

September 29, 2014

The Honorable Ron Wyden  
Chairman, Senate Finance Committee  
221 Dirksen Senate Office Building  
Washington, D.C. 20510

The Honorable Orrin G. Hatch  
Ranking Member, Senate Finance Committee  
104 Hart Senate Office Building  
Washington, D.C. 20510

**RE: Statement for the Hearing Record: Reforming America's Outdated Energy Tax Code, September 17, 2014**

The Biomass Thermal Energy Council (BTEC) appreciates the opportunity to share our perspective on federal energy tax policy in the context of comprehensive tax reform. BTEC is an association of biomass fuel producers, forest landowners, appliance manufacturers, combined heat and power project developers, thermal energy utilities, district energy systems, supply chain companies and non-profit organizations that view biomass thermal energy as a renewable, responsible, clean and energy-efficient pathway to meeting America's energy needs.

Our nation's tax code has long played a key role in shaping and influencing national energy policy. In the renewable energy arena, the code features numerous incentives for most renewable energy technologies in residential, commercial and industrial installations. In fact, analysis provided by the Joint Committee on Taxation lists 80 separate energy-related tax provisions in existing law. Unfortunately, none of these incentives extends to high efficiency biomass thermal energy, despite the fact that biomass thermal energy fulfills the same public policy objectives as other renewable energy sources. Our tax code recognizes solar thermal and geothermal technologies (e.g. section 25D and section 48), but not technology that produces heat from renewable biomass, an example of the policy "picking winners and losers" within narrow classes of technology. Examples of biomass thermal projects and technologies include heating of homes, businesses, schools, hospitals, commercial and industrial buildings; district heating of campuses, densely developed commercial and industrial parks; neighborhoods and city centers; domestic hot water for large consumers such as laundries; and industrial process heat for companies in food processing, metallurgy, and pharmaceuticals, and combined heat and power projects that produce both heat and electricity for consumers.

BTEC welcomes the Committee's attempt to streamline portions of the tax code dedicated to energy production and eliminate those provisions that no longer have merit. Moreover, we strongly endorse tax reform efforts that provide a level playing field for competing energy technologies and support the concept of technology neutrality. However, we also believe that comprehensive tax reform should embrace energy pathway neutrality and not pick winners and losers in the manner in which renewable energy is delivered. We note with disappointment the Finance Committee's draft tax reform proposal released earlier that excluded renewable energy delivered in the form of heat, with no explanation given for this conscious decision to exclude tax policy consideration for one-third of all energy consumed in the U.S.

BTEC represents the interests of companies in the biomass thermal energy space, but thermal energy is also derived from solar and geothermal sources. As noted above, thermal energy comprises roughly one third of our nation's energy consumption. Despite this fact, energy policy to promote renewable energy has focused entirely on transportation fuels such as ethanol and biodiesel, and electricity from hydro, wind, solar, geothermal, and biomass. These fuels and technologies have received support from the federal government for many years in the form of production and investment tax credits, accelerated depreciation, research and development funding, direct project grants, and renewable energy credits. The 2005 Energy Policy Act, the 2007 Energy Independence and Security Act, and the 2009 American Recovery and Reinvestment Act boosted support for these technologies in many areas. BTEC believes that efforts to comprehensively reform the tax code provide the ideal opportunity to rectify this oversight and provide incentives for which all renewable thermal energy providers can compete on an equal basis.

Tax incentives will help build a market for high efficiency systems that can reduce American dependence on foreign fossil energy, reduce fossil fuel-based greenhouse gas emissions, and create jobs and local economic development from a widely available renewable domestic energy resource. Tax policy that supports biomass

thermal energy will provide the highest possible return for the country in terms of reductions in fossil fuel imports and jobs created. It is estimated that 1,580 jobs will be created for every 5,500 homes that are converted from heating oil to biomass<sup>ii</sup>. Biomass has also accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuels<sup>i</sup>.

Because of the relatively small market penetration of new advanced biomass thermal systems, today's systems are often more expensive compared to fossil-fueled units. In fact, installed systems can cost two to three times as much as a similarly sized oil or gas system. Fuel transport logistics have yet to reach critical mass with few customers spread over large geographic areas, thus increasing the unit cost of fuel distribution. Incentives are necessary to enable biomass thermal technology to be more competitive in the market near term. In time, with increasing market penetration, these incentives can be scaled down or eliminated. As an example, in Europe, there is a thriving biomass heating business employing tens of thousands of people – and the supply of these fuels continues to be cost competitive, without government subsidies.

Crafted correctly, incentives can support innovation while attracting private capital that will drive long term economic growth.

BTEC is a strong supporter of the Biomass Thermal Utilization Act of 2013 (S. 1007). The bill, known as the BTU Act, would qualify highly efficiency thermal energy from biomass for investment tax credits under Sec. 48 and Sec. 25d. The spirit of this proposal is to simply level the playing field so that thermal renewable energy providers are treated equally with those producing liquid fuels, electricity and thermal energy from solar and geothermal. **Our request to the Committee is to keep this principle—technology and pathway neutrality—as a guide post as you continue to craft energy tax reform legislation.**

### **Conclusion**

Biomass thermal energy fulfills the same public policy objectives that are the basis and justification for renewable energy tax incentives. These include:

- Reduce consumption of foreign fossil fuel-based energy, thereby increasing America's energy independence
- Increase efficiency of utilization for equivalent energy output, as compared to biomass electric generation and cellulosic biofuels
- Reduce emissions of greenhouse gases due to the low carbon intensity or near carbon neutrality of biomass
- Reduce emissions of certain air pollutants such as sulfur dioxides, PM 2.5, and mercury, as compared to fossil fuels
- Strengthen local economic development and job creation through domestic production of fuels, system installation and service, and fuel distribution for many parts of the country that have neither natural gas nor oil

The current fiscal environment necessitates that tax payer dollars be deployed in a manner that maximizes return on investment. BTEC believes that investment in biomass thermal technologies will achieve optimal efficiency and job creation throughout the country and should be a critical component of your energy tax reform efforts. We look forward to working with the Committee as it continues its work on this critical issue.

Respectfully submitted,



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<sup>i</sup> <http://www.renewableenergyworld.com/rea/news/article/2008/04/renewable-energy-jobs-soar-in-germany-52089>

<sup>ii</sup> [http://biomassthermal.org/pdf/Strauss\\_BTU\\_Act.pdf](http://biomassthermal.org/pdf/Strauss_BTU_Act.pdf)