Wind Lobby Seeks Path Beyond Boom and Bust

In no other industry are the conflicts over subsidies as zero-sum and fever-pitched as they are in the energy sector.

BY MARK MURO AND ALEX TREMBATH

Almost always, it seems, energy producers must fight tooth and nail for the rote extension of support for their projects, even as opponents — whether green or fossil-fueled — fight for their end. And the disputes go on and on.

And yet, in late 2012 something extraordinary happened. The American Wind Energy Association (AWEA), embroiled in a high-stakes negotiation over the future of a key federal tax credit, took the unprecedented step of proposing to phase out its own subsidy. In short, a significant United States industry has "taken the pledge" of subsidy independence, prioritized innovation and cost declines, and pointed the way beyond the "boom and bust" syndrome that has plagued the renewable energy industry for 20 years. The upshot: An important industry has set a refreshing standard for other industries in a time of fiscal constraint and concerns about U.S. vitality.

TAX CREDIT DEPENDENCE

The production tax credit, or PTC, has been the dominant public policy support for the U.S. wind industry since 1992 and was recently renewed by Congress to cover wind projects that start construction in 2013. The credit provides a subsidy worth 2.2 cents per kilowatt-hour (adjusted annually for inflation) to wind generators. In the last four years, when combined with an option to convert the tax credit into a cash grant from the Treasury, the PTC has helped double the installed wind capacity in the U.S. Over 50 gigawatts of wind turbines now populate the rolling hills and farmlands across the American countryside.

The PTC allows wind power, which has seen declining prices but still costs more than conventional power, to remain competitive with fossil fuels like coal and natural gas. But perhaps more importantly, the credit has become the industry's primary source of finance for new projects. Since wind developers generally lack the tax appetite required to "monetize" the tax credit, they have partnered with large financial institutions — typically investment banks — that exchange part of the value of the tax credits for project development capital.

These transactions have enabled robust wind deployment, but the wind industry may have grown overly dependent on this single source of finance. Tax equity swaps require complex bureaucratic dealings and carry heavy transaction costs. The impermanent PTC has also made the wind industry vulnerable to a boom-and-bust syndrome, with yearly wind deployment having fallen by 75-90% in years when Congress failed to extend the credit.

TAKING A DIFFERENT APPROACH

It is with these and other reasons in mind that The Breakthrough Institute published a report in 2012 urging policymakers and clean energy industries to seek accelerated paths to subsidy independence. In the report, "Beyond Boom and Bust," we recommended phasing deployment subsidies out gradually as technologies score cost improvements, and maximizing the impact of taxpayer resources by providing ready access to affordable private capital. Smart reforms are desperately needed if wind and other clean energy industries hope to grow out of the niche markets they have established to date and to compete with entrenched conventional industries.

> "SMART REFORMS ARE DESPERATELY NEEDED IF WIND AND OTHER CLEAN ENERGY INDUSTRIES HOPE TO COMPETE WITH ENTRENCHED CONVENTIONAL INDUSTRIES"

Many in the wind industry are pleased by the extension of the PTC, but perpetuating the cycle of subsidy dependence is no way to nurture a dynamic and competitive market.

So we applaud AWEA's proposal, presented to the Senate Finance Committee in December, that the PTC be phased out over six years, declining in value by 10 percent annually as of 2014. The proposal represents a compromise on the part of the wind industry, but it is a compromise in the right direction. Over that time, analysts at the National Renewable Energy Laboratory expect wind costs to continue to decline. A phase-out will also encourage developers to seek alternate sources of project finance among new pools of institutional investors, such as insurance companies, pension funds and bond markets.

Of course, there are perhaps better ways to structure the phase-out. A step-down of the credit value along technology deployment milestones, rather than arbitrary calendar dates, would better match the industry's historic learning curve improvements. Likewise, the PTC could be made more efficient by converting it into a taxable cash grant.

ELEVATING THE DEBATE

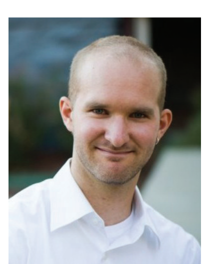
Still, AWEA's proposal is an excellent starting point for a new, more intelligent debate over energy policy. Moving beyond boom-and-bust also means moving beyond reductive fights over energy policy that pay little mind to market transformations, technology development, or budgetary efficiency.

And so, as the wind industry seeks a path to subsidy independence, other sectors — such as cleantech, fossil energy, and others — should follow its example. They, too, should "take the pledge" on subsidies (via phase-outs linked to their specific technology and market readiness), and lobby for policy reforms that prioritize innovation, cost declines, market competition and robust investor activity in large-scale clean energy deployment. This is the path to true economic vitality and fiscal efficiency.

Reprinted with permission from The Breathrough Institute (www.breakthough.org)

Mark Muro

Mark is Director of Policy and Senior Fellow at the Brookings Metropolitan Policy Program, which seeks to promote innovative solutions to help communities grow in more productive, inclusive, and sustainable ways. He is a graduate of Harvard College and the University of California at Berkeley.



Alex Trembath

Alex Trembath is a Policy Analyst with the Breakthrough Institute's Energy and Climate Program. At Breakthrough, Alex has focused on renewable energy technologies, American federal energy policy, and the history of public investments in technological innovation. He is a graduate of the University of California at Berkeley.