BTEC
Biomass Thermal Energy Council

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The Honorable Orrin G. Hatch
Chairman, Senate Finance Committee
221 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member, Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

RE: BTEC Statement on the Senate Individual Income Tax Working Group and Energy Policy Parity

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 system operators, supply chain companies, universities, agencies and non-profit organizations. Collectively, our diverse membership of businesses and organizations views biomass thermal energy as a proven, renewable, responsible, clean and energy-efficient pathway to meeting America's energy needs.

Biomass thermal energy investments provide immediate value for industries, businesses and communities. 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; 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. However, our nation's tax code, which has long played a key role in shaping and influencing national energy policy, misses a clear opportunity to capture this technology's full benefits.

With regard to renewable energy, 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. This is an example of policy "picking winners and losers" within narrow classes of technology. Accordingly, the Committee has a clear opportunity to cover this gap, and thereby unlock biomass thermal's benefits, through fair tax code treatment.

We note with disappointment that the Finance Committee's past tax reform proposals have 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.[i] We believe that comprehensive tax reform should embrace energy pathway neutrality without picking winners and losers in the manner in which renewable energy is delivered. BTEC welcomes the Committee's renewed effort 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.

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 deliver across a broad spectrum of public policy goals inclusive of jobs growth, energy security and healthy communities. In particular, the proper incentives in this area catalyze markets for high efficiency systems that can create jobs and local economic development from a widely available renewable domestic energy resource, reduce American dependence on energy imports and lower fossil fuel-based greenhouse gas emissions. 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[ii]. Biomass has also accounted for 40 percent of the renewable energy jobs in Germany, more than wind, solar or liquid fuels[ii]. State-side, both Maine, through Efficiency Maine's Home Energy Savings Program, and Massachusetts, through its Commonwealth Woodstove Change-Out, have launched rebate programs[iii] to reduce high home fuel costs through biomass heating systems.

Despite some progress at the state level in promoting biomass thermal systems, obstacles to wider adoption remain; tax code adjustments could help surmount these barriers and right-size markets. 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. Though promising in some pockets of the country, 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–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 2015 (S. 727). 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's Individual Income Tax Working Group is to keep this principle—technology and pathway neutrality—as a guide post as you continue to craft energy tax reform legislation.

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

- 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
- Strengthen energy security by reducing 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
- Improving the nation's health through reducing emissions of certain air pollutants such as sulfur dioxides, PM 2.5, and mercury, as compared to fossil fuels
- Reduce emissions of greenhouse gases due to the low carbon intensity or near carbon neutrality of biomass

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 achieves not only optimal efficiency and job creation throughout the country, but also delivers across a portfolio of public policy priorities and national needs. For these reasons, this investment should be a critical component of your energy tax reform efforts. We look forward to working with the Committee as it continues to engage this critical issue.

Respectfully submitted,



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[i] http://energy.gov/public-services/homes/heating-cooling , http://energy.gov/sites/prod/files/2013/11/f5/building_trends_2010.pdf , http://www.eia.gov/todayinenergy/detail.cfm?id=10271
[ii] http://www.renewableenergyworld.com/rea/news/article/2008/04/renewable-energy-jobs-soar-in-germany-52089
[ii] http://biomassthermal.org/pdf/Strauss_BTU_Act.pdf
[iii] http://www.efficiencymaine.com/at-home/home-energy-savings-program/hesp-incentives/ and http://www.masscec.com/programs/commonwealth-woodstove-change-out