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**Technology & Economic Development  
Committee**

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**HB 1048**

**Brief Description:** Promoting a sustainable, local renewable energy industry through modifying renewable energy system tax incentives and providing guidance for renewable energy system component recycling.

**Sponsors:** Representatives Morris, Fitzgibbon, Fey, Hudgins and Tarleton.

**Brief Summary of Bill**

- Closes the Renewable Energy System Cost Recovery Program (Cost Recovery Program) to new customer participants after June 30, 2017.
- Authorizes a person that owns a renewable energy system, or an administrator of a community solar project, to apply to the Washington State University Extension Energy Program for certification of eligibility to receive an annual production incentive payment under the Renewable Energy Production Incentive Program beginning July 1, 2017.
- Requires the Department of Ecology to establish a process to develop guidance for solar module stewardship plans by January 1, 2018.
- Expires certain sales and use tax incentives for machinery and equipment used directly in solar energy or solar thermal energy systems on June 30, 2017.

**Hearing Date:** 1/12/17

**Staff:** Nikkole Hughes (786-7156).

**Background:**

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

### Renewable Energy Cost Recovery Incentive Payment Program.

Under the Renewable Energy Cost Recovery Incentive Payment Program (Cost Recovery Program), an electric utility may claim a credit against its public utility tax obligations for incentive payments made by the utility to a customer for electricity produced by an eligible renewable energy system or community solar project. An eligible "renewable energy system" is a solar energy system, anaerobic digester, or wind generator that is installed on an individual, business, or local government electric customer's real property.

No credits may be claimed by an electric utility under the Cost Recovery Program after June 30, 2021.

### Community Solar Projects.

Under the Cost Recovery Program, a "community solar project" is a solar energy system capable of generating up to 75 kilowatts of electricity that is:

- owned by local individuals, households, nonprofit organizations, or nonutility businesses and placed on local governmental property;
- owned by a utility and voluntarily funded by the utility's ratepayers in exchange for credits on their utility bills; or
- owned by a company and placed on local governmental property.

### Cost Recovery Program Incentive Payments.

An individual, business, or local government that owns an eligible renewable energy system, or a participant in a community solar project, may apply to its electric utility for an investment cost recovery incentive payment (incentive payment) for each kilowatt-hour (kWh) of electricity produced by the system.

The base incentive payment rate for each actual kWh measurement of electricity from an eligible renewable energy system, regardless of system type, is 15 cents per kWh. The base rate is then multiplied by certain "economic development factors," determined by system type and whether the system or components of the system were manufactured in Washington state. The highest incentive payment rate available for an eligible renewable energy system is 54 cents per kWh for a solar energy system with modules and an inverter manufactured in Washington.

The base incentive payment rate for each actual kWh measurement of electricity from a community solar project is 30 cents per kWh. The base rate is then multiplied by certain "economic development factors," determined by whether the system or components of the system were manufactured in Washington state. The highest incentive payment rate available for a community solar project is \$1.08 per kWh for a project with modules and an inverter manufactured in Washington.

No individual, household, business, local government, or participant in a community solar project may receive more than \$5,000 in incentive payments per year. No incentive may be paid for kWh generated after June 30, 2020.

### Cap on Total Allowable Public Utility Tax Credits.

An electric utility may claim an annual credit up to 0.5 percent of its taxable power sales or \$100,000, 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. Incentive payments to participants in a company-owned community solar project may only account for up to five percent of the total allowable credit. The credit cannot exceed the amount of tax owed by the utility, and cannot be refunded.

If requests for incentive payments exceed the amount of funds available for credit to the participating electric utility, the incentive payments must be reduced proportionately.

### Administration of the Cost Recovery Program.

The Cost Recovery Program is administered by the Department of Revenue, with technical assistance from the Washington State University Extension Energy Program.

### Sales and Use Tax Incentives for Solar Equipment.

Until June 30, 2018, purchases of machinery and equipment used directly in solar energy systems that generate no more than 10 kilowatts of electricity are exempt from sales and use tax. Labor charges to install such equipment are also exempt.

Until June 30, 2018, purchases of machinery and equipment used directly in solar thermal energy systems that produce no more than three million British thermal units (Btus) per day are exempt from sales and use tax. Labor charges to install such equipment are also exempt.

Until January 1, 2020, purchases of machinery and equipment used directly in solar energy systems that generate more than 10 kilowatts of electricity, or in other qualified renewable energy systems that generate at least one kilowatt of electricity, are eligible for a refund equal to 75 percent of the sales and use tax paid.

### **Summary of Bill:**

#### Renewable Energy Cost Recovery Incentive Payment Program.

The Renewable Energy Cost Recovery Incentive Payment Program (Cost Recovery Program) is closed to new customer participants after June 30, 2017. Customers who enter the program before this date may continue to apply to their electric utility for an incentive payment at the same rates established under the Cost Recovery Program through June 30, 2020.

Beginning July 1, 2017, administration of the Cost Recovery Program is transferred from the Department of Revenue (DOR) to the Washington State University Extension Energy Program (WSU Energy Program).

Renewable Energy Production Incentive Program.

Beginning July 1, 2017, under the Renewable Energy Production Incentive Program (Production Incentive Program), a person that owns a renewable energy system or an administrator of a community solar project may apply to the WSU Energy Program for certification establishing the applicant's eligibility to receive an annual production incentive payment for each kilowatt-hour (kWh) of alternating current electricity generated by the system.

Eligible renewable energy systems include residential-scale and commercial-scale anaerobic digesters, wind generators, and solar energy systems. "Residential-scale" means a renewable energy system or systems with a combined nameplate capacity of 12 kilowatts or less. "Commercial-scale" means a renewable energy system or systems, other than a community solar project, with a combined nameplate capacity of greater than 12 kilowatts.

No certification may be issued under the Production Incentive Program after June 30, 2021.

Community Solar Projects.

Under the Production Incentive Program, a "community solar project" is a solar energy system that has a direct current nameplate generating capacity no greater than 500 kilowatts. A community solar project must be administered by a utility or nonprofit organization and must have at least 10 participants, all of whom must be customers of the utility providing service at the project's location.

Production Incentive Certification and Payments.

Certification of eligibility under the Production Incentive Program is valid for a term of eight years. The applicant or, in the case of a community solar project, the participant, is entitled to receive incentive payments for electricity generated for a period of eight years from the date the renewable energy system commences operation.

The incentive rate available depends on the fiscal year of certification, the system type, and whether the system is eligible for a made-in-Washington bonus rate. A renewable energy system or community solar project is eligible for a made-in-Washington bonus rate if its solar modules, wind turbine, or tower is made in Washington. The incentive rates available under the Production Incentive Program are as follows:

<b>Fiscal year of system certification</b>	<b>Base rate - residential-scale</b>	<b>Base rate - commercial-scale</b>	<b>Base rate - community solar</b>	<b>Made-in-Washington bonus rate</b>
2018	\$0.16	\$0.06	\$0.16	\$0.08
2019	\$0.14	\$0.04	\$0.14	\$0.07
2020	\$0.12	\$0.02	\$0.12	\$0.07
2021	\$0.10	\$0.02	\$0.10	\$0.06

No person, business, or household is eligible to receive production incentive payments of more than \$5,000 per year for residential-scale systems or community solar projects, or \$25,000 per year for commercial-scale systems.

#### Public Utility Tax Credits.

An electric utility may claim a credit against its public utility tax obligations for incentive payments made by the utility to a customer under the Cost Recovery Program or the Production Incentive Program.

An electric utility may claim an annual credit of up to 2 percent of its taxable power sales generated in calendar year 2014 or \$250,000, whichever is greater. Incentive payments to participants in a community solar project may only account for up to 25 percent of the total allowable credit. Incentive payments for electricity produced by commercial-scale systems may only account for up to 25 percent of the total allowable credit. The credit cannot exceed the amount of tax owed by the utility, and cannot be refunded.

No credits may be claimed by an electric utility under the Cost Recovery Program or the Production Incentive Program after June 30, 2030.

#### Effect of Previous Cost Recovery Program Participation.

A system that was certified under the Cost Recovery Program cannot be certified under the Production Incentive Program. The WSU Energy Program may issue a new certification for an additional system installed at a location with a previously certified system so long as the new system meets eligibility requirements under the Production Incentive Program and its production can be measured separately from the previously certified system. The WSU Energy Program may also issue a recertification for a residential-scale or commercial-scale system if a customer makes investments resulting in an expansion of the system's nameplate capacity.

#### Solar Module Recycling.

By January 1, 2018, the Department of Ecology (Department) must establish a process to develop guidance for solar module stewardship plans by working with manufacturers, stewardship organizations, and other stakeholders on the content, review, and approval of stewardship plans. The Department's process must be fully implemented and stewardship guidance must be completed by January 1, 2019.

Beginning January 1, 2021, no manufacturer may sell or offer for sale a solar module, in or into the state, unless the manufacturer has submitted a stewardship plan to the Department and has received plan approval.

#### Sales and Use Tax Incentives for Solar Equipment.

Certain sales and use tax incentives for machinery and equipment used directly in solar energy or solar thermal energy systems expire June 30, 2017.

**Appropriation:** None.

**Fiscal Note:** Requested on January 5, 2017.

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