
Finance Committee

HB 2245

Brief Description: Providing tax incentives to promote the production and distribution of electricity from alternative sources of energy.

Sponsors: Representatives Anderson, Pflug, Crouse, Cairnes, Bush, DeBolt, Chandler, Mielke, Schmidt, Delvin, Casada, Esser, McMorris, Pennington, Reardon, Berkey, Simpson, Linville, Barlean, Marine, Fromhold and Kenney.

Brief Summary of Bill

- Extends the sales and use tax exemption to distributive generation facilities for machinery and equipment that generate electricity from alternative fuel sources.
- Modifies the eligible alternative fuel sources that can be used in central station generation under the sales and use tax exemption.
- Removes the 200 watt minimum threshold criterion for eligible generating facilities.
- Provides a deduction under the public utility tax for the costs of acquiring distributive generation facilities and of new central station generation facilities powered by renewable resources.

Hearing Date: 1/30/02

Staff: Mark Matteson (786-7145).

Background:

The retail sales tax applies to the selling price of tangible personal property and of certain services purchased at retail. The tax base includes goods and certain services purchased at retail. The tax is levied at 6.5 percent by the state. Cities and counties may levy a local tax at a maximum rate of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.3 percent. Sales tax is paid by the purchaser and collected by the seller.

The use tax is imposed on items used in the state which were not subject to the retail sales tax, and includes purchases made in other states and from sellers who do not collect Washington sales tax. The state and local rates are the same as those imposed under the retail sales tax. Use tax is paid directly to the Department of Revenue.

Public and privately-owned utilities and certain other businesses are subject to the state public

utility tax. The public utility tax is applied to the gross receipts of the business. For light and power businesses, the applicable tax rate, including permanent surtaxes, is 3.873 percent. Revenues are deposited to the state general fund.

In 1996 the Legislature provided an exemption from the retail sales and use taxes for machinery and equipment used directly in generating electricity using wind or solar energy. The phrase "used directly" means that the machinery and equipment exempt from the tax must be part of the process of capturing energy, converting that energy to electricity, and transforming or transmitting the electricity for entry into electric transmission and distribution systems, or for use on site. In 1998 the exemption was expanded to include machinery and equipment used in generating electricity from landfill gas, and in 2001, from fuel cells. The exemption also includes the installation of the equipment including labor and services. The exemption expires June 30, 2009.

The exemption originally applied to facilities capable of generating 200 kilowatts (200,000 watts) or more of electricity; this threshold was modified to 200 watts by the 2001 legislation.

Conventionally, electricity has been generated at centralized power plants with large capacities in the range of several hundred megawatts, in order to capture economies of scale. (For reference, Tacoma Power's service area required 655 megawatts on average in 1999 to meet load requirements.) However, changes in technology in recent years has made distributive generation more feasible economically. Distributive generation is the integrated or stand-alone use of small-scale power plants. Such plants may be modular, rely typically on natural gas turbines, and range in size from a few kilowatts to 50 megawatts. Distributive generation may also utilize fuel cell, wind turbine, and other alternative and conventional fuel technologies.

Renewable resources, for the purposes of electricity generation, are defined in statute to include water, wind, solar energy, geothermal energy, landfill gas, and biomass energy.

Summary of Bill:

The sales and use tax exemption for machinery and equipment used directly in generating electricity from alternative sources is modified in terms of the approach to generation, the eligible energy sources, and the generation threshold. In addition, a deduction of certain income is provided under the public utility tax for the purpose of generating electricity from alternative sources.

The sales and use tax exemption is available for purchases of machinery and equipment used in the generation of electricity by central generating stations where renewable resources are used or by distributive generation. Distributive generation is defined as the generation of electricity from an integrated or stand-alone power plant that has a capacity of 50 megawatts or less and is powered by wind energy, solar energy, or fuel cells. The electricity produced by distributive generation is to be transmitted into the main transmission grid or to be used on site.

To be eligible for the exemption, the central station generation using renewable resources or

the distributive generation must be the principal source of power. To be the principal source of power, the electricity produced must meet no less than 50 percent of the total average load of a facility. The 200 watt capacity threshold requirement for eligibility is eliminated.

The expiration of the sales and use tax exemption is extended to 2016.

In addition, a new deduction is provided under the public utility tax to light and power businesses that generate electricity from alternative sources. The deduction is equal to the cost of purchase or lease of a distributive generation facility that is used as the principal source of power for retail electric consumers, or the cost of new facilities that are powered by renewable resources. The deduction expires in 2016.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.