Reston, Virginia
March 15, 2004

Dear Senator Allen and Senator Warner:

Please don't let Senator Grassley give Warren Buffett another big tax break!

In his February 27, 2004, Chairman's letter to Berkshire Hathaway Shareholders, Mr. Buffett makes clear that he is pleased and proud to spend generously for federal income taxes[1] and implies that people in his "class" do not need tax cuts.

Why, then, is Senator Grassley (R-IA) trying to push through the U.S. Senate a tax credit that would be worth millions to one of Mr. Buffett's companies, MidAmerican Energy? Last year, Senator Grassley had difficulty finding room to allow tax cuts for ordinary citizens but now wants to give MidAmerican Energy a huge tax break by extending a "production tax credit" so that MidAmerican Energy can build "one of the largest wind energy projects ever…in Iowa."[2]

Hundreds of millions of dollars in tax breaks and other subsidies have already been given to the wind industry – at the expense of ordinary taxpayers and electric customers, and with serious adverse impacts of "wind farms" on environmental, ecological, scenic and property values.

In fact, the U.S. Department of Energy (DOE) and the wind industry have misled the public, media, Congress, and state government officials in their efforts to force expensive, poor quality electricity from "wind energy" on to the people of America. They have:

- Greatly overstated the environmental, energy and economic benefits of "wind energy," and
- Greatly underestimated the true cost of wind energy, as well as the adverse environmental, ecological, scenic, and property value impacts.

As the truth about "wind energy" is emerging, citizen opposition to "wind farms" is growing in the US and other countries, including the UK, Germany, Spain, Denmark, Italy, and Australia.

In summary, there are 10 major reasons to reject Senator Grassley's proposal to amend the pending tax bill, S. 1637, to extend the wind Production Tax Credit.

1. **Tax avoidance – not environmental and energy benefits – have become the prime motivation for building "wind farms."** Perhaps federal and state government officials have not yet recognized how overly generous they have been to "wind farm" owners, or that their largess merely shifts huge amounts of cost from "wind farm" owners to ordinary taxpayers and electric customers.

   Due to current federal income tax depreciation rules, MidAmerican Energy could deduct from taxable income 60% of its total capital investment in the $323 million project in the first tax year and take a substantial deduction from its state corporate income tax liability.

   You should not shift even more tax burden to ordinary taxpayers by extending the wind Production tax credit which could reduce MidAmerican Energy's tax liability by over $14 million per year for the next 10 years in addition to the tax benefit provided by accelerated

depreciation and that property and sales tax breaks for "wind farms" provided by the State of Iowa..

Please keep in mind that, according to Mr. Buffett, MidAmerican Energy's total tax payments (federal, state and local tax payments totaled $100 million in 2002 and $251 million in 2003.[3]

2. **The huge windmills – often taller than the US Capitol -- produce very little electricity.** Due to exceedingly generous tax breaks and other federal and state subsidies, there are more than 20,000 windmills scattered across thousands of acres of land in 30 states, with 88% of the total capacity of 6,370 megawatts (MW) located in California, Texas, Minnesota, Iowa, Washington and Oregon.

   Even if those thousands of windmills average a generous 25% capacity factor, the total amount electricity produced (13,950,300,000 kilowatt-hours) would be:
   a. Equal to 36/100 of 1% of the 3,831,000,000,000 kWh of electricity produced in the US during 2002.
   b. About equal to the electricity produced by the Surrey Nuclear generating station in Virginia during 2002 (13,672,127,000 kWh),
   c. A little more than produced during 2002 by Virginia Power's Mt. Storm coal-fired generating plant during 2002 (11,624,402,000 kWh).
   d. Less than would be produced annually by four 500 MW natural gas fired combined-cycle generating units operating at an 80% capacity factor (14,016,000,000 kWh).

   Even with the generous tax breaks and subsidies, the US Energy Information Administration (EIA) doesn't expect wind to supply even 1% of US electricity by 2025!

3. **The intermittent electricity from wind turbines has less real value than electricity from reliable generating units, and they detract from electric system reliability.** Wind turbines produce electricity only when the wind is blowing within the right speed range. Today's models may begin producing some electricity at wind speeds of about 8 miles per hour (MPH), reach rated capacity around 33 MPH, and cut out around 56 MPH. Because their output is intermittent, volatile and largely unpredictable, the electricity they produce has less value than electricity from reliable ("dispatchable") generating units.

   Since electricity grids must be kept in balance (supply & demand, voltage, frequency), dispatchable generating units must be immediately available at all times to "back up" the unreliable wind generation. The reliable units must be ramped up and down to balance the output from the wind turbines. Wind turbines detract from grid reliability and would be of no value in restoring an electric grid when there is a blackout.

4. **The true cost of electricity from wind energy is much higher than wind advocates admit.** Wind energy advocates like to ignore key elements of the true cost of electricity from wind, including:
   a. The cost of tax breaks and subsidies which, as indicated above, shift tax burden and costs from "wind farm" owners to ordinary taxpayers and electric customers.

b. The cost of providing backup power to balance the intermittent and volatile output from wind turbines.
c. The full, true cost of transmitting electricity from "wind farms" to electric customers. "Wind farms" are highly inefficient users of transmission capacity. Capacity must be available to accommodate the total rated output but, because the output is intermittent and volatile, that transmission capacity is used only part time. The wind industry seeks to avoid these costs by shifting them to electric customers.
d. The extra burden on grid management.

5. **Claims of environmental benefits of wind energy are exaggerated.** The wind industry likes to claim that electricity from wind offsets emissions that would be produced by fossil-fueled generating units. However, they typically overstate the potential emission offset, ignore the fact that backup generating units must be immediately available and running at less than their peak efficiency or in spinning reserve mode. They are continuing to emit while in these modes. Also, the generation that may be offset may not be powered by fossil fuels.

6. **"Wind farms" have significant adverse impact on environmental, ecological, scenic and property values and create potential hazards to health and safety.** Citizens in various states (and other countries) where "wind farms" have been constructed have become painfully aware that – in addition to the high true cost of the electricity -- "wind farms" impair environmental, ecological, scenic and property values. Among the adverse impacts are noise, bird kills, interference with bird migration paths and animal habitat, destruction of scenic vistas and ecological rarities (such as the Flint Hills and Tallgrass Prairie in Kansas), spoiling the lives of neighbors and lowering the value of properties located near the huge structures.

7. **"Wind farms" produce few local economic benefits and these are overwhelmed by the higher costs imposed on electric customers through their monthly bills.** DOE and the wind industry have falsely claimed that "wind farms" provide significant economic benefits in the areas and states where they are constructed. They often claim benefits from the capital investment, jobs, tax revenues, lease payments to landowners, and "other" economic activities. Sometimes they claim increased tourist traffic.

   In fact, there are few economic benefits and these are overwhelmed by the higher true cost to electric customers and taxpayers of the electricity produced by the "wind farms":

   a. The lions share of the capital investment goes for turbines, blades, towers, electronics and related equipment which is produced in other states and, often, other countries.
   b. Most of the jobs during construction (which lasts only a few months) are filled by imported workers. Only 20 of 200 construction period jobs were filled by local workers in the case of the Top of Iowa "Wind Farm" built in 2001. Only 7 permanent jobs resulted.
   c. Tax revenues are often small due to generous federal and state tax breaks. Imported workers probably pay income tax in other states.

d. Income from "wind farm" lease payments to landowners would have local economic benefit only if that income is spent locally – which is not likely if the landowners are absentee or the income is invested or spent elsewhere.
e. Increased tourist traffic, if any, from those wanting to see the huge machines is likely to be temporary because they would have only "curiosity value." Those who stay away because of the scenic impairment and other adverse impacts on environmental, ecological and property values may offset any such temporary visitor interest.
f. There probably will be an increase in demand locally for sand and gravel for the huge concrete bases for the towers and, perhaps, a few other materials and supplies. Some local businesses may see temporary increases in business during construction (e.g., restaurants).

These minimal economic benefits will be much more than offset by:

a. First and foremost, the increased in electric customer' monthly bills – because electricity produced from wind is more expensive -- will be many times the economic benefit. (Keep in mind that higher costs for electricity mean that less money is available to consumers to spend for food, clothing, shelter, education, medical expenses and other needs, thus lowering economic activity.)
b. The cost of repairing roads damaged by the construction traffic (unless paid by the "wind farm" owner) and the additional cost of government services (e.g., police, fire protection) due to the existence of the "wind farm."
c. Other potential losses of economic activity; e.g., less tourism, less interest in moving to the area if it is one dependent on attracting people for primary or second homes, and the related negative economic impacts.

In fact:

- It many cases, it would be cheaper for electric customers to take up a collection and pay landowners not to allow wind turbines on their property!
- In states such as Iowa where most large "wind farms" are owned by out-of-state companies, there would be a net outflow of wealth (dollars) from the state because of the "wind farm." Because of the high true costs of electricity from wind, the outflow may even be greater per kWh than for electricity produced from imported energy sources.[4]

8. The big "winners" are "wind farm" owners and a few landowners who lease their land. As demonstrated above, "wind farm" owners benefit enormously from the generous tax breaks and other subsidies that shift tax burden and cost to others, and from revenue from the sale of electricity. Among the big "losers" are electric customers who pay the higher true cost of electricity produced by the "wind farms."

9. Various other subsidies shift large amounts of cost from "wind farm" owners to ordinary taxpayers and electric customers. The wind industry benefits from many other subsidies not mentioned above. These include:

a. DOE funding (now totaling several hundred millions of dollars) for wind energy R&D.
b. Guaranteed markets for electricity (even though the prices are above market) as a result of the insidious "renewable portfolio standards" that are imposed in several states.

c. Additional markets due to mandated purchases of "green electricity" by federal and state government agencies at above market prices – with the costs offset from the agencies' other programs. For example, forced purchases by the military services mean less money available for training, weapons and other equipment.
d. State programs requiring or encouraging electric utilities to offer "green" electricity at premium prices, which programs seldom attract enough "volunteers" to pay the utilities costs of buying the "green" electricity and administering the program. (The cost not recovered from customers paying premium prices is spread to all other customers.)

10. **Some in the wind industry and their advocates in DOE may claim that "wind energy" deserves the huge tax breaks and other subsidies because other energy sources have received even larger government-imposed benefits.** Ideally, subsidies for other energy sources would be reduced significantly, but the wind argument is fundamentally flawed because it does not take into account either the existing or potential contribution of wind energy in supplying US energy requirements.

My preliminary estimates indicated that tax breaks and subsidies for wind energy from the first few items in the above list will easily exceed $300 million in 2002 and will be higher in the years ahead.

The wind industry's claims that it does not get its fair share of government subsidies should be considered in light of the small contribution that wind is expected to contribute in supplying US energy requirements. This small contribution (despite the enormous growth in subsidies) can be seen in the following table that is based on the Energy Information Administration's (EIA) Annual Energy Outlook 2003.

U.S. Energy Consumption by Energy Source: 2000 Actual and EIA Forecast for 2025				
	Actual 2000		EIA Forecast for 2025	
Energy Source	Quadrillion Btu	% of Total	Quadrillion Btu	% of Total
Traditional Sources				
Petroleum products	38.39	38.60%	56.22	40.40%
Natural Gas	24.07	24.20%	35.81	25.73%
Coal	22.64	22.76%	29.42	21.14%
Nuclear Power	7.87	7.91%	8.43	6.06%
Conventional Hydropower	2.84	2.86%	3.12	2.24%
Other	.31	.31%	.07	0.05%
Sub-Total – Traditional	96.12	96.64%	133.07	95.62%
Non-Hydro Renewables				
Geothermal	0.30	0.30%	1.02	0.73%
Wood	0.41	0.41%	0.40	0.29%
Other Biomass	2.07	2.08%	3.42	2.46%
Municipal Solid Waste	0.31	0.31%	0.44	0.32%
Solar Thermal, electric & hot water	0.06	0.06%	0.09	0.06%
Solar Photovoltaic	0.00	0.00%	0.01	0.01%
Ethanol	0.14	0.14%	0.34	0.24%
Wind	0.05	0.05%	0.37	0.27%
Sub Total – Non-Hydro renew.	3.34	3.36%	6.09	4.38%
Total	99.46	100%	139.16	100%

As the table shows, fossil energy sources (petroleum, natural gas and coal, combined) are expected to supply 87.27% of US energy requirements in 2025 – or 323 times the 27/100 of 1% expected from wind. If wind subsidies totaled $300,000,000 in 2002, the industry's "fair share" argument would suggest that subsidies for fossil energy sources should be at least $96,900,000,000! Clearly, the wind industry's claim is without merit.

If you have questions concerning the above, I would be pleased to answer them. However, it should be clear that it is time to rein in rather than expand the tax breaks and subsidies provided to the wind industry.

When the Congress can't seem to find room to provide tax cuts for ordinary people and is running huge deficits, the Senate should not provide one more tax break to the lucrative wind industry—and particularly to Warren Buffett who says that his "class" doesn't need tax relief.

* * *

The above views are submitted in my role as a citizen, consumer and taxpayer and are not on behalf of any client or other interest. Analysis underlying the above presentation was entirely self-financed. If you show the comments to DOE or the wind industry, they may claim (again) that I am paid by someone to voice these views. Such claims are false.

For your information, I am semi-retired after spending more than 30 years on energy matters in the federal government and private sector. I now work without compensation to shed light on the adverse impacts of government and private policies, regulations, programs and projects that are *detrimental to the interests of consumers and taxpayers*. "Wind energy" meets this criterion.

Respectfully,

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Endnotes

[1] Mr. Buffett's February 27, 2004, Chairman's Annual Letter to Shareholders, Berkshire Hathaway, pp.6-7.
[2] Congressional Record, March 4, 2004, p. S2212.
[3] Mr. Buffett's February 27, 2004 letter, p. 14.
[4] There is a further risk that state and local government officials need to consider. It is quite common for owners of "wind farms" to place the title in single asset limited liability companies (LLCs). Because of the huge front end loading of tax benefits, there could be a big incentive for "wind farm" owners to sell or abandon wind facilities if performance deteriorates or maintenance, repair and replacement costs escalate. As occurred in California (where hundreds of windmills were built in response to big tax incentives in the 1980s), localities could be faced with the problem of deteriorating and abandoned windmills after the tax benefits for "wind farms" have been captured by the original owners.