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Statement of

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Before the

House Committee on Ways and Means

Subcommittee on Select Revenue Measures

and

Subcommittee on Oversight

Hearing on Energy Tax Policy and Tax Reform

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Energy tax policy can encourage development of new technologies, promote fuel diversity, and lower consumer costs. But when energy tax policy conflicts with other statutory responsibilities and operational requirements, the result can be perverse.

The Public Power Council (PPC), a regional trade organization representing the consumer-owned utility customers of the Bonneville Power Administration (BPA), would like to bring such a conflict to the attention of the subcommittees.

In just five years, the Pacific Northwest has witnessed an explosion in wind development in the region. A significant factor has been the presence of the Bonneville Power Administration – the federal agency that markets hydroelectric energy generated at the multipurpose dams on the Snake and Columbia Rivers. BPA’s transmission policies and the ability of hydropower to integrate intermittent wind generation created a hospitable environment that resulted in more wind generation in the Northwest than any other region of the country.

Yet this rapid expansion has also resulted in certain growing pains as the region – and the BPA system – struggle to integrate resources that generate during periods of low demand (at night) and require back up generating capacity.

This problem became most pronounced this past Spring when high water run-off left BPA with a series of unappealing options:

- Let the spring runoff go through the turbines and create “excess” electricity that would cause an overload the system and disrupt reliability (in violation of federal law);
- Spill the excess water over the dams and exceed Clean Water Act restrictions on nitrogen levels in the river (in violation of federal law); or
- Take steps to reduce other generation in the region.

Not surprisingly, BPA chose the last option. Under its interim “environmental redispatch” policy, BPA took a number of corrective steps – the last of which is to curtail wind generation when absolutely necessary. Under this policy, BPA provides wind generators facing curtailment with replacement energy from BPA’s hydro system.

Unfortunately, wind generators are asking for BPA to compensate them for the lost value of Production Tax Credits (PTC) available under Section 45 of the Code (in addition, they are seeking compensation for the value of lost Renewable Energy Credits).

PPC objects to the notion that our member utilities are somehow obligated to guarantee the subsidies and credits of wind generators. However, we do believe that an option exists to help remedy this situation: create a limited provision in Section 45 to allow wind generators to continue to collect PTCs for those rare instances when wind

generation is temporarily displaced by another non-emitting renewable energy source (in this case hydropower).

PPC believes this modest change could help resolve the conflict in the Northwest without imposing a significant burden on either ratepayers or taxpayers.

As the Subcommittees work on energy tax policy and possible reforms, we urge you to consider this limited addition to the PTC.

Thank you for your consideration of this matter.