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Biomass, Geothermal and the Stimulus

By Kate Galbraith

Last week I wrote about the tax obstacles facing wind and solar developers after the collapse of the banking sector — and their hopes for the stimulus bills working their way through Congress.

Mike Whiting, the president and chief executive of Decker Energy International, a biomass developer, wrote to remind me not to neglect biomass — which, according to government data, produces about as much electricity as does wind. (It is also perhaps the most controversial of the renewables.)

I asked Mr. Whiting to walk me through the pros and cons of the stimulus proposals for biomass. I also consulted Karl Gawell, executive director of the Geothermal Energy Association, for the word on his industry, which he said accounts for 5 percent of California's electricity.

Both industries, like wind and solar (and many other sectors of the economy), are suffering from drying-up financing.

(For those in need, the National Renewable Energy Laboratory provides a quick tutorials on both biomass and geothermal energy generation.)

Mr. Whiting noted that the House and Senate bill extend the production tax credit for three years, but "open-loop" biomass (the type typically built these days) gets only half the credits of what wind and geothermal would get.

"There is no policy reason why biomass (and some other technologies) should receive a smaller credit than certain favored renewables. The government shouldn't be in the position of picking technologies," Mr. Whiting said in an e-mail message.

Both Mr. Whiting and Mr. Gawell noted that the stimulus bills would allow their industries to access the "investment tax credit," a 30 percent tax credit up front that is in some ways preferable to the "production tax credit."

Currently the investment tax credit is applicable mainly to solar; the bills would broaden it out to apply to other renewables.

Only plants that receive investments in 2009 or 2010 would be eligible for the credit — a problem for slow-to-construct biomass and geothermal plants. "This is a fine provision for wind, where it takes only 6 months to build. However, it doesn't work well for biomass or geothermal, where it takes about 2 years to construct," said Mr. Whiting.

Mr. Gawell also complained that the investment tax credit provisions might end up giving short shrift to geothermal. While they are "intended to infuse capital into the renewable project market at a time when capital is scarce and expensive, a laudable goal, the structure really works for wind and solar projects," he said. "It was designed by the wind lobbyists, so that's no surprise."

Mr. Whiting sought three key changes in energy tax proposals: 1) Giving biomass plants the same production tax credit rate as wind (not half); 2) extending the 30 percent investment tax credit until 2011, "to allow it to practically apply to biomass"; and 3) an extension of the production tax credit for biomass plants that are already operating, from five years to 10 years.

As for geothermal, Mr. Gawell urged the three-year extension of the production tax credit, and also noted in an e-mail message:

"In addition, making loan guarantees available for 'commercial technology' could be very valuable and the proposal in the House to inject $400 million into geothermal research would resurrect a DOE [Department of Energy] program that the prior Administration sought to kill at a very key moment. Finally, the manufacturing credit for renewable energy equipment will also help as companies decide whether to expand production to support the growing geothermal market, and improving the heat pump credit and new funding for the clean renewable bond program are important."

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