Response to Questions from Joint Committee on Ways and Means
Natural Resources Subcommittee
February 28, 2013

Questions from February 19, 2013

5. Can the department provide some statistics about the new energy tax credits and competitive energy grants to understand the need for resources? (Co-chair Unger)

6. Why does the department charge a compliance reinspection fee for the Business Energy Tax Credit program? (Co-chair Edwards and Representative Hanna)

Question from February 20, 2013

1. Please provide an analysis of increases and decreases in staffing, by division (excluding federal Recovery Act-funded staff). (Co-chair Unger)

February 19, 2013 Question 5: Can the department provide some statistics about the new energy tax credits and competitive renewable energy grants to understand the need for resources?

The Oregon Department of Energy was reorganized in 2009-11. As part of that reorganization, the Energy Development Services Division was created. Through consolidation of similar functions, the department realized efficiencies and improved risk management. The division consists of two units: the Loan unit and the Energy Incentives Program unit. The Governor's Balanced Budget includes 15.0 FTE for the Energy Incentives Program unit to manage, implement and ensure program compliance for new energy tax credits for businesses, new competitive renewable energy grants. The unit is also responsible for three continuing programs: the Biomass Producer or Collector Tax Credit, the Residential Energy Tax Credit and the State Home Oil Weatherization program. Approximately two-thirds of the unit is dedicated to staffing the new incentive programs. Staff also must continue the work necessary to complete the close-out activities related to the Business Energy Tax Credit (BETC) program. The Biomass Producer or Collector Tax Credit program was merged into the Energy Incentives Program unit during 2011-13 and responsibilities were assumed by existing staff. Many of the existing FTE within the Energy Incentives Program provide cross-functional support to multiple tax and grant offerings. While a little difficult to quantify, the overall number of staff dedicated to the functions of this unit has been reduced by approximately two since the peak staffing when the Business Energy Tax Credit program was fully operational.

Policy Option Package 201 would make permanent three limited duration positions to ensure timely processing and compliance for projects receiving state incentives, so projects are installed as required under the law and approved by the department under administrative rules implementing the program.

Energy tax credits for businesses and competitive renewable energy grants are funded by applicant fees. Funding the Energy Incentives Program, including the Policy Option Package, will require approximately a 17 percent fee revenue increase over the life of the program. (Some fees will go up more, some less.)

A State Energy Program formula grant from U.S. Department of Energy funds administration of the Residential Energy Tax Credit program. An assessment on petroleum suppliers funds the State Home Oil Weatherization program, which offers a cash rebate up to $500 per household for installed weatherization and heating measures in homes heated with oil, propane, kerosene, butane or wood.

Following is background on the new energy incentives established by the Legislature – conservation and transportation tax credits and competitive renewable energy development grants – as well as staffing implications.

In 2011, the Legislature established deadlines for closing the Business Energy Tax Credit (BETC) and created new energy incentives. The new programs started during 2011-13 include:

1. **Transportation tax credits**
    a. Tax credits up to 35 percent of eligible project cost are provided for alternative fuel vehicle infrastructure projects such as electric vehicle charging facilities, blender pump systems and compressed natural gas systems.

   b. Tax credits are also available for transit service projects provided by government and non-profits if they offer regular public transportation. However, school bus, charter or intercity passenger rail transportation are not eligible. Projects must demonstrate greater than 10 percent energy savings.
   c. Tax credits for each sector are capped at $10 million per biennium.
2. **Conservation tax credits**
   a. Small Premium Projects are conservation projects that cost less than $20,000. They are eligible for a tax credit up to 35 percent of eligible project cost on a first-come, first-served basis.
   b. Certain other conservation projects are selected for a tax credit up to 35 percent through a competitive process, as required by statute. Announcements for the competitive solicitations are issued multiple times throughout the biennium. Qualifying projects include commercial building systems; building envelopes; renewable thermal projects; commercial, agricultural, and industrial processes; sustainable buildings; and Cool Schools (energy efficiency projects in schools outside of Portland General Electric and Pacific Power service areas).
   c. Tax credits are capped at $28 million per biennium.
3. **Renewable energy development grants**
   a. Qualifying renewable energy projects may receive grants on a competitive basis. The department obtains funding for the grants from an annual auction of tax credits in conjunction with the Oregon Department of Revenue. The state caps this program at $3 million per biennium. Grants may be awarded for renewable energy production systems that produce electrical energy using biomass, solar, geothermal, hydroelectric, wind, landfill gas, biogas, wave, tidal or ocean thermal energy technology.

Program applicants pay fees that cover the administrative costs of the department's Energy Incentives Program.

Staffing for the New Energy Incentives

Except for the Small Premium Projects and transportation projects, all of the department's business energy incentives are now awarded on a *competitive* basis weighted for established project outcomes. Energy savings per tax credit dollar is the key criterion. Projects compete by technology categories. Opportunity announcements are issued for each category of tax credit or grant. Because the program is so new, each announcement must be crafted and informed by lessons learned in previous announcements. Staff with the appropriate technical training, expertise and skills write the technical specifications against which projects will be judged and evaluate each project proposal against the established criteria.

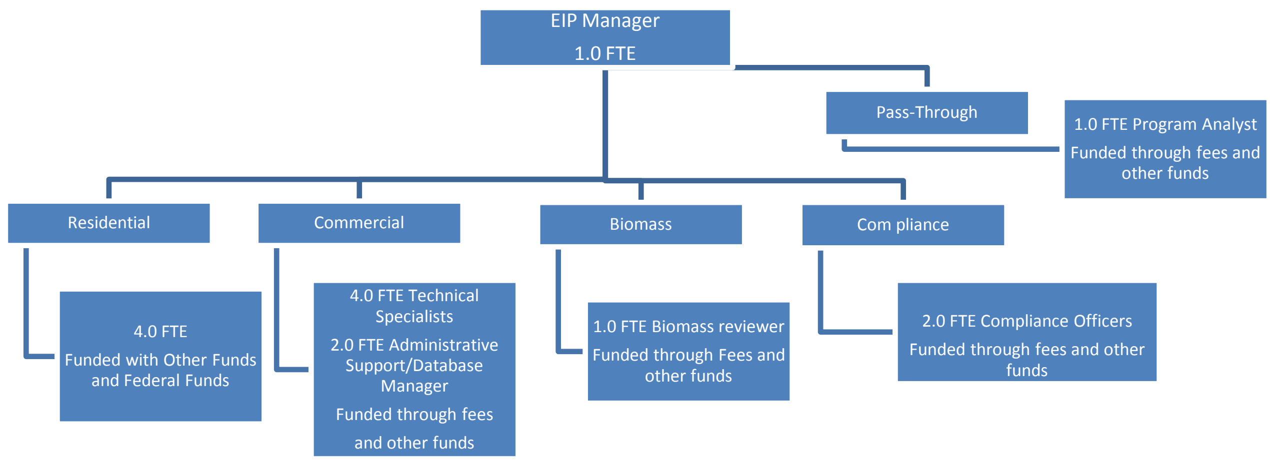
The statutes for the new energy incentives provide for a pass-through process that allows a project owner to transfer an earned tax credit in exchange for a cash payment equal to its net present value. The department determines the net present value of the tax credit at the time the project receives a preliminary certification. Department staff performs administrative and escrow services for pass-through transactions.

The department issues competitive solicitations for tax credits and grants on a schedule that balances the workload over the year. The department estimates 1,280 to 1,355 project applications each year approximately as follows:

- Small conservation projects (under $20,000) – 1,000 applications
- Conservation projects (including commercial, industrial and agricultural processes, building systems, building envelope, co-generation, and sustainable buildings) – 150 to 200 applications
- Conservation projects related to schools and other public buildings – 60 applications
- Transportation projects – 50 to 75 applications
- Renewable energy development grant projects – 20 applications

In addition to the work of the technical staff, Energy Incentives Program personnel process applications, collect and account for fees, manage data, and correspond with program applicants and the public. Data management activities include entering project information to track preliminary certifications against the caps and logging outcomes when the projects are finalized and tax credits are issued. Data collected is used to plan compliance activities, report on compliance outcomes, and provide information on the impact of the program, such as energy savings.

Following is the organizational chart for the unit:



February 19, 2013 Question 6: Why does the department charge a compliance reinspection fee for the Business Energy Tax Credit program?

The Business Energy Tax Credit program was established and operated in a manner that provided the department with the ability to recover program administration costs from the applicants. The program is now sunsetting. No new applications were allowed after April 15, 2011. However, compliance and pass-through activities continue. The costs for these activities were not specified in the original established fees for the program.

HB 5012 adds the pass-through and compliance fees. However, as a result of an oversight when drafting HB 5012, the department needs to seek an amendment to HB 5012 to add the compliance reinspection fee.

In December 2012, the Department of Administrative Services approved the department's request to charge Business Energy Tax Credit applicants a reinspection fee to recover the costs of any return visits in the event that an applicant misses a scheduled compliance inspection appointment and fails to notify the department prior to the scheduled visit. To date, the department has not imposed this fee.

The compliance reinspection fee is expected to be an incentive for project owners to arrive for scheduled appointments and may deter avoidance of compliance review. In addition, the department expects the nature of our compliance review activity to change soon. Because of the small number of compliance officers (2.0 FTE) in comparison to the number of projects, the focus has been on reviewing final applications prior to the award of a tax credit. Compliance officers will soon begin more reviews of ongoing projects to ensure that the required five years of performance are maintained. The department anticipates different challenges in reviewing ongoing projects and expects that the proposed $400 compliance reinspection fee will provide the incentive needed for project owners to ensure physical site access for department staff.

The rate for the compliance reinspection fee was based on an estimate of staff time and travel needed to arrive for an inspection.

February 20, 2013 Question 1: Increases and decreases in staffing, by division

The table below illustrates the distribution of positions across the divisions of the Department of Energy: Planning, Policy and Technical Analysis; Energy Development Services; Nuclear Safety and Emergency Preparedness; Energy Facility Siting; and Administrative Services.

Summary of Positions by Division

Division / Program		2009-11 Actuals	2011-13 Leg Approved	2013-15 GBB
Planning, Policy and Technical Analysis	Research and Technical Services		15	11
	Conservation Programs		12	15
	Division Total	**30**	**27**	**26**
Energy Development Services	Energy Incentive Programs		21	16
	Small Scale Energy Loan Program		8	13
	American Recovery and Reinvestment Act		11	0
	Division Total	**42**	**40**	**29**
Nuclear Safety		6	6	6
Energy Facility Siting		9	11	14
Administrative Services		43	43	41
	Agency Total	**130**	**127**	**116**

During the 2009-11 biennium, the department reorganized into the following organizational structure:

- Energy Development Services: The new organizational structure consolidated all financial activities – the Small-Scale Energy Loan Program and energy incentive programs. The division budget also included most of the American Recovery and Reinvestment Act positions. This program is completed and the positions are no longer budgeted.
- Energy Facility Siting and Nuclear Safety/Emergency Preparedness: Formerly one division, these two functions are now separated into two, reflecting the volume of siting work and distinct responsibilities of the two divisions. (Earlier, siting activities were part of another division while nuclear safety/emergency preparedness activities were a distinct division, as today.)
- Planning, Policy and Technical Analysis: All energy conservation and renewable energy programs were consolidated into one division.
- Administrative Services Division: This division includes positions for all central functions including the director’s office, government relations, communications, internal audit, accounting, budget, procurement, human resources, information technology, and miscellaneous positions (NW Power Planning Council and Governor’s Office).