

Fiscal Note

BILL # HB 2617

TITLE: renewable energy storage equipment; valuation

SPONSOR: Cobb

STATUS: As Amended by Senate FIN

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Description

As amended by the Senate Finance Committee, the bill would exempt retail purchases of electric storage equipment from the Transaction Privilege Tax (TPT) and Use Tax and require the Arizona Department of Revenue (DOR) to centrally assess the full cash value (FCV) of renewable energy electric storage equipment at 20% of the depreciated cost.

Estimated Impact

Given the lack of available information, our office is unable to determine the fiscal impact of this bill. To the extent that the bill would provide more favorable TPT and property tax treatment, it would reduce current revenue collections. We do not know, however, how much electric storage equipment is presently purchased in the state. The national and Arizona trend towards renewable energy sources will likely increase the purchase of electric storage equipment in future years, which could result in significant future foregone revenues losses not in the existing base.

Lower property tax payments as a result of the bill are estimated to increase General Fund costs on Basic State Aid (BSA) by \$42,000 in FY 2021.

DOR provided data to our office for this fiscal note but does not have a fiscal estimate of its own.

Analysis

Electric storage equipment allows generated electricity to be converted into a stored form that can later be converted back into electricity. There currently exists many technologies that allow for such storage with hydro-pumped, thermal, and battery storage as the most common.

The U.S. Department of Energy's Global Energy Storage Database currently reports 8 operational electric storage projects in Arizona, which together can store more than 485 megawatts (MW) of power. The database does not appear to include some recently completed projects, such as two 10 MW battery projects from the Salt River Project (SRP). Of the power storage capacity of these 10 projects known to our office, 55% is stored using hydro-pumped storage, 38% is stored with thermal storage, and most of the remainder is stored using batteries.

Existing statute exempts equipment used directly in producing and transmitting electric power from both TPT and Use Tax. HB 2617 would exempt electric storage equipment from these taxes as well. DOR, however, is not able to provide estimates of how much electric storage equipment is currently purchased annually in the state. The estimated loss in revenues is therefore unknown.

The bill would additionally provide more favorable property tax treatment for some storage equipment. Currently, DOR assesses electric storage equipment that is on-site at a renewable energy facility, such as a solar farm, and stores only renewable energy under A.R.S. § 42-14155 as renewable energy equipment. Under this statute, the equipment is assessed at 20% of its depreciated cost. Depreciated cost essentially refers to the difference between acquisition cost and accumulated depreciation.

Electric storage equipment that is not on-site at a renewable energy facility or does not store 100% renewable energy is instead currently assessed under A.R.S. § 42-14154 as transmission and distribution equipment. Transmission and

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distribution equipment is assessed using straight line depreciation and without the application of a 20% discount factor as provided under A.R.S. § 42-14155. HB 2617 as amended would have DOR assess all electric storage equipment, regardless of whether any of the stored electricity is generated from renewable sources, at 20% of depreciated cost under A.R.S. § 42-14155.

In tax year (TY) 2018, DOR assessed electric storage equipment as transmission and distribution equipment under A.R.S. § 42-14154 with approximately \$7.6 million in FCV. Because this equipment is Class 1 property, it is assessed at a ratio of 18%, which results in a net assessed value (NAV) of \$1.37 million. Under HB 2617, the assessed value of this equipment would decrease by about 80% to 20% of its depreciated cost. The NAV would therefore decline to \$288,800, a decrease of \$(1.15) million.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage of residential property taxes through the Department of Education's Homeowner's Rebate program. The reduction in NAV under the bill would have a direct impact on the General Fund by increasing the cost of K-12 funding under the Basic State Aid formula. By reducing the statewide NAV by an estimated \$(1.15) million annually, the bill would result in a direct increase of the state share of K-12 funding by \$42,000 in FY 2021.

The bill would also likely result in forgone revenues from future projects. Demand for electric storage equipment has increased in recent years. Nationwide battery storage capacity increased from roughly 50 MW in 2003 to nearly 750 MW in 2017 and is expected to increase to nearly 40 GW by 2050. In Arizona, utilities are beginning to invest more heavily in electric storage equipment. Arizona Public Service (APS) recently announced plans to add 850 MW of battery storage by 2025, a commitment that will likely total nearly \$1 billion in expenditures. Additionally, Tucson Electric Power (TEP) has submitted plans to the Arizona Corporation Commission that include a 30-MW battery project with NextEra Energy and the intention of investing \$15 million per year in energy storage and at least two new hydro-pumped storage plants are set to be built in Arizona in the coming years.

Local Government Impact

Lower property values as a result of the bill could reduce property tax collections for local tax jurisdictions or result in a tax shift to other property owners. The additional TPT exemptions in the bill would result in forgone revenue losses for counties and cities.