
**Technology & Economic Development
Committee**

HB 2346

Brief Description: Promoting a sustainable, local renewable energy industry through modifying renewable energy system tax incentives and providing guidance for renewable energy system component recycling.

Sponsors: Representatives Morris, Smith, Haler, Rossetti, Tarleton, Hayes and Peterson.

Brief Summary of Bill

- Extends the expiration date and per-utility limit for the Public Utility Tax (PUT) credit that funds annual payments made by utilities to customers under the Renewable Energy System Cost Recovery Program (Cost Recovery Program).
- Expires certain solar sales and use tax exemptions at the end of June 2016 instead of in 2018 or 2020.
- Replaces the Cost Recovery Program with a new production incentive that has a different rate structure and eligibility requirements.
- Restricts eligibility to receive the production incentive, beginning January 1, 2019, to systems for which the solar module manufacturer has filed a recycling plan with the Department of Ecology.

Hearing Date: 1/12/16

Staff: Jasmine Vasavada (786-7301).

Background:

Renewable Energy Investment Cost Recovery Incentive Program.

Until June 2021, under the Renewable Energy Investment Cost Recovery Incentive Program (Cost Recovery Program), an electric utility may claim a credit against its Public Utility Tax (PUT) due for incentive payments made by the utility to a customer for electricity produced by

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eligible renewable energy systems and Community Solar projects. Eligible renewable energy systems are solar energy systems, wind generators, and anaerobic digesters.

Annual Incentive Payments.

An individual, business, or local government that owns an eligible renewable energy system, installed on property it also owns, may apply to receive an annual incentive payment of up to \$5,000 from its electric utility for each kilowatt-hour (kWh) of electricity produced by the system. The incentive rate per kilowatt-hour is determined by applying "economic development" multipliers to a base rate of 15 cents per kWh. The highest rate that results from these multipliers is 54 cents per kWh, for a solar energy system with modules and inverters manufactured in Washington.

Community Solar Projects.

In 2009, the Legislature expanded the Cost Recovery Program to provide annual incentive payments for electricity generated by "Community Solar" projects. A Community Solar project may take one of three forms:

1. a solar energy system placed on local government property that is owned by local individuals, households, or non-utility businesses;
2. a utility-owned solar energy system voluntarily funded by the utility's ratepayers in exchange for credits on their utility bills; and
3. a company-owned solar energy system owned by a limited liability company, a cooperative, a mutual corporation, or association.

The base incentive rate for Community Solar projects is 30 cents per kWh and with made-in-Washington incentives a project may be eligible for a rate of \$1.08 per kWh.

Administration of the Cost Recovery Program.

The Department of Revenue (DOR), with technical assistance from the Washington State University Extension Energy Program (WSU Energy Program), administers the Cost Recovery Program. The WSU Energy Program is a self-supported department within WSU that provides technical training and assistance in program areas that include renewable energy, technology development and evaluation, and workforce and economic development.

Cap on Total Public Utility Tax Credits Available.

Utility participation in the Cost Recovery Program is voluntary. A utility is allowed a credit against its PUT in return for annual incentive payments made, capped annually at \$100,000 or 0.5 percent of its taxable power sales, whichever is greater. As of 2016, some utilities have reached this cap and stopped accepting new applicants; others have continued to accept new applicants but have reduced rates to each participant proportionately to remain within the cap. Utility-owned Community Solar project payments may only account for up to 25 percent, and company-owned Community Solar project payments only up to 5 percent, of the total PUT funds available for credit.

Electronic Products Recycling.

Since 2009, the Department of Ecology has overseen, and the Washington Materials Management and Financing Authority has operated, an electronics product recycling program, E-Cycle. E-Cycle provides for the recycling of electronic waste at no direct cost to consumers. Covered products include televisions, monitors, computers, laptops, and tablets. Manufacturers fund operations through payments based in part on each manufacturer's in-state market share.

Sales Tax Incentives for Solar Equipment.

A sales and use tax exemption for solar energy systems that produce 10 kilowatts of power or less, or use thermal heat to produce not more than 3 million British thermal units (BTUs) per day, and associated installation charges, expires June 30, 2018. A program that provides a 75 percent refund of the sales and use tax paid on certain renewable energy systems, including solar energy systems capable of generating more than 10 kilowatts of electricity, expires January 1, 2020.

Cost Recovery Incentive Data.

The Department of Revenue must treat system certifications and the information contained therein as confidential and privileged tax information, disclosing this information only to the extent that it is also maintained by another state or local government agency as a public record, or maintained by a court of record and not otherwise prohibited from disclosure.

Summary of Bill:

Renewable Energy Investment Cost Recovery Incentive Program.

The Renewable Energy Investment Cost Recovery Incentive Program (Cost Recovery Program), as currently structured, is closed to new participants after June 30, 2016. Participants who enter the program before this date may continue to apply to their utility for annual incentive payments, at current incentive rates, through June 30, 2020.

Utilities that have reached their PUT Cap under the Cost Recovery Program.

If, as of June 30, 2015, a utility has reached the limit on total Public Utility Tax (PUT) funds available for credit under the Cost Recovery Program and has reduced rates proportionately, the reduced rate will apply to payments to those participants for electricity generated through June 30, 2020.

Production Incentive Program.

After June 30, 2016, a person who owns a renewable energy system may apply to the WSU Energy Program for certification establishing the person's eligibility to receive annual Production Incentive payments from the person's utility for a term of 10 years. "Person" is broadly defined to include an individual, firm, corporation, company, and any other legal entity.

Eligible renewable energy systems are anaerobic digesters, wind generators, and solar energy systems, including Community Solar projects. For systems other than a Community Solar project, only a "customer-owner," meaning the non-utility owner of a system who either owns or occupies the premises where the system is installed, is eligible to receive payments for electricity generated by systems.

Annual Incentive Payments.

The incentive rate available depends on the fiscal year of certification, the system type, and whether the system includes "Made in Washington" components. Different rates are available for "Class A" systems (systems 12 kilowatts or smaller); "Class B" systems (systems greater than 12 kilowatts) and Community Solar projects.

Both base rates and bonus rates decline by two cents each year. A table of the available incentive rates is pasted below.

Fiscal year of system certification	Base rate - class A	Base rate - class B	Base rate - community solar	Made in Washington Bonus
2017	\$0.22	\$0.18	\$0.32	\$0.10
2018	\$0.20	\$0.16	\$0.30	\$0.08
2019	\$0.18	\$0.14	\$0.28	\$0.06
2020	\$0.16	\$0.12	\$0.26	\$0.04

Annual Incentive Payment Limit.

The WSU Energy Program may authorize an annual payment of up to \$5,000 for a Community Solar project participant, and \$25,000 for a Class B system.

Administration of the Production Incentive.

Program management, technical review, and tracking responsibilities for administering the Cost Recovery Program are transferred from the Department of Revenue to the WSU Energy Program, beginning July 1, 2016. The WSU Energy Program may, before a system has received its final electrical inspection, grant provisional certifications that expire 180 days after issuance. The WSU Energy Program must cease to issue new certifications for Community Solar projects in any year that 25 percent of available funds for credit have been allocated to such projects. The WSU Energy Program must establish a list of equipment eligible for the "Made in Washington" bonus rates. The WSU Energy Program must calculate and provide to the utility the amount of the incentive payment due to each applicant. The WSU Energy Program must make publicly available online all lists, technical specifications, determinations, and guidelines that it develops. The WSU Energy Program may establish a one-time fee to cover its costs in administering the program. The Department of Revenue may, in consultation with the WSU Energy Program, adopt any rules necessary for administration of the program.

Effect of Previous Participation.

A system that was certified under the Cost Recovery Program cannot be certified under the Production Incentive program. However, if an additional system is added at the same location or billing meter as a Class A or Class B system, the applicant may seek recertification of an expanded system. Recertification expires on the same day as the original certification for the Class A or Class B system and applies to the entire system the incentive rates and program rules in effect as of the date of the recertification.

Community Solar Projects.

A utility or nonprofit organization may organize and administer a Community Solar program. Community Solar projects may be up to 500 kilowatts in size and must have at least 10 participants, all of whom must be customers of the utility providing service at the project's location. The utility or nonprofit organization may establish a reasonable fee to cover its costs and must give project participants clear and conspicuous notice of the portion of the incentive payment that will be assessed as a fee. Nonprofit organizations must submit a project proposal

and business plan to the WSU Energy Program. The WSU Energy Program must publish guidelines it will use in determining eligibility of nonprofit project proposals.

Cap on Total Public Utility Tax Credits Available.

The per-utility limit on total Public Utility Taxes available as credit to fund the Production Incentive is 2 percent of the utility's taxable power sales in 2014, or \$250,000, whichever is greater. The WSU Energy Program must not certify additional Community Solar projects in any fiscal year in which 25 percent of the total funds available have already been allocated to Community Solar projects.

Solar Module Recycling.

The Department of Ecology (Ecology) must establish and implement a process by February 1, 2017 to provide guidance to solar module manufacturers on an effective, self-directed solar module collection and recycling program and plan. The plan must include a mechanism for financing the collection, transportation and recycling of solar modules; and must be reasonably calculated to maximize solar module collection rates, minimize solar module disposal as waste, and maximize recycling. Beginning January 1, 2019, for a solar energy system to be eligible for Production Incentive payments, a solar module manufacturer must have a plan filed with Ecology and must have implemented any financial mechanism identified by the plan. Ecology may collect a fee from participating manufacturers based on their pro-rated share of state solar module shares. "Manufacturer" is defined broadly such that any person can elect to assume the responsibility of registering with Ecology for purposes of complying with the recycling plan requirements.

Sales Tax Incentives for Solar Equipment.

The expiration date for existing renewable energy sales and use tax exemptions, as applied to solar photovoltaic systems of 500 kilowatts or less, is changed to June 30, 2016.

Production Incentive Data.

System certifications and information contained therein are not confidential tax information and are subject to disclosure. The Department of Commerce must report to the Legislature by December 1, 2018 on the costs of system components and installation of Class A, Class B, and Community Solar systems. Commerce must recommend estimated incentive rates for new certifications beginning January 1, 2018 that are expected to result in a 10-year payback of the system component and installation costs to the customer-owner or Community Solar project participant.

Appropriation: None.

Fiscal Note: Available.

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