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HOUSE REPUBLICAN STAFF ANALYSIS

Bill: House File 672
Committee: Commerce/Ways and Means
Floor Manager: Representative Ross Paustian
Date: April 18, 2011
Staff: Brad Trow (1-3471)/Dustin Blythe (1-3452)

Wind Energy Tax Credit Revisions

In 2004 and 2005, the Legislature created two different tax credit programs for wind energy production in Iowa. Chapter 476B (aka “Big Wind”) was created in 2004 for wind energy projects with generating capacity of 2 or more megawatts. The tax credit is 1 cent per kilowatt hour for these projects, with the tax credit capped at 150 megawatts. Energy production at these facilities must begin between July 1, 2005 and July 1, 2012.

Chapter 476C (aka “Little Wind”) was created in 2005 for smaller wind generation projects. Eligible projects receive a tax credit of 1.5 cents per kilowatt hour generated, and the tax credit is capped at 330 megawatts of production. Chapter 476C also provides tax credits for energy conversion projects like biogas recovery, biomass conversion, methane gas recovery, solar energy conversion, or refuse conversion. These projects also receive a tax credit of 1.5 cents per kilowatt hour generated, and the tax credit is capped at 20 megawatts of production. To receive the credit, the facility must begin production between July 1, 2006 and July 1, 2012. Tax credits are for ten years.

Since the creation these two programs, there has been significantly more interest in projects that qualify under chapter 476C. Currently there is a waiting list to qualify for a tax credit under chapter 476C, while chapter 476B has qualifying projects with less than 50 megawatts.

House File 672 reduces the tax credit limit for chapter 476B to 50 megawatts, while increasing the limit for chapter 476C wind projects to 363 megawatts (33 megawatt increase). Tax credit capacity for energy conversion projects under 476C is increased from 20 megawatts to 53 megawatts. The bill also extends the length of time a 476C project has to be in service, from July 1, 2012 to July 1, 2015.

Summary of Action

Commerce Committee Action – The Commerce Committee **PASSED** House Study Bill 201 on a vote of 22-1 on March 3, 2011.

Ways and Means Committee Action - The Ways and Means Committee **PASSED** House File 634 on a vote of 25-0 on March 31, 2011.

Initial House Action – The House **ADOPTED** House File 672 on a vote of 94-3 on April 18, 2011.

Initial Senate Action – The Senate **ADOPTED** House File 672, as amended, on a vote of 46-1 on May 3, 2011.

Further House Action – The House **AMENDED and ADOPTED** House File 672 on a vote of 95-3 on May 10, 2011.

Further Senate Action – The Senate **ADOPTED** House File 672, as amended, on a vote on 49-0 on May 12, 2011.

Final Action – The Governor **SIGNED** House File 672 on May 26, 2011.

Section by Section Analysis

Section 1 – The section provides intent language in Iowa Code chapter 476 stating that it's the Legislature's intent to encourage the development of renewable energy generation capacity, and to use the power generated by this to meet the needs of Iowans and develop transmission capacity to export wind power generated in Iowa.

Section 2 – The section amends Iowa Code section 476B.5 (4) by reducing the maximum amount of generating capacity that can qualify for the tax credits under this chapter. Capacity is reduced from 150 megawatts to 50 megawatts.

Section 3 – The section amends Iowa Code section 476C.1 (6) (d) by extending the date by which qualifying generation capacity must be in operation. The date is changed from July 1, 2012 to July 1, 2015.

Section 4 – The section amends Iowa Code section 476C.1 (6) by adding that if the wind project is filed after July 1, 2011, the generating capacity is not less than 3/4th of a megawatt if all or part of the energy produced is for on-site production by the consumer.

The section also provides that if the conversion project is filed after July 1, 2011, the generating capacity can be no more than 5 megawatts.

Section 5 – The section amends Iowa Code section 476C.1 (8) by amending the definition of “heat for a commercial purpose” to allow energy generated to be used by the producer for on-site consumption.

Section 6 – The section amends Iowa Code 476C.2 (1) to again permit a qualifying project to use some of the energy produced for on-site consumption.

Section 7 – The section amends Iowa Code section 476C.3 (1) (e) by permitting a qualifying project to use some of the energy produced for on-site consumption.

Section 8 - The section amends Iowa Code section 476C.3 (3) to allow a party that has applied for a tax credit, but is waiting for equipment to put into production, to get a 12 month extension to preserve their eligibility for the credit. This extension can be extended by another 12 months if the Iowa Utilities Board is notified during the first extension that the facility will be operational during the second extension.

If a party qualifying for a credit under chapter 476C stops their efforts to make their project operational, then they are required to notify the Board of this and the project shall no longer be eligible for tax credits under chapter 476C.

Section 9 – The section amends Iowa Code section 476C.3 (4) by expanding the capacity of 476C tax credits for wind projects to 363 megawatts and the conversion projects to 53 megawatts. Additionally, 10 megawatts of credits shall be reserved for a renewable energy project built in conjunction with an ethanol production plant, which is engaged in selling their product to states required to meet a low carbon fuel standard.

Section 10 – The section amends Iowa Code section 476C.4 (1-2) by waiving the requirement that a conversion facility have a signed power-purchase agreement and sufficient documentation that the energy has been generated and sold for the purchaser on the agreement. This would be waived if the facility is generating power for on-site consumption. In this case, the project must submit certification that the claimed amount of energy was produced and used by the owner.

Section 11 – The section amends Iowa Code section 476C.4 (5) by amending the limit on when tax credit certificates can be issued, to take into account the new extension process.

Section 12 – The section amends Iowa Code section 476C.5 to reflect the ability of qualifying projects to produce energy for on-site use and extends the final date for granting tax credit certificates from December 31, 2021 to December 31, 2024.

Section 13 – **Effective Upon Enactment** – The section makes section 2 of the bill effective upon enactment.