



## **Pellet Fuels Institute Comments**

**on**

The U.S. Senate Finance Committee's Comprehensive Tax Reform Effort

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The Pellet Fuels Institute (PFI) appreciates the opportunity to share our perspective on energy tax policy in the context of comprehensive tax reform. PFI is a North American trade association promoting energy independence through the efficient use of clean, renewable, densified biomass fuel. Our members are densified biomass fuel (wood pellet) producers and distributors that provide pellet fuel for use in residential and commercial heating applications. The feedstock for our fuel is typically sawmill residuals like sawdust that would otherwise be destined for disposal.

Our nation's tax code has long played a key role in shaping and influencing national energy policy. In the renewable energy arena, the code features numerous incentives for most renewable energy technologies in residential, commercial and industrial installations. In fact, analysis provided by the Joint Committee on Taxation lists 80 separate energy-related tax provisions in existing law. Unfortunately, none of these incentives extends to high efficiency biomass thermal energy, despite the fact that biomass thermal energy fulfills all the same public policy objectives as other renewable energy sources. Examples of biomass thermal projects and technologies include heating of homes, businesses, commercial and industrial buildings; district heating of campuses, densely developed commercial and industrial parks; and whole neighborhoods and city downtowns; domestic hot water for large consumers such as hospitals; industrial process heat for companies in food processing, metallurgy, and pharmaceuticals, and combined heat and power projects that produce both heat and electricity for consumers.

PFI strongly endorse tax reform efforts that provide a level playing field for competing energy technologies and support the concept of technology neutrality which the committee has discussed in the last Congress. However, we also believe that comprehensive tax reform should embrace energy pathway neutrality and not pick winners and losers in the manner in which renewable energy is delivered.

PFI represents the interests of companies in the biomass thermal energy space, but thermal energy is also derived from solar and geothermal sources. Taken together, thermal energy

comprises roughly one third of our nation's energy consumption. Despite this fact, energy policy to promote renewable energy has focused entirely on transportation fuels such as ethanol and biodiesel, and electricity from hydro, wind, solar, geothermal and biomass. These fuels and technologies have received support from the federal government in the form of production and investment tax credits, accelerated depreciation, research and development funding, direct project grants, and renewable energy credits. The 2005 Energy Policy Act, the 2007 Energy Independence and Security Act, and the 2009 American Recovery and Reinvestment Act boosted support for these technologies in many areas. PFI believes that efforts to comprehensively reform the tax code provide the ideal opportunity to rectify this oversight and provide incentives for which thermal energy providers can compete on an equal basis.

Tax incentives will help build a market for high efficiency systems that can reduce American dependence on foreign fossil energy, reduce greenhouse gas emissions, and create jobs and local economic development from a renewable domestic energy resource. Tax policy that supports biomass thermal energy will provide the highest possible return for the country in terms of reductions in fossil fuel imports and jobs created. Per dollar of current federal support, biomass heating displaces ten times more fossil fuel than solar installations or ethanol and is proven to create a greater number of ongoing jobs. Biomass has accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuels<sup>i</sup>.

Because of the relatively small market penetration of new biomass combustion, these systems are expensive compared to fossil-fueled systems: installed systems can cost twice as much as a similarly sized oil or gas system. Fuel transport logistics have yet to reach critical mass with few customers spread over large geographic areas, thus increasing the unit cost of fuel distribution. Incentives are necessary to make biomass thermal technology more competitive in the market. In time, with increasing market penetration, these incentives can be scaled down or eliminated. As an example, in Europe, there is a thriving biomass heating business employing tens of thousands of people – and the supply of these fuels continues to be cost competitive, even without ongoing government subsidies.

Crafted correctly, incentives can satisfy the twin objectives of supporting innovation while attracting private capital that is critical to driving long term economic growth.

PFI is a strong supporter of the Biomass Thermal Utilization Act of 2013. The bill, known as the BTU Act, would qualify highly efficient thermal energy from biomass for investment tax credits under Sec. 48 and Sec. 25d. The spirit of this proposal is to simply level the playing field so that thermal renewable energy providers are treated equally with those producing liquid fuels and electricity. **Our request to the Committee is to keep this principle—technology and pathway neutrality—as a guide post as you continue to craft energy tax reform legislation.**

## **Conclusion**

Biomass thermal fulfills all the same public policy objectives that are by necessity the basis and justification for renewable energy tax incentives. These include:

- Reduced consumption of foreign fossil energy, thereby increasing America's energy independence
- Increased efficiency of utilization for equivalent energy output, as compared to biomass electric generation and cellulosic biofuels
- Reduced emissions of greenhouse gases due to the carbon neutrality of biomass
- Reduced emissions of certain air pollutants such as sulfur dioxides and mercury, as compared to fossil fuels
- Strengthened local economic development and job creation through domestic production of fuels, system installation and service, and fuel distribution.

The current fiscal environment in which our nation is operating necessitates that tax payer dollars be deployed in a manner that maximizes return on investment. PFI believes that investment in technologies like biomass thermal that achieve optimal efficiency and job creation potential should be a focus of energy tax reform efforts moving forward. We look forward to working with the Committee as it continues its work on this critical issue.

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<sup>i</sup> <http://www.renewableenergyworld.com/rea/news/article/2008/04/renewable-energy-jobs-soar-in-germany-52089>