

SENATE BILL REPORT

SB 5475

As Reported by Senate Committee On:
Energy, Environment & Telecommunications, February 9, 2017

Title: An act relating to providing a business and occupation tax exemption for manufacturers of small modular reactors.

Brief Description: Providing a business and occupation tax exemption for manufacturers of small modular reactors.

Sponsors: Senators Brown, Baumgartner, Rivers, Takko, King, Sheldon, Bailey, Ericksen, Angel, Honeyford, Miloscia, Becker, Braun, Hobbs and Schoesler.

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 2/09/17, 2/09/17 [DPS, DNP].

Brief Summary of Substitute Bill

- Exempts small modular reactors (SMRs) manufactured in Washington from business and occupation tax.
- Defines SMRs.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Majority Report: That Substitute Senate Bill No. 5475 be substituted therefor, and the substitute bill do pass.

Signed by Senators Ericksen, Chair; Sheldon, Vice Chair; Brown, Hobbs, Honeyford and Short.

Minority Report: Do not pass.

Signed by Senators Carlyle, Ranking Minority Member; Wellman.

Staff: Kimberly Cushing (786-7421)

Background: Small Modular Reactor (SMR). A traditional base-load nuclear power plant generates 1000 megawatts (MW) or more of electricity, while an SMR is a nuclear power plant designed to generate 300 MW or less. An SMR is also designed to be factory-

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fabricated and transportable by truck or rail to a nuclear power site. The U.S. Department of Energy has a program to advance the certification and licensing of domestic SMR designs.

SMR Study. The 2013-15 Capital Budget (ESSB 5035) appropriated \$500,000 for the development of an SMR proposal by the Tri-City Development Council. A final report was issued in September 2014 that concluded, among other things, that siting an SMR at Hanford would be technically feasible.

Joint Select Task Force on Nuclear Energy (Task Force). The 2014 Legislature created the Task Force to study, among other things, the generation of energy in the region through the use of nuclear power. As part of its activities, the Task Force visited an SMR development company in Corvallis, Oregon in November 2014.

Business and Occupation (B&O) Tax. Washington's major business tax is the B&O tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. Revenues are deposited in the state General Fund. A business may have more than one B&O tax rate, depending on the types of activities conducted. There are a number of different rates. The main rates are 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Tax Preferences. Under Washington law, a new tax preference is subject to an automatic ten-year expiration date, unless provided otherwise.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): B&O Tax Exemption. The manufacturing of SMRs and the subsequent selling of the manufactured SMRs in Washington is exempt from B&O tax.

SMR Definition. SMRs are defined as scalable nuclear power plants using reactors that (1) each have a gross power output no greater than 300 MW of electricity, and (2) are designed for factory manufacturing and ease of transport.

Tax Preference Statement. The Legislature intends to increase the ability of SMR companies to invest in and expand their Washington operations in order to increase jobs. If the Joint Legislative Audit and Review Committee finds in its review that the number of jobs in the SMR industry in Washington increase by 10 percent, then the Legislature intends to extend the expiration date of the tax exemption.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 6, 2017.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect on August 1, 2017.

Staff Summary of Public Testimony on First Substitute: PRO: SMRs are sleek, modern technology. Oregon's NuScale is doing the design and creating a brain drain in the state of Washington. This is an opportunity for Washington to be true world leader for power all around the world. The 2014 Tri-City Development Council study showed a fiscal advantage for locating nuclear reactor on Handford. The real benefit would be the assembly or manufacturing of SMRs and shipping the module parts to many parts of the world. Licensing the technology is a few years away, but passing the bill indicates that Washington is ready.

CON: Washington remains a competitive environment for nuclear technology. If Washington is not attractive, the state should do away with the B&O tax for all manufacturers. There is one potential order of SMRs in Idaho. They are not yet licensed by the Nuclear Regulatory Commission. The cost is projected at three times the market rate. No utilities have proposed to buy one. The major thrust of this bill is to elevate the importance of nuclear energy at the tax payer's expense. The SMR design has not been proven. Nuclear creates never-ending cost overruns and environmental waste. Nuclear proponents should advocate for nuclear cleanup before adding more plants. This bill has no expiration date. This tax policy encourages the proliferation of SMRs in Washington. The B&O tax is regressive and we should phase it out, but nuclear power shouldn't get an exemption ahead of any other business. Radioactivity is so much more unhealthy than carbon. I'd rather live next to coal mine than nuclear plant.

Persons Testifying: PRO: Senator Sharon Brown, Prime Sponsor; Senator Doug Ericksen, 42nd Leg. District; Carl Adrian, Tri-City Development Council.

CON: Charles Johnson, Director, Task Force on Nuclear Power, Washington and Oregon Physicians for Social Responsibility; Elyette Weinstein, League of Women Voters; Cathryn Chudy, Oregon Conservancy Foundation; Michael Brunson, citizen.

Persons Signed In To Testify But Not Testifying: No one.