
**Technology, Energy & Communications
Committee**

HB 2537

Brief Description: Concerning incentives for solar energy systems.

Sponsors: Representative McCoy.

Brief Summary of Bill

- Creates a preferential B&O tax rate for businesses that manufacture solar energy systems using stirling converters.
- Expands the renewable energy cost-recovery incentive payment program to include solar stirling converters.

Hearing Date: 1/11/10

Staff: Kara Durbin (786-7133).

Background:

Solar energy systems are devices or elements that use direct sunlight as an energy source in generating electricity. There are two major types of solar energy technologies: photovoltaic systems and concentrated solar power systems. Photovoltaic systems use photovoltaic cells made of semiconductor materials to convert sunlight into electricity. Concentrated solar power technologies typically use reflective devices such as troughs or mirrors to concentrate the sun's energy. This concentrated energy is then used to drive an engine or generator to produce electricity.

Business and Occupation Tax for Solar Energy Systems.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

There are a number of different rates. The main rates are: 0.471 percent for retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

In 2005, B&O tax rate reductions were provided for certain types of solar energy manufacturing. A B&O tax rate of 0.2904 percent is provided to businesses that manufacture or sell at wholesale: (1) solar energy systems using photovoltaic modules; or (2) solar grade silicon to be used in the components of a solar energy system. Taxes paid in manufacturing these systems are granted as a B&O tax credit.

In 2009, additional B&O tax rate reductions were provided. Beginning October 1, 2009, a preferential B&O tax rate of 0.275 percent is provided to businesses that manufacture or sell at wholesale either: (1) solar energy systems using photovoltaic modules; or (2) solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers to be used exclusively in the components of solar energy systems. This lower B&O tax rate expires on June 30, 2014.

Cost-Recovery Incentive Payment Program for Renewable Energy Systems.

In 2005, the Legislature created a cost-recovery incentive payment program to promote renewable energy systems that produce electricity from solar, wind, or anaerobic digesters. An individual, business, or local government purchasing an eligible system may apply for an incentive payment from the electric utility serving the applicant. The incentive provides at least 15 cents for each kilowatt-hour of energy produced, with extra incentives for solar generating systems or wind generating systems that use certain components manufactured in Washington. Payments are capped at \$5,000 annually per applicant.

A utility providing incentive payments is allowed a credit against its public utility tax (PUT) for incentives paid, limited to \$100,000 or 1 percent of its taxable power sales, whichever is greater. If the amount of requests for incentive payments exceeds the amount of funds available for PUT credit to the utility, the incentive payments to applicants must be reduced proportionally.

The cost-recovery incentive payment program expires June 30, 2020.

Community Solar Projects.

In 2009, the Legislature expanded the cost-recovery incentive payment program to include community solar projects. Community solar projects are defined as either: (1) a solar energy system owned by local individuals, households, or non-utility businesses that is placed on the property owned by their cooperating local government entity; or (2) a utility-owned solar energy system that is voluntarily funded by the utility's ratepayers where, in exchange for their financial support, the utility gives contributors a payment or credit on their utility bill for the value of the electricity produced by the project.

Community solar projects are eligible to receive incentives of 30 cents for each kilowatt-hour of energy produced, unless the amount of requests for incentive payments exceeds the amount

authorized for credit to utility, in which case the incentive payments to applicants must be reduced proportionally. Payments to a community solar project are capped at \$5,000 annually per applicant.

Incentive payments to participants in a utility-owned community solar project may only account for up to 25 percent of the total allowable credit.

Summary of Bill:

Beginning October 1, 2009, businesses that manufacture stirling converters are eligible to receive a B&O tax rate of 0.275 percent.

Individuals, businesses, or local governments that generate electricity from a stirling converter manufactured in Washington state are eligible to receive an incentive payment for each kilowatt-hour produced. The incentive payment is 15 cents per kilowatt-hour multiplied by a factor of 2.4.

A "stirling converter" is defined as a device that produces electricity by converting heat from a solar source using a stirling engine.

The definition of "customer-generated electricity" is revised to clarify that the exclusion of electricity generated by utilities does not apply to utility-owned community solar projects.

Appropriation: None.

Fiscal Note: Requested on January 6, 2010.

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