
**Technology, Telecommunications
& Energy Committee**

HB 1703

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

Sponsors: Representatives Anderson, Nixon, Crouse, Pflug, Priest, Tom, Ericksen, Jarrett and Benson.

Brief Summary of Bill

- Changes the approach to the sales and use tax exemption for machinery and equipment used directly in generating electricity using wind energy, solar energy, landfill gas, and fuel cells in units greater than 200 watts to an exemption for central station generation using renewable resources and distributive generation.
- Provides a deduction under the public utility tax for the costs of acquiring distributive generation facilities and new central station generation facilities powered by renewable resources.
- Terminates the tax exemptions and deductions in 2018.

Hearing Date: 2/18/03

Staff: Pam Madson (786-7166).

Background:

In 1996 the Legislature provided an exemption from retail sales and use taxes for machinery and equipment used directly in generating electricity using wind or solar energy. The exemption has been expanded to include machinery and equipment used in generating electricity from landfill gas and fuel cells. The exemption also includes the installation of the equipment including labor and services. The exemption applies to facilities capable of generating 200 watts or more of electricity. The exemption expires June 30, 2009.

The phrase "used directly" means that the machinery and equipment exempt from the tax must be part of the process of capturing energy from fuel cells, wind, sun, or landfill gas, converting that energy to electricity, and transforming or transmitting the electricity for entry

into electric transmission and distribution systems or for use on-site.

Electric generation and distribution has developed in this country in the form of large centralized power plants that send electricity over high-voltage power lines to customers living long distances from the power plant. Distributive generation is the integrated or stand-alone use of small-scale power plants that may serve load on site or may be connected to a larger electrical grid. Changes in technology in recent years is making distributive generation an economically feasible alternative.

There is a growing interest in the use of renewable resources to generate electricity. Renewable resources may include water, wind, solar energy, geothermal energy, landfill gas, or biomass energy based on solid organic fuels from wood, forest or field residues, or dedicated energy crops.

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. In addition, local sales taxes apply. Cities and counties may levy a local tax at a rate up to a maximum of 3.1 percent; currently, local rates levied range from 0.5 percent to 2.4 percent. The combined tax rate is between a minimum of 7 percent and a maximum of 8.9 percent depending on the location of the purchase. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The 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. The 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. Use tax revenue is deposited in the State General Fund.

Public and privately-owned utilities are subject to the state public utility tax (PUT). The PUT is applied to the gross receipts of the business. For electrical utilities, the applicable tax rate is 3.873 percent. Revenues are deposited to the state general fund.

The PUT does not permit deductions for the costs of doing business, such as payments for raw materials and wages of employees. However, there are several deductions and credits for specific types of business activities. These activities include production of energy through cogeneration or by using renewable energy resources; sales of electricity to direct service industrial businesses; and discounts to low-income customers.

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. A deduction is provided under the public utility tax for generating electricity from wind energy, solar energy, or fuel cells.

The sales and use tax exemption may be used for purchases of machinery and equipment used in generating electricity using certain renewable resources by central station generation.

The renewable resources that may be used as fuel for generating electricity include water, wind, solar energy, geothermal energy, landfill gas, or biomass energy based on solid organic fuels from wood, forest or field residues, or dedicated energy crops. The 200 watt capacity threshold requirement for eligibility is eliminated.

This exemption may also be used by distributive generation where this generation is the principle source of power. Distributive generation is 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 or solar energy, or fuel cells. The electricity generated by distributive generation must meet no less than 50 percent of the total average load of the facility being served by the generation.

The expiration of the sales and use tax exemption is extended to 2018.

A new deduction is provided under the public utility tax to light and power businesses that generate electricity from certain renewable resources or from distributive generation. 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 customers, or the cost of new facilities that are powered by renewable resources. The deduction expires in 2018.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill takes effect ninety days after adjournment of session in which bill is passed.