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Let the Wind PTC Die Down Immediately

Nicolas D. Loris

As the federal budget debate continues to heat up, one of the contentious energy policy battles is over the extension of the wind production tax credit (PTC), a 2.3-cents-per-kilowatt-hour handout that is awarded to wind producers and other qualifying sources and continues for a decade after initial production.

Proponents of the subsidy are yet again calling for an extension or a multi-year phase-out, but Congress should refrain from extending or phasing out the preferential treatment for wind and instead remove all targeted tax credits for all energy sources and technologies. And Congress should broadly lower tax rates to create a competitive environment that allows the best technologies to provide affordable, reliable energy for Americans.

Certainty Already Exists with Wind PTC. The wind PTC has been in existence since 1992, although Congress has allowed the provision to sunset on several occasions. The subsequent production declines (dropping 93, 77, and 73 percent the year after expirations in 2000, 2002, and 2004, respectively) following the tax credit's lapsing indicates how dependent the industry has been on the handout.

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Wind energy advocates call this a "boom-and-bust cycle" created by unstable policy, but it is actually a case of the wind PTC's oversupplying a market that would not exist without the credit in place.

Lobbyists, politicians, and other beneficiaries of the wind PTC lament that the debates over the PTC's extension create uncertainty for businesses, but that uncertainty is a result of the industry's dependence on a political football. Last year, wind turbines put in service by the end of 2012 qualified for 10 years of production tax credits according to an amendment of the Energy Policy Act of 1992 in the 2009 stimulus package. As written, the law provided certainty that the program would end on December 31, 2012.

But instead, Congress extended the PTC yet another year and also made it more generous by expanding eligibility from only wind turbines in service to those that simply begin construction, which the Treasury defines as "physical work of a significant nature" or if the builder pays five percent or more of the total facility's cost.[1] In order to further clarify the definition of continuous construction, the IRS issued guidance stating that they were eligible so long as the wind installations are put in service by January 1, 2016.[2]

Given that it takes 12–18 months for utility-sized wind farms to go from construction to providing power (and much less time for smaller projects), wind companies now have an additional two years to seek more investors and finish construction beyond the deadline for qualifying for the PTC. In addition to the 10-year phasing out of the PTC, this is yet one more cushion for the wind industry if the PTC is allowed to expire according to law.[3]

PTC: Bad for Taxpayers, Ratepayers, and Growing America's Economy. Lobbyists pushing for an extension of the subsidy argue that the credit will improve technological advancements and push costs down. Peter Kelley, vice president for public affairs at the American Wind Energy Association, recently said that a PTC extension "will let our businesses plan and invest in further improvements in wind technology, and keep bringing consumer costs down."[4]

This line of thinking ignores the multitude of costs Americans incur when handouts are given to special interests. First, there is an actual cost the taxpayers incur. The Joint Committee on Taxation estimates that extending the PTC one year would cost taxpayers $6.1 billion over 10 years, and a five-year extension would cost over $18 billion over the same time frame.[5] Because some states have enacted renewable electricity standards, the PTC has shifted some of the costs of forcing pricier, intermittent electricity on Americans to the taxpayers broadly.[6]

Further, with such a generous subsidy, wind producers can ignore costs. In some areas of the country it forces pricier electricity on ratepayers. In other regions, wind suppliers can underbid other electricity producers in times of excess supply, sell their power to utilities, and still profit by collecting the $2.3 cents per kilowatt hour generated from the handout. Although wind companies selling their power more cheaply to the grid sounds attractive to electricity consumers, these sales have near-term and long-term adverse effects on the electricity market. Grid operators have to manage the intermittency of wind and increase backup power. These operational costs are spread among the ratepayers.[7]

Additionally, the subsidy skews the market in investment for large-scale electricity generation, threatening grid reliability. The PTC also threatens the long-term viability of the wind industry by focusing efforts on securing an extension rather than recognizing the true price point necessary to become competitive and innovative to achieve that goal.

Drop the PTC, Extend the MLP. The entire U.S. tax system needs fundamental reform that moves aggressively toward a system like the New Flat Tax.[8] Such a tax system would eliminate existing problems that arise from the bad habit of using the tax code to pick winners and losers in the energy marketplace. Absent that fundamental change, Congress should:

- **Allow tax credits to expire and remove targeted tax credits for all energy sources while broadly lowering the tax rate.** Doing this would allow for a more market-based energy economy that benefits economically viable producers and, ultimately, consumers with reliable, affordable energy.

1. Internal Revenue Service, "Beginning of Construction for Purposes of the Renewable Electricity Production Tax Credit and Energy Investment Tax Credit," http://www.irs.gov/pub/irs-drop/n-13-29.pdf (accessed October 3, 2013).
2. McDermott Will and Emery, "IRS Issues Additional Guidance on When Construction Begins for Purposes of Production Tax Credit, Investment Tax Credit," September 25, 2013, http://www.mwe.com/IRS-Issues-Additional-Guidance-on-When-Construction-Begins-for-Purposes-of-Production-Tax-Credit-Investment-Tax-Credit-09-25-2013/?PublicationTypes=d9093adb-e95d-4f19-819a-f0bb5170ab6d (accessed October 3, 2013).
3. Even an 80 megawatt wind farm only took three months to construct and become operational. See, Wind Energy America, "Frequently Asked Questions," http://www.windenergyamerica.com/faqs.html (accessed October 3, 2013).
4. Julian Hattem, "Analysis Shows Wind Tax Credit Would Cost Billions," *The Hill*, October 2, 2013, http://thehill.com/blogs/regwatch/energyenvironment/325973-analysis-shows-wind-tax-credit-would-cost-billions-#ixzz2gfRH8EwM (accessed October 3, 2013).
5. Ibid.
6. Onshore wind electricity is the cheapest of the renewable generation, but it is still more expensive than gas-fired plants. See Robert Michaels, Institute for Energy Research, testimony as prepared for a hearing before the Subcommittee on Energy Policy, Health Care, and Entitlements, Committee on Oversight and Government Reform, U.S. House of Representatives, October 2, 2013, http://www.instituteforenergyresearch.org/wp-content/uploads/2013/10/Michaels-PTCtestimony-10-1.pdf (accessed October 8, 2013).
7. Jonathan A. Lesser, "Wind Intermittency and the Production Tax Credit: A High Cost Subsidy for Low Value Power, Continental Economics," Continental Economics, October 2012, http://www.continentalecon.com/publications/cebp/Lesser_PTC_Report_Final_October-2012.pdf (accessed October 8, 2013).
8. J. D. Foster, "The New Flat Tax—Easy as One, Two, Three," Heritage Foundation *Backgrounder* No. 2631, December 12, 2011, http://www.heritage.org/research/reports/2011/12/the-new-flat-tax-easy-as-one-two-three.

- **Allow all energy projects to form Master Limited Partnerships (MLPs).** The combination of the partnership tax status and the liquidity of a publicly traded company make MLPs an attractive investment opportunity for renewable energy companies.[9]

- **Make immediate expensing permanently available for all business investments.** Immediate expensing for all new plant and equipment costs—for any industry or type of equipment—would allow newer equipment to come online faster, which would improve energy efficiency and overall economic efficiency.

Time for One Final Sunset. While Congress allowed the PTC to sunset in the past, lawmakers mistakenly brought it back to life in last year's budget agreement. The wind PTC has already cost taxpayers billions, distorted energy markets, and misallocated resources toward politically favored energy sources and technologies. Extending the credit would only exacerbate those problems and should not be considered as Congress works to agree on a continuing resolution for 2014.

Rather than creating a sustainable industry, the PTC has artificially propped up an industry, advanced special interests, and allocated labor and capital away from more competitive uses in the marketplace. It is time to allow the PTC to sunset one final time and remove all preferential treatment in the energy industry.

*—**Nicolas D. Loris** is Herbert and Joyce Morgan Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

9. See Nicolas D. Loris, "Master Limited Partnerships and Renewable Energy Producers," Heritage Foundation *Issue Brief* No. 3922, April 24, 2013, http://www.heritage.org/research/reports/2013/04/master-limited-partnerships-and-renewable-energy-producers.