

Opening Statement of the Honorable Fred Upton
Subcommittee on Energy
Hearing on “Federal Energy-Related Tax Policy and its Effects on
Markets, Prices, and Consumers”
March 29, 2017

(As prepared for delivery)

Good Morning. Today’s hearing gives us an opportunity to take a big picture look at the effects of decades of federal energy tax policy on energy markets, prices, and most importantly, consumers. I am hopeful that our discussion today will help us develop a deeper understanding of the costs and benefits of driving energy policy through the tax code. There is a great deal of interest in this topic and with comprehensive tax reform on the agenda, I look forward to working with our colleagues on the Ways and Means Committee to deliver for the American people.

For decades, the Federal Government has used the tax code to support the energy sector and promote energy policy goals. Tax preferences provide the bulk of federal support. To put this in perspective, in 2016, energy-related tax preferences cost an estimated \$18.4 billion dollars, while relevant DOE spending programs cost \$5.9 billion dollars.

Looking back on historical trends, we see that tax treatments have been used for a variety of purposes. One of the primary motivations has been to bring down costs for alternative energy sources and other energy-related technologies that would have otherwise been uneconomic.

By some measures, tax subsidies have been successful. For example, median installed prices for solar PV have fallen dramatically. Prices have declined by 6-12% per year on average over the last 20 years from about \$12 dollars per watt to less than \$4 dollars per watt according to the DOE. Some critics might contend that solar costs would have come down anyway even without these tax measures, or that competing technologies were discouraged while solar was given an unfair advantage. Nonetheless, many see the role of the tax code as positive for the development of affordable solar energy.

Similar stories can be told for wind generation and energy efficiency technologies. In 1980, the cost of wind energy was over 500 dollars per megawatt

hour; today the leveled cost of wind energy is around 50 dollars per megawatt hour, according to EIA.

In 2005, the country reached its highest level of per capita electricity consumption; today, electricity consumption continues to decline thanks to the adoption of energy efficient technologies that were subsidized through the tax code.

Clearly, a strong argument can be made that specialized energy tax treatments have played a major role in helping the United States achieve its energy goals. However, , given the lasting market and price distorting impacts that these policies place on effective price formation and bidding in competitive markets, some are questioning whether yesterday's justifications for energy tax policies remain appropriate for today. Today's markets are evolving to respond to new trends in energy production, electricity generation, technological innovation, and State policies, which are all having an impact on the proper functioning of the interstate wholesale electricity system.

As we look to modernize our energy policies, we're going to put consumers first. Consumers should be driving energy markets from the bottom up, rather than having the Federal Government driving it from the top down. With tax reform on the horizon, Congress should be asking "*how can we level the playing field and encourage competition?*" and "*will this policy grow our economy and keep energy prices affordable and reliable?*"

Today's hearing is an important step in this process.

With this goal in mind, I look forward to today's hearing and continuing the work with our colleagues on the Ways and Means Committee to modernize our tax code to reflect our changed energy landscape and 21st Century realities.