estimated at \$172 million net present value).

Implementation of the agreement is contingent on the steam plant's owners receiving certain tax exemptions and credits.

Sales and Use Taxes: Sales tax is imposed on most items of tangible personal property. The state sales tax rate is 6.5 percent and is applied to the selling price of the article. In addition, local sales taxes are applied to all sales subject to the state sales tax.

Sales tax applies when items are purchased at retail in the state. Use tax is imposed on the use of an item in this state when the item's acquisition was not subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out of state, and items produced by the person using the item. The use tax is equal to the sales tax rate.

State Public Utility Tax: Public and privately-owned utilities pay a state public utility tax on gross receipts, instead of the business and occupation tax. The tax rate for light and power businesses is 3.873 percent.

Summary of Bill: The Legislature finds that state tax policy often serves as a disincentive to investment in technology to reduce industrial emissions, and that tax policies might lead a company to select a strategy that could adversely impact government revenues and local economies. The stated purpose of the legislation is to avoid such problems.

Sales and Use Tax Exemption: Sales and use taxes do not apply to sales of tangible personal property for, or to charges for labor and services performed in, the construction or installation of air pollution control activities at thermal electric generation facilities placed in operation before July 1, 1975.

The air pollution control facilities must be constructed to meet the regulatory requirements of the state and federal laws, including the Washington Clean Air Act.

The exemption will not apply to sales of tangible personal property, or charges for labor and services, used to maintain or repair the pollution control equipment.

State Public Utility Tax Credit: A tax credit against the state public utility tax is granted to thermal electric generating facilities placed in operation before July 1, 1975. The tax credit is equal to the amount of sales and use taxes paid on coal used by the facility, and the amount of property taxes paid and associated with new air pollution control facilities. The credit must be taken in the same calendar year in which the sales, use, or property taxes are paid.

To qualify for the tax credit, a business must demonstrate, in a timely manner, that it is making reasonable progress towards installation of air pollution control facilities to meet requirements of federal and state laws. If a business fails to demonstrate reasonable progress, the business must return any revenues previously credited against the public utility tax, plus interest at an annual rate of 6 percent. The demonstration is deemed timely if made within 18 months after the final determination of the regulatory requirements.

The Department of Revenue may adopt rules to implement the act.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The Centralia Coal Mine is the largest taxpayer in Lewis County. The closure of the Centralia Coal Mine and Steam Generating Plant would be to Lewis County what the loss of Boeing would be to King County. The jobs at risk pay well and require highly trained employees. The steam plant is a highly reliable source of electricity generation for the region. The fly ash from the plant is needed to make concrete; if the plant closes there will be an adverse ripple effect throughout the area. While the state would forego some revenues under this bill, there would be substantial investments in the state in other ways. The company has an excellent environmental record. The collaborative decision is based on the assumption the mine and plant will be competitive and remain open for 25 years if the bill passes, but there are no guarantees.

Testimony Against: This bill raises policy issues such as whether public subsidies should be granted for complying with environmental laws, and whether the polluter pays—principle should be violated. The bill is too open-ended. It does not guarantee any specific reduction of pollution, and fails to take into consideration concerns about health and climatic changes. It contains no safeguards to protect taxpayers from possible windfall profits to the company or from the burden of possible future stranded costs. The bill contains no objective cost/benefit (or least-cost) analysis, and makes no provisions for workers if, or when, the plant closes. If the bill passes, Washington will be the only state in the West that does not tax coal. A cost-effective alternative measure would be to import low-sulfur coal into the state, thus reducing emissions without requiring tax reductions.

Testified: (PRO) Representative DeBolt, prime sponsor; Ron Newbry and Rich Wooley, PacifiCorp; Rose Bowman, Lewis County; Bill Lotto, Lewis County Economic Development Council; Clinton Kurtz, Pozzolan Northwest, Inc.; and Bruce Blaine, Superintendent, Centralia Schools. (CON) Eugene Rosalie and Nancy Holbrook, Northwest Environmental Advocates; Gary Bowers, Clean Air Coalition; and Jerry Bartlett, Burlington Northern Santa Fe.