

SENATE BILL REPORT

SB 5709

As Reported By Senate Committee On:
Environment, Energy & Water, February 9, 2001

Title: An act relating to exempting from the state public utility tax the sales of electricity to an electrolytic processing business.

Brief Description: Exempting certain electrolytic processing businesses from public utility tax.

Sponsors: Senators Regala, Winsley and Fraser.

Brief History:

Committee Activity: Environment, Energy & Water: 2/8/01, 2/9/01 [DPS-WM, DNP].

SENATE COMMITTEE ON ENVIRONMENT, ENERGY & WATER

Majority Report: That Substitute Senate Bill No. 5709 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Fraser, Chair; Regala, Vice Chair; Eide, Honeyford and Patterson.

Minority Report: Do not pass.

Signed by Senators Hale and Morton.

Staff: Andrea McNamara (786-7483)

Background: Washington collects a Public Utility Tax (PUT) on the gross receipts of retail electricity sales. Electric utilities pay this tax in lieu of a business and occupation tax and typically pass it on directly to their retail customers. Wholesale transactions are exempt from the PUT. The state rate for electricity is 3.873 percent.

Some industries utilize extremely large amounts of electricity in their production processes, in part because they use electricity in a manner more like an ingredient or raw material than as power solely for lighting and operating machinery and equipment.

Many of the largest industrial users of electricity in Washington, aluminum smelters and pulp and paper mills, utilize electricity in this way. They currently receive their electricity tax free because they are able to obtain their power directly from wholesalers such as the Bonneville Power Administration or other out-of-state entities. Other large industrial customers who use electricity in a similar manner do not currently have the legal or physical option to obtain their electricity directly from wholesalers.

One such electricity-intensive industry is the chlor-alkali electrolytic processing industry, which uses electricity to create an electrochemical reaction to convert salt and water into chlorine and sodium hydroxide. These products are then used in other industrial and commercial processes such as pulp and paper processing. Washington has one chlor-alkali producer: Pioneer in Tacoma.

Summary of Substitute Bill: An exemption from the state public utility tax is created for sales of electricity made to a chlor-alkali business for use in its electrolytic process beginning July 1, 2001.

A chlor-alkali business is defined as one that uses more than ten average megawatts of electricity per month in an electrolytic process to split the electrochemical bonds of sodium chloride and water to make chlorine and sodium hydroxide. It does not include direct service industrial customers of the Bonneville Power Administration.

The exemption is provided to the seller of the electricity so long as three conditions are met: (1) the price that the seller charges the chlor-alkali business is reduced by the same amount as the value of the tax exemption; (2) the electricity used in the electrolytic process must be separately metered from the electricity used for general operations; and (3) the chlor-alkali business does not resell or remarket the electricity.

The chlor-alkali business must provide an exemption certificate to the seller of the electricity.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Requested on January 31, 2001.

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

Testimony For: Pioneer Chlor-Alkali is a cornerstone industry, not just in Tacoma and Pierce Co., but also for many other businesses, industries, and municipalities throughout the region for which it provides products. It also purchases from 175 suppliers in the area. If some relief from high energy prices is not forthcoming, Pioneer may be forced to close or relocate outside of Washington. Of the 46 sites in North America that produce Chlor-Alkali products, Washington is the only place that taxes the electricity used in the electrolytic process. Pioneer employs 160 people; has an excellent safety record; has a history of good labor relations; and is a good corporate citizen. It has avoided layoffs so far during this growing energy crisis, but time is running out.

Testimony Against: None.

Testified: PRO: Senator Regala, prime sponsor; Larry Landry, Stan Hearn, Pioneer; Vince Diaz, ICWU Local 110; Gary Brackett, Tacoma-Pierce County Chamber.