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FISCAL IMPACT STATEMENT

LS 7187
BILL NUMBER: HB 1722

NOTE PREPARED: Jan 15, 2007
BILL AMENDED:

SUBJECT: Coal Gasification Tax Credits and Cost Recovery.

FIRST AUTHOR: Rep. Stilwell
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Coal Gasification Technology Investment Tax Credit:* The bill provides that a facility that produces synthesis gas as a substitute for natural gas is eligible for a coal gasification technology investment tax credit.

Cost Recovery for Substitute Natural Gas: The bill requires the Utility Regulatory Commission to allow a utility that purchases substitute natural gas to recover any costs arising under the purchase contract through rate adjustments. The bill amends the definition of clean coal and energy projects to include a project using coal to produce substitute natural gas.

Other Provisions: It changes references from "coal from the geological formation known as the Illinois Basin" to "Indiana coal". It also includes certain findings made by the General Assembly and makes conforming changes.

Effective Date: Upon passage.

Explanation of State Expenditures: *IURC:* This bill will increase the administrative costs of the IURC by requiring amendment to current procedures for conducting cost recovery rate adjustment hearings. The amount of the increase in costs is indeterminable, but it is estimated that the IURC could implement these provisions through the use of existing staff and resources.

Background: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.15% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2006, fees from the utilities and fines generated approximately $11.8 M.

Cost Recovery for Substitute Natural Gas: This bill allows facilities that generate substitute natural gas to apply to the IURC for a rate adjustment to recover costs. The bill also adds production facilities to the definition of eligible business in IC 8-1-8.8-6 and the definition of new generating facility under IC 8-1-8.8-8. The bill, by adding these facilities to these definitions, is allowing these facilities to seek rate adjustments for cost recovery and financial incentives from the IURC currently provided by statute to clean coal and energy projects, construction or repower of a new energy generating facility, and development of alternative and renewable energy resources.

By allowing these rate adjustments for cost recovery this bill will impact the state if it purchases utility service from a facility that produces substitute natural gas. The amount of the increase in costs is indeterminable, and could be offset by the possible increase in Utility Receipts Tax (URT) and Utility Services Use Tax collections (USUT) from the increase in receipts by these utilities increasing rates.

Background: The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana.

Department of State Revenue (DOR): The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the expansion of the coal gasification technology investment tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Coal Gasification Technology Investment Tax Credit:* The bill expands the coal gasification technology investment tax credit to include investment in a facility that converts coal into synthesis gas which is then used as a substitute for natural gas. As the change is effective upon passage the expansion of the tax credit would be effective beginning in tax year 2007. Current statute limits the tax credit to investment in a facility that converts coal to synthesis gas and then uses the synthesis gas to generate electric energy. The potential amount of tax credits that may be granted for coal gasification facilities for the purpose of producing a substitute for natural gas is indeterminable and will depend upon review and approval of creditable investment by the IEDC; and determinations by the IURC that the public convenience and necessity requires the installation of the facilities.

Background: The coal gasification technology investment tax credit may be taken against a taxpayer's tax liability arising under the Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, Insurance Premiums Tax, and Utility Receipts Tax. The tax credit is for qualified investment in an integrated coal gasification power plant which converts coal to synthesis gas and uses the synthesis gas to generate electric energy. The credit is equal to 10% of the first $500 M in qualified investment, and 5% of the qualified investment exceeding $500 M. Current statute also provides for a separate and lesser tax credit for qualified investment in fluidized bed combustion technology. This credit would be equal to 7% of the first $500 M in qualified investment, and 3% of the qualified investment exceeding $500 M. A taxpayer may take the credit in 10 annual installments beginning with the year in which the taxpayer places the integrated coal gasification power plant or fluidized bed combustion unit into service. The annual credit installment that a taxpayer may claim is equal to the lesser of the percentage of the coal utilized during the taxable year in the facility that is Indiana coal multiplied by: (1) 10% of the total credit amount; or (2) the greater of (a) 25%

of the taxpayer's total state tax liability for the taxable year or (b) the taxpayer's Utility Receipts Tax liability for the taxable year.

Revenue from the Corporate AGI tax, the Utility Receipts Tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Cost Recovery for Substitute Natural Gas: By allowing rate adjustments for more facilities to recover costs this bill could increase URT and USUT collections. Any increase in collections will ultimately be determined by the increase in receipts for a utility that is permitted the IURC to adjust their rates for cost recover under the bill.

Explanation of Local Expenditures: *Cost Recovery for Substitute Natural Gas:* By allowing these rate adjustments for cost recovery this bill will impact local units of government which purchase utility service from a facility that produces substitute natural gas. The amount of the increase in costs is indeterminable.

Explanation of Local Revenues:

State Agencies Affected: All; Utility Regulatory Commission; Indiana Economic Development Corporation.

Local Agencies Affected: All.

Information Sources:

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