Wind Energy Subsidies and Programs: US Federal and State of Montana Initiatives

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Introduction

This report describes the major policies, programs and incentives implemented by the U.S. Federal government, the State of Montana, and Montana utility companies with respect to wind energy production. The Federal incentives discussed include Clean Renewable Energy Bonds, Tribal Energy Program, the Modified Accelerated Cost-Recovery System, Renewable Energy Production Incentive, and the Renewable Electricity Production Tax Credit. Some incentives are based on energy production, while others are based on investment in infrastructure and equipment.

Montana policies and incentives presented in this overview include the Alternative Energy Revolving Loan Program, Universal System Benefits Program, and others.

Federal Subsidies and Incentives

This section describes U.S. Federal subsidies, incentives, and other programs that support wind energy production.

Clean Renewable Energy Bonds

This program is a financing mechanism established by the Federal Energy Tax Incentive Act of 2005. Clean Renewable Energy Bonds (CREB) are available for public entities (such as cities, counties and electrical cooperatives) to finance renewable energy projects. Issuers of CREBs do not pay interest on the bonds. Traditionally bond holders receive interest and principal payments in return for purchasing a bond. However, in this case potential bond purchasers receive principal payments and income tax credits (in lieu of interest) for purchasing a CREB. Only governmental agencies (city, county, etc.) and electrical cooperatives are eligible for CREBs. (www.irs.gov/irb/2006-10_IRB/ar07.html)

Tribal Energy Program Grant

The Department of Energy’s (DOE) Office of Energy Efficiency and Renewable Energy provides financial and technical assistance to American Indian tribes through the Tribal Energy Program. The program supports tribal energy sufficiency, economic growth, and employment on tribal lands. The DOE provided $14.1 million for 91 tribal energy projects over the 2002 to 2007 period. (www.eere.energy.gov/tribalenergy/)

Modified Accelerated Cost-Recovery System

The Modified Accelerated Cost Recovery System (MACRS) allows for accelerated depreciation deductions for certain tangible property, including wind production assets. Wind energy assets are classified as 5-year property for depreciation purposes under MACRS.
Several depreciation schedules are available under MACRS.

Renewable Energy Production Incentive

The Renewable Energy Production Incentive (REPI) offers payments to qualified renewable energy facilities based on energy production. Incentive payments were established by the Energy Policy Act of 1992 at the rate of 1.5 cents per kilowatt hour. This rate is adjusted for inflation (the current rate is available at www.eere.energy.gov/repi/). This incentive is available for the first 10 years of a renewable energy facility’s operation. Not-for-profit electric cooperatives, public utilities, state governments and Indian tribal governments are eligible to participate in the REPI program. The program is managed by the Department of Energy. REPI is authorized through 2026.

Renewable Energy Production Tax Credit

Wind energy facilities are eligible for a Renewable Energy Production Tax Credit (REPTC). This credit provides a 1.5 cent per kilowatt hour income tax credit. The credit is adjusted for inflation (the current rate is available at www.irs.gov/pub/irs-pdf/f8835.pdf). This credit is available for the first 10 years of a facility’s operation. For-profit entities are eligible for this credit. The credit is set to expire on December 31, 2008.

Farm Bill Programs

The Farm Security and Rural Investment Act of 2002 created several programs that support wind energy production. The Renewable Energy Systems and Energy Efficiency Improvements Program (Section 9006) directed the Secretary of Agriculture to make loans, loan guarantees, and grants to eligible applicants to develop renewable energy projects and improve energy efficiency. The Food, Conservation and Energy Act of 2008 (the most recent farm bill) also offers programs that encourage wind energy development. At this time many of the program details are not available, but should be posted in the near future at www.rurdev.usda.gov/rbs/farmbill/.

Montana Policies and Incentives

This section describes the major programs and incentives offered by the State of Montana related to wind energy production. Montana offers the following direct incentives for wind energy production (http://data.opi.mt.gov/bills/mca_toc/index.htm).

1) Non-Fossil Energy Tax Exemption (Montana Code Annotated (MCA) 15-6-224)

a. A single-family investment of up to $20,000 for non-fossil fuel forms of energy generation (wind systems qualify) are exempt from property taxes for 10 years.

b. A multi-family investment of up to $100,000 for non-fossil fuel forms of energy generation (wind systems qualify) are exempt from property taxes for 10 years.

2) Small Electrical Generation Equipment Tax Exemption (MCA 15-6-225)

a. Machinery and equipment used in a qualifying generation facility with a nameplate capacity of less than 1 megawatt is exempt from property taxes for 5 years after the generation of electricity begins. Wind energy systems qualify for this credit.

3) Property Tax Reduction for New/Expanded Generating Facilities (MCA 15-24-1402)

a. In the first 5 years after a construction permit is issued for a wind generating facility (new or expanding), the qualifying improvements are taxed at 50% their taxable value. This percentage increases until year 10, after which the qualifying facility is taxed at 100% of its taxable value.

4) New or Expanding Industry Tax Credit (MCA 15-31-124/125/126)

a. Businesses that expand full-time job employment by 30% or more may be eligible for a license tax credit it equal to 1% of new in-state wages paid during the first three years of operation. Wind energy production qualifies for this credit.

5) Installing Alternative Energy System Tax Credit (MCA 15-32-201)

a. A resident taxpayer who installs a non-fossil fuel form of energy production is eligible for an income tax credit up to $500 in the year the system was installed. Wind systems qualify for this credit.

6) Commercial or Net Metering System Investment Tax Credit (MCA 15-32-401/402/404)

a. Investments in alternative energy systems larger than
7) Wholesale Energy Tax Exemption (MCA 15-72-104)
   a. Electricity generated from wind on State lands is exempt from the wholesale energy tax of $0.00015 per kilowatt hour.

8) Alternative Energy Revolving Loan Program (MCA 75-25-101/102/103)
   a. A wind energy generation facility is eligible for loans of no more than $40,000 and no longer than 10 years. The interest rate for 2008 was 5%.

Other Programs, Standards and Guidelines

Congress enacted the Energy Policy Act of 2005 to encourage the Federal government to use electricity generated from renewable sources. The policy requires that 3% (for 2007 to 2009) of the Federal government’s electric purchases be from renewable sources. The policy increases this requirement to 5% for 2010 to 2012 and then to 7.5% for 2013. (www1.eere.energy.gov/femp/renewable_energy/renewable_fedrequire.html).

The Montana legislature also implemented a plan to increase the use of renewable energy (MCA 69-3-2002 to 2008). This plan requires publicly-owned utilities and competitive electric suppliers to procure a minimum of 5% of retail sales from renewable resources. The requirement is increased to 10% in 2010 and 15% in 2015.

The Montana legislature defined wind energy easements in MCA 70-17-303. This statute identifies minimum requirements for legal wind energy easements. The purpose is to ensure an undisturbed wind flow for wind energy projects.

Northwestern Energy also offers customers the E+ program. This program allows users to pay an additional fee to NWE for the purchase of electricity from renewable sources. Montana RECs offer similar programs that allow consumers to support renewable energy.

Net Metering Policies

Net metering allows customers to purchase and install small wind or solar energy generation equipment to meet their electrical demands. The Montana legislature enacted MCA 69-8-601 to encourage private investment in renewable energy. Net metering customers who use more electricity than they generate cannot be charged higher rates for that usage than other customers in the same rate class (MCA 69-8-602). The legislation also defines standards for the equipment used to connect net metering systems to the electrical grid (MCA 69-8-604). Net metering agreements must be approved by the electrical provider before a customer can install net metering equipment.

Summary

This report provides a brief overview of programs offered by the U.S. government, State of Montana, and Montana utility companies. This overview does not provide comprehensive details about each program; therefore consumers and businesses interested in these programs should seek additional information from program sponsors.

References


Personal Communication with John Delvo, Montana-Dakota Marketing Director, August 28, 2008.


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