

SENATE BILL REPORT

SB 6188

As of March 1, 2016

Title: An act relating to distributed generation.

Brief Description: Concerning distributed generation.

Sponsors: Senators McCoy, Keiser, Rolfes, Chase, Ranker and Frockt.

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 1/19/16.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Staff: Kimberly Cushing (786-7421)

Background: Renewable Energy Cost-Recovery Incentive Program. In 2005, the Legislature created a Renewable Energy Cost-Recovery Incentive Program (Cost-Recovery Program) to promote renewable energy systems located in Washington that produce electricity from solar, wind, or anaerobic digesters. In 2009, the Legislature expanded the Cost-Recovery Program to include community solar projects that are generally owned by multiple individuals, utilities, or companies. The Cost-Recovery Program expires June 30, 2020.

Incentive Rate. The owner of an eligible system may apply for an incentive payment from the electric utility serving the applicant. The base rate for the incentive is generally \$0.15 per kilowatt-hour (kWh) of electricity produced, except that the base rate for community solar projects is set at \$0.30 per kWh produced. Extra incentives for solar or wind generating systems that use certain components manufactured in Washington can increase the incentive payments to \$1.08 per kWh produced for community solar projects and \$0.54 per kWh produced for all other systems.

Incentive Payment Caps. Incentive payments are capped at \$5,000 annually per applicant. In the case of community solar projects, each member is eligible for a payment in proportion to the member's ownership share up to \$5,000. A utility providing incentive payments is allowed a credit against its public utility tax (PUT) for incentives paid, limited to \$100,000 or 0.5 percent of its taxable power sales, whichever is greater. If the amount of incentive requests exceeds the amount of funds available to the participating utility, the incentive payments must be reduced proportionally for all customers.

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.

Incentive payments to participants in a utility-owned community solar project may only account for up to 25 percent of the total allowable credit. Incentive payments to participants in a company-owned community solar project may only account for up to 5 percent of the total allowable credit.

Agencies Administering the Cost-Recovery Program. The Department of Revenue (DOR), with assistance from the Washington State University Energy Program (WSU), administers the Cost-Recovery Program.

Electronic Products Recycling. Since 2009, the Department of Ecology has overseen E-Cycle, which 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 75 percent refund of the sales and use tax paid on certain renewable energy systems, including solar energy systems, expires January 1, 2020.

Summary of Bill: Intent and Findings. The Legislature finds that distributed generation is an important part of a state energy strategy to increase energy independence, promote economic development, and attain environmental benefits in the form of reduced air pollutant emissions. The Legislature intends to provide an incentive sufficient to promote installation of renewable energy systems through 2020, at which point the Legislature expects that the state's solar industry will be capable of sustained growth and vitality without the cost recovery incentive.

Current Cost-Recovery Program. Beginning June 30, 2016, no applicant may receive a certification for a cost-recovery incentive under the current program. However, systems certified on or prior to that date may continue to receive incentives for kWh generated through June 30, 2020.

Cap on Total Public Utility Tax Credits. A utility must be allowed a credit against its PUT not to exceed \$250,000 or 1 percent of its taxable power sales, whichever is greater.

Program Administration. Beginning July 1, 2016, program management, technical review, and tracking responsibilities transfer from DOR to WSU. WSU must calculate and provide to the utility the amount of the incentive payment due to each applicant. Additionally, WSU must post quarterly reports on its website - by utility - providing the certification limits and estimates of the amount of credit that has not yet been allocated for incentive payments. WSU may establish a one-time fee to cover its costs in administering the program. DOR may, in consultation with WSU, adopt any rules necessary for administration of the program.

Eligible Renewable Energy Systems Under a New Production Incentive Program. Beginning January 1, 2016, eligible systems may receive cost-recovery incentive payments if they begin

operating on or before June 30, 2020. Incentives may be claimed only until June 30, 2031. A utility's participation in the cost-recovery program is voluntary. Customer-owners, utilities, or nonprofit organizations may apply to WSU for certification of their renewable energy system to receive an annual production incentive under the program for a term of 10 years. The following renewable energy systems are eligible:

- residential-scale system that has a nameplate capacity of 10 kW or less;
- commercial-scale system that has a nameplate capacity greater than 10 kW;
- utility-owned renewable energy system; or
- community solar project.

To be eligible, the renewable energy system must be connected to equipment capable of measuring the electricity production of the system and reporting electronically to WSU the amount of electricity produced on the premises.

Annual Incentive Rates. For new systems certified between July 1, 2016, and December 31, 2016, the base incentive rate used to calculate the investment cost-recovery incentive is \$0.16 per kWh for residential-scale systems or community solar projects and \$0.10 per kWh for commercial-scale systems. For the remaining years under the program, the base rates and bonus rates for "Made in Washington" systems are based on the year in which the system commences and decline as follows:

Calendar year of the system certification	Base rate - residential and community solar projects	Base rate - commercial	Made in Washington bonus
2017	\$0.150	\$0.100	\$0.120
2018	\$0.135	\$0.085	\$0.105
2019	\$0.110	\$0.070	\$0.090
2020	\$0.085	\$0.055	\$0.075
2021	\$0.060	\$0.040	\$0.060

Bonus Rates. WSU must establish a list of equipment eligible for the "Made in Washington" bonus rates. WSU, in consultation with the Department of Commerce, must develop technical specifications and guidelines to determine eligibility for bonus rates and publish lists of components that are eligible for bonus rates. For the purposes of being designated as "Made in Washington," a solar module must be laminated in Washington and a wind turbine must be powered by a turbine or build with a tower manufactured in Washington.

Annual Incentive Payment Limit. Renewable energy systems with under 10 kW of nameplate capacity and each participant in a community solar project are eligible to receive an annual cost-recovery incentive payment up to \$5,000 per year. Any system, other than a community solar project that is 10 kW or larger is eligible to receive \$25,000 or up to \$500 per kW, whichever is less.

WSU 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, or for any

additional renewable energy system if certification is likely to result in incentive payments exceeding the utility's available funds for credit.

Community Solar Projects. A utility or nonprofit organization may organize and administer a community solar project. Community solar projects may be up to 500 kW in size and must have at least 10 participants, who 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. Nonprofit organizations must submit a project proposal and business plan to the WSU. WSU must publish guidelines it will use in determining eligibility of nonprofit project proposals. A utility may use up to two cents per kWh of the community solar project incentive payment to subsidize programs that broaden access to solar power or ownership of solar energy systems by low-income customers.

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 (manufacturers) on an effective, self-directed solar module collection and recycling program and plan. Beginning January 1, 2019, for a solar energy system to be eligible for production incentive payments a manufacturer must have a plan filed with Ecology that is reasonably calculated to maximize solar module collection rates, minimize solar module disposal as waste, and maximize recycling; and must have implemented a mechanism for financing the collection, transportation, and recycling of solar modules. Ecology may collect a fee from participating manufacturers based on their pro-rated share of state solar module shares. "Manufacturer" is defined broadly.

Sales and Use Tax Incentives for Solar Equipment. The expiration date for existing renewable energy sales and use tax exemptions, as applied to solar photovoltaic systems, is changed to June 30, 2016.

Tax Preference Performance Statement. The Legislature's public policy objectives are to increase and improve utilization of clean energy technology in Washington and to increase the number of jobs and enhance the sustainability of the clean energy technology industry in Washington. The tax preference performance statement requires the Joint Legislative Audit and Review Committee to determine whether several milestones are met.

Appropriation: None.

Fiscal Note: Requested on January 11, 2016.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: The solar industry has grown in state of Washington. Data shows there are more solar alternative energy jobs than in fossil fuel energy jobs in the state of Washington. These types of activities continue to reduce carbon emissions. Because the program has been successful, we want to make sure manufacturers in Washington aren't backlogged and continue to grow. Installers and manufacturers are worried about losing contracts if the incentive ends. Our customers want to generate carbon-free

energy using the Sun. As a result, this is causing jobs to be created. We like the extension of incentives and costs, but prefer incentive rates in the House Bill. A broad spectrum of stakeholders have been working for awhile to get a narrowly focused bill with a simple structure. The recycling provision still needs to be resolved. We appreciate the inclusion of distributed wind, but prefer the higher incentive rates and caps in HB 2346. The recent federal extension of production and investment tax credits is beneficial to the utility and commercial wind industry but it was not extended for the residential or distributed wind industry. Thus strong state incentives are crucial to build a market and diversify the state energy economy. The bill allows utility-owned solar to be eligible for incentives, even though they are not eligible for the federal incentives. The \$5,000 cap per facility language needs to be clarified. Community solar is very popular in the city of Seattle. If incentive rate is lower than what is in the House Bill (42 cents), it is unlikely the utility could offer community solar to customers, because the utility can't charge enough to buy the system. We appreciate streamlining the administration of program by WSU. It is a taxpayer-based program but utilities do most of the administration. PSE anticipates hitting their cap in 2016, which forces proportionate incentive reductions. PSE notes in its tariff to customers that proportionate reductions is a possibility. The opportunity for utilities to provide a product to their customer and still get an incentive is very important.

OTHER: We strongly support the concept behind the bill. Commerce has been supportive of the development and expansion of solar energy in the state of Washington as an energy policy and as an economic development opportunity for companies. This bill responds to a near-term need to assist people who made commitments to solar systems, but their utilities are hitting their caps. It also provides stable and declining support for new systems. We look for three elements in the bill: (1) Encourage electric utilities to serve as change agents and promoters as solar, not just as a channel to pass through subsidies; (2) derive in-state economic benefits; (3) avoid shifting fixed costs to non-solar customers. The bill is too rigid on types of systems eligible for the program. The greatest opportunity is for community solar. Higher incentive rates should be directed to community solar and could make it available to lower-income customers.

Persons Testifying: PRO: Senator McCoy, prime sponsor; Dave Warren, WA PUD Association; Jeremy Smithson, Solar Installers of Washington; Britton Rife, Distributed Wind Energy Association; Rose Feliciano, Seattle City Light; Nancy Atwood, Puget Sound Energy, Government Affairs Manager; Joni` Bosh, NW Energy Coalition.

OTHER: John Rothlin, Avista; Tony Usibelli, WA Dept of Commerce.

Persons Signed In To Testify But Not Testifying: No one.