access to much needed capital. This legislation is another critical step in recognizing the value of renewable energy and ensuring that technologies such as waste-to-energy can continue to pursue growth opportunities."

Kurt Waltzer, Special Projects Director, Clean Air Task Force: "The Clean Air Task Force strongly supports the MLP Parity Act. Carbon Capture and Storage is a critical path technology for addressing climate change and we need more pioneer projects. If adopted, this bill will cut the cost of getting that steel in the ground".

Judi Greenwald and Brad Crabtree, Co-Directors, National Enhanced Oil Recovery Initiative: "On behalf of participating industrial and other companies, labor unions, environmental organizations and state officials, the National Enhanced Oil Recovery Initiative applauds the MLP Act's sponsors for expanding MLP eligibility to increase private investment in carbon capture and storage projects. Capturing carbon dioxide from power plants and many other industrial facilities for use in enhanced oil recovery produces more American oil, creates good-paying jobs, generates net new revenue for the federal treasury, and reduces CO2 emissions."

Rhone Resch, president and CEO, Solar Energy Industries Association: "This bill is an important step toward leveling the playing field between clean, renewable energy and long-entrenched energy sources in America, by providing the solar industry with access to private capital in the same manner enjoyed by the oil and gas industry for almost 30 years. Today, the U.S. solar industry employs nearly 120,000 Americans, with solar deployment growing and costs to consumers dropping. Senator Coons' MLP proposal would build on this success, and SEIA applauds him for putting forward an idea that has the potential to attract private sector investment in critically important solar projects. This bill represents smart public policy, and solar represents a clean, safe, affordable and inexhaustible supply of energy for our nation. We look forward to working with Senator Coons and other stakeholders on this important issue."

Vice Admiral Dennis McGinn (USN-Ret.), President and CEO, American Council On Renewable Energy: "We commend Senator Coons for his leadership in introducing important legislation to level the playing field and promote greater private investment in our nation's abundant and affordable renewable energy resources and fuels. Enabling master limited partnership investment in renewable energy and infrastructure can help lower project costs, leading to more economic investment and a more diverse energy mix."

David Gardiner, Executive Director, Alliance for Industrial Efficiency: "We applaud Senators Coons (D-DE), Moran (R-KS), Stabenow (D-MI) and Murkowski (R-AK) for their bi-partisan leadership in introducing the Master Limited Partnership Parity Act. The Alliance for Industrial Efficiency is particularly pleased that the bill extends low-cost financing to Combined Heat and Power and Waste Heat to Power, proven clean energy sources that could provide as much as 20 percent of U.S. electric capacity."

Mike McAdams, President, Advanced Biofuels Association: "We are grateful for Senator Coons' leadership at a critical point for America's domestic biofuels industry as we are moving from the beaker to the barrel, in record time. The legislation provides an innovative financial mechanism that could significantly reduce the cost of financing as companies are reaching a game-changing milestone. Substantial investments by private companies in research and development have been the catalyst for today's success in bringing advanced biofuels to commercial markets, but stable and consistent public policies are crucial to encourage and allow additional investment dollars that will help get us across the finish line. By creating a new and more appealing option for investors, the bill helps level the playing field and ultimately promotes a more cost competitive advanced biofuel alternative to conventional fuel."

Rob Gramlich, Interim CEO, American Wind Energy Association: "America's wind energy sector is a success story that has proven its strength by recruiting $18 billion in annual private investment in America's energy infrastructure in recent years despite short-lived policy certainty. We commend Senators Chris Coons, Jerry Moran, Debbie Stabenow, Lisa Murkowski and Representatives Ted Poe, Mike Thompson, Peter Welch and Chris Gibson for their leadership in promoting the eligibility of master limited partnerships to include renewable energy projects. MLPs work well for conventional energy infrastructure and will be one critical tool to ensure that federal incentives continue to drive private investment into the U.S. wind energy market. We look forward to working with Senator Coons, Representative Poe, and the other bill co-sponsors to proceed with legislation that allows wind power developers to efficiently utilize MLP structures."

Felix Mormann and Dan Reicher, Stanford University Steyer-Taylor Center for Energy Policy and Finance: "There's another benefit to expanding the pool of renewable energy investors: It would help democratize, and thus build support for, these new energy sources. Today, all American taxpayers fund renewable energy subsidies, but only a deep-pocketed few can cash in on the tax benefits. Publicly traded master limited partnerships … would empower all Americans to invest and have a stake in the transition to cleaner energy." http://nyti.ms/LmGDI7

OP-ED

How to Make Renewable Energy Competitive

By **FELIX MORMANN** and **DAN REICHER**

June 1, 2012 | http://nyti.ms/LmGDI7

The New York Times

STANFORD, Calif. — Renewable energy needs help. Technological innovation has significantly reduced the cost of solar panels, wind turbines and other equipment, but renewable energy still needs serious subsidies to compete with conventional energy. Today, help comes mostly in the form of federal tax breaks.

These tax incentives, and the Congressional battle over extending them for wind projects beyond the end of this year, mean that other, more powerful policies to promote renewables are not getting the attention they deserve. If renewable energy is going to become fully competitive and a significant source of energy in the United States, then further technological innovation must be accompanied by financial innovation so that clean energy sources gain access to the same low-cost capital that traditional energy sources like coal and natural gas enjoy.

Two financial mechanisms that have driven investment in traditional energy projects — real estate investment trusts and master limited partnerships — could, with some help from Washington, be extended to renewable energy projects to lower their cost and make America's energy future cleaner, cheaper — and more democratic.

Federal support for renewable energy today consists primarily of two tax breaks: tax credits and accelerated depreciation rates. But both tools have a very limited reach. Only investors with hefty tax bills, typically big banks or corporations, can exploit them to reduce their tax burden. Most potential investors, including tax-exempt pension funds and, importantly, retail investors trading stocks, don't have big enough tax bills to exploit the break. As a result, the few remaining players whose considerable tax bills place them in the market for tax breaks are able to demand returns of up to 30 percent for investing in renewable energy projects — an investment known as "tax equity."

There are better options. They may sound wonky, but they could prove revolutionary.

Real estate investment trusts, or REITs, which are traded publicly like stocks, could tap far broader pools of capital to vastly lower the cost of financing renewable energy. REITs have a market capitalization of over $440 billion while paying shareholders average dividends below 10 percent — roughly a third of the cost of tax equity investments for renewable energy.

Master limited partnerships carry the fund-raising advantages of a corporation: ownership interests are publicly traded and offer investors the liquidity, limited liability and dividends of classic corporations. Their market capitalization exceeds $350 billion. With average dividends of just 6 percent, these investment vehicles could substantially reduce the cost of financing renewables.

But current law makes using both of these investment vehicles for renewable energy difficult if not impossible. Washington could help in two ways. First, the Internal Revenue Service needs to clarify the eligibility of renewable power generation for REIT financing. Second, Congress needs to fix a bizarre distinction in the tax code that bars master limited partnerships from investing in "inexhaustible" natural resources like the sun and wind, while allowing investments in exhaustible resources like coal and natural gas. In 2008, as surging gasoline prices were infuriating American voters, Congress amended the tax code to enable master limited partnerships to invest in alternative transportation fuels like ethanol. We should treat power sources, like wind and solar farms, similarly.

There is hope. Senator Chris Coons, Democrat of Delaware, plans to introduce a bill to allow master limited partnership investment in renewable energy. This approach is preferable to a recent proposal by Senator Bernard Sanders, independent of Vermont, and Representative Keith Ellison, Democrat of Minnesota, to eliminate this investment option for fossil-fuel projects. Both moves would level the playing field between conventional and renewable energy, but the Coons bill does so by promoting, rather than limiting, economic growth across the energy industry.

These approaches could help renewable energy projects reduce their financing costs up to fivefold. These cost improvements could significantly reduce the price of renewable electricity and, over time, erase the need for costlier subsidies. Of course, making renewable energy eligible for master limited partnership and REIT financing would amount to a new kind of subsidy, because both are exempt from income tax. Indeed, some members of Congress fear that expanding master limited partnerships will erode the federal tax base. We don't think so. Investors in master limited partnerships and REITs still pay taxes on dividends. Moreover, these investments would most likely bring many more renewable energy projects online, actually raising overall tax revenue.

A more valid concern is whether renewable energy master limited partnerships might be abused as tax shelters, reminiscent of what happened in the 1980s California "wind rush." Back then investors cared more about putting turbines in the ground to secure tax credits to lower their tax bill on other income than whether the machines actually produced electricity.

History, however, need not repeat itself. Renewable energy master limited partnerships can guard against such abuse by ensuring that these tax privileges actually result in green electricity.

There's another benefit to expanding the pool of renewable energy investors: It would help democratize, and thus build support for, these new energy sources. Today, all American taxpayers fund renewable energy subsidies, but only a deep-pocketed few can cash in on the tax benefits. Publicly traded master limited partnerships and REITs would empower all Americans to invest and have a stake in the transition to cleaner energy.

Renewable energy has come a long way since the 1970s energy crisis but much work remains. We must complement continued technological innovation with critical financial innovation — to level the playing field, incentivize growth, reduce subsidies and democratize America's energy future.

Felix Mormann is a fellow, and Dan Reicher is the executive director, both at Stanford's Steyer-Taylor Center for Energy Policy and Finance.