

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7157

BILL NUMBER: HB 1224

NOTE PREPARED: Jan 11, 2004

BILL AMENDED:

SUBJECT: Coal Bed Methane.

FIRST AUTHOR: Rep. Chowning

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the Center for Coal Technology Research to investigate the use and reuse of coal bed methane.

The bill provides that a facility located in Indiana may receive the ethanol production tax credit, and deletes a requirement in current law regarding the ethanol production capacity of the facility.

The bill allows the Indiana Utility Regulatory Commission to provide financial incentives for certain clean coal and energy projects involving coal bed methane.

Effective Date: January 1, 2004 (retroactive); July 1, 2004.

Explanation of State Expenditures: *Indiana Recycling and Energy Development Board:* Taxpayers owning ethanol production facilities seeking the ethanol production tax credit are required to have the Board certify that the plant is eligible for the credit. The Board is expected to absorb any costs associated with certifying any facilities that become eligible for the credit as a result of the expansion of the ethanol production tax credit proposed in the bill.

IURC: The bill allows the IURC to provide financial incentives to certain facilities and projects that use coal bed methane. Upon approval of the IURC, the bill allows qualifying energy producers who use coal bed methane to receive up to additional 3% rate of return over what they would have otherwise received. This provision could have an administrative impact on the IURC insofar as it will require the Commission to develop a mechanism for approving the coal bed methane projects that qualify for the financial incentives provided in the bill. The bill will also require the IURC and Office of the Utility Consumer (OUCC) to

develop additional ratemaking procedures for the qualified utilities. Any additional costs are expected to be minimal.

Center for Coal Technology Research: This bill also adds the use and reuse of coal bed methane to the areas of study at Purdue University's Center for Coal Technology Research.

Explanation of State Revenues: *Ethanol Production Tax Credit:* Current law (effective January 1, 2004) limited the ethanol production tax credit to firms that produce ethanol at a facility that has the capacity to produce at least 40 M gallons of ethanol each year and was constructed after December 31, 2003, or an existing facility that increases production capacity by 40 M gallons a year after December 31, 2003. This provision removes these production requirements, allowing all producers of ethanol in Indiana to take advantage of the credit. This change is retroactive to January 1, 2004.

Background Information: Ethanol production tax credits allowed to all taxpayers in all taxable years are capped at \$10.0 M. The tax credit is equal to \$0.125 per gallon of ethanol produced at facilities. The facility are required to be certified as eligible to receive the credit by the Indiana Recycling and Energy Development Board. Each taxpayer is limited to a total credit amount of \$5.0 M. The production credit is not refundable, but may be carried forward to subsequent years. Taxpayers are not entitled to a carryback with the credit. If a taxpayer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity.

If this bill encourages greater participation in the ethanol production tax credit reductions in state revenue as a result of the credits may be offset with tax receipts associated with increases in employment, capital expenditures, and other taxable activity that may not have occurred absent the credit's use.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Recycling and Energy Development Board; Purdue University; Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor.

Local Agencies Affected:

Information Sources:

Fiscal Analyst: John Parkey, 317-232-9854.