



ENVIRONMENTAL QUALITY COUNCIL

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December 18, 2009

TO: Environmental Quality Council members

FR: Sonja Nowakowski, EQC staff

RE: Biomass background and discussion points

EQC members,

Over the last five months, the EQC has received two background reports discussing issues outlined in House Joint Resolution No. 1. (The most recent report is in the mailing.) Using the draft work plan tasks approved by the EQC as a guideline, background reports have discussed:

- biomass availability;
- biomass technologies;
- other state activities in the area of biomass;
- biomass projects and proposals in Montana;
- federal legislation;
- current incentives; and
- potential biomass funding incentives or mechanisms.

To assist the EQC as it moves toward developing recommendations and findings for HJR 1, and at the request of the chairman, staff is providing this memo highlighting potential discussion points for the EQC. The information provided is not complete and is simply provided as a starting point for EQC discussion. The Department of Natural Resources and Conservation Forestry Assistance Bureau also prepared some potential discussion points, which are included in your mailing.

During the 2007-08 interim, the Fire Suppression Interim Committee discussed biomass development. Below are a collection of discussion points raised by that committee, biomass developers, other states, government entities, and recommendations from the a bioenergy workshop hosted by the Western Governors' Association.

Accessibility and Availability on public lands

- Promote forest management to mitigate wildfire, insects, and disease on both a state and national level.
- Explore opportunities to engage federal partners. Recognizing that access to federal land

is a significant barrier in northwestern Montana, collaboratively develop and legislatively authorize (where appropriate) proposals for active management on Montana's National Forests.

- Appropriation to DNRC to participate in federal forest management planning activities. (HB 43, 2009)
- Request that the appropriate state agency develop a concise, publicly accessible, inventory of biomass available on all state lands. Identify barriers to access. For example, how Fish, Wildlife & Parks is incorporating forest management into its planning.
- Require the appropriate state agency, along with appropriate partners, to develop a statewide, interagency bioenergy strategic plan to facilitate the development of bioenergy.
- Require the appropriate state agency, along with appropriate partners, to determine the potential import and export market for bioenergy and its byproducts. A study of the potentials could assist industry.

Electricity Planning and Renewable Requirements

- Revise the Renewable Portfolio Standard (RPS) to recognize and allow for the cost of certain types of renewable power to be higher than others but still be advanced (revisit RPS cost caps).
- Revise the RPS to allow the thermal output from a cogeneration system to be included in the standard.
- Revise the RPS to require a specific percentage of energy production to come from a specified renewable or efficient technology (Connecticut tier system).
- Revise existing utility regulation to encourage or require a utility to offer "biomass only" requests for proposals (RFP's) that match in time a utility's need for new firm generation or additional renewable power and carbon offsets. (RPS)
- Review regulated utility resource planning requirements. MDU prepares and files an "integrated resource plan" every two years. NorthWestern Energy files a "portfolio and procurement plan" showing how it will provide electricity supply "at the lowest long-term total cost". The PSC then decides on the prudence of a utility's resource procurement practices. The PSC has some flexibility to look at social costs or benefits, but it is limited.

Funding, Grants, & Loans

- Expand funding available for grants administered through the Fuels for Schools program.
- Nongovernment entities, like private foresters and wood processing plants, are not eligible for Renewable Resource Grant and Loan program funding. In promoting biomass, nongovernmental entities should be encouraged to team with government partners to seek grants from the RRGL program.
- Recognizing that the \$100,000 cap for RRGL grants is inadequate for some projects, biomass developers should be advised that projects that receive RRGL funding receive grants and loans from multiple sources.
- Investigate funding for the Alternative Energy Revolving Loan program. The loan amount of \$40,000 limits the size of projects currently available for the program. Funding

for the program from air penalty fees was fully subscribed by December 2009. The amount of funds for loans is reduced to the amount of money revolving back to the program and future air penalties.

- Provide funding opportunities for biomass gasification pilot projects in Montana.
- Encourage the federal government to revise the scale of cellulosic ethanol plants eligible for federal support to include smaller scale facilities. Provide state-level coordination of cooperative grant applications to consolidate individual, small-scale efforts in order to reach the large scale required by federal programs.
- State-level Biomass Crop Assistance (BCAP) program that provides financial assistance to producers or entities that deliver eligible biomass material to designated biomass conversion facilities for use as heat, power, biobased products, or biofuels.
- Provide additional funds or incentives for activities that produce biomass fuels (for example, fire prevention treatments and diversion of residues from agricultural burning.)

Tax Incentives

- Pursue legislation similar to Oregon's tax credit program for biomass, which is applied to all income by a taxpayer on a consolidated return, not just the income generated by the investment. Legislation also could increase Montana's 35% investment credit to a 50% investment tax credit for renewable energy installations.
- Develop an income tax credit for removing and processing biomass for energy, similar to an Oregon law (HB 2210). Senate Bill No. 146, requested by the 2007-08 Fire Suppression Committee, would have provided a similar credit against individual income or corporate income taxes for biomass collection or production. The bill was tabled in Senate Taxation during the 2009 legislative session.
- Provide tax incentives for advanced biomass technologies. (Beyond Clean and Green)
- Provide incentives to utilities and cooperatives that add biomass to their portfolios. (Tax credits)

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