

Wind-Power Subsidies? No Thanks.

I'm in the green-energy business. If Washington sent a little less 'green' our way, it would be good for the industry.

By PATRICK JENEVEIN

The sequester has led to dire warnings from many camps, including advocates of clean energy, who argue that Washington's modest cuts could derail America's green future. But from my vantage as a CEO in the wind-power business, the sequester offers Washington a rare opportunity to roll back misguided subsidies and maybe help reverse wind power's stalling momentum.

Since 2009, as part of the president's stimulus, wind-farm developers have been able to get a federal cash grant or tax credit covering up to 30% of their capital investment in a new project. This is especially attractive compared with another tax credit that rewards wind farms based on how much power they actually produce. Through May 2012, according to the National Renewable Energy Laboratory, Washington spent some \$8.4 billion on these cash grants.

But under the sequester, Uncle Sam is cutting the cash-grant program by 8.7% between March 1 and Sept. 30. Advocates of clean energy should welcome this haircut and urge for even more fundamental policy change.

Government subsidies to new wind farms have only made the industry less focused on reducing costs. In turn, the industry produces a product that isn't as efficient or cheap as it might be if we focused less on working the political system and more on research and development. After the 2009 subsidy became available, wind farms were increasingly built in less-windy locations, according to the Department of Energy's "2011 Wind Technologies Market Report." The average wind-power project built in 2011 was located in an area with wind conditions 16% worse than those of the average project in 1998-99.



The Department of Energy admits that this trend is due at least in part to the 2009 federal subsidy: Because the grants that companies receive aren't based on how much power they produce, "it is possible that developers have seized this limited opportunity to build out the less-energetic sites." Meanwhile, wind-power prices have increased to an average \$54 per megawatt-hour, compared with \$37 in 2005.

If our communities can't reasonably afford to purchase and rely on the wind power we sell, it is difficult to make the moral case for our businesses, let alone an economic one. Yet as long as these subsidies and tax credits exist, clean-energy executives will likely spend most of their time pursuing

advanced legal and accounting methods rather than investing in studies, innovation, new transmission technology and turbine development.

A quick glance at the American Wind Energy Association's website illustrates this. In July, the association is planning a Capitol Hill event aimed at "educating legislators" on the importance of industry tax credits. Never mind improving the underlying fundamentals of the wind business.

My own company began by delivering clean energy (in the form of natural gas) to rural China, where families still used animal dung for cooking fuel. We entered the wind business in the late 1990s, when a wind-turbine company asked us to provide electricity from its site when the wind wasn't blowing. Years later, we oversaw a similar project but in reverse: In 2008, without a government subsidy, we built a wind farm in Lubbock, Texas, to supplement at lower costs the delivery of electricity to a cottonseed-oil company.

Such projects are likely the industry's future. Wind energy will make marginal—not revolutionary—contributions. The industry's success in Texas (where my company is based, and which is the nation's largest and cheapest producer of wind power) suggests that wind farms do make sense in relatively windy areas where electricity shortages occur.

But policy matters. California, which isn't located in the "wind belt," is America's second-largest wind-energy producer but also its costliest. The state's high costs are partly due to "aggressive renewable energy policies . . . that give developers a strong negotiating position," according to the Department of Energy report.

The wind industry has largely been out-competed by natural gas, which has proved to be a clean, reliable and cheap power source for the future without subsidies or even venture-capital funding. As such, my company isn't planning any new investments in the wind business, even though we would love to still be worth the \$2 billion we were several years ago.

Of course, we could yet be proven wrong by technological innovation. Without subsidies, the wind industry would be forced to take a hard fresh look at its product. Fewer wind farms would be built, eliminating the market-distorting glut. And if there is truly a need for wind energy, entrepreneurs who improve the business's fundamentals will find a way to compete.

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