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Expiration of tax credit threatens wind industry

By Kristina Curtis and Matt Patsky | Friday, August 10, 2012 | Updated: Friday, August 10, 2012 8:34pm

Texas is oil country, but in recent years, another energy resource has swept across the state: wind. Over the past decade, wind power turbines have cropped up throughout the Panhandle and along the Gulf Coast. In just a few years, Texas has become the nation's largest wind power producer, boasting seven of the U.S.'s 10 biggest wind farms.

As investors, we look for growth stories, and wind power has been a great one. The U.S. is generating 20 times more electricity from wind than it did in 2000, and nearly nine gigawatts - the equivalent of nine nuclear power stations - is under construction. Wind power provides more than 10 percent of power generation in five states and more than 20 percent in South Dakota. That's good news for the economy, the planet, and for investors looking to build a cleaner energy future.

So what's wrong with this picture?

In this case, it comes down to policy. For years, the federal government has supported innovation in the energy sector, funding everything from advanced drilling techniques to more efficient turbine design. In the case of wind power, the U.S. provides a tax credit for each kilowatt-hour of wind power produced, known as the Production Tax Credit. This credit has increased energy diversity and reduced our reliance on fossil fuels. It has also helped to stimulate productivity and innovation in the renewable energy economy and keep electricity costs low for consumers. Indeed, innovation has driven the cost of wind power down more than 90 percent, resulting in wind being competitive on its own in a number of places and near that level in many others. And unlike other energy sources, as wind prices drop they stay low: The fuel is free.

President George H.W. Bush originally signed the Production Tax Credit into law in 1992. However, after decades of bipartisan support, it's set to expire at the end of this year. If lawmakers do not act, it could bring the wind power economy nearly to a halt, putting thousands of jobs on the line. And with each day of inaction the problem grows larger.

A climate of uncertainty is never good for business, and lawmakers' delay is already taking a toll on the industry. On July 20, General Electric, the nation's largest wind turbine manufacturer, reported that its year-over-year turbine sales fell 37 percent. The company attributed most of this decline to hesitancy around the tax credit.

And it's not just turbine manufacturers who are affected. As wind power has grown, many companies have benefited, including suppliers, transport, transmission, construction and other service companies. Each of these companies has something at stake if the Production Tax Credit is not renewed.

Take for example Houston-based Quanta Services, a company held in the Green Century Balanced Fund, which is advised by Green Century Capital Management and subadvised by Trillium Asset Management. Quanta is a Fortune 500 company that has developed more than 30 wind farm projects over the last 10 years. In its 2011 annual report, Quanta wrote, "We consider renewable energy, including solar and wind, to be an ongoing opportunity for our engineering, project management and installation services."

That renewable energy opportunity has already borne fruit for Quanta. Last year, the company earned nearly 5 percent of its \$4.6 billion in revenue from renewable energy development projects. That's hundreds of millions of dollars of economic development that, in the absence of clear federal policy, becomes much more difficult to achieve.

Without certainty around the Production Tax Credit, the whole wind supply chain is threatened. Utilities are less likely to invest in renewable generation, transmission lines won't be built, construction and transport jobs decline, turbines aren't manufactured and financing stalls at each step along the way.

Uncertainty surrounding federal tax policy also leads to inconsistent investment cycles. This mentality can lead to over-enthusiastic build cycles followed by reluctant financing and slowed project development. As a developer of renewable energy generation facilities, Quanta has a material stake in consistent federal energy policy. So do dozens of other companies, including diversified giants like GE and sustainable investors like our firms, Green Century and Trillium Asset Management.

Fortunately, this is an energy problem our nation's leaders can solve, and as investors in a clean energy economy and members of the \$10 trillion Investor Network on Climate Risk, we encourage them to do so. With clear, consistent policy, maybe one day Texas will be known not only for being rich in oil but also for striking it rich in wind.

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