

Legislative Analysis



UPDATE ALTERNATIVE ENERGY INCENTIVES

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Senate Bill 583

Sponsor: Sen. Jason E. Allen

Senate Bill 584

Sponsor: Sen. Dennis Olshove

House Committee: Energy and Technology

Senate Committee: Technology and Energy

Complete to 11-27-06

A SUMMARY OF SENATE BILLS 583 AND 584 AS PASSED BY THE SENATE 6-29-06

Senate Bill 583 (S-5), would revise existing definitions and add new definitions to the Michigan Next Energy Act.

Senate Bill 584 (S-1) would amend the Michigan Renaissance Zone Act to require the alternative energy zone to promote and increase the *testing* of alternative energy technology, in addition to the currently required research, development, and manufacturing of such technology. In addition, the alternative energy zone would promote these activities for "alternative energy systems" and "alternative energy vehicles" in addition to alternative energy technology.

Both acts provide business and property tax abatements for alternative energy activities. The bills are described in more detail below.

Senate Bill 583 (S-5)

The Michigan Next Energy Authority was created by the Michigan Next Energy Authority Act (Public Act 593 of 2002). Among other things, the authority oversees an alternative energy zone, located in the New Center area of Detroit near Wayne State University, and promotes the research, development, and manufacturing of alternative energy technology. The authority also certifies businesses and their property as eligible for exemptions from state and local taxes. The bill would amend a number of existing definitions under the act and add new definitions.

The act defines "**alternative energy marine propulsion system**" [Section 2(b)] as an onboard propulsion system or detachable outboard propulsion system for a watercraft that is powered by a *fuel cell energy system, photovoltaic energy system, or advanced battery cell energy system* and that is the singular propulsion system for the watercraft (except for battery-powered motors designed to assist in the propulsion of the watercraft during fishing or other recreational use). The bill would replace the reference to "a fuel cell, photovoltaic, or advanced battery cell energy system" with "alternative energy system."

"Alternative energy system" [Section 2(c)], is currently defined as the small-scale generation or release of energy from one or any combination of the following types of energy systems: a fuel cell energy system, a solar-thermal energy system, a wind energy system, a battery cell energy system, and a clean fuel energy system. *The bill would add biomass and thermoelectric energy systems to the enumerated list of alternative energy systems.* **"Biomass energy system"** [New Section 2(l)] would mean a system that generates energy from a process using residues from wood and paper products industries, food production and processing, trees and grasses grown specifically to be used as energy crops, and gaseous fuels produced from solid biomass, animal wastes, municipal wastes, or landfills. **"Thermoelectric energy system"** [New Section 2(dd)] would mean a system that generates energy by converting thermal energy into electrical energy using direct heat from a clean fuel energy system or waste heat from any source. A thermoelectric energy system also includes an energy system that utilizes alkali metal thermal-to-electric conversion technology.

The bill would amend **"alternative energy technology"** [Section 2(d)] to mean equipment, component parts, materials, electronic devices, testing equipment, and related systems that are *specifically designed, specifically fabricated, and used primarily for* (instead of the current *solely related to*) one or more of the enumerated list of technologies. The list of enumerated technologies would be changed in the following ways:

- "The storage or generation of hydrogen for use in an alternative energy system" would be deleted. [Section 2(d)(i)]
- "The storage, generation, reformation, or distribution of clean fuels integrated within an alternative energy system or alternative energy vehicle, not including an anaerobic digester energy system, for use within the alternative energy system or alternative energy vehicle" would be added. [New Section 2(d)(i)]
- Fuel lines and fuel reformers would be added to the current definition of "microgrid" as "lines, wires, and controls to connect two or more alternative energy systems." [Section 2(d)(iii)]
- "Research and development of an alternative energy vehicle" would be added. [New Section 2(d)(iv)]
- "Research, development, and manufacturing of an alternative energy system" would be added. [New Section 2(d)(v)]
- "Research, development, and manufacturing of an anaerobic digester energy system" would be added. [New Section 2(d)(vi)]

"Anaerobic digester energy system" [New Section 2(h)] would mean a device or system of devices for optimizing the anaerobic digestion of biomass for the purpose of recovering biofuel for energy production.

Under the act, **"alternative energy vehicle"** [Section 2(f)] means a motor vehicle manufactured by an original equipment manufacturer that meets federal safety and local emissions standards and that is propelled by an alternative energy system. The term includes alternative fueled, fuel cell, electric, hybrid, solar, and hybrid electric vehicles. Currently, **"hybrid vehicle"** means a motor vehicle that can only be powered by two or

more alternative energy systems. Under the bill, "hybrid vehicle" would mean a motor vehicle "that can only be powered by an internal combustion engine and one or more alternative energy systems." [Section 2(f)(iv)] In addition, the bill would add a **hydraulic hybrid vehicle** to the definition of alternative energy vehicle, and define it as "a motor vehicle powered by a regenerative hydraulic drive system or powered by an internal combustion engine assisted by a regenerative hydraulic drive system." [Section 2(f)(vii)] **Regenerative hydraulic drive system** would mean "a system that captures energy from nonparasitic vehicle sources or energy wasted by a vehicle's brakes or suspension to be released to directly assist vehicle propulsion or directly propel the vehicle." [New Section 2(y)]

The act defines "**clean fuel energy system**" as a device that is designed and used solely for the purpose of generating power from a clean fuel. [Section 2(p)] The bill would include renewable fuels in the definition of "**clean fuel**," [Section 2(o)] and define "**renewable fuels**" as biodiesel or biodiesel blends containing at least 20 percent biodiesel or biomass. [New Section 2(z)] "**Biodiesel**" would mean a diesel fuel substitute consisting of methyl or ethyl esters produced from the transesterification of animal or vegetable fats with methanol or ethanol. [New Section 2(z)(i)]

The bill also would revise the definition of "**small-scale**." [Section 2(aa)] Currently, the term means a single energy system with a maximum generating capacity of two megawatts or an integrated energy system with a maximum generating capacity of 10 megawatts. Under the bill, the term also would include a fuel cell energy system, a photovoltaic energy system, or a wind energy system. [New Section 2(aa)(ii)]

MCL 207.822

Senate Bill 584 (S-1)

Public Act 512 of 2002 amended the Michigan Renaissance Zone Act to allow the Strategic Fund Board to designate one renaissance zone as an alternative energy zone. The alternative energy zone must promote and increase the research, development, and manufacturing of alternative energy technology. Under the bill, the alternative energy zone would also have to also promote and increase the "testing" of alternative technology in addition to the other enumerated activities, and to promote and increase these activities not only with regard to alternative energy technology but also as to "alternative energy systems" and "alternative energy vehicles" as defined in the Michigan Next Energy Authority Act as it would be amended by Senate Bill 583.

MCL § 125.2688a

FISCAL IMPACT:

Senate Bill 583 will result in a reduction of Single Business Tax revenue, as well as a loss of local property tax revenue and an increase in School Aid Fund expenditures. However,

because the Single Business Tax has been repealed, it is unclear how the Single Business Tax credits resulting from this bill will be claimed.

Senate Bill 584 expands the definition of qualifying alternative energy activity in the associated Renaissance Zone in Detroit. As a result, state and local tax revenues should decline by an indeterminate amount and expenditures from the School Aid Fund will increase by an unknown amount. The restructuring or replacement of the Single Business Tax will affect the fiscal impact of this bill.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.