**Washington State**
**House of Representatives**
**Office of Program Research**

**BILL ANALYSIS**

# Technology, Telecommunications & Energy Committee

# HB 2971

**Brief Description:** Promoting qualified alternative energy resources.

**Sponsors:** Representatives Morris, Crouse, Sullivan, Nixon, Ruderman, Anderson, Hudgins, Bush, Wood, McMorris, McDonald, Linville, Quall, Rockefeller and Kagi.

**Brief Summary of Bill**

- Establishes a credit against a utility's public utility tax (PUT) obligation for a portion of the marketing cost incurred by a utility to market a "Green Options" program to its retail customers.
- Establishes an additional credit against a utility's PUT obligation for billing discounts given to low-income customers to allow them to participate in their utility's "Green Options" program.

**Hearing Date:** 2/3/04

**Staff:** Pam Madson (786-7166).

**Background:**

**Green options program**. Beginning January 1, 2002, electric utilities (except small utilities) are required to offer their retail electric customers an option to purchase electricity generated by alternative energy resources. The utility may use either electricity generated by alternative energy resources or energy credits that represent the environmental attributes of clean energy production. The 16 utilities that are subject to this requirement offer a variety of programs to retail customers. Many of the utilities offer kilowatt hours in blocks for a set price, for example, $2 per 100 kilowatt hours of electricity generated from wind power. Participation rates by retail customers in the second year of the program range from less than 1 percent to nearly 5 percent of a utility's retail customers with most participating utilities in the one percent or less range.

**Public Utility Tax.** Public and privately-owned utilities are subject to the state public utility tax (PUT). The PUT is applied to the gross receipts of the business. For electrical utilities, the applicable tax rate is 3.873 percent. Revenues are deposited to the state general fund.

The PUT permits several deductions and credits for specific types of business activities. These activities include credit for one-half of the contributions made to rural electric utility economic development revolving funds and credit for electric and natural gas utilities that provide billing discounts to low-income customers.

**Credit for contributions to the electric utility rural economic development revolving account**. A tax credit is allowed for up to 50 percent of the contributions by an electric utility made to an electric utility rural economic development revolving account. Projects that qualify under the fund include those designed to achieve job creation or business retention; to add or upgrade nonelectrical infrastructure, health and safety facilities, or emergency services; or to make energy and water use efficiency improvements, including renewable energy development. The credit is limited to $25,000 per business annually. Total tax credits under the law are limited to $350,000 annually. The ability to earn tax credits expires December 31, 2005.
**Low-income billing discounts.** A credit is allowed against the PUT due from gas and electric utilities for 50 percent of the billing discounts offered to qualifying low-income customers. To qualify for the credit, the amount of billing discounts must be at least 125 percent greater than discounts or contributions given by the utility in 2000. The maximum total credit available state-wide each year is $2.5 million.

**Summary of Bill:**

A utility that offers its customers an option to purchase electricity generated by alternative energy resources may be eligible for a tax credit against the utility's public utility tax obligation.

To qualify for the credit a utility must offer a green option program to its customers and use the full amount of the credit to supplement its expenditures for marketing its green options program.

The amount of the credit that may be taken to reduce its tax obligation under the PUT is 50 percent of the amount expended to market the green options program. No one utility may claim more than $35,000 in credit in any one calendar year and may not exceed the amount of the utility's PUT tax obligation. Credits claimed must be based on expenditures that were made in the same year that the credit is claimed.

If a utility qualifies for a credit against its PUT obligation for contributions made to an electric utility rural economic development revolving fund, it may also take the credit under the green options tax credit in an amount equal to the credit taken under the revolving fund credit. The combined total tax credit may not exceed $35,000 for a single utility in any one calendar year.

Projects that qualify for funding through the electric utility rural economic development revolving fund is expanded to include marketing activity for a voluntary green options program for retail electric customers. Tax credits based on contributions to a revolving fund may be taken through December 31, 2013, rather than 2005.

A utility may be eligible for an additional credit against its PUT obligation. A credit may be claimed for low-income billing discounts that allow low-income customers to participate in the green options program. This credit is limited to $100 per low-income customer per calendar year and is limited to no more than $100,000 per utility in a calendar year. The credit claimed may not exceed the utility's PUT obligation for that year.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which the bill is passed, except sections 2 and 4, which take effect on January 1, 2005.