

HOUSE BILL REPORT

SSB 5101

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

Title: An act relating to providing incentives to support renewable energy.

Brief Description: Providing incentives to support renewable energy.

Sponsors: Senate Committee on Water, Energy & Environment (originally sponsored by Senators Poulsen, Morton, Fraser, Rockefeller, Pridemore, Regala, Hewitt, Kline, Kohl-Welles, Brown and Oke).

Brief History:

Committee Activity:

Technology, Energy & Communications: 3/31/05 [DPA];

Finance: 4/4/05 [DPA(FINw/oTEC)s].

**Brief Summary of Substitute Bill
(As Amended by House Committee)**

- Establishes cost recovery incentives for investment in renewable energy systems.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass as amended. Signed by 10 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, Sump, Takko and Wallace.

Staff: Sarah Dylag (786-7109).

Background:

Photovoltaics (solar-electric technologies) is an alternative to more traditional methods of generating electricity. It is a technology that converts light directly into electricity without moving parts, noise, or air or water pollution.

Wind power generation uses wind energy to turn the rotor of a wind turbine that drives the shaft of a generator to produce electricity. Large wind farms use turbines on towers that can produce up to 1.5 megawatts of electricity each. Smaller turbines are available for distributed generation on-site or in remote locations.

Anaerobic digesters break down or "digest" organic material in the absence of oxygen and produce biogas as a waste product. Anaerobic decomposition occurs naturally in swamps, soil and rice fields, deep bodies of water, and in the digestive systems of termites and large animals. Some livestock operations process manure from cattle into biogas. The biogas is then used to run a generator to produce electricity.

The public utility tax is the state's business tax on the gross receipts of public and privately-owned utilities. It has five different rates, depending on the specific utility activity. Proceeds from the public utility tax go primarily to the State General Fund.

In 2000, the German Parliament adopted a measure known as the "Renewable Energy Law." An aspect of this law is a provision that offers producers of solar power about 50 Euro cents initially for every kilowatt-hour fed into the electrical distribution system. Each year this incentive is reduced by 5 percent in anticipation of reduced costs of generating electricity using photovoltaic technology.

Utilities are required to allow customers to utilize net metering systems. Allowable systems include electrical production facilities that: (1) use solar, wind, or hydropower; (2) have a generating capacity of 25 kilowatts or less; (3) are located on the customer's premises; (4) operate in parallel with the electrical utility's distribution and transmission system; and (5) are intended primarily to offset part or all of the customer's electricity requirements. Such systems are required to include equipment that meets applicable safety, power quality, and interconnection requirements established by the National Electric Code, National Electrical Safety Code, the Institute of Electrical and Electronic Engineers (IEEE), and the Underwriters Laboratories (UL). The Utilities and Transportation Commission (for investor-owned utilities) or the governing body (for a consumer-owned utility) may adopt additional safety, power quality, and interconnection requirements.

Summary of Amended Bill:

Investment cost recovery incentives are created to encourage investment in renewable energy projects. Beginning July 1, 2005, cost recovery incentive payments are available to an individual, a business, or a local governmental entity that generates electricity on its own property using a wind or solar energy system or an anaerobic digester.

The cost recovery incentive payment is available for systems that are interconnected to the electric distribution system. Once uniform interconnection standards are adopted by light and power businesses serving 80 percent of the total customer load in the state, the cost recovery incentive payment is available for systems that are not interconnected. Uniform standards have 90 percent of total requirements the same.

The applicants must submit a request for a system certification to the Department of Revenue (Department) and the Climate and Rural Energy Development Center at Washington State University. The Department must advise the applicant whether the system qualifies for the

incentive program. The Department may consult with the climate center in making its decision on eligibility.

The incentive is calculated off a base rate of 15 cents for each kilowatt hour of energy produced. That rate is adjusted based on where the equipment or components were manufactured. The incentive rate is multiplied by the following factors:

- for customer-generated electricity produced using solar modules manufactured in Washington: two and four-tenths;
- for customer-generated electricity produced using a solar or a wind generator equipped with an inverter manufactured in Washington: one and two-tenths;
- for customer-generated electricity produced using an anaerobic digester, using other solar equipment, or using a wind generator equipped with blades manufactured in Washington: one; and
- for all other customer-generated electricity produced by wind: eight-tenths.

Each applicant is limited to \$2,000 in cost recovery payments per year.

Each light and power business is allowed a credit against its public utility tax for incentive payments paid to applicants. The credit is limited to 25 percent of its taxable power sales, or \$25,000, whichever is greater. If incentive requests exceed the amount of credit available, the power and light business may reduce the incentive payments proportionately.

Using existing sources of information the Department must report on the impact of the incentives to the appropriate committees of the Legislature by December 1, 2009. The report must include the total number of solar energy system manufacturing companies in the state, any change in the number of solar energy system manufacturing companies, and, where relevant, the effect on job creation, the number of jobs created for Washington residents, and other factors selected by the Department. The Department must not conduct any new surveys to provide this information to the Legislature.

This program is effective beginning July 1, 2005, and expires July 1, 2010.

Amended Bill Compared to Substitute Bill:

The amended bill provides that the cost recovery incentive payment applies to interconnected systems until uniform interconnection standards are adopted by light and power businesses serving 80 percent of the customer load in the state. When uniform standards are adopted, the cost recovery incentive payment applies to both interconnected and non-interconnected systems. The amended bill also requires the Department to use existing information to provide information to the Legislature regarding the impact of the cost recovery incentive payment. In addition, the amended bill changes the year for the bill to expire from 2015 to 2010. The bill is null and void if not funded in the budget.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005. However the bill is null and void unless funded in the budget.

Testimony For: This is a pilot project of an approach that has made other countries world leaders in developing solar power. It is a small step, but still a step, and will provide benefits to the state.

This bill would help the environment, but the issue here is not economy versus environment. This bill will drive substantial investment and job creation in the state. It will help growing companies keep up with national and international markets.

Incentive payments in this bill are tied to the generation of electricity and this is an innovative and effective way to provide incentives. This method has been used in other countries and has been successful.

Testimony Against: None.

Persons Testifying: Senator Poulsen, prime sponsor; Clifford Traisman; Washington Conservation Voters; Tom Starrs, Bonneville Environmental Foundation and American Solar Energy Society; Marc Roper, RWE Schott Solar; and Larry Stevens, National Electrical Contractors Association.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Finance and without amendment by Committee on Technology, Energy & Communication. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Mark Matteson (786-7145).

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

Clarifies that the investment cost recovery incentive payment applies only to systems that are not interconnected to the electric distribution system, and that the incentive payment applies to systems that are interconnected only after uniform standards for interconnection are adopted by utilities serving 80 percent of the customer load in the state. Clarifies that the maximum amount of credit that may be taken by a utility in any one fiscal year is the greater of 0.25 percent of taxable sales or \$25,000, and not the greater of 25 percent of taxable sales or \$25,000. Removes the provision expiring the act in 2010. Limits the time that incentive payments may be made to the period ending June 30, 2012. Changes the date after which

credits may not be earned to June 30, 2013. Allows earned credits to be claimed through June 30, 2014.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005. However, the bill is null and void unless funded in the budget.

Testimony For: Senate Bill 5101 and 5111 are being sponsored in tandem. These provide a great benefit to the public. Solar energy is great for the environment - there are no emissions from these technologies. This is great for the pocketbook. It is not like natural gas or coal where there might be great fluctuations in price. Washington used to lead the pack in this industry, and still it is strong here. These bills give it an even bigger bump. These bills require a 10 year time frame, and it is fine to tie the bill to the interconnection issue.

Solar photovoltaic (PV) technology holds the most promise of all solar technologies. The PV technology reduces dependence on foreign energy, produces no pollutants or greenhouse gases, makes the electrical grid more resilient to disruption, has no moving parts to wear out or break, and yields large numbers of local, living-wage jobs. Use is skyrocketing. After growing 34 percent in 2003 and 44 percent in 2002, global sales grew 62 percent last year. By 2015 they are expected to be around \$50 billion.

The leadership in this technology has shifted dramatically to Germany and Japan. This has been purely the result of strategic public policy. The legislation currently before this committee is patterned closely after the German laws that led to these increases. Last year, 40 percent of the world's PV installations were in Germany and 30 percent were in Japan; only 9 percent were in the United States.

This bill, along with SB 5111, represents the most important solar legislation ever introduced in any state Legislature. It holds the potential to catapult Washington into the leadership ranks as one of the world's most robust areas of economic growth.

The National Electrical Contractor's Association believes that this is good for the electrical contracting industry and business in general. The Association has tried to stay ahead of the curve and train apprentices in solar installations.

The Sierra Club supports both these bills. There is a blending of good environmental policy and economic development policy.

This sets the stage to make the promise of renewable and distributive energy a reality here. The Appollo Alliance 10-point plan for the state includes both types of legislation now before you. It is more effective than capacity-incentive systems.

Three years ago, Mike Nelson authored a study that looked at the solar industry in this state. While the state was an early leader, not much has been done to maintain the lead. Boeing was a big early player but walked away. A Canadian company bought up a manufacturer here and

then relocated most of the jobs. Applied Power out of Lacey was bought by a German concern that relocated the facility to California. The industry in this state needs more support. This is not a threat to existing utilities.

Testimony Against: None.

Persons Testifying: Senator Poulsen, prime sponsor; Dennis Hayes, Bullitt Foundation; Larry Stevens; National Electrical Contractors Association; Craig Engelking, Sierra Club; Rich Feldman, Apollo Alliance Washington; and Mike Nelson, citizen.

Persons Signed In To Testify But Not Testifying: None.