

**U.S. House of Representatives
Committee on Ways and Means
Comprehensive Tax Reform - Working Groups**

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We respectfully submit these comments to the House Ways and Means Committee Energy Tax Reform Working Group. Our comments are limited to the Production Tax Credit (PTC) for wind energy.

Executive Summary - In the final hours of the 2012 fiscal cliff negotiations, the now 20-year old wind production tax credit was granted a 1-year extension at the estimated cost of \$12 billion². 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 most recent extension of the PTC, the Congress took no action to address the harmful effects³ of the PTC on competitive wholesale energy markets.

Ideally, Congress will permit the production tax credit to expire. However, if this option is not available given the current political climate, it is essential the PTC be amended to correct for its flaws. Doing so will help relieve market distortions⁴ created by the PTC and ultimately lead to more reliable, least-cost renewable choices for taxpayers.

Market signals that work - Nearly two decades ago, electric energy markets in most of the U.S. were highly regulated. Wholesale electricity prices were determined based on a generator's cost of installation plus direct production cost, and not on customer demand. Under deregulation, plant ownership shifted to independent power producers which, in turn, brought about competitive wholesale energy markets aimed at meeting consumer energy needs with the most reliable, least cost generation.

Once fully implemented, fossil-fired generators responded to market price signals. New power plants were built to meet peak demand requirements while discouraging construction of excess capacity. Competitive energy pricing dissuaded generators from building power plants long distances from load centers, thus limiting the deployment of costly transmission. Improved management increased power plant efficiencies, operator profits and grid reliability while keeping retail prices in check. This coupled with air, water and other environmental rules led to U.S. energy resources becoming progressively cheaper, cleaner, safer, and with a smaller footprint.

The correct policy led to the best economic results for consumers.

Building the wrong generation in the wrong places - In just a few short years, energy policies in the United States, both at the federal and state levels, shifted in favor of building renewables, mainly wind. This has led to an explosion of expensive renewable resources that are variable, operating largely off-peak, off-season and located in rural and remote areas with limited transmission capacity⁵.

Federal PTC and State RPS programs use what is called a "single price economic system" which pays renewable generators the same price for placing a megawatt-hour of energy on the grid. There is no adjustment to the subsidies based on time of day or seasonal demand requirements nor is there a meaningful adjustment for the location of the power facility.

The signals sent by the subsidies (over \$35/MWh on a pre-tax basis for the federal PTC and as much as \$63/MWh⁶ for state RPS programs) dwarf energy pricing signals, and in many cases render the market price irrelevant. Consequently, we are incenting renewable generation built not where we need it and that operates when we need it the least.

These policies have created artificial and unsustainable market pressures, compelling system planners to respond with more transmission and a fast-tracking of renewable projects that may be, not only not needed, but actually of poor quality from a grid reliability perspective.

Amend the PTC - It is well established that traditional power markets respond to energy and capacity price signals. It's time we applied the same rules to the renewables market.

If renewable subsidies discriminated in favor of those resources that produce close to load and during the time of day and year when the energy is most needed we would expect the response in the market to be almost immediate.

The need for expansive wind-related transmission would drop off and more renewables would be proposed for sites closer to population centers and that can service peak demand periods. Rather than proposals to install 125 megawatts of unpredictable wind we might get 25 megawatts of baseload biomass; rather than remotely-sited solar generation in the Mojave desert requiring 100+ miles of new transmission, we may see a greater effort to build customer-sited rooftop resources in urban areas. Reliable generation would mean less need for storage, less redundant generation and a better opportunity for replacing *permanently* fossil fuel with renewables rather than merely displacing some fuel.

Conclusion - While public policy has helped the emerging renewables market, it is time these policies were amended to better suit the public's needs.

Ideally, Congress will permit the production tax credit to expire. If that option is not available given the current political climate, we urge Congress to work on adjusting the value of the PTC to incent renewable generation that is built closer to load and able to operate on-peak and on-season while discouraging the opposite behavior. And there are many frameworks for getting this done. *Adopting a consumer-centric, market-based policy will, once again, lead to the best economic results for consumers.*

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² The IRS has since increased the PTC to 2.3¢/kWh which puts the extension at nearly \$13 billion. The PTC extension was promoted as a 1-year extension however, the provision also modified Section 45 of the tax code to allow wind energy facilities that begin construction before the end of 2013 to claim the 10-year credit. This is a significant deviation from the PTC which previously required eligible projects to be in-service before the date of expiration. In practice, this change represents a multi-year extension.

³ David Dismukes, “Removing Big Wind’s Training Wheels: The Case for Ending the Federal Production Tax Credit,” November 2012. (<http://www.americanenergyalliance.org/wp-content/uploads/2012/10/Dismukes-Removing-Big-Winds-Training-Wheels.pdf>)

⁴ Huntowski, Patterson, and Schnitzer, *Negative electricity prices and the production tax credit*, September 2012. (<http://www.windaction.org/documents/36036>)

⁵ Page 4 of this document (<http://www.windaction.org/documents/26488>) prepared by the authors shows a slide produced by the New York ISO that demonstrates how effective price signals discouraged the remote siting of power plants. In the period between 2000-2009, New York State increased its in-state generation by 7,650 MW with 80% (6,127 MW) built in the southeast region near New York City. Of the generation built in northern and western NY and behind a congested interface, 1,275 MWs were remote-sited wind generation which was more responsive to the subsidies than to market price signals.

⁶ REC prices vary by region depending on how the RPS program is structured and whether compliance has been met. Currently Massachusetts Class I RECs are trading above \$60 per megawatt hour.