

# SENATE BILL REPORT

## SHB 1257

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As Reported By Senate Committee On:  
Ways & Means, April 7, 1997

**Title:** An act relating to the taxation of coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

**Brief Description:** Providing tax exemptions and credits for coal-fired thermal electric generating facilities placed in operation before July 1, 1975.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives DeBolt, Alexander, Pennington, Sheldon, Kessler, Poulsen, McMorris, Mielke, Van Luven, Grant, Crouse, Mastin, Doumit and Hatfield).

**Brief History:**

**Committee Activity:** Ways & Means: 4/7/97 [DPA].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass as amended.

Signed by Senators West, Chair; Deccio, Vice Chair; Strannigan, Vice Chair; Bauer, Fraser, Kohl, Long, McDonald, Rossi, Schow, Sheldon, Snyder, Spanel, Swecker, Winsley and Zarelli.

**Staff:** David Schumacher (786-7474)

**Background:** The Centralia Steam Plant and adjacent coal mine are located in Lewis County approximately five miles northeast of Centralia. The plant has two coal-fired units capable of producing 1,300 megawatts of electricity, enough to serve Seattle. The steam plant is the sole customer of the Centralia Coal Mine, which is operated by the Centralia Mining Company, a wholly owned subsidiary of PacifiCorp. Together, the steam plant and coal mine employ approximately 670 people.

Air Pollution Control Requirements. The Centralia Steam Plant is the largest single source of sulfur dioxide pollution in the state. In the early 1990s, the federal and state clean air acts were revised to require existing industrial pollution sources to meet reasonably available control technology– standards.

In 1995, the Southwest Washington Air Pollution Control Authority issued an order requiring the Centralia Steam Plant to reduce sulfur dioxide emissions by 50 percent by the year 2001. When the order was issued, the National Park Service and the U.S. Forest Service argued greater emission reductions were needed. The Centralia plant owners then met with the National Park Service, U.S. Forest Service, U.S. Environmental Protection Agency, state Department of Ecology, Southwest Washington Air Pollution Control Agency, and the Puget Sound Air Pollution Control Agency to develop a recommendation on further emission reductions.

The final recommendation of this collaborative decision-making group was to require the Centralia Steam Plant to construct two scrubbers on site. The first scrubber would be in operation by December 31, 2001, and the second in operation by December 31, 2002, with an expected 90 percent reduction in sulfur dioxide emissions by the year 2003.

The two scrubbers reportedly are expected to cost approximately \$264 million.

Sales and Use Taxes. Sales tax is imposed on retail sales of most items of tangible personal property and some services. The state tax rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local sales taxes apply. The total tax rate is between 7 percent and 8.6 percent, depending on location. Sales tax applies when items are purchased at retail in state. Sales tax is paid by the purchaser and collected by the seller.

Use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to sales tax. Use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue.

Rate Regulation. The Utilities and Transportation Commission regulates the rates charged by investor-owned utilities. By statute, the rates must be reasonable and just. An investor-owned utility planning to change a rate must file a tariff schedule of proposed rates and charges with the commission.

**Summary of Amended Bill:** The Legislature seeks to assist thermal electric generating facilities placed in operation before July 1, 1975, to reduce their emissions so that the facilities continue to play vital, long-term economic roles in their communities.

Sales and Use Tax Exemption for Air Pollution Equipment. A new state and local sales and use tax exemption is created for purchases of tangible personal property that becomes an ingredient or a component of new air pollution control equipment constructed at thermal electric generating facilities placed in operation before July 1, 1975.

If thermal electric generating facilities are abandoned before 2023, however, all or part of the sales and use tax exemptions granted on air pollution control equipment must be repaid to the state. Furthermore, if a company has claimed sales and use tax exemptions on the purchase of new air pollution control equipment and abandons the equipment before it has been fully depreciated, then the company cannot recover the remaining, undepreciated value of the equipment through a tariff filing.

Sales Tax Exemption for Purchases of Coal. Beginning January 1, 1999, the purchase of coal is exempt from sales tax. Until the thermal electric generating facilities have reduced their emissions below 10,000 tons of sulfur dioxide per year, the owners of the facilities will pay the sales tax into the sulfur dioxide abatement account. When the emissions have been reduced, the owners will receive the funds from the this account.

If the facilities receive a notice of violation for excessive sulfur dioxide emissions from a regional air pollution control authority or the Department of Ecology, then the owners of the facilities lose their tax credit for a one-year period. The owners of the facilities may also

lose their credit for a one-year period, if the facilities fail to use local coal. At least 70 percent of the coal used by thermal electric generating facilities must be produced by a mine located in the same county as the facilities or in a contiguous county.

Property Tax Exemption for Air Pollution Equipment. The air pollution control equipment is exempt from state and local property tax.

**Amended Bill Compared to Substitute Bill:** The substitute bill included public utility credits in the amount of the state and local sales tax exemption and the property tax exemption. The sulfur dioxide abatement account was added in the amended bill.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** None.

**Testimony Against:** None.

**Testified:** No one.