

# Fiscal Note

**BILL #** SB 1599

**TITLE:** TPT; use tax; exemption; hydrogen

**SPONSOR:** Shope

**STATUS:** As Introduced

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## Description

Under current law, there are several retail Transaction Privilege Tax (TPT) and Use Tax exemption related to the sale of natural gas, including natural gas used to propel a motor vehicle, the sale of pipes and valves (4 inches in diameter or larger) used to transport natural gas, and purchases of natural gas by businesses principally engaged in manufacturing or smelting operations. The bill would expand these exemptions to include hydrogen.

The bill would become effective on the first day of the month following the general effective date.

## Estimated Impact

The bill is not expected to result in any state revenue loss at current time. However, the General Fund would likely forego future tax collections once the hydrogen industry in the state is developed.

## Analysis

According to industry representatives, there is currently no hydrogen production taking place in Arizona. Moreover, the Energy Information Administration of the U.S. Department of Energy (DOE) reports that there are currently no hydrogen fueling stations in Arizona. Based on this information, the state does not appear to collect any TPT or Use Tax from hydrogen at current time.

While there is currently no hydrogen production in Arizona, information on the Arizona Corporation Commission's (ACC) website suggests that this industry is likely to develop in the near future. According to ACC, DOE announced in October 2021 that \$20 million in federal funds will be made available in the state to produce hydrogen. These monies will reportedly be used for the construction of a hydrogen electrolyzer near Palo Verde Nuclear Generating Station. This facility will use electricity to break water into hydrogen and oxygen, as a means of generating hydrogen gas.

The federal funds will also be used in the generation of approximately 200 MWh of electricity at natural gas plants operated by Arizona Public Service (APS) using hydrogen. In addition, in January 2021, ACC reportedly approved a special rate agreement (related to hydrogen production and use) between APS and an Arizona-based hydrogen semi-truck manufacturer.

The information above suggests that while the hydrogen industry in Arizona is still in its infancy, it could develop and grow over time. For this reason, while the bill would have no fiscal impact at current time, it would likely result in foregone revenues for the state in future years. The amount of foregone tax collections cannot be determined in advance.

## Local Government Impact

None at current time.

2/14/22

