Comparable Federal Incentives for Renewable Energy

With last year's passage of Minnesota's aggressive renewable energy standard (RES), federal support for renewable development by Minnesota municipal utilities is more essential than ever before. Two federal issues important to Minnesota municipal utilities should be addressed in any energy legislation passed by Congress. They are Clean Renewable Energy Bonds (CREBs) and the Renewable Energy Production Incentive (REPI). Unfortunately, only the REPI program was reauthorized by Congress last year; CREBs was dropped from inclusion in the new energy bill, as part of the energy tax title. Accordingly, we urge Congress to pass a new energy tax title in 2008 and to continue funding for REPI, which was eliminated in the President's 2009 budget.

Minnesota municipal utilities have long embraced the use of renewable generation to meet the electric energy needs of their communities. They have been motivated by the need to secure wholesale power that will result in reliable and reasonably priced service to their customers. It was for that reason, more than 50 years ago, that municipal utilities in western Minnesota began making commitments to purchase wholesale power from federal hydroelectric dams at a time when power from conventional sources would have been less expensive and, it seemed, possibly even more reliable. It is with this same sense of responsibility that municipal utilities are approaching the effort to develop wind and other renewables in order to meet a portion of their electricity needs.

Last year Minnesota enacted the most comprehensive renewable energy standard (RES) in the country. Patterned after a proposal developed by the Minnesota Municipal Utilities Association (MMUA) and passed with the support of both utilities and environmentalists, the new law:

- requires investor-owned utilities*, generation & transmission cooperatives and municipal power agencies to produce 7% of their electricity from renewable resources by the year 2010, 12% by 2012, 17% by 2016, 20% by 2020 and 25% by 2025. (*Xcel must produce 30% by 2020);

- connects Minnesota with neighboring states in a renewable energy credit trading system so that energy from wind turbines, landfills, biomass plants and other renewable sources can be shared and sited in optimal locations; and

- phases out the current green pricing requirement in the law, which requires utilities to provide electricity from renewable sources to customers who request such service (a green pricing mandate is no longer necessary, given the aggressive implementation schedule of the RES).

Not surprisingly, power from renewable resources and advanced technologies continues to be more expensive than power from traditional generation sources. Federal investment incentives are needed to encourage the construction of these facilities. The federal government has determined that tax policy is a viable mechanism to encourage the development of renewable resources and provides private developers with the Production Tax Credit (PTC), a federal tax credit for electricity generated from qualifying renewable energy projects.

However, production tax credits made available to privately-owned utilities and energy production companies do not create incentives for the publicly-owned or rural electric cooperative utilities that serve 25 percent of the nation's electricity load. With the passage of Minnesota's aggressive new RES law, federal support for renewable development by Minnesota municipal utilities is more essential than ever before.

Clean Renewable Energy Bonds (CREBs). To address this lack of equity, Congress enacted the CREBs program in the Energy Policy Act of 2005 (EPAct 2005). CREBs is a debt instrument which can be offered for qualified renewable facilities under the U.S. tax code; the program is administered by the IRS under the supervision of the Department of Treasury. Investors receive credits against their federal income tax liability instead of the traditional interest that is usually paid by the issuer. The municipal utility or cooperative is liable for the face value of the bond and saves money by owing no interest on the bond. The federal government essentially pays the "interest" in the form of tax credits. The CREBs program will provide public power systems greater certainty and affordability in both planning and investing in renewable resources.

However, due to the statutory program cap and the Treasury allocation methodology that selected the smallest projects first, the awards for individual governmental entities were capped at $3.2 million – with the vast majority of funded projects being proposed by non-utility governmental entities such as schools and libraries. Consequently, the program fell short of providing an effective financing tool for utility-scale investments.

These problems were addressed, however, when a bipartisan effort in the House, led by Reps. Jim McDermott (D-WA) and Jim Ramstad (R-MN), developed energy tax legislation last year. The measure, which ultimately passed both the House and Senate, proposed a higher $2 billion total cap on CREBs and called for the appropriation to be equally divided among three groups (municipal utilities, rural coops, and other governmental bodies). The proposal also included an improved allocation methodology. Unfortunately, like all other energy tax provisions, CREBs was left out of the energy bill. In order to win final passage late last year, the Senate dropped the energy tax title from the Energy Independence and Security Act of 2007.

MMUA urges Congress to support the new CREBs program, along with production tax credits and investment tax credits for the for-profit utility sector.

Renewable Energy Production Incentive (REPI). The REPI program was created by the Energy Policy Act of 1992 and reauthorized in 2005. It authorizes the U.S. Department of Energy (DOE) to make direct payments to publicly and cooperatively-owned electric utilities at the rate of 1.5 cent/kWh (indexed for inflation) for electricity generated from solar, wind, and certain geothermal and biomass electric projects. Prior to the development of CREBs, REPI had been the only incentive available on the federal level for these utilities to make new investments in renewable energy projects and has been instrumental in making public power wind projects viable in Minnesota.

Congress implemented the REPI program with two goals in mind: to help public power utilities overcome economic barriers to greater renewable energy use and to ensure equity between investor-owned utilities that receive energy tax credits and not-for-profit utilities that are unable to do so.

For the past 15 years REPI has been consistently over-subscribed and under-funded, and needs to be funded at a substantially higher level to accomplish its purpose. Further, the program was recently eliminated in the president's budget for 2009, a move that was both misguided and shortsighted.

For real renewable energy growth, Congress should continue to fund the REPI program at substantially higher levels than DOE has requested for the past several years.