**Northwest Public Power Association**

**Proposed Resolution 2022-17 (Proposed for ARCHIVE)**

**Comparable Energy Tax Incentives for Consumer-Owned Utilities**

**Background**

Current energy tax policies began decades ago. Business energy investment tax credits (ITCs) were enacted in 1978 and 1980 to stimulate the development of “alternative” energy sources and remain in effect today. In 1992, Congress created a production tax credit (PTC) for the production of energy from renewable resources, which also remains in effect today. Today, the tax code specifies roughly a dozen different fuel sources as providing qualified electricity production or qualified energy property for purposes of the PTC and ITC. Additionally, the tax code provides tax credits for carbon capture and sequestration, fuel cell properties, combined heat and power property, microturbine property, and other non-renewable properties. Combined, these energy tax credits are worth roughly $11.7 billion annually and have had a profound effect on the nation’s generation mix and emissions profile.

Energy tax credits are tantamount to the federal government paying a portion of the initial cost of investment in, or paying for the production of, power from certain types of energy facilities. That is why both the Treasury Department and Joint Committee on Taxation consider these tax incentives to be the equivalent of spending, i.e., a tax expenditure.

However, because tax-exempt entities, including consumer-owned utilities, have no taxes against which to offset a tax credit, they cannot directly receive energy tax credit “payments.” In other words, the federal government will use an investment tax credit, for example, to pay a portion of the investment cost of a new facility if the owner is a private entity, but not if the same facility is owned by a consumer-owned utility.

In many cases, this bias makes it economically unfeasible for a consumer-owned utility to directly own such facilities. Instead, it must rely on a power purchase agreement with a third-party generator that can take advantage of these tax credits. As a result, the value of tax credits for most facilities accrues to consumer-owned utility customers only to the extent the seller of the output of such facilities passes some percentage of it on in the form of reduced prices. Additionally, the utility loses operational control and expertise it would gain from direct ownership, including for renewable energy projects located directly on public lands and facilities.

Omitting tax-exempt entities from energy-related tax credits makes it more costly for consumer-owned utilities to make investments in renewable resources and other clean energy technologies that will be needed to reduce greenhouse gas emissions to address climate change. This is inequitable. With nearly 30 percent of retail electricity customers served by tax-exempt entities, it is also inefficient.

Over the years, Congress has sought to provide comparable incentives for alternative energy source development by tax-exempt entities, but each alternative has been hamstrung in some respect.

Increasingly, policymakers understand the importance of tax policy in driving energy and environmental policy and the importance of including tax-exempt entities and the 30 percent of retail customers that they serve. As a result, it is becoming more common for legislative proposals to accommodate tax-exempt entities. The leading approach is refundable direct payment tax credits.

**NWPPA’s Position**

* NWPPA strongly supports legislation that makes federal energy investment incentives fairer and more efficient for consumer owned utilities, including public power utilities and electric cooperatives.
* NWPPA supports a broad array of clean energy technologies that will be needed to reduce greenhouse gas emissions.
* NWPPA urges Congress to provide comparable tax incentives to consumer-owned utilities, which cannot directly access energy-related tax credits because of their tax-exempt status.

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