

HOUSE BILL REPORT

HB 1859

As Passed Legislature

Title: An act relating to exempting electric generating facilities using wind, solar energy, landfill gas, or fuel cells from sales and use taxes.

Brief Description: Exempting electric generating facilities using wind, solar energy, landfill gas or fuel cells from sales and use taxes.

Sponsors: By Representatives Poulsen, Crouse, Morris, Casada, DeBolt, Esser, Simpson, B. Chandler, Linville, Delvin, Wood, Conway, Kenney, Santos, Romero, Kessler, Pflug, Rockefeller, Lovick, O'Brien, Darneille, Pearson, Ruderman, McIntire, Anderson, Keiser, Dunn, McDermott, Kagi, Schual-Berke, Campbell, Edmonds and Jackley.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 2/12/01 [DP];

Finance: 2/28/01, 3/8/01 [DP].

Floor Activity:

Passed House: 3/13/01, 93-0.

Passed Senate: 4/9/01, 47-0.

Passed Legislature.

Brief Summary of Bill

- Expands the current sales and use tax exemptions for machinery and equipment used directly in generating electricity using wind, solar, or landfill gas to fuel cells and to smaller generation facilities (200 watts or more).
- Extends application of the exemption to generators who produce electricity for their own use.
- Extends the exemption until June 30, 2009.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 16 members: Representatives Crouse, Republican Co-Chair; Poulsen, Democratic Co-Chair; Ruderman, Democratic Vice Chair; Anderson, Berkey, Bush, B. Chandler, Cooper, Delvin, Esser, Hunt, Mielke, Morris, Pflug,

Simpson and Wood.

Staff: Pam Madson (786-7166).

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

Staff: Mark Matteson (786-7145).

Background:

In 1996 the Legislature provided an exemption from the retail sales and use taxes for machinery and equipment used directly in generating electricity using wind or solar energy. In 1998 the exemption was expanded to include machinery and equipment used in generating electricity from landfill gas. The exemption also includes the installation of the equipment including labor and services. The exemption expires June 30, 2005.

The exemption applies to facilities capable of generating 200 kilowatts (200,000 watts) or more of electricity.

The phrase "used directly" means that the machinery and equipment exempt from the tax must be part of the process of capturing energy from wind, sun, or landfill gas, converting that energy to electricity, and transforming or transmitting the electricity for entry into electric transmission and distribution systems.

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. In addition, local sales taxes apply. The combined tax rate is between a minimum of 7 percent and a maximum of 8.6 percent depending on the location of the purchase. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the state general fund.

Use tax is imposed on the use of an item in this state when the acquisition of the item has not been 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. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the state general fund.

Summary:

The current sales and use tax exemption for machinery and equipment for new electrical generation using wind, solar, or landfill gas as a primary power source is expanded to include fuel cells and smaller generation facilities and facilities that use the electricity on site. Smaller facilities are included by lowering the threshold for application of the exemption from 200 kilowatts (200,000 watts) to 200 watts.

Fuels cells are defined as an electrochemical reaction that generates electricity by combining atoms of hydrogen and oxygen in the presence of a catalyst.

The tax exemption is extended through June 30, 2009.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2001.

Testimony For: (Technology, Telecommunications & Energy) (Testimony on HB 1442) This bill is another step toward adding additional electricity generation to the region. The change to the current exemption will allow homeowners to take advantage of the opportunity to use clean, renewable energy and increase their energy independence. It will help create a market for renewable energy products and help develop an infrastructure of businesses that can manufacture and maintain these products. A number of renewable manufacturing businesses currently operate in Washington and export their products worldwide. This bill will also remove the advantage of out of state retailers selling through mail order or by telephone sales who can avoid the state sales tax in competing with Washington retailers. The bill would be improved by expanding the exemption to distributed generation generally such as fuel cells. Fuel cell technology is improving and incentives to encourage development will help make it more affordable.

Testimony For: (Finance) This bill enables homeowners to take advantage of renewable energy resources. It will promote system reliability. It levels the playing field for in-state suppliers of small-scale energy systems. This bill will help Washington to develop a domestic fuel cell retail market. Initially, the market price may be several thousand dollars, and so a sales and use tax exemption will help provide some incentive. This is a better approach to diversifying resources than some of the other approaches.

(Concerns) The definition of fuel cells should be modified to include only those using renewable resources.

Testimony Against: (Technology, Telecommunications & Energy) (Testimony on HB 1442) None.

Testimony Against: (Finance) None.

Testified: (Technology, Telecommunications & Energy) (Testified on HB 1442) (In support) David Danner, Governor's Office; Danielle Dixon, Northwest Energy Coalition; Collins Sprague, Avista Corporation; and Kristin Souwin, Association of Washington Business.

Testified: (Finance) Collins K. Sprague, Avista Corporation; Danielle Dixon, Northwest Energy Coalition; Kristen Harte-Sawin, Association of Washington Business; and Liz Klumpp, Department of Community, Trade and Economic Development.