

FISCAL NOTE

STATE OF ALASKA
2009 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: **CSSB 31(ENE)**
 (S) Publish Date: 3/2/09

Identifier (File Name): CSSB31(ENE)-DOR-TAX-03-02-09 Dept. Affected: Revenue 04
 Title: **Alternative Energy Production Tax Credit** RDU: **Taxation and Treasury**
 Sponsor: **Senators McGuire, Ellis, Thomas** Component: Taxation and Treasury
 Requester: **(S) Energy** Component No.: **2476**

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
OPERATING EXPENDITURES								
Personal Services	108.9	0.0	108.9	108.9	108.9	108.9	108.9	108.9
Travel	2.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0
Contractual	34.9	0.0	4.9	4.9	4.9	4.9	4.9	4.9
Supplies	0.5	0.0	0.5	0.5	0.5	0.5	0.5	0.5
Equipment								
Land & Structures								
Grants & Claims								
Miscellaneous								
TOTAL OPERATING	146.3	0.0	116.3	116.3	116.3	116.3	116.3	116.3

CAPITAL EXPENDITURES	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	*	0.0	*	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF	146.3	0.0	116.3	116.3	116.3	116.3	116.3	116.3
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	146.3	0.0	116.3	116.3	116.3	116.3	116.3	116.3

Estimate of any current year (FY2009) cost: 0

POSITIONS

Full-time	1.00	0	1.00	1.00	1.00	1.00	1.00	1.00
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

See Attached.

Prepared by: **Dan Stickel, Economist** Phone (907) 465-3279
 Division: Tax Division Date/Time: _____
 Approved by: _____ Date: _____
 Agency: _____

ANALYSIS CONTINUATION**Bill Language:**

This bill will create a tax credit for electricity production from new alternative energy projects in the state. The amount of the credit will be 2.1 cents for each kilowatt hour of alternative energy produced or sold in "each of the first four years after the date the system used to produce alternative energy is placed into service," up to a limit of 20 percent of capital costs. The tax credit would be applicable only to the Alaska Corporate Net Income Tax. Unused tax credits could be carried forward or transferred.

For purposes of this bill, "alternative energy" means geothermal, solar, hydroelectric, wind, biomass, hydrokinetic or tidal, and wave energy. The credit could be claimed by an "electric utility holding a certificate of public convenience and necessity under AS 42.05 or an independent power producer." The term "independent power producer" would need to be defined in regulation and could potentially include any entity that chooses to implement an eligible alternative energy project.

The effective date of the bill is January 1, 2010. There bill includes a sunset date of January 1, 2025.

Revenues:

Revenues from this bill are indeterminate because we do not know the size or number of projects that would qualify for the credit. According to the US Department of Energy, Alaska currently produces 1.3 billion kilowatt hours of alternative energy annually (hydroelectric, biomass, solar and wind power; there is currently no commercial geothermal electric generation). For each 10 percent increase in alternative energy production, tax revenue to the state would be reduced by \$2.7 million per year for four years.

Some examples of credits generated by possible projects include the following (These examples are for illustrative purposes only. They are based on publicly available information and typical capacity utilization rates):

- A 14-megawatt hydroelectric project such as the Lake Dorothy project near Juneau could be eligible for a \$1.5 million annual credit (assuming the project operates at 60% of capacity). Over four years, this credit would amount to about 9.7% of the estimated \$64 million capital cost.
- A 30-megawatt wind farm such as the Fire Island project near Anchorage could be eligible for a \$1.7 million annual credit (assuming the project operates at 30% of capacity). Over four years, this credit would amount to about 12.3% of the estimated \$54 million capital cost.
- A 1.2-megawatt wind farm such as the Nome wind farm could be eligible for a \$66,000 annual credit (assuming the project operates at 30% of capacity). Over four years, this credit would amount to about 4.8% of the estimated \$5.5 million capital cost.

Many smaller projects would likely also qualify for the credit. Based on our analysis of the sample projects listed above, we believe that for most projects, the total credit over four years would amount to less than 20 percent of capital expenditures.

We anticipate that this credit will mostly be used by corporations that acquire the credit through the transferability provision. The transferability provision will be used because many power producers are owned by municipalities, non-profits or S-corporations and therefore are not subject to the corporate income tax. Also, independent power producers, once defined in regulation, could potentially include individuals, sole proprietorships, LLC's, S-corporations, non-profits and other entities that are not subject to the corporate income tax.

Expenditures:

This bill would require the Department of Revenue to administer a new tax credit program, including the review and approval of credit applications and issuance and tracking of credit certificates. This new credit program will likely involve a large number of projects and millions of dollars in credits claimed annually.

The Department is requesting a Corporate Income Tax Auditor III position (Range 22) to audit the tax credits and manage the approval, issuance and tracking of the credits. There will also be \$30,000 in one-time startup expenses: \$20,000 for enhancements to our tax examination system, and \$10,000 for an education and public outreach program.