BILL # HB 2341 **TITLE:** renewable energy production tax credit

SPONSOR: Mason **STATUS:** As Introduced

PREPARED BY: Eric Billings

FISCAL ANALYSIS

Description

This bill would create individual and corporate income tax credits for the cost of production of commercially marketed electricity from renewable sources including wind, biomass, and solar. The amount of the credit would vary by source and the amount of electricity produced.

Estimated Impact

The bill is estimated to decrease revenues to the General Fund by $(315,000) in FY 2011. An additional incremental loss of $(65,000) is estimated in each year thereafter until FY 2016, when the total General Fund loss is expected to peak at $(640,000). From FY 2017 – FY 2020, the estimated loss to the General Fund would decrease by $65,000 annually until the tax impact expires in FY 2020. This estimate assumes a doubling in the level of electric power generated by renewable sources. To the extent that this bill incentivizes companies to increase their aggregate energy output beyond what would have occurred in the bill's absence, the General Fund could realize an offsetting gain in revenues.

Analysis

Based on the Energy Information Administration's 2006 report on State Renewable Energy Profiles, Arizona generated 13 million kilowatt-hours of solar and 12 million kilowatt-hours of biomass electricity in CY 2006. According to the report, no wind powered electricity was produced in the state in CY 2006.

The bill allows for a credit for the cost of all wind, biomass, and solar energy produced from qualified generators that first produced renewable energy on or before January 1, 2018. If the qualified generator was placed in service after October 1, 2009, the allowed credits are refundable. Otherwise, the allowed credits may be carried forward for five consecutive years.

It is difficult to predict with accuracy how much renewable energy will be produced under the provisions of this bill. This analysis assumes that renewable energy production will either double with the addition of new generators or stay constant at the CY 2006 levels with all of the old generators being replaced by new qualified generators. Either of these assumptions produce the same level of qualifying renewable energy production and, therefore the same fiscal impact. General Fund revenues may increase if energy producers find it economically advantageous to produce renewable energy above and beyond the total amount of energy that they would have produced in the absence of this bill's credit. This additional energy production would be taxed, creating increased General Fund revenues.

The bill allows for a tax credit of 1 cent per kilowatt-hour on the first 400,000 megawatt-hours of electricity produced from wind or biomass source. Assuming production of these two categories remains flat at the CY 2006 level, there would be an annual decrease in General Fund revenues of $(120,000).

The bill also specifies a tax credit for solar powered electricity. The amount of the credit begins at the rate of 1.5 cents per kilowatt-hour in CY 2010 and increases by half a cent each year until CY 2015, when the credit peaks at 4 cents per kilowatt-hour. Beginning in CY 2016, the tax credit decreases by half a cent annually until it reaches 2 cents per kilowatt-hour in CY 2019, the last year in which the tax credit would be applicable. Assuming production of solar electricity remains flat with CY 2006 levels, the decrease in General Fund revenues would vary from $(195,000) to $(520,000) annually, depending on the given year's credit rate.

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In the examples above, we have used the simplifying assumption that the amount of qualifying electrical power generated by renewable resources would be equal to current renewable power generation. The impact of this bill could vary greatly to the extent that electrical generation was above or below this estimate.

In 2006, the Corporation Commission instituted a new rule that required APS and TEP to increase the percentage of their total electricity output from renewable resources to 15% of their aggregate output by CY 2025. SRP has also adopted the goal of renewable energy constituting 15% of aggregate production by CY 2025. Currently, SRP produces approximately 5% of their aggregate energy output from renewable sources. Figures for APS and TEP were unavailable at the time this memo was produced. To the extent that these initiatives encourage the production of electricity from wind, biomass, and solar generation, they may increase the potential losses to General Fund revenues. Currently, however, 99% of renewable energy production in the state is a result of hydro-power, which is not subject to a tax credit under the provisions of this bill.

Local Government Impact

None

3/2/09