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Taxpayers Get Hosed on Duke Energy's Wind Farm Buying Spree

Submitted by [Paul Chesser](#) [1] on Thu, 08/04/2011 - 20:09

Duke Energy [2], along with General Electric [3] and General Motors [4], are three of the major companies that are often criticized for their rent-seeking ways by free-market minded people, because their corporate earnings focus seems to depend more on subsidies and tax breaks from government rather than sales of their products. That all three support cap-and-trade policies [5] (although it appears GM [6] has left the US Climate Action Partnership) – as long as the gaming of the credit-trading system falls in their favor [7] – is one example of this.

Duke's, and its CEO Jim Rogers's, appetites for government giveaways seem to be particularly insatiable among investor-owned utilities. The company is not shy about pursuing unproven, costly technologies [8], such as carbon capture and storage, just so long as taxpayers foot a lot of the bill.

For a few years now, Duke has been on what looks like a wind and solar facility shopping spree, undoubtedly in part so they can fulfill the requirements of various state renewable energy mandates. In 2007 North Carolina enacted a 12.5 percent by 2021 renewable energy standard, and in 2008 Ohio's 25 percent by 2025 alternative energy mandate became law. But there are also a lot of government goody giveaways associated with those projects, which would never get off the ground without massive subsidies, cost offsets, and tax breaks.



The American Recovery and Reinvestment Act, not surprisingly, served as a healthy source for Duke. Despite no previous demonstration that such a process can be cost effective or viable [9], the Department of Energy provided a \$22 million grant to Duke [10] for its Notrees Windpower Project in Texas [11], more than half the estimated \$43.6 million cost for the 20-megawatt energy storage experiment. And DOE also came through with \$204 million [12] under ARRA for Duke's smart grid projects in the Midwest and in the Carolinas. Other stimulus funds – an undetermined amount – is also covering Duke's Plug-In Electric Vehicles pilot program, in which vehicle owners in Indiana get a free charging station [13] (some estimated to cost about \$1,200 [14]) and its installation (\$1,000 residential; \$1,500 business). GM also joined in partnership with Duke [15] – and other utilities – in a plug-in vehicle partnership, undoubtedly with the Volt as the experimental car.

Then came a series of solar and wind energy projects that Duke has either purchased or launched, which followed announcements in spring of 2007 in Ohio [16] and the Carolinas [17] that the company was seeking bids from providers of renewable power. A RFP in Indiana [18] followed in the fall. "Duke Energy is interested in talking with potential suppliers about purchased power agreements, purchasing a generating facility, or purchased power agreements with the option to buy the facility," a company press release said. Meanwhile, in June 2007 Rogers urged the U.S. Senate [19] to adopt cap-and-trade to "address climate change," but then criticized the Lieberman-Warner bill in October that year for its failure [20] to provide cheap carbon coupons for territories that Duke serves.

The barrage of wind and solar projects commenced: 100 wind turbines from GE and 1,000 megawatts of wind assets in Texas [21] (Dec. '07); a 20-year commitment to buy solar power from SunEdison [22] (May '08); the purchase of wind company Catamount Energy [23] (June '08); and so on [24], with announcements [25] of many more [26] alternative energy projects [27] continuing to the present [28].

Compliance with government mandates is not the only incentive for Duke to go all-out for alternatives – there's gold in those turbines and photovoltaics. Glenn Schleede – who worked in the Ford and Reagan administrations [29] and for the Atomic Energy Commission – helpfully detailed [30], in a letter to Virginia Gov. Bob McDonnell, the various incentives for those who want to use wind energy projects to help avoid tax liabilities:

"Wind farm" developers and owners that are benefiting from the tax breaks and subsidies include such US firms as Dominion Resources, FPL Group (parent of NextEra), Duke Energy, AES, Invenergy, and Noble Environmental (JPMorgan Partners), and foreign-owned firms such as Iberdrola (Spain), Horizon (Energias de Portugal, S.A. of Portugal), E.ON (Germany), Shell (Netherlands), and BP (UK).

But they are not the only ones benefiting handsomely from the wind energy tax shelters. *Financial firms with large profits they wish to shelter from taxation* have also realized that they can take advantage of the massive federal and state tax breaks and subsidies for wind and other "renewable" energy sources that provide opportunities for them to receive large returns

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with little or no risk.

Among the breaks wind farm owners get, according to Schleede, are accelerated federal and state depreciation – called “Five-Year Double Declining Balance Accelerated Depreciation” or “5-year 200 percent DB” – which he says provides two huge benefits for wind owners:

Cash Flow: It provides large amounts of interest free cash that can be used for other purposes. In the first six tax years, the entire capital cost of the project, including equity and debt, can be deducted from otherwise taxable income.

Reduced corporate income tax: It immediately reduces the owners' and their financial/tax partners' income subject to Federal and Virginia corporate income tax.

Schleede also explains ^[30] how Duke Energy and Rogers's fellow rent seekers benefit from the Federal Production Tax Credit, Investment Tax Credits or Production Tax Credits, additional state subsidies for utilities, and Department of Energy subsidies such as research and development grants and contracts. This, Schleede says, transfers “hundreds of millions of dollars annually from the pockets of ordinary taxpayers and electric customers to a few large corporations that own wind farms....”

Worse, as my colleagues and I at American Tradition Institute have explained ^[31] repeatedly and will prove in a constitutional court challenge ^[32], wind power does not save energy, or decrease pollutants and carbon dioxide emissions. Because wind (and the sun) energize intermittently ^[33] (on calm or cloudy days), they require back-up power from coal or natural gas generators, and when those fossil fuel plants ramp up and down repeatedly in a back up role, they emit more pollutants ^[34] than they would if they just ran consistently without the renewables on the grid.

So we have a costly, counterproductive policy, that is ineffective at addressing a non-problem ^[35] (global warming). Meanwhile the likes of Duke, GE and GM eagerly scarf up the goodies for their corporations with disregard for ratepayers, taxpayers and the overall economy.

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Chevy Volt ^[37] climate change ^[38] Corporate Integrity Project ^[39] Department of Energy ^[40] Duke Energy ^[2] General Electric ^[3] General Motors ^[4] Government Integrity Project ^[41] James Rogers ^[42] stimulus ^[43] U.S. Climate Action Partnership ^[44] wind ^[45]

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