

NYBEA Draft Comments to House Ways and Means Energy Working Group

The New York Biomass Energy Alliance (NYBEA) appreciates the opportunity to share our perspective on federal energy tax policy in the context of comprehensive tax reform. NYBEA is a coalition of individuals, businesses and organizations demonstrating every day that material derived from plants and animals can be used to meet local energy needs while creating local, long-term jobs, reducing greenhouse gas emissions and contributing to state, regional and national energy goals. Our membership cuts across all sectors of the bioenergy industry: non profits, research institutions, engineering firms, biopower producers, farmers, and a number of pellet manufacturers and high efficiency biomass thermal appliance manufacturers, among others.

Impact of Existing Tax Code on Biomass Thermal Technologies

Our nation's tax code has long played a key role in shaping and influencing national energy policy. In the renewable energy arena, the code features numerous incentives for most renewable energy technologies in residential, commercial and industrial installations (Sections 25D and 48, respectively for investment tax credits, and section 45 for production tax credits). In its analysis, the Joint Committee on Taxation has listed approximately 80 separate energy-related tax provisions in existing law. Unfortunately, none of these incentives extends to high efficiency biomass thermal energy, despite the fact that biomass thermal energy fulfills all the same public policy objectives as other renewable energy sources, and despite the fact that the IRS recognizes other thermal technologies such as solar and geothermal. The end result is an unlevel energy landscape that promotes certain technologies over others rather than letting the market play out its course. This both limits consumers' energy choices and their ability to utilize homegrown fuels from local forests and farmland.

Recommendations for Pro-Growth Tax Reform

NYBEA urges the working group to evaluate tax reform efforts that provide a level playing field for competing energy technologies. Specifically, we propose parity in tax incentives for high efficiency biomass thermal combustion technology to include:

- Eligibility for the 30 percent residential renewable energy tax credit under section 25D of the Internal Revenue Code
- Eligibility for the 30 percent business energy investment tax credit under section 48 for commercial and industrial installations.
- Accelerated depreciation of capital investments similar to what also exists for other renewable technologies, including biomass electric generation.

Including biomass thermal in Sections 25D and Section 48 will provide the highest possible return on investment for American tax payers, due to reductions in fossil fuel imports, job creation and local economic development from a renewable domestic energy resource. Per dollar spent, biomass heating displaces ten times more fossil fuel than solar installations or ethanol and is proven to create a greater number of ongoing jobs. Biomass has accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuels.

The United States Department of Agriculture (USDA) estimates that there are 1 billion tons of forest and agricultural residues that can be produced sustainably each year for energy. In regions such as the northeast and north-central states that rely heavily on imported fossil energy for home and business heating, biomass has the potential to greatly reduce our consumption of higher-priced heating oil and propane. The Northeast, in particular, is extremely vulnerable to heating oil price shocks and supply disruptions; New Yorkers, alone spent \$1,617,660,000 on heating oil and propane in 2010. In New York and New England, biomass can sustainably offset as much as 25% of oil used to heat homes and businesses. The energy savings home and business owners experience through using locally produced fuel is spent locally, producing additional regional wealth and job creation.

Key Questions for the Energy Working Group

NYBEA recommends that the Working Group first focus on how the tax code addresses the major end uses of energy. America's energy consumption can be divided into thirds: roughly one-third transportation, one-third electricity, and one-third heat (or thermal). Energy policy to promote renewable energy has focused almost entirely on transportation fuels such as ethanol and biodiesel, and electricity from hydro, wind, solar, geothermal and biomass. These fuels and technologies have received support from the federal government in the form of production and investment tax credits, accelerated depreciation, research and development funding, direct project grants, and renewable energy credits (e.g. state-level renewable electricity programs).

Although the tax code does address thermal energy in 25D and 48, it primarily promotes generating electricity from biomass and thermal energy from geothermal and solar systems. Biomass thermal, a proven pathway for reliable, base-load heating and cooling has been omitted from this larger concept of thermal energy.

Second, the Working Group should consider the advantages and disadvantages of the current method of selecting which technologies are explicitly supported against a technology-neutral approach. Super clean, highly efficient combustion technology is rapidly entering the domestic US marketplace – mostly developed in Europe in response to long-standing industry incentives to encourage technology development. Efficient fuel distribution systems are in place to expand the adoption of central heating systems in home and business heating, industrial process heat, district heating of whole communities, and combined heat and power. This proven technology has been widely deployed in Europe in homes, schools, municipal buildings, factories and any other large institutional, commercial or industrial setting.

Biomass thermal fulfills all the same public policy objectives that are by necessity the basis and justification for renewable energy tax incentives. These include:

- Reduced consumption of foreign fossil energy, thereby increasing America's energy independence and security
- Increased efficiency of utilization for equivalent energy output, as compared to biomass electric generation and cellulosic biofuels
- Reduced emissions of greenhouse gases due to the carbon neutrality of biomass
- Reduced emissions of certain air pollutants such as sulfur dioxides and mercury, as compared to fossil fuels
- Strengthened local economic development and job creation through domestic production of fuels, system installation and service, and fuel distribution.

Concluding Remarks

The current fiscal environment in which our nation is operating necessitates that taxpayer dollars be deployed in a manner that maximizes return on investment. NYBEA believes that investment in technologies like biomass thermal that achieve optimal efficiency and job creation potential should be a focus of energy tax reform efforts moving forward.

In time, with increasing market penetration, these incentives can be scaled down or eliminated. With respect to our request to include biomass thermal in section 25D and section 48, we seek authorization only through the 2016 tax year when the investment credits for other technologies sunset. We look forward to working with the Committee as it begins its work on this critical issue.