

Statement for the Record  
Hearing Title: Energy Tax Policy in 2016 and Beyond  
Hearing Date: Tuesday, June 14, 2016

Phyllis Cuttino, Director, Clean Energy  
The Pew Charitable Trusts  
901 E St NW, 10<sup>th</sup> Floor  
Washington, DC 20004



The Honorable Orrin G. Hatch  
Chairman  
Committee on Finance  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Ron Wyden  
Ranking Member  
Committee on Finance  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

June 27, 2016

Dear Chairman Hatch and Ranking Member Wyden:

Thank you for your leadership in initiating a discussion of the direction and scope of U.S. energy tax policy. On behalf of the Pew Clean Energy Initiative, I urge your consideration and adoption of tax provisions that will help strengthen our nation's position in the burgeoning clean energy marketplace and our energy security.

Historically, tax policy has played a central role in encouraging U.S. energy innovation, production, deployment and trade. Some incentives have been in place for more than a century, encouraging the maturation of fossil resources, including coal, oil, and natural gas. Subsidies also helped spur the development of the nuclear industry in the United States. In recent years, tax incentives have advanced alternative energy sources like solar, wind, geothermal, fuel cells, and biomass. As a result, the country has a range of power options that make our electricity system more resilient, reliable, and affordable.

It is in our national interest to continue developing innovative technologies in order to remain competitive in the global energy economy. According to the International Energy Agency, electricity generation from renewables will surpass that from natural gas and double the amount derived from nuclear this year, becoming the second most important global energy source. Over a longer timeframe, Pew research projects that worldwide electric generating capacity from renewable sources will grow nearly six-fold by 2030. Companies and countries are turning to these resources because they enhance energy security, protect the environment, and grow new industries.

Clean energy represents a significant economic opportunity for U.S. innovators, entrepreneurs, manufacturers, project developers and investors. In 2014, \$310 billion was invested worldwide in clean energy goods and services, growing almost 17 percent from 2013. By 2030, renewables will attract approximately \$5 billion annually—or more than 65 percent of private investment in global power generation. Unfortunately, U.S. competitiveness in the sector is only as certain as our policies.

The Pew Clean Energy Initiative has undertaken research and worked closely with industry to understand the challenges that businesses are facing and how these impact the United States' competitive position. Time and again, experts have cited policy uncertainty as the overriding impediment to clean energy investment and progress by businesses and investors. The inconsistent nature of U.S. tax incentives makes it challenging for our companies to develop the supply chains and

business models they need to succeed and for investors to have the assurance they require to deploy capital. Our annual research tracking clean energy investment and deployment trends clearly demonstrates that policy matters. Those countries with consistent, long-term energy and tax policies are most likely to attract private investment.

We urge you to consider several key principles and tax initiatives in the short term in order to strengthen the United States' ability to capitalize on the emerging domestic and international clean energy markets in the long term:

**First, reinforce existing incentives for clean energy technologies.**

The Production Tax Credit and Investment Tax Credit, commonly referred to as the PTC and ITC respectively, have been cornerstones of U.S. energy policy for much of the past decade. These credits have helped stimulate investment, deployment, and manufacture of renewable and efficient products and processes, thereby driving down technology costs and encouraging deployment.

The Fiscal Year 2016 Consolidated and Further Continuing Appropriations Act, H.R. 2029, provided extensions of tax incentives for wind and solar power, to the exclusion of several other clean and efficient energy technologies that currently qualify under the ITC and are set to expire at the end of this year. These technologies also have a place in the future of the U.S. power generation mix and should be supported through policy.

The omnibus phased out the PTC for wind, under Section 45 of the Internal Revenue Code, over a period of five years. The bill also phased out the 30 percent ITC for solar power, both under the Section 48 investment tax credit and Section 25D residential incentive. However, the omnibus bill did not extend incentives for other technologies listed in Section 48, such as combined heat and power (CHP), fuel cells, geothermal, microturbines and small wind property. Nor did it provide extensions for non-solar technologies in Section 25D, such as fuel cells, geothermal heat pumps and small wind property.

I urge you to act immediately to extend the ITC across the board and establish parallel tax treatment for the excluded technologies. These incentives are critical for reducing costs, allowing greater competition among all of our nation's energy sources, creating jobs, and diversifying our nation's energy mix.

**Additionally we recommend that efficient industrial energy systems receive incentives that are on par with other clean and efficient systems accessing the ITC.**

We must harness technologies that encourage power generation efficiency and resiliency, reduce pollution, and enhance productivity. Combined heat and power and waste heat to power (WHP) systems capture the wasted thermal output usually released into the atmosphere and use it to heat nearby buildings and/or to generate additional electricity. These units are typically fueled with natural gas, biomass, waste, wood, and sometimes coal. CHP and WHP systems can provide base load electricity generation with at least double the efficiency compared to typical grid power. If located on-site at a manufacturing facility, hospital, school, or residential building, these systems can also improve resiliency against power outages.

The ITC, as currently constructed, offers narrow capacity limits for CHP systems, disqualifying many worthy projects. We recommend that the ITC or any comparable credits in the future increase the credit from 10 to 30 percent of the capital costs of a project, increase the project cap from the first 15 megawatts (MW) of the project to the first 25 MW, and eliminate the system-wide capacity cap. CHP currently supplies more than 82.7 gigawatts (GW), or 12%, of the nation's electricity capacity and, according to a Department of Energy study, there are 240.6 GW of additional capacity from this technology, almost three times the amount of capacity that is currently operational.

Furthermore, WHP installations that could monetize 10 GW of clean electricity, heating, and cooling capabilities are excluded from the current definition of qualifying technologies for the ITC. In early 2015, the Senate Finance Committee approved S. 913, a bill championed by Senators Dean Heller and Tom Carper, as part of a package of tax policies. These provisions would have resolved this technical oversight. Unfortunately, it was not included with most of the rest of the package in the omnibus that became law. Since there is no fuel used in capturing waste heat, this technology should be included in future tax incentives at the same rate as other renewable and efficient competitors.

Additionally, the bipartisan POWER Act (S. 1516 / H.R. 2657) would give CHP technologies parity with other clean and efficient power sources, remove restrictions that limit the full use of this efficient resource, and include WHP as a qualifying technology under the ITC. We urge you to include this measure as part of any legislation aimed at improving the U.S. tax system.

**Finally, we recommend expanding Master Limited Partnerships (MLPs), to clean energy technologies.**

A wide variety of economic, regulatory, and legal barriers favor incumbent technologies. These barriers threaten the ability of new companies to gain a competitive foothold, diminish consumer choice, and inflate the prices of emerging technologies. Government tax policy should help break down barriers to competition. Expanding MLPs to clean energy technologies is a critical way to create greater parity in the tax code among energy resources.

MLPs are business structures that allow taxation at the stakeholder instead of corporate level and provide greater access to low-cost capital. They are a proven mechanism for leveraging financing for the traditional power sector, having attracted more than \$450 billion of investment to fossil fuel projects in the U.S. over the last 30 years. However, clean energy systems do not have access to these incentives, placing them at a financial disadvantage. Congress should pass the bi-partisan MLP Parity Act (H.R. 2883) to extend MLPs to a broad suite of energy technologies, thereby allowing them to access a larger pool of private capital.

As Congress considers future, long-term energy tax policies, we encourage the Finance Committee to adopt provisions that promote domestic innovation and support promising new industries. A technology-neutral approach to the tax code can ensure that clean, efficient, and resilient inventions have access to the same or similar tax treatment as those that currently exist today.

As the global demand for clean energy continues to rise, it is imperative that the U.S. maintain its leadership position by providing tax policies that help drive-down costs and ensure long-term certainty for the industry.

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Thank you again for the opportunity to provide a statement for the record. We hope these recommendations give context to your work and demonstrate that the tax initiatives Congress adopts will shape America's economic, environmental, and energy future for many years and decades to come. We look forward to working with you as Congress considers policy measures that will improve the U.S tax system for the energy industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Phyllis Cuttino". The signature is fluid and cursive, with the first name "Phyllis" written in a larger, more prominent script than the last name "Cuttino".

Phyllis Cuttino  
Director, Clean Energy Initiative  
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