Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Technology, Energy & Communications Committee

HB 2645

Brief Description: Providing a limited public utility tax credit for gas distribution businesses.

Sponsors: Representatives Kilmer, Crouse, P. Sullivan, Morris and Dunn; by request of Department of Community, Trade, and Economic Development.

Brief Summary of Bill

- Authorizes a credit against public utility tax liability for natural gas distribution utilities that make payments of up to $15,000 per business customer for the purpose of purchasing high-efficiency equipment and services to reduce gas consumption.
- Limits the new credit to fiscal year 2007 only and a statewide total of $1.5 million.

Hearing Date: 1/19/06

Staff: Mark Matteson (786-7145).

Background:

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. The tax rate depends on the utility classification. For gas distribution businesses, the rate is 3.852 percent. Revenues are deposited to the state general fund.

The PUT does not allow deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, a number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities. Several incentives are structured to allow credit against tax for contributions or payments made to funds or private entities for public purposes, such as the credit for contributions to an electric utility rural economic development revolving fund, or the credit for payments to individuals that generate electricity on their own property using certain renewable systems.

Natural gas cost trends - food processing industry usage. While the price of natural gas paid by commercial users held fairly steady through the 1990s, the Energy Information Administration surveys show that prices have doubled in nominal terms from 1999 to 2005. In January 1999, the average price paid by commercial business customers of natural gas utilities was $4.64 per thousand cubic feet of gas. In January 2005, it was $9.73.

The food processing industry is an energy-intensive industry and the second biggest consumer of natural gas as a fuel in the western census region (which includes states in the Mountain and Pacific time zones), according to the Energy Information Administration's Manufacturing Energy Consumption Survey. According to the 2002 Survey, food processors in western census states purchased 102 billion cubic feet of gas at a price of $499 million dollars. Total cost of materials for this industry was $38.1 billion dollars in 2002 according to the Economic Census.

A number of food processors purchase their natural gas requirements from out-of-state suppliers, and pay a fee to in state distribution businesses for transportation of the gas.

A number of different types of highly energy efficient natural-gas powered appliances are available on the market for businesses and residences. These include energy efficient boilers, furnaces, and water heaters. The purchase price of such equipment may be significantly more than conventional equipment, but some life cycle cost analyses have shown that the energy savings produce lifetime benefits that exceed costs.

The food processing industry uses blanching systems in preparation of frozen and canned foods. Conventional blanching equipment uses water and energy to constantly produce steam. Highly efficient blanching systems reduce the amount of water and energy used.

Gas distribution businesses that are investor-owned are regulated by the Utilities and Transportation Commission. Public gas distribution businesses are governed by their public owners.

Summary of Bill:

A new one-year incentive program is created for fiscal year 2007 to stimulate acquisition of energy-efficient equipment or services by qualifying businesses. Qualifying businesses are business customers of gas distribution businesses or are food processors that pay gas distribution businesses a transportation fee for natural gas bought out-of-state; nonprofits, government agencies, tribal governments, and businesses operated out of personal residences do not qualify. The program is funded by a credit against public utility tax liability of gas distribution businesses. The credit is based on payments to businesses to acquire energy-efficient equipment or services.

The maximum amount of credit that is allowed to be claimed for the program is $1.5 million. From the $1.5 million total, each gas distribution business receives an allocation of credit based on its proportionate share of in-state retail natural gas revenues earned during the base year, defined as fiscal year 2004. The gas distribution business may claim the credit only after paying qualifying businesses amounts to purchase certain high-efficiency equipment or energy saving services. The amount paid to a qualifying business may not exceed the lesser of 25 percent of the cost of the equipment or service or $15,000.

Qualifying equipment or services that may be purchased under the program is equipment or services that exceed the minimum energy efficiency standards allowable in programs offered by or approved for gas distribution utilities. These include:

- High-efficiency boilers;
- High-efficiency water heaters;
- High-efficiency furnaces;

- High-efficiency blanching;
- Control equipment that improves the efficiency of HVAC equipment, boilers, or water heaters;
- Repair or replacement services for energy efficient equipment; and
- Boiler and furnace tune-up services.

The Utilities and Transportation Commission and applicable governing boards of publicly owned gas distribution utilities must provide the Department of Revenue the necessary information for the Department to calculate the amount of credit allocation for fiscal year 2007. The Department must publish the allocations by July 1, 2006.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

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