



Investor Network on CLIMATE RISK

July 29, 2008

The Honorable Harry Reid
Majority Leader
United States Senate
S-221 U.S. Capitol Building
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
S-230 U.S. Capitol Building
Washington, D.C. 20510

Dear Majority Leader Reid and Republican Leader McConnell:

We are more than 40 treasurers, comptrollers, institutional investors, asset managers and other leaders managing collectively over \$1.5 trillion in assets. With a number of the production and investment tax credits for renewable energy and energy efficiency set to expire at the end of this calendar year, we are writing to urge you and your colleagues to pass PTC/ITC “extenders” legislation as soon as possible, so investors and manufacturers can have greater stability and certainty in the near and long term. Our ability to continue to invest in the renewable energy and energy efficiency industries, and to accelerate the growth of these industries, depends on a comprehensive and stable set of supportive policies, including *long-term* extensions of these investment and production tax credits.

We urge the Senate to pass rapidly both Production and Investment Tax Credits of at least five years – preferably more. Anything short of this time frame continues to contribute to the “boom and bust” cycles these industries have been facing over the past several years. For example, in 2001–2002, a two-month gap between expiration and renewal of these vital credits resulted in a four-fold decline in new wind capacity.

Not renewing these critical clean energy tax provisions now will cause similar negative ramifications. In fact, the lack of certainty surrounding the PTC and ITC is consistently pointed to as the most significant barrier to entry and as negatively affecting industry growth. A failure to swiftly enact these tax credit extensions will result in the loss of more than 116,000 jobs and \$19 billion in investment in 2009 in the solar and wind energy industries alone, according to the consulting firm Navigant. Conversely, passing all of these tax provisions soon will help to prevent the cancellation of 42,000 MW of planned renewable energy projects in development today in 45 states – an amount equivalent to 75 baseload electric power stations.

These credits are vital to provide investors with certainty commensurate to the cash flow cycle for major renewable energy projects. Uncertain and erratic policies increase the cost of capital; one must pay a higher cost of capital to equity providers or lenders for a renewable project if one cannot count on supportive policies in cash flow projections. Moreover, even when the tax credit extensions are enacted, they are typically too short in duration to match the long-term cash flows that need to be financed. So the net present value of the project is driven down. This is particularly problematic in the energy industry because these are capital-intensive businesses that require long-term cash flows in order to justify the upfront investment.

Such situations do not pertain only to small start-up or mid-market companies. Even major equipment manufacturers are unable to start and stop the retooling and production plans of their plants if the policy and market frameworks are unstable. In such instances, they will exit or shift their production to more attractive and stable foreign markets. For example, one major solar company recently relocated most of its U.S. sales force to Europe and Asia after the ITC/PTC extension failed to pass in late 2007/early 2008.

Extending these clean energy tax provisions would help level the playing field with long-subsidized traditional resources. Moreover, solar power and some other renewables will continue to reduce their costs, so these credits will no longer be needed in the medium- to long-term. For most of the technologies aided by this package, this is crucial transitional support, not long-term dependence.

We urge you to seek extensions of at least five years – and preferably more – for the Production and Investment Tax Credits. In fact, some Investment Credits warrant an eight-year extension.

We need to establish certainty in renewable energy markets. With recession risk still on the horizon, this is no time to fail to pass this critical legislation and thereby interrupt the most substantive growth and job creation story in the U.S. market today. We appreciate your attention to this critical issue.

In the meantime, please do not hesitate to contact Mindy Lubber, Director of the Investor Network on Climate Risk (INCR), at (617) 247-0700 ext. 130 or via e-mail at lubber@ceres.org with any questions or for further information.

Sincerely,

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