

STATEMENT FOR THE RECORD  
EDISON ELECTRIC INSTITUTE

Before the  
Committee on Ways and Means  
United States House of Representatives  
Energy Tax Incentives Driving the Green Job Economy  
April 14, 2010

Edison Electric Institute (EEI) is the trade association of U.S. shareholder-owned electric companies and has international affiliate and industry associate members worldwide. EEI's U.S. members serve 95 percent of the ultimate customers in the shareholder-owned segment of the industry and represent about 70 percent of the U.S. electric power industry. We are pleased to submit comments for the record on new energy tax initiatives we encourage Congress to consider.

**The STORAGE Act of 2009**

EEI supports legislation (H.R. 4210) introduced by Representative Mike Thompson (D-CA). The bill would: allow a 20% energy tax credit for investment in energy storage property directly connected to the electrical grid; make such property eligible for new clean renewable energy bond financing; and allow a 30% energy tax credit for investment in energy storage property used at the site of energy storage. This will address the overlooked issue of storing renewable energy and spur the development of energy storage technologies.

Rapid deployment of these technologies offers significant potential to increase the benefits of renewable energy resources, while lowering production cost and enhancing reliability of the electric grid. The technologies produced by these industries play a vital role in reducing greenhouse gas emissions, creating new green collar American jobs, and spurring economic growth. The investment tax credit for energy storage facilities and equipment is necessary to create a market demand for energy storage technologies.

**The Renewable Integration Credit Act**

EEI supports legislation (H.R. 4149) introduced by Representative Betsy Markey (D-CO). The bill establishes a tax credit, known as the Renewable Integration Credit (RIC), to offset the costs of integrating wind and solar resources into the electric grid. Because wind and solar are *intermittent* resources – meaning that electricity is only available when the wind is blowing or the sun is shining – there are costs to back up the system and maintain the flow of electricity at all times.

A recent Department of Energy study found that the costs of integrating wind resources into the grid average more than \$5 per Megawatt hour (a half-cent per kilowatt hour) of

electricity for wind capacity penetrations up to about 30% of peak load. These costs, which are currently passed along to customers, include investments in quick-start natural gas baseload generating facilities that can be immediately switched on when the wind is not blowing, ramping baseload plants down and up depending on whether renewable energy is available or not, as well as investments in renewable energy storage projects.

This tax credit will encourage utilities to take proactive steps to accommodate additional wind and solar generation in their portfolios, and will mitigate existing disincentives to reach significant levels of wind and solar penetration. Adequate governmental incentives, such as the RIC, are critical to encouraging large-scale development of renewable energy resources. This will help the important role that utilities play as agents for the public in the acquisition and delivery of clean energy resources.

Most importantly, this legislation would create jobs in the green economy and offset the costs associated with integrating clean power onto the grid. While the PTC and ITC have been very successful in holding down the cost of renewable power as a commodity, these credits are directed at developers and do not help utilities and their customers with the costs associated with delivering intermittent power. The RIC would fill this hole and create a powerful new incentive for job creation in the energy sector.

### **Removing Obstacles to Using the Section 45 Tax Credit for Biomass**

Our nation is attempting to increase significantly the use of renewable energy. Biomass is potentially a very large source of renewable energy. Federal tax laws attempt to encourage greater use of biomass to generate electric energy by providing a production tax credit (PTC), or an investment tax credit (ITC) or Treasury grant in lieu of the PTC for the sale of electricity generated using either open-loop or closed-loop biomass. Many of our companies are exploring ways to increase their use of biomass in generating electricity. However, existing provisions in the tax law impede the utilization of the available tax incentives. Congress could remedy these problems by making several changes to the current tax law (most importantly, eliminating the co-firing limitation, described below):

- The current tax code provisions regarding a qualified open-loop biomass facility are too restrictive and limit widespread participation in renewable energy production using biomass. A qualified open-loop biomass facility does not include a facility in which biomass is burned in conjunction with fossil fuel (**co-firing**) beyond such fossil fuel required for startup and flame stabilization. Significant efficiency reductions occur with 100% biomass firing. Utilities need to co-fire with fossil fuels to generate commercial levels of power with biomass. Therefore, the limitation against co-firing with any fossil fuel should be eliminated.

- Possibly the most efficient use of resources is for a company to take an old fossil fuel plant and convert it to using biomass. However, the IRS has taken the position that unless 20% or less of the facility's total value is attributable to the old facility then a converted facility generally will not qualify for the PTC. This limitation should also be eliminated.
- Generation equipment at a wind facility, solar facility and a geothermal facility qualifies for a five-year life for depreciation purposes. A change should be made so that biomass property also qualifies for a five-year life for depreciation purposes.
- Under current law, the PTC rate for open-loop biomass is half the PTC rate for solar, wind and certain other types of renewable energy generating facilities. Changes should be made to the PTC rate for open-loop biomass so that the incentives for biomass are comparable to those available for solar and wind.

### **Renewable Gas Tax Credits**

Current law does not provide tax incentives for the production of "renewable biogas" from biomass, referred to as renewable gas. Renewable gas can be a supplement to traditional pipeline quality natural gas. Conditions in today's U.S. energy market are such that policy makers should consider providing incentives to increase the production and sale of renewable gas.

To accomplish this objective, the production tax credit (PTC) could be expanded to provide a tax credit for the creation of renewable gas from biomass.

### **Tax Incentives For Electric Vehicles**

Increasing vehicle electrification is recognized as critical to achieving our national energy security and greenhouse gas emissions goals. Extending and expanding tax incentives for hybrid and battery electric vehicles in the medium and heavy-duty fleet and promoting the expansion of residential and commercial recharging options will support an increasingly electrified U.S. fleet of vehicles.

Convenient recharging alternatives are essential for large-scale adoption of grid-connected cars and trucks. As more electrified vehicles enter the fleet, drivers will want diverse options for recharging at home and on the road. Extending the expiring Section 30C credit for residential and commercial recharging ensures that the credit effectively recognizes expenses unique to electric recharging.

These incentives will enable widespread and diverse vehicle electrification options and establish the charging, demand management and billing protocols to support a grid-

connected fleet. In addition, they will reduce oil consumption and greenhouse gas emissions.

### **Extension of Treasury Section 1603 Grant Program**

Early last year, before the American Recovery and Reinvestment Act (ARRA) was signed into law, the renewable energy industry anticipated that renewable power development might drop by as much as 50% from 2008 levels, with equivalent job losses. The swift implementation of ARRA, including the Section 1603 Treasury Grant Program, effectively boosted the renewable industry and, more than that, provided a mechanism so effective that the wind industry had a record year, with almost 10,000 megawatts of capacity installed.

The Grant Program continues to be an effective policy tool to help developers raise capital in the marketplace to attract debt and equity, complete financing on wind projects and bring those projects to completion. The Grant Program is a successful, simple, and proven method of expanding the pool of investors for renewable energy projects beyond the still greatly diminished tax equity market. Unfortunately, for a project to qualify for the grant, the project must be placed in service before the end of 2010 or construction must have started in 2009 or 2010. With the Grant Program unavailable for projects commenced after this year, and the continued weakness of the tax equity market, which makes the value and usability of the PTC and ITC uncertain, the renewable industry could be without an effective incentive mechanism in 2011 and beyond.

Extending the Grant Program (or a substitute program, such as refundable tax credits) through the end of 2012 would ameliorate this problem, and allow the renewable energy industry to continue growing. Providing greater certainty to project developers would increase turbine orders from manufacturers, leading to greater manufacturing activity and job creation in the short-term and cost efficiencies in the long-term.

### **Bonus Depreciation**

Unfortunately, the important investment incentive provided by bonus depreciation expired at the end of 2009. EEI strongly recommends extending this provision, which was recently recommended by President Obama. Our companies have largely maintained our huge investments in the U.S. economy while this policy has been in place, with 30 cents of every capital dollar going towards good jobs here in the U.S. Extending bonus depreciation will promote investment, bolster economic growth, and create jobs.

Economists have rated bonus depreciation/expensing as one of the most economically productive of economic stimulus initiatives. A 2010 paper prepared by PriceWaterhouseCoopers, states “there is evidence that the bonus depreciation provision enacted in 2002 and extended in 2003 had a substantial impact on investment in business equipment and employment.”

EEl appreciates the opportunity to provide comments for the record on energy tax incentives that can bolster the economy and create new jobs.