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Why Does Some Available Capacity for New CREBs Go Unused?

WASHINGTON – The Internal Revenue Service is accepting applications from public power providers through June 19, 2018 for $379.5 million of unused volume cap for New Clean Renewable Energy Bonds.

Congress authorized $2.4 billion of New CREBS during the Obama administration and divided the amount into $800 million each for issuers in three categories — public power authorities, electric cooperatives and state and local governments.

New CREBs are taxable and issued as either a refundable tax credit to the bondholder or in a direct-pay mode to the issuer with a direct subsidy from the federal government that reduces the interest costs. The direct-pay subsidy equals 70% of interest costs minus or 70% of a credit rate determined by Treasury, whichever is less. Both are subject to sequestration, which is a 6.6% reduction in the current 2018 fiscal year.

Cooperative electric companies had $179.36 million in unused allocations as of July and governmental bodies had $150.3 million, as well as public power providers that had the $379.5 million, according to the IRS.

Those allocations are being made on a first-come, first served basis.

White House emphasis on renewable energy sources such as solar, wind and hydro-electric has fallen with the change in administrations, but the New CREBs program is continuing to allocate unused bond authority.

Some New CREBs bond authority has not be used, in part, because of the peculiar idiosyncrasies of the authorizing law, according to those familiar with them.

Electric cooperatives and state and local governments have been limited to allocations of no more than $40 million, which limits the size of the projects unless they are packaged with other financing.

Public power companies have only 180 days to issue New CREBs after the date they receive a notification of their award from the IRS.

“Energy financings take more time than perhaps other types of financing to get the bonds issued,” said Ed Oswald, an attorney with Orrick Herrington & Sutcliffe here. “If someone is looking to do a wind project, wind typically takes a long time to do, and it could just be within a particular time frame of use-or-lose. I don’t think that’s the whole story but at least a part of it.”

“New CREBs obviously help reduce the cost of financing renewable energy projects,” said John Godfrey, senior director of government relations at American Public Power Association. “New CREBs are good if you can get them and I am glad to see that some of our members have been able to make real use of them.”

Godfrey said the federal law authorizing New CREBs for public power authorities, hamstrings how they are used.

“You have to get a prior allocation of bond volume, bond volume itself is limited and, in the case of public power, even if you get an allocation you may only get a fraction of what you need,” Godfrey said. “Bluntly, being forced to wait around for a fraction of ‘too little’ is not a good way to run a program. If Congress wants these incentives to work — if they want public power utilities to directly invest in renewables – these barriers need to be lifted.”

A 2009 round of new CREBs for public power agencies was over-subscribed. According to the APPA, there were 38 applications for $1.446 billion.

The IRS prorated the allocations and set a 180-day deadline for their use.

Many of the projects were not undertaken by the 180-day deadline, however, so there was a reallocation round in 2015 round for the remaining $516.56 million.

That second round for public power companies ended June 3, 2015 with only $137 million in New CREBs bond authority used. The IRS has not disclosed how much bond authority was requested or how much may have been forfeited by not meeting the 180-day deadline.

The new round announced by the IRS on Oct. 19 faces the same hurdles.

Public power authorities once again will be awarded pro-rata shares of the $379,549,691 if the requests are larger than the allocation and will have 180 days to issue bonds after receiving a letter of notification.
The Grant County Public Utility District in Washington State has been the nation’s largest user of New CREBs, according to a database maintained by Thomson Reuters (TRI).

The Grant County PUD issued $222.4 million in low-cost New CREBs to “help modernize turbines and generators at Wanapum and Priest Rapids Dams,’’ spokesman Ryan Holterhoff said. Wanapum Dam produces 1.1 million kilowatts of electricity and Priest Rapids Dam produces 956,000 kilowatts.

The two other New CREBs issuances that were among the three largest also were for hydro-electric projects.

American Municipal Power Inc., which serves 135 public utilities in nine Midwest and Southeast states, issued $136 million. The money went for the Meldahl Hydro Project and the Combined Hydro Project, which includes development of new hydro-power at the Smithland, Cannelton and Willow Island Locks and Dam, said spokesman Michael Beirne.

Seattle City Light used $84.9 million to rebuild hydro-electric generators at the Diablo Dam and Boundary Dam.

By Brian Tumulty

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