Proposed Economic Stimulus Tax Provisions for the Hydropower Industry

Hydropower is the nation’s first and most flexible renewable energy resource to achieve a sustainable, clean and resilient electric system in North America. Tax incentives are one of our most effective federal policy tools to accelerate the deployment of clean energy. Currently hydropower receives only half the credit available to other renewable energy sources. That difference tilts investment and job creation away from these projects and leaves potential private sector dollars on the table. Providing hydropower with a full Production Tax Credit will create a burst of investment and unlock the huge job and energy potential of this technology.

Within the hydropower sector, certainty in tax policy is needed to accommodate the longer development lead times for projects. Also, new facilities on existing dams, in particular, are often highly capital intensive and tax credits are an important tool for attracting tax equity capital investment. We welcome policies that provide equitable access for all hydropower, marine energy, and pumped storage, which will attract substantial private investment and foster job growth and economic benefits throughout the country.

At a time when the country is seeking ways to increase the deployment of clean energy resources and to strengthen grid reliability and resiliency, we cannot allow tax policy to disadvantage a premier renewable technology like hydropower.

Given the significant potential for job creation, NHA supports these infrastructure incentives:

**Extend and Expand the Production and Investment Tax Credits**

Long-term extensions of the Production Tax Credit (PTC) and Investment Tax Credit (ITC) for hydropower projects are needed to accommodate the longer regulatory and development lead time associated with these projects. Since these projects are typically highly capital intensive, such incentives are important for attracting tax equity capital investments. The continued availability of the credit for the developing marine energy industry is also critical as the sector moves toward commercial deployment.

Policies that allow PTC/ITC-eligible taxpayers to monetize the value of the tax credits are also needed. Examples include the Department of Treasury’s Section 1603 grants in lieu of tax credit program or the elective payment provision of the GREEN Act. The one-time payment under the Section 1603 program would provide a more efficient direct investment into the hydropower sector. New proposals like that in Section 104 of the GREEN Act would allow investor owned utilities, independent power producers, as well as public power entities to receive the benefit of the credits upfront in the form of a refund of an overpayment of tax, expanding the pool of investors for eligible projects.

**Allow Energy Storage to Qualify for the ITC**

Expanding our nation’s energy storage capacity is essential to ensuring a secure and stable grid as well as integrating more renewable energy – and today, pumped storage technology is the most cost-effective, large-scale storage method. Currently, there are no tax incentive for new energy storage project development, which hinders deployment and further innovation. Moreover, the enactment of
an elective payment provision for energy storage will help foster pumped storage development and help secure the resilient grid we need in these challenging times.

**Extend the Safe Harbor Provisions**

Hydropower facilities, both conventional and pumped storage, have the longest and most complex development timelines of any of the renewable technologies, with projects taking 10 years or longer from the start of the licensing process through construction to being placed in service. Once physical work on a qualified facility has begun, it can take the project several years to complete the construction process and be placed in service. Hydropower projects – like those of other renewable technologies – would benefit from an extension of the continuity safe harbor for projects that have already commenced, but experienced delays due to supply chain disruptions from the pandemic.

**Establish a Critical Hydropower Infrastructure Tax Credit**

The current PTC and ITC tax provisions for existing hydropower facilities focus narrowly on encouraging incremental additions of capacity or efficiency improvements, yet infrastructure investments for improved dam safety and for environmental upgrades, such as fish passage technologies, also need to be incentivized. The existing credit should be extended long-term and modified to encourage asset owners to capital investments.

**Fund Build America Bonds (BABs) and Clean Renewable Energy Bonds (CREBs) Programs**

Many hydropower projects were financed using now expired BABs and CREBs programs. These programs could be used as a tool in a new infrastructure package. A significant portion of hydropower projects in the U.S. are owned by public power providers, electric cooperatives and state and local governments. These programs were a very effective tool that helped these entities to grow America’s hydropower resources, with little cost to the taxpayer. NHA supports restoring full BABs and new CREBs payments beginning in 2020, by either shielding these credit payments from sequestration or restoring the cut payments through an annual “gross-up” payment, including leverage the budget processes and infrastructure package. NHA also supports reclassifying BABs and new CREBs so that they will not be subject to future sequestration.

**Continue Tax Exempt Financing**

Historically, interest paid on municipal bonds is exempt from federal tax, which allows entities to issue bonds at reasonable rates and assists in meeting their capital needs. Without this interest exclusion, higher borrowing costs would limit investment in critical infrastructure, including energy infrastructure like hydropower projects. Ensuring the continuing availability of this tool is important and must be maintained. Hydropower projects could also benefit from more private use flexibility and access to cost effective private activity bonds.

**Fund the 48C Advanced Energy Manufacturing Investment Tax Credit**

NHA supports restoring funding for the Section 48C tax credit for the investments in manufacturing facilities for clean energy technologies. These tax credits have been essential to growing domestic clean energy manufacturing and increasing American clean energy exports. The U.S. hydropower industry is already responsible for manufacturing facilities across the country, and these credits would help the industry to expand and create good-paying jobs during the economic downturn.


**Extend the Electric Vehicle Tax Credit**

Hydropower, pumped storage and marine energy resources are clean, renewable and reliable sources of electricity that have a critical role to play in transitioning the transportation sector. In addition to the environmental benefits, a transition to an electric transportation system would reduce the nation’s dependence on foreign oil and enhance its energy security. By increasing the electric vehicle tax credit to eligible vehicles including new fuel cell vehicles, the hydropower industry can help achieve this goal as the largest provider of renewable electricity and energy storage combined in the United States.