

Production Tax Credit Optionality for Offshore Wind Developments

Background

In December 2020, Congress provided a 30-percent investment tax credit (ITC) for offshore wind projects that begin construction before 2026 and extended the production tax credit (PTC) for wind facilities beginning construction before 2022 at 60 percent of its full value (and the corresponding election to claim an 18-percent ITC).¹ Offshore wind projects that began construction before 2022 can elect either the 30-percent ITC or the 60-percent reduced value PTC. After 2021, only the 30-percent ITC is available for offshore wind projects.



Proposal

Provide a full, 100 percent, Production Tax Credit (PTC) for qualifying offshore wind facilities, which aligns with the availability of the offshore Investment Tax Credit (ITC).

Discussion

Congress has provided ITCs and PTCs to incentivize the development of renewable energy projects. The credits subsidize different aspects of renewable energy development and production:

- (1) The ITC is a credit equal to a percentage of the construction costs incurred by a taxpayer to place a facility in service, and
- (2) The PTC provides a credit based on the amount of electricity produced at a facility and sold to an unrelated person over a 10-year production period

Some renewable energy technologies qualify for either the PTC or ITC, at the taxpayer's election.

For energy projects that may elect either the PTC or ITC, such as onshore wind, developers and investors must determine whether the current value of the ITC or the present value of the expected stream of PTCs are worth more. Both forms of the credit play important roles in clean energy development. The PTC rewards the actual output that Congress intends to incentivize – the production of electricity from renewable resources. An ITC rewards investment and construction with the expectation, but not a guarantee, that such electricity will be produced. The ITC is important for newer technologies that typically have higher upfront costs relative to the amount of electricity expected to be produced. Over time, as efficiencies are achieved, and upfront costs fall, the PTC becomes a more attractive option. The availability of the ITC allows these newer technologies to gain a foothold in the market.

Credit electivity is an important policy mechanism if Congress seeks to incentivize increased offshore wind development. The ITC currently is the more important incentive for offshore wind facilities because of their relatively higher costs, but that is expected to change. As costs fall, allowing offshore project developers to choose between the ITC and the PTC should accelerate this progression and the overall amount of offshore wind energy.

The availability of the PTC, with the backstop of an ITC, will incentivize the development of more efficient offshore wind technology to maximize electricity production relative to cost. This, in turn, results in a cleaner, more reliable, and more secure grid for consumers across the country.

¹ P.L. 116-260, Consolidated Appropriations Act, 2021, H.R. 133, December 27, 2020.

Electivity should provide the option of a full-value PTC for offshore wind projects. This will provide an incentive target for developers and equipment manufacturers to strive to meet, ultimately accelerating cost reductions. Ultimately, these lower costs combined with the full-value PTC can help drive an additional 4 – 6 gigawatts of offshore wind deployment by the end of the decade.



Economic Benefits

An additional 4 GW to 6 GW of offshore wind developed by 2030 would provide significant economic benefits to coastal communities and the wider U.S. This level of offshore wind development could create up to 3,300 direct jobs and support up to 21,300 total jobs during construction, adding nearly \$3 billion in GDP. Once built, these projects could support an additional 1,900 total jobs and add another \$240 million to annual GDP.

Offshore wind development requires a range of skilled labor such as electricians, mariners, longshoremen, crane operators, and a wide variety of other specialized workers. These positions are good, well-paying jobs; workers would receive an estimated \$1.9 billion in wages and salaries during construction and up to \$170 million annually during the operations phase. Additionally, increasing offshore wind development has the potential to spur growth in our domestic supply chain, creating a multiplying effect for future development. Jumpstarting this growth is essential to creating a strong manufacturing base that can supply the offshore wind industry with domestic components for future projects, providing greater benefits for American workers.

Economic Impacts of 4 GW to 6 GW of OSW - Construction Phase (\$millions 2021)

Impact	Jobs (FTE)	Wages and Salaries	Economic Output	Value Added GDP
Direct	2,200 - 3,300	\$200 - \$400	\$700 - \$1,000	\$300 - \$500
Indirect	7,400 - 11,500	\$700 - \$1,000	\$2,400 - \$3,700	\$1,000 - \$1,600
Induced	4,300 - 6,500	\$300 - \$500	\$800 - \$1,200	\$500 - \$800
TOTAL	13,900 - 21,300	\$1,200 - \$1,900	\$3,900 - \$5,900	\$1,800 - \$2,900

Economic Impacts of 4 GW to 6 GW of OSW - Operations Phase (\$millions 2021)

Impact	Jobs (FTE)	Wages and Salaries	Economic Output	Value Added GDP
Direct	230 - 350	\$20 - \$40	\$20 - \$40	\$20 - \$40
Indirect	740 - 1,090	\$70 - \$100	\$210 - \$320	\$100 - \$150
Induced	300 - 450	\$20 - \$30	\$60 - \$90	\$30 - \$50
TOTAL	1,270 - 1,890	\$110 - \$170	\$290 - \$450	\$150 - \$240