# SENATE BILL REPORT
# SB 5161

As of April 2, 2009

**Title**: An act relating to extending tax incentives for renewable resources, including tidal and wave energy.

**Brief Description**: Extending tax incentives for renewable resources, including tidal and wave energy.

**Sponsors**: Senators Hobbs, Rockefeller, Honeyford, Hewitt, Oemig, Shin, Zarelli, Regala, Benton, Kilmer, Kline, Roach, Haugen and Pridemore.

**Brief History:**
**Committee Activity**: Environment, Water & Energy: 1/23/09, 2/06/09 [DPS-WM].
Ways & Means: 4/03/09.

## SENATE COMMITTEE ON ENVIRONMENT, WATER & ENERGY

**Majority Report**: That Substitute Senate Bill No. 5161 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Rockefeller, Chair; Pridemore, Vice Chair; Honeyford, Ranking Minority Member; Delvin, Fraser, Hatfield, Holmquist, Marr, Morton, Ranker and Sheldon.

**Staff**: William Bridges (786-7416)

## SENATE COMMITTEE ON WAYS & MEANS

**Staff**: Dean Carlson (786-7305)

**Background**: Sales and Use Tax Exemptions for Solar Water Heaters. There are currently sales and use tax exemptions for purchases of certain solar water heating systems. The labor associated with the installation and repair of such systems is also exempt. The exemptions expire July 1, 2009.

Sales and Use Tax Exemptions Relating to Renewable Power. There are currently exemptions from the retail sales and use taxes for machinery and equipment used directly to generate at least 200 watts of electricity using wind, solar energy, landfill gas, or fuel cells as a power source. The exemptions expire June 30, 2009.

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Tax Incentives for the Semiconductor Industry. There is currently a reduced business and occupation (B&O) tax rate for persons engaged in manufacturing or processing semiconductor materials. There are also sales and use tax exemptions for gases and chemicals used to manufacturer or process semiconductor materials. These incentives expire December 1, 2018.

In addition, a sales tax exemption is provided for labor, services, and tangible personal property related to the construction of new buildings used for manufacturing semiconductor materials if the manufacturer maintains at least 75 percent of full employment at the new building over an eight-year period.

B&O Incentive for the Solar Industry. There is currently a reduced B&O tax rate for manufacturers, processors for hire, or wholesalers of solar energy systems using photovoltaic modules or silicon components of these systems. The incentive expires June 30, 2014.

Cost-Recovery Incentive Program for Renewable Energy Systems. In 2005 the Legislature created a cost-recovery incentive program to promote renewable energy systems that produce electricity from solar, wind, or anaerobic digesters. An individual, business or local government purchasing an eligible system may apply for an incentive payment from the electric utility serving the applicant. The incentive provides at least 15 cents for each kilowatt-hour of energy produced, with extra incentives for solar generating systems that use components manufactured in Washington. Payments are capped at $2,000 annually per applicant. A utility providing incentive payments is allowed a credit against its public utility tax (PUT) for incentives paid, limited to one-quarter of 1 percent of its taxable power sales or $25,000, whichever is greater. The cost-recovery incentive program expires June 30, 2015.

PUT Deduction for Renewable Power. There is currently a PUT tax deduction for the production costs of electrical energy from cogeneration facilities and energy production facilities using power derived from solar energy, wind, hydroelectric energy, geothermal energy, wood wastes, municipal wastes, agricultural products and wastes, and end-use waste heat. Projects using the deduction must, at the time they are placed in service, be reasonably expected to save, produce, or generate energy at a cost less than or equal to the cost from similarly available conventional energy resources which utilize nuclear energy or fossil fuels. The deduction applies to facilities built between June 12, 1980, and January 1, 1990. Deductions may be allowed up to 30 years.

**Summary of Bill (Recommended Substitute)**: Limiting Property Tax Valuations. Increases in property value due to the installation of solar energy systems for the purpose of heating, cooling, or generating electricity will not be subject to property taxation. This exemption, which does not apply to property used by an electric utility, expires July 1, 2020.

Creating Sales and Use Tax Exemptions for Facilities Manufacturing Renewable Energy Equipment. Sales and use tax exemptions are created for labor used to construct or expand a facility for the manufacturing of certain renewable energy equipment. Electronic accountability reports are required for entities that take advantage of the exemptions. The reporting is contingent on the siting of a significant renewable energy facility in the state. The incentives expire July 1, 2014.

Creating a Cost-Recovery Incentive Program for Solar Hot Water Heaters. An electric or gas utility may provide a rebate to its retail customers for the costs of installing solar water heating systems in their homes or businesses. The amount of the rebate cannot be greater than 50 percent for systems manufactured outside of Washington and 75 percent for systems manufactured in Washington.

Rebates are limited to $4,000 per calendar year for each customer, except that rebates for systems manufactured in Washington, are limited to $5,000 per calendar year. A utility is allowed a credit against PUT for up to 50 percent rebates paid in a calendar year, limited to $50,000 or 0.25 percent of its taxable power sales, whichever is greater. The total amount of credits may not exceed $1 million in any calendar year, nor may they exceed the tax amount that would otherwise be due. The program expires December 31, 2012 .

Expanding the Cost-Recovery Incentive Program for Renewable Energy Systems to Community Solar Projects and Commercial and Industrial Solar Projects. The program is extended to "community solar projects," which are either (a) a solar energy system owned by local individuals, households, or nonutility businesses that is placed on the property owned by their cooperating local governmental entity; or (b) a utility-owned solar energy system that is voluntarily funded by the utility's ratepayers where, in exchange for their financial support, the utility gives contributors a payment or credit on their utility bill for the value of the electricity produced by the project. Community solar projects are eligible for incentives of 30 cents for each kilowatt-hour of energy produced. Each applicant in a community solar project is eligible for annual incentives of $5,000 per year.

The solar incentive program is also expanded to commercial or industrial projects that consume at least half the electricity generated in their activities at the generating site. The incentive for such projects is 54 cents per kilowatt-hour and is limited to $20,000 per utility revenue meter per year.

The credit for a utility providing cost-recovery incentive payments is increased to $100,000 or 1 percent of the utility's taxable power sales, whichever is greater. Incentive payments to participants in a utility-owned community solar project may only account for up to 25 percent of the total allowable credit. The expiration date of the cost-recovery program is extended from 2015 to 2025.

Obsolete references to interconnection standards are removed.

Changing the Sales and Use Tax Exemptions Relating to Renewable Power. The exemptions from the retail sales and use taxes for machinery and equipment used directly to generate at least 200 watts of electricity from a renewable resource are expanded to include tidal or wave energy, geothermal resources, technology that converts otherwise lost energy from exhaust heat into electricity, solar thermal electric technology, black liquors derived from algae and other sources, anaerobic digestion, and biomass resources. Wind is removed as a renewable resource. The expiration dates for the sales and use tax exemptions related to renewable energy are extended to June 30, 2019.

Creating a New PUT Deduction for Certain Renewable Resources. A new PUT deduction is created for the production and generation of energy from tidal or wave energy, geothermal resources, technology that converts otherwise lost energy from exhaust heat into electricity, solar thermal electric technology, black liquors derived from algae and other sources, anaerobic digestion, and biomass resources. Only new facilities where construction began after January 1, 2009, but before January 1, 2019, are eligible. Deductions for new facilities may be allowed up to ten years. The cost-test for applying the PUT deduction for renewable power is removed.

Lowering the B&O Rate for Manufacturing Components of Solar Systems. The B&O rate for manufacturers and wholesalers of components of solar energy systems is lowered from 0.2904 percent to 0.275 percent, beginning October 1, 2009. The reduced rate expires June 30, 2014.

Creating Sales and Use Tax Exemptions for Manufacturing Components of Solar Systems. Sales and use tax exemptions are created for labor and materials used to construct or expand a facility for the manufacturing of renewable energy equipment. The incentives expire 12 years after December 1, 2006.

Creating a Sales and Use Tax Rebate for Machinery Used to Generate Wind. A qualifying utility is entitled a sales and use tax rebate on machinery and equipment used to generate at least 200 watts of electricity from wind. Installation labor is also covered. The qualifying utility must own or operate the machinery and equipment. The rebate may be claimed over a four-year period in 25 percent increments.

**EFFECT OF CHANGES MADE BY ENVIRONMENT, WATER & ENERGY COMMITTEE (Recommended Substitute)**: By incorporating substantial portions of SB 5185, SB 5198, and SB 5429, in addition to other provisions, the substitute adds the following: (1) B&O and sales and use tax incentives for installing qualified renewable energy systems and for the construction of facilities manufacturing such systems; (2) a cost-recovery rebate program for solar water heaters; (3) property tax exemptions for increased property valuations due to the installation of solar energy systems; and (4) cost recovery incentives for community solar projects and commercial or industrial solar projects. Time limitations are placed on most incentives in the bill. The current sales and use tax exemption for wind power is replaced with a phased four-year sales and use tax rebate for wind facilities owned or operated by qualified utilities.

**Appropriation**: None.

**Fiscal Note**: Available on Original Bill.

**Committee/Commission/Task Force Created**: No.

**Effective Date**: The bill contains an emergency clause and takes effect on June 30, 2009.

**Staff Summary of Public Testimony on Original Bill (Environment, Water & Energy)**: PRO: A recent JLARC report recommended the Legislature continue the sales and use tax incentives or renewable power. Geothermal, tidal, and wave energy are added because they are emerging green technologies. Extending the credit will mean new jobs and increased local property revenues from the construction of new renewable projects. Existing tax incentives for the oil industry and coal-burning energy plants have no expiration dates and are valued at over $20 million a year. If the fossil fuel incentives are not repealed then why should the renewable energy incentives be allowed to expire? Bio digesters should be included in the current sales and use tax incentive. The sales and use tax incentives set to expire support renewable power needed to meet Initiative 937. The economic benefits generated by the incentives are greater than the cost to the general fund. Washington needs these incentives to keep up with the incentives in other states. Current oil and coal exemptions should not be repealed.

**Persons Testifying (Environment, Water & Energy)**: PRO: Senator Steve Hobbs, prime sponsor; Dave Arbaugh, NW & Inter-Mountain Power Producers; Dennis Burke, E3; Carrie Dolwick, NW Energy Coalition; Craig Engelking, Sierra Club; Ken Johnson, PSE; Elon Hasson, Horizon Wind Energy; Keven Lynch, Iberdrola Renewables; Clifford Traisman, Renewable Northwest Project, WA Environmental Council, WA Conservation Voters; Miguel Perez-Gibson, Climate Solutions; Collins Sprague, Avista Corporation.