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"Wind Farm" Winners and Losers

Citizen opposition to "wind farms" in the Kittitas Valley mirrors growing concern about similar projects across the US.

Until recently, the wind energy industry has been successful in portraying wind energy as environmentally benign and a potential significant contributor to the nation's electricity supply.

But citizens in areas affected by proposed "wind farms" have learned that many claims about wind energy are not true. In fact, people living near "wind farms" complain about noise and "blade flicker." Environmentalists and conservationists are concerned about harm to migratory and endangered birds and ecologically sensitive areas. "Ugly as a billboard" and other scenic impairment and property value concerns are reverberating from Massachusetts to Washington.

Thus far, less attention has been given to two other critical "wind farm" issues:

- The small amount of electricity provided by the huge machines, and
- The inordinately large profits provide for a few people at the expense of ordinary electric customers and taxpayers.

Today's commercial windmills are huge structures (some nearly 400 feet tall) but they produce very little electricity. For example, the wind turbines that would be spread over thousands of acres in the Kittitas Valley by Zilkha Renewable Energy might produce 551,880,000 kilowatt-hours (kWh) of electricity each year. That may sound like a lot but it equals:

- About ½ of 1% of the electricity produced in Washington during 2002.
- 16.7 % of the electricity produced in 2002 by the Hermiston gas-fired generating plant in Oregon, which occupies only a few acres.

"Wind farms" produce little electricity, but they are highly profitable for their owners and are "bad deals" for electric customers and taxpayers.

Consider first the higher cost of electricity from wind compared to electricity from other sources. Experts may disagree on the exact amounts but no one seriously disputes that electricity from wind costs more than electricity from other sources. If the cost of electricity from the proposed Zilkha "wind farm" were only $0.02 per kWh more than other electricity, the added cost imposed on electric customers would be approximately $11 million per year.

A handful of landowners would get added income, a few jobs will be created and the "wind farm" owner would pay some property taxes, but the total of these benefits is far less than the added $11 million imposed on electric customers. Ironically, it would be cheaper for the electric customers in Washington if, instead, they took up a collection to pay landowners to NOT allow the turbines on their land!

Secondly, recognize that tax avoidance is THE primary motivation for building "wind farms." Federal and state governments are extremely generous in providing tax breaks for "wind farm" owners, while shifting the tax burden to remaining taxpayers. For example:

- The federal government permits depreciating (deducting from taxable income) the entire capital cost of a "wind farm" using the "5-year double declining balance" method. This is critically important because each $1,000 depreciation deduction can reduce tax liability by $350.

  Normally, this tax break would permit a "wind farm" owner to deduct 20% in the first tax year; 32% in the second year, and the remainder over the next 4 years. Following the 9-11 terrorist attack Congress added a 30% "bonus" in the first year for projects begun before September 11, 2003. The new tax law increases the first year bonus to 50% and extends it through 2004. Now, "wind farm" owners can deduct a total of 60% in the first year alone. If the Zilkha project cost $180,000,000, the first year depreciation deduction could be $108,000,000, with a corresponding reduction in federal income tax liability of $37.8 million.

- Another generous federal tax break is the $0.018 per kWh tax credit (a direct deduction from tax liability) for electricity produced from a "wind farm." This tax break, which the Congress is about to extend, would allow Zilkha to deduct another estimated $10 million each year from the company's tax liability.

- In Washington, "wind farm" owners are exempt from paying any sales or use tax on equipment used to generate electricity from the wind. If 75% of a $180 million investment would normally be subject to the sales and use tax, the value of the exemption would be about $10 million.

These tax benefits are all in addition to *income* that Zilkha would get from selling electricity. If sold at $0.03 per kWh, that income would be about $15 million annually.

These huge tax breaks demonstrate why nearly all "wind farms" are owned by companies – such as Zilkha and FPL Energy (subsidiary of the FPL Group) -- that have substantial taxable income from *other,* non-wind activities.

The big losers are taxpayers who bear the tax burdens avoided by wind farm owners, the electric customers who bear the higher cost of electricity from wind, and all the neighbors and citizens who bear the cost of adverse environmental, ecological, scenic and property value impacts.

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