Title: Policy Analysis of the Energy Freedom Act and the Tax Credit Extension for Renewable Energy Property

Type: Research

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Description

This white paper examines the possible effect of two proposed pieces of legislation in North Carolina: the Energy Freedom Act and the extension to the renewable energy property tax credit. Both bills seek to decrease the cost of renewable energy projects. In the past, high costs have been a significant barrier to successful projects. The Energy Freedom Act would enable third party sales of electricity to all customers (Downey, 2015). The tax credit extension would retain the 35 percent subsidization of the installation of new renewable energy projects until the end of 2019 (Lowe & Davis, 2015). The current tax credit is set to expire at the end of 2015.

To explain the economic implication of the tax credit extension, I researched what the effects of the policy have been so far. I found that investment in clean energy projects have increased by about 1700 percent since 2007, the year the tax credit took effect. Solar photovoltaics were 82% of the total investment in clean energy projects during this time period (RTI International, 2015, pp. 2-2). Renewable energy has also been a tool for rural investment since the tax credit was enacted. Of the $2.6B invested in renewable energy projects since 2008, more than $1.9B was in Tier 1 and Tier 2 counties (RTI International & ScottMadden Management Consultants, 2015). Tier 1 and 2 counties are so identified for their economic distress, measured by unemployment rate, median household income, population growth, and property tax base.

To analyze the possible effect of the Energy Freedom Act, I considered case studies in two states that have passed legislation related to third-party power purchase agreements: Arizona and California. In both states, generation from renewable energy resources increased dramatically after their governments made changes allowing for power purchase agreements from third-party owned systems (U.S. Department of Energy, 2015). One way of decreasing electricity costs is by bypassing the utility to provide the electricity to the consumer. Many businesses in North Carolina support the act because it would decrease their electric utility bills (Downey, 2015).

While tax incentives and credits give short term benefit, they provide no long term certainty for investors, especially concerning long term projects. Investors in North Carolina's renewable energy projects may disinvest from projects and firms in the state if state tax credits expire at the end of 2015.

In conclusion, I found that the General Assembly should strongly consider passing both pieces of legislation. The past success of the renewable energy investment tax credit in creating an inventive structure conducive to renewable investment merits its extension until at least the end of 2019. The

adoption of the Energy Freedom Act to become law would help grow North Carolina's renewable energy sector and increase its share of electricity generated by renewable sources because businesses want to pursue power purchase agreements to lower their electricity costs. Given the limited scope of this research, I hope to continue following the debate surrounding both pieces of legislation to determine why legislators would oppose the tax credit extension and the Energy Freedom Act.

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