

Government Incentives for Renewable Energy Systems and Recent Legislation

California leads the nation in offering incentives for the installation of renewable energy systems (solar, wind, and geothermal). This, in combination with the high electricity rates and excellent solar insolation (amount of solar energy available) here in the Bay Area, makes this an ideal location to install a photovoltaic (PV) system for your home or business.

The CSI (California Solar Initiative) offers a rebate program for homeowners and businesses who install renewable energy systems. The rebate is paid upon completion of system installation and sign-off by the local jurisdiction and by the electrical utility, such as PG&E. Depending on your specific system design, this rebate can be 15-25% of your total system cost including materials, labor, and sales tax. The rebate is actually paid using money from ratepayers like you and me – it is a line item on each ratepayer's electric bill.

In order to receive the full rebate, the system must be professionally installed by a licensed contractor. There is a lower rebate amount for homeowner-installed systems. In order to get the highest possible rebate, the system must meet certain technical requirements having to do with the equipment type, orientation, tilt angle, and freedom from shading. There are also some other, more detailed requirements, which Cobalt Power Systems will ensure are satisfied in the system design. Cobalt Power handles all the paperwork for you relating to the rebate, the PG&E Interconnect Agreement, and the local construction permit.

The rebate is usually paid within 2-3 months of the completion of installation. As a service, Cobalt Power Systems offers to carry the rebate for the client, so that the client does not have to wait for the funds. You sign the rebate over to Cobalt Power, and we subtract the rebate figure from your total price right at the start of the project.

The rebate is currently \$1.55 per Watt for residential PV systems, and \$1.55 per Watt for commercial PV systems. The rebate declines by approx. \$0.30-0.45 per Watt each time the total regional installed base reaches a new threshold. Once we sign a contract with you for a PV system, we apply for the rebate at the current rebate level. For most systems, the rebate is granted with a 12-month expiration date. In some cases, such as commercial new construction, the expiration window may be longer.

Although California recently passed a law stating that the rebate is non-taxable, the IRS still regards state rebates paid directly to the homeowner as taxable income. This is another reason to have Cobalt Power Systems accept the rebate on behalf of the customer (the CSI has a form for this assignment). In this case the rebate is nontaxable.

For new construction, the applicable rebate for PV systems is the New Solar Homes Partnership (NSHP). The current rebate level for NSHP is \$2.50 per Watt. In order to qualify for the excellent NSHP rebate, your home will need to exceed Title 24 energy efficiency standards by 15%. Cobalt Power has energy efficiency experts on staff and ready to work with you to meet the requirements for the NSHP rebate.

In addition to the California rebate, there is a Federal tax credit which pays up to 30% of the balance remaining after the rebate. All costs related to the PV system installation may be included in this calculation, including materials, labor, sales tax, related roof work, permit fees, and the PG&E TOU meter charge if applicable. In addition, this Federal 30% tax credit is not subject to AMT (Alternative Minimum Tax).

Finally, for commercial systems, the IRS allows special accelerated depreciation (MACRS) for photovoltaic systems. In some cases the total cost of the system can be depreciated in as little as

one year. This can have significant cash flow advantages. Consult with your tax advisor to see if you qualify for this feature.

In summary, the combination of these rebates and tax credits means a homeowner or commercial business can install a PV system and have the government pay for roughly 40-50% of the total cost, depending on the specific case. For commercial installations, the tax benefits of accelerated depreciation can increase this to 60-75% or more of the total system cost.

Recent legislation has reaffirmed California's commitment to the rebate program for renewable energy installations. Some of the recent bills that passed the California Assembly and California Senate, received the Governor's signature, and are now law, include:

- AB 58 – Reaffirmed Net Metering and Time of Use (TOU) metering in California for systems up to 1 MW. Effective date Jan 1, 2003
- AB 1099 – Exempts PV system installations from any increase in property tax. Enacted Sept 7, 2005
- SB 1078 – The Renewable Portfolio Standard (RPS) – Requires that major California energy providers (utilities) must increase their use of renewable energy by 1% per year, and reach 20% of their total capacity by 2017. They cannot count new hydroelectric plants toward that total. This is the strongest law in the nation requiring utilities to invest in renewable energy.
- Solar Rights Act (AB2473) – Local jurisdictions may not restrict the installation of a PV system for aesthetic reasons. They may only plan-review a proposed system as it relates to health and safety. Also, local Homeowners Associations may not incorporate elements in their CC&R's (Codes, Covenants and Restrictions) that prohibit or unreasonably restrict the installation of PV systems.
- Solar Shade Control Act (1979; Public Resources Code sections 25980-25986) – A neighbor may not allow a tree to be planted, or to grow in height, after a PV system is installed, such as to shade the system by more than 10% from 10 AM to 2 PM.
- AB 1968 – Excludes renewable energy rebates from California taxation (signed 9/24/02)

The CPUC (California Public Utilities Commission) has the responsibility to manage the overall state-wide rebate program. It also sets the schedule of rebate reductions. In the San Francisco Bay Area, the rebate program is administered by PG&E.

The City of Santa Clara has its own power company, Silicon Valley Power. In Santa Clara, the rebate is currently \$4.50 per Watt. Palo Alto has a similar rebate program, administered by City of Palo Alto Utilities (CPAU). The current rebate level in Palo Alto is \$2.00 per Watt for residential PV systems and \$2.80 per Watt for small commercial PV systems.