

The Washington State Production Incentive is a state program, funded through tax revenue and voluntarily administered by utilities. The PUD administers this incentive to its customers in accordance with state law (WAC 458-20-273 and RCW 82.16.120). It provides incentives based on customers' annual energy production, including from solar energy units. **State law requires that a utility's tax credit, which funds customers' incentives, may not exceed .5% of its taxable power sales, or \$100,000, whichever is greater. If requests for the incentive exceed the amount of funds available for credit to the utility, the incentive payments will be reduced proportionately.**



What is the current status of the PUD's incentive payments compared to limits?

State production incentive payment requests as well as the PUD's annual limit on payments are both calculated at the end of the state fiscal year. The last data point that we have is from the 2015-2016 fiscal year, which ended June 30, 2016.

2015-2016 Fiscal Year:

PUD Taxable Power Sales:	\$605.6 Million
Limit in Allowable Credit:	\$3.0 Million
Production Incentive Payments:	\$2.6 Million
Percent of Annual Limit paid:	87%

When will the PUD hit its solar incentive cap?

With the full-year generating capacity of solar systems already installed, PUD will receive state production incentive payment requests above our limit for the 2016-2017 production year. Barring changes to the state program, and with continued growth of solar energy, payment requests could exceed our limit by more than 30%, and could continue to grow further beyond our limit each subsequent year.

What drivers are contributing to this situation?

There are several factors, including:

- The falling cost of systems has created a boom in solar energy adoption
- Larger average system sizes with increased generation, coupled with increased adoption of Washington-manufactured equipment (which pays a higher maximum incentive of \$0.54/kWh)
- Changes in weather year over year, as well as other drivers of electricity sales, will impact the level of incentives available

How will participating customers be impacted when the PUD's incentive limit is reached?

At the end of each fiscal year, the PUD will calculate payment requests at the maximum state production incentive that each customer is eligible to receive (total kWh of recorded production x state-certified incentive rate, not to exceed \$5000 per entity), as well as the PUD's allowable credit limit.

For each year that the sum of payment requests exceeds the PUD's allowable credit limit, all customer incentive payments will

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be reduced by the corresponding percentage. In other words, if payment requests for the 2016-2017 fiscal year exceed our allowable credit by 30%, payment to each participating customer will be reduced to 30% below the

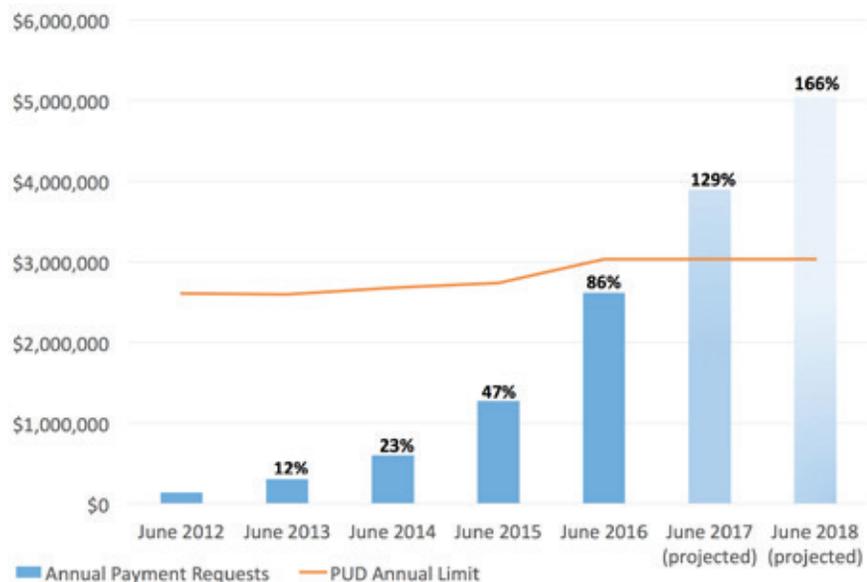
maximum for which they are eligible.

Examples of possible impacts are featured in the table below.

	KWH solar production	X	Certified Incentive Rate	=	Incentive Request (cannot exceed \$5000)	-	% Reduction Applied	=	Total Incentive Payment
Example 1:	6,999	X	\$0.15	=	\$1,049.85	-	30%	=	\$734.90
Example 2:	11,200	X	\$0.54	=	\$5,000.00	-	30%	=	\$3,500.00

WA Production Incentive: Annual Payment Requests and PUD Limit

The chart at right is our best current projection of when, and by how much, the PUD's incentive payment requests will likely exceed our annual credit limit.



How does the incentive cap impact other incentives available to solar customers?

There is no impact to other incentives. The PUD continues to offer Net Metering as well as our Solar Express cash incentive to qualifying customers at the time of their installation. Customers may also take advantage of available federal tax credits and WA state sales tax exemptions.

How can customers provide input about the state production incentive?

Since this is a state program – and the PUD follows the requirements set by the state – the best way for customers to provide input is through their elected state representatives. Customers may also consider contacting their solar installer to become more involved in the future of solar incentives in Washington.

What about other utilities' solar programs and their incentive caps?

Both Seattle City Light and Puget Sound Energy have seen tremendous growth in solar energy installations among their customers. As of July 2016, both utilities are processing payment requests that exceed their incentive limits by as much 30% for the 2015-2016 fiscal year, and are reducing payments to their generating customers proportionally.



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