December 20, 2012

Dear Members of Congress:

We write to urge your opposition to extending the Production Tax Credit (PTC). Created in 1992 by the Energy Policy Act, the PTC has far outlived its usefulness. Over 75 percent of all active wind generating capacity came on-line in the past five years—a period concurrent with the expansion of state renewable energy mandates—illustrating that the PTC is not the biggest driver of wind installations in your state. Rather, what the PTC does in practice is decrease electricity reliability in your state and cause serious distortions in the market.

The U.S. Energy Information Administration (EIA) forecasts that even if the PTC and other incentives are eliminated, state mandates will still put renewable generation on track to increase by 50 percent by 2035 (from 500 billion kilowatt-hours in 2011 to approximately 750 billion kilowatt-hours). This guaranteed increase in market share is not offered to any other type of traditional power generation technology such as natural gas, coal, or nuclear.

The PTC is an outsized incentive. It provides a tax credit of 2.2 cents per kilowatt-hour generated for ten years. This is a substantial amount given that the wholesale price of electricity frequently ranges from 2.5 to 4.5 cents per kilowatt-hour. Wind is also one of the most heavily subsidized forms of energy: in 2010, federal subsidies paid $56 for every megawatt hour of wind energy compared to $0.64 for coal and natural gas electricity.

The PTC is so generous and so distorts markets that wind producers frequently actually *pay* the electricity grid to take their power, just to collect more money through the PTC. In 2012, EIA investigated this issue and found that "some generators, primarily those operating wind turbines, may be willing to sell their output at *negative prices* to continue producing power. Typically, wind generators are the largest such group [ie. the largest group of electricity generators who sell their product as a loss] in any region."

The effect of providing a subsidy worth half or more of the wholesale price of electricity has already negatively impacted electricity reliability, because the artificial price structure created by the PTC encourages the development of uneconomic wind while undermining the economics of reliable, full time generation such as coal and nuclear. Coal and nuclear are most efficient when they are running at a consistent level, and taking them offline to make room for artificially and temporarily cheap wind power during the short windows it is available, and then turning them back on, is costly, unsustainable and damaging to the grid. Once these plants are gone, wind power—which is typically only available at nighttime when demand is low—will not be able to fill the reliability gap. This means consumers will be forced to pay for two separate generating systems: one that works all the time and the other, which works only when the power is least needed.

Reliable, affordable, and 'always on' electricity is critical to get our economy back on track. The wind PTC is detrimental to dependable and cost-effective forms of electricity generation. We urge you to allow this wasteful, unsustainable and counterproductive subsidy to expire at the end of the year.

Sincerely,

Thomas J. Pyle
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American Energy Alliance

Myron Ebell
President
Freedom Action

Michael Needham
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