AMERICAN RECOVERY & REINVESTMENT ACT OF 2009 (RECOVERY ACT) ALTERNATIVE ENERGY SUPPORT FOR COMPANIES

The State of Michigan and the Federal Government have instituted programs that will work hand in hand to support manufacturers of alternative energy technology, and encourage the implementation of these technologies at the residential, commercial and utility scale.

For more information on Michigan's alternative energy programs, see the Michigan: Ready for Alternative Energy fact sheet and **www.michigan.gov/energyoffice.**

For more information on federal alternative energy programs for business, see **www.energy.gov/additionaltaxbreaks.htm.**

FEDERAL TAX BENEFITS FOR MANUFACTURERS

ARRA Advanced Energy Manufacturing Tax Credit

ARRA provides a new 30% credit for investment in qualified property used in a "qualified advanced energy manufacturing project." Credits are available only through a competitive bidding process for projects certified by the Secretary of Treasury, in consultation with the Secretary of Energy. The Secretary of Treasury must establish a certification program no later than 180 days after date of enactment, and may allocate up to $2.3 billion in credits.

A qualified advanced energy project is a project that re-equips, expands, or establishes a manufacturing facility for the production of:

- Property designed to be used to produce energy from the sun, wind, or geothermal deposits, or other renewable resources.
- Fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles.
- Electric grids to support the transmission of intermittent sources of renewable energy, including storage of such energy.
- Property designed to capture and sequester carbon dioxide.
- Property designed to refine or blend renewable fuels (but not fossil fuels) or to produce energy conservation technologies (including energy-conserving lighting technologies and smart grid technologies). It does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels.
- Projects designed to manufacture any new qualified plug-in electric drive motor vehicle (as defined by section 30D(c)), any specified vehicle (as defined by section 30D(f)(2)), or any component which is designed specifically for use with such vehicles, including any electric motor, generator, or power control unit.
- Other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Secretary.

Qualified property must be depreciable (or amortizable) property used in a qualified advanced energy project. Only tangible personal property and other tangible property (not including a building or its structural components) are credit-eligible.

In selecting projects, the Secretary may consider only those projects where there is a reasonable expectation of commercial viability. In addition, the Secretary must consider other selection criteria, including which projects:

- will provide the greatest domestic job creation.
- will provide the greatest net impact in avoiding or reducing air pollutants or anthropogenic emissions of greenhouse gases.
- have the greatest potential for technological innovation and commercial deployment.
- have the lowest levelized cost of generated or stored energy, or of measured reduction in energy consumption or greenhouse gas emission.
- have the shortest project time from certification to completion. Each project application must be submitted during the two-year period beginning on the date such certification program is established. An applicant for certification has one year from the date the Secretary accepts the application to provide the Secretary with evidence that the requirements for certification have been

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met. Upon certification, the applicant has three years from the date of issuance of the certification to place the project in service.

For more information, see **www.ustreas.gov/recovery.**

Extension of Bonus Depreciation for All Businesses

ARRA extends bonus depreciation for capital expenditures incurred in 2009. This allows businesses to recover the costs of capital expenditures made in 2009 faster than the ordinary depreciation schedule would allow by permitting them to immediately write off 50% of the cost of depreciable property acquired in 2009 for use in the United States.

Qualified property eligible for the 50% depreciation deduction must meet all of the following requirements:

- It must be (1) property to which MACRS applies with an applicable recovery period of 20 years or less; (2) computer software other than computer software covered by IRC Section 197; (3) water utility property (as defined in IRC Section 168(e)(5)); or (4) qualified leasehold improvement property.
- The original use of the property must commence with the taxpayer after December 31, 2007.
- The taxpayer must purchase the property within the applicable time period.
- The property must be placed in service after December 31, 2007, and before January 2, 2010.

For small businesses, ARRA allows companies to expense up to $250,000 in purchases as long as they don't spend more than $800,000. Expensing is phased-out for each dollar that purchases exceed $800,000. This benefit can be combined with the depreciation bonus, but companies with total purchases of $1,050,000 cannot use this benefit.

Workforce Training

ARRA provides $500 million for workforce training for renewable energy and energy efficiency careers. ARRA provides grants for research, labor exchange, and job training projects that prepare workers for careers in the energy efficiency and renewable energy industries. Entities eligible for the grants must include equal participation of industry and labor.

DELEG will implement this funding through their Green Jobs Initiative. For more information, see **www.michigan.gov/greenjobs.**

LOAN PROGRAMS

Innovative Technology Loan Guarantee Program and Temporary Program for Rapid Deployment of Renewable Energy and Electric Power Transmission Projects

ARRA amends the Energy Policy Act of 2005 to create a new loan guarantee program at the Department of Energy (DOE). Loss reserve guarantees have been funded at $6 billion, which is conservatively estimated to support up to $60 billion in loans. The federal government will pay the full credit support costs of guarantees issued under the Temporary Program, eliminating up front payment by the beneficiary for the cost of the guarantee. To qualify for the Temporary Program, projects must commence construction no later than September 30, 2011.

The Temporary Program applies to both "commercial" and "innovative" technologies, expanding the existing program into these three categories of projects:

- Renewable energy systems, including incremental hydropower, that generate electricity or thermal energy, and facilities that manufacture related components.
- Electric power transmission systems, including upgrading and reconductoring projects.
- Leading-edge biofuel projects that will use technologies performing at the pilot or demonstration scale that the Secretary of Energy determines are likely to become commercial technologies and will produce transportation fuels that substantially reduce life-cycle greenhouse gas emissions compared with other transportation fuels.

Although "renewable energy systems" is not defined in the Act, this broad language is widely believed to represent a compromise between the Senate and House versions of the Temporary Program, and is designed to expand the existing program to include guarantees for commercial renewable energy projects, such as wind and energy facilities, and wind and solar equipment manufacturing plants.

It is anticipated that the Department of Energy (DOE) will have application materials for the Temporary Program available as early as May 1, 2009. Applicants will be required to provide "reasonable assurance" that they will pay "Davis-Bacon" prevailing wages. It is not clear if Buy American requirements will apply to these projects. In the meantime, the regulations under the existing program provide some guidance as to the terms of loan guarantees issuable under the Temporary Program. For example, the existing program:

- Permits guarantees to be issued only where there is reasonable prospect of repayment of the principal and interest on the obligation by the borrower.
- No guarantee is available where the commercial loan sought to be guaranteed is in a principal amount in excess of 80 percent of the projected project cost.
- Guaranteed loans may have terms of repayment not to exceed 30 years.
- As in the case of most credit enhancement arrangements, the DOE holds a priority encumbrance on all project assets and collateral pledged as security for the guaranteed loan. Where the DOE only guarantees part of a loan, it is anticipated that the lender and the DOE will execute an inter-creditor agreement to provide for orderly liquidation and disposition of project collateral in the event of project default.

For updates and more information, see **www.lgprogram.energy.gov.**

Energy Research and Development

ARRA provides $1.25 billion in undesignated funding through DOE's Energy Efficiency and Renewable Energy program for applied research, development, demonstration and deployment activities.

For more information, see **www.eere.energy.gov.**

POWER GENERATION AND TRANSMISSION

Business Energy Investment Tax Credit (ITC) and Production Tax Credit (PTC)

Under ARRA taxpayers have been provided new flexibility in the mechanism to claim federal incentives for the installation and operation of renewable energy generation equipment. In most cases, business taxpayers will be allowed to select one of the options below, based on the most advantageous incentive for their operation and tax status:

- **Renewable Electricity Production Tax Credit (PTC)** is a per-kilowatt-hour tax credit for electricity actually generated by qualified energy resources and sold by the taxpayer. With a few exceptions, the credit can be earned for up to 10 years after the date the facility is placed in service.
- **Business Energy Investment Tax Credit (ITC) can be claimed in place of the PTC** for facilities placed in service in 2009 thru 2012. Entities otherwise eligible to claim the PTC may instead elect to claim an ITC, in lieu of the PTC. This is an option, not a requirement. The PTC is a tax credit for a percentage of the capital invested in a renewable energy project used to generate electricity or heat or cool a facility. The credit is equal to 30% of expenditures for solar, fuel cell, and small wind turbines, or 10% of expenditures for geothermal systems, microturbines, and combined heat and power (CHP). Opting to convert the PTC into an ITC will allow wind facilities to be leased, or subject to a sale and leaseback, without a loss of the credit, in the same way solar facilities may be leased or subject to a sale and leaseback.
- **Renewable Energy Grants allow business taxpayers eligible for the Business ITC** to receive a grant for new installations placed in service in 2009 or 2010, or placed in service before the credit termination date (January 1, 2013 for wind projects), provided the construction of such property began in 2009 or 2010. Instead of taking the Business ITC, taxpayers can elect to receive a grant from the U.S. Treasury Department. The bill appropriates "such sums as may be necessary," ensuring that every eligible

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project electing to forgo the ITC will receive a grant in exchange for giving up the ITC. The Treasury Department must pay the grant within 60 days of its application. The grant does not constitute taxable income and 50% of the grant reduces the basis of the property. The grant is subject to the recapture rules applicable to ITCs .

ARRA repeals the subsidized energy financing limitation on the ITC in order to allow businesses and individuals to qualify for the full amount of the ITC even if such property is financed with industrial development bonds or through any other subsidized energy financing. Previously, the ITC had to be reduced if the property qualifying for the ITC was also financed with industrial development bonds or through any other federal, state or local subsidized financing program. ARRA also repeals the individual dollar caps that were written into the small wind ITC provision in the Emergency Economic Stabilization Act of 2008. Eligible businesses and homeowners are now allowed to claim a full 30% ITC for qualified small wind energy property.

SmartGrid Development and Additional Grid Support

ARRA provides $4.5 billion for DOE's Electricity Delivery and Energy Reliability program:

- $100 million will be used to accelerate the hiring of program personnel, for worker training and for subsequent legislation on transmission improvements.
- $80 million will be used to provide a resource assessment of future demand and transmission requirements and provide technical assistance for the development of interconnection-wide transmission plans for the Eastern and Western Interconnections and ERCOT.
- $10 million will be used to implement a smart grid interoperability framework.

The purpose of the Smart Grid Investment Grant Program is to stimulate the rapid deployment and integration of advanced digital technology that is needed to modernize the nation's electric delivery network for enhanced operational intelligence and connectivity. The electric delivery network for smart grid modernization encompasses the electric transmission and distribution infrastructure that interconnects large generation at one end and consumers' electric loads at the other end, as well as all components and systems in between, including distributed energy resources.

DOE will provide funding covering up to 50% of qualified investments requested by grant applicants. DOE anticipates providing funds in the range of $500,000 to $20,000,000 for smart grid technology deployment grants and $100,000 to $5,000,000 for power management deployment grants.

Eligible applicants include electric utilities, load serving entities and distribution companies, retail distributors or marketers of electricity which sell electricity to consumers, system operators which coordinate, control, and monitor the operation of the electrical power transmission systems within a single state or region, and manufacturers of appliances and equipment to enable smart grid functionalities.

For more information and new developments, see **www.energy.gov/smartgrid.htm.**

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