



Ohio Legislative Service Commission

Bill Analysis

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(As Passed by the Senate)

Sens. Widener, Goodman, Jones, Wagoner, Fedor, Harris, D. Miller, R. Miller, Morano, Turner, Wilson, Strahorn

BILL SUMMARY

Alternative energy revolving loan program

- Expands the low-cost solar panel revolving loan program to include assisting owners of real property within a municipal corporation (rather than residents) with the installation and implementation of alternative energy technologies and energy efficiency technologies, products, and activities (instead of just solar panels) on their real property.
- Specifies that alternative energy technologies include solar photovoltaic or solar thermal energy, geothermal energy, and certain wind, biomass or gasification facilities defined in the bill as customer-generated energy projects.
- Provides that energy efficiency technologies, products, and activities are those that reduce energy consumption, allow for the reduction in demand, or support the production of clean, renewable energy.
- Renames the low-cost solar panel revolving loan program the alternative energy revolving loan program.

Special energy improvement projects within special improvement districts

- Expands the authority of a special improvement district to undertake special energy improvement projects to include wind energy projects, geothermal energy projects, biomass energy or gasification projects, and energy efficiency improvements.
- Permits special improvement district plans for public improvements and public services to include hiring consulting and energy auditing services and makes those services allowable plan costs.

Energy companies and energy facilities

- Creates, as a new class of public utility for taxation purposes, an energy company engaged in the business of generating, transmitting, or distributing electricity from an energy facility with an aggregate nameplate capacity of more than 250 kilowatts.
- Specifies that an owner or lessee of an energy facility with an aggregate nameplate capacity of 250 kilowatts or less is not supplying electricity to others and therefore is not a public utility for taxation purposes.
- Specifies that political subdivisions that own an energy facility, regardless of the facility's nameplate capacity, are not a public utility if the purpose of the facility is to supply electricity for the subdivision's own use.

Qualified energy projects

- Exempts from property taxation, for tax years 2011 and 2012, the tangible personal property of qualified energy projects, certified by the Director of Development, that provide electric power through an energy facility that generates electricity from energy resources including renewable energy resources, clean coal technology, advanced nuclear technology, and cogeneration technology.
- Specifies that the exemption does not apply to any facility used to supply electricity before January 1, 2010.
- Requires a qualified energy project to meet certain conditions in order to be eligible for the property tax exemption as follows:
 - On or before December 31, 2011, the owner or lessee of the project has obtained a Power Siting Board certificate, if applicable, or any other required approval, consent, permit, or certificate for the construction or initial operation of the project;
 - Project construction must have begun on or after January 1, 2009, and before January 1, 2012;
 - A board of county commissioners of a county in which property of a qualified energy project is located has approved the exemption by resolution.
- Grants a tax exemption to qualified energy projects for tax year 2013 and thereafter if the property was placed into service before January 1, 2013, and certification for the project has not been revoked.

County approval of tax exemption

- Requires the Director to send a copy of a certification application to each board of county commissioners in which any energy project is located and each taxing unit within each affected county.
- Requires a board of county commissioners, upon receipt of an application for a tax exemption, to adopt a resolution to approve or reject the application.
- Permits a board of county commissioners to specify additional requirements a project must meet to be eligible for the exemption, including modifying the service payment in lieu of the tax required under the bill.

Qualified energy project certification

- Requires the Director of Development to certify an energy project as a qualified energy project if:
 - An application is received on or before September 30, 2010;
 - The application was approved by a resolution of the board of county commissioners of at least one county in which the project is located; and
 - The Director determines that the person submitting the application, upon placement into service, is an energy company.
- Requires the Director to deny a certification application or revoke the certification of a qualified energy project for the owner or lessee's failure to comply with any requirements of the bill.
- Makes an energy project ineligible for exemption from taxation for the tax years after the one in which a revocation occurs.

Real property tax exemption

- Extends the tax exemption to the real property of an energy facility that is a qualified energy project for any tax year for which the tangible personal property tax for the same project is exempted.

Criteria for qualified energy projects

- Requires owners and lessees of qualified energy projects to do the following:
 - Comply with applicable regulations;

--File a certificate of completion or partial completion as required under the bill;

--Employ full-time equivalent employees domiciled in Ohio in the construction, installation, and operation of qualified energy projects, in accordance with the Job and Economic Development Impact Model, unless the Director of Development allows departures from the requirement;

--File a construction and installation report and annual operation reports concerning the numbers of full-time equivalent employees domiciled in Ohio employed at the project;

--Repair to preconstruction condition all roads, bridges, and culverts affected by the project;

--Provide or facilitate training for fire and emergency responders in handling emergencies at the project, and provide proper equipment for their use in emergencies, at the owners and lessees expense;

--Offer to sell power and renewable energy credits, unless exempted by the bill, to electric distribution utilities or electric service companies that have issued requests for proposals for such power and credits, before selling to anyone else;

--Make annual service payments of \$7,000 per megawatt of nameplate capacity of project facilities for every year the project is exempt from taxation.

- Requires the Director of Development to adopt, within 90 days after the bill's effective date, and in consultation with the Tax Commissioner, rules to implement the provisions of the bill.

Taxation of energy company and energy facility property

- Exempts from taxation any fixture or other real property included in an energy facility with a capacity of 250 kilowatts or less if construction or installation of the facility is completed on or after the bill's effective date.
- Specifies that, if an energy facility is installed or constructed on a portion of land valued at its Current Agricultural Use Value (CAUV), the remaining part of the land still qualifies for CAUV, and no tax savings recoupment charge applies, if the remaining portion of the tract continues to meet the qualifications for CAUV treatment.
- Specifies that the tangible personal property of an energy company, not exempted under the bill for tax years 2011 and thereafter, is taxable property if on December

31, of the preceding year, the property was located in Ohio and was either owned or leased by the company.

- Specifies the true value of energy conversion equipment of an electric company, rural electric company, or energy company under the tax law and specifies the percentages at which the taxable property of conversion equipment and production equipment is assessed and in what proportion the taxable value is to be apportioned among taxing districts in which the property is physically located.
- Exempts from the sales and use tax energy conversion equipment, generally defined as tangible personal property connected to wind turbine towers, solar radiation collector areas, or any other property used to generate electricity from a renewable energy resource, clean coal technology, advanced nuclear technology, or cogeneration technology.
- Exempts from the annual public utilities excise tax the gross receipts of an energy company generating, transmitting, or distributing electricity from an energy facility with an aggregate nameplate capacity of more than 250 kilowatts thus making the gross receipts subject to the commercial activity tax.
- Specifies that the cost of compliance calculated in determining whether an electric distribution utility or electric services company qualifies for an exemption from alternative-energy portfolio benchmarks should be calculated as though there were no tax exemption for a qualifying energy facility.

PUCO study

- Requires the PUCO to conduct a study to review the condition of reactive power in Ohio and issue a report to the General Assembly not later than one year after the bill's effective date.

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CONTENT AND OPERATION

Low-cost alternative energy revolving loan program

(R.C. 717.25)

Program parameters

Current law authorizes the legislative authority of a municipal corporation to establish a low-cost solar panel revolving loan program to assist residents of the municipal corporation to install solar panels at their residences. The bill renames the program the low-cost alternative energy revolving loan program and expands it to assist owners of real property within the municipal corporation (instead of just municipal corporation residents) with installing and implementing alternative energy technologies (instead of just solar panels) or energy efficiency technologies, products, and activities on their real property.

Under the bill alternative energy technologies include solar photovoltaic and solar thermal energy projects, geothermal energy projects, and customer-generated energy projects. A "customer-generated energy project" means a wind, biomass, or gasification facility for the generation of electricity that is either of the following:

(1) A facility that is designed to have a generating capacity of 250 kilowatts of electricity or less;

(2) A facility that is designed to have a generating capacity of more than 250 kilowatts of electricity that is operated in parallel with electric transmission and distribution facilities serving the real property at the site of the project, is intended primarily to offset part or all of the facility owner's requirements for electricity at the site, is located on the facility owner's real property, and is not producing energy for direct sale by the facility owner to the public.

Energy efficiency technologies, products, and activities are those that reduce or support the reduction of energy consumption, allow for the reduction in demand, or support the production of clean, renewable energy.

Under the bill "reduction in demand" is a change in customer behavior or a change in customer-owned or operated assets that reduces or has the capability to reduce the demand for electricity as a result of price signals¹ or other incentives.

Ordinance establishing program

Under current law, if a legislative authority decides to establish a residential solar panel revolving loan program, it must adopt an ordinance that includes certain provisions. The bill changes the ordinance provisions to reflect the program expansion. Under the bill, the ordinance must provide for all of the following:

(1) Creation in the municipal treasury of an alternative energy revolving loan fund;

(2) A source of money, such as gifts, bond issues, real property assessments, or federal subsidies, to seed the fund;

(3) Facilities for making loans from the fund, including an explanation of how owners of real property within the municipal corporation may qualify for loans from the fund, a description of the alternative energy and energy efficiency technologies and related equipment for which a loan can be made from the fund, authorization of a municipal agency to process applications for loans and otherwise to administer the low-cost alternative energy revolving loan program, a procedure whereby loans can be applied for, criteria for reviewing and accepting or denying applications for loans, criteria for determining the appropriate amount of a loan, the interest rate to be

¹ The bill does not define the term "price signals."

charged, the repayment schedule, and other terms and conditions of a loan, and procedures for collecting loans that are not repaid according to the repayment schedule;

(4) A specification that repayments of loans from the fund may be made in installments and, at the option of the real property owner repaying the loan, the installments may be paid and collected as if they were special assessments paid and collected in the manner specified in the Municipal Special Assessments Act (R.C. Chapter 727.) and as specified in the ordinance;

(5) A specification that repayments of loans from the fund are to be credited to the fund, that the money in the fund is to be invested pending its being lent out, and that investment earnings on the money in the fund are to be credited to the fund;

(6) Other matters necessary and proper for efficient operation of the program as a means of encouraging use of alternative energy and energy efficiency technologies.

Interest rate

Current law requires the interest rate charged on a loan from the fund to be below prevailing market rates. In addition, current law permits the legislative authority to specify the interest rate in the ordinance or, after establishing a standard in the ordinance whereby the interest rate can be specified, delegate authority to specify the interest rate to the administrator of loans from the fund. The fund must be seeded with sufficient money to enable loans to be made until the fund accumulates sufficient reserves through investment and repayment of loans for revolving operation. The bill applies the interest rate and fund seeding provisions to the expanded program.

Special improvement districts

Background

Current law authorizes the creation of a special improvement district within the boundaries of any one municipal corporation or township, or any combination of contiguous municipal corporations or townships, for the purpose of developing and implementing plans for public improvements and public services that benefit the district.² A special improvement district is governed by the board of trustees of a nonprofit corporation to be known as the board of directors of the district. The board is responsible for developing the plans for the public improvements and services and is

² All territory in a special improvement district must be contiguous; except that the territory in a special improvement district may be noncontiguous if at least one special energy improvement project is designated for each parcel of real property included within the special improvement district (R.C. 1710.02).

granted authority to that end. Money may be raised by special assessment or the issuance of debt to fund the improvements and services.³ Under current law, "public improvement" means the planning, design, construction, reconstruction, enlargement, or alteration of any facility or improvement, including the acquisition of land, for which a special assessment may be levied under the Municipal Special Assessments Law (R.C. Chapter 727.), and includes any special energy improvement project.

Operation of the bill

Expansion of special energy improvement projects definition

(R.C. 1710.01(I) and (K))

A "special energy improvement project" included under current law as a public improvement means any property, device, structure, or equipment necessary for the acquisition, installation, equipping, and improvement of any real or personal property used for the purpose of creating a solar photovoltaic project or a solar thermal energy project, whether such real or personal property is publicly or privately owned. The bill changes the definition of such projects to include: (1) a geothermal energy project, (2) a customer-generated energy project, or (3) an energy efficiency improvement. A "customer-generated energy project" means a wind, biomass, or gasification facility for the production of electricity that is either of the following:

(1) A facility that is designed to have a generating capacity of 250 kilowatts of electricity or less;

(2) A facility that is designed to have a generating capacity of more than 250 kilowatts of electricity that is operated in parallel with electric transmission and distribution facilities serving the real property at the site of the project, is intended primarily to offset part or all of the facility owner's requirements for electricity at the site, is located on the facility owner's real property, and is not producing energy for direct sale by the facility owner to the public.

An "energy efficiency improvement" means energy efficiency technologies, products, and activities that reduce or support the reduction of energy consumption, allow for the reduction in demand, or support the production of clean, renewable energy and that are or will be permanently fixed to real property.⁴

³ R.C. 1710.01, 1710.02, 1710.06, and 1710.07.

⁴ "Reduction in demand" has the same meaning as discussed above under "**Low-cost alternative energy revolving loan program.**" The definition of "customer-generated energy project" and "energy efficiency improvement" are substantively identical to similar terms used in that prior discussion.

Special energy improvement project assessment period

(R.C. 1710.02(F))

Under current law, after an initial plan for a special improvement district is approved and the district is created, each participating municipal corporation or township must levy a special assessment to pay for the costs of the plan. If the levy proceeds are to be used for a special energy improvement project, the levy for the assessment may not be more than 25 years on any property in its boundaries. The bill extends the maximum period for which special assessments may be levied for these projects to 30 years.

District plans for public improvements or public services

(R.C. 1710.06 and 1710.07)

Under current law, the board of directors of a special improvement district may develop and adopt one or more plans for public improvements or public services that benefit all or part of the district. The plans for public improvements may include the planning, design, construction, reconstruction, enlargement, or alteration of any public improvements and the acquisition of land for the improvements. Plans for public improvements or services may also include, among other things, a provision permitting the planning, designing, and implementing of the public improvements or public services plan, including hiring architectural, engineering, legal, appraisal, insurance and planning services, and, for public services, managing, protecting, and maintaining public and private facilities, including public improvements. Current law also provides that the costs of the foregoing are allowable costs of the district.

The bill adds hiring consulting and energy auditing services as part of the plan and adds the payment of their fees and expenses to the allowable costs. It also permits a plan to include a provision for aggregating the renewable energy credits generated by one or more special energy improvement projects within a district upon consent of the owners of the credits and for the purpose of negotiating and completing the sale of the credits.

Energy efficiency and peak demand reduction savings counted toward benchmarks

(R.C. 717.25(D) and (E), 1710.01, and 1710.061(A) and (B))

Current law requires electric distribution utilities to implement energy efficiency and peak demand reduction programs to meet increasing energy efficiency savings and

peak demand reduction benchmarks.⁵ The energy efficiency programs must achieve a cumulative annual energy savings in excess of 22% by the end of 2025, and the peak demand reduction programs must achieve a reduction in peak demand beginning at 1% for 2009 increasing by a reduction of .75% for each year through 2018.⁶

Savings under the low-cost alternative energy revolving loan program

The bill permits an electric distribution utility to count toward meeting the benchmarks any energy efficiency savings or any reduction in demand that is produced by projects utilizing alternative energy technologies or energy efficiency technologies, products and activities that are located in its certified territory and for which an alternative energy revolving loan has been made. The bill also allows a mercantile customer⁷ that realizes energy efficiency savings or reduction in demand produced from these technologies, products, or activities that it owns and through which an alternative energy revolving loan has been made to elect to commit to the electric distribution utility the savings or reduction. In exchange for committing the savings or reduction, the mercantile customer may receive an exemption from an energy efficiency cost recovery mechanism permitted under the energy efficiency and peak demand reduction law.

Savings from a special energy improvement project

Similarly, the bill permits an electric distribution utility to count toward meeting the benchmarks any energy efficiency savings or any reduction in demand that is produced by a special energy improvement project located in its certified territory. The bill allows a mercantile customer that realizes energy efficiency savings or reduction in demand produced by a special energy improvement project that it owns to elect to commit the savings or reduction to the electric distribution utility. In exchange for committing the savings or reduction, the mercantile customer may receive the same benefits described above.

⁵ An "electric distribution utility" provides electric service in Ohio and at least retail electric distribution service. (R.C. 4928.01.)

⁶ R.C. 4928.66, not in bill.

⁷ "Mercantile customer" means an industrial or commercial customer if the electricity is consumed for nonresidential use and the customer consumes more than 700,000 kwh per year or is part of a national account involving multiple facilities in one or more states. (R.C. 4928.01.)

Reports to electric distribution utilities

(R.C. 717.25(F) and 1710.061(C))

The bill requires each legislative authority that makes low-cost alternative energy loans and the board of directors of each special improvement district with a special energy improvement project to submit quarterly reports to the appropriate electric distribution utility. In the case of a legislative authority, the report must include the total number and a description of each new and ongoing project utilizing alternative energy technologies or energy efficiency technologies, products, or activities located in the utility's certified territory that produces energy efficiency savings or reduction in demand and for which a loan has been made from the alternative energy revolving loan fund. With respect to a district board, the report must include the total number and a description of each new and ongoing special energy improvement project located in the district that produces energy efficiency savings or reduction in demand. In both cases, the reports must include any additional information that the electric distribution utility needs in order to obtain credit for the energy efficiency savings and reduction in demand from the project.

Energy companies

(R.C. 5727.01 and 5727.02)

Current law subjects public utilities to property and excise taxation assessed under Chapter 5727. of the Revised Code. Public utilities include three types of electric companies: (1) an "ordinary" electric company, defined as a company engaged in the business of generating, transmitting, or distributing electricity within Ohio for use by others, (2) a rural electric company, defined as a nonprofit company that supplies electricity to its members, the majority of which are located in rural areas, and (3) a combined company, which is an electric or rural electric company that also engages in heating or natural gas business.

The bill creates an "energy company" as a new type of electricity-related public utility. An energy company is defined to be a person engaged in the business of generating, transmitting, or distributing electricity in Ohio for use by others from an energy facility with an aggregate nameplate capacity in excess of 250 kilowatts.⁸ (See "**Energy facilities**," below.)

⁸ "Nameplate capacity" is defined in the bill as the original maximum rated output of a generator or other electric production equipment under specific conditions designated by the manufacturer, expressed in the number of kilowatts or megawatts.

Current law subjects a company that engages in the "supplying of electricity" (i.e., generating, transmitting, or distributing electricity) to public utility taxation as an electric company or a rural electric company with respect to that activity, if supplying electricity is incidental to the company's primary business.

The bill states that a company is not considered to be "supplying electricity"--and therefore is not to be taxed as a public utility--if it owns or leases as a lessor or lessee energy facilities with an aggregate nameplate capacity in Ohio of 250 kilowatts or less, even if the company engages in "net metering."⁹ The bill also states that an Ohio county, township, municipal corporation, or other local body responsible for government activities that owns an energy facility is not considered to be "supplying electricity" regardless of the facility's nameplate capacity if the primary purpose of the facility is to supply electricity for its own use.

Property tax exemption of energy facilities

Current law subjects electric companies and rural electric companies to real and personal property taxation, commercial activity taxation, and, if the company distributes electricity to end users in Ohio, to the kilowatt-hour tax, which is an annual tax measured by the number of kilowatt-hours distributed.

Qualified energy projects

(R.C. 5727.01(P) and (Q) and 5727.75(A), (B), and (C))

The bill exempts the real and tangible personal property of an energy project certified by the Director of Development as a qualified energy project. An energy project is defined to be a project to provide electric power through the construction, installation, and use of an energy facility. A "qualified energy project" means an energy project certified as described below and does not include any facility that was used, partially or fully, to supply electricity before January 1, 2010.

⁹ "Net metering" means measuring the difference (in an applicable billing period) between the electricity supplied by an electric service provider and the electricity generated by a customer-generator that is fed back to the electric service provider. (R.C. 4928.01(A)(30), not in the bill.)

Energy facilities

(R.C. 5727.01 and 5727.75(B) and (C))

An "energy facility" is one or more interconnected wind turbines, solar panels, or other tangible personal property used to generate electricity from an energy resource¹⁰ owned by the same person. The facility includes all interconnection equipment, devices, and related apparatus connected to the tangible personal property; and all cables, equipment, devices, and related apparatus that connect the generators to an electricity grid or to a building or facility that directly consumes the electricity produced, that facilitate the transmission of electrical energy from the generators to the grid, building, or facility, and, where applicable, that transform voltage before ultimate delivery of electricity to the grid, building, or facility. Also included in the definition of energy facility are buildings, structures, improvements, or fixtures exclusively used to house, support, or stabilize tangible personal property constituting the facility or that are otherwise necessary for the operation of that property; and so much of the land on which such tangible personal property is situated as is required for operation of the facility and is not devoted to some other use, not to exceed, in the case of wind turbines, one-half acre for each wind turbine, and regardless of whether the land is owned by the owner or lessee of the tangible personal property or by another person.

Tax exemption application

To obtain a tax exemption, a person must apply to the Director of Development for certification of the energy project as a qualified energy project on or before September 30, 2010, for energy projects using renewable energy resources, and on or before September 30, 2012, for energy projects using clean coal technology, advanced nuclear technology, or cogeneration technology.

County approval of tax exemption

The bill requires the Director of Development to forward a copy of the application to the board of county commissioners of each county in which the project is located and to each taxing unit with territory located in each of the affected counties. Within 30 days of receiving a copy of an application for the tax exemption (or within a longer period if authorized by the Director), a board must adopt a resolution to approve or reject the exemption. The board may specify in its approval resolution additional requirements that a project must meet in order to be eligible for the exemption. The additional requirements may include a modification of the annual service payments

¹⁰ "Energy resource" under the bill means any of the following as defined or described in R.C. 4928.01: (1) renewable energy resource, (2) clean coal technology, (3) advanced nuclear technology, or (4) cogeneration technology. See **COMMENT**.

required to be paid in lieu of the exempted property taxes. See "**Service payments in lieu of property taxes**" below. After the board adopts the resolution, it must send copies of the resolution by certified mail to the owner of the facility and the Director.

If a qualified energy project that is certified by the Director is located in more than one county and the board of county commissioners of one or more of the counties adopts a resolution rejecting a tax exemption for the project or fails to adopt a resolution to approve or reject the tax exemption, the exemption applies only to that part of the project that is physically located in a county whose board of county commissioners adopts a resolution approving the exemption. The exemption does not apply in a county whose board adopts a resolution rejecting the exemption or whose board fails to adopt a resolution to approve or reject the tax exemption. Any tangible personal property and real property of an energy project that is located there is taxable.

Qualified energy project certification

The Director must certify a project if the application is timely submitted, approved by a board of county commissioners of at least one county in which the project is located, and the Director determines that the person, upon placing the facility into service, would qualify as an energy company (see "**Energy companies**," above), electric company, or rural electric company. The Director must deny a certification application if the project owner or lessee pursuant to a sale or leaseback transaction (hereinafter "owner or lessee") fails to comply with the bill's requirements. Upon certifying a project, the Director must notify the owner or lessee, the Tax Commissioner, and the county auditor of the county in which the project is located. Notice must be provided in a manner convenient to the Director.

The tangible personal property of an energy project using renewable energy resources that is certified as a qualified energy project is exempt from taxation for tax years 2011 and 2012 if all of the following circumstances exist: (1) on or before December 31, 2011, the owner or lessee obtained a certificate from the Power Siting Board if required, or if Power Siting Board law does not apply to the project, obtained any approval, consent, permit, or certificate or satisfied any condition required by a public agency or political subdivision for the construction or initial operation of an energy project, (2) on or after January 1, 2009, and before January 1, 2012, project construction has begun where the beginning of construction means the earlier of the date of application for approval, permit, or certification, or the date the construction contract is entered into, and (3) a board of county commissioners in which the project is located, approves the exemption application.

If the tangible personal property of a qualified energy project using renewable energy resources was exempt for tax years 2011 and 2012, the tangible personal

property of the project is tax-exempt for tax year 2013 and all ensuing tax years if the tangible personal property was placed into service before January 1, 2013, and the owner or lessee satisfies other statutory criteria (see "**Statutory criteria for qualified energy projects**" below). Tangible personal property not placed into service by then becomes subject to taxation.

Tangible personal property of an energy project using clean coal technology, advanced nuclear technology, or cogeneration technology that is certified as a qualified energy project is exempt from taxation for the first tax year the property would be listed for taxation and all subsequent years if the property is placed into service before January 1, 2017, and a board of county commissioners of a county in which property of the qualified energy project is located approves the exemption application.

Real property tax exemption

(R.C. 5727.75(B)(3))

The bill exempts from taxation real property included in an energy facility that is a qualified energy project for any tax year for which the tangible personal property that is part of the same project is exempted. The real property included in this qualified energy project is not exempt from taxation if it is located in a county in which the board of county commissioners has adopted a resolution to reject the exemption or has failed to adopt a resolution to approve or reject the tax exemption.

Criteria for qualified energy projects

(R.C. 5727.75(D))

To retain property tax exemption after 2012, the owner or lessee of a qualified energy project also must do each of the following:

(1) Comply with all "applicable" regulations.

(2)(a) File with the Director of Development a certificate of completion not later than 60 days after completion of the energy facility's construction and, if applicable, file a certificate of partial completion by March 1, 2013, for facilities using renewable energy resources, and March 1, 2017, for facilities using clean coal, advanced nuclear, or cogeneration technology. A certificate of partial completion must state the nameplate capacity of the facility as of January 1, 2013, or as of January 1, 2017, respectively.

(b) For facilities placed in service before the effective date of the bill, file with the Director a certificate of completion not later than 60 days after its effective date.

(3) Employ in the construction, installation, and operation of the project full-time equivalent employees totaling the number projected by the job and economic development impact model,¹¹ of whom a majority are domiciled in this state. The bill allows the Director of Development, for good cause, to permit departures from the required total employment level or the number of Ohio-domiciled employees.

(4) File with the Director of Development, at the time and in the manner prescribed by the Director, a report of the total number of full-time equivalent employees, and the total number of full-time equivalent Ohio-domiciled employees employed in the construction and installation of the facility and an annual report of the number of these employees employed in the facility's operation.

(5) Repair all roads, bridges, and culverts affected by the construction as reasonably required to restore them to their preconstruction condition as estimated by the county engineer in consultation with the local jurisdiction responsible for them.

(6) Provide or facilitate training for fire and emergency responders for response to emergency situations related to the qualified energy project and, at the person's expense, equip the fire and emergency responders with proper equipment as reasonably required to enable them to respond to such emergency situations.

(7) Offer to sell power or renewable energy credits from the qualified energy project to electric distribution utilities or electric services companies that are subject to current law's renewable energy resource requirements¹² and that have issued requests for proposal for such power or renewable energy credits. If no electric distribution utility or electric services company has issued a request for proposal on or before December 31, 2010, or accepts an offer for power or renewable energy credits within 45 days after the offer is submitted, power or renewable energy credits from the qualified energy project may be sold to other persons. The requirements for selling power or credits do not apply if the owner or lessee (1) is a rural electric company or a municipal

¹¹ The bill defines "job and economic development model" as the Job and Economic Development Impact Model published by the National Renewable Energy Laboratory (NREL) of the United States Department of Energy and includes economic models that project job creation and are approved by the Ohio Department of Development for technologies for which NREL has not developed an applicable model. "Full-time equivalent employee" is determined by a formula in the bill based on the number of paid work hours for services performed at a project during the year. (R.C. 5727.75(A).)

¹² Am. Sub. S.B. 221 of the 127th General Assembly enacted benchmarks that electric distribution utilities and electric services companies must meet so that a certain portion of their electricity supply comes from alternative energy resources that include advanced energy resources and renewable energy resources. Electric distribution utilities and electric services companies may purchase renewable energy resource credits to meet the benchmarks.

power agency,¹³ (2) is a person that, before completion of the qualified energy project, contracted for the sale of power or credits with a rural electric company or a municipal power agency, or (3) contracts for the sale of power or credits from the project before the bill's effective date.

(8) Make annual service payments to local taxing units in lieu of property taxes otherwise due (see "**Service payments in lieu of property taxes**" below).

Certificate revocation

(R.C. 5727.75(B)(2) and (C))

If the Director of Development determines that an owner or lessee of a qualified energy project has failed to meet any of the foregoing conditions that apply to the project, the Director is required to revoke the project's certification. Revocation terminates the tax exemption beginning with the tax year following the year in which revocation occurs, and the project is not eligible for further exemption. Revocation does not affect the tax-exempt status of a project for the year in which revocation occurs or prior years. Upon revocation, the Director must notify the owner or lessee, the Tax Commissioner, and the county auditor of the county in which the project is located. Notice may be provided in a manner convenient to the Director.

Service payments in lieu of property taxes

(R.C. 5727.75(E))

The owner or lessee of a qualified energy project that is exempted from property taxation is required to make annual "service" payments in lieu of taxes in the amount of \$7,000 for each megawatt of nameplate capacity of the energy facility. Payments are to be made to the county treasurer of any county in which exempted property is located. The payment must be charged, collected, and distributed at the same time and in the same manner as the tax imposed on taxable property of public utilities.

Rule adoption

(R.C. 5727.75(F))

The bill requires the Director of Development, in consultation with the Tax Commissioner, to adopt rules to implement and enforce the exemption requirements. The rulemaking procedure is to be governed by the Administrative Procedure Act (R.C.

¹³ "Municipal power agency" means any Ohio nonprofit corporation, the members of which are municipal corporations that own and operate electric utility systems, that sells electricity to its members for resale. (R.C. 3734.058 not in the bill).

Chapter 119.). The Director must adopt the rules within 90 days after the bill's effective date.

Taxation of energy company and energy facility property

Taxation of public utility personal property involves defining what constitutes taxable property, establishing its "true" value, deriving from true value its taxable value (i.e., applying an assessment percentage as specified by law), and allocating the taxable value among taxing jurisdictions.

Taxable property

(R.C. 5727.06(A)(6))

Current law defines the taxable personal property of an electric company for a tax year as the property that, on December 31 of the preceding year, was both located in Ohio and was owned by the electric company or leased by it through a sale and leaseback transaction.

The bill defines the taxable personal property of an energy company in the same manner but states that, if the property qualifies as part of a qualified energy project, it is not taxable. Under the bill, tangible personal property of a qualified energy project becomes taxable if it is not placed into service before January 1, 2013, or if the Director revokes the project's certification. (See "**Property tax exemption of energy facilities.**")

Valuation

(R.C. 5727.01(O) and 5727.11(D))

Generally, under current law the true value of electric company tangible personal property equals the cost as capitalized on the company's books and records less composite annual allowances as prescribed by the Tax Commissioner.¹⁴ If the electric company leases the property under a sale and leaseback transaction, the true value of the property is the property's cost as capitalized on the company's books and records immediately under the sale-leaseback transaction.

Under the bill, the same valuation methods apply to tangible personal property of an energy company and also to energy conversion equipment of an electric company. The bill defines "energy conversion equipment" as tangible personal property connected

¹⁴ The true value of electric company production equipment and all taxable property of a rural electric company placed into service before October 6, 1999, equals 50% of the property's cost as capitalized on the electric company's or rural electric company's books and records. Production equipment is, generally, production plant equipment used to generate electricity. (R.C. 5727.01(J).)

to a wind turbine tower, connected to and behind solar radiation collector areas and that is designed to convert the radiant energy of the sun into electricity or heat, or connected to any other property used to generate electricity from an energy resource, through which electricity is transferred to controls, transformers, or power electronics and to the transmission interconnection point. It includes inverters, batteries, switch gears, wiring, collection lines, substations, ancillary tangible personal property or any lines and associated tangible personal property located between substations and the transmission interconnection point. The bill also expands the definition of "production equipment" to include "renewable resource" and "clean coal technology" (see **COMMENT**).

Assessment rates

(R.C. 5727.111)

Under current law, an electric company's taxable transmission and distribution property is assessed at 85% of true value, and all other taxable property is assessed at 24% of true value. A rural electric company's taxable transmission and distribution property is assessed at 50% of true value, and all other taxable property is assessed at 25% of true value.

The bill requires assessment of taxable energy conversion equipment of a rural electric company at 50% of true value and of an electric company or an energy company at 85% of true value. The bill requires assessment of taxable production equipment of an energy company at 24% of true value, and all other taxable property at 85% of true value.

Apportionment of taxable value among taxing districts

(R.C. 5727.15)

Current law apportions the taxable value of electric company production equipment to the taxing district where the property is physically located. All other taxable property of an electric company is apportioned according to the percentage of the total value of such property (in Ohio) that is located in the taxing district. In the case of the taxable property of a rural electric company, all of it is apportioned on a percentage basis according to where it is located.

The bill apportions the taxable energy conversion equipment of an electric company in the same manner as the electric company's nonproduction equipment--i.e., according to the percentage of Ohio-based values located in each taxing district. The bill apportions the taxable property of an energy company in the same manner as an electric company's property is apportioned.

Real property of facilities of 250 kilowatts or less

(R.C. 5709.53)

The bill exempts from taxation, any fixture or real property included in an energy facility that has an aggregate nameplate capacity of 250 kilowatts or less if construction or installation of the facility is completed on or after the bill's effective date.

Energy facilities located on agricultural land

(R.C. 5713.30 and 5713.34)

Current law allows an owner of agricultural land to file, and subsequently renew, an application requesting the county auditor of the county in which such land is located to value the land for real property tax purposes at the current value such land has for agricultural use (CAUV). If the land is converted to a non-agricultural use, a portion of the tax savings authorized for the land is recouped by levying a charge on the land in an amount equal to the amount of the tax savings on the converted land during the three tax years immediately preceding the year in which the conversion occurs.¹⁵

The bill specifies that if an energy facility is constructed or installed on a portion of a tract, lot, or parcel of land that is devoted exclusively to agricultural use, the remaining part of the land will not be considered a conversion of agricultural land if it continues to be devoted exclusively to agricultural use. The bill also prohibits levying a recoupment charge for conversion of a portion of a tract, lot, or parcel of land devoted to agricultural use if the conversion is incident to the construction or installation of an energy facility and the remaining portion of the tract, lot, or parcel continues to be devoted exclusively to agricultural use.

Application of public utilities excise tax and commercial activities tax

(R.C. 5727.30(B))

Current law exempts an electric company and a rural electric company from the annual public utilities excise tax on the companies' gross receipts. Utilities that pay the public utilities excise tax are excluded from those that must pay the commercial activity tax (CAT). The bill extends this exemption from the public utilities excise tax to an

¹⁵ R.C. 5713.31, not in the bill and R.C. 5713.34.

energy company, effectively making an energy company subject to the commercial activity tax.¹⁶

Sales and use tax exemption

(R.C. 5739.02(B)(40))

Current law exempts sales of tangible personal property and services to a provider of electricity used or consumed in generating, transmitting, or distributing electricity from the sales and use tax. The bill also exempts energy conversion equipment from the tax.

Renewable portfolio standard cost of compliance

(R.C. 4928.64(C)(3))

Current law states that electric distribution utilities or electric services companies need not comply with the alternative energy resource portfolio standards requiring them to provide a specified portion of their electricity supply from alternative energy resources to the extent that the reasonably expected cost of compliance exceeds their reasonably expected cost of otherwise producing or acquiring the requisite energy by 3% or more. The bill specifies that the cost of compliance must be calculated as though any exemptions from taxes and assessments under the public utility tangible personal property tax had not been granted.

Reactive power study

(R.C. 4935.10)

The bill requires the Public Utilities Commission to conduct a study to review the condition of reactive power¹⁷ in Ohio. Not later than one year after the bill's effective date, the Commission must issue a report of its findings to the General Assembly.

¹⁶ R.C. Chapter 5751.

¹⁷ The January 2000 Interim Report of the United States Department of Energy's Power Outage Study Team defines "reactive power" as the portion of electricity that establishes and sustains the electric and magnetic fields of alternating-current equipment. Reactive power must be supplied to most types of magnetic equipment, such as motors and transformers, and it must also supply the reactive losses on transmission facilities. It is provided by generators, synchronous condensers, or electrostatic equipment such as capacitors and directly influences electric system voltage.

COMMENT

"Renewable energy resource" includes solar photovoltaic or solar thermal energy, wind energy, power produced by a hydroelectric facility, geothermal energy, fuel derived from solid wastes, biomass energy, biologically derived methane gas, or energy derived from nontreated by-products of the pulping process or wood manufacturing process, and also includes any fuel cell used in the generation of electricity, a storage facility that will promote the better utilization of a renewable energy resource that primarily generates off peak; or a distributed generation system used by a customer to generate electricity from any such energy.

"Clean coal technology" includes a carbon-based product that is chemically altered before combustion to demonstrate a reduction, as expressed as ash, in emissions of nitrous oxide, mercury, arsenic, chlorine, sulfur dioxide, or sulfur trioxide in accordance with the American Society of Testing and Materials standard D1757A or a reduction of metal oxide emissions in accordance with standard D5142 of that society, or clean coal technology that includes the design capability to control or prevent the emission of carbon dioxide, which design capability the commission must adopt by rule and must be based on economically feasible best available technology or, in the absence of a determined best available technology, shall be of the highest level of economically feasible design capability for which there exists generally accepted scientific opinion.

"Advanced nuclear technology" includes technology consisting of generation III technology as defined by the federal Nuclear Regulatory Commission; other, later technology; or significant improvements to existing facilities.

"Cogeneration technology" includes any distributed generation system consisting of customer cogeneration of electricity and thermal output simultaneously, primarily to meet the energy needs of the customer's facilities.

HISTORY

ACTION	DATE
Introduced	02-24-10
Reported, S. Energy & Public Utilities	05-13-10
Passed Senate (28-4)	05-18-10

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