Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Technology & Economic Development Committee

HB 1301

Brief Description: Creating clean energy jobs in Washington state through renewable energy incentives.

Sponsors: Representatives Morris, Ryu, McCoy, Hudgins, Morrell and Pollet.

Brief Summary of Bill

- Streamlines reporting requirements for the renewable energy investment cost recovery incentive program and closes the door to new entrants after June 30, 2013.
- Changes eligibility for the cost recovery incentive program as of July 1, 2013 and provides cost recovery incentives for a period of ten years.
- Establishes a competitive tax credit pool within the Housing Finance Commission, available for projects with the greatest demonstrable impact on in-state job growth, use of components manufactured within the state, cost-effectiveness, and leveraging of non-state funds.
- Requires the Housing Finance Commission to submit annual reports to the Legislature, measuring the program's effectiveness based on objective benchmarks.

Hearing Date: 1/29/13

Staff: Jasmine Vasavada (786-7301).

Background:

I. The Renewable Energy Investment Cost Recovery Incentive Program
In 2005 the Legislature created a Renewable Energy Cost Recovery Incentive Program (Program) to promote installation of renewable energy systems in Washington. These are systems that produce electricity from solar, wind, or anaerobic digesters. An individual, business, local government, or community solar project that owns and operates an eligible

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system may apply to receive incentive payments from the applicant's electric utility. These payments help subsidize the additional cost incurred by generating electricity from the renewable energy system. The utility, sometimes referred to in statute as the "light and power business," in turn receives a tax credit from the Department of Revenue equal to the incentive payments made.

Community Solar Projects

In 2009, the Program was expanded to provide incentives for "Community solar projects". Community solar projects include: (1) solar energy systems placed on local government property that are owned by local individuals, households, or non-utility businesses; (2) utility-owned solar energy systems voluntarily funded by the utility's ratepayers in exchange for credits on their utility bills; and (3) company-owned solar energy systems, where the owner is a limited liability company, a cooperative, or a mutual corporation or association.

Program Limits

Payments

Certain utilities, denominated as "light and power businesses," are responsible for providing incentive payments to the owners of eligible systems. Incentive payments are capped at $5,000 annually per applicant. For each kilowatt-hour of energy produced, an eligible system owner can receive incentive payments of at least 15 cents, and community solar projects are eligible to receive incentives at twice that rate. To promote the use of equipment manufactured in Washington, extra production incentives are available, depending upon which components are manufactured in Washington.

Incentive payments are applied for annually and there is no guarantee of rolling payments; that is, there is no guarantee that a system receiving the incentive payment in any given year will continue to receive a payment the following year.

Cap on Total Credits Available

A utility is allowed a credit against its public utility tax (PUT) for incentives paid, capped annually at $100,000 or 0.5 percent of its taxable power sales, whichever is greater. If the amount of requests for incentive payments exceeds the amount of funds available for PUT credit to the utility, the incentive payments to applicants must be reduced proportionally. Incentive payments to participants in a utility-owned community solar project may only account for up to 25 percent of the total allowable credit. Incentive payments to participants in a company-owned community solar project may only account for up to five percent of the total allowable credit.

Measuring and reporting electricity production

Each year, a participant in the Program must reapply for the incentive, providing a statement of the amount of kilowatt hours generated by the system in the prior fiscal year. The energy output is measured by a production meter that records the amount of electricity generated.

Duration of Program

The Program expires June 30, 2020.

II. Sustainable Energy Trust

In 2011, the Washington State Housing Finance Commission was tasked with developing and implementing a Sustainable Energy Trust program. The purpose of the Sustainable Energy Trust is to provide funding for qualified renewable energy and energy efficiency improvement projects. The Commission issues bonds, participates in federal programs, and takes other actions to secure the benefits of renewable energy technologies for the people of Washington. Proceeds from the bonds issued by the Commission are used to make loans to eligible applicants who meet criteria demonstrating that they are most likely to repay the loans. An eligible applicant to the Sustainable Energy Trust Program is an owner of a residential, agricultural, commercial, state, or municipal property. The Commission makes decisions about the financing of projects involving solar electric systems in consultation with the Washington climate and rural energy development center at Washington State University (WSU).

Housing Finance Commission

The Housing Finance Commission (Commission) was created in 1983 to act as a financial conduit that, without lending the credit of the state, can issue nonrecourse revenue bonds; participate in federal, state, or local housing programs; make additional funds available at affordable rates to help provide housing throughout the state; and encourage the use of Washington forest products in residential construction.

Consultation with WSU Energy Extension Program

The Commission consults with the WSU Energy Extension program to determine which potential improvement technologies are appropriate. In 2002 the Legislature established the Washington Climate and Rural Energy Development Center (Center) in the WSU Energy Extension Program. The Center serves as a public source and central clearinghouse of impartial, non-regulatory, credible, and reliable information addressing various aspects of climate change and clean energy activities.

Summary of Bill:

I. Phase I

The current renewable investment cost recovery incentive program is closed to new applicants as of June 30, 2013. Incentive payments are available to qualifying systems through June 30, 2023. The annual application requirements are streamlined. A utility capable of remotely determining the power output of a system, to a 98 percent degree of accuracy, may apply to the department for a waiver from the annual certification requirement. Instead of determining power output through reading the production meter, the amount of kilowatt-hours may instead be determined by reading an inverter connected to the system. Existing multipliers that increase the incentive when a system uses components manufactured in Washington are retained.

II. Phase II

Beginning July 1, 2013, changes are made in who is eligible to receive incentive payments. Under the Phase II Program, utilities shall offer incentive payments for a period of ten years to customers who install systems on their property for the purpose of meeting on-site power needs. A customer may not recover payments for net kilowatt-hours produced in excess of the net kilowatt-hours consumed at the metered location, as calculated on an annual basis.

Eligible "customers" for the Phase II incentive are system owners who are individuals, local governments, and businesses (other than utilities) and who have installed the system on the customer's real property. Community solar projects are no longer eligible to receive incentive payments under this program.

Application and certification requirements are streamlined and a utility may apply for a waiver, as described above in Phase I. Existing base rates and multipliers that increase the incentive when a system uses components manufactured in Washington are retained. The Housing Finance Commission is tasked with adjusting this rate, in consultation with the Department of Commerce, by a market correction factor, and announcing the incentive rate each year no later than June 30th.

A lower limit is established for the total amount of tax credits available to a utility under this program. This limit is calculated based on the actual credits that were awarded under Phase I. A utility shall make available incentive payments for up to twice the amount that it awarded annually under Phase I. For most utilities, this limit is well below the total annual cap established at $100,000 or 0.5 percent of its taxable power sales, whichever is greater. If total requests for the Phase II incentive in a given fiscal year exceed the amount of credits available, the utility shall proportionately reduce the size of the incentive payments. If total requests are lower than the amount of credits available and there is a surplus, after June 30, 2023 these surplus tax credits must be transferred to the Sustainable Energy Trust.

III. Green Jobs Tax Credit Account

A "Green Jobs Tax Credit Account" is created within the Sustainable Energy Trust Program. The purpose of this account is to promote installation of renewable energy systems in Washington, giving preference to systems manufactured at least in part within the state.

The Commission shall award credits using objective, competitive criteria, including but not limited to the following:

- use of Washington-manufactured components;
- cost-effectiveness of the system;
- effect on job creation in the state; and
- extent to which the project leverages non-state funds.

Credits available through the "Green Job Tax Credit Account" shall be determined pursuant to a formula that calculates the difference between the credits theoretically available under the existing total annual cap (.5 percent of estimated taxable power sales, of all the participating light and power business, over ten years beginning July 1, 2013 and ending June 30, 2023) and the amount of tax credits reserved for payments made pursuant to Phase I and Phase II. The credits not reserved for Phase I and Phase II shall be allocated by the Commission, in equal annual increments for ten years, using the competitive bidding process.

Credits that were available to utilities between 2005 and 2013 but not used are rolled over in the Green Jobs Tax Credit Account

Legislative Review of Effectiveness of the Incentives

Benchmarks are established by which the programs' effectiveness may be measured. These benchmarks include growth in renewable-related employment, increase in the state's relative national ranking for solar-related employment, and a doubling in the utilization of the tax credits awarded under the chapter. The Commission, in consultation with WSU, must measure the amount of progress achieved toward these outcomes. All recipients of the tax credits must provide the commission with any data requested for reporting purposes, under penalty of losing the award in the following year. The Commission shall submit annual progress reports to the Legislature.

Appropriation: None.

Fiscal Note: Requested on January 28, 2013

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