



April 15, 2015

The Honorable Orrin Hatch, Chairman
Senate Finance Committee
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden, Ranking Member
Senate Finance Committee
221 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Hatch and Wyden:

On behalf of our more than 40 members across the country, and the over 15,500 employees in the biomass to electricity sector, the Biomass Power Association would like to share with the Committee the industry's perspectives on necessary reforms to the federal tax laws relating to the promotion of renewable energy. We also attach for your review and consideration a presentation shared with Committee staff on March 30.

Biomass power is a \$1 billion industry that uses wood residue – often materials that would otherwise end up in landfills – to generate electricity. Our industry has more than 100 facilities in 20 states. Biomass plants are predominantly located in rural communities, creating thousands of jobs and producing millions in revenue for small towns. Biomass power is a clean and abundant source of electricity that allows many states to pursue ambitious goals for increasing their use of renewable energy.

BPA welcomes the Committee's desire to ask hard questions and promote a candid discussion around renewable energy tax reform. That said, the Association believes that thoughtful reform of the Internal Revenue Code's energy tax provisions cannot occur absent the adoption of a clear set of national energy policy goals. For example, if the Committee determined that the sole objective of national energy policy is to promote the cheapest form of energy as dictated by free market forces without any concern to the ramifications of pollution, then all forms of energy specific tax credits and deductions (for both fossil and non-fossil derived energy sources) should be eliminated. However, as we all know, objectives other than simply cost must be considered: promoting energy diversity, reducing carbon emissions, elimination of wastes, and, in the case of biomass, the promotion of healthy forests. These benefits will not be realized absent federal government intervention. For that reason, we believe that renewable energy tax incentives should continue to play a key role in promoting a diversified mix of renewable energy resources.

As discussed in greater detail below and in the attached presentation, renewable energy policy should adhere to the following fundamental principles—

1. Renewable electricity tax incentives should be made permanent so that baseload power like biomass—with long development timelines—is fully promoted. Short-term extensions favor intermittent power at the expense of baseload power.
2. The credit rate should be harmonized for all technologies under Section 45, or the credit rate should be set according to a technology neutral, performance-based formula.
3. Congress should recognize the value of existing biomass facilities by extending their current credit period from five to ten years.
4. Finally, the Code needs to be modernized to promote the refurbishment of obsolescent facilities.

The Biomass Industry: At a Glance

The production of electricity and steam from biomass (organic material comprised of forestry debris, so-called “urban wood,” and agricultural residues) represents nearly 30% of the nation’s non-hydroelectric renewable energy supply. While biomass power has been used by U.S. manufacturers (mainly pulp/paper) for over a century, it was not until 1978 – with the enactment of the federal Public Utility Regulatory Policy Act (PURPA) – that so-called “Independent Power Producers” (IPPs) started developing dedicated, grid-connected open-loop biomass power facilities.

- These facilities are generally small in size—ranging from 10 to 100 MW.
- Open-loop biomass electricity facilities can be found throughout the country (from the Northeast to the Pacific Northwest), they complement many industries (forestry, wood products, pulp and paper) and agricultural sectors (sugar, rice, among others), and are an important rural employer.
- Unlike some other renewable technologies, biomass plants are designed to both solve a local waste problem and promote healthy forests.
- Biomass is the only form of renewable power that pays for its fuel. (Please see [Appendix 1](#) for a chart on expenditures required for a plant to enter service for several energy sources.) And it is that rural fuel procurement and transportation infrastructure that both increases the cost of the electricity and also accounts for the significant amount of economic activity and rural employment.

- Unlike intermittent forms of renewable energy, biomass is not just about “green power.” It provides numerous benefits to state air resource boards (by avoiding open burning in states like California), federal land managers (by creating markets for residues that contribute to forest fires), and rural communities. A recent news article in the Central California newspaper the [Hanford Sentinel](#) on the decline of local biomass facilities quoted the Kings County Farm Bureau president as saying, “Currently, biomass plants are about the only way we have to dispose of orchard removal.”

And because biomass provides constant electricity independent of weather conditions, it can be used as a substitute for dispatchable natural gas and thus serves as a hedge against commodity risk.

- Historically, biomass has not received benefits proportionate to other Section 45 technologies. (Please see [Appendix 2](#) for the total electricity production subsidies and support allotted in fiscal year 2013.) Wind energy, despite not providing the baseload attribute of biomass, receives twice the value of the tax credits received by biomass. The result is that, when biomass competes with wind and other energy sources in competitive RFPs, biomass typically loses out because of the unequal tax benefits, and state utilities are left with a disproportionate amount of intermittent power at the expense of renewable baseload power. (Please see [Appendix 3](#) for the breakdown of new renewable energy capacity added to the grid since 2008.) In essence, the Section 45 production tax credit is effectively a wind credit.

Open-Loop Biomass and the Federal Tax Code

The following are some specific problems:

- Tax incentives for generating electricity from open-loop biomass have only been available since 2004, when Congress provided *both existing and new* facilities a production tax credit – but only for a 5-year term and only at 50% of the rate of wind. One year later, Congress lengthened the tax credit period from five years to ten years (for new facilities, while retaining the 5-year period for existing facilities), but retained the 50% credit rate reduction. The credit period for existing facilities expired in 2009, leaving many of the facilities at risk of closure. The PTC placed in service date window for new facilities expired at the end of 2014.
- Because of the short-term nature of Congressional extensions of Section 45, far fewer open-loop biomass facilities have been developed. Intermittent technologies like wind have shorter development schedules, resulting in far more wind being deployed than any other PTC-eligible technology, including biomass. To remedy this, Congress should permanently extend Section 45. Without this permanent extension, the full potential of biomass (and the

attendant public economic and environmental benefits) will not be realized. Congress should also extend the PTC for existing facilities for the full 10 years.

- The establishment of different credit amounts within Section 45 set without any reference to performance arbitrarily favors intermittent sources of power at the expense of baseload power. Congress should harmonize the tax credit rates for all eligible technologies so as to make the credit technology neutral, or to set the credit rate based upon some logical formula referencing environmental or energy performance.
- Finally, the Code should encourage the modernization/refurbishment of older open-loop biomass facilities, and the re-purposing of retired coal facilities to burn open-loop biomass. Developers report that the IRS's traditional rule used to define new facilities is quirky to apply and should be replaced with a simpler rule such as requiring at least fifty percent of the value of a new project to be attributable to new equipment.

If properly implemented, tax policy can play an important role in the promotion of a diverse renewable energy policy without causing market distortions. Preserving the status quo places the Nation's energy security at risk by leaving utilities (and ratepayers) dangerously reliant on the commodity risk of natural gas or the vagaries of solar and wind.

We look forward to working with the Committee and stand by to serve as a resource in your ongoing work.

Sincerely,

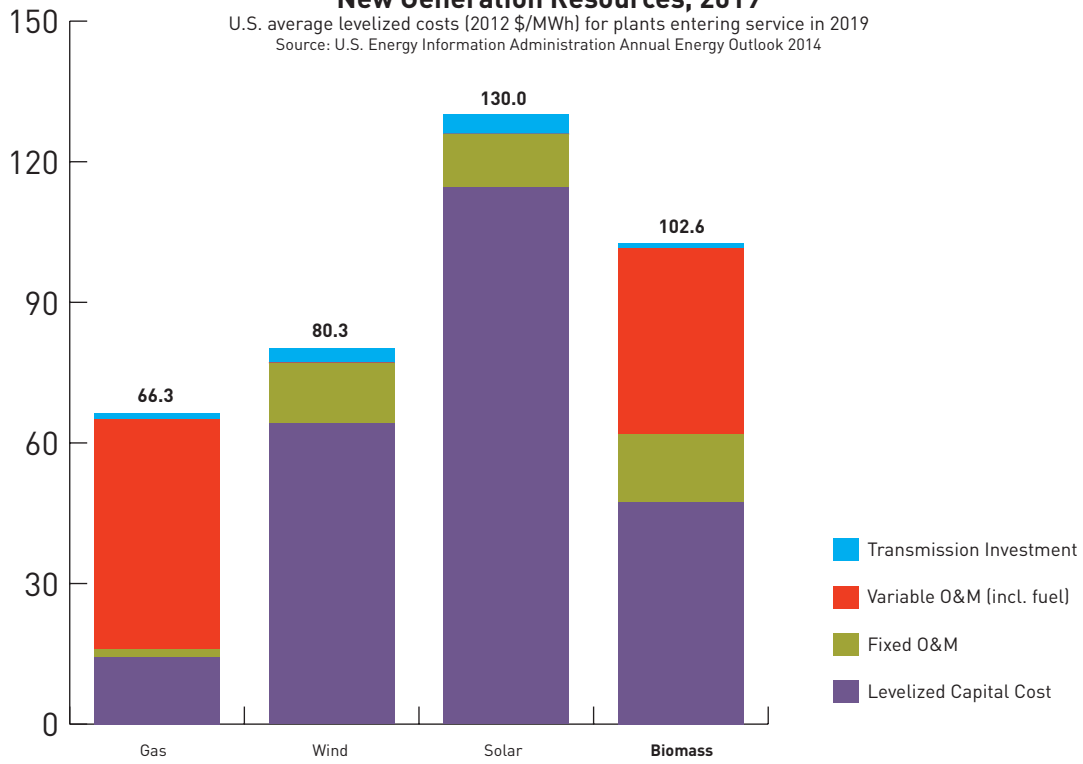


Robert E. Cleaves
President and CEO
Biomass Power Association

Appendix 1

Estimated Levelized Cost of Electricity (LCOE) for New Generation Resources, 2019

U.S. average levelized costs (2012 \$/MWh) for plants entering service in 2019
Source: U.S. Energy Information Administration Annual Energy Outlook 2014

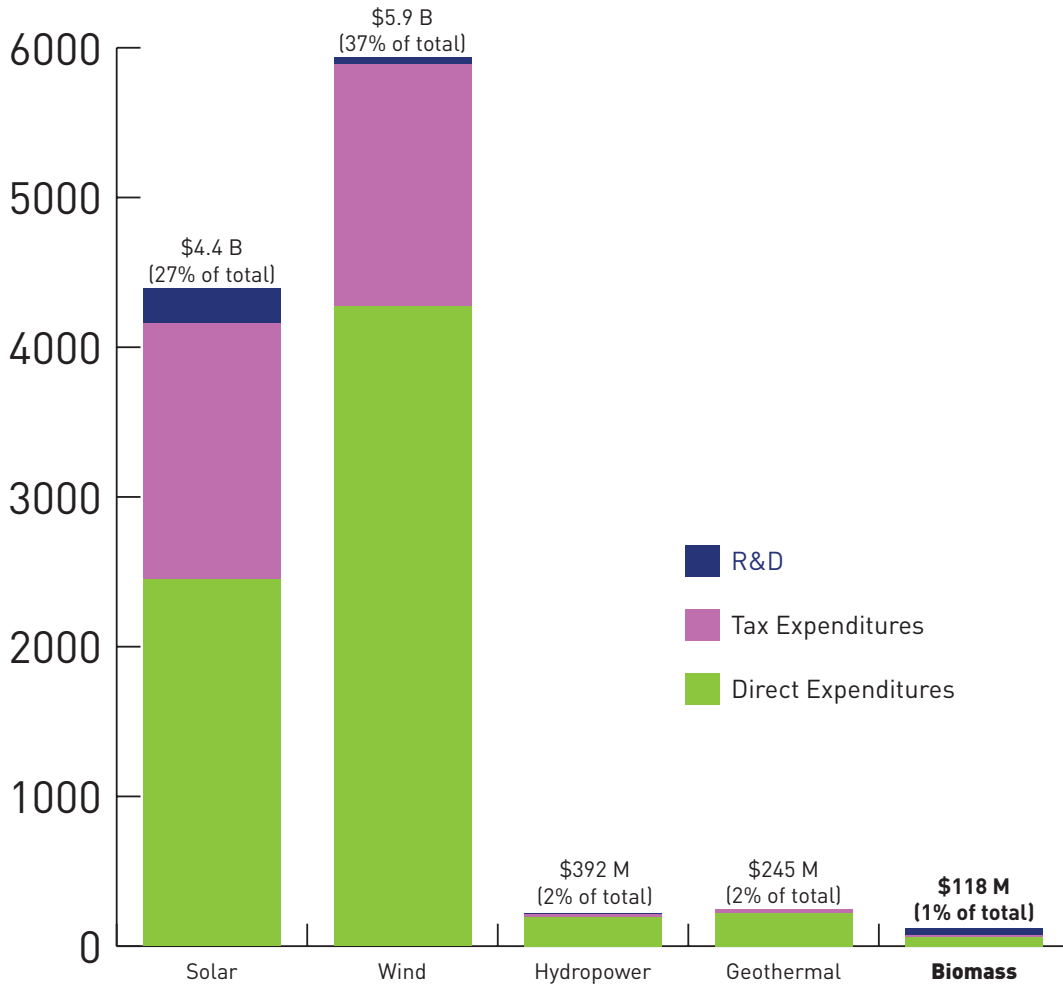


Appendix 2

Fiscal Year 2013 Electricity Production Subsidies and Support

Millions, 2013 US\$

Source: U.S. Energy Information Administration



Appendix 3

Renewable Energy Capacity Build by Technology (GW)

Source: Bloomberg New Energy Finance, U.S. Energy Information Administration

