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U.S. Renewable Electricity: How Does The Production Tax Credit (PTC) Impact Wind Markets?



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Synopsis

U.S. wind projects that use large turbines "greater than 100 kilowatts (kW)" are eligible to receive federal tax incentives in the form of production tax credits (PTC) and accelerated depreciation. Originally established in 1992, the PTC has played a role in the evolution and growth of the U.S. wind industry. Under existing law, wind projects placed in service on or after January 1, 2013, will not be eligible to receive the PTC incentive. Industry proponents are advocating for an extension of PTC availability, citing employment, economic development, and other considerations as justification for the extension. While a PTC extension may improve the prospects for U.S. wind development and manufacturing next year and beyond, the wind industry is influenced by a number of other factors. It is uncertain how the near- or long-term availability of the PTC incentive "in isolation of changes to other market factors" would either grow or sustain current wind development and manufacturing levels. For 2012, the pending expiration of the wind PTC is actually creating a short-term surge in wind project development and related investment and employment. Wind installations in 2012 are expected to range somewhere between 10 to 12 gigawatts (GW) "a record year for the industry. However, market estimates for new installations in 2013 range from 1-2 GW if the PTC expires and 2-4 GW if the PTC is extended. Limited market activity in 2013 is partially explained by the uncertain nature of the PTC, which results in reduced manufacturing orders and development activity as developers and investors wait for official policy direction. Wind installation projections for 2014 and beyond vary with the assumed availability, and duration, of PTC incentives. However, all projections reviewed for this report expect annual U.S. wind turbine demand to be less than the existing U.S. turbine manufacturing capacity "approximately 13 GW per year. Other factors that can affect wind development include (1) state renewable portfolio standards (RPS), (2) U.S. electricity demand growth, and (3) the price of natural gas. State RPS policies have been the primary demand creator for wind projects, in most cases, by requiring certain utilities to source a percentage of their retail electricity sales from renewable generators. Market analysis indicates that incremental RPS-driven demand for all sources of renewable power is estimated to be 4-5 GW annually until 2025. Additionally, U.S. electricity demand growth is expected to be modest for the foreseeable future, meaning that there will likely be modest demand for new electric power capacity. Finally, the price of natural gas can also influence wind markets. Low natural gas prices can erode the economic competitiveness of wind electricity, while high natural gas prices can result in opportunities for wind to compete economically without the PTC. Current estimates from the U.S. Energy Information Administration (EIA) project sustained low, but increasing, natural gas prices for the next several years. By the end of 2012, Congress will either

allow the PTC incentive to expire or it may choose to extend or modify the incentive. Should Congress decide to extend the availability of wind PTC incentives, the duration (e.g., two years, four years, permanent) of such an extension will likely be part of the policy debate. Generally, the shorter the extension the greater the short-term economic and employment activity as developers and investors accelerate development plans in order to qualify for the PTC incentive. However, this development acceleration is likely to reduce future RPS-driven demand. A permanent PTC is also a policy option that may be considered, and EIA estimates indicate that such a policy may actually reduce near-term wind capacity additions, with annual installations peaking at 4 GW in the 2030 timeframe. Higher natural gas prices, more aggressive RPS policies, and increased U.S. electricity demand could change this [...]

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