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Energy, Carbon Capture Tax Credits Added to Spending Bill (2)

Expired renewable energy tax credits would be restored in the latest Senate budget deal that also includes $89 billion in disaster relief.

The ''Bipartisan Budget Deal,'' released early Feb. 8, would also increase the budget cap for defense spending and raise the debt ceiling until March 2019. It would set spending allocations through the end of September 2019.

The Senate could vote Feb. 8 on the deal, which also includes a continuing resolution to keep the government operating at fiscal year 2017 spending levels until March 23. Congressional appropriations committees would determine future spending levels for programs and agencies.

The restored ''orphan'' energy tax provisions had expired at the end of 2016, affecting commercial and residential small wind turbines, geothermal heat pumps, fuel cell properties, and combined heat and power systems. Under the latest deal, the tax credits would phase down over five years retroactive to Jan. 1, 2017, concluding Jan. 1, 2022.

This would put these orphan tax credits on par with those included in the December 2015 omnibus bill, which provided investment incentives on a phased-down timeline for wind projects (through 2019) and for solar projects (through 2022 for residential and 2023 for commercial).

'Fix is Long Overdue' ''This fix is long overdue and just good common sense. With solar parity, distributed wind power—and other clean tech—will thrive, expanding jobs and manufacturing in rural America,'' Lloyd Ritter, federal policy director for the Distributed Wind Energy Association, representing small companies, told Bloomberg Environment.

Meanwhile, the Heritage Foundation, a conservative think tank that opposes tax credits for the energy industry, took issue with the tax extensions and said technologies should compete in the marketplace.

Tax credits ''continue to extend the politicization of investments,'' Nick Loris, an economist with the foundation, told Bloomberg Environment. ''When a company receives a targeted tax credit, it gives one company or technology an advantage over an unsubsidized competing technology.''

The bill also includes a modification to the nuclear production tax credit that would apply to all new nuclear power plants coming online up to a nationwide capacity of 6,000 megawatts generated. The credit previously applied to new nuclear plants operating before Dec. 31, 2020, but plants in operation after that date would now be eligible.

This credit currently would only benefit Southern Co.'s Plant Vogtle project under construction in Georgia, which doesn't expect its two new reactors to be operational until 2021 and 2022.

State of Play In the Senate, Republican and Democratic leaders touted the deal as a first step toward new cooperation by the parties. But Senate passage bogged down late Feb. 8 as Sen. Rand Paul (R-Ky.) insisted on getting his own amendment to the floor.

In the House, the Republican leadership needed to cobble together 218 votes to pass the package and would probably need at least some Democratic support to do so. Both the House and Senate were expected to be working late into the evening aiming for final passage before midnight, when the latest short-term spending bill was to expire.

Sen. Sheldon Whitehouse (D-R.I.), who has been a long-time clean energy advocate, welcomed the deal on energy tax extenders.

''I'm delighted we're caught up on the orphans and I'm super delighted that we got the carbon capture piece in,'' he told reporters.

The carbon capture provisions mirror those in the FUTURE Act (S. 1535) and backed by an unlikely coalition that includes Democrats like Whitehouse but also Republican Sens. Shelley Moore Capito (R-W.Va.) and John Barrasso (R-Wyo.), chairman of the Senate Environment and Public Works Committee.

Meanwhile, Senate Majority Whip John Cornyn (R-Texas) said he continues to oppose the tax extenders package process.

''I have problems with the whole process with the extenders. Because as opposed to them being considered individually on their own merit, they're stuck into a big package like this, and if you want one, then you essentially have to support all of them,'' he told Bloomberg Environment.

Cornyn said going forward he wants to implement changes to ensure future tax extensions can be voted on individually.

Disaster Funding, Flood Control The bill also includes significant funding for disaster relief, totaling $89 billion divvied among federal agencies to help recovery efforts from Hurricanes Maria, Harvey, and Irma in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands, as well as the California wild fires.

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The bill would provide, for example, additional funds for Environmental Protection Agency emergency relief efforts—including more than $6 million to address Superfund sites and $7 million for fixing leaking underground storage tanks affected by the recent hurricanes. It also would provide $50 million in additional funds for EPA state and tribal grants to cover hazardous waste cleanup and other waste management needs stemming from the storms.

One of the biggest winners in the deal would be the Army Corps of Engineers, which would get more than $17 billion in disaster-related funding. The vast majority of this sum, more than $15 billion, would go toward building flood- and storm-control projects.

The amount is roughly three times the Corps of Engineers' typical annual budget.

''The Corps can do world-class things if they're guaranteed the money up front,'' said Deb Calhoun, senior vice president of the shipping industry advocacy group Waterways Council, which has often pushed the Corps to spend more on navigation aids for inland waterways.

''We often see challenges the Corps has because they're always at mercy of congressional appropriations,'' Calhoun told Bloomberg Environment.

Additionally, the spending bill would allow Puerto Rico to once again access a key federal water infrastructure loan program called the State Revolving Fund, or SRF.

The island's government has been cut off from this fund, run through the EPA, because the island's crippling debt problems had made it unable to pay back these loans in a timely manner.

Carbon Capture Credit In addition, the budget deal would extend tax credits for carbon capture and storage projects consistent with bipartisan legislation introduced in both houses.

A coalition of coal companies, utilities, labor unions, and environmental groups has long urged Congress to pass the tax credit extension, either as part of a broader spending bill or as separate legislation.

''The carbon capture tax credit represents a critical investment in research that will help ensure a diverse fuel supply and could lead to important technology innovations,'' Jim Matheson, head of the National Rural Electric Cooperative Association, said in a statement.

The language expands the so-called 45Q tax credit, which had initially focused on carbon capture projects paired with enhanced oil recovery or geologic storage, to include direct air capture, as well as the conversion of captured carbon into useful products. In addition, the language raises the value of the tax credit and removes an industry-wide cap on credits to parallel tax incentives for wind and solar.

''45Q is a game changer,'' Fatima Maria Ahmad, a fellow with the Center for Climate and Energy Solutions, told Bloomberg Environment. ''Up until now, without the right financial incentives, it was too expensive to commercially deploy.''

Ahmad said the tax credit extension makes carbon capture more attractive to investors interested in lower-carbon technologies.

Walker Dimmig, a spokesman for NET Power, which opened a novel natural gas carbon capture demonstration project in Houston, said 45Q is the ''essential first mover'' to get carbon capture off the ground.

''I do believe in the next year or two, you'll see projects announced that otherwise weren't going to move forward,'' Dimmig told Bloomberg Environment. In turn, ''if some projects start moving forward, that will help people see that there's a market and a technology space and value here that deserves further attention.''

The extended tax credits would also pave the way for more ''first-of-its-kind'' carbon capture projects, Erin Burns, a policy analyst with Third Way, told Bloomberg Environment. In addition, by lowering the amount of carbon dioxide required to be annually captured to earn the credit, it opens it up to smaller demonstration projects, which Burns said is significant for the industrial sector.

''Right now, carbon capture is one of the only ways to decarbonize the industrial sector,'' Burns said. ''So that's a really important change from a climate perspective.''

Energy Efficiency Additionally, the bill also would retroactively apply tax credits for three tax code provisions that provide incentives for energy-efficiency improvements in residential and commercial buildings.

The tax credits expired in 2016 and would be applied retroactively for relevant technologies installed before Dec. 31, 2017. Kateri Callahan, president of the Alliance to Save Energy, a nonprofit alliance of businesses, consumer groups and environmental organizations, stressed the job and money-saving benefits of the energy efficiency tax credits.

''This is a step in the right direction, but what we really need to incentivize behavior is predictable, stable, forward-looking policy,'' she told Bloomberg Environment. ''These incentives encourage energy efficiency in homes and buildings, which account for about 40 percent of U.S. energy consumption.''

She said she was disappointed the credits would not be extended going forward. ''We're missing a huge opportunity, because these homes and buildings will be in the ground for decades,'' Callahan said.

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