The tax breaks and subsidies for "wind energy"

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Tax breaks and subsidies for the wind industry are at the expense of ordinary taxpayers and electric customers whose interests are not well represented in government circles.

The practical effects of the tax breaks and subsidies are to:

- Misdirect hundreds of millions of investment dollars into energy projects that produce only small amounts of low value, low quality electricity.
- Transfer substantial wealth from ordinary taxpayers and electric customers to "wind farm" owners by shifting tax burden from "wind farm" owners to ordinary tax payers, and passing along the high priced electricity from "wind farms" to electric customers.

Among those tax breaks and subsidies are the following:

1. **Federal Accelerated Depreciation**. One very generous subsidy available to companies with income to shelter is 5-year double declining balance accelerated depreciation (5-yr.; 200% DB) that can be used to calculate depreciation for tax purposes. This is one of the depreciation schemes permitted by the IRS under the label "MACRS," Modified Accelerated Cost Recovery System."[i] Five-year 200% DB can be used for capital costs of facilities using wind to produce electricity for sale. Nearly all other electric generating facilities[ii] must use 20-year depreciation, so "wind farm" owners are receiving a tremendous benefit.

   In those states that "conform" their corporate income tax to the federal system, a depreciation deduction from otherwise taxable income carries through to the corporation's state income tax returns.

   Determining the exact amounts of accelerated depreciation deductions would require access to details of a corporation's taxes. However, as indicated on page 2, above, Warren Buffet's MidAmerican Energy should be able to deduct from taxable income its entire $386 million capital investment in its 360 megawatt (MW) "wind farm" in Iowa during the period from 2004-2010. Assuming marginal tax rates of 35% for federal and 12% for Iowa corporate income tax, the depreciation deductions would reduce tax liability by $181 million during the period from 2004-2010. That is in addition to the roughly $300 million in tax benefits

over 20 years from the project due to the federal Production Tax Credit, ($175 to $195 million) and forgiveness of Iowa property tax ($130 million) reported by the Omaha World Herald article referred to earlier.

It's important to note that if a "wind farm" were sold to a new owner after the accelerated depreciation allowances were used, the new owner would also be able to utilize the generous accelerated depreciation benefits to "recover" its capital investment.[iii]

2. **Federal Production Tax Credit.** The second generous federal subsidy available to "wind farm" owners is the Production Tax Credit of $0.019 per kWh of electricity generated during the first 10 years of a wind project's life. For example, at the current rate of $0.019 per kWh, owners of the proposed 150 MW Elk River "wind farm" in Butler County would receive a tax credit (i.e., a direct deduction from its federal income tax bill) of $9,986,400 per year if the turbines produce at an average 40% capacity factor (i.e., 150,000 kW x 8760 hrs. x .40 x $0.019). The rate, originally set at $0.015 per kWh, has just been adjusted upward for inflation, reaching $0.019 per kWh, retroactive to January 1, 2005.

   Organizations owning "wind farms" must have substantial taxable income from other sources to take advantage of the two federal tax shelters described above.[iv] That is one reason why small "wind farm" development companies often sell off their projects to larger companies or find ways to "sell" the tax benefits.

3. **Reductions in "wind farm" owners' state corporate income tax liability.** Kansas taxes corporate income at a basic rate of 4% with a 3.35% "surtax" for income over $50,000. The starting point in computing Kansas taxable income is the federal taxable income of the corporation. Thus the generous federal accelerated depreciation deduction described in paragraph 2, above, reduces the taxable income basis used before applying Kansas' 7.35% marginal income tax rate. This benefit is even greater in states with higher corporate income tax rates such as Iowa, with a 12% rate.

4. **Property, sales and other state and local tax reduction or elimination**. Thanks to the effectiveness of wind industry lobbyists, several states provide reductions or elimination of state or local property, sales or other taxes. These include New York, West Virginia, Wisconsin, Minnesota, South Dakota, and Kansas. In some cases, "wind farm" owners make voluntary payments in lieu of taxes to offset part of the revenue lost by state and local governments as a result of the exemptions. However, such payments may not be adequate to cover the costs that will be incurred *because of* the facility; e.g., for road construction and repair, and police and fire protection. Often, such payments are offered only in the early years of a project to help gain public and political support for approvals needed to build the facility, whereas property taxes would continue for the life of the facility.

5. **"Public benefit funds"** As indicated above, several states have added an extra "tax" (often called a "public benefit charge" on electric customers' month bills to create a so-called "public benefit fund." States with such funds include Massachusetts, New York, Minnesota, Wisconsin, and California. State officials use some of these funds to make payments to

owners of wind or other "renewable" energy facilities. These payments are *in addition to* all the federal, state and local tax breaks described above.

6. **"Renewable Portfolio Standards" (RPS).** Such standards, in a variety of forms, have been adopted by about 17 states. Renewable Portfolio Standards (RPS) help increase consumers' electric bills in two ways.

   First, they provide artificial, guaranteed markets for high priced electricity produced from renewable energy facilities, including "wind farms" assuring the owners of these facilities that they will not have to compete with prices of electricity produced from traditional energy sources, such as coal, natural gas, oil, hydropower or nuclear energy.

   Second, a RPS typically establishes some minimum percentage of electricity sales that must come from "renewable" energy sources. The company selling the electricity to end use customers (often an electric distribution utility) can either generate the electricity from "renewable" sources, buy it from some firm that generates such electricity, or, perhaps, buy "renewable energy credits" (i.e., the scheme contemplated by the KEC.) covering the amount of electricity needed to meet the percentage standard.

   The higher cost of the electricity from "renewable" sources and/or the credits that the electric distribution company is forced to pay (instead of the lower cost electricity from traditional sources) is, in one way or another, passed on to electric customers in the form of higher bills for electricity – with the blessing of state public utility commissions.

   The wind industry is lobbying the US Congress to create a "national" Renewable Portfolio Standard and push additional states to adopt state standards.

7. **Mandated "green energy" purchases**. Other artificial "markets" are created for the benefit of "wind farm" and other renewable energy producers by federal and state executive actions and, in some cases, by state statutes. In these cases, federal or state government agencies and state funded colleges are required to obtain certain portions of the energy they use from "renewable sources" even though the energy requires payment of above market prices.

8. **"Voluntary" programs offering "green" electricity at a premium price**. Utilities in many states now have programs where customers are permitted to volunteer to pay a higher monthly bill when the utility assures them that the electricity they are paying extra for is generated from a "renewable" energy source. In some states these programs are required by law, in others utilities are "encouraged" to create them by state utility commissions, governors or legislators. In still other cases, such programs are created by a utility as a way to show customers, the public, media or government officials that they are "environmentally conscious" – efforts that have become known as "green washing."

   Relatively few electric customers volunteer to pay the required premium price, particularly if they realize that (i) their decision to do so would be largely symbolic and/or (ii) that other actions, such as using more energy efficient light bulbs, are much more cost effective and environmentally meaningful. As in the case of "Renewable Portfolio Standards," the extra

revenue generated by the premium price is generally not sufficient to cover the higher cost of the electricity and the cost of the staff that must be maintained by a utility to administer the programs. The utility's costs that are NOT recovered through the premium price are then passed on to all of the utility's customers.

9. **Other state utility commission actions that subsidize "wind farms."** "Wind farms" are inefficient users of electric transmission capacity because the output from wind turbines is intermittent, volatile and largely unpredictable. The wind industry works to shift the cost of building transmission capacity from "wind farm" owners to electric customers. Some utility commissions (e.g., Minnesota) have permitted this to occur, providing an additional subsidy for "wind farms."

   The wind industry is also seeking to have transmission capacity built in other states with the costs shifted to electric customers (and hidden in their monthly bills). Special arrangements have also been made by other utility regulatory commissions and grid managers (e.g., Independent System Operators - ISOs and Regional Transmission Organizations - RTOs) that, in effect, provide additional subsidies to "wind farms."

10. **Industrial Development Bonds to Finance privately owned "wind farms."** A few states (e.g., New Mexico) have permitted "wind farm" owners to finance their projects using state backed bonds ("industrial development bonds"). Such bonds have interest rates that are lower than commercial financing, particularly because of their favorable tax treatment.

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[i] See Internal Revenue Service (IRS) Publication 946 for details.
[ii] Simple cycle combustion turbines use 15-year, 150% declining balance depreciation for tax purposes.
[iii] If the "wind farm" was sold by the original owner for an amount larger than the remaining undepreciated balance, if any, the original owner could be taxed on the difference at ordinary income rates.
[iv] Often the desired result is achieved when doing accounting for tax purposes by consolidating the financials of parent organization, subsidiaries (including limited liability companies) and/or affiliates (e.g., shares of partnerships or joint ventures).

1/28/08 UPDATE

The above is a brief list of tax breaks and subsidies that I prepared about 2 or 3 year ago but this list omits some that were in place then and more have been added since. I believe I prepared a later list but can't find it right now. Also, note that the wind PTC is now $0.02 cents per kWh.

Among the ones omitted are:
a. Presidential Executive order directing federal agencies to get some significant share of their energy (I believe it's 10%) from "renewable" sources. (This creates a huge artificial high priced market, particularly for sales to Defense agencies)

b. US Department of Agriculture grant and subsidy programs for wind and other renewables.

c. The relatively new DOE "Conservation and Renewable Energy Bonds" (CREBs).

d. FERC rules applicable to transmission owning companies that give special considerations and special breaks to electricity from wind energy.

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e. US Bureau of Land Management (BLM) program to allow "wind farms" and associated transmission on publicly-owned lands -- at highly favorable rental rates.

f. US Dept. of Agriculture program to allow "wind farms" in National Forests.

g. Independent System Operator (ISO) and Regional Transmission Operator (RTO) rules and decisions that credit "wind farms" with "capacity factors" well above the amounts of electricity that the "wind farms" can really be counted on to deliver at times of peak electricity demand.

h. Additions to transmission capacity to serve "wind farms" with the costs of building that capacity passed along (via state utility commission actions) to electric customers -- even though "wind farms" are notoriously inefficient users of transmission capacity.

I suspect that others (e.g., Tom Tanton, Tom Hewson) can add others.

While the www.dsireusa.org web site is a great source of information, please keep in mind that NO government agencies has ever compiled a complete list of subsidies for wind energy.

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