



Improvements to DOE Grant Program in section 1721 of H.R. 1, *The American Recovery and Reinvestment Act of 2009*

Background

The downturn in the economy has eroded the equity markets for tax credits. In 2007, over twenty companies participated in the tax equity markets. Today there are only five companies still conducting these transactions. This, in turn, has made it extremely difficult to secure financing to begin solar project development and construction.

According to Hudson Clean Energy Partners, the tax equity markets provided \$5.5 billion in capital in both 2007 and 2008. To meet the Administration's targets of doubling non-hydro renewable energy generation by 2011, the tax equity market will have to increase to \$11 billion in 2009 and \$17.6 billion in 2010, while having lost 75% of the companies participating in these markets. The bottom line is that the tax credit structure for encouraging the expansion of solar energy does not work during a recession.

Proposed Solution

We support the DOE Grant Program created in section 1721 of H.R. 1, "The American Recovery and Reinvestment Act of 2009." However, one important change must be made to ensure that utility-scale solar receives the same treatment as other renewable energy sources under this program. The proposed program should be modified to allow utility-scale projects that are placed in service in 2011 and 2012 to receive the grant payment. In this context, "utility-scale" projects are those that are greater than 25 MW electric or greater than 10 MW thermal.

PART 3—GRANTS FOR SPECIFIED ENERGY PROPERTY IN LIEU OF TAX CREDITS

SEC. 1721. GRANTS FOR SPECIFIED ENERGY PROPERTY IN LIEU OF TAX CREDITS.

(a)(i) In General.—Upon application, the Secretary of Energy shall, within 60 days of the application and subject to the requirements of this section, provide a grant to each person who places in service specified energy property during 2009 or 2010 to reimburse such person for a portion of the expense of such facility as provided in subsection (b).

(a)(ii) Utility-scale Solar Projects Exception.—
The grant period for utility-scale solar projects will be for projects placed in service in 2011 or 2012. For purposes of this section, "utility-scale" means any project greater than 25 megawatts electric or greater than 10 megawatts thermal equivalent.

(b) Grant Amount.—

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Discussion

The House stimulus bill would let owners of certain types of renewable energy projects – including equipment that uses solar energy to generate electricity – to forego the energy tax credit in section 48 of the Internal Revenue Code and apply instead for a grant from the Department of Energy. The amount of the grant is 30% of the basis of the project, the same amount as the energy tax credit for solar. As currently drafted in House version, the grant is payable only to projects that are placed in service in 2009 and 2010.

Utility-scale concentrating solar power, solar thermal or photovoltaic projects are much larger in scale and can run \$1 to \$1.5 billion or higher in capital cost. Large solar projects (25-600 MW) can have construction periods of two years or more, depending on size and technology. The list of southwest projects with signed contracts now in the process of getting final permits has a variety of expected on-line dates from 2011 to 2014. The projects that could commence construction in 2009 and 2010 and be placed in service by 2014 comprise over 4 GW, or over ten times the large solar projects that exist now. These projects will create and support 25,000 quality jobs and billions of dollars in investment, reinvigorating the hard-hit construction and manufacturing industries, and provide other significant, near-term economic benefits.

Developers of utility-scale solar projects finance construction by borrowing from construction lenders. At the start of construction, they must be able to show a commitment from a tax equity investor whose funds will be used at project completion to help take out the construction debt. The weak tax equity market is making it difficult to start construction on projects, and a new project starting construction today would not be completed until 2011 or 2012. Plain and simple, the proposed new grant program would work well for renewable technologies that can complete construction and be placed in service in less than two years, but will not work for utility-scale solar projects.

Therefore, to put long lead-time solar projects on equal footing with other renewable energy projects, it is necessary that a clause be added to Section 1721 that shifts the eligibility period for utility-scale solar projects to 2011 and 2012, rather than 2009 and 2010.