



Alternative Energy Report

July 4, 2008
Special Report

Historic Energy Development Bill Accompanies Budget Passage

The General Assembly today passed a series of major spending and borrowing legislation, including the 2008-2009 state budget, \$2.4 billion in borrowing for infrastructure and economic development, and what was called a “first step” to energy independence.

After 18 months of often contentious battles over amounts, funding sources and expenditures, legislators passed Pennsylvania’s Alternative Energy Investment Act, which provides \$500 million for grants, loans, rebates and other funding for alternative and clean energy production projects and energy conservation projects, along with an additional \$150 million in loans and tax credits for homeowners and businesses. The bill includes more than a half dozen recommendations that ERG has been advocating for the last year and a half. (See ENERGY below for AEIA details)

State officials were unable to complete work on the energy package. Ironically, the major impetus for developing the energy independence strategy, the anticipated spikes in utility bills when electric rate caps end, remains unresolved. Other key elements of the Governor’s proposal - efforts to phase-in rate spikes when electric rate caps end, electric conservation efforts and changes to utilities’ wholesale energy purchasing were also held over without votes. Governor Rendell said Friday night that some progress had been made, but not enough to bring a proposal up for a vote, but that he would continue to work with the Legislature over the summer to prepare for a potential vote when the Legislature returns for its short fall session.

Tonight the Governor signed the state 2008-2009 budget (HB 1389), a \$28,264,430,000 spending plan. The budget includes a 3.81 percent increase over the state’s 2007-2008 budget, but does not raise taxes or fees; keeps the Capital Stock and Franchise Tax phase out in place, and provides some additional funds for energy related programs (see BUDGET ENERGY BRIEF below.)

In addition to the Alternative Energy Investment Act, the House and Senate passed two other bills as part of the energy package, including a mandate for sales of biodiesel blends and cellulosic ethanol blends in Pennsylvania after certain production and infrastructure requirements are met, and a bill to set aside up to \$5 million for subsidies for biodiesel producers. (See BIOFUELS LEGISLATION below)

The General Assembly also passed legislation which will have the state borrow \$800 million increase in borrowing for the Redevelopment Assistance Capital Program which will be spent over the next four years for which provides for local construction projects including economic development projects, convention centers, stadiums and concert halls

In addition to the energy fund and the RACP increase, Rendell and legislative leaders said the state will borrow the following for infrastructure improvements: \$350 million to repair 414 of the state’s most dangerous bridges; \$15 million for airport and railroad capital improvements; and \$800 million for water and sewer projects and high-hazard

dams. An additional \$400 million in borrowing for water and sewer projects requires voter referendum approval in the fall.

Energy - Alternative Energy Investment Act

Special Session House Bill 1, sponsored by Rep. Eugene DePasquale (D, York) is on the Governor's desk for his signature, with provisions to borrow \$500 million which is to be spent over the next two years, funds another \$100 million for consumer energy programs, and provides investment tax credits of \$50 million for alternative energy projects over the next seven years.

The bulk of the AEIA funding will be passed through the Commonwealth Financing Authority, with \$100 million in consumer energy programs going to the Department of Environmental Protection.

Since January of 2007, ERG has been working with the Rendell Administration and General Assembly to secure an energy package that meets its goals. ERG has recommended provisions for grants, guaranteed loans, tax credits, start up funding for high tech projects, infrastructure funding for biofuels, and support for research and development efforts for energy technology and approval of biofuels for use by manufacturers. The package passed by the legislature includes provisions for all these recommendations.

In February 2007, Governor Rendell proposed an \$850 million fund for energy development, which was to be financed through an electric service benefits charge on utility bills. His proposal had included additional funds for venture capital firms, a "cool appliance sweep" program of rebates for purchases of energy efficient appliances.

The AEIA funding provisions included in HB 1 include:

- \$40 million to the Ben Franklin Technology Partners for energy related investments in early stage activities.
- \$165 million for grants or loans for clean energy projects for clean energy and alternative energy projects – no solar projects are eligible for loans and grants under this funding. This item includes rail freight funding for transportation and distribution of alternative fuels.
- \$25 million for support for geothermal technologies, including projects that use ground, groundwater and mine water as a thermal energy source, or wind energy projects.
- \$25 million for loans or grants for projects to meet Energy Efficient Standards in buildings. The Department of General Services will adopt standards for certification of High Performance buildings.
- \$25 million to small electric generating projects with coal as a primary fuel source for pollution control projects.
- \$80 million for grants and loans for solar energy production projects.
- \$100 million in a combination of loans, grants, reimbursements or rebates to individuals for home and small business solar energy projects. Total assistance limited to 35% of the purchase and installation price of solar or solar PV energy system. Minimum and maximum KW capacity limits are left to DEP.

- \$40 million (\$10 million per year for four years) is transferred to the Department of Public Welfare's Emergency Energy Assistance Fund, for use when the Governor declares an emergency due to weather, disasters or high energy prices is a threat to the public health and federal home energy assistance funds are insufficient.

All projects must have a useful life of at least four years and be located in PA. Funds for projects are limited to \$30 million per company or project.

Consumer Energy Program

Under the Consumer Energy Program provisions, DEP will receive a total of \$100 million over seven years for energy conservation projects. The funding will be spread out with \$15 million each year for 2008-2013 fiscal years; \$12 million for 2013-2015; \$10 million for 2014-2015; and \$8 million for 2015-2016. None of these funds are available for solar projects.

Of these funds, \$92.5 million is committed to loans, grants, reimbursements or rebates to homeowners and small businesses up to 25% of the purchase and installation price of these conservation projects.

An additional \$5 million will be used for the Home Energy Efficiency Loan Fund (605A), and \$2.5 million is earmarked for loans and grants to purchase and install of data center consolidation projects.

The Home Energy Efficiency Loan fund will cover up to 25% of costs for projects such as insulation and duct work, purchase of energy efficient windows, doors, heating or cooling systems, roof repairs and replacement. Under the program, loans will be from \$1,000 to \$10,000 at a fixed interest rate, with loans limited to households whose Adjusted Gross Income does not exceed 150% of the area median income or statewide median income.

Alternative Energy Production Tax Credits

The Act establishes a program of tax credits for investment in alternative energy production, totaling \$50 million from 2008-2009 through 2015-2016. Tax credits will be equal to 15% of the total amount of development, equipment and construction costs, up to \$1,000,000 per taxpayer. The applicable tax credits may be carried forward five years, and can be sold or assigned if no claim is filed within one year from the date the credit is approved.

The total amount of credits approved are limited to \$5 million per year from 2008-2012, \$8 million in 2012-2013; \$10 million each in 2013-2015; and \$2 million in 2015-2016.

During final consideration of the AEIA, Rep. Scott Hutchinson, R-Venango, strongly opposed the bill, saying did not take enough advantage of Pennsylvania resources, that its regulations could stifle the development of new forms of energy and increase energy costs over the long term while having no positive effect on energy independence. "The true way to energy independence is to responsibly harvest proven domestic resources," such as the Marcellus shale deposits, he said.

"This is a truly bad bill," he said, noting that the Commonwealth Finance Authority, is a "super-bureaucratic agency ... I don't know how they developed an expertise to pick

winners and losers in the energy field,” he said.

Rep. Stanley Saylor, in support of the bill, said, “This bill is the beginning, it is not the end of what this state needs to do to become energy independent.”

The Senate adopted the bill 47-3, then the House approved it 172-31.

Biofuels Legislation – Mandates and Subsidies

The General Assembly also passed two pieces of legislation establishing conditions for mandates for sales of biodiesel and cellulosic ethanol blends to the public, and establishing 75 cent per gallon subsidies for some Pennsylvania biodiesel producers.

HB 1202, sponsored by Rep. Mike Gerber (D-Montgomery) will require all sales of diesel fuel and gasoline for on-road use meet certain quality and content requirements after in-state production triggers are reached.

Under the bill, administered by the Department of Agriculture, all diesel fuels will have to contain at least two percent biodiesel one year after in-state production of biodiesel reaches 40 million gallons. When production reaches 100 million gallons, B5 blends are mandated; at 200 million gallons, B10 and at 400 million gallons, B20.

The law will require all gasoline sold in Pennsylvania for on-road use to contain 10 percent cellulosic ethanol one year after cellulosic production levels reach 350 million gallons.

As the bill is written, a biodiesel mandate could not be fully implemented until 2010. Cellulosic ethanol is still in the research and development stage.

The bill requires biodiesel produced in the commonwealth to meet ASTM standard D-6751 for biodiesel and biodiesel blends, and tasks the Department of Agriculture with establishing regulations to enforce these provisions.

The bill requires the DEP and PennDOT to hold public hearings, and to jointly certify that there is sufficient infrastructure to handle the storage, transportation, rail needs and distribution of these renewable fuels statewide six months before any mandate would go into effect.

The bill allows the substitution of coal-to-liquid diesel fuels when such fuels’ carbon emissions are fully offset. It also allows the use of renewable diesel to replace up to 25 percent of the total biodiesel requirement in meeting the mandates, a concession to Conoco-Phillips, which has the ability to reprocess animal wastes into its diesel fuels. And it allows the use of renewable fuels to replace cellulosic ethanol in meeting that mandate if the fuels are made from renewable sources and meet the emissions profile of cellulosic ethanol.

The Senate adopted HB 1202 47-3 on Thursday, and the House approved it 149-54 Friday.

Special Session SB 22, sponsored by Sen. Robert “Tommy” Tomlinson (R, Bucks) establishes a \$5.3 million allocation under DEP’s alternative fuels incentive grant program to fund incentives for biodiesel production in the Commonwealth. Under the bill, biodiesel producers will receive a subsidy of up to 75 cents a gallon, capped at \$1.9 million per producer. The bill also requires all biodiesel under the program to meet ASTM standards.

Because of the limited funding and the cap, some producers could receive 75 cents per gallon, but others will receive from as little as 3 cents per gallon to 39 cents per gallon.

More than an hour of debate over this discrepancy took place in the House, as a series of amendments were offered to make the subsidies more equitable, including one to replace the subsidies with tax credits for producers and retailers. The amendment to provide tax credits came within four votes of passage despite the fact that SB 22 was part of the budget deal crafted by leadership, and members were urged against any votes that might derail that process.

SB 22 was approved Friday morning by the House 177-26, and then by the Senate 46-4 Friday afternoon.

Climate Change Provisions

The state Climate Change Act was passed by both the House and Senate and requires the DEP to prepare and publish a report on the potential impact of climate change in PA. Under SB 266, sponsored by Senator Erickson (R-Delaware), the DEP will evaluate the recommendations of climate change action plans prepared by counties and municipalities within PA detailing scientific predictions regarding changes in temperature and precipitation patterns and amounts in PA that could result from climate change, the potential impact of climate change on human health, the economy and the management of economic risk, forests, wildlife, fisheries, recreation, agriculture and tourism in PA.

It also requires PA to study economic opportunities created by the potential need for alternative sources of energy, climate-related technologies, services and strategies; carbon sequestration technologies; and capture and utilization of fugitive greenhouse gas.

Budget Energy Briefs

Some additional notes on energy related spending in the final budget passed today:

- The Ben Franklin Technology Development Authority Fund, a state provision, will see its funding increase by nearly 80 percent, or \$44.4 million, to \$100 million;
- Energy conservation programs and low-income energy assistance will see their funding increase nearly 20 percent each to \$195,000 and \$292,000 respectively;
- Federal funds for LIHEABG – weatherization (energy conservation) programs are increased 25% to 30 million.
- Infrastructure and facilities improvement grants are increased \$7 million (35%)
- Several other programs which have been used to support energy development projects will see large reductions, including major cuts to the opportunity grant program of \$17 million, or 38 percent, from \$45 million to \$28 million. The customized job training program will see a cut of \$2.7 million, or 12 percent, from \$22.5 million to \$19.74 million.

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