

SENATE BILL REPORT

SB 5475

As Reported by Senate Committee On:
Energy, Environment & Telecommunications, February 9, 2017
Ways & Means, February 23, 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].

Ways & Means: 2/21/17, 2/23/17 [DP2S, DNP].

Brief Summary of Second Substitute Bill

- Exempts the manufacturing and sale of small modular reactors (SMRs) 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)

SENATE COMMITTEE ON WAYS & MEANS

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.

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

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget ; Bailey, Becker, Fain, Miloscia, Padden, Rivers, Schoesler, Warnick and Zeiger.

Minority Report: Do not pass.

Signed by Senators Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Frockt, Assistant Ranking Minority Member, Capital Budget; Billig, Carlyle, Conway, Darneille, Hasegawa, Keiser and Pedersen.

Staff: Carrie Graf (786-7708)

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-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 (Second 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.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Second Substitute):

- Made technical changes.

Appropriation: None.

Fiscal Note: Available.

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 (Energy, Environment & Telecommunications): 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 (Energy, Environment & Telecommunications): 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 (Energy, Environment & Telecommunications): No one.

Staff Summary of Public Testimony on Second Substitute (Ways & Means): PRO: Washington can be a leader in this area. We have the institutional knowledge and incredible research labs, but we're having a brain drain because the people responsible for creating it are being recruited by states like Oregon and Idaho. This is not far in the future. NuScale just submitted its design certification and those plans will be online in the early 2020s. This is not your grandfather's nuclear. We already have SMRs running around Puget Sound. It needs to be a part of an all-of-the-above portfolio when we look at carbon-free solutions for our future.

CON: This is a bad idea. How are we talking about exemptions for nuclear reactors, which are on the way out, when we can't get Wall Street to finance them and when we can't fund our schools? The plants are dangerous and the waste is the most dangerous substance known to humankind. Not sure about what the price tag per unit is but at a recent conference they estimated it would be \$100 per megawatt hour, so about three times the cost of power currently in the northwest market. It consistently comes in last. Idaho has been considering nuclear as a power source and it consistently comes in last. There is no evidence that there is a need for tax breaks for manufacturing in Washington. The cost of the Whoops! Reactors that were not completed is about 25 percent of Bonneville's rates paying on the debt on those. Don't spend money. SMRs pose risks of catastrophic accidents. The Union of Concerned Scientists notes that most designs for SMRs have weaker containment structures than those in large reactors. They also pose the same risk of radioactive waste leakage as large reactors, as reported in the Journal of Energy Research and Social Science. Nuclear energy in the U.S. can't compete with other energy sources, especially as the cost of renewable energy continues to decrease, as reported in the New York Times on February 18th.

Persons Testifying (Ways & Means): PRO: Senator Sharon Brown, Prime Sponsor.

CON: Charles Johnson, Director, Task Force on Nuclear Power, Oregon and Washington Physicians for Social Responsibility; Peggy Maze Johnson, Heart of America Northwest; elyette weinstein, WA League of Women Voters.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.