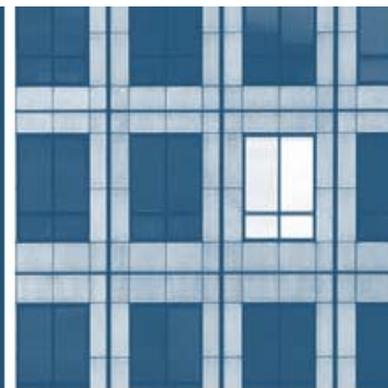


On the Subject



Energy & Commodities Advisory

October 11, 2010

New energy tax credit legislation was introduced by Senators Jeff Bingaman (D-NM) and Olympia J. Snowe (R-ME), under which natural gas, combined heat and power, the Advanced Energy Manufacturing Tax Credit, energy storage, Clean Renewable Energy Bonds, and offshore wind, among other energy expenditures and projects, would all receive new or expanded tax benefits

Energy Tax Incentive Bill Introduced in Senate

Introduced September 29, 2010, by Senators Jeff Bingaman (D-NM) and Olympia J. Snowe (R-ME), the Advanced Energy Tax Incentives Act of 2010 (S. 3935) provides for a laundry list of energy-related tax credits, expansions of existing tax benefits and other tax changes. A partial list and summary of the more notable provisions follow.

Electricity, Gas and Thermal

Combined heat and power credit: Currently there is a 10 percent investment tax credit for construction of qualifying combined heat-and-power systems, subject to limitations. The act would allow the credit to apply to the first 25 megawatts of system capacity, as opposed to the current cap of 15 megawatts. In addition, the act would remove the current 50-megawatt total system size cap, thus allowing a much greater number of systems to qualify for the tax credit.

Thermal system bonus depreciation: The act would permit a 50-percent immediate depreciation deduction for qualifying high-efficiency natural gas and biomass thermal systems installed before 2012.

Natural gas distribution depreciation: The act would extend for another two years, until the end of 2013, the 15-year depreciation period for natural gas distribution facilities originally allowed by the Energy Policy Act of 2005.

Manufacturing Facility Projects

Advanced Energy Manufacturing Tax Credit expanded: The Advanced Energy Manufacturing Tax Credit provides a tax credit of up to 30 percent for qualifying investments in new, expanded or upgraded advanced energy manufacturing projects. The U.S. Departments of Energy and the Treasury review applications and award tax credits based on a project's ranking relative to other projects. Originally \$2.3 billion was allocated to the Advanced Energy Manufacturing Tax Credit, and the act would add an additional \$2.5 billion to the program. View a newsletter that further discusses requirements and application procedures related to this credit.

Existing facilities efficiency tax credit: The act would create a new tax credit for existing manufacturing facilities that increase their energy efficiency. The credit would be awarded competitively based on applications to the Departments of Energy and the Treasury, and would be modeled on the Advanced Energy Manufacturing Tax Credit previously discussed. Up to \$1 billion would be allocated to this tax credit.

Energy Storage

Energy storage property connected to the grid: The act would authorize \$1.5 billion in tax credits for energy storage projects that connect to the electrical grid. Projects would have to meet certain minimum capacity and efficiency standards, and would be awarded credits competitively based on applications to the Departments of Energy and the Treasury. The awarded investment tax credit would be up to 20 percent of project costs, with a cap of \$30 million per project.

CREBs expanded: The act aims to extend Clean Renewable Energy Bond (CREBs) eligibility to certain grid-connected energy storage property. CREBs previously have been used to finance facilities that generate electricity from wind, closed- and open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, marine renewables and trash combustion facilities.

Onsite energy storage: The act would provide for an additional tax credit of up to 30 percent for certain qualifying onsite energy storage projects, awarded competitively. This credit would be capped at \$1 million per project.

Wind and Other

REC payment exemption: The act would exempt from federal taxation an annual amount of up to \$2,000 in payments for renewable energy certificates (RECs) received by qualifying individual homeowners. A number of states now require utilities to generate a certain percentage of their electricity from renewable sources. Some utilities have created programs under which customers may sell back to the utility power generated by qualified renewable methods. RECs are used to prove that the electricity was generated from a qualified renewable source, and the utilities pay the customer for the REC. Often RECs are transferable, subject to limitations.

Credit extension for offshore wind: The “placed-in-service” deadline for qualifying offshore wind projects for the production tax credit would be extended to December 31, 2016. The current deadline is December 31, 2012. The production tax credit for offshore wind is currently 2.2 cents per kilowatt hour.

CCS credit: The carbon capture and sequestration (CCS) tax credit would be changed to an allocated credit whereby the Departments of Energy and the Treasury could determine which projects actually need the credit and project owners could precertify the amount they would claim to provide greater certainty to such owners as to whether they will fall within the national cap. Currently, the CCS credit is available only with respect to the first 75 million metric tons of carbon dioxide that

the U.S. Environmental Protection Agency certifies has been captured and sequestered in a given year. This cap would be raised to 100 million tons of carbon dioxide.

Industrial water reuse credit: The act would establish an investment tax credit for reuse, recycling and efficiency measures related to process and sanitary water, and would also apply to blow-down from cooling towers and team systems for use by utility operators’ thermo-electric generators. The credit would range from 10 to 30 percent of the project cost, depending on the energy savings achieved and certain other limitations

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