

SENATE BILL REPORT

SHB 1768

As of February 22, 2024

Title: An act relating to exempting certain sales of electricity to qualifying green businesses from the public utilities tax.

Brief Description: Exempting certain sales of electricity to qualifying green businesses from the public utilities tax.

Sponsors: House Committee on Finance (originally sponsored by Representatives Shavers, Barnard, Chapman and Ramel).

Brief History: Passed House: 2/15/24, 89-0.

Committee Activity: Ways & Means: 2/22/24.

Brief Summary of Bill

- Provides a public utilities tax exemption for certain sales of electricity by a light and power business to a qualified business.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeff Mitchell

Background: Public Utilities Tax. The gross income derived from the operation of publicly and privately owned utilities is subject to the public utility tax (PUT), unless otherwise exempt. The tax is imposed in lieu of business and occupation (B&O) tax and is applied only on sales to consumers. Other income of the utility, such as retail sale of tangible personal property, is subject to the B&O tax. There are six different PUT rates, depending on the specific utility activity. The rates are:

- 3.852 percent on telegraph companies, distribution of natural gas, and the collection of sewage;
- 3.8734 percent on the generation or distribution of electrical power;
- 0.642 percent on urban transportation and watercraft vessels under 65 feet in length;

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- 1.926 percent on motor transportation, railroads, railroad car companies, and all other public service businesses;
- 5.029 percent on the distribution of water; and
- 1.3696 percent on log transportation.

A taxpayer who engages in one or more businesses subject to the PUT is fully exempt from the tax if their total gross income is \$2,000 or less per month. Any taxpayer that has a total gross income greater than \$2,000 per month does not receive an exemption or deduction under this provision.

A business does not have to file an excise tax return for the PUT if the business does not owe other taxes or fees to the Department of Revenue (DOR) and has an annual gross proceed of less than \$24,000.

Tax Preference Performance Statement. State law provides for a range of tax preferences that confer reduced tax liability upon a designated class of taxpayer. Tax preferences include tax exclusions, deductions, exemptions, preferential tax rates, deferrals, and credits. Currently, Washington has over 650 tax preferences, including a variety of sales and use tax exemptions. Legislation that establishes or expands a tax preference must include a Tax Preference Performance Statement that identifies the public policy objective of the preference, as well as specific metrics that the Joint Legislative Audit and Review Committee can use to evaluate the effectiveness of the preference. All new tax preferences automatically expire after ten years unless an alternative expiration date is provided.

Summary of Bill: Beginning October 1, 2023, a PUT exemption for certain sales of electricity is provided. The sale of electricity by a light and power business to qualifying businesses if the commercial operations begin prior to July 1, 2033, and certain terms are included in the contract for the sale of electricity. The contract must require that the electricity to be used in the qualifying activities be separately metered from the electricity used in the business's general operations and the price charged for the electricity used in the qualifying activities be reduced by an amount equal to the PUT exemption granted the light and power business. The electricity sold must be from a renewable resource or nonemitting electric generation. The maximum annual credit amount per qualifying business is \$100,000.

The qualifying business must provide the light and power business an exemption certificate prior to claiming the exemption. A qualifying business must use the electricity in qualifying activities for qualifying projects and provide annual certification that the qualifying project meets the exemption requirements. Any relevant records related to the exemption claimed pursuant to this act must be retained by the qualifying business for five years.

The term qualifying activities means the green electrolytic hydrogen production process, the renewable hydrogen production process, and the compression, liquification, storage, or

dispensing of green electrolytic hydrogen or renewable hydrogen.

The term qualifying projects means one or more of the prioritized uses:

- high heat industrial processes using hydrogen as a fuel and industrial process using hydrogen as feedstock;
- fuel for commercial motor vehicles, aviation, maritime transportation, drayage, or mass transit;
- generation of electricity using a hydrogen fuel cell or using a combustion turbine operation no more than 500 hours per year; or
- production of a green hydrogen carrier is used in one of the other prioritized uses.

A qualifying business must use electricity in qualifying activities where at least 60 percent of the hydrogen is used in one or more qualifying projects. The exemption does not apply to the remarketing or resale of electricity originally obtained by contract for the qualifying activities. A taxpayer claiming the PUT exemption must file an annual tax preference performance report with the DOR.

The exemption expires January 1, 2035.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: The bill contains an emergency clause and takes effect on October 1, 2023.

Staff Summary of Public Testimony: OTHER: This is a bill from last year and a lot has happened over the past year in the green hydrogen universe. Washington has been awarded the hydrogen hub, which could be up to a billion dollars for projects in the state. There is also guidance on a federal tax credit for low carbon hydrogen. We will have much more information on both of these next year. The various end uses in the bill may create an accounting nightmare. The bill should be narrowed to reflect projects that can benefit in the near term or remove all of the restrictions. We would like to spend the interim talking to legislators, policy committees, and stake holders and see how the tax credit and hydrogen hub play out.

Persons Testifying:

OTHER: Dave Warren, WA Green Hydrogen Alliance.

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