

Statement of the Edison Electric Institute

Ways & Means Hearing on Tax Credits for Electricity Production from Renewable Sources

June 7, 2005

The Edison Electric Institute (EEI) appreciates the opportunity to submit this statement for the hearing record on tax credits for electricity production from renewable sources. EEI is the trade association for U.S. shareholder-owned electric companies, and serves international affiliates and industry associates worldwide. Our U.S. members serve almost 95 percent of the ultimate customers in the shareholder-owned segment of the industry and nearly 70 percent of all electric utility customers in the nation. They generate almost 70 percent of the electricity generated by U.S. electric companies. Several of our members have made significant investments in renewable technologies including wind, biomass co-firing, landfill gas and waste to energy, and geothermal, and many others may do so in the future.

While last year's extension of the Production Tax Credit (PTC) for five or ten years was a step in the right direction, the requirement that the facilities be in-service by the December 31, 2005 severely limited the PTC's effectiveness. To maximize the impact of the tax credit, there must be a realistic opportunity to plan for equipment purchases in a sustained business cycle, address transmission and siting issues, and begin production over a longer time period. The "boom and bust" business cycles created by frequent twelve-month extensions of the tax credit have not helped developers of renewable energy technologies and have only increased costs for the consumer. The PTC extension was authorized in the JOBS Bill last fall and did not provide enough time for

technologies with long lead times, or technologies that face equipment shortages, transmission access issues, and siting challenges. It is very difficult to have all these functions prepared for implementation or construction within a twelve-month period. Consequently, EEI recommends extending the in-service date requirement until December 31, 2010 and continuing the ten-year opportunity to claim PTCs. Alternatively, a binding contract rule for the project output could be substituted for the in-service requirement.

EEI supports extending the PTC for renewable technologies because it will increase fuel diversity. This diversity is necessary to assure domestic energy security, provide affordable reliable power to customers, moderate fuel price fluctuations and increase in generation costs, and improve the quality of the environment. For many companies, their strategic business goals include asset diversification among technologies and fuels, and renewable energy is expected to play an important role. Achieving these goals will require policies that optimize the use of all fuels. The PTC assists in furthering national electric industry goals of fuel diversity by making it easier for immature, but promising technologies to compete more effectively in a brutally price competitive market: generation. The electric industry supports subsidy only until such time as these technologies achieve sufficient production to reach marketplace success through economies of scale.

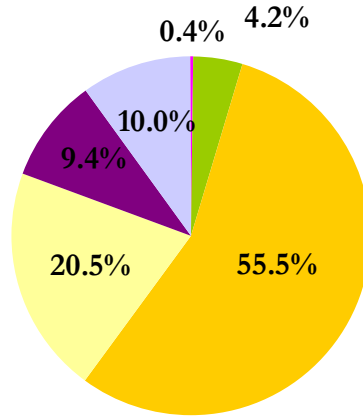
As you can see from the attached charts, non-hydro renewable energy is a small but growing segment of the U.S. electricity generation portfolio. However, the increase in a given year has varied depending on the availability of the PTC. Ensuring that no one fuel type dominates the electricity production will increase electricity pricing stability for

all consumers. EEI supports the PTC to help develop renewable technologies so that they can be an important part of the electricity production mix, along with coal, hydro, natural gas and nuclear generation. Additionally, renewable technologies have the potential to impact natural gas demand in some locations. The renewable energy industry needs the PTC because it is still a new industry that has yet to achieve the economies of scale that mature industries have achieved. In the few cases where per unit costs are nearing conventional fuels, there are still outstanding issues that are being resolved. Because many of the best renewable resources may not be near the load centers, additional transmission is likely to be needed to bring the output to the load. Also, addressing local concerns about siting can be expensive, difficult, and time consuming. In most cases, the costs of renewable technologies are still higher than conventional fuels because they have not yet achieved the necessary economies of scale.

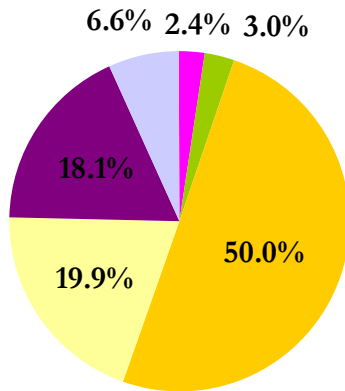
A five-year in-service rule would give developers adequate time to plan forward to place facilities in service and provide a dependable source of revenue so that multi-year projects could be developed. This is particularly important for geothermal and landfill gas projects, which would allow electric utilities to plan and build required transmission facilities. This is consistent with other Congressional efforts to use the tax code to increase sources of energy. EEI is confident that such a program would result in increased renewable investment, thereby increasing the nation's fuel diversity.

Additionally, an extended PTC is also likely to stimulate the development of new technologies and more efficient devices to convert the raw fuel input into electricity, whether the technology is geothermal, wind, biomass, or land-fill gas.

Generation from renewable sources of energy has increased significantly since 1990



1990



2004

- Renewables*
- Oil
- Coal
- Nuclear
- Gas
- Hydro

Note: Numbers exceed 100% due to rounding.

*Includes wind, solar, biomass, geothermal and other non-hydro renewable energy sources

Source: Energy Information Administration, 2004 preliminary data