

US House of Representatives
Committee on Ways and Means

“Energy Tax Incentives Driving the Green Job Economy”

Written Comments by the American Wind Energy Association

The American Wind Energy Association (AWEA) appreciates the opportunity to submit testimony regarding the critical role that energy tax incentives play in driving the green job economy forward. AWEA is the national trade association of America’s wind industry, representing the interests of more than 2,100 member companies, including global leaders in energy development, wind turbine manufacturers, and component and service suppliers.

AWEA seeks to grow the wind energy industry to power the cleaner, stronger America that our citizens believe in. A recent poll by Bennett, Petts & Normington and Public Opinion Strategies showed that a substantial majority of Americans – 82% – believe the nation’s economy would be stronger or the same if we used more renewable energy sources like wind.ⁱ To drive a strong green job economy, the U.S. needs to set long-term, stable policies for the renewable energy industries, building upon the energy tax policy foundation that this Committee has helped to establish.

Wind Industry Market Update

AWEA’s *Annual Wind Industry Market Report* covering 2009 showed that wind power is now a mainstream electricity source. The U.S. wind industry installed over 10,000 megawatts (MW) of new wind power generating capacity in 2009, an all-time U.S. record, and enough to power the equivalent of 2.4 million homes or generate as much electricity as three large nuclear power plants.ⁱⁱ These 10,010 MW amounted to 39% of all new generation capacity installed in 2009, second only to natural gas. At the end of 2009, all renewables, including hydropower, provided 10.5% of U.S. electricity, with wind power accounting for 1.8% of U.S. electricity supply.ⁱⁱⁱ Six U.S. states now receive more than 5% of their electricity from wind, with Iowa in the lead – garnering 14.2% of its electricity from wind in 2009. Clearly, the U.S. is experiencing a true transformation of its electric sector. Looking to the future, the wind industry seeks to provide 20% of U.S. electricity by 2030, and a 2008 technical analysis by the Department of Energy illustrates that this achievement is entirely feasible with the right policy support.^{iv}

There is a vibrant workforce behind the fast-growing U.S. wind industry. Approximately 85,000 people are employed in the wind sector across all 50 states today and hold jobs in areas as varied as turbine component manufacturing, construction and installation of wind turbines, wind turbine operations and maintenance, legal and marketing services, transportation and logistical services.^v From 2007 to 2009, the U.S. wind energy industry opened, announced or expanded over 100 facilities, for a total of over 200 wind turbine component factories now operating in the U.S.^{vi} The wind industry has been one of the few bright spots in our troubled economy over the past several years.

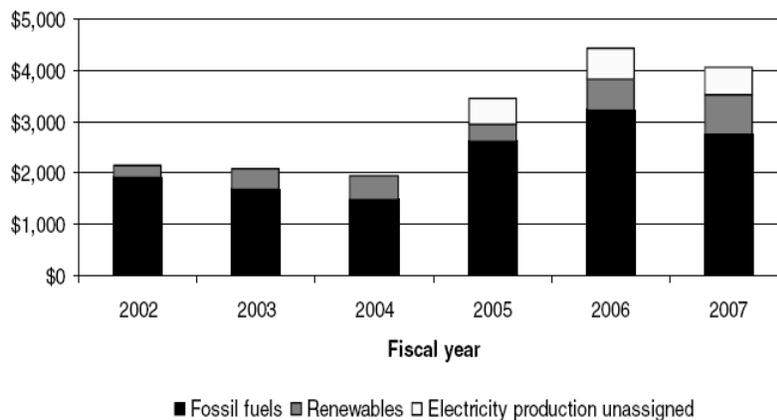
Wind Energy and Energy Subsidies: The Facts

Despite claims to the contrary in the Committee's hearing^{vii}, reputable government sources have documented that renewable energy receives far lower federal incentives than conventional sources. Studies by the Joint Committee on Taxation, the Government Accountability Office, and the National Academy of Sciences have made the following points:

- The top three tax incentives for domestic oil and natural gas production equated to more than \$40 billion over the past 25 years, while support for wind energy through tax incentives was less than \$9 billion.^{viii}
- Fossil fuels received nearly five times more tax incentives than renewables in 2007^{ix} (see Table 1).
- The external impacts of polluting energy sources sums to a hidden subsidy of \$62 billion per year.^x

A main conclusion from these points is that government support for energy is widespread and new sources like wind are entering a tilted playing field.

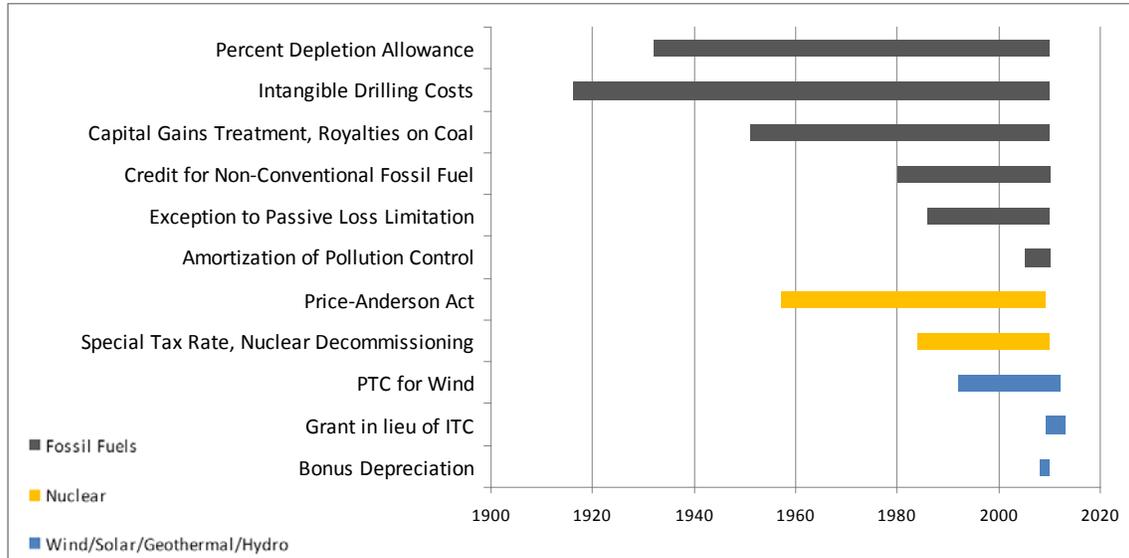
Table 1: Tax Expenditures for Electricity Production, FY 2002 – FY 2007 (in millions, 2007 dollars)



Source: Government Accountability Office, October 2007

Many of the incentives for the fossil fuel sector, including percent depletion allowance and expensing intangible drilling costs, have been permanent in the tax code since the 1910s and 1920s, and the nuclear industry began to receive permanent government subsidies in the 1950s through the Price-Anderson Act (see Table 2).^{xi}

Table 2: All Domestic Energy Has Had Long-Term Support, Except Renewables



Data Sources: Congressional Research Service, Federal Legislation

Energy Tax Policies Are Driving the Wind Industry

The U.S. wind industry's growth to its current stature as world leader in wind capacity, now at over 35 gigawatts, has been driven primarily by the renewable energy production tax credit (PTC) that was created under the Energy Policy Act of 1992. Although the PTC was enacted in 1992, it has not been steadily available to the wind industry since its creation. It has been allowed to expire three times – at the end of 1999, 2001, and 2003, thus creating a boom-and-bust cycle in the wind energy industry. Each time the PTC was allowed to expire, the subsequent year experienced a 73-93% drop in growth. However, there has been a marked difference since 2004. With the PTC steadily available, thanks to five extensions, the wind industry achieved an average annual growth rate of 39% from 2005 through 2009. This great success illustrates the fact that stable policy measures provide businesses the certainty they need to make significant investments here and now.

In 2009, when the U.S. economy was experiencing a severe credit crisis, the dynamics of financial lending changed drastically for the wind industry. Capital dried up and tax equity markets shrank considerably, minimizing the usability of tax credits to finance projects. At this time, the wind industry anticipated that wind power installations might drop by as much as 50% from 2008 levels, with equivalent job losses. Fortunately, Congress enacted the American Recovery and Reinvestment Act (ARRA), which addressed the wind industry's immediate financial challenges. ARRA extended the PTC through 2012, created an option to use a 30% investment tax credit (ITC) in lieu of the PTC, and created the Section 1603 Treasury program, which allowed the ITC to be converted to an equivalent cash payment. This was a critical step to enable the continued growth of the wind and other renewable industries through the economic downturn. Indeed, this policy innovation led to a record-breaking year for wind installations, kept the wind industry's employment level at 85,000 people, and facilitated the opening, expansion, or announcement of 39 manufacturing facilities across the country.

Tax Policy Changes Can Maintain U.S. Global Leadership in Wind Power

The wind industry appreciates Congress's support for incentives to drive renewable energy growth. As long as conventional energy sources receive federal incentives, wind will require similar support. Extending the Section 1603 Treasury payment program or passing an alternative tax credit proposal, is a high policy priority for the wind industry. The Treasury program has given wind project developers an equivalent incentive to the PTC or ITC that has been much more usable in the recent financial climate. As of April 26, 2010, the program, which began taking applications in the summer of 2009, has granted 81 wind projects over \$2.8 billion in total, providing an invaluable lifeline to the wind industry and saving 40,000 American jobs. This is an extraordinary achievement, considering how dire the prediction for wind development was prior to the passage of the American Recovery & Reinvestment Act. The wind industry would like to see the success of the grant program continue, but as it currently stands, the grant option is only available to wind projects constructed in 2009 and 2010, or projects on which construction begins by the end of 2010 and is completed by the end of 2012. We seek to extend the start-construction date beyond 2010, ideally to include 2011 and 2012, to match the currently scheduled PTC expiration. We urge the House Ways and Means Committee to extend the grant program's start-construction date or pursue another approach that would establish an alternative tax credit. We applaud the efforts of Representative Blumenauer and others on the Ways and Means Committee who have introduced H.R. 4599, which would extend the previously authorized renewable energy incentive in the ARRA through an alternative tax credit.

The wind industry would also benefit from an expansion of the Qualifying Advanced Energy Project Credit, or Manufacturing Tax Credit, that was established in Section 48C of the ARRA. This credit provided a 30% investment tax credit to qualifying manufacturing facilities. Under ARRA, \$2.3 billion were made available for this program. It was very popular, however, and quickly became oversubscribed. The grant announcements for the full \$2.3 billion were made in January 2010. Fifty wind facilities in at least 20 states received grants valued at over \$350 million. On the day that he announced the grants, President Obama called for another \$5 billion to be allocated for this popular program. The wind industry strongly supports this increase in funding. The U.S. wind industry's share of domestically manufactured turbine components has risen from about 25% in 2005 to over 50% today, which actually equates to 12-fold growth in US wind manufacturing due to the rapidly expanding market. The manufacturing tax credit program can help continue this impressive growth.

Finally, AWEA supports federal tax policies that are critical to growing the community wind sector. Community-scale wind projects – generally those whose economic benefits flow directly into the communities that host them – offer individual Americans the opportunity to invest directly in clean energy. The community wind sector has a large growth potential and will play an important role in helping the U.S. reach its energy needs. Perhaps more importantly, community-scale projects make wind energy accessible to communities and individuals, building powerful support for renewable energy at the local level that is needed to help utility-scale projects reach their potential. However, community wind projects face greater commercialization challenges than do traditional wind power projects and currently receive little federal policy support. Extending the Section 1603 Treasury program will benefit community wind projects that are financed by tax-paying entities. Increasing funding

for the Clean Renewable Energy Bonds program would also help non-taxpaying entities build community wind projects, as well as commercial scale projects.

Tax Policy Complements the Renewable Electricity Standard (RES)

With at least 36 nations now having mandatory renewable energy targets, including China and all European Union countries, and China's landmark achievements of surpassing the U.S. in new wind installations and in wind turbine manufacturing in 2009^{xii}, it is clear that the U.S. urgently needs to establish long-term, stable policies that foster a prosperous business environment for the wind industry. Equipped with long-term certainty, businesses will invest tens of billions of dollars in new wind projects and manufacturing facilities for the 8,000 turbine components, and, in turn, create hundreds of thousands of American jobs.

A national renewable electricity standard is the top policy to establish business certainty. A national standard would set growing targets for the percentage of electricity that the U.S. gets from renewable sources. Twenty-nine U.S. states already have state-wide renewable electricity standards in place, which are driving the industry forward. According to the Bennett, Petts & Normington and Public Opinion Strategies poll, an overwhelming, bipartisan majority – 89% – of American voters believe increasing the amount of energy the nation gets from wind is a good idea.^{xiii} Additionally, a study by Navigant Consulting showed that a 25% by 2025 national RES would support an additional 274,000 renewable energy jobs over a continuation of our current situation, where there is no long-term national renewable energy policy. In addition, the study found that without strong near-term national targets for renewable electricity, industries like wind power will experience flat job growth and long-term stagnation, while the U.S. biomass industry could collapse altogether.^{xiv} Tax policy under Ways and Means Committee jurisdiction complements energy policy by reducing the costs to ratepayers. We appreciate any support the Committee can offer for long term stable policies including the RES and longer term tax credits.

We look forward to working with the Committee on moving these initiatives forward. At this time of enormous global competition, the U.S. needs to act quickly and effectively to establish itself as the best investment market for the renewable energy sector. We appreciate the opportunity to share our ideas on how to accomplish this with the Committee.

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- ⁱ Bennett, Petts & Normington and Public Opinion Strategies, *AWEA National Survey*, March 27-28, 2010.
- ⁱⁱ American Wind Energy Association, *U.S. Wind Industry Annual Market Report, Year-Ending 2009*, April 2010.
- ⁱⁱⁱ *Ibid.*
- ^{iv} U.S. Department of Energy, *20% Wind Energy by 2030*, May 2008.
- ^v American Wind Energy Association.
- ^{vi} *Ibid.*
- ^{vii} Harbert, Karen A. *Testimony: Energy Tax Incentives Driving the Green Job Economy*. April 14, 2010.
- ^{viii} Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2008-2012*, October 2008.
- ^{ix} United States Government Accountability Office, *Federal Electricity Subsidies*, October 2007. In a comparison of federal incentives for electricity between Fiscal Year (FY) 2002 and FY 2007, fossil fuels received \$13.7 billion while renewables received \$2.8 billion.
- ^x National Academy of Sciences, *Hidden Costs of Energy: Unpriced Consequences of Energy Production and Use*, October 2009.
- ^{xi} Congressional Research Service.
- ^{xii} Global Wind Energy Council, *Global Wind 2009 Report*, April 2010.
- ^{xiii} Bennett, Petts & Normington and Public Opinion Strategies.
- ^{xiv} Navigant Consulting, *Jobs Impact of a National Renewable Electricity Standard*, February 2010.