

SENATE BILL REPORT

E2SHB 2518

As Reported By Senate Committee On:
Economic Development, February 20, 2004
Ways & Means, February 26, 2004

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

Brief Description: Exempting from the state public utility tax the sales of electricity to an electrolytic processing business.

Sponsors: House Committee on Finance (originally sponsored by Representatives Kirby, Conway, Morris, Holmquist and Hinkle).

Brief History:

Committee Activity: Economic Development: 2/20/04 [DP-WM].
Ways & Means: 2/26/04 [DPA].

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators T. Sheldon, Chair; Hale, Murray, B. Sheldon and Shin.

Staff: Rhoda Donkin (786-7198)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Zarelli, Chair; Hewitt, Vice Chair; Parlette, Vice Chair; Carlson, Doumit, Fraser, Hale, Honeyford, Johnson, Pflug, Prentice, Rasmussen, Regala, Roach, Sheahan and B. Sheldon.

Staff: Catherine Suter (786-7442)

Background: 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 does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are several deductions and credits for specific types of business activities. These activities include wholesale sales and sales of electricity to direct service industrial businesses.

There is a small number of large industrial manufacturers, mostly aluminum smelters, that consume significant amounts of electricity in their processing operations. They purchase their electricity directly from the Bonneville Power Administration (BPA) and are known as direct

service industrial customers or DSIs. The DSIs are not utilities and are not subject to the PUT tax and the income to BPA (a federal agency) from those sales is not subject to the state PUT.

Industrial chemical businesses also use significant amounts of electricity in their chemical processing operations. Some of these businesses purchase their electricity from a local electric utility. The income to the utility from the sale of electricity to the chemical business is subject to the state PUT. Two such electricity-intensive industries are chlor-alkali and sodium chlorate electrolytic businesses.

Summary of Amended Bill: Effective July 1, 2004, income from the sales of electricity by a utility to a chlor-alkali or a sodium chlorate chemical business is exempt from the PUT if the sales contract between the utility and the chemical business meets the following conditions:

- (1) The electricity used in the chemical processing is separately metered from the electricity used in the general operation of the business;
- (2) The price of the electricity used in the processing of the chemicals and charged to the chemical business is reduced by the amount of the tax exemption received by the selling utility; and
- (3) If the tax exemption is disallowed, the chemical business must pay the amount of the disallowed exemption to the utility.

If the electricity originally obtained by the utility to meet the contracted amount required by the chemical business for use in the processing of the chemicals is resold by the utility, the income from the resale of that electricity is not exempt from the PUT.

Amended Bill Compared to Second Substitute Bill: Reporting requirements, studies, and the expiration date are removed.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For (Economic Development): These tax incentives will help chemical processing companies compete. These businesses provide family wage jobs and this will help keep them profitable.

Testimony Against (Economic Development): None.

Testified (Economic Development): PRO: Rep. Steve Kirby; Tim Boyd, Eka Chemicals; Bill Stanfacher.

Testimony For (Ways & Means): None.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): No one.