HOUSE BILL REPORT
HB 2645

As Reported by House Committee On:
Technology, Energy & Communications
Finance

Title: An act relating to a public utility tax credit for gas distribution businesses that invest in energy efficiency measures for certain food processing and other businesses.

Brief Description: Providing a limited public utility tax credit for gas distribution businesses.

Sponsors: Representatives Kilmer, Crouse, P. Sullivan, Morris and Dunn; by request of Department of Community, Trade, and Economic Development.

Brief History:

Committee Activity:

Technology, Energy & Communications: 1/19/06, 1/20/06 [DPS];
Finance: 1/30/06, 2/1/06 [DP2S(w/o sub TEC)].

Brief Summary of Second Substitute Bill

- Authorizes a credit against public utility tax liability for natural gas distribution utilities that make payments of up to $15,000 per business customer for the purpose of purchasing high-efficiency equipment and services to reduce gas consumption.
- Limits the new credit to Fiscal Year 2007 only and a statewide total of $1.5 million.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Hankins, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

Staff: Mark Matteson (786-7145).

Background:

Public utility tax. 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. The tax rate depends on the utility classification. For gas distribution businesses, the rate is 3.852 percent. Revenues are deposited to the State General Fund.

The PUT does not allow deductions for the costs of doing business, such as payments for raw materials and wages of employees. Nonetheless, a number of exemptions, credits, deductions, and other preferences have been enacted for specific types of business activities. Several incentives are structured to allow credit against tax for contributions or payments made to funds or private entities for public purposes, such as the credit for contributions to an electric utility rural economic development revolving fund, or the credit for payments to individuals that generate electricity on their own property using certain renewable systems.

Natural gas cost trends - food processing industry usage. While the price of natural gas paid by commercial users held fairly steady through the 1990s, the Energy Information Administration surveys show that prices have doubled in nominal terms from 1999 to 2005. In January 1999, the average price paid by commercial business customers of natural gas utilities was $4.64 per thousand cubic feet of gas. In January 2005, it was $9.73.

The food processing industry is an energy-intensive industry and the second biggest consumer of natural gas as a fuel in the western census region (which includes states in the Mountain and Pacific time zones), according to the Energy Information Administration's Manufacturing Energy Consumption Survey. According to the 2002 Survey, food processors in western census states purchased 102 billion cubic feet of gas at a price of $499 million. Total cost of materials for this industry was $38.1 billion in 2002, according to the Economic Census.

A number of food processors purchase their natural gas requirements from out-of-state suppliers, and pay a fee to in-state distribution businesses for transportation of the gas.

A number of different types of highly energy efficient natural-gas powered appliances are available on the market for businesses and residences. These include energy efficient boilers, furnaces, and water heaters. The purchase price of such equipment may be significantly more than conventional equipment, but some life cycle cost analyses have shown that the energy savings produce lifetime benefits that exceed costs.

The food processing industry uses blanching systems in preparation of frozen and canned foods. Conventional blanching equipment uses water and energy to constantly produce steam. Highly efficient blanching systems reduce the amount of water and energy used.

Gas distribution businesses that are investor-owned are regulated by the Utilities and Transportation Commission. Public gas distribution businesses are governed by their public owners.

Summary of Substitute Bill:

A new one-year incentive program is created for Fiscal Year 2007, to stimulate acquisition of energy-efficient equipment or services by qualifying businesses. Qualifying businesses are business customers of gas distribution businesses or are food processors that pay gas distribution businesses a transportation fee for natural gas bought out-of-state. Nonprofits, government agencies, tribal governments, and businesses operated out of personal residences do not qualify. The program is funded by a credit against public utility tax liability of gas distribution businesses. The credit is based on payments to businesses to acquire energy-efficient equipment or services.

The maximum amount of credit that is allowed to be claimed for the program is $1.5 million. From the $1.5 million total, each gas distribution business receives an allocation of credit based on its proportionate share of in-state retail natural gas revenues earned during the base year, defined as Fiscal Year 2004. The gas distribution business may claim the credit only after paying qualifying businesses amounts to purchase certain high-efficiency equipment or energy saving services. The amount paid to a qualifying business may not exceed the lesser of 25 percent of the incremental cost of the equipment or service or $15,000. For qualifying energy-efficient equipment, the incremental cost is the difference between the higher cost of the equipment and the cost of conventional equipment. For a qualifying energy-efficient service, the incremental cost is the entire cost of the service.

Qualifying equipment or services that may be purchased under the program is equipment or services that exceed the minimum energy efficiency standards allowable in programs offered by or approved for gas distribution utilities. These include:

- high-efficiency boilers;
- high-efficiency water heaters;
- high-efficiency furnaces;
- high-efficiency blanching;
- control equipment that improves the efficiency of heating, ventilation and air conditioning equipment, boilers, or water heaters;
- repair or replacement services for energy efficient equipment; and
- boiler and furnace tune-up services.

The Utilities and Transportation Commission and applicable governing boards of publicly owned gas distribution utilities must provide the Department of Revenue (Department) the necessary information for the Department to calculate the amount of credit allocation for Fiscal Year 2007. The Department must publish the allocations by July 1, 2006.

Substitute Bill Compared to Original Bill:

Limits the amount that a gas distribution business may pay a qualifying business under the incentive program, with respect to equipment, to the lesser of the incremental cost of high-efficiency energy equipment (relative to the cost of conventional equipment) or $15,000.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

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

Testimony For: The intent of this bill is to provide incentive for gas utilities to provide some assistance to businesses in replacing existing gas-fired equipment with or otherwise acquiring new high-efficiency equipment. This is particularly needed at this time since natural gas costs have risen about 25 percent in recent months. Basically, this measure would encourage utilities to expand or develop new conservation programs. It is designed as a one-year program to be a reasonable use of the recent increase in public utility tax revenues due to higher prices.

Testimony Against: None.

Persons Testifying: Tony Usibelli, Department of Community, Trade & Economic Development; and Collins Sprague, Avista Corporation.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Technology, Energy & Communications. Signed by 11 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta, Conway, Ericks, Hasegawa, Santos and Shabro.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Energy & Communications:

Removes the emergency clause.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Natural gas prices have increased in the past year by over 25 percent. This is one of several ways this session that the Legislature is looking to provide some relief. In my day job, I work in economic development. As I meet with businesses, it is obvious to me that they are feeling the pinch. This bill will help them meet up front costs with an eye on long-term savings. It encourages utilities to expand or start up conservation programs.

This is an agency request legislation. Small businesses are indeed faced with significantly higher natural gas costs. This would allow a small business to make an investment decision that the owner might not otherwise make. It will also allow a utility to claim a contribution toward improved energy efficiency.

The low wholesale natural gas prices of the 1990s is a thing of the past. The market prices are much higher now and it is not expected that they will return to those levels. Avista has funded several conservation measures, but we can only go so far. This will augment our efforts.

Testimony Against: None.

Persons Testifying: Representative Kilmer, prime sponsor; Tony Usibelli, Community Trade and Economic Development; and Collins Sprague, Avista.

Persons Signed In To Testify But Not Testifying: None.