HOUSE RESEARCH
Bill Summary

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Authors: Cornish

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Overview

The Renewable Energy Production Incentive (REPI) is one of the most important measures passed by the Minnesota Legislature to support the development of wind energy. Owners of wind energy conversion systems with a capacity of 2 MW or less receive 1.5 cents for each kilowatt-hour (kwh) produced for a period of ten years. [1] The incentive payment is available to only 200 MW of total capacity statewide. [1]

Project owners apply to the Department of Commerce to qualify for the incentive. If they are deemed eligible, the project must be operational within 18 months, or approval to receive the incentive payment is withdrawn.

Another crucial financing component for wind projects is the federal Production Tax Credit (PTC), which investors can use against other passive income (not including interest and dividend income) to reduce their tax liability. The credit is currently 1.8 cents per kwh produced, and is paid for ten years.

The PTC was first authorized in 1992 and expired in June 1999. Since then, Congress has reauthorized the PTC for relatively short periods, creating a boom-

[1] Minnesota Statutes 2004, section 216C.41, subdivisions 4 and 5. Wind energy conversion systems owned by certain cooperatives qualify for the incentive if they are 7 MW or below, as set forth in subdivision 1 (c)(3).

[2] Incentive payments from the first 100 MW are paid from the general fund (subdivision 5); payments for the second block of 100 MW are disbursed from the renewable development account (subdivision 5a and Mn. Stat. sec. 116C.779, subd. 2).

and-bust cycle in wind development, since fewer projects are able to secure financing when the PTC is unavailable. The credit expired at the end of 2001, and again at the end of 2003.

In Minnesota, the ten-month period from January to October 2004, before Congress reauthorized the PTC, coincided with the 18-month eligibility period of most of the wind projects comprising the second 100 MW block eligible to receive the REPI. Eligibility for many of these projects will expire in May 2005.

HF 218 extends the eligibility period for projects that can provide evidence of their viability by the amount of time the PTC was unavailable. It reduces the REPI from 1.5 cents per kilowatt-hour to 1.0 cent for projects receiving an extension, projects replacing those that cannot provide evidence of viability, and any project that becomes eligible after January 1, 2005.

The bill also makes projects that were not operating prior to January 1, 2005 and are owned by municipal utilities and cooperative electrical associations ineligible to receive the REPI. HF 218 also prohibits the commissioner from accepting new REPI applications after January 1, 2005.

Section

1 **Definitions.** Restricts REPI eligibility for wind energy conversion systems owned by Minnesota municipal utilities or cooperative electric associations to those that began operation prior to 2005.

2 **Amount of payment.** Reduces the REPI for projects receiving an extension or letter of approval after January 1, 2005 to 1.0 cent per kilowatt-hour.

3 **Eligibility process.** Allows applicants to seek an extension of the 18-month period they have to make the project operational in order to receive the REPI if the federal production tax credit has been unavailable during all or part of that time. Applicants are required to submit to the commissioner of commerce evidence that:

1) all interconnection and delivery studies have been completed and an interconnection agreement has been signed and executed. If the agreement requires transmission upgrades to be made, the applicant must also submit evidence that financing of the upgrades is secure and that their construction can be completed by the time the extension expires.

2) the applicant has secured equity and debt financing sufficient to complete the project by the time the extension expires.

If these documents are submitted, the commissioner shall grant an extension equal to the time the PTC was unavailable. If the PTC is still unavailable when the commissioner makes this determination, the commissioner shall extend eligibility for a period of twelve months.

Applicants on the current waiting list who submit the above documents to the commissioner shall also qualify to receive the incentive.

If funds in the renewable development account (section 116C.779, subd. 1) are insufficient to fully fund the REPI for all qualifying projects, additional funds shall be used from the balance of the account (which also funds innovative renewable energy demonstration projects) to make up the deficiency.

No REPI applications will be accepted after January 1, 2005.