

Invenergy

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September 10, 2024

VIA ELECTRONIC FILING

Ms. Patricia Van Gerpen
Executive Secretary
South Dakota Public Utilities Commission
500 E Capitol Ave
Pierre, SD 57501-5070

RE: In the Matter of the Application by Deuel Harvest Wind Energy South LLC for Energy Facility Permits of a Wind Energy Facility and a 345 kV Transmission Facility in Deuel County, South Dakota for the South Deuel Wind Project

Docket EL24-023

Dear Ms. Van Gerpen:

Deuel Harvest Wind Energy South LLC (“South Deuel Wind”) submits this letter containing additional information regarding school tax benefits, federal investment tax credits (“ITCs”) and production tax credits (“PTCs”) relating to the South Deuel Wind Project (“Project”) in response to questions at the public input meeting held on August 22, 2024.

School Tax Benefits

Wind projects in South Dakota are subject to annual payments in lieu of property taxes based on two components: (1) nameplate capacity (\$3 per kilowatt); and (2) electrical generation (a tax of .00045 per kilowatt hour (“kWh”) produced). Of that amount, 50% of the nameplate capacity tax and 10% of the electrical generation tax are allocated to school districts.

South Dakota funds school districts through a state funding formula. The state uses the formula to determine a school district’s “local need” (based on multiple factors, such as the number of students in the district, targeted number of teachers, average teacher salary, etc.). The amount of the state aid payment to the school district equals the “local need” less any amounts generated from “local effort,” which generally includes property taxes and payments in lieu of taxes. However, amounts generated from payments in lieu of tax from wind farms are “phased in” to the state education formula over a ten-year period. Years 1-5 are 100% exempt from being factored into local need, Year 6 is 80%, Year 7 is 60%, Year 8 is 40%, Year 9 is 20%, and year 10 is 0%. See SDCL 13-16-26.2 and SDCL 13-13-10.1(15).

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South Deuel Wind is expected to produce in the magnitude of 1 million kWh per year. Based on this production, the Deuel School District 19-4 and the Deubrook School District 05-6 would recognize a combined additional revenue impact of \$3,045,000 over the first 10 years of Project operations. The specific allocation between the school districts would be dependent on final turbine model selections and locations.

Federal ITCs/ PTCs

The ITC is a federal tax credit established under the Energy Policy Act of 2005, designed to support investment in renewable energy projects. It allows developers or investors in renewable energy projects, such as solar, wind, and other qualifying technologies, to claim a percentage of their capital investment in a project as a tax credit. This credit is available for both residential and commercial renewable energy projects. The credit percentage offered can vary based on the type of technology, size and construction start date. The ITC is a crucial incentive for encouraging investment in renewable energy infrastructure, reducing the upfront costs, and accelerating the deployment of clean energy technologies across the United States.

The PTC is a federal tax incentive established under the Energy Policy Act of 1992, designed to promote the development of renewable energy projects. It provides a kWh tax credit for electricity generated by eligible renewable energy sources, such as wind, and sold to an unrelated party during the first 10 years of operation. The amount of the credit varies by year and technology and typically is adjusted annually for inflation. The current rate is around 2.75 cents per kWh for wind energy.

South Deuel Wind anticipates that it will seek to secure PTCs for the Project. The optimal time to apply for the PTC is soon after meeting the "Construction Start Date" requirement, as this will help ensure that the project is on track to receive the tax credits as soon as the project begins generating electricity.

If the Project obtains PTCs, the credits will not only improve the Project's return on investment but also make it more competitive in the energy market by reducing the levelized cost of energy. The PTC will be a critical component in ensuring the long-term financial sustainability of the Project, ultimately contributing to the growth of renewable energy in South Dakota. To apply for it the Project needs to meet the following eligibility requirements:

1. Qualified Energy Facility: The facility must be one that generates electricity from eligible renewable energy sources.

2. Construction Start Date: The Project must begin construction by a specific deadline set by Congress. For many recent extensions, this meant starting construction before the end of a specified year. The Internal Revenue Service ("IRS") has provided guidance on what constitutes "beginning construction," which includes either starting physical work or incurring at least 5% of the total project cost.

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3. Continuous Efforts: After the start of construction, the Project must show continuous progress towards completion. The IRS has issued guidance on continuous efforts, providing safe harbor rules that help prove continuous efforts.

4. Operation Timeline: The Project must start operations within a specified timeframe after construction begins. This timeframe can vary depending on the size, location and the year in which construction started. For wind projects, it is typically four years from the start of construction, though extensions have been provided under certain conditions.

5. Ownership and Sales: The electricity generated by the Project must be sold to an unrelated third party for PTC to be applicable.

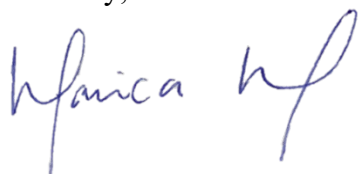
6. Certification and Documentation: The Project must maintain proper documentation and may be required to certify to the IRS that the Project meets all eligibility requirements. This includes detailed records of construction start dates, costs, and sales agreements.

Contrary to common misconceptions, tax credits are not taken as profit by developers. Instead, they are leveraged to enhance the competitiveness of the price per kWh offered, assisting developers to secure business through mechanisms such as Power Purchase Agreements and Build-Transfer Agreements.

Conclusion

South Deuel Wind appreciates the opportunity to provide this additional information.

Sincerely,

A handwritten signature in blue ink that reads "Monica" followed by a stylized monogram.

Monica Monterrosa
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cc: Service List