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To: House Revenue Committee

From: Maureen Bock
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Subject: House Bill 2894 – A-Engrossed

Introduction

HB 2894, A-Engrossed, makes changes to the Energy Incentives Program created by HB 3672 (2011) as amended by HB 4079 (2012). The bill changes the conservation and transportation credits without increasing the current cap for either program. The bill also makes changes to the Business Energy Tax Credit program, which is scheduled to sunset on June 30, 2014.

What the bill does

This bill changes two of the energy incentives created in 2011. For conservation tax credits, it raises the cost limits on small premium conservations projects that do not receive a preliminary certification from $20,000 to $50,000. This streamlined process, which only requires an informational filing to reserve a credit, was established in HB 3672.

It also changes the transportation tax credit program by providing tax credits for alternative fuel projects rather than just for alternative fuel vehicle infrastructure. This change allows people to get tax credits for acquiring fleets with alternative fuel vehicles. It also makes transit services eligible for one-year credits. Currently transit projects are eligible for 25% credits, which decline by 5% each year until the credit is 10% of the eligible project cost. This will occur for tax year 2015.

The change in section 4, which was not proposed by the Department, makes changes to the BETC program by removing the one-year seasoning requirement for tax credits issued for facilities using renewable energy resources if the facility is a research, development or demonstration facility.

Discussion

When HB 3672 was enacted in 2011, it directed the department to create a streamlined process for some conservation projects with project costs up to $20,000, which could result in tax credits of up to $7,000. Small premium project owners submit an informational filing, which reserves their credit. Generally, these projects do not require custom engineering and have easily identifiable energy savings. The change to raise the cap on projects that do not require a preliminary certification will allow more projects to use this streamlined path. It means that eligible projects could receive tax credits of up to

$17,500. This program change provides greater predictability in determining when the credit will be issued and used. This is because the small premium projects must be completed within one year following the date of the informational filing. The resulting tax credit is a one-year credit.

This bill also makes changes to the transportation credits. It provides an incentive for acquisition of alternative fueled vehicle fleets. This will allow businesses to acquire or replace gasoline or diesel powered vehicles with alternative fueled vehicles. The definition of alternative fuel vehicle is the same one used in ORS 470.050, which is what defines alternative fuel vehicles for the purposes of the Small Scale Energy Loan Program. This change allows tax credit applicants the opportunity to use both programs.

The change to transit credits assists both government and non-profit transit providers that qualify for the transit credit, to transfer their credits more easily. Because these entities do not pay taxes, they sell their credits to entities with a tax liability. The declining credit, which is reduced by increments of 5 percent every year, makes these tax credits more difficult to sell as five year credits, so making these one year credits will allow them to be more easily transferred through the end of the program. This maintains the intent of providing transit service providers with a glide path away from tax credits while allowing for more predictability in determining when the credits will be used. Transit services are no longer eligible for tax credits after January 1, 2016.

The change to the BETC program would eliminate the one-year seasoning requirement for tax credits that are issued to facilities using renewable resources if the facility is a research, development or demonstration facility. Of the 141 active BETC preliminary certifications eligible for the extended sunset of June 30, 2014, 46 are for renewable energy facilities with certified eligible costs of $192 million. This could potentially accelerate the use of those tax credits if the project owner were able to establish that the project was a research, development or demonstration facility.

<u>Summary</u>

The Oregon Department of Energy requests your support for HB 2894 A Engrossed, although it is neutral on the change proposed in Section 4. The bill changes the Energy Incentives Program adopted under HB 3672 (2011) as amended by HB 4079 (2012). It raises the cap for small premium projects from $20,000 to $50,000; provides an incentive for acquiring alternative fuel vehicle fleets, and makes transit services credits one-year credits. The change in Section 4 accelerates the use of tax credits issued to renewable energy facilities if they are research, development or demonstration facilities.

Energy Incentives Program Outline