



The production tax credit (PTC) for wind energy expires at the end of 2012. The PTC for renewables like wave and tidal, geothermal and bio-energy was extended until the end of 2013. How will this loss of funding impact renewable-energy development and, ultimately, your cost of electricity?

Where we are today

Low natural-gas prices (2.770/MM/BTU) have put a damper on renewable-energy projects. The dramatic drop in natural-gas prices is due, primarily, to the introduction of hydraulic fracturing and horizontal drilling: U.S. oil/drilling companies have been able to extract gas from shale formations at lower costs, thereby increasing their profitability, as well as the supply of natural gas available in the domestic market. The increased amount of natural gas in the U.S. market has, in turn, reduced the fuel's price by more than 40% in the past year.

Production tax credits explained

Organizations that generate energy from wind (via large "utility-scale" turbines), solar, geothermal and "closed-loop" bio sources (i.e., dedicated energy crops) are eligible for a PTC that amounts to a 2.2-cent-per-kilowatt-hour (kWh) benefit for the first 10 years of the renewable-energy facility's operation. Added to state-mandated renewable-energy programs, the federal production tax credit program has been the driving force behind wind-power development for the past seven years.

Up until now, Congress has been able to extend the PTC program—*albeit with a few delays along the way*—thus making state-mandated renewable-energy requirements cost-effective propositions. The current administration has pushed for the extension of tax credits that it claims would save jobs in the field of clean-energy production. There also has been an effort by President Obama to extend a 30% tax credit for manufacturers that invest in equipment to make components for clean-energy projects in the U.S.

Big Money Talks: Parsing Renewable-Energy Production Tax Credits

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Thursday, 02 August 2012 16:02

These types of energy incentives are not new—*nor have they been confined to “green” energy*. Subsidies have also gone to developing fossil-fuel resources and reserves. In fact, until 2008, the federal government provided substantially larger subsidies to fossil fuels than to renewables—

roughly \$72 billion,

according to some reports.

In comparison, the renewable arena has only seen about \$29 billion.

So what?

At this point you're probably asking, "How is this going to affect me?" Here's how: If (when) the tax credits stop, you can bet investors are going to back away and move their money to "profitable" projects—*like any good businessperson would*. That's all well and good, with the exception of state-mandated programs. Approximately 30 states currently have programs that require a utility to provide anywhere from 10% to 30% renewable energy. Where are they (the utilities) going to find investors who are going to finance these mandated programs? Take a wild guess.

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