

Polhemus, Debra

From: Mark Haggerty [mark@headwaterseconomics.org]
Sent: Tuesday, January 25, 2011 4:16 PM
To: Polhemus, Debra; senatorwittich@montana.com
Subject: Re: Review of proposed tax law ~ Senate Taxation Committee SB 172

Senator Wittich

Thanks for sending the draft of Senate Bill No. 172. I'm happy to share my thoughts on it with you.

It is my understanding that this bill broadens the definition of Class 14 property (e.g. renewable generation broadly--wind, biomass, coal gasification, etc.), to include energy storage facilities, defined as "hydroelectric pumped storage, compressed air, regenerative fuel cells, superconducting magnetic energy storage, etc."

One reaction is that there is no obvious reason why storage facilities should be excluded from a tax benefit afforded to unconventional energy generation and transmission facilities.

For example, the only major energy storage facility of which I am aware is being proposed by Grasslands, which is seeking to build an integrated wind generation-storage-transmission system, with the storage component located in Meagher County. This bill would extend the same tax incentive to the different aspects of this integrated energy project. (This [blog](#) reported the cost of the storage facility associated with Grasslands at \$750 million--the total Grasslands project \$3.25 billion, so the tax difference to the county and state will be dramatic. See also <http://www.gre-llc.com/>).

The broader question is whether the tax incentive will help create jobs and wealth in Montana.

It is important to be clear about the realities of renewable (and fossil fuel) generation, storage, and transmission facilities as an economic development tool. The single biggest direct contribution these facilities will make to the Montana economy is through tax revenue associated with resource production and energy generation. The jobs they create are short-term, and often filled by skilled energy workers from out of state. A growing body of research also shows that tax incentives are a relatively weak incentive for fossil fuel energy production, and we think the same is true of unconventional energy generation, transmission, and storage. For example, we find that the states that are most dependent on energy for taxes and jobs have the highest tax rates.

The goal is lowering the capital burden associated with exploration, technology development, and construction, particularly when markets and resources are volatile. For this reason, it is worth exploring opportunities to use short-term subsidies and start-up assistance to help alleviate the capital burden of these large projects (to provide an incentive to locate in MT), rather than permanent tax breaks that permanently limit the benefit of these projects for the rural host communities and the state.

We suggest that Montana think of energy production as a public-private partnership where the state invests resources and shares risk up front, and then shares in a higher proportion of the profit after the project is up and running. The ultimate goal for both the state and industry is to maximize production and revenue. This is the approach taken by Alaska, and to a lesser extent, Wyoming.

One possible approach may extend a tax incentive to Class 14 property for a short period of time (perhaps 3 to 5 years). The state could then make zero interest loans or outright grants to companies in order to facilitate the capital intensive construction phase, knowing that the state would be paid back over time with the promise of higher tax revenue. This will result in a stronger incentive for industry to initiate capital projects in Montana, and generate a higher return to taxpayers over time.

I hope this provides some context for the discussion on Senate Bill No. 172. Let me know if you have any questions, or if I can provide additional detail or information.

Thanks,

Mark