

Guidance for EAct 2005 Section 242 Program

I. Purpose

In the Energy Policy Act of 2005 (EAct 2005; Public Law 109-58) Congress established a new program to support the expansion of hydropower energy development at existing dams and impoundments through an incentive payment procedure. Under section 242 of EAct 2005, the Secretary of Energy is directed to provide incentive payments to the owner or authorized operator of qualified hydroelectric facilities for electric energy generated and sold from a qualified hydroelectric facility for a specified 10-year period. (See 42 U.S.C. § 15881)

Section 242 of EAct 2005 (42 U.S.C. § 15881) states:

EAct 2005 SEC. 242. HYDROELECTRIC PRODUCTION INCENTIVES.

(a) INCENTIVE PAYMENTS.—For electric energy generated and sold by a qualified hydroelectric facility during the incentive period, the Secretary shall make, subject to the availability of appropriations, incentive payments to the owner or operator of such facility. The amount of such payment made to any such owner or operator shall be as determined under subsection (e) of this section. Payments under this section may only be made upon receipt by the Secretary of an incentive payment application which establishes that the applicant is eligible to receive such payment and which satisfies such other requirements as the Secretary deems necessary. Such application shall be in such form, and shall be submitted at such time, as the Secretary shall establish.

(b) DEFINITIONS.—For purposes of this section:

(1) QUALIFIED HYDROELECTRIC FACILITY.—The term “qualified hydroelectric facility” means a turbine or other generating device owned or solely operated by a non-Federal entity which generates hydroelectric energy for sale and which is added to an existing dam or conduit.

(2) EXISTING DAM OR CONDUIT.—The term “existing dam or conduit” means any dam or conduit the construction of which was completed before [August 8, 2005] and which does not require any construction or enlargement of impoundment or diversion structures (other than repair or reconstruction) in connection with the installation of a turbine or other generating device.

(3) CONDUIT.—The term “conduit” has the same meaning as when used in section 30(a)(2) of the Federal Power Act (16 U.S.C. 823a(a)(2)).

The terms defined in this subsection shall apply without regard to the hydroelectric kilowatt capacity of the facility concerned, without regard to whether the facility uses a dam owned by a governmental or nongovernmental entity, and without regard to whether the facility begins operation on or after [August 8, 2005].

(c) ELIGIBILITY WINDOW.—Payments may be made under this section only for electric energy generated from a qualified hydroelectric facility which begins operation during the period of 10 fiscal years beginning with the first full fiscal year occurring after [August 8, 2005].

(d) INCENTIVE PERIOD.—A qualified hydroelectric facility may receive payments under this section for a period of 10 fiscal years (referred to in this section as the “incentive period”). Such period shall begin with the fiscal year in which electric energy generated from the facility is first eligible for such payments.

(e) AMOUNT OF PAYMENT.—

(1) IN GENERAL.—Payments made by the Secretary under this section to the owner or operator of a qualified hydroelectric facility shall be based on the number of kilowatt hours of hydroelectric energy generated by the facility during the incentive period. For any such facility, the amount of such payment shall be 1.8 cents per kilowatt hour (adjusted as provided in paragraph (2)), subject to the availability of appropriations under subsection (g), except that no facility may receive more than \$750,000 in 1 calendar year.

(2) ADJUSTMENTS.—The amount of the payment made to any person under this section as provided in paragraph (1) shall be adjusted for inflation for each fiscal year beginning after calendar year 2005 in the same manner as provided in the provisions of section 29(d)(2)(B) of the Internal Revenue Code of 1986, except that in applying such provisions the calendar year 2005 shall be substituted for calendar year 1979.

(f) SUNSET.—No payment may be made under this section to any qualified hydroelectric facility after the expiration of the period of 20 fiscal years beginning with the first full fiscal year occurring after [August 8, 2005], and no payment may be made under this section to any such facility after a payment has been made with respect to such facility for a period of 10 fiscal years.

(g) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Secretary to carry out the purposes of this section \$10,000,000 for each of the fiscal years 2006 through 2015.

This guidance is intended to describe the application process and the information necessary for DOE to make a determination of eligibility under section 242 and assist qualified hydropower facility owners in applying to DOE for this incentive payment. Determinations to make incentive payments under this part are not subject to the provisions of 10 CFR Part 600 and such payments shall not be construed to be financial assistance.

II. Definitions

- *Calendar year* means a calendar year beginning on January 1 and ending on December 31.
- *Conduit* means any tunnel, canal, pipeline, aqueduct, flume, ditch, or similar manmade water conveyance that is operated for the distribution of water for agricultural, municipal, or industrial consumption and not primarily for the generation of electricity.
- *Dam* means any structure for impounding water, including any diversion structure that is designed to obstruct all or substantially all of the flow of a natural body of water.
- *DOE* means the Department of Energy.
- *Existing dam or conduit* means any dam or conduit the construction of which was completed before August 8, 2005, and which does not require any construction or enlargement of impoundment or diversion structures (other than repair or reconstruction) in connection with the installation of a turbine or other generating device. An increase in dam height, expansion of reservoir topographic area or expansion of a previously existing conduit cross-section, other than generator penstocks associated with a new generator, after August 8, 2005 would eliminate facilities from eligibility for the hydroelectric production incentive. A temporary increase in dam height that does not expand reservoir topographic area and is for purposes of flood control, hydroelectric generation efficiency

improvement, and/or health and safety improvements does not eliminate facilities from eligibility for the hydroelectric production incentive.

- *FERC* means the Federal Energy Regulatory Commission.
- *First eligible for payment* means the first Federal fiscal year after August 8, 2005, that a qualified hydroelectric facility generates hydroelectric energy for sale.
- *Fiscal year* means the Federal fiscal year beginning October 1 and ending on September 30 of the following calendar year.
- *Net electric energy* means the metered kilowatt-hours (kWh) generated and sold, and excludes electric energy used within the hydroelectric facility to power equipment such as pumps, motors, controls, lighting, heating, cooling, and other systems needed to operate the facility.
- *Not-for-profit electric cooperative* means a cooperative association that is legally obligated to operate on a not-for-profit basis and is organized under the laws of any State for the purpose of providing electric service to its members.
- *Qualified hydroelectric facility* means a turbine or other generating device (including conventional or new and innovative technologies capable of continuous operation) owned or solely operated by a non-Federal entity that: (1) began producing hydroelectric energy for sale on or after October 1, 2005; (2) is added to an existing dam completed before August 8, 2005 (“added” means new hydropower generation where none existed before, or where an existing facility had been offline because of disrepair or dismantling for at least five consecutive years immediately prior to October 1, 2005 and is subsequently repaired or replaced on or after October 1, 2005 and on or before September 30, 2015); and (3) the majority of which was developed through new construction incorporating new equipment, refurbished equipment, or both.
- *Qualified kilowatt-hours (kWh)* means the number of kWh identified by the Secretary or designee to receive payment from those listed in the application information based on DOE review and analysis. DOE will review all kWh listed and identify those to receive incentive payment under the guidance. The calculation of net generation will be reviewed. The quantity of kWh required to achieve the maximum payment of \$750,000 would be established based on the adjusted payment per kWh defined in the Act. Any excess generation beyond the maximum would be disqualified from payment. Payments to applicants will be based on total qualified kilowatt hours from all qualified hydroelectric facilities submitting application on a proportional basis regardless of the final calculated value of the payment per kWh.
- *Sale* means a transfer of currency between two unrelated parties in exchange for delivered electrical current. Not-for-profit electric cooperatives and municipal utilities shall be considered unrelated to their members for purposes of hydroelectric production incentive payments.
- *State* means the District of Columbia, Puerto Rico, and any of the States, Commonwealths, territories, and possessions of the United States.

The terms defined in this part shall apply without regard to the hydroelectric kilowatt capacity of the facility concerned, without regard to whether the facility uses a dam owned by a governmental or nongovernmental entity, and without regard to whether the facility begins operation on or after October 1, 2005.

III. Eligible Applicants and Facilities

Any owner of a qualified hydroelectric facility or authorized operator of a qualified hydroelectric facility (with the written consent of the owner of a qualified hydroelectric facility) may apply for incentive payments for net electric energy generated and sold by a qualified hydroelectric facility.

In order to qualify for an incentive payment under section 242, a hydroelectric facility must meet the following qualifications:

1. The owner or authorized operator must be applying on behalf of:
 - (a) a FERC-jurisdictional hydroelectric facility, as the holder of a license or exemption issued by FERC for the operation of such hydroelectric facility; or
 - (b) a non-FERC-jurisdictional hydroelectric facility, as the holder of the exclusive rights to the beneficial use of the hydroelectric facility, including legal title.
2. Payments may be made under this part only for net electric energy generated from a qualified hydroelectric facility that begins operation at an existing dam or conduit during the inclusive period beginning October 1, 2005 and ending on September 30, 2015. Significant changes to an existing facility may be eligible if the facility had been offline because of disrepair or dismantling for at least five consecutive years immediately prior to October 1, 2005 and on or before September 30, 2015, and the majority of the changes consisted of new construction incorporating new equipment, refurbished equipment, or both. For example, significant changes may include: installation of mechanical equipment to capture kinetic energy from moving water, such as equipment used to transfer that energy; installation of the electric generator driven by the energy transfer; and installation of control equipment to manage the entire facility for safe and reliable electricity output. Other changes to existing facilities and equipment, such as maintenance that replace damaged or worn equipment or cause incremental increases in energy output from facilities do not qualify for payment under Section 242.
3. The qualified renewable energy facility must be located in a State or in U.S. jurisdictional waters.

IV. Eligible Production

Electrical power produced from the addition of a generator or generation device which is placed in operation at a non-powered or powered dam on or after October 1, 2005, and on or before September 30, 2015, is eligible for consideration of incentive payments. Subject to the availability of appropriated funds, DOE shall make incentive payments under this program with respect to a qualified hydroelectric facility for 10 consecutive fiscal years. Such period shall begin with the first Federal fiscal year in which the generator began operating a qualified hydroelectric facility and the authorized operator sold the resulting electric energy. DOE will accept applications and make payments to qualified hydroelectric facilities in years when appropriations are available for this purpose. Any year in which the facility does not operate partially or fully will be considered an eligible year if contained in the 10-year period starting with the first Federal fiscal year in which the generator

began operating a qualified hydroelectric facility and the authorized operator sold the resulting electric energy, regardless of whether funds were appropriated in a given year for an incentive payment. Subject to the availability of appropriated funds which, until Federal fiscal year 2014, have not been available, the period for payment under this program ends with Federal fiscal year 2025.

The net electric energy generated and sold (kilowatt-hours) by the owner or authorized operator of a qualified hydroelectric facility must be measured by a metering device sensor that:

- (a) Meets generally accepted industry standards;
- (b) Is maintained in proper working order according to the instructions of its manufacturer; and
- (c) Is calibrated according to generally accepted industry standards.

As evidence of (a) through (c), applicants should provide the specific information outlined in (g) of the “Application Requirements” below.

In the event that a project's eligible production is not specifically metered, a project must submit a reasonable, reliable, alternative method to document eligible production. Alternative methodologies must be reviewed, confirmed, and documented by a third party with valid and relevant industry experience and credentials and be submitted to DOE. DOE reserves the right to determine whether the alternative methodology sufficiently identifies the new electric energy generated to qualify under this program. Once an applicant receives an incentive payment for any calendar year, the applicant must still apply for incentive payments for each subsequent year.

V. Application Requirements

Where and when to apply

An application for an incentive payment for electric energy generated and sold in a calendar year must be filed during the applications period defined by the DOE in the Federal Register. DOE will announce the schedule for accepting application and establish a deadline for submission. Applicants are required to report the hydropower facility production for the calendar year immediately preceding the year applications are submitted. Failure to file an application for any eligible year for payment for energy generated in the preceding year shall disqualify the owner or authorized operator from eligibility for any incentive payment for energy generated in that preceding year.

Content

In order to be able to determine eligibility and to calculate the amount of individual facility payments, DOE needs sufficient information about an owner or authorized operator and the facility. An application for an incentive payment must be signed by an authorized executive official of the owner or operator claiming the payment and shall provide the following information:

- (a) A statement indicating that the applicant is the owner of the facility or is the authorized operator of the facility and has the written consent of an authorized executive official of the generator owner to file an application;

- (b) The name of the facility or other official designation;
- (c) A FERC docket number (if applicable) and FERC application or conduit exemption request that was submitted for the hydropower project;
- (d) The location and address of the facility and description of the type of hydropower energy source;
- (e) A detailed description of the new hydropower facility, including, but not limited to: the state of the site before construction, a listing of the equipment that has been installed (which includes the manufacturer, and whether the equipment is new or refurbished), the type of turbine that has been installed, and the capacity of the turbine;
- (f) If the application is for new hydropower capability at an already existing facility, the date and circumstances the old facility went off-line;
- (g) Details on how the electricity generated from the new unit(s) is metered. This can include, but is not limited to: the meter manufacturer, industry standards the meter meets, independent verification of meter data, requirements for metering under power purchase agreements, interconnection tariffs, or other mandates;
- (h) The name, mailing address, and telephone number and email address of a point of contact to respond to questions or requests for additional information;
- (i) A clear statement of how the applicant facility satisfies all of the eligibility criteria described above in sections III. and IV.;
- (j) A statement/invoice/bill of sale for the annual and monthly metered net electric energy generated and sold during the prior calendar year by the qualified hydroelectric facility, measured in kilowatt-hours, for which an incentive payment is requested;
- (k) The total amount of electric energy for which payment is requested;
- (l) Copies of permit authorizations if the date of first use is based on permit approvals and this is the initial application;
- (m) Supporting documentation, such as an invoice/statement/bill of sale, that provides the date of the first sale of electricity from the qualified hydroelectric facility;
- (n) A tax identification number of the qualifying facility;
- (o) A statement agreeing to retain records for a period of three (3) years which substantiate the annual and monthly metered number of kilowatt-hours generated and sold and to provide access to or copies of, such records, for possible audit within 30 days of a written request by DOE;
- (p) Confirmation, in the form of a Data Universal Numbering System (DUNS) number, of creation of a Federal System for Award Management (SAM) account (each payment requester must go to sam.gov where they will Create User Account and Register/Update Entity); and
- (q) A statement signed by an authorized executive official certifying that the information contained in the application is accurate.

For the purposes of better understanding how the incentive has been or will be used, DOE is also asking for:

- (r) A statement from the owner or authorized operator indicating what the incentive has been used for in previous years and, if awarded, what the incentive will be used for in the upcoming year. Note: The response will not affect the eligibility decision or the amount of the incentive to be received.

Processing applications

Applications and notifications to the Department shall be submitted to the Hydropower Incentive Program, at hydroincentive@ee.doe.gov. Following submission of an application, DOE will review and consider the completeness of the application data and may request supplementary information relating to the application. When DOE has been satisfied that sufficient information has been reported, the application will be reviewed for eligibility under the incentive payment requirements. Timely response to allow all applications to be considered in a reasonable period is required. **Delays exceeding 10 business days in response to DOE requests for information shall constitute the basis for classifying a facility as ineligible.**

DOE may require the applicant to conduct at its own expense and submit an independent audit, or DOE may conduct an audit, to verify the number of kilowatt-hours claimed to have been generated and sold by the qualified hydroelectric facility and for which an incentive payment has been requested or made.

The Secretary, or DOE official delegated by the Secretary, will determine the extent to which appropriated funds are available to be obligated under this program. Upon evaluating each application and any other relevant information, DOE shall further determine:

- (1) Eligibility of the applicant for receipt of an incentive payment, based on the criteria for eligibility specified in this guidance;
- (2) The number of kilowatt-hours to be used in calculating a potential incentive payment, based on the net electric energy generated and sold from a qualified renewable energy source at the qualified hydroelectric facility during the prior calendar year; and
- (3) Potential incentive payments under this program shall be determined by multiplying the number of qualified kilowatt-hours by 1.8 cents per kilowatt-hour, and adjusting that product for inflation for each fiscal year beginning after calendar year 2005 in the same manner as provided in section 29(d)(2)(B) of the Internal Revenue Code of 1986, except that in applying such provisions calendar year 2005 shall be substituted for calendar year 1979.

Federal fiscal year appropriations will be identified for the section 242 incentive payment program and in some years there may be insufficient funds to make full payments as calculated above. If funds are not sufficient to make full incentive payments to all qualified applicants, the total amount of qualified kilowatt-hours eligible for payment will be divided into the appropriated amount and a proportional payment will be made to each qualified recipient. This reduced payment will be a fraction of the full payment and will be calculated and applied proportionately based on qualified kilowatt-hours in an identical manner to all applicants deemed eligible by the Secretary or designee.

After calculating the amount of the incentive payment using the method described, the Secretary or designee shall then issue a written notice of the determination to each applicant and for every facility with the following content:

- (1) Disapproving or approving the application as eligible for payment;

(2) Setting forth the calculation of the approved amount of the incentive payment.

If the application does not meet the requirements of this program or some of the kilowatt-hours claimed in the application are disallowed as unqualified, the Secretary or designee shall issue a written notice denying the application in whole or in part with an explanation of the basis for denial.

Notify DOE of plans to operate

To assist DOE in its budget planning, the owner or authorized operator of a qualified hydroelectric facility is requested to provide notification at least 6 months in advance of when a facility is expected to be first used, providing projected information specified in “application content” listed in section V. above. This notification should be sent to the address listed in the application process. Facilities are exempt from this requirement for Federal Fiscal Years 2013 and 2014.

VI. Administrative appeals

In order to exhaust administrative remedies, an applicant who receives a notice denying an application in whole or in part must file an appeal with the DOE Office of Hearings and Appeals, 1000 Independence Avenue, S.W., Washington, D.C. 20585, in accordance with the procedures set forth below.

If an applicant does not file an appeal in accordance with these requirements, the determination of the Secretary or designee shall become final. If an applicant files an appeal on a timely basis in accordance with these requirements, the decision and order of the Office of Hearings and Appeals shall be final. If the Office of Hearings and Appeals orders an incentive payment, the Director of the Office of Hearings and Appeals shall send a copy of such order to the DOE Finance Office with a directive to make the required payment.

What must the appeal contain and what is the standard of review?

The appeal shall contain a concise statement of the ground(s) upon which the applicant contests the written notice of the Secretary or designee. With its appeal, the applicant should provide (i) a copy of such notice, and (ii) contact information (i.e., name, telephone number, mailing and e-mail addresses) for a representative able to respond to questions and provide information relevant to the appeal.

The appeal should also include any data, documentation or other relevant information supporting a showing by the appellant that the denial of eligibility or disallowance of payment, either in whole or in part, is erroneous, not supported by the whole record, or is arbitrary and capricious.

How should the appeal be filed?

The appeal, including attachments, should be electronically filed with the Office of Hearings and Appeals (OHA), U.S. Department of Energy, at: OHA.filings@hq.doe.gov. Upon filing, OHA will confirm receipt of the appeal and assign a case number.

What matters are not appealable?

The following matters are not subject to appeal: 1) the denial of an application on the basis of untimeliness, and 2) a proportional award of an incentive payment based upon DOE's determination that insufficient appropriated funds are available to make full incentive payments to all qualified applicants.

What are the steps in the process?

(1) An appeal under these procedures must be filed within ten (10) days of receiving the notice by the Secretary or designee denying eligibility or a claim for payment, in whole or in part.

(2) In evaluating an appeal, OHA may require the submission of additional information by the appellant regarding any statement in an appeal. OHA may also solicit and accept submissions of relevant information from other sources, provided that the appellant is afforded an opportunity to respond to all such submissions. OHA on its own initiative may convene a conference or hearing if, in its discretion, it considers that such conference or hearing will advance its evaluation of the appeal. OHA will determine the scope and format of any conference or hearing convened under these procedures, as well as the parties allowed to participate.

(3) OHA may issue an order summarily dismissing an appeal if: (a) not filed in a timely manner, unless good cause is shown; (b) the filing is defective on its face; or (c) there is insufficient information upon which to base a decision and if, upon request, the necessary additional information is not submitted within the time specified by OHA.

(4) Within thirty (30) days of receiving all required information, OHA shall issue a written decision granting or denying the appeal, all or in part. The decision shall include a written statement setting forth the relevant facts and basis for the determination. Upon issuance, OHA shall serve an electronic version of the decision upon the appellant and the DOE Office of Energy Efficiency and Renewable Energy. The decision will also be published on the OHA website: <http://www.oha.doe.gov>. The decision of OHA shall constitute final agency action and the appellant's final right of administrative review under the Hydropower Incentive Program.

(5) All expenses incurred in pursuing any appeal before OHA shall be borne exclusively by the appellant.