

SENATE BILL REPORT

SB 5336

As of March 22, 2019

Title: An act relating to advancing electric transportation.

Brief Description: Advancing electric transportation.

Sponsors: Senators Palumbo, Carlyle, Nguyen, Saldaña, Hasegawa, Dhingra, Frockt and Kuderer; by request of Office of the Governor.

Brief History:

Committee Activity: Environment, Energy & Technology: 2/12/19, 2/20/19 [DPS-TRAN, DNP, w/oRec].

Transportation: 2/28/19, 3/06/19 [DP2S, DNP].

Ways & Means: 3/19/19.

Brief Summary of Second Substitute Bill

- Exempts up to \$1,000 of sales and use tax on certain new or used battery electric vehicle purchases or leases under \$45,000.
- Limits the cumulative sales and use tax exemptions to \$100 million and the exemption will expire once it hits that aggregate level.
- Amends tax incentives for clean alternative fuel commercial vehicles.
- Authorizes (1) the governing bodies of a municipal utility or a public utility district commission to adopt and (2) an electric utility regulated by the Utilities and Transportation Commission to submit an electrification of transportation plan that establishes that utility outreach and investment in the electrification of transportation infrastructure does not increase net costs to ratepayers in excess of 0.25.
- Provides the incentive rate of return on investment authorized by the UTC for electric vehicle supply equipment deployed consistent with a electrification of transportation plan expires December 31, 2030.

SENATE COMMITTEE ON ENVIRONMENT, ENERGY & TECHNOLOGY

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 Substitute Senate Bill No. 5336 be substituted therefor, and the substitute bill do pass and be referred to Committee on Transportation.

Signed by Senators Carlyle, Chair; Palumbo, Vice Chair; Billig, Das, Hobbs, Lias, McCoy, Nguyen and Wellman.

Minority Report: Do not pass.

Signed by Senators Ericksen, Ranking Member; Fortunato, Assistant Ranking Member, Environment; Sheldon, Assistant Ranking Member, Energy & Technology; Brown and Short.

Minority Report: That it be referred without recommendation.

Signed by Senator Rivers.

Staff: Angela Kleis (786-7469)

SENATE COMMITTEE ON TRANSPORTATION

Majority Report: That Second Substitute Senate Bill No. 5336 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Hobbs, Chair; Saldaña, Vice Chair; Cleveland, Das, Lovelett, Nguyen, Randall, Takko and Wilson, C..

Minority Report: Do not pass.

Signed by Senators King, Ranking Member; Sheldon, Assistant Ranking Member; Fortunato, O'Ban, Padden and Zeiger.

Staff: Bryon Moore (786-7726)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Electrification of Transportation Goals. In 2015, the Governor set a goal of 50,000 electric vehicles (EVs) on Washington's roads by 2020. According to the Department of Licensing (DOL), there are approximately 42,000 plug-in EVs registered in Washington as of December 2018.

Alternative Fuel Tax Incentive. The Legislature exempted certain alternative fuel passenger vehicles, including EVs, from sales and use taxes beginning in 2005. The exemption expired last year when the number of vehicles titled in the state reached the cap of 7,500 qualifying vehicles.

Municipal Utilities. Municipal utilities in Washington are authorized to provide residents with gas, electricity, water, and other services that are charged by rates or fixed prices. A municipality that intends to acquire or construct a public utility must generally submit the matter for a public vote.

Public Utility Districts (PUDs). Formed in 1931 by Initiative 1, PUDs are municipal corporations authorized to provide electricity, water and sewer services, and wholesale telecommunications. There are 28 operating PUDs in Washington.

Incentive Rate of Return for Investment. In 2015, the Legislature authorized the UTC to allow an incentive rate of return on investment on capital expenditures for electric vehicle supply equipment for investor-owned utilities. The capital expenditures may not increase costs to ratepayers in excess of 0.25 percent.

Summary of Bill (Second Substitute): Electric Passenger Vehicle Tax Incentive. The sale or lease of a new or used passenger car, light duty truck, and medium duty passenger vehicle is exempt from state and local retail sales and use taxes for up to \$1,000 if the vehicle:

- is exclusively powered by electric battery; and
- has a suggested retail price of \$45,000 or less.

DOL must:

- maintain and publish a list of all vehicle models qualifying for the sales and use tax exemption;
- determine, on a monthly basis, the cumulative number of vehicles qualifying for the exemption and provide notice to the Department of Revenue (DOR); and
- notify DOR when the estimated cumulative sales and use tax exemptions is expected to total \$100 million.

DOR must report to the transportation committees of the Legislature by December 31, 2019, and every six months thereafter until the expiration of the exemption:

- the total number of vehicles qualified for the exemption as reported by DOL; and
- the total dollar amount of all state retail sales and use taxes exempted on or after the qualification period start date.

The retail sales and use tax exemptions for electric vehicles terminate after DOL determines the cumulative sales and use tax exemptions is expected to total \$100 million. The statutory language for the exemption will expire four years after the qualification period end date. Until the qualification end date, the state treasurer is directed to make quarterly transfers from the Forward Flexible Account (created in SSB 5971) to the state general fund based on the amount of the sales and use exempted.

A new tax preference is created for qualifying vehicles. If the review finds the cumulative number of qualifying vehicles equals or exceeds 2 percent of all passenger cars, light duty trucks, and medium duty passenger vehicles titled in the state, then the Legislature intends to extend the expiration date of the tax preference.

Alternative Fuel Commercial Vehicle Tax Incentive. The existing commercial vehicle alternative fuel business and operation (B&O) tax and public utility tax (PUT) incentives are increased from 50 percent to 75 percent of incremental cost and the maximum annual credit per vehicle class is increased from \$2 million to approximately \$13 million.

Beginning on December 31, 2020, and every four years after, DOR must review the credits claimed and incremental costs of alternative fuel vehicles; and provide recommendations to

the Legislature on changes to the incentive levels for each vehicle class in order to promote cost-efficient conversions.

A credit against the B&O tax and the PUT is increased from the lesser of \$25,000 or 30 percent, to the lesser of \$50,000 or 50 percent, of the costs of converting a commercial vehicle to be principally powered by a clean alternative fuel with U.S. Environmental Protection Agency certified conversions.

The total credits may not exceed the lesser of \$500,000 or 50 vehicles per person per calendar year, which is an increase from current law that sets the limit to the lesser of \$250,000 or 25 vehicles.

The cumulative amount credits that may be granted against the B&O tax and the PUT tax is limited to \$33 million. The expiration date of the credits occurs on the earlier of January 1, 2051 or the date on which DOR makes an estimate stating that the cumulative amount of credits will total more than \$33 million in the subsequent month. Until the cumulative amount of credits exceeds the aggregate \$33 million threshold, the state treasurer is directed to make quarterly transfers from the Multimodal Account to the state general fund based on the amount of the credits authorized.

A new tax preference is created for qualifying vehicles. It is the Legislature's specific policy objective to increase the use of clean alternative fuel vehicles in the state. To measure the effectiveness of this preference, a review must be conducted to evaluate the number of clean alternative fuel vehicles titled in the state in 2023.

Electric Vehicle Infrastructure. The governing authority of a municipal utility or a PUD commission may adopt an electrification of transportation plan (plan) that establishes that utility outreach and investment in the electrification of transportation infrastructure does not increase net costs to ratepayers in excess of 0.25 percent.

In adopting a plan, the governing authority of a municipal utility or a PUD commission may consider the following:

- applicability of multiple options across all customer classes;
- impact on the utility's load, and whether demand response or load management opportunities are operationally appropriate;
- system reliability and distribution system efficiencies;
- interoperability concerns; and
- overall customer experience.

Upon making a cost-effectiveness determination in a plan, the governing body of a municipal utility or a PUD commission may offer incentive programs in the electrification of transportation for its customers.

A regulated electric utility may submit to the UTC a plan that deploys EV equipment or provides other programs, services, or incentives to support the electrification of transportation, provided the plan does not increase costs to customers in excess of one-quarter of one percent above the benefits of electric transportation to all customers. The UTC must establish by rule the requirements for preparation and submission of a plan.

The incentive rate of return on investment, allowed by the UTC, on capital expenditures for EV supply equipment deployed consistent with a plan submitted by a regulated electric utility expires on December 31, 2030. The restriction that the incentive rate on investment only applies to projects located where EVs are likely to be parked for intervals longer than two hours is removed.

EFFECT OF CHANGES MADE BY TRANSPORTATION COMMITTEE (Second Substitute):

- Limits the cumulative sales and use tax exemptions for passenger electric vehicles to \$100 million and the exemption will terminate once it hits that aggregate level.
- Caps the B & O and public utility credits for commercial vehicles to the \$33 million that was specified in the 2015 Connecting Washington transportation package and the credit provisions will expire once they reach that level.
- Removes the provisions that established the Charge Ahead program for low-income or moderate-income individuals to receive a rebate for replacing high-emission vehicles with zero-emission ones.

EFFECT OF CHANGES MADE BY ENVIRONMENT, ENERGY & TECHNOLOGY COMMITTEE (First Substitute):

- Adds an electric and alternative fuel commercial vehicle sales tax incentive.
- Removes the creation of the electric vehicle account and the change in how registration fees are distributed between designated accounts.
- Provides that municipal utilities and PUDs may adopt and electric utilities may submit to the UTC an electrification of transportation plan that establishes utility outreach and investment in EV infrastructure does not increase net costs to ratepayers in excess of 0.25 percent.
- Changes the amount of time that the UTC has to acknowledge submittal of an electrification of transportation plan from four to six months.
- Adds provisions for a Charge Ahead Washington Program.
- Removes the requirement for the Department of Ecology to adopt California zero emission vehicle standards.
- Makes technical changes.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony on Original Bill (Environment, Energy & Technology): *The committee recommended a different version of the bill than what was heard.* PRO: This is a comprehensive approach to the electrification of transportation by including an EV sales tax incentive structured as a progressive standard, adopting clean car

programs which expand consumer options, and facilitating participation by utilities as partners. This bill helps improve air quality. Washington residents should have access to the full range of ZEV options that are available in other ZEV states.

CON: The diversion of funds will significantly reduce cash funds. We support the BEV exemption but think the exemption should be fuel agnostic so that it can be applied to alternative fuel and commercial vehicles. We oppose the ZEV mandate. This is a manufacturer mandate to make more ZEVs, which is not fair and unnecessarily drives up costs. This bill does not support air quality.

OTHER: We support the sales tax incentives. We prefer incentives rather than mandates.

Persons Testifying (Environment, Energy & Technology): PRO: Craig Kenworthy, Puget Sound Clean Air Agency; Gordon White, Washington Department of Ecology; Jasmine Vasavada, Legislative Director, Department of Commerce; Marian Dacca, Tacoma Public Utilities; Jeff Bissonnette, Union of Concerned Scientists; Laura Wilkeson, Puget Sound Energy; Leah Missik, Climate Solutions.

CON: Mel Sorensen, Pacific Propane Gas Association; Jane Wall, Washington State Association of Counties; Ashley Probart, Transportation Improvement Board.

OTHER: Mike Ennis, Association of Washington Business; Michael Transue, Association of Global Automakers; Holly Chisa, ChargePoint.

Persons Signed In To Testify But Not Testifying (Environment, Energy & Technology):
No one.

Staff Summary of Public Testimony on First Substitute (Transportation): *The committee recommended a different version of the bill than what was heard.* PRO: We need to increase the number of electric vehicles by 10 percent and this bill is a step towards achieving that goal. We appreciate the Charge Ahead rebate program. This is a great program that will assist low income individuals replace their high emission vehicles. The provisions that allow Public Utility Districts, municipal utilities, and privately owned utilities to make investments in electric charging stations and other infrastructure will help achieve the state's clean energy goals and it is what our ratepayers want. This also creates new partnership opportunities for utilities and ports to develop cooperative arrangements for investments in electric infrastructure. With respect to the vehicle sales and use exemption, the expansion to used vehicles will help increase opportunities for lower income individuals to make electric vehicle purchases. However, the incentive needs to be higher to create the needed growth in electric vehicle adoption and impact consumer behavior. The calculation of the tax incentive needs to be based on actual sales price rather than manufactured suggested retail price to better reflect actual costs. Overall, the passenger and commercial tax incentives are a step in the right direction.

Persons Testifying (Transportation): PRO: Leah Missik, Climate Solutions; Michael Mann, Nissan/Forth; Marian Dacca, Tacoma Public Utilities; Laura Wilkeson, Puget Sound Energy; Sean Eagan, The Northwest Seaport Alliance; Michael Breish, Washington Department of Commerce.

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