



DATE: February 15, 2023
TO: House Committee On Climate, Energy, and Environment
FROM: Sustainable Northwest
SUBJECT: Oregon Woody Biomass Incentive and Policy Options

CONTEXT:

- Biomass qualifies as an eligible energy source under the state's clean electricity standard.
- No dedicated programs exist in Oregon to incentivize increased utilization of biomass for energy production or added-value manufacturing.
- Existing state level energy incentives that could support biomass energy production include the ODOE Community Renewable Energy Program and community-scaled energy funding (\$50 million in one-time funding) made available in HB 2021. However, those are highly competitive and unable to meet scale of need or substantially increase utilization.
- The state previously operated a biomass producer and collector tax credit program, but it reached its sunset date in 2017 and was not renewed, along with a number of other tax credit and incentive-based programs.
- While primarily focused on woody biomass incentives, the policy options below could increase utilization of additional biomass feedstocks including manure, fats, oils, and greases, and agricultural residues for electricity, thermal outputs, and biogas/biofuels.
- Significant idle and underutilized biomass energy and manufacturing capacity exists in Oregon that could be recognized and supported for operation and capital improvements with the incentive options detailed below.

OPTION 1: Reinstate the biomass producer and collector tax credit.

- Compensation for delivery of biomass to a qualified facility at an agreed upon rate.
- Subsidizes the cost of collection and transportation.
- <https://www.oregon.gov/energy/Incentives/Pages/Biomass-Tax-Credits.aspx>
- <https://www.fs.usda.gov/treesearch/pubs/59468>

OPTION 2: Establish a grant program for small-scale and value-added biomass utilization projects.

- Could include thermal applications (boilers in schools, public buildings, etc.), manufacturing facilities, or supply chain efficiencies (harvest and collection equipment).
- Allows for a diversity of utilization and emphasis on highest and best use.
- Would match and leverage significant funding available in the federal Community Wood Energy and Wood Innovation Program: <https://www.fs.usda.gov/science-technology/energy-forest-products/wood-innovation>

OPTION 3: Establish a contracted production-based incentive to sustain and increase utilization capacity in strategic geographies.

- In 2015 the Oregon Department of Energy proposed an outcome-based program to reform its biomass producer and collector tax credit. The current biomass producer and collector tax credit provided an incentive targeted at offsetting the production, collection and transportation costs of the biomass feedstock. The new program would provide up to a six-year production-based

incentive to two types of bioenergy facilities: 1) electricity from woody biomass and 2) thermal energy for space heat. This incentive would be structured as an incentive per unit of energy production (kWh or therms) instead of providing a tax credit for each unit of biomass. This ensures that the incentive is directly targeting energy production and provides a market signal for more efficient and cost-effective sourcing and use of biomass.

The program would function by establishing performance agreements with bioenergy facilities that would specify the incentive level for each facility, biomass feedstock requirements, reporting requirements and the process for receiving the incentive. Some facilities may be able to generate electricity or heat for less than others, but the state may choose to prioritize certain facilities for other ancillary benefits (wildfire risk reduction, rural economic development, distributed power, other public benefits, etc.). Projects that participated in the program would be selected through a competitive process that maximizes the benefit of the bioenergy production to Oregon's energy future and economy.

OPTION 4: Establish an income or corporate excise tax credit for an electric utility that purchases electricity produced using a fuel source derived from a qualifying biomass feedstock.

- Could support both energy production, as well as capital and infrastructure development costs.
- Examples include HB 3003 (2023 Oregon Regular Session).

OPTION 5: Mandate a percentage of biomass electricity to satisfy state clean energy standards.

- Could be tiered to and incentivize varying levels of production capacity via feed-in-tariff or auction-based procurement.
- Modeled after BioRAM and BioMAT in California.
- BioMAT: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-power-procurement/rps/rps-procurement-programs/rps-sb-1122-biomat>
- BioRAM: <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-power-procurement/rps/rps-procurement-programs/rps-bioram>

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