

April 15, 2013

The Honorable Kevin Brady
United States House of Representatives
301 Cannon House Office Building
Washington, DC 20515

The Honorable Mike Thompson
United States House of Representatives
231 Cannon House Office Building
Washington, DC 20515

Dear Congressmen Brady and Thompson:

Thank you for the opportunity to provide comments relating to Comprehensive Tax Reform. We are particularly concerned with the impacts of extending the production tax credit for wind energy. Please accept the attached comments endorsed by residents and property owners of the State of Kansas.

In the final hours of the 2012 fiscal cliff negotiations, the now 20-year old wind production tax credit was again granted a 1-year extension at the estimated cost of \$12 billion¹. This move was done behind closed doors, without debate or opportunity for amendment and no obligation of the Congress to find a way to pay for it.

With this extension, a critical change to the PTC was also introduced that relaxed the eligibility requirements. Wind energy projects now need only 'commence construction' by January 1, 2014 to qualify for the credit. David Burton, partner at Akin Gump Strauss Hauer & Feld, has stated that developers who plan well and bank enough 2013 PTC-eligible component parts, "*may be able to continue to construct PTC-eligible wind farms indefinitely*".² This particular form of regulatory 'gaming' would encumber taxpayers with subsidy obligations for projects that may not go into production for many years after the PTC provision has expired.

While public policy has helped the emerging renewables market, there is a growing realization that the subsidy has outlived its usefulness and may be harmful in its current form^{3,4}. The wind industry insists the PTC is an effective tool to keep electricity rates low. In fact, it is nothing more than a cost imposed on all taxpayers in order to accommodate development of a politically well-connected, high-priced, low-value resource that cannot meet our electric capacity needs.

For the reasons cited in the attached comments, we strongly encourage Congress to let the wind PTC expire. The industry has had ample notice and can take the steps necessary to address the revenue shortfall.

Respectfully,

Larry R. Patton

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[REDACTED]
[REDACTED]

¹ The IRS has since increased the PTC to 2.3¢/kWh which puts the extension at nearly \$13 billion.

² North American Windpower, *Post-PTC Extension, Wind Energy Developers Face New Questions*, http://www.nawindpower.com/e107_plugins/content/content.php?content.10917#.UTtZSVec1NQ (Jan 3, 2013).

³ Jenevein, P. *Wind-Power Subsidies? No Thanks*, Wall Street Journal (April 2, 2013) <http://www.windaction.org/opinions/37929>

⁴ Elsberg, P. Spokesperson for Exelon stated "the PTC is no longer needed and distorts competitive wholesale energy markets causing financial harm to other, more reliable clean energy sources." <http://www.governorswindenergycoalition.org/?p=3323>

**U.S. House of Representatives
Committee on Ways and Means
Comprehensive Tax Reform
COMMENTS: ENERGY TAX REFORM WORKING GROUP**

Comments Submitted for the Record

The undersigned residents and property owners of the State of Kansas respectfully submit these comments in response to the April 26, 2012 Hearing on Certain Expiring Tax Provisions. Our comments are limited to the Production Tax Credit (PTC) for wind energy.

Executive Summary: The PTC is often credited for most of the growth in the wind sector but attributing market activity to the subsidy is overly simplistic and fails to consider other crucial factors driving development. When evaluated against key economic and environment criteria, the cost of the subsidy has proven excessive and the benefits to American taxpayers minimal. If the PTC were to expire, the economics of the industry would shift to States with renewable mandates. Power markets will ultimately confront the real cost of wind energy, and price it accordingly. The overall impact on the industry would be far less severe than proponents claim⁵.

Supporting Statements:

High Cost: Since adopted in 1992, the cost of the PTC for wind energy has ballooned from \$5 million/year in 1998 to \$1.5 billion annually today. The open-ended subsidy of 2.3¢/kWh in after-tax income represents a pre-tax value of over 3.5¢/kWh. In many regions of the country the PTC now equals, or is greater than, the wholesale price of power. Even if the PTC were to sunset, taxpayers are still obligated to cover nearly \$10 billion in tax credits for wind projects built in the last decade. This figure does not include the more than \$12 billion associated with the recent 1-year extension of the PTC. In addition, American taxpayers are obligated to cover \$15 billion in debt for wind projects eligible under Section 1603 (including anticipated 2012 grants).

Inefficient: Since the PTC is uniform across the country it is highly inefficient, supporting poorly sited development in some areas while in other areas supporting projects that would have been built regardless of the credit. This is true in Texas and the Pacific Northwest where wind capacity exceeds transmission capacity and wind is curtailed⁶. In New England the PTC likely pays more subsidy than is necessary owing to aggressive State mandates. Utilities in New England routinely sign long-term power contracts for wind at prices significantly above market.

Other factors advancing wind development: The industry insists it's at risk of a slow-down without the PTC. This view ignores other crucial factors driving development including state mandates and natural gas prices. It is not possible given available data to identify the extent to which the PTC has contributed to growth in the sector⁷. In fact, demand for wind has eroded recently due, in part, to states meeting their renewable mandates. Lower natural gas prices further reduced wind's attractiveness as a 'fuel saver'. The EIA now forecasts flat

⁵ Linowes et.al. 2012 Congressional Testimony <http://science.house.gov/hearing/subcommittee-investigation-and-oversight-subcommittee-energy-and-environment-%E2%80%93-joint-hearing>

⁶ Wisner and Bolinger, 2010 *Wind Technologies Market Report*, (2011) vii <http://eetd.lbl.gov/ea/ems/reports/lbnl-4820e.pdf>

⁷ Joint Committee on Taxation, *Present Law And Background Relating To Tax Credits For Electricity Production From Renewable Sources* (2005) 14 <https://www.jct.gov/publications.html?func=startdown&id=1579>

growth in the wind sector for this decade regardless of what happens with the PTC⁸. The surge in wind development in 2012 is more a factor of developers racing to meet federal subsidy deadlines than it is about meeting a need for wind energy.

Job losses: Despite billions in public funding the wind sector experienced a net loss of 10,000 direct and indirect jobs in 2010 bringing the total to 75,000⁹ jobs. Most of the remaining jobs are temporary construction positions requiring peak levels of development year-after-year to maintain current levels. Attempts to attribute job creation to the PTC must be tempered with corresponding job losses due to higher renewable energy prices. The State of Vermont found that adding just 50 MWs of renewable energy at higher-than-market electricity prices "had the deleterious effects of reshuffling consumer spending and increasing the cost of production for Vermont businesses¹⁰." Last year, rural electric ratepayers in Minnesota paid more than \$70 million in above-market energy prices due to the high cost of wind¹¹.

Environmental benefits: Wind energy is an unpredictable, variable resource that cannot be relied on to serve load. Its primary benefit is in reducing U.S. electric carbon emissions. According to Navigant¹², a four-year extension of the PTC could avoid an incremental 170 million tons of CO₂. This "best case" estimate is not predicated on an actual working grid region, but if we accept Navigant's estimate the cost to taxpayers is at least \$23/ton CO₂¹³, ten-times the \$1.93/ton market price for offsets in the Northeastern states participating in RGGI! The PTC is a high-priced vehicle for very questionable reductions of CO₂ emissions.

Conclusion: The key question is whether the benefits of the PTC for wind are worth the cost. This 20-year old subsidy is expensive, inefficient, has failed to produce net-job increases that are sustainable, and the cost applied per ton of CO₂ is more than 10x the market price of carbon under RGGI. The U.S. power market has undergone significant change since the PTC was adopted, including deregulation. It is not possible to isolate the extent to which the PTC contributes to wind sector growth¹⁴. Without the PTC, project economics would shift to states with RPS policies. The value of renewable credits might rise in response but power markets will ultimately confront the real cost of wind energy, and price it accordingly.

⁸ EIA, *Annual Energy Outlook 2012* (2012) <http://www.eia.gov/forecasts/aeo/er/>

⁹ Wisner and Bolinger v - Note: No independent audits exist to confirm job counts. Since any new job in the electricity sector must contribute to increasing the cost of electricity, this creates economic de-stimulus.

¹⁰ VT DPS, *The Economic Impacts of Vermont Feed in Tariffs* (2009) 12
<http://publicservice.vermont.gov/planning/DPS%20White%20Paper%20Feed%20in%20Tariff.pdf>

¹¹ Wall Street Journal *Gouged by the Wind* (May 2012)
http://online.wsj.com/article/SB10001424052702303592404577364244006391420.html?mod=googlenews_wsj

¹² Navigant Consulting, Inc. *Impact of the Production Tax Credit on the U.S. Wind Market* (2011) 38

¹³ Navigant provides no detail on how it determined offsets. Study assumes some wind built without the PTC and only looked at incremental benefit over 4 years (2013-16). The cost per offset is potentially higher than \$23/ton.

¹⁴ Joint Committee on Taxation 14

Supplemental Sheet

Comments submitted on behalf of the following residents and property owners of the State of Kansas.

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