Oregon

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Subject: HB 2447-1 – Residential Energy Tax Credit

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What the bill does

The Oregon Department of Energy is proposing HB 2447-1 to improve and continue the Residential Energy Tax Credit program. The program provides personal income tax credit incentives to homeowners, renters and landlords for costs paid or incurred to modify or purchase energy efficiency equipment and renewable energy systems.

The bill addresses needed improvements to the program based on our evaluation and analysis during the administration of the current Residential Tax Credit Program. HB 2447-1 proposes the following changes:

- The program will sunset on January 1, 2018, and this concept proposes extending the sunset to January 1, 2022.

- Capping the tax credit incentives for category one alternative energy devices at 50 percent of the total device cost to continue to encourage adoption of eligible devices while placing appropriate limits on the incentive and aligning with the cost cap in place for category two devices.

- Providing the department with rulemaking authority to adjust the amount of the Residential Energy Tax Credit incentives by device based on market conditions. Currently, most category one devices receive a tax credit of 60 cents per first year energy savings in kilowatt-hour, up to $1,500.

Background information

The Residential Energy Tax Credit program sunsets January 1, 2018. The RETC program promotes energy conservation and renewable energy resource development by providing a wide range of personal income tax credit incentives to homeowners, renters and landlords to modify or purchase energy efficient equipment and renewable energy systems. The program continues to be very popular, as a result its success contributes to meeting our state energy efficiency and renewable energy goals by saving energy to create more comfortable and energy efficient homes and producing energy from renewable resources such as solar and wind.

The program has been in use since 1978, and to date has saved or displaced enough energy in Oregon to power over 400,000 households for one year. That is equivalent to the amount of energy needed to power all the households in Portland, Lake Oswego, Salem, Springfield, Ashland, Lincoln City, Bend and Baker City combined for one year.

During the last 35 years, the department has issued more than 570,000 tax credits totaling approximately $172 million for the installation of residential alternative energy devices under this program.

Over the years the legislature expanded the program to encourage the adoption of new energy-savings technologies as they entered the market. RETC provides personal income tax credits for a wide variety of residential products such as: high efficiency gas furnaces, gas water heaters, electric heat pump water heaters, high efficiency natural gas fireplaces, premium efficiency wood and pellet stoves, ducted and ductless heat pumps, geothermal heating systems, duct sealing, solar electric and water heating systems, alternative fuel charging stations, solar photovoltaic systems, and wind systems.

The RETC is uncapped, with the exception of third party solar photovoltaic systems that are limited to $10 million in tax credits per tax year. Tax credit amounts vary based on the alternative energy device and the amount of energy saved or produced. Currently, each tax credit for most category one devices are limited to 60 cents per first year energy savings up to $1,500 and category two devices are limited by an amount per watt or savings up to 50 percent of the device cost or $6,000. Department staff engage with stakeholders on an annual basis to discuss program operation and review energy savings used to calculate tax credit amounts.

In 2011, the legislature gave the department authority to adjust the RETC for solar photovoltaic systems based on market conditions through rulemaking. Over the last three years, the department has reviewed solar market conditions with stakeholders and reduced the incentive.

Identified issues being addressed in HB 2447-1

In 2011 the Legislature passed HB 3672, the bill removed a forty cent per kilowatt-hour tax credit rate for energy efficient appliances in ORS 316.116. With the passage of HB 3672, the department must use the general category one alternative energy device incentive rate of 60 cents per first year energy savings in kilowatt-hours. Tax credits are calculated by multiplying the rate per kilowatt-hour by the first year energy savings, and cannot exceed $1,500 for category one devices. For category one tax credit eligible appliances, this is a 50 percent increase in the incentive rate (previously 40 cents per kWh) and an increase in the overall cap by $500 (previously $1000). HB 3672 (2011) also removed a tax credit limit of 25 percent of the cost of the device. Without this cost cap, some RETC category one devices could receive tax credits for a large portion of the cost of the device. As a result, the department does not have the ability to react and adjust tax credits to changing market conditions, such as reduced retail appliance prices, increase in baseline codes and standards, and in-market incentives from manufacturers, retailers and other entities.

The federal Residential Renewable Energy Tax Credit of 30 percent for solar-electric systems, solar water heating systems, small wind-energy systems, geothermal heat pumps and fuel cells is set to expire December 31, 2016.