NRECA **2011** LEGISLATIVE CONFERENCE

ELECTRIC COOPERATIVES NEED COMPARABLE RENEWABLE GENERATION INCENTIVES

HYATT REGENCY CAPITOL HILL • 400 NEW JERSEY AVENUE, NW • WASHINGTON, DC

National Rural Electric Cooperative Association®
A Touchstone Energy® Cooperative

CHALLENGES FOR RENEWABLES

Electric cooperatives can play an important role in developing the nation's renewable energy resources. Some cooperative utilities serve ideal locations for developing renewable resources. However, not-for-profit cooperatives cannot directly utilize conventional tax incentives, such as the federal Production Tax Credit (PTC) and 1603 Treasury Grant Program (TGP) that Congress provides the for-profit energy sector.

New renewable generation remains more expensive to install than conventional gas or coal generation. Investor-owned utilities and private developers can use PTCs or the TGP to help reduce the price of renewable generation from wind, closed loop biomass, open loop biomass, animal waste nutrients, landfill gas, municipal solid waste, geothermal and hydropower. The PTC provides up to a 2.1 cent/kWh tax credit that can be deducted from the federal income tax owed by for-profit entities. The TGP provides a grant covering 30 percent of project capital costs once a project is placed in service.

Electric co-ops pay state and local taxes, but as not-for-profit utilities, they do not have the federal income tax liability they would need to utilize the PTC. Additionally, electric cooperatives are ineligible to participate directly in the TGP.

Without incentives designed for the co-op business model, renewable generation is simply unaffordable for most electric cooperative consumers. The significant capital expense of developing these resources is compounded by the fact that electric cooperatives serve by far the lowest average number of consumers per mile of distribution line among the three utility sectors. This translates to the lowest revenue per mile—making co-op consumers particularly sensitive to the cost of new generation resources.

LEGISLATIVE BACKGROUND

In order to tap the potential for renewable generation from electric cooperatives, the bipartisan Energy Policy Act of 2005 (EPACT) established a ground-breaking tax incentive tailored for electric cooperatives and municipal utilities—the Clean Renewable Energy Bond (CREB) program. The program essentially provides electric cooperatives and public power systems with low-interest loans (in the form of a bond whose interest costs are shared between the issuer and the federal government) for financing qualified energy projects.

Response among electric cooperatives to the program has been significant. Under EPACT, $800 million in CREBs were authorized, with $300 million provided for electric cooperatives. Co-op demand exceeded this initial authorization with over $500 million in applications to the Treasury Department for bonding authority. Congress provided additional funding of $400 million at the end of 2006, and in 2008 and 2009 added a combined authorization of $2.4 billion. Electric co-ops have oversubscribed their share of these authorizations, initiating wind, solar, biomass and hydropower projects in 18 states. Twenty-eight projects representing more than 209 MW of capacity are already in service, and co-ops are poised to finance another 17 projects representing at least another 235 MW of new capacity with recent awards under the program. These projects translate into well-paying jobs in rural communities.

STATUS

During final negotiations on the 2010 lame duck session tax bill ("The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act"), the grant program (TGP) for private developers was extended through the end of 2011. Unfortunately, authorization for additional CREB "volume cap," or CREB funding, was not provided. This creates a disparity in access to renewable generation incentives among consumers of for-profit and not-for-profit utilities.

NRECA POSITION

Incentives like CREBs or a tax grant program available to co-ops ensure that electric cooperative consumers can benefit from an "all-of-the-above" approach to developing generation that includes renewable energy. Congress should include comparable incentives, like CREBs, for the benefit of electric cooperative consumers, in any tax initiative designed to drive energy policy.

Electric co-ops need an extension of the Clean Renewable Energy Bond (CREBs) program or creation of other cost-effective incentives that can help make renewable energy more affordable for co-op consumer-owners.

NRECA encourages the inclusion of co-op renewable incentives in any energy tax legislation.

Senators should express their support to Finance Committee Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT).

House Members should express their support to Ways and Means Committee Chairman Dave Camp (R-MI) and Ranking Member Sander Levin (D-MI).

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