National Hydropower Association
25 Massachusetts Ave. NW, Ste. 450, Washington, D.C. 20001 • Tel 202-682-1700 • Fax 202-682-9478 • www.hydro.org

April 10, 2013

The Honorable Kevin Brady
Chair
Energy Tax Reform Working Group
Committee on Ways and Means
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Mike Thompson
Vice Chair
Energy Tax Reform Working Group
Committee on Ways and Means
1106 Longworth House Office Building
Washington, DC 20515

Re: Comments of the National Hydropower Association regarding hydropower tax incentives

Dear Chairman Brady and Vice Chairman Thompson:

The National Hydropower Association (NHA)[1] appreciates this opportunity to comment on the need for continued federal tax policy support of hydropower and marine and hydrokinetic (MHK) technologies in the context of the comprehensive tax reform discussion underway by the House Ways and Means Committee.

The Association highlights the following three main points:

1. Tax incentives for hydropower development are critically important and provide needed support for projects that have high upfront capital costs and must navigate one of the longest regulatory approval processes of any U.S. energy resource.[2]

2. Hydropower's inclusion under existing tax incentives for renewable energy (the section 45 production tax credit [PTC], the section 48 investment tax credit [ITC], clean renewable energy bonds [CREBs] and others) has spurred growth in the industry. Tax incentives are a proven mechanism, though changes are needed to provide the full benefit of the incentives to hydropower project developers.

3. Hydropower is a domestic clean energy resource with significant growth potential. However, the full extent of that growth will not be realized without solid, consistent and effective tax policy.

[1] NHA is the non-profit national association dedicated exclusively to advancing the interests of the U.S. hydropower industry, including conventional, pumped storage and marine and hydrokinetic technologies. NHA's 180 members includes public utilities, investor owned utilities, independent power producers, project developers, equipment manufacturers, environmental and engineering consultants and attorneys.

[2] The integrated licensing process (ILP), the default federal process for hydropower development, takes 5-5.5 years. While FERC is the lead agency, the process can also involve federal hydropower project owners, such as the Bureau of Reclamation and the Army Corps of Engineers, federal resource agencies, state resource agencies, tribes, and interested stakeholders and the public. This complex, comprehensive process is intensive, multi-layered and can take up to 26 individual steps.

Need for Certainty

NHA reiterates its strong support for federal policy that provides a predictable market signal in support of hydropower project deployment, which in turn leverages private investment, stimulates job creation, and provides local economic benefits across the country.

Without the long-term certainty and predictability provided by such consistent federal policies, developers are unable to attract the financing needed to support the considerable financial investment required to deploy hydropower projects. In addition, utilities will be driven by default to other resources with shorter development timelines, particularly natural gas, resulting in a less diverse electricity generation mix.

For example, in the time natural gas and wind plants are sited, permitted and built, a proposed hydropower plant has not even completed the first phase of the licensing process. Still in the pre-license application phase, a hydropower project has at least another 2-3 years before it can put a shovel in the ground and several more years after that before construction is complete. This process can take a full 6 years or longer as compared to the time required to place a wind or natural gas plant into operation. Because of this long lead time, hydropower developers critically need long-term certainty in tax policy.

Importance of Tax Incentives

Since the Energy Policy Act of 2005 (EPAct 2005) expanded the section 45 PTC to cover hydropower facilities, almost 110 existing hydropower projects have been certified for the PTC through capacity upgrades approved by the Federal Energy Regulatory Commission, with projects increasing generation by an average of 10 percent.

However, due to the lack of certainty regarding the future of the PTC and the short term nature of several of the past extensions, many hydropower project opportunities were not pursued. This highlights the critical importance of the change to the PTC enacted earlier this year, which allows projects that "begin construction" in 2013 – rather than "placed-in-service" – to be eligible for the credit. This change provides the hydropower industry with the certainty of knowing that projects that meet the "beginning of construction" requirement will receive the PTC when they are ultimately placed-in-service, as opposed to the tremendous uncertainty that a project can be completed in time to meet an arbitrary date. This certainty translates into more hydropower projects going forward than would otherwise have been the case.

In addition, hydropower is not treated equitably under the existing PTC (receiving a credit equal to only 50 percent of the PTCs provided to wind, geothermal, closed-loop biomass and other technologies). As a result, hydropower developers have had to limit the amount of projects in their proposed portfolio they can pursue – consolidating resources and effort on the most economic and most likely to advance quickly through the regulatory approval process.

Hydropower Growth

The U.S. is witnessing an era of growth in the hydropower industry unseen in more than 20 years, which kicked off with hydropower's inclusion under the PTC and CREBs programs in 2005 and expanded to the ITC in 2009.

Recent studies have shown that there are tens of thousands of megawatts of new hydropower that could be added to the U.S. energy portfolio. A 2012 Department of Energy-Oak Ridge National

Laboratory report found that approximately 12,000 MW of new capacity could be installed at existing non-powered dams alone.

In fact, only 3 percent of all U.S. dams have power generating facilities associated with them, with the rest built for other purposes, such as flood control and navigation. The DOE report found that 81 of the top 100 non-powered dam sites are at existing Corps dams that do not generate power.

Growth potential for the hydropower industry is tremendous – yet without tax policy that provides for incentives to help these capital intensive projects, much of this potential will be left on the table.

Conclusion

As the working group and the Committee as a whole continues work on comprehensive tax reform, NHA highlights the following considerations:

- Tax incentive policy has worked to spur new growth and development for dispatchable, baseload renewable energy, like hydropower – not just wind and solar. And as more variable renewable energy is brought on the grid, the U.S. will need (and Congress should support) the grid services and reliability benefits that a resource like hydropower brings to the system.

- Long term extension provides the predictability the hydropower industry requires for tax policy to be effective – and sends the right signals to the market;

- The Congress should recognize the unique needs of each of the renewable technologies to ensure that the tax code takes into account the unique attributes of each resource and its development timeline.

- Without tailoring the tax policy as such, growth for the full suite of renewables, including firm dispatchable power, like hydropower, will be significantly reduced – negatively impacting diversity in the electricity sector.

Again, NHA would like to thank you for the opportunity to comment on the need for continued federal tax policy support of hydropower and marine and hydrokinetic (MHK) technologies. We look forward to serving as a resource for the Committee as the discussion continues.

Sincerely,

Linda Church Ciocci
Executive Director