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

Statement for the Record

Of

The National Hydropower Association

Before the

U.S. Senate Committee on Finance

Regarding

The June 14, 2016 Hearing on Energy Tax Policy in 2016 and Beyond

June 20, 2016

On behalf of the members of the National Hydropower Association (NHA), we appreciate this opportunity to submit comments to the Senate Finance Committee for the record regarding its June 14, 2016 hearing on energy tax policy and how the tax code affects the energy industry, particularly with respect to hydropower project development, and what policies have the most merit as the Congress looks forward towards tax reform.

We look forward to working with the Committee and the Congress on approaches that can achieve the goals of tax reform while also continuing to support the expansion of U.S. hydropower resources.

The National Hydropower Association is a nonprofit national association dedicated to promoting the growth of clean, affordable U.S. hydropower, which includes conventional hydropower, pumped storage, marine and hydrokinetic (MHK), as well as conduit projects. NHA represents more than 220 companies from Fortune 500 corporations to family-owned small businesses. Our members include both public and investor-owned utilities, independent power producers, developers, manufacturers, environmental and engineering consultants, attorneys, and public policy, outreach, and education professionals. NHA members are involved in projects throughout the United States, including both federal and non-federal hydroelectric facilities. NHA members own and operate the majority of the non-federal hydropower generating facilities in the United States.

Hydroelectric power is the nation's single largest source of renewable electricity, generating close to 50 percent of renewable power in the U.S. In addition to its clean energy profile, hydropower projects provide a number of additional benefits, such as integrating and firming power from other intermittent electricity sources, flood control, irrigation, water supply, recreation and more.

Though a tremendous existing resource, hydropower has substantial potential to grow. Of the 80,000 dams in the United States, only 3 percent have power generating facilities. The rest were originally built

for the other purposes outlined above. However, new studies and reports have demonstrated new project opportunities throughout the hydropower sector including, adding new generation equipment to existing non-powered dams and other water infrastructure, upgrades and efficiency increases at existing hydropower facilities, pumped storage, conduit and marine energy projects, and even new stream reach deployments. Sustainable hydropower projects can be built to access this vast untapped hydropower capacity if the Congress provides the right market signals through smart and balanced tax policies.

Most Members of Congress say that they are for an "all of the above" energy policy and that the tax code should not be choosing winners and losers in the nation's energy mix – NHA agrees. However, that is currently not the case and has not been for many years. Although hydropower was made eligible for the section 45 production tax credit (PTC) in 2005 and MHK in 2008, the applicable credit rate for our technologies, as well as other baseload renewable resources, has been only 50% of the tax credit rate provided to wind facilities. There was, and continues to be no policy basis for this differential, which was based solely on revenue concerns at the time.

This credit rate differential has placed the hydropower industry at a very significant competitive disadvantage over the past decade in responding to state-level solicitations for renewable electricity contracts in states with renewable energy portfolio standards. Efforts to equalize the credit rate over the past decade have also been stymied – largely because the germaneness test applied to tax extenders bill in recent years generally made policy changes out of order.

Last year's PATH Act further exacerbated the competitive imbalance between incentives for wind and solar and other renewables, including hydropower. While the PTC for hydropower, MHK and other 50% credit rate technologies was extended only through the end of 2016, the section 45 PTC for electricity produced from wind facilities was extended through the end of 2019.

The 30% investment tax credit (ITC) for both residential solar energy property (sec. 25D) and business solar energy property (sec. 48) was extended through the end of 2019. In addition, the placed-in-service requirement for solar property under sec. 48 was replaced by a "beginning of construction" rule and the permanent 10% ITC will be retained.

This incentive imbalance will have a dramatic negative impact on investment in hydropower over the coming decades. The Energy Information Administration's Annual Energy Outlook 2016 Early Release[1] estimates that with the Administration's Clean Power Plan (CPP) in place, in combination with the long-term extension of the wind credit, wind generation will grow by nearly 150% over the period from 2015-40. Examining the impact of the tax credits alone, wind will still grow by 110% over the same period. Solar generation will grow by nearly 12-fold over the period between 2015-40 if the CPP remains in place or by 9-fold due to the incentives alone.

On the other hand, EIA estimates that electricity from baseload renewables (hydropower and others) will remain relatively flat in comparison. The EIA report indicates that wind and solar capacity additions are driven by tax credit extensions and declining costs in both the CPP and no CPP case estimates.[2] This disparity for hydropower and the other baseload renewables is exacerbated further by the much longer development timelines the industries face – timelines that have also negatively impacted the ability to use the tax credits.

We strongly support the efforts of Ranking Member Ron Wyden and his Democratic colleagues on the Committee to develop long-term technology neutral incentives for all renewable energy sources in the context of tax reform. In the meantime, at a minimum, we believe it is only fair and appropriate to extend

[1] U.S. Energy Information Administration, "Annual Energy Outlook 2016 Early Release: Annotated Summary of Two Cases," May 17, 2016, p. 30.
[2] Ibid., p. 28.

the PTC (and the election to take the ITC in lieu of the PTC) for hydropower and other non-wind PTC technologies through 2019.

Given the extraordinary potential for expansion of hydropower deployment and job creation, NHA also supports these common-sense energy incentive reforms:

Increasing the Production Tax Credit Rate. Throughout the history of the PTC program, hydropower and marine energy have received only half the credit rate available to other renewable energy sources. There was, and continues to be, no tax or energy policy justification for placing hydropower at such a competitive disadvantage. Increasing the tax credit for hydropower will create a burst of investment and unlock the huge job and energy potential of this technology.

Clean Renewable Energy Bonds (CREBs) Program. A significant portion of hydropower projects in the U.S. are owned by public power providers, electric cooperatives and state and local governments. CREBs, first created in 2005, were a very effective tool that helped these entities to grow America's hydropower resources, with little cost to the taxpayer. NHA supports extending the CREBs program.

Allowing Pumped Storage to Qualify for the Investment Tax Credit and Clean Renewable Energy Bonds (CREBs) Program. Expanding our nation's energy storage capacity is essential to ensuring a secure and stable grid as well as integrating more renewable energy — and today, pumped storage technology is the only cost-effective, large-scale energy storage method. Currently, there are no incentives for energy storage project development, including pumped storage, which hinders deployment and further innovation. NHA supports an ITC and CREBs eligibility for all energy storage technologies, which will help drive pumped storage projects and help America deploy an even wider array of clean, renewable power across the grid.

Preserving Tax-Exempt Financing for Municipalities. State and local governments and governmental entities, including public power utilities, have utilized municipal bonds as a financing tool for new infrastructure projects, including hydroelectric and other renewable energy projects. Historically, interest paid on municipal bonds is exempt from federal tax, which allows these entities to issue bonds at reasonable rates and assists in meeting their capital needs. NHA, on behalf of our public power utilities, believes the interest exclusion should be preserved. To do otherwise, would impose higher borrowing costs that will limit investment in critical infrastructure, including energy infrastructure like hydropower projects.

Once again, NHA appreciates this opportunity to discuss the importance of continued federal tax policy to the hydropower sector as a means to support project deployment.