



Renewable Energy Grants Under Section 1603: American Reinvestment and Recovery Act of 2009 Independent Accountant Certification

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Background

Applicants requesting section 1603 grant payments of \$ 1 Million or more for a specified energy property are required to submit an **independent accountant's certification** attesting to the accuracy of all costs claimed as part of the basis of the property. The examination must be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

Applicants requesting payments of less than \$1 million, and whose eligible cost basis is more than \$500,000 for a specified energy property, must instead submit with their grant application a report of Agreed-Upon Procedures (AUP) prepared by an independent accountant in accordance with attestation standards of the AICPA.

These requirements are mandatory, as the Department of the Treasury requires independent confirmation of the project costs and the eligibility of costs in accordance with the general rules for determining the basis of property for federal income taxes. This is described in more detail under the program guidance for Payments for Specified Energy Property in Lieu of Tax Credits under the American Recovery and Reinvestment Act of 2009.

Agreed-Upon Procedures

For grant applicants requesting payments of **less than \$1 million** and whose eligible cost basis is more than \$ 500,000 for a specified energy property, the CPA must instead perform "agreed upon procedures." The agreed-upon procedures engagement must also be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

Attestation of Eligible Costs

The CPA must attest that the cost basis submitted by the applicant is eligible for the 1603 payment applied for. The cost basis must also be established in accordance with the general rules for determining the basis of property for federal income purposes (as described in Section V of the Program Guidance for Specified Energy Property in Lieu of Tax Credits under the American Recovery and Reinvestment Act of 2009).

The CPA must verify that all costs qualify as eligible in calculating the cost basis of the specified property. The CPA must also note any items they are uncertain about regarding eligibility, with the corresponding dollar amount clearly stated in the report.

Additional requirements include:

- Costs are for placing one of the specified energy properties in service
- Other federal grants, state grants, or rebates reduce the cost basis.
- The cost basis of property may not be reduced by any other adjustment to basis, such as that for depreciation. All items must properly be included by the taxpayer in the depreciable basis of the property, such as installation and freight costs.
- Costs are for originally placing the property in service or for expanding/adding to a qualified facility placed in service before 2009. Only the cost basis of property placed in service after 2008 is eligible for a Section 1603 payment.
- For used parts, there is a threshold since the original use of the property must begin with the applicant.

- Costs are for tangible property (not including a building) which is an integral part of the facility. Only the portion of the facility that is the specified energy property is taken into account in computing the cost basis.

Qualified Properties

Properties that generate electricity qualify under the section 1603 grant program.

Qualified property includes storage devices, power conditioning equipment, transfer equipment, and parts related to the functioning of those items. Properties that do not qualify include any electrical transmission equipment, such as transmission lines and towers, or any equipment beyond the electrical transmission stage, such as transformers and distribution lines.

Specific properties:

1. Open-loop biomass, closed-loop biomass, or municipal solid waste

An integral part of the qualified facility includes property used at a plant site for unloading, transfer, storage, reclaiming from storage, or preparation (shredding, chopping, pulverizing, or screening) of the material to be processed at the plant. However, similar equipment located away from the plant site is not an integral part of the qualified facility. Similarly, slurry pipelines, trucks, railroad cars, and barges that transport to the qualified facility open-loop biomass, closed-loop biomass, or municipal solid waste are not an integral part of a qualified facility.

2. Biomass facility that burns fuel other than open-loop biomass or closed-loop biomass

The eligible cost basis is the percentage of total eligible costs that is equal to the percentage of the heat of combustion of the total fuel burned that is attributable to the open-loop biomass and closed-loop biomass. The total fuel burned includes fossil fuel required for startup and flame stabilization. No payment is allowable for the percentage attributable to the fossil fuel burned.

3. Geothermal

Property that is integral to a geothermal facility includes equipment that transports geothermal steam or hot water from a geothermal deposit to the site of ultimate use. This includes components of a heating system, such as pipes and ductwork, which distribute within a building the energy derived from the geothermal deposit. If geothermal energy is used to generate electricity, this also includes equipment that transports hot water from the geothermal deposit to a power plant.

4. Qualified hydropower facility

Only property related to the turbines or other generating devices added to the facility to produce hydroelectric power can qualify as specified energy property that is eligible for a Section 1603 payment.

5. Qualified fuel cell property

After the eligible cost basis is determined, the application system makes another calculation. The calculation limits the amount requested to no more than \$1,500 for each 0.5 kilowatt of capacity.

6. Microturbine property

After the eligible cost basis is determined, the application system makes another calculation. The calculation limits the amount requested to no more than \$200 for each kilowatt of capacity.

7. Combined heat and power

CHP system property does not include property used to transport the energy source to the facility or to distribute energy produced by the facility.

Applicants Who Are Lessees

A lessee's cost is the amount equal to the independently assessed fair market value of the property on the date the property is transferred to the lessee. If the applicant is a lessee in a sale-leaseback, the lessee's cost is the amount equal to the independently assessed fair market value of the property on the date the property is transferred to the lessee.

Attestation of Costs for Qualified Properties

The CPA will attest that the costs submitted in the 1603 application were incurred for the specified property defined in the application. Additionally, the CPA will provide independent confirmation that the costs that are submitted in the application were actually incurred costs for the specified property, that the property exists, and that evidence such as invoices, contracts, proof of payment and other supporting documentation exists. The CPA will review a large enough sample of the documentation sufficient to ensure that the costs submitted in the application were incurred for the property.

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