

ENERGY TAX POLICY REFORM

The ongoing conversation about tax reform provides an immediate opportunity to build a better paradigm for advanced energy based upon business-focused principles. Advanced Energy Economy (AEE) believes that we can better utilize taxpayer dollars and, at the same time, more effectively promote secure, clean and affordable energy.

AEE is a national organization representing the advanced energy industry. AEE's mission is to transform public policy to enable rapid growth of advanced energy businesses.

AEE suggests a fresh approach whereby we re-focus the federal energy tax code on its core public purpose - driving innovation and deployment of the next generation of technologies or services to provide our nation energy that is secure, clean and affordable.

RETURNING TO AN APPROACH BASED ON CORE PRINCIPLES

Over the decades, the energy tax code has become a complicated patchwork of technology-specific benefits, with the size, scope and length of credits differing greatly even between technologies that compete in the same markets. One reason is the seeming lack of consistent, core principles underlying the use of tax policy to obtain desired results. AEE believes that existing energy tax incentives should be gradually and responsibly phased out and replaced with a structure that more accurately reflects current energy realities and interacts more efficiently with energy markets, based on an explicit and consistent set of principles.

Through a series of discussions with numerous stakeholders, including business leaders, tax policy experts, Members of Congress and their staff, AEE has created the following set of principles designed to guide development of new energy tax policy.

- 1) **Be targeted:** limit federal funds to where innovation is needed to build a more secure, clean and affordable energy future. Federal tax credits should only be provided where there is an essential public purpose. Rather than providing permanent support to mature technologies that already have significant market penetration, the federal government's role should be limited to driving innovation and deployment of the next generation of technologies or services that promise public benefits such as enhancing energy security through fuel diversity and grid modernization, providing cleaner energy that better protects public health, reducing energy costs for consumers and businesses, and developing products that can be competitive in world markets.

2) No Permanent Subsidies. When left in place too long, tax incentives distort price and market signals and ultimately create barriers to entry for new technologies. No company or technology should be entitled to a permanent subsidy. Instead, federal tax incentives should sunset automatically when market-based objectives are achieved. For example, tax incentives should remain in place only long enough to achieve a measurable, market-based objective (for example, gigawatts installed or share of market) that represents a point at which emerging technologies have reached sufficient maturity that they should stand on their own. Each provision should have an automatic phase-out or periodic update built in from the beginning to send clear signals to businesses and investors.

3) Provide stability and certainty for businesses and investors. Businesses and investors need certainty to make the investments and plans necessary to grow. Expiration dates for many current incentives are short-term, arbitrary in nature, and unrelated to market conditions. When such incentives are allowed to lapse, or are renewed at the eleventh hour – and extended until the next short-term, arbitrary deadline – the result is a cycle of boom and bust. That creates uncertainty for investors and disrupts the natural cycle of innovation and improvement as an industry grows to scale.

Using meaningful performance metrics tied to maturity in the marketplace, rather than calendar deadlines, to sunset a tax benefit would provide certainty to investors, focus businesses on bringing their technologies to scale and down the cost curve, and allow market dynamics to drive business success.

4) Be technology neutral. Many of today's energy tax policies were written with one sector in mind, even favoring a single technology. Such an approach distorts market signals and puts the weight of the government behind investment decisions. This approach is inefficient and imposes unnecessary risks on taxpayers. In addition, this approach can inadvertently freeze out next-generation technologies. The best available technology today will not necessarily be the best down the line. Energy tax benefits should be applied as broadly as reasonable to stimulate innovation across technologies, including those that have not yet emerged.

A NEW APPROACH TO ENERGY TAX POLICY

AEE believes that these four principles represent a common-sense approach that puts federal tax policy squarely behind energy innovation that will pay off in the marketplace. But they equally represent a dramatic break from the status quo. Of the 26 major energy tax provisions analyzed, not a single one meets all four of these principles; in fact, none meet more than two.

AEE looks forward to working with Congress to transition to a federal energy tax policy based on these core principles. Reform based on these principles would make federal energy tax policy more focused, accountable, and cost-effective – providing savings for the budget and resulting in secure, clean, affordable energy.