FAST FACTS

Clean Renewable Energy Bonds: Comparable Renewable Generation Incentives

Background. Not-for-profit, consumer-focused electric cooperatives can play an important role in helping to fulfill the nation's increasing need for renewable energy. Many electric cooperatives are ideally located to take advantage of opportunities to generate power from primarily rural resources. However, electric cooperatives cannot utilize conventional tax incentives, such as the federal Production Tax Credit (PTC), that Congress provides for the for-profit energy sector.

New renewable generation capacity is significantly more expensive to install than conventional gas or coal generation. Investor-owned utilities and private developers can use PTCs to help bring down the price of renewable generation from wind, closed loop biomass, open loop biomass, animal waste nutrients, landfill gas, municipal solid waste, geothermal and hydropower (solar is provided an investment tax credit). The PTC provides up to a 2.0 cent/kWh tax credit that can be deducted directly from the federal income tax owed by profit-making companies, effectively lowering the wholesale cost of electricity produced by renewable sources.

Without tax incentives comparable to those already provided other electricity generators, renewable generation is simply unaffordable for most electric cooperatives' member-owners. The significant capital expense to produce these resources is compounded by the fact that electric cooperatives serve by far the lowest average density of consumers per mile among the three utility sectors and in turn, have the lowest revenue per mile.

In order to tap the potential for renewable generation from electric cooperatives, the Energy Policy Act of 2005 (EPAct) provides a ground-breaking tax incentive tailored for electric cooperatives and municipal utilities – the Clean Renewable Energy Bond (CREB) program. The CREB program will expire January 1, 2009, along with the PTC. This program provides electric cooperatives with an incentive comparable to the PTC that has long been available to the for-profit energy sector.

The CREB program provides electric cooperatives and public power systems with an equivalent to interest-free loans for financing qualified energy projects. Under the program, the electric cooperative or cooperative lender would issue the tax credit bond. With a conventional bond, the issuer must pay interest to the bondholder. With a tax credit bond, the federal government pays a tax credit to the bondholder in lieu of the issuer paying interest to the bondholder. The Treasury Department sets the rate of the credit on a daily basis in an amount that permits the issuance of the tax credit bond without discount and without interest cost to the issuer.

The bondholder can deduct the amount of the tax credit from their total income tax liability. The

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bonds are taxable, so if the credit is worth $100 and the bondholder is in the 35 percent tax bracket, the bondholder would deduct $65 from their tax liability.

Response among electric cooperatives to the CREB program has been significant. Under EPAct, $800 million in CREBs are authorized for a two-year window through January 1, 2008, with $300 million provided for electric cooperatives. Electric cooperatives submitted 85 applications for a total of $554 million in bond authority; 78 cooperative projects in 22 states received bond allocations. Congress provided additional funding of $400 million, with $150 million set aside for electric cooperatives, at the end of 2006. The program, however, remains underfunded.

Status: To address the project backlog and provide for new projects, Reps. Earl Pomeroy (D-ND) and Ron Lewis (R-KY) introduced a bill (H.R. 1965) to extend the CREB program at $1 billion annually, with a $375 million set aside for electric co-ops through January 1, 2010. The House included an even more generous proposal in a tax package approved as part of its energy bill (H.R. 3221) to provide $2 billion in CREBs, with $800 million set aside for electric cooperatives to be available until expended.

In mid-June, the Senate Finance Committee reported an energy tax package that also included a provision to extend the CREB program at $900 million per year for four years, with $337 million set aside for electric cooperatives each year. The production tax credit (PTC) for renewable energy was extended to December 31, 2013. The proposal also made electric transmission property eligible for CREB financing.

The House Ways and Means and Senate Finance Committee reached a compromise on their respective energy tax bills at the end of 2007. The final tax provisions, however, did not garner the votes to pass the Senate due to opposition from the oil and gas industry over the elimination of some of that industry's tax breaks.

NRECA Position. Electric cooperatives urge Congress to extend the CREB program and provide an authorization of at least $2 billion, with a minimum of $800 million set aside for electric cooperatives. Electric cooperatives need incentives to afford renewable generation, just as IOUs are able to afford renewable generation using Production Tax Credits. The CREBs program provides a comparable incentive tailored to co-ops, acting as interest-free loans to finance qualified renewable energy projects. Co-ops have submitted a significant number of applications to the Treasury Department, demonstrating that many potential projects are poised to come on line.

for more information
Susan Pettit, NRECA
703.907.5822
susan.pettit@nreca.coop
http://www.nreca.coop

National Rural Electric Cooperative Association
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