

Written Statement by Bechtel Power Corporation

For the Consideration of the
Committee on Ways and Means
United States House of Representatives
April 28, 2010

Hearing on Energy Tax Incentives Driving the Green Job Economy

Bechtel Power Corporation and its affiliates are in the business of building major infrastructure projects for customers. Our business includes providing customers with engineering, procurement and construction services from the early stages of project inception through to commercial operation. We are actively working with customers that are developing wind, solar and biomass projects. We appreciate the opportunity to submit this statement for consideration by the Committee on Ways and Means.

The testimony offered by Mr. Matt Rogers from the Department of Energy stated clearly “The Section 48C clean energy manufacturing tax credit and Section 1603 payments in lieu of tax credit programs have been among the most successful energy job creation and innovation programs under the Recovery Act to date, putting America back to work and positioning the US to regain leadership in high technology clean energy manufacturing and generation.” We agree.

However, we did not read in any statement by any witness at the hearing on April 14, 2010 a clear recommendation that the Section 1603 payments in lieu of tax credits should be extended or made permanent. The purpose of our written comment is to highlight that the Section 1603 program for grants in lieu of tax credits has been effective, that it sunsets later this year, and this fact is already starting to hinder the development of renewable power projects, particularly in solar thermal and biomass power that involve longer construction durations than wind projects. As the report provided by Mr. Bolinger of Lawrence Berkeley National Laboratory states, the Section 1603 cash grant program has been heavily used. This program provides for immediate and direct employment in engineering and construction of renewable energy projects, particularly wind projects. It also increases immediate demand for the manufactured products required in these projects, including wind turbines, towers, transformers, cable, steel, and concrete, providing for the creation and retention of associated manufacturing and delivery jobs.

We believe that the extension and improvement of the Section 1603 program is critical to retaining jobs and increasing growth in the US clean energy economy. Currently, for a project to qualify, it must have completed 5% of construction by December 31, 2010 and be placed into service by a prescribed date that varies with technology. The creation and development of a major energy infrastructure project is a complex and expensive undertaking, the timetable for which is not predicted with precision and is often subject to delay during the critical permitting and regulatory approval stage. Because the innovators and developers of the clean energy economy need reasonable assurance that the economic incentives upon which their investments are based will still be available when their projects mature, we recommend the Section 1603 program deadline for commencing construction be extended by a minimum of two years, along with all other deadlines under Section 1603. Far better would be to make permanent this

mechanism (or similar) for directly delivering the intended economic incentive in cash rather than delivering it indirectly through tax credits.

The Section 1603 grant program was implemented as a direct outfall of the financial crisis of 2008-09 to reduce dependence of renewable energy projects on their traditional investors which suffered significant financial losses, undermining the value of federal tax credits. Even in good times, structuring projects to utilize tax credits is a more complicated and less efficient method to deliver the economic incentive offered by the Federal government to induce renewable energy projects. Many of the companies that develop renewable energy projects are start-up ventures that can not utilize tax credits. Other countries have successfully utilized “feed-in tariffs” to attract and incentivize investments in renewable power. The Section 1603 cash grant program is comparable to a feed-in tariff. The cash grant enables more options for developers to finance their projects and expands the universe of investors able to participate in making the projects a reality. While the tax credit mechanism has been effective for wind projects, where the construction schedule is less than one year, it is far less effective for solar thermal, geothermal and biomass projects with their multiple year construction schedules. Projects with longer construction periods are better served with the Section 1603 cash grant because it is a bankable forward commitment the value of which is not impaired by the uncertainty of future profitability.

In summary, we believe that a two year extension of the Section 1603 program of cash grants in lieu of tax credits, or better, making the program permanent, is vital to sustaining the current momentum for transitioning the US to a clean energy economy.