

Kentucky Sets Incentives for Biofuels and Renewable Energy

Kentucky Governor Ernie Fletcher signed wide-ranging energy legislation last week that creates a variety of incentives for biofuels and renewable energy. House Bill 1 creates incentives of up to half the capital investment in a project that creates alternative fuel from biomass or that creates electricity from renewable energy sources. To qualify, a biofuel facility must involve a capital investment of at least \$25 million and a renewable power facility must involve a capital investment of at least \$1 million. If the renewable power facility uses solar energy, it must be at least 50 kilowatts in size, but other renewable power facilities must be at least 1 megawatt in size. The incentives can include an advanced disbursement of the labor costs on a new project; a reimbursement of up to 100% of the sales and use taxes on property bought during construction; and a tax credit of up to 100% of the income tax and limited liability entity tax owed by the company. Under certain conditions, companies can also assess 4% of employee gross wages, which the employees can then take as a credit against their income tax. The bill's incentives will be funded with the proceeds from \$100 million in bonds.

The bill also expands an existing tax credit for biodiesel and adds new tax credits for other biofuels. The biodiesel tax credit of \$1 per gallon is expanded to include renewable diesel, and the cap on the total tax credit is increased from \$1.5 million to \$5 million in 2008, and then further increased to \$10 million in 2009. The bill creates separate new tax credits of \$1 per gallon for ethanol produced from corn, soybeans, or wheat and for ethanol produced from cellulosic biomass, each of which includes a cap of \$5 million. However, if some of the \$5 million in cellulosic ethanol tax credits go unused, they can be used to increase the cap for the corn ethanol tax credit.

Among other features in the wide-ranging bill are the creation of the Governor's Office of Energy Policy; the creation of the Kentucky Alternative Fuel and Renewable Energy Fund to promote research and development; an effort to create a Center for Renewable Energy Research and Environmental Stewardship; a refund of sales and use taxes on machinery or equipment that improves a facility's energy efficiency by at least 15%; an effort to encourage the use of green building principles and energy saving contracts for state-owned buildings; an effort to shift half of the state-owned passenger vehicles to hybrids, alternative fuel vehicles, advanced lean burn vehicles, or fuel cell vehicles; an effort to encourage alternative fuel use in state vehicles; funds for new biofuels and biomass gasification research facilities at the University of Kentucky's Center for Applied Energy Research; and even a student loan forgiveness program for certain college graduates working in an energy-related field. See the 105-page [bill](#) and Governor Fletcher's 116-word [press release](#).