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Wind Watch: Huge eastern Oregon wind farm raises big questions about state, federal subsidies

March 13, 2011
Oregon

Huge eastern Oregon wind farm raises big questions about state, federal subsidies

By Ted Sickinger, The Oregonian, www.oregonlive.com 12 March 2011

The gravel haulers start rolling down Oregon 74 before dawn, their air brakes bellowing under the heavy loads they ferry into the neighboring hills.

Just over the rimrock of Willow Creek Valley, hard-hatted contractors scramble to pour the base pads and lay electrical cable for 338 wind turbines that will soon spin over 30 square miles of sagebrush in Gilliam and Morrow counties. When completed in 2012, Shepherds Flat is expected to be the largest wind farm in the world.

The project is a poster child for the nation's love affair with renewable energy. From President Barack Obama to former Gov. Ted Kulongoski, from the Oregon Legislature to rural county courthouses, politicians have embraced renewable energy as an economic and environmental cure-all, a means to create jobs, reduce dependence on fossil fuels and combat global warming.

They have backed that pitch with public dollars. And no state has jumped on the bandwagon more enthusiastically than Oregon, which has given or promised more than $1 billion in tax breaks to green energy projects.

Shepherds Flat is a prime example of that spending, too.

Clyde Smith talks about his decision to leave the Shepherds Flat Wind Farm area Clyde Smith talks about his decision to leave the Shepherds Flat Wind Farm area Clyde Smith says he was offered about $15,000 by Caithness Energy to sign a concession to a 51-decibel level for the wind turbines at Shepherd Flats Wind Farm, near his property. Smith refused and gave them three choices. Of the three, they chose to buy his property rather than build an underground house for him.

Indeed, Shepherds Flat demonstrates how Oregon provides millions of dollars to projects that would probably go forward without state subsidies. It illustrates how Oregon taxpayers subsidize California's renewable energy demand. It shows how developers have used the program's loose administrative rules to qualify for multiple tax credits for the same project. And it reveals how a program that was originally intended to promote conservation and clean energy morphed into an extravagantly expensive green jobs program.

Stacking federal, state and county subsidies is perfectly legal. But the result is that taxpayers who subsidize a project may bear a greater burden for development than the company that profits from it.

For Shepherds Flat, for instance, federal, state and local subsidies total more than $1.2 billion, about 65 percent of its $1.9 billion cost, according to a White House memo.

Caithness Energy, the New York-based developer of Shepherds Flat, did not respond to numerous phone calls from The Oregonian or detailed questions e-mailed to the company concerning the White House analysis and the company's state tax breaks.

Clyde Smith, a retired truck driver who recently sold his property to Caithness rather than live in the wake of the project's noise, says he's been treated well by the company, including a purchase price well above the value of his property.

But as a taxpayer, he's outraged.

"This is taking money out of your pocket, my pocket, everybody's pocket," he said. "This is a boondoggle of boondoggles. It's a huge waste of our state and federal money."

To be sure, Shepherds Flat is a boon for Gilliam and Morrow counties, which stand to collect more than $100 million in taxes and fees from the project over 15 years. Construction will create 400 temporary jobs. The project's ongoing operation will bring 35 permanent jobs into a moribund employment market. And a few landowners will collect lucrative lease fees for the turbines on their property.

"It's more jobs than that part of the state has seen in 20 years," said Paul Woodin, a consultant who helped Gilliam and Morrow counties negotiate property tax breaks with Caithness. "It's changing the economics of these counties."

Yet by any standard, the cost per job is enormous: $34 million per permanent position when all federal and state subsidies are tallied. Moreover, it's not clear that those jobs have any link to the $30 million in proposed tax credits from the state of Oregon.

"It just makes me sick," said state Sen. Ginny Burdick, D-Portland, who attempted to reduce the tax credit for large wind farms during the 2009 Legislature but was forced to compromise after Kulongoski vetoed the bill.

"This really exemplifies the problem," she said. "This is a windfall for a particular company, and that's not what a taxpayer subsidy is supposed to do."

Huge federal subsidies

In his most recent State of the Union address, Obama described the nation's clean energy push as part of this generation's "Sputnik moment." He proposed a major increase in research subsidies and urged Congress to pass a national mandate that 80 percent of the nation's electricity come from "clean" sources by 2035.

Yet Obama's own advisers have been critical of some of the green subsidies he champions. Last October, former Treasury Secretary Larry Summers, energy czar Carol Browner, and Vice President Joe Biden's chief of staff Ron Klain wrote a memo to the president outlining a number of problems with the federal government's loan guarantee program for renewable energy.

They included the fact that taxpayers were subsidizing projects that would have gone ahead anyway.

Shepherds Flat was Exhibit A.

The memo said the project was "double-dipping," gorging on a $1.2 billion smorgasbord of federal and state subsidies. The incentives — all within existing law — include a $500 million federal grant, $200 million in federal and state tax benefits from accelerated depreciation, $220 million in premium power prices attributed to state renewable energy mandates, and a $1.3 billion loan guarantee with a value of $300 million.

The memo concluded that the carbon reductions from Shepherds Flat would have to be valued at more than six times the going rate for the climate benefits to equal the subsidies.

Meanwhile, they said, Caithness has "little skin in the game" — about 10 percent of the project's cost — but stands to earn a 30 percent return on its investment.

"This project would likely move without the loan guarantee," the memo concluded. "The economics are favorable for wind investment given tax credits and state renewable energy standards."

A profitable place to build

Wind farm developers have long insisted that Oregon's business energy tax credit is essential to attract them here rather than to competing states. And there certainly has been an explosion of utility-scale wind farms built in Oregon since 2007.

That's when the Legislature passed a law that said Oregon would pay 50 percent of the cost of a developer's new facility, up to $20 million, or a $10 million credit per project.

The legislators who created and expanded the program "should be commended," said a statement from the Renewable Northwest Project, an advocacy group whose members include project developers, environmental groups and ratepayer advocates. The credits "put Oregon on the map, and it is our hope that sustained support for the program and renewable energy expansion will continue our state's leadership."

As generous as Oregon's tax credits are, many developers aren't content with just one, and have subdivided their projects to qualify for multiple tax credits.

Shepherds Flat is no exception. In 2007, Caithness applied to Oregon's Energy Facility Siting Council for a site certificate covering a single project. But by July 2008, when Caithness submitted applications for tax credits, the project had been divided into three legal entities, each applying for a separate $10 million tax credit.

A cover letter accompanying the applications explained that the company originally sought a single permit for "reasons of efficiency and economy," and would amend its site certificate to reflect the new reality.

The letter went on to say that no financial commitment had been made to the project, and "making such financial commitments depends in significant part" on whether the tax credits were certified by the state.

Such arm-twisting has become a standard — and effective — part of the industry's lobbying message in Salem. Kulongoski vetoed a bill in 2009 that would have slashed Oregon's tax subsidies for large wind farms, insisting that it went too far and would jeopardize the growth of Oregon's green economy.

Yet Oregon has all the essential ingredients for a profitable wind project already in place: a ready market, plenty of wind, and transmission to move the power.

Oregon, California and Washington have each established aggressive renewable energy standards, creating a big, guaranteed market. Utilities are effectively required to invest in windmills, and independent developers are assured of ready customers for their premium-priced power.

Industry officials insist that there are windier places to build than Oregon, notably Wyoming. But Oregon's wind belt sits directly atop the existing high voltage transmission system built to ship electricity from nearby hydroelectric dams around the Northwest, and even more important, to California.

California already purchases more than half the wind power generated in the Northwest. And when Shepherds Flat is completed, all of its subsidized output is contracted to go to Southern California Edison.

Economical transmission is a make or break proposition for wind projects. Despite growing transmission congestion in the Northwest, Portland General Electric estimates that the cost of importing wind from Wyoming would be 66 percent higher than a local resource, mostly because of transmission costs.

Wyoming offers little in the way of incentives to wind farm developers. In fact, lawmakers there passed an excise tax last year on wind farm output. A study conducted for Wyoming by Energy and Environmental Economics Inc., or E3, found that Oregon's wind farms could deliver electricity to the West Coast more cheaply than Wyoming's — even if Oregon's energy tax credits were eliminated.

Wind developers have told Oregon legislators that in the absence of the state tax credits, Washington is a better place to build because of lower property taxes.

But E3 found the opposite.

“Our analysis found that Washington has one of the least favorable tax codes for wind,” said Arne Olson, a partner with E3. Oregon’s tax structure is favorable to wind even without the tax breaks, he said. “It’s not even close.”

That conclusion didn’t factor in the property tax breaks Oregon counties are providing to wind farm developers. Gilliam and Morrow counties, for example, have agreed to cut Shepherds Flat’s property taxes by an estimated $34 million over the life of their 15-year agreements with Caithness.

Terry Tallman, the Morrow County judge who helped negotiate property tax breaks with Caithness, suspects the state tax break wasn’t necessary to attract the investment. Another wind company considering a large project in the county, Spain’s Gamesa, told Morrow County commissioners that the state credits won’t be a factor in its investment decision.

PGE and PacifiCorp say essentially the same thing.

In the end, E3′s Olson said, both states are seeing plenty of new wind farms, because “the gorge region has been ideal. It meets all the criteria, and that’s why you’ve seen the development.”
