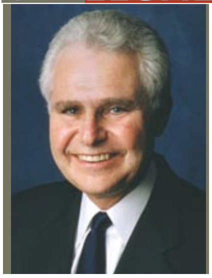
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Congress failed to deliver a green Christmas

By Steven F. Greenwald and Jeffrey P. Gray

Renewable power proponents exuded great confidence as the U.S. Congress approached its near-annual end-of-year task of extending the production tax credit (PTC) for wind, solar, biomass, and geothermal power beyond its current December 2008 expiration. The debate promised to bypass the threshold issue of simply extending the PTC. It was expected to focus on using the PTC to ignite greater and more enduring renewable energy growth by introducing a multiyear PTC extension, PTC "parity" for biomass projects, and a "fix" for misdirected IRS regulations that arbitrarily deny PTC eligibility for certain biomass operations.

Last year's events seemed to make it obvious that the U.S. needed to accelerate development of renewable power and extend the PTC to do so. Oil prices approaching $100 and an endless war in Iraq reaffirmed the economic and political imperatives that the nation lessen its fossil fuel addiction. Al Gore's unprecedented winning of both an Academy Award and a Nobel Peace Prize evidenced that reducing greenhouse gases (GHGs) was one more reason to increase renewable power. More states enacted ever-increasing and stringent renewable portfolio standards, and California began implementing AB 32, its comprehensive GHG legislation.

Yet, 2008 began with the unthinkable—no PTC extension. A nation anticipating a Green Christmas of wind, solar, geothermal, and biomass found that congressional Santas had left only a lump of coal in its stockings.

The idea that the PTC should not be extended because it might encourage "too much" renewable development borders on legislative lunacy.

Congress's faulty logic

Congress's failure to extend the PTC is best rationalized as simply a reflection of our national politics, in which partisanship and parochial considerations override substantive analysis and contravene supposed national priorities. Two "reasons" for congressional inaction on PTC have, however, emerged.

It costs too much. Apparently, some members of Congress determined that the PTC extension would "cost too much" because more and more renewable projects, particularly wind farms, are being developed. The potential total of PTC payments is theoretically unlimited: The more renewable megawatt-hours are built, the more the PTC costs the Treasury. However, the idea that the PTC should not be extended because it might encourage "too much" renewable development borders on legislative lunacy. We need not fear an excess of renewables.

The basic premise of the PTC is that the societal benefits of having qualifying renewable generation replace an equivalent amount of fossil-fueled generation outweigh the cost (lower tax revenues). This positive cost-benefit ratio does not decrease even if the PTC incentive generates an infinite amount of renewable power. The benefits realized by the marginal unit of renewable power should outweigh the PTC cost associated with that last unit. It could even be argued that the last increments of renewable power provide increasing benefits relative to the cost of awarding the PTC.

The fallacy of the cost defense is further exposed when the question, "Costs compared to what?" is asked. The short- and long-term consequences of continuing to rely on fossil-fueled generation overwhelm the costs of awarding incremental PTCs.

Federalism. The current 2008 PTC expiration can also be intellectualized as an appropriate exercise of federalism. If certain states ("Green States") perceive the advantages of renewable power, but certain other states ("Brown States") question its cost-effectiveness, one might argue, it is appropriate for Congress to defer, allowing each state to make its own economic assessment. Why should a state endowed and content with coal subsidize manure-to-electricity projects in California? If Green States want green power, their ratepayers and taxpayers should pay their own way, without citizens in Brown States subsidizing "this latest passing fancy."

The simple response to this isolationist position is that we no longer have the luxury of framing the economic, environmental, and geopolitical challenges of fossil fuel use as local issues. Only an integrated national policy has a chance of succeeding.

Moving beyond the 2007 PTC failure

The (hopefully temporary) death of the PTC extension underscores how difficult it is to successfully implement an energy policy that reduces fossil fuel use. Two things are necessary.

First, we need credible and consistent means of making economic choices between alternatives. To that end, costs for a program must be objectively and quantitatively compared with the costs of alternatives, including inaction; one-dimensional "it costs too much" arguments should not determine the outcome of our energy debates.

Second, Washington must embrace the political reality that energy policy is an imperative national issue that cannot be delegated to 50 state legislatures and regulatory commissions. Our success (or failure) in responding to energy exigencies has national and global consequences that Congress is singularly capable of addressing.

One early lesson of the 21st century is that we need more than a convenient "union" of "Blue States" and "Red States" to fulfill the promise of this United States. Most certainly with respect to the PTC and other critical energy issues, Congress cannot abdicate its responsibilities to the idiosyncrasies of "independent" Green States and Brown States; the necessarily integrated and comprehensive national policy can only emerge from the United States. ■

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