Wind-power tax credits up in the air (The News Journal)

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Delaware's two big wind-power initiatives face an uncertain future as millions of dollars in federal subsidies are being held up in Congress.

Since 1992, the wind-production tax credit has played a vital role in helping wind-farm developers compete with cheaper, dirtier forms of electricity.

In 2007, the government paid $690 million in the subsidy to producers of renewable fuel such as wind, solar and geothermal, according to the General Accounting Office.

But the tax credit expired briefly in 1999, 2001 and 2003, each time leading to a major slowdown in wind-farm construction. The tax credit is set to once again fall off the books on Dec. 31, as lawmakers and the White House argue over how to fund a one-year extension.

Wind developers around the nation are scurrying to get their turbines spinning by the expiration date, which would qualify them for 10 years of the 2-cent-per-kilowatt-hour tax credit. The tax credit brings down a developer's costs by roughly 30 percent.

It costs a power plant owner 2 to 4 cents per kilowatt hour to produce electricity from coal, and 5.5 to 7.5 cents per kwh to produce on-shore wind power. The tax credit helps bridge that gap.

The average homeowner in Delaware uses 1,000 kwh per month.

Delaware's two wind-farm initiatives, both in the planning stages, rely on the credit for a competitive price. The two projects stand to be affected in different ways.

Bluewater Wind is seeking legislative approval for its proposed 150-turbine wind farm off the coast of Rehoboth Beach, and a 25-year contract requiring Delmarva Power to buy its electricity. The contract includes a termination clause in case the credit is not expected to be in place when the wind farm begins producing electricity in five to seven years. Bluewater would have to pay a $6 million penalty for exercising this clause, which also allows Bluewater to reduce the size of the wind farm.

Delmarva, which opposes the contract, has a competing proposal: to buy the output of wind-farm projects in Pennsylvania, Maryland and Illinois, with the intention of signing 15- to 20-year contracts. Delmarva has advertised it could bring these new wind farms online faster and more cheaply than Bluewater.

In the absence of an extension for the credit, Delmarva would likely have to wait out a delay in construction, or pay more for the power.

The Bluewater project's timeline is longer, making it less susceptible to the short-term political stalemate. But the uneven history of the credit underscores a risk to the Bluewater project, observers say.

"That's a big hole in the contract," said C. Paul Runge, a professor of applied economics and law at the University of Minnesota. "I don't think they can count on it by any means."

Bluewater spokesman Jim Lanard said it was "unimaginable" that Congress would stop funding the tax credit, and that Bluewater was prepared to move forward with the project even if Congress elects to fund the tax credit on a year-by-year basis.

As for the escape clause, "We thought there needed to be some protections for us in case certain events didn't occur," Lanard said. The company remains "extremely confident" the production tax credit will be renewed for each of the upcoming years because of a growing public demand that the government support renewable energy, Lanard said. "There are politics in the Congress that slow

down the approval of the production tax credit, but the bargain is often struck at the eleventh hour."

Lanard said Bluewater's parent company, Babcock and Brown, is a strong investor with strong partners. The company's plans to finance the offshore wind farm are unaffected by the current stalemate, he said. None of its many wind-farm projects has been stopped because of the unresolved tax-credit issue, he said.

Lester Lave, professor of economics at Carnegie-Mellon University, said the odds are that there will be a production tax credit in 2013, but there's no way to count on it. "You're talking about logic rather than politics. But even when you're talking about logic, there are other ways you could subsidize renewables."

Delmarva spokeswoman Bridget Shelton is optimistic the energy company's projects would be unaffected by the stalemate. The wind-farm developers are moving forward with their approval processes, "recognizing that at the end of the day, these tax credits will be supported and extended."

Shelton declined to discuss the impact of the credit on financing the projects, although she noted that one of the six developers is a big company with deep pockets.

A rush to build

The U.S. wind-power industry is expected to install a record number of turbines this year. In the first quarter of 2008, the industry installed enough new generating capacity to serve 400,000 homes, according to the American Wind Energy Association.

The association expects a large number of new projects to start up by the end of the year, as developers and utilities hurry to guard against the possibility the credit might expire.

"When it's not extended in a timely way, it affects all of the projects in the pipeline," said Christine Real de Azua, the association's assistant director of communications. When the credit has expired in the past, the industry has seen as much as a 93 percent drop in wind-farm installations.

Without an extension on the books, developers are reluctant to undertake new projects, and banks hesitate to offer financing, she said.

"The irony is this is happening at what is the worst possible time for the economy. What you're doing is crippling a very strong driver in the economy today," Real de Azua said.

Lawmakers generally agree on the need to extend the production tax credit. Members of the U.S. House of Representatives earlier this year tried to pay for an extension of the credit by rolling back price supports to oil companies. But Republicans in the Senate balked at this approach, and it never came up for a vote there. Delaware's Democratic Sens. Joe Biden and Tom Carper voted for a failed effort to attach the credit extension to the economic stimulus bill.

On May 21, the House passed another version that pays for the tax credit by closing loopholes for hedge-fund managers and multinational corporations. Rep. Mike Castle, R-Del., voted for the measure.

The bill awaits action in the Senate. The White House has threatened a veto.

"No matter how we pay for this bill, they're going to find it unacceptable. It's all rhetoric and no action when it comes to renewable energy," said Sandra Salstrom, spokeswoman for Rep. Earl Pomeroy, D-N.D., one of the credit's staunchest advocates.

In a phone interview, Pomeroy said that with more states requiring their utilities to buy renewable electricity, wind farms will ultimately become more profitable and self-sustaining. We're not there yet, Pomeroy said.

"The production tax credit now is urgently important. But I think we're into a transition period. By the end of the next decade, seven, eight, nine years, we'll have vigorous renewable energy standards on our utilities that will make the wind-production tax credit less vital," Pomeroy said. At that point, "They may not have the credit, but they'll have the customers."

Uncertain future

While Congress has managed to overcome delays in the past, there is no guarantee the credit will be in effect when the Bluewater project construction ramps up, said Brian Yerger, a Wilmington-area renewable power analyst.

"There's so many variables in 2013, and you have another election in 2012. You're talking two elections from now, a bunch of different dynamics," Yerger said.

If oil and gas and coal prices become prohibitive, wind power would be cheaper and more profitable to produce, thus requiring fewer government incentives, he said.

But

Yerger added that as more time goes by, Bluewater will have invested millions more in the project, making the company less likely to want to walk away.

Runge, the University of Minnesota professor, agreed. He said the company could cut its losses if it determined the credit wouldn't be available, but it would be a painful decision. Congress needs to provide some long-term continuity in the tax credit, but so far has only showed a willingness to make short-term fixes, he said.

Yerger said he expects the deadlock to continue for a while. A one-year extension could be reached by compromise, probably after this fall's elections. But for long-term planning, a five-year extension is needed, which the government could have an easier time approving after the elections, he said.

"It's a political football. It keeps getting passed back and forth," Yerger said.

Expiration of the tax credit can have dire consequences. Pomeroy pointed to a wind-turbine factory in Grand Forks, N.D., that had 100 employees but had to furlough 75 of them in 2004 until the credit was reinstated. The company, LM Glasfiber, now has more than 900 employees, he said.

"When it expires, no one builds towers until the tax credit is back in again," Pomeroy said.

Jeremy Firestone, an associate professor in the College of Marine and Earth Studies at the University of Delaware, said he's not worried about the tax credit having an effect on the Bluewater project.

The termination clause in the contract means "Bluewater is protecting itself," Firestone said. But he said the wind-power industry is spending a lot of time lobbying to get the credit renewed, when the people of that industry could be spending their time doing more productive things. A longer-term tax credit could be good for planning purposes, especially for companies that would manufacture heavy wind-turbine products, he said.

Michael Sheehy, deputy director with the Public Service Commission, said that as far as Bluewater goes, the tax credit poses acceptable risks to state ratepayers.

Ratepayers only pay for the energy when the facilities come online, he said. Sheehy said he expects the credit to continue long enough for Bluewater to take advantage. The risk is the "opportunity cost" of wasted time, he said.