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Our Objective—

To extend from five years to ten years the per-facility period that open-loop biomass power plants placed in service on or before August 8, 2005 are eligible to receive section 45 production tax credits. The production credits for almost all of these facilities will expire on December 31, 2009 unless extended (*see* Joint Committee on Taxation pamphlet JCX-20-2009, “List of Expiring Federal Tax Provisions”, p.5, number 13).

Background

In the American Jobs Creation Act of 2004 (P.L. 108-357), Congress made each existing and new qualifying open-loop biomass facility eligible to receive production tax credits for a total of five years, with the credit period commencing on January 1, 2005. Later, in the Energy Policy Act of 2005 (P.L. 109-58) the Congress lengthened the tax credit period for all open-loop facilities placed in service after date of enactment (August 8, 2005) from five years to ten years.

Because the EPACT changes were made prospectively, Congress created two groups of open-loop facilities – some obtaining a five-year period of tax credits and others receiving ten years of tax credits. BPA is seeking to harmonize the duration of the credit so that all qualifying open-loop facilities will obtain a total of ten years of credits over a lifetime of operation (this change is included in S.870/HR 2528).

Why should Congress act to preserve the community of existing open-loop biomass plants?

In addition to preserving jobs, the Nation’s ambitious renewable energy, environmental and energy independence goals will only be met if *existing* biomass facilities remain viable. Unlike intermittent renewable generation (e.g. wind), biomass provides predictable baseload renewable power that can be scheduled by utilities months in advance. Existing state renewable portfolio standards depend on biomass to their meet renewable energy goals (Massachusetts, for example, relies upon BPA members for 50% of its current supply).

Allowing the tax credit period for the nation’s inventory of open-loop powerplants to expire will either force these facilities to limit scheduled operation to high-cost electricity periods, essentially becoming “biomass peakers” without the ability to satisfy state, and potential federal RES goals, or force them to shut down entirely, thus dimming the hopes of ever meeting the President’s goal of 20% renewable electricity by 2020.

What are the fundamental economics of biomass that make a PTC necessary when these plants are already built and the capital investment has long since past?

In 2004, the Congress recognized that open-loop biomass is a unique contributor that is governed by economics fundamentally different than its counterparts. “...the Congress believed that certain pre-

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existing facilities should qualify for the section 45 production credit, albeit at a reduced rate. These facilities previously received explicit subsidies, or implicit subsidies provided through rate regulation. In a deregulated electricity market, these facilities, and the environmental benefits they yield, may be uneconomic without additional economic incentive. The Congress believed the benefits provided by such existing facilities warrant their inclusion in the section 45 production credit” (Joint Committee on Taxation, “General Explanation of Tax Legislation Enacted in the 108th Congress”, JCS-5-05, p. 336).

Wind, solar, geothermal and incremental hydropower technologies all have negligible marginal costs, since the “fuel” they utilize (wind, sunshine, etc.) is free. In contrast, biomass facility operators pay for their fuel, but in return provide additional public benefits by consuming organic wastes that would otherwise cause forest fires and/or increased methane emissions, and importantly, sustain a network of jobs in rural communities. While the economics vary depending upon region and feedstock, the cost of operating a facility is approximately \$0.08 per kWh, and the all-in revenue is approximately the same rate, which means that the PTC is a critical factor in the operator’s decision as to whether to operate the facility.

In terms of job loss, what will happen if Congress fails to extend the tax credit period before the end of the year?

Nationwide, the industry is responsible for approximately 14,000 jobs (7,000 direct and 7,000 indirect including loggers and truckers). While it is impossible to generalize about the industry in terms of the overall effect of allowing the credit period for the “five-year” facilities to lapse, we have performed region-specific assessments. For example, we believe all of the seven plants currently operating in Maine are at risk of closing—that’s nearly 1,000 jobs and over \$100 million in economic value annually. That’s in a State with an unemployment rate of nearly 10% and a forest products industry in a freefall.

Isn’t a better approach to substitute federal RES benefits, which recognize the base-load, dependable nature of this power, for current law tax incentives for the biomass industry?

There are numerous reasons why it is not practical to abruptly attempt to swap the benefits currently obtained from federal production tax credits for support under contemplated federal RES credits.

First, legislation proposing a federal RES will likely not be enacted in the immediate future, and even when it is enacted, a mature REC market will not be available to support open-loop power generators until (fill in this date) at the earliest.

Second, even if and when a federal program is enacted and implemented, it is not clear that the value of the renewable RES credits will be commensurate with the value of the PTC.

And perhaps most importantly, as drafted, both Senate and House RES proposals suggest that renewable energy credits generated by existing facilities are the property of the utilities who are purchasing the power, and not the operators. Thus, the enactment of a federal RES could be largely irrelevant to the economics of the open-loop facilities that are requesting the extension of the tax credit period.

Will Congressional support for existing plants “crowd out” development of new facilities?

To the contrary, preservation of the existing facilities is essential to the development of new facilities. Throughout the last twenty-plus years, investors’ development of new facilities has largely been

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governed by the experiences they observe of the existing fleet. During the late 1990's, following the expiration of many of the original fixed-price contracts that stimulated the original growth of the industry, the industry violently contracted from over 135 facilities to less than 95 plants – and development of new power plants came to a halt.

Later, with the 2004 enactment of the open-loop PTC that covered existing facilities, developers regained confidence in the investment environment and immediately began work on a new generation of facilities. So, it is clear, that extension of the tax credit period for open-loop facilities placed in service before 2005 will have a positive effect on development of new facilities.

Is Congress getting its “money’s worth” by providing additional tax credits to these facilities?

From an energy and tax policy perspective, supporting existing facilities is a bargain for the taxpayer. A new 30 MW facility (standard size facility) under current law is eligible to receive an investment tax credit or section 1603 Grant of \$28 million. On the other hand, that same 30MW, if existing, generates \$12 million in PTCs over the next five years. Beyond the savings, the generation capacity represented by the current facilities cannot be duplicated by new facilities overnight. Unlike wind development, biomass projects take years to permit and construct. If the existing fleet of biomass plants was allowed to close, it could take years (if ever) for the nation to recoup that lost power with new generation.

What are the revenue implications of an extension of the credit period for these facilities?

Of the approximately 1,500 MW of grid-connected dedicated biomass power plants (meaning biomass not including any paper or pulp mills that may qualify for the tax credit), only 954 MW qualify for the PTC (after subtracting in-house load, assuming a cap factor, and applying a tax exempt discount). The annual cost to the Treasury of extending the credit, therefore, is \$83 million. The industry understands that members of Congress have requested that the JCT provide an official estimate of the revenue ramifications of the proposal.