Tax, Grant, Loan, and Other Potential Net-Metering Investments

Energy and Telecommunications Interim Committee – March 2016

15-6-224, MCA

- Montana offers a property tax exemption for buildings using renewable energy, with certain amounts of residential and nonresidential structures exempt from property tax increases resulting from the installation of a renewable energy system. The exemption is for 10 years, based on an investment of $20,000 for single family homeowners and $100,000 for multi-family and non-residential facilities. These amounts are not estimated by the Montana DOR because they are made up in local mills.
- The Montana Department of Revenue (DOR) does not have specific information on the valuation of homes with rooftop solar. The DOR indicates that at this time it is not aware of appraisers adding value as a result of solar PV systems.

15-6-225, MCA

- A small electrical generation equipment exemption is available in Montana. Generating facilities smaller than 1 MW that use renewable resources are exempt from property taxes for 5 years after the system is installed.
- The DOR has indicated that very few taxpayers use the exemptions. For example, two properties claimed the first exemption in 2013 and 2014. In 2015, only one property owner claimed the investment exemption.

15-31-124, MCA

- Commercial net metered customers can utilize a new or expanded industry credit. Businesses that produce energy using an alternative renewable energy source can seek a new or expanded industry tax credit against corporate income tax. To be considered an expanding industry, total full-time jobs must increase by 30 percent or more. The credit is equal to 1 percent of new wages paid in state during the first three years of operation. No carryback or carryover is allowed for this credit.
- The Montana Renewable Energy Association (MREA) is not aware of any businesses in the solar industry utilitizing the credit.

15-32-201, MCA

- In Montana an alternative energy systems credit allows residential taxpayers who install renewable energy systems, such as net metered systems, on their property to seek a tax credit equal to the investment and installation cost, up to $500 per individual.
- In 2014 this credit was claimed by 1,070 taxpayers for a total of $617,949. It is difficult to determine how often the tax credit is used specifically by net-metered customers. The MREA estimated that if every owner of a net-metered system in Montana claimed the full credit, the total would be $161,000 in credits for 2014 or $1.1 million in credits from 2000-2014.

15-32-401, MCA

- An alternative energy production credit allows commercial and net metering alternative energy investments of $5,000 or more to seek a personal or corporate tax credit of up to 35% against taxes on income generated by the investment. The incentive includes investments in renewable equipment, manufacturing, and facilities that supply basic energy needed from renewable generation on a direct contract sales basis. Unused credit may be carried over for 7 years.
- In 2013 fewer than 10 individuals claimed the credit on their personal income tax records for a total of $56. For 2013, S Corps and partnerships claimed $25,590 using the alternative energy production credits.
- Questions have been raised about the credit. According to the DOR, the credit may be claimed by a business entity that invests in a commercial alternative energy system against taxable income attributable to the sale of the energy into the electric grid. However, other references, imply the alternative energy system used in a taxpayer's business would qualify for the credit. It may apply to a net metering system, however neither the statutes nor DOR rules specify how taxable net income from a net metering system is determined.

17-6-403, MCA

- Businesses producing energy using an alternative renewable energy source are eligible for microbusiness loans, which are capped at $100,000. A microbusiness is a Montana-based company with fewer than ten full-time employees and a gross annual revenue of less than $1 million. Application for a loan is made to a certified microbusiness development corporation; there currently are five located around the state.
- The MREA is not aware any use of this loan program for net metering projects or businesses involved in net metering.

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69-8-103, MCA

- The Universal System Benefits program (USB) requires all utilities in Montana to spend money on activities related to energy conservation, renewable energy projects, and low-income energy assistance. USB legislation was enacted in 1997 in an effort to ensure the continued existence of public purpose programs by regulated utilities. USB money is collected through customer bills and began in 1999.
- Montana's USB program includes funding for renewable resource projects and applications. Historically, USB money played a significant role in leveraging private net metering investments, but that role is declining, according to MREA.

NorthWestern

- NorthWestern Energy's 2014 USB report noted that the fixed dollar per watt USB incentive and the process of awarding residential renewable incentives was restructured. As solar installation costs decline, the incentive also declined from $3 per watt to $1.50 per watt, according to NorthWestern. The maximum incentive remained capped at $6,000 per system, resulting in customers installing larger system, according to NorthWestern.
- Senate Bill No. 150, passed and approved by the 2015 Legislature, directs utilities to allocate 50% of its USB collections to low-income energy and weatherization assistance, as opposed to 17% in the past. With the legislative change, NorthWestern Energy proportionally reduced its contributions to the other USB categories, including renewable resource projects. NorthWestern has since proposed the elimination of all USB grants to commercial and private customers for net-metering projects. Nonprofit organizations, government entities, and schools may still be awarded grants for net- metering projects.

Montana-Dakota Utilities

- MDU only has four net-metered customers in Montana, so USB money is not directly used for net-metering projects.
- On February 3, 2013 MDU did partnered with Miles Community College to assist in the installation of a 2 kW Photovoltaic Array at the newly constructed Agricultural Center that is owned and operated by Miles Community College in Miles City, Montana.

Rural Electric Cooperatives

- Use of USB money for renewables and net metering varies from coop to coop. Although coops use USB money for enewable and/or net metering, many coops do not claim USB credits for larger investments in renewables.
- While Basin Electric could claim some of its renewable investment costs as USB-qualifying expenditures, for example, Montana member cooperatives have not claimed any USB credit for these projecsts. (See attached overview prepared by coops.)
- In 2014, specific examples of use of USB money for renewables includes: Flathead Electric spent $610,828 on the coop's landfill gas plant; Ravalli County Electric spent $18,371 for the purchase of 1/2 of a MW of wind from the Bonneville Power Administration (BPA); Missoula Electric spent $7,341 for the pruchase of renewable energy certificates; Vigilante Electric spent $9,597 for the net purchase of alternative renewable energy from BPA that was not sold to members; Yellowstone Valley Electric spent $15,000 for renewable energy certificates.

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75-25-101, MCA

- Montana provides loans to individuals, small businesses, units of local government, units of the university system, and nonprofit organizations to install alternative energy systems that generate energy for their own use or for capital investments for energy conservation purposes when done in conjunction with alternative energy systems. Loans up to a maximum of $40,000 must be repaid within 10 years. The program is funded by air quality penalties collected by the DEQ, and the DEQ administers the program. Loans can be used for net metering.
- In fiscal year 2015, DEQ received 49 applications. Forty-seven loans closed for a total of $1,185,750. One application was approved, but was not funded because the applicant's homeowners association did not approve the solar installation. Since the first loan was made in 2004, the program loaned about $8.3 million.
- The program is primarily used by individuals. In 2015, four applications, however were for commercial projects. Also in 2015, 34 of the loans were for solar photovoltaic projects, or at least included a solar PV component.
- Since the program began, DEQ has issued loans for about 188 net-metered projects, out of the 330 loans funded. Multiple technologies are often funded with a single loan.

80-12-201, MCA

- Loans subsidized by tax-exempt bonds issued by the Montana Agricultural Loan Authority may be used for the production of energy using an alternative renewable energy source. The program is run through existing private agricultural lenders. The intent is to provide lower interest (1-2 percent below market) loans up to $477,000 to eligible beginning ag operators. To meet IRS regulations, the energy generated must be used within the agricultural operation.
- To-date this loan program has not been used for alternative renewable energy resource projects, according to the Departmet of Agriculture.

85-1-602, MCA

- The renewable resource grant and loan program is administered by the Department of Natural Resources and Conservation. Historically the program primarily has funded water projects, but it does offer grants for renewable energy projects of state, local, or tribal government entities. On a biennial basis, DNRC evaluates and recommends projects to the Legislature for funding.
- In the last funding cycle a local government applied for funding for solar panels for a wastewater treatment plant. The project did not score high enough to be funded.
- Entities seeking grants or loans for solar panels or wind turbines on a well project, for example, have been funded in the past. It may be difficult to determine, however, if those were net-metered projects.

90-4-602, MCA

- The State Buildings Energy Conservation program is designed to finance energy improvement projects on state-owned buildings. Montana encourages agencies to participate in the program to achieve available energy savings.
- The definition of "energy conservation" program includes use of an alternative energy system. The governor submits the projects proposed to be funded by the energy conservation program for the next biennium as a part of the budget required by 17-7-123, MCA.
- To-date the program has not included a net-metering agreement. If cost-effective, however, the program could include such agreements in the future.

90-4-1202, MCA

- Limited obligation local government bonds ("special revenue bonds") may be issued for qualified electric energy generation facilities, including those powered by renewables. These bonds generally are secured by the project itself. The taxing power or general credit of the government may not be used to secure the bonds. Local governments may not operate any project financed by the sale of revenue bonds as a business except to lease it to some other party. These bonds are exempt from state taxes and may qualify for federal tax incentives.
- The tax-exemption feature allows funds to be borrowed at a significantly lower rate (1-2 percent) than possible with taxable bonds. There are various restrictions on how such bonds may be used. Because of the legal complexity of a bond issue, retaining bond counsel is important, according to DEQ. The total amount of special revenue bonds that can be issued by state and local governments combined is capped, which theoretically could limit a government's ability to issue new bonds for a generation facility.
- The use of this program to promote net-metering has not been tracked.