

EXHIBIT O – SUMMARY OF RENEWABLE ENERGY AND ENERGY EFFICIENCY INCENTIVE PROGRAMS – STATE & FEDERAL

The following is a summary of State and federal programs that may be available for a project on the Sites.

1. State Incentives, Rebates and Grants

a. Programs

i. Emerging Renewables (Rebate) Program

Last DSIRE Review: 02/21/2006

Incentive Type: State Rebate Program

Eligible Renewable/Other Technologies: Solar Thermal Electric, Photovoltaics, Wind, Fuel Cells (Renewable Fuels)

Applicable Sectors: Commercial, Industrial, Residential, Schools, Low-Income Residential, Agricultural, Institutional

Incentive Amount: \$2.80/W (PV); \$2.50/W for first 7.5 kW and \$1.50/W thereafter (Wind); \$3.20/W (Solar thermal electric and Fuel cells); PV performance-based incentive option is \$0.50/kWh for 3 years.

Maximum Incentive: Maximum rebate varies by technology; \$400,000 for performance-based incentive option

Eligible System Size: Less than 30kW for rebate option; no limit for performance-based option

Equipment Requirements: Systems must be new, UL listed, and in compliance with all applicable standards; Must carry a minimum 5-year warranty on all equipment; PV panels must carry a 20-year warranty; PV modules and inverters must be pre-approved.

Installation Requirements: Installation must comply with all federal, state, and local codes; Must be grid-connected and installed by a California-licensed contractor to receive full rebate. Owner-installed systems 15% less rebate.

Program Budget: Approximately \$118,125,000 in funding was allocated to the ERP for 2002 through 2006. \$10M is allocated to the PV performance-based incentive program.

Ownership of Renewable Energy Credits: Remains with customer/producer

Website:

<http://www.consumerenergycenter.org/erprebate/index.html>

Effective Date: 1998

Summary: The Emerging Renewables Program (ERP) provides incentives for the purchase of four types of grid-connected renewable energy generating systems - photovoltaics, solar thermal electric systems, fuel cells using renewable fuels and small wind turbines.

This program is offered to all grid-connected utility customers within the electric utility service areas of: Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) and Southern California Water Company (doing business as Bear Valley Electric Service (BVE)).

Beginning January 1, 2006, the rebate amounts are as follows:

- PV: \$2.80/W for systems less than 30 kW in capacity
- Wind: \$2.50/W for first 7.5 kW and \$1.50/W for increments >7.5 kW up to 30 kW
- Solar thermal electric: \$3.20/W
- Fuel cells using renewable fuels: \$3.20/W

Rebates for eligible renewable energy systems installed on affordable housing projects are available at 25% above the standard rebate level up to 75% of the system's installed cost.

Note that wind systems up to 50 kW in size may participate, but the rebates for such systems are limited to less than 30 kW.

Participants in the ERP program for photovoltaic systems may choose to receive the incentive as a capacity-based rebate in a lump sum as described above or as a performance-based incentive (PBI). The PBI is based on the amount of electricity generated by a system and is paid over a three year period. A total of \$10M is allocated to this pilot performance-based incentive program for PV systems. The performance based incentive level will remain constant for the duration of the pilot program. PV performance-based incentive: \$0.50/kWh for three years.

There is no limitation on the size of an eligible system, but the funding cap for any system or group of systems at one site is capped at \$400,000. In addition, the maximum funding available for all systems installed by any corporate or government parent is capped at \$1,000,000. The PBI incentive program cannot be combined with other funding under the ERP, the Self Generation Incentive Program (SGIP), the Rebuild San Diego Program approved by the California Public Utilities Commission, or any other rebate program funded with electric utility ratepayer funds.

Incentives received from sources other than this program, such as other utility incentive programs, a State sponsored incentive program, or a federal government sponsored incentive program, other than tax credits, will reduce the amount of the ERP rebate by no less than 5% to prevent total incentives from exceeding total system costs.

The following system requirements apply:

- must be grid connected;
- electricity production is not to exceed 200% of the site's historical or current electricity needs;
- the equipment retailer must provide a 5-year warranty;
- systems/components must meet national standards;
- only new equipment is eligible;
- systems must be installed by licensed contractors or owner-installed;
- all systems must be installed with a performance meter; and
- system audits will be conducted by the Energy Commission.

Applicants are responsible for all costs associated with the purchase and installation of an approved revenue-quality meter and must make arrangements with their electric utility for the meter's installation.

Note: As of October 2005, over 15,000 new systems have been installed since the rebate program began in 1998.

Contact:

Energy Call Center
California Energy Commission
Emerging Renewables (Rebate) Program
1516 9th Street MS-45
Sacramento, CA 95814-5512
Telephone: (800) 555-7794
Fax: (916) 654-4420
E-Mail: renewable@energy.state.ca.us
Web site: <http://www.consumerenergycenter.org/>

ii. Property Tax Exemption for Solar Systems

Last DSIRE Review: 03/27/2006

Incentive Type: Property Tax Exemption

Eligible Renewable/Other Technologies: Solar Water Heat, Solar Space Heat, Solar Thermal Electric, Solar Thermal Process Heat, Photovoltaics, Solar Mechanical Energy

Applicable Sectors: Commercial, Industrial, Residential

Amount: 100% of system value

Max. Limit: None

Terms: 75% exemption for dual-use equipment

Authority 1: Cal Rev & Tax Code § 73

Expiration Date: 12/31/09

Summary: Section 73 of the California Revenue and Taxation Code allows a property tax exemption for certain types of solar energy systems installed on or before December 31, 2009. (The original expiration year of 2005 was extended by AB 1099 [2005].) Qualifying solar energy systems are defined as those that "are thermally isolated from living space or any other area where the energy is used, to provide for the collection, storage, or distribution of solar energy." These include active solar energy systems, solar process heating systems, photovoltaic (PV) systems and solar thermal electric systems. Solar pool heating systems and solar hot-tub-heating systems are not eligible.

Pipes and ducts that are used to carry both solar energy and energy derived from other sources qualify for the exemption only to the extent of 75% of their full cash value. Likewise, dual-use equipment for solar-electric systems qualifies for the exemption only to the extent of 75% of its value.

Contact:

County Assessor's office

iii. **Self-Generation Incentive Program (SGIP)**

Last DSIRE Review: 04/25/2006

Incentive Type: State Rebate Program

Eligible Renewable/Other Technologies: Photovoltaics, Wind, Fuel Cells, CHP/Cogeneration, Other Distributed Generation Technologies

Applicable Sectors: Commercial, Industrial, Residential

Incentive Amount: \$1.00/W to \$4.50/W for renewables, depending on technology

Maximum Incentive: Incentive payment is capped at 1 MW

Eligible System Size: Systems must be sized according to customer's electricity demand; maximum system size of 5 MW; minimum of 30 kW per site for level 1 technologies

Equipment Requirements: Systems must be new, UL listed, and in compliance with all applicable performance and safety standards. Level 1 and 2 systems must be covered by a minimum five year warranty. Level 3 systems must be covered at least three years.

Installation Requirements: Installation must comply with all federal,

state, and local codes; Must be grid-connected and installed by a California-licensed contractor.

Program Budget: 2006: Solar technologies: \$340 million; Other renewable fuel projects: \$42.5 million; Non-renewable projects: \$42.5 million

Ownership of Renewable Energy Credits: Remains with customer/producer

Website: http://www.cpuc.ca.gov/static/energy/electric/051005_sgip.htm

Authority 1: Assembly Bill 1685 (2003)

Date Enacted: 10/12/03

Expiration Date: 1/1/08

Authority 2: Assembly Bill 970 (2001)

Date Enacted: 3/27/01

Effective Date: 3/27/01

Expiration Date: 12/31/04

Note: On December 15, 2005 the California Public Utilities Commission approved the first phase of the California Solar Initiative (CSI) -- increasing the 2006 budget for solar PV projects under the SGIP program by \$300 million. In January 2006, the Commission approved the CSI, a comprehensive \$2.8 billion program that provides incentives toward solar development over 11 years. Upcoming program changes and funding levels are anticipated.

The 2006 SGIP money will go toward the current PV waitlist accumulated since mid-2005 at \$3/W, as well as for new applicants in 2006 at \$2.80/W. However, effective March 21, 2006, the 50 MW trigger previously approved by the Commission has been reached and all PV applications in excess of the 50 MW threshold, up to the next trigger at 70 MW, will automatically receive a lower incentive payment of \$2.50/W.

Summary: Initiated in 2001, the Self-Generation Incentive Program (SGIP) offers incentives to customers who produce electricity with microturbines, gas turbines, wind turbines, photovoltaics (PV), fuel cells and internal combustion engines. The incentive payments range from \$1/W - \$4.50/W for renewable energy systems greater than 30 kW, depending on the type of system. AB 1685 of 2003 provided funding of approximately \$500 million and extended the program expiration date from December 31, 2004 to January 1, 2008. The December 2005 PUC decision increased the amount originally allocated to solar projects for 2006 by \$300 million.

The following technologies and corresponding incentive amounts apply:

Technologies using renewable fuels:

PV (Level 1) - **\$2.50/W for 2006 projects as of 3/21/06** (\$3/W for 2005 wait-listed projects; \$2.80/W for 2006 projects before 3/21/06)
Wind turbines (Level 1) - \$1.50/W
Fuel cells (Level 1) - \$4.50/W
Microturbines and Small Gas Turbines (Level 3-R) - \$1.30/W
IC Engines and Large Gas Turbines (Level 3-R) - \$1.00/W

Technologies using non-renewable fuels:

Fuel cells (Level 2) - \$2.50/W
Microturbines and Small Gas Turbines (Level 3-N) - \$0.80/W
IC Engines and Large Gas Turbines (Level 3-N) - \$0.60/W

The maximum eligible system size is 5 MW, although the incentive payment remains capped at 1 MW. Projects receiving incentives based on future performance of the system are not eligible to receive a SGIP rebate.

PG&E, SCE, and SoCal Gas administer the SGIP program in their service territories, and the San Diego Regional Energy Office administers the program in SDG&E's territory. Customers of PG&E, SDG&E, SCE and SoCal Gas should contact their program administrator for an application, program handbook and additional eligibility information.

Program Administrator Contact Information for Pacific Gas & Electric (PG&E)

Web: www.pge.com/selfgen
Telephone: 415-973-6436
Email: selfgen@pge.com
Fax: (415) 973-2510
Mailing Address: Self-Generation Incentive Program
P.O. Box 770000
Mail Code B27P
San Francisco, CA 94177-001

Contact:

Valerie Beck
California Public Utilities Commission
Energy Division
State Building
350 McAllister Street
San Francisco, CA 94102

Telephone: (415) 703-2125
E-Mail: vjb@cpuc.ca.gov
Web site: <http://www.cpuc.ca.gov>

iv. Tax Deduction for Interest on Loans for Energy Efficiency
Last DSIRE Review: 07/11/2005

Incentive Type: Personal Deduction

Eligible Efficiency Technologies: Lighting, Chillers, Furnaces, Boilers, Heat pumps, Air conditioners, Caulking/Weather-stripping, Duct/Air sealing, Building Insulation, Windows, Advanced metering
Eligible Renewable/Other Technologies: Solar Water Heat, Solar Space Heat, Photovoltaics, Daylighting

Applicable Sectors: Residential

Amount: 100% of interest from loan

Terms: Loans from a publicly-owned utility company

Authority 1: CA Revenue and Taxation Code 17208.1 (2001 SB 75)

Date Enacted: 10/1/01

Effective Date: 10/1/01

Summary: This personal tax deduction allows taxpayers to deduct the interest paid on loans used to purchase energy efficient products or equipment for a residence in the State. The deduction is for loans from a publicly owned utility company for the purchase of energy-efficient heating, ventilation, air-conditioning, lighting, solar, advanced metering of energy usage, windows, insulation, zone heating products, and weatherization systems. Customers of publicly owned utility companies that do not offer customer financing may be able to deduct the interest from a home equity or home improvement loan used to purchase energy efficient products and equipment.

Publicly owned utility companies must issue a federal income tax Form 1098, or similar form, to notify their customers of their eligibility for this deduction. Furthermore, this deduction may not be taken if a tax credit is taken for the purchase of the energy efficient equipment. Contact the IRS for more information.

Contact:

Tax Specialist - FTB

California Franchise Tax Board

PO Box 942840

Sacramento, CA 94240-0040

Telephone: (800) 852-5711; Telephone 2: (916) 845-6500

Web site: <http://www.ftb.ca.gov/>

Information Specialist - IRS
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224
Telephone: (800) 829-1040
Web site: <http://www.irs.gov>

b. Rules, Regulations and Policies

i. California - Net Metering

Last DSIRE Review: 10/13/2005

Incentive Type: Net Metering Rules

Eligible Renewable/Other Technologies: Photovoltaics, Landfill Gas, Wind, Fuel Cells, Anaerobic Digestion

Applicable Sectors: Commercial, Industrial, Residential

Limit on System Size: 1 MW (10 MW for as many as three biogas digesters)

Limit on Overall Enrollment: 0.5% of a utility's peak demand (separate limit of 50 MW for SDG&E); statewide limit of 50 MW for biogas digesters

Treatment of Net Excess: Credited to customer's next bill; granted to utility at end of 12-month billing cycle

Utilities Involved: All utilities (solar and wind); IOUs (biogas and fuel cells)

Interconnection Standards for Net Metering? Yes

Authority 1: Cal Pub Util Code § 2827

Summary: California's net-metering law, which took effect in 1996, requires all utilities to allow net metering to all customers for solar and wind-energy systems up to 1 megawatt (MW). Investor owned-utilities are required to offer net metering for biogas-electric facilities and fuel cells.

The original law applied to wind-energy systems, solar-electric systems and hybrid (wind/solar) systems. In September 2002, legislation (AB 2228) allowed biogas-electric facilities up to 1 MW to net meter until December 31, 2005, under a pilot program. This pilot program was extended until December 31, 2009, with the passage of AB 728 in September 2005. A customer-generator may continue to net meter an eligible biogas digester for the life of the facility, provided the digester meets California's best available control technology (BACT) requirements upon installation. Furthermore, AB 728 (2005) authorizes up to three large biogas digesters -- systems with a capacity greater than 1 MW but no more than 10 MW -- to net meter. There is a 50-MW statewide limit on

net-metered biogas digesters. California law provides for retail cost recovery of revenue loss from net-metered biogas digesters.

The 2002 net-metering amendments (AB 58) also: limit the total amount of net metering to 0.5% of a utility's peak demand; exempt net metering from "exit fees" or "departing load fees;" prohibit inter-class cost shifting that results from net metering; allow municipal utilities to permit either net-metering or co-metering, which credits customers for generation on a "time-of-use" basis for the generation value of their production; advise the state treasurer to consider net metering and co-metering projects as sustainable building methods or distributed-energy technologies for purposes of evaluating low-income housing projects; grandfather in projects permitted prior to December 31, 2002, and completed before September 30, 2003; permit wind-energy projects up to 50 kW to net meter; and require wind-energy projects from 50 kW to 1 MW to utilize "wind energy co-metering," which provides for time-of-use pricing and credits.

Subsequent legislation enacted in October 2003 (AB 1214) made fuel cells eligible for net metering until the cumulative rated generating capacity of net-metered fuel cells reaches 45 MW within the service territory of a utility with a peak demand of at least 10,000 MW, or until the capacity reaches 22.5 MW within the service territory of a utility with a peak demand of 10,000 MW or less. The maximum total capacity of all net-metered fuel cells in all service territories is limited to 112.5 MW. The repeal date for this provision, January 1, 2006, was removed by AB 67 2005. Under terms of AB 67 of 2005, fuel cells that begin operation before January 1, 2010, are eligible to net meter.

Net excess generation (NEG) is carried forward to a customer's next bill for up to 12 months. Any NEG remaining at the end of each 12-month period is granted to the customer's utility. Customers subject to time-of-use rates are entitled to deliver electricity back to the system for the same time-of-use (including real-time) price that they pay for power purchases. However, time-of-use customers who choose to net meter must pay for the metering equipment capable of making such measurements.

SB 816 of 2005 created a separate capacity limit for SDG&E of 50 MW, an increase over the previous limit.

California does not allow any new or additional demand charges, standby charges, customer charges, minimum monthly charges, interconnection charges, or other charges that would increase an eligible customer-generator's costs beyond those of other customers in the rate class to which the eligible customer-generator would otherwise be assigned. The CPUC has explicitly ruled that technologies eligible for net metering (up to 1 MW) are exempt from interconnection application fees, as well as from initial and supplemental interconnection review fees.

Additional Resources:

PG&E's net-metering web page:

www.pge.com/suppliers_purchasing/new_generator/solar_wind_generators/standard_e_net/index.html

SCE's net-metering web page:

www.sce.com/SC3/Rebatesandsavings/GeneratingYourOwnPower/NetEnergyMeteringFAQs/

SDG&E's net-metering web page:

www.sdge.com/business/net_metering.shtml

Contact:

Les Nelson

Western Renewables Group

30012 Aventura, Suite A

Rancho Santa Margarita, CA 92688

Telephone: (949) 713-3500

Fax: (949) 709-8044

E-Mail: lnelson@westernrenewables.com

Web site: <http://www.westernrenewables.com>

2. Federal Incentives, Rebates and Grants¹

a. Summary of Energy Policy Act, 2005

i. Existing Homes

Incentives apply only to primary residences and improvements installed in 2006 – 2007.

Tax credits for 10% of cost for:

- Insulation material
- Windows & skylights
- Exterior doors
- Energy Star metal roofing

¹ A current list of these programs is maintained on the Federal Incentives webpage of the website of the Database of State Incentives for Renewable Energy (DSIRE - www.dsireusa.org).

ii. New Homes

Incentives apply only to primary residences and improvements installed in 2006 – 2007.

- \$50 tax credit for advanced main air circulating fan used in furnace
- \$150 tax credit for any qualified natural gas, propane, or oil furnace or hot water boiler
- \$300 tax credit for any item of “qualified energy property” including:
 - Electric heat pump water heater
 - Electric air source heat pump
 - Geothermal heat pumps
 - Direct expansion products
 - Central air conditioner
- \$1000 tax credit for contractors for homes that:
 - Use 30% less heating & cooling energy than IECC 2003
 - 33% of savings from building envelope improvements that meet Energy Star Labeled homes program
 - Conform to Federal Manufactured Home Construction and Safety Standards
- \$2000 tax credit for contractors for homes that:
 - Use 50% less heating & cooling energy than IECC 2003
 - 20% of savings from building envelope improvements that meet NAECA

iii. Renewable Energy

Residential: Tax credit equal to 30% of the cost with a maximum of \$2000 per system

b. Detailed Information on Federal Rebates / Incentives / Programs

i. New Energy-Efficient Home Tax Credit for Builders

Last DSIRE Review: 03/02/2006

Incentive Type: Corporate Tax Credit

Eligible Efficiency Technologies: Comprehensive Measures/Whole Building

Applicable Sectors: Construction

Amount: \$1000-\$2000, depending on energy savings amount and type of home

Maximum Incentive: \$2,000

Website: <http://www.irs.gov/newsroom/article/0,,id=154658,00.html>

Authority: 26 USC § 45L

Date Enacted: 8/8/2005

Effective Date: 1/1/2006

Expiration Date: 01/01/2008

Summary: The Energy Policy Act of 2005 established tax credits of up to \$2,000 for builders of all new energy-efficient homes, including manufactured homes constructed in accordance with the Federal Manufactured Homes Construction and Safety Standards.

The home qualifies for the credit if:

- It is located in the United States;
- Its construction is substantially completed after August 8, 2005;
- It meets the energy saving requirements outlined in the statute; and
- It is acquired from the eligible contractor after December 31, 2005, and before January 1, 2008, for use as a residence.

Energy Saving Requirements: Site-built homes qualify for a \$2,000 credit if they are certified to reduce energy consumption by 50% relative to the International Energy Conservation Code standard and meet minimum efficiency standards established by the Department of Energy. Building envelope component improvements must account for at least one-fifth of the reduction in energy consumption. The statute does not identify the specific efficiency measures eligible for the tax credit.

Manufactured homes qualify for a \$2,000 credit if they conform to Federal Manufactured Home Construction and Safety Standards and meet the energy savings requirements of site-built homes, as described above.

Manufactured homes qualify for a \$1,000 credit if they conform to Federal Manufactured Home Construction and Safety Standards and reduce energy consumption by 30% relative to the International Energy Conservation Code standard. Building envelope component improvements must account for at least one-third of the reduction in energy consumption. Alternatively, manufactured homes qualify if they meet Energy Star Labeled Homes requirements.

Certification: The Internal Revenue Service has issued guidance to provide information about the certification process that a builder must complete to qualify for the credit. The guidance also provides for a public list of software programs that may be used in calculating energy consumption for purposes of obtaining a certification.

Notice 2006-27 provides guidance for the credit for building energy efficient homes other than manufactured homes. Notice 2006-28 provides guidance for the credit for building energy efficient manufactured homes.

Contact:

Information Specialist – IRS
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224
Telephone: (800) 829-1040
Web site: <http://www.irs.gov>

ii. **Residential Energy Conservation Subsidy Exclusion
(Corporate)**

Last DSIRE Review: 03/14/2005

Incentive Type: Corporate Exemption

Eligible Renewable/Other Technologies: Solar Water Heat, Solar Space Heat, Photovoltaics

Applicable Sectors: Residential, Multi-Family Residential

Amount: 100% of the subsidy

Terms: Applies to energy conservation measures on dwelling units only

Website: <http://www.irs.gov/formspubs/display/0,,i1%3D50%26genericId%3D11910,00.html>

Authority 1: 26 USC § 136

Authority 2: IRS Publication 525

Summary: According to Section 136 of the IRS Code, energy conservation subsidies provided by public utilities, either directly or indirectly, are nontaxable: "Gross income shall not include the value of any subsidy provided (directly or indirectly) by a public utility to a customer for the purchase or installation of any energy conservation measure."

"Energy conservation measure" includes installations or modifications that are primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand. "Dwelling unit" includes a house, apartment, condominium, mobile home, boat, or similar property. If a building or structure contains both dwelling and other units, any subsidy must be properly allocated.

Given the definition of "energy conservation measure," there is strong evidence that utility rebates for residential solar thermal and solar electric projects may be nontaxable. However, the IRS has not ruled definitively on this issue. For taxpayers considering using this provision for renewable energy systems, consultation with a tax attorney is advised.

Other types of utility subsidies that may come in the form of credits or reduced rates are also nontaxable, as IRS Publication 525 states (see link above): "Utility rebates. If you are a customer of an electric utility company and you participate in the utility's energy conservation program, you may receive on your monthly electric bill either: a reduction in the purchase price of electricity furnished to you (rate reduction), or a nonrefundable credit against the purchase price of the electricity. The amount of the rate reduction or nonrefundable credit is not included in your income."

Contact:

Information Specialist - IRS
Internal Revenue Service
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Telephone: (800) 829-1040 | Web site: <http://www.irs.gov>

iii. **Residential Energy Conservation Subsidy Exclusion (Personal)**

Last DSIRE Review: 03/14/2005

Incentive Type: Personal Exemption

Eligible Renewable/Other Technologies: Solar Water Heat, Solar Space Heat, Photovoltaics

Applicable Sectors: Residential, Multi-Family Residential

Amount: 100% of subsidy

Summary: According to Section 136 of the IRS Code, energy conservation subsidies provided by public utilities, either directly or indirectly, are nontaxable: "Gross income shall not include the value of any subsidy provided (directly or indirectly) by a public utility to a customer for the purchase or installation of any energy conservation measure."

"Energy conservation measure" includes installations or modifications that are primarily designed to reduce consumption of electricity or natural gas, or improve the management of energy demand. "Dwelling unit" includes a house, apartment, condominium, mobile home, boat, or similar property. If a building

or structure contains both dwelling and other units, any subsidy must be properly allocated.

Given the definition of "energy conservation measure," there is strong evidence that utility rebates for residential solar thermal and solar electric projects may be nontaxable. However, the IRS has not ruled definitively on this issue. For taxpayers considering using this provision for renewable energy systems, consultation with a tax attorney is advised.

Other types of utility subsidies that may come in the form of credits or reduced rates are also nontaxable, as IRS Publication 525 states (see link above): "Utility rebates. If you are a customer of an electric utility company and you participate in the utility's energy conservation program, you may receive on your monthly electric bill either: a reduction in the purchase price of electricity furnished to you (rate reduction), or a nonrefundable credit against the purchase price of the electricity. The amount of the rate reduction or nonrefundable credit is not included in your income."

Contact:

Information Specialist - IRS
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224
Phone: (800) 829-1040
Web site: <http://www.irs.gov>

iv. Residential Energy Efficiency Tax Credit

Last DSIRE Review: 03/02/2006

Incentive Type: Personal Tax Credit

Eligible Efficiency Technologies: Water Heaters, Furnaces, Boilers, Heat Pumps, Air Conditioners, Building Insulation, Windows, Doors, Roofs, Circulating Fan used in a qualifying furnace

Eligible Renewable/Other Technologies: Geothermal Heat Pumps

Applicable Sectors: Residential

Amount: 10% of cost of building envelope improvements; 100% for qualified energy property (heating, cooling, water heaters)

Maximum Incentive: Varies by technology; no more than \$500 credit for all energy property and envelope improvements for all tax years

Equipment/Installation Requirements: Equipment must be new and in compliance with all applicable performance and safety standards; performance and quality standards vary by technology

Website: <http://www.irs.gov/newsroom/article/0,,id=154657,00.html>

Authority: 26 USC § 25C
Date Enacted: 8/8/2005
Effective Date: 1/1/2006
Expiration Date: 12/31/2007

Summary: The Energy Policy Act of 2005 established tax credits for energy efficiency improvements in the building envelope of existing homes and for the purchase of high-efficiency heating, cooling, and water heating equipment. These improvements and/or equipment must be placed in service from January 1, 2006 through December 31, 2007 and must serve a dwelling in the United States owned and used by the taxpayer as a primary residence. The maximum amount of homeowner credit for all improvements combined is \$500 during the two-year period of the tax credit.

Building Envelope Improvements: Owners of existing homes can receive tax credits of up to 10% of the cost of upgrading the efficiency of the building's envelope. Components eligible for the credit include:

- insulation materials and systems designed to reduce a home's heat loss or gain;
- exterior doors and windows (including skylights); and
- pigmented metal roofs designed to reduce heat gain.

Credits for windows are not to exceed \$200 and the total amount of credits for building envelope measures and other qualified energy property outlined below must not exceed \$500.

Improvements should be expected to remain in use for at least 5 years. Roofs with pigmented coatings must meet Energy Star requirements, and all other improvements must meet 2000 International Energy Conservation Code criteria, including supplements. Manufactured homes conforming to Federal Manufactured Home Construction and Safety Standards also qualify.

Heating, Cooling, and Water Heating Equipment: Purchasers of qualified energy efficient property are eligible for tax credits up to the total expenditures on such property. The credit can also be applied to labor costs for assembly and original installation of this property. Eligible property and maximum credit amounts are as follows:

- electric heat pump water heaters [\$300];
- electric heat pumps [\$300];
- geothermal heat pumps [\$300];
- central air conditioners [\$300];

- natural gas, propane, or oil water heaters [\$300];
- natural gas, propane, or oil furnace or hot water boilers [\$150];
and
- advanced main air circulating fans [\$50].

Performance and quality standards for tax credit eligibility vary by technology. See 26 USC § 25C above for details. In addition, the Internal Revenue Service (IRS) has provided the following interim guidance, pending the issuance of regulations, relating to the credit: IRS Notice 2006-26.

Contact:

Information Specialist - IRS
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224
Telephone: (800) 829-1040
Web site: <http://www.irs.gov>

v. Residential Solar and Fuel Cell Tax Credit

Last DSIRE Review: 02/17/2006

Incentive Type: Personal Tax Credit

Eligible Renewable/Other Technologies: Solar Water Heat, Photovoltaics, Fuel Cells

Applicable Sectors: Residential

Amount: 30%

Maximum Incentive: \$2,000 for photovoltaics and solar water heating; \$500 per 0.5 kW for fuel cells

Carryover Provisions: Excess credit may be carried forward to succeeding tax year

Eligible System Size: Not specified

Equipment/Installation Requirements: Solar water heating property must be certified by SRCC or by comparable entity endorsed by the state. At least half the energy used to heat the dwelling's water must be from solar in order for the solar water heating property expenditures to be eligible.

Authority: 26 USC § 25D (2005)

Date Enacted: 1/1/2006

Effective Date: 8/8/2005

Expiration Date: 12/31/2007

Summary: The Energy Policy Act of 2005 (H.R. 6, Sec. 1335) establishes a 30% tax credit up to \$2,000 for the purchase and installation of residential photovoltaic (solar electric) and solar water heating property. An individual can take both a 30% credit up to the \$2,000 cap for a photovoltaics system and a 30% credit up to a separate \$2,000 cap for a solar water heating system. A 30% tax credit up to \$500 per 0.5 kW is also available for fuels cells.

Solar water heating property must be certified for performance by the Solar Rating Certification Corporation or a comparable entity endorsed by the government of the state in which the property is installed. Note that the tax credit does not apply to solar water heating property for swimming pools or hot tubs.

The credit is calculated based on the individual's expenditures excluding subsidized energy financing, which is defined as "financing provided under a Federal, State, or local program a principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy." Consumers who receive other incentives are advised to consult with a tax professional regarding how to calculate this federal tax credit.

If the federal tax credit exceeds tax liability, the excess amount may be carried forward to the succeeding taxable year. Expenditures include labor costs for the on-site preparation, assembly, or original installation of the system, and for piping or wiring to interconnect the system to the dwelling.

To be eligible for the credit, a system must be "placed in service" or activated between January 1, 2006, and December 31, 2007. Expenditures with respect to the equipment are treated as made when the installation is completed. This provision is particularly important for expenditures made before 2006 for projects not "placed in service" until 2006. If the installation is on a new home, the "placed in service" date is the date of occupancy by the homeowner. The IRS will be issuing further guidance on claiming this credit.

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