

The Clean Energy Bonds Act of 2007 H.R. 1965

The capital cost to install new renewable generation capacity is three to ten times more expensive than the cost to install conventional gas generation. Given these costs, federal production tax credits have been made available over the past decade to investor-owned utilities and private developers for renewable generation from wind, closed loop biomass and poultry waste.

In 2005, Congress passed legislation sponsored by Rep. Ron Lewis to expand these incentives to public utilities and rural electric cooperatives through the creation of a new bond category. These not-for-profit utilities are able to utilize the Clean Renewable Energy Bonds (CREBs) to more easily build renewable generation facilities.

How it works

The electric cooperative or cooperative lender issues the tax credit bond. With a conventional bond, the issuer must pay interest to the bondholder. But with a tax credit bond, the federal government pays a tax credit to the bondholder in lieu of the issuer paying interest to the bondholder. Treasury sets the rate of the credit on a daily basis, in an amount that permits the issuance of the tax credit bond without discount and without interest cost to the issuer. The bondholder can deduct the amount of the tax credit from their total income tax liability. The bonds are taxable, so if the credit is worth \$100 and the bondholder is in the 35 percent tax bracket, the bondholder would deduct \$65 from their tax liability.

Extension of the program

Under current law, the CREBs program expires in 2007. H.R. 1965 would expand the program for another two years, and allow for increased funds to be made available. In addition, the legislation would create a set-aside for rural electric cooperatives, requiring that \$375 million of the \$1 billion bill each year be reserved. Extension and expansion of CREBs is necessary to ensure that public utilities and rural electric cooperatives are able to construct generation facilities using renewable technologies.