

HOUSE BILL REPORT

HB 1406

As Reported by House Committee On:
Technology, Telecommunications & Energy
Finance

Title: An act relating to providing sales and use tax exemptions for air pollution control facilities acquired or installed by a light and power business at thermal electric peaking plants.

Brief Description: Providing sales and use tax exemptions for air pollution control facilities acquired or installed by a light and power business at thermal electric peaking plants.

Sponsors: Representatives Esser, Poulsen, Crouse, Linville, Kagi, Kenney, Hatfield, Van Luven, Cooper, Campbell, Roach, Bush, Berkey, Miloscia, Rockefeller and Kessler.

Brief History:

Committee Activity:

Technology, Telecommunications & Energy: 1/31/01, 2/12/01 [DP];
Finance: 2/28/01, 3/8/01 [DPS].

Brief Summary of Substitute Bill

- Allows a sales and use tax exemption for air pollution control facilities acquired or installed by a light and power business at gas-fired thermal electrical generation facilities placed into service between 1978 and 1984 that are operating subject to pollution control limits.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Majority Report: Do pass. Signed by 14 members: Representatives Crouse, Republican Co-Chair; Poulsen, Democratic Co-Chair; Ruderman, Democratic Vice Chair; Anderson, Berkey, Bush, B. Chandler, Delvin, Esser, Hunt, Mielke, Pflug, Simpson and Wood.

Minority Report: Do not pass. Signed by 2 members: Representatives Cooper and Morris.

Staff: Pam Madson (786-7166).

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. The tax is levied at a 6.5 percent rate by the state. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state which were not subject to the retail sales tax, and includes purchases made in other states and purchases from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Facilities that are major sources of air pollution are required to obtain an air operating permit. The permit may set limits on emissions, require monitoring, record keeping, reporting, and other compliance measures.

If a facility emits pollutants into the air but is not required to obtain an air operating permit, that source must register every year with the Department of Ecology or a local air authority. Through the registration process, the levels and types of air pollution from a given source are classified and regulatory requirements relating to air emissions are identified.

Summary of Bill:

A sales and use tax exemption is available for air pollution control facilities acquired and installed at gas-fired electric generating facilities that were placed into service between 1978 and 1984. The generation facility must be operated by a light and power business, and must be registered with the Department of Ecology or a local air authority during 2000 as a source of air pollution. The tax exemption applies to acquisition and installation but does not include charges for operation and maintenance of the facility or the air pollution control facility.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: There is a need for additional electrical generating capacity that can come online as quickly as possible. One source of additional generation is the upgrade in pollution control devices for older generation facilities used to supply electricity for peak demand. The operation of these plants is limited by air pollution restrictions. This bill

provides an incentive for reducing pollution from these plants that will allow them to run longer. Four older plants could produce an additional 200 megawatts of electricity. Additional electricity generation also reduces the need to supply power for peak demand from the wholesale electric market providing some rate protection for utility customers. Concern was expressed that any tax exemption be tied to reducing CO2 emissions from these plants since the pollution control devices do not reduce these emissions. Increased emissions will have long term consequences.

Testimony Against: None

Testified: (In Support) Collins Sprague, Avista Corp.; Mellani Hughes, Association of Washington Business; Tim Boyd, Industrial Customers of Northwest Utilities; Terry Oxley, Puget Sound Energy; and David Danner, Governor's Office.

(Neutral) Danielle Dixon, Northwest Energy Coalition.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill 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).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Telecommunications & Energy:

An expiration date is provided.

Appropriation: None.

Fiscal Note: Available for original bill.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: This is one part of the Governor's response to the current energy crisis. This bill provides a short-term response to the problem, potentially yielding an additional 200 megawatts (MW) of capacity in a couple of years. This also has the advantage getting more out of existing plants. It protects the environment by providing that new air pollution control facilities be added.

The current Environmental Protection Agency rules limit the operation of thermal electric

peaking plants to a very short time during the year. Some plants can only run four hours a day for 120 days; new permits after the upgrade would allow the plants to run for 2,500 hours. This would mean that less power would need to be purchased on the wholesale market, which would benefit customers.

It is believed that this exemption would be taken at the Spokane plant operated by Avista and the Frederickson plant operated by Puget Sound Energy, so that there would be an additional 240 MW of capacity at a cost of less than \$1 million.

There would be additional tax proceeds to the state, since the property values would likely increase and since more natural gas would be purchased.

(Concerns) It is not clear why electricity providers are not moving forward with plans to invest in air pollution control equipment anyway. If the intent is to quickly ramp up existing facilities, there should be a sunset included that ends the incentive by the end of 2002. A practical effect of this bill is to increase carbon dioxide emissions, so the tax incentive should be tied to requirements to reduce such emissions in other ways.

Testimony Against: None.

Testified: (In support) Representative Esser, prime sponsor; Kristen Harte-Sawin, Association of Washington Business; Dave Danner, Governor's Office; Collins K. Sprague, Avista Corporation; and Tim Boyd, Industrial Customers of Northwest Utilities.

(Neutral) Danielle Dixon, Northwest Energy Coalition.