

Support Renewable Energy Grants Program In House Economic Recovery Bill

For almost two decades, production and investment tax credits have been the primary tool used by the federal government to encourage extensive deployment of clean energy technologies such as wind, solar, and geothermal, and the production of high efficiency appliances.¹ Unfortunately, the current economic climate is drastically reducing profits and thus tax liabilities, which is limiting the effectiveness of these tax credits. Without smart federal action, the construction of new renewable power projects and the manufacture and purchase of new, super-efficient appliances will plummet.

To avoid further damage to American companies and workers and maintain American competitiveness in these new clean energy industries, the Department of Energy Renewable Energy Grants Program in the House economic recovery bill should be adopted in the final version of the bill.² The program should also be expanded to cover the manufacture of high efficiency appliances. This is a short-term way to provide clean energy technologies with financial benefits similar to tax credits. Once the businesses recover, the tax credits will again be useful incentives.

The Economic Downturn is Slowing U.S. Investment in Renewables and Efficiency

Until recently, to get renewable projects built, developers of wind, solar, and other projects exchanged federal tax credits for upfront funding from tax equity investors. This investment triggered a boom in the renewable energy industry, with numerous local, state, and federal economic benefits. In addition, since 2005, manufacturers have been able to claim tax credits for producing super-efficient appliances domestically. By boosting the breadth and quality of efficient appliances, this spurred consumer demand for these products, and ultimately created new U.S. manufacturing jobs.

However, this approach is no longer working. U.S. businesses' profits—and thus tax liabilities—are dwindling or disappearing, especially for manufacturers and traditional tax equity investors such as financial institutions. From \$5.4 billion in transaction volume in 2007 among 20 investors, the current tax equity universe now has only a handful of investors and is expected to shrink dramatically. Within the manufacturing industry, overall revenues declined 2.2 percent in 2008, and the sector has experienced 12 consecutive months of contraction.

A Short-Term Solution Must Free Up Funding Immediately

A good solution to this problem is the DOE renewable energy grants program in the House bill. The final version of the bill should include the same program and extend it to cover super-efficient appliances.

As passed by the House, the program would provide grants instead of the authorized tax credits to renewable energy projects placed in service in 2009 and 2010. It is not intended to supply additional incentives, but only to overcome the current short-term problems with the utility of tax credits. In addition, this program could expand the potential investor pool, and provide immediate results by freeing up capital for many shovel-ready projects currently on the sidelines. The Joint Committee on Taxation and the Congressional Budget Office estimate the costs of the DOE grant program for renewables as only an additional \$5 million over ten years above the budgeted cost of the tax credits. The cost of the grant program is minimal because the cost of the tax credits has already been incorporated into the federal budget.



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Restoring the Effectiveness of Clean Energy Tax Incentives through the Economic Recovery Bill

The renewables grants program would ensure the availability of the funding essential to keep the renewable industry growing. According to a recent analysis by the American Wind Energy Association (AWEA), 8,350 megawatts of wind capacity was added in the United States last year—equivalent to about 28 medium-sized power plants. If the renewable energy grants program is not adopted, AWEA estimates new capacity additions will drop by 50 percent, which could have devastating effects on the industry and its workers.

In addition, the grants program should be amended to include the Energy Efficient Appliance Credit (Internal Revenue Code Section 45M) for super-efficient appliances produced in the United States. This would allow manufacturers, facing difficult economic headwinds, to continue making super-efficient appliances for consumers. It would further preserve American manufacturing jobs, ensure consumers have access to energy-sipping efficient appliances, and take advantage of global trends in energy efficient manufacturing. The overall budget impact of adding the appliance credit to the grants program would be minimal because the credit has already been incorporated into the federal budget.

Senate Proposals Could Limit the Effectiveness of the Grants Approach

The Senate bill, unfortunately, does not contain the renewable energy grants program as proposed in the House bill, nor anything related to the manufacturing tax credits for efficient appliances described above. The Senate bill does include a provision that allows developers eligible for the production tax credit (PTC) to elect to use the investment tax credit (ITC) instead. This option does not help much because the ITC market faces constraints similar to the PTC market with respect to limited investor interest and elevated rates of return. Further, the ITC market, being smaller than the production tax credit market, may at first not be able to efficiently manage the influx of tax credits from new wind developers.

An alternative program has also recently been proposed that would be administered by the Treasury Department and authorizes grants only in exchange for equity or debt in the projects. Such a requirement, however, would greatly reduce the value of the grants compared to the tax credits they are intended to replace. The requirement would also be too complex to effectively administer and require a significant restructuring of how clean energy projects are financed. Such a restructuring would be wasted upon returning to the pre-existing tax-equity based approach following the sun-setting of this grants program.

Urgent Action Needed to Support Emerging Clean Energy Economy

We need to ensure the viability and growth of our domestic clean energy industries. If we let them succumb to current economic pressures, more polluting power plants will be built, important new renewable projects would be delayed for years, consumers will continue to purchase energy-wasting appliances, and thousands of jobs could be lost. A simple program that builds on our existing tax-based financing mechanisms will go a long way to maintaining the health and vitality of a clean energy economy.

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1 Under the production tax credit (PTC) a 2.1 cent per-kilowatt-hour tax credit is given for electricity generated by qualified renewable energy resources (mostly wind, geothermal, and biomass). The investment tax credit (ITC) currently provides a 15 percent or 30 percent tax credit for investment in renewable technologies (mostly utilized by solar photovoltaics). Manufacturers could claim a tax credit on incremental production of super-efficient appliances. More information is available at www.DSIREUSA.org.

2 The American Economic Recovery and Reinvestment Act of 2009, H.R. 1, Division B, Section 1721