Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Finance Committee

HB 2175

Brief Description: Concerning the sales and use tax exemptions for low carbon generation facilities.

Sponsors: Representatives Morris, Crouse, Ericksen, Linville, Chase, Hurst and Goodman.

Brief Summary of Bill

- Provides a sales and use tax exemption for machinery and equipment used to directly generate electricity at a low carbon generation facility.

Hearing Date: 2/23/07

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state, if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0, for an average combined state and local tax rate of 8.5 percent.

A retail sales and use tax exemption applies to the sale or use of machinery and equipment (M&E) used directly in generating electricity from alternative sources. (The M&E alternative energy exemption.) These sources are fuel cells, wind, sunlight, and landfill gas. The exemption also applies to labor and services rendered in respect to the installation of eligible machinery and equipment. The generating facility must be capable of generating at least 200 watts of electricity. The exemption expires June 30, 2009.

In a generating plant, the potential energy of various types of fuels such as fossil, nuclear, or renewable, is converted into another form of energy, usually mechanical or heat energy. For example, in a steam-electric fossil-fired plant, some type of fossil fuel is burned to create the heat

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that is needed to produce steam. The steam is used to turn fan-like blades inside a turbine. These blades are attached to a pole-like shaft. When the blades inside the turbine begin to turn, the shaft begins to turn, which leads to the generation of electricity. According to the United States Department of Energy, the U.S. uses fossil fuels to generate more than 67 percent of its electricity. A byproduct of fossil fuel combustion is carbon dioxide. Based on data provided by the Energy Information Administration in 2005, approximately 1.36 pounds of carbon dioxide were produced per kilowatt hour of electricity generated.

Cogeneration, also called "waste heat recovery", is the process by which two different forms of useful energy are produced from the same fuel. A typical cogeneration facility burns fuel to heat steam which turns electricity-generating turbines. The steam, partially cooled in the first step, is then used to heat homes and businesses. Cogeneration facilities can also provide mechanical power for factories, as the steam usually has sufficient energy to drive mechanical systems. Instead of treating the steam heat as a "waste" product of electrical generation, it is used for other purposes.

Summary of Bill:

The M&E alternative energy exemption is extended to machinery and equipment used directly in generating electricity at a low carbon generation facility (LCGF). A LCGF means a cogeneration facility or a generation facility that emits less than 0.8 pounds of carbon dioxide per kilowatt hour of electricity produced.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.