Briefing Paper
Energy Trust Renewable Energy Programs and the Business Energy Tax Credit

June 11-12, 2010

Summary

Energy Trust renewable energy programs are built on the assumption that projects' above-market costs will be reduced by Oregon's Business Energy Tax Credit (BETC). Recent changes in BETC have called this assumption into question: funding for BETC is now capped and under new temporary rules, the number of projects to be funded is limited and also competitive. In addition, BETC itself is set to sunset in 2012 and may or may not survive after that date. This paper outlines potential effects on the Energy Trust renewable energy program and how Energy Trust might manage these effects.

Background

- Before 2007, BETC provided a tax credit of 35% of commercial project costs; after 2007, the BETC was 50%.
- To contain BETC's skyrocketing costs, in 2010 the legislature established BETC dollar caps for renewable projects:
    - $300M for renewable projects July 1, 2009 through June 30, 2011
    - $150M for projects July 1, 2011 through 2012
    - The Oregon Department of Energy (ODOE) will allocate BETC by assigning projects to cost-based tiers; more costly projects are subject to more stringent criteria.
- Of the $300M for 2009-2011, ODOE has certified $220M in projects.
- ODOE intends to allocate the remaining $80M for projects through June 30, 2011 in three tiers spread over two cycles:
    - Tier 1 is for relatively small projects, allocated first-come, first-served
    - Tiers 2 and 3 will be allocated on a competitive basis; ODOE has just issued an Opportunity Announcement for these tiers; decisions about project funding will be made by August, 2010 for Tier 2 and November, 2010 for Tier 3
    - $60 million will be allocated for now through the end of this year, and
    - $20 million will be available after for projects in the first part of 2011
- The table below summarizes the allocation of credits:

$300M 1st Biennium July 09-June 11

	$220M Existing Precertifications			$60M through Dec 2010	~$20M through 6/30/11	$150M 7/1/11-12/31/12
	% Credits	# Projects	Resource Mix by $ tax credit	% Credits	% Credits	% Credits
Tier 1 <$250k	6%	263	83% solar, 7% biomass, 4% wind	17%		
Tier 2 $250k-<$3M	12%	40	60% solar, 32% biomass, 8% geo/hydro	33%	TBD	TBD
Tier 3 >$3M	82%	22	33% solar, 28% wind, 15% biomass, 15% hydro	50%		
	100%	325		100%		

- There are still many unknowns: the criteria that will be used to rank and sort projects, how funds will be allocated after 2010, and how the $150M for the next biennium will be allocated. In addition, the 2011 legislature could make further changes or allow the entire program to lapse after 2012.

Discussion

- A capped and competitive BETC has potentially significant implications for Energy Trust's renewable energy program. If projects are not able to secure BETCs, Energy Trust would expect above-market costs to increase more than three-fold.
- Based on a sample of recent projects, here are the potential effects:

Project type	aMW	Above-market cost with BETC	Above-market cost w/o BETC	Increase
Hydro	1.53	$1,354,725	$7,654,725	5.7 x
Wind	2.98	$1,521,000	$5,798,000	3.8 x
Biopower	0.68	$2,695,296	$4,366,941	1.6 x
Solar	0.012 (100 kW)	$158,530	$450,231	2.8 x
TOTALS		**$5,571,021**	**$17,819,666**	**3.2 x**

- These changes will likely have some impact on our ability to meet 2010 goals.
  - The amount available for smaller projects in Tier 1 appears sufficient to capture the expected volume of Energy Trust projects.
  - Most of the larger projects we expect to complete are already pre-certified. The main exceptions are a 200 kW biopower project and some commercial large-scale solar, which will have to compete for Tier 2 funds.
  - We estimate that in 2010 about 1 aMW of the conservative goal of 4.1 aMW is at risk.

- Effects in 2011 are likely to be more dramatic because few of our Tier 2 and 3 projects are pre-certified for BETC. We estimate that 4.5 aMW of our efforts are at risk. Among the effects we may see:
    - Projects that delay their development schedules to take advantage of BETC review processes;
    - Larger incentives required to make up for the lack of BETC, reducing the number of projects Energy Trust can fund;
    - Projects that had no above-market costs with BETC will have above-market costs without BETC, resulting in new project opportunities for Energy Trust.
- Energy Trust sees a range of short-term responses:
    - Option 1: Business-as-usual:
        - Proactively negotiate incentives assuming BETC for projects with a good chance of success;
        - If budget allows, adjust incentives for projects that do not land a BETC; and continue to provide technical assistance to move markets.
    - Option 2: Align our project choices with those of the state's competitive process if projects serve PGE or Pacific Power customers and need Energy Trust funds.
        - This option would first fund projects that get a BETC; this may be at the expense of our strategy to support a mix of technologies and markets.
        - This approach will maximize the generation we can achieve within the limits of BETC and Energy Trust funds.
    - Option 3: Hold back and react to BETC changes as they unfold In 2011
        - See what projects come in, review them in our current process, and re-visit our strategy once BETC shakes out and our role is clearer.
        - Under this approach, even if budget allows, we would not necessarily fund projects that do not receive BETC if the necessary amount is significantly more than we would pay today with a BETC.
        - This approach could create a larger carryover of uncommitted funds, leaving money to implement a revised strategy in mid-to-late 2011 for projects in 2012.

Recommendation

- Staff recommends a combination of the first and second options, with an emphasis on proactively supporting projects that will advance our strategic market development goals.
    - We think this approach is likely to do the best job of producing renewable energy, growing renewable energy markets, and maintaining a steady presence in the marketplace.

  - It also would allow us to actively help projects satisfy BETC criteria, and we can reassess our approach as BETC developments unfold.

- We do not recommend option 3. We need to stay open for business. If we put funding decisions on hold while changes settle out, all of our programs will be affected. We need to continue evaluating projects, building a pipeline and committing dollars to projects.
- We need to recognize the evolving BETC criteria and make contingency plans:
  - Staff will develop two budgets this fall to allow for different BETC scenarios.
  - In the case of projects where we can compensate for a lack of a BETC, the contingency will include a higher incentive amount.
  - For projects with larger above-market costs where we cannot compensate for a BETC, we will be unable to fund the project. Government-sponsored projects with poorer economics may fall into this category.
- If projects cease to be viable without a BETC, we may need to rethink our strategy of supporting a mix of technologies.
- Similarly, we may need to lower our generation goals.
- Finally, we plan this summer and fall to hold broader conversations with stakeholders to reassess how to support small-medium renewable development. Questions for discussion include:
  - What portfolio of <20MW projects brings most value to the state?
  - How might this portfolio change in the short versus longer-term and how should we balance this?
  - If incentive dollars are constrained, what other market and regulatory barriers can be reduced in order to lower installed cost?
  - Which of the renewable set of technologies is it best to fund with relatively less leverage for Energy Trust funding?