



## 2014 Year-End Energy Briefing

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### The Future of the Wind Industry

**Burdick:** Our first presenter is **Ed Zaelke**, a partner and chair of the Global Project Finance practice, who will lead a discussion about the future of wind energy.

**Zaelke:** The statistics for U.S. cumulative wind power capacity growth reflect an increase from 4,147 megawatts in 2001 to a current level of 62,300 megawatts of installed capacity. The current installed capacity of wind is about 6 percent of the country's power mix. With the exception of the Southeast, online wind capacity is distributed across the country. Sixteen states now have more than 1,000 MW of installed wind, with Texas currently in the lead at nearly 13,000 MWs. We will see a 20 percent increase over the current capacity in the next 12 months. In order to qualify for production tax credits, current legislation requires that wind construction projects had to be started in 2013 and completed by the end of 2015, so there is a big bubble of wind projects scheduled for completion in 2015.

Why the growth in wind? There has been a constant decrease in the levelized cost of energy (LCOE) from wind, with a 58 percent decrease in the past five years. This was not anticipated. The prevailing wisdom, as of 2007-2008, was that all new technology already had been put into wind. However, with the Obama administration in place, wind R&D seemed a safe investment, resulting in cost-saving design and technology improvements. Further, with a shift into U.S. manufacturing, meaning "away from Europe," manufacturing and transportation costs are much less. Finally, as wind becomes more mainstream, the cost of capital has decreased.

Layering decreasing costs over a \$23 per megawatt-hour production tax credit (PTC) means that wind is running at about \$20 per megawatt-hour going forward, based upon contracts that were signed in 2013. But if you take away the PTC credit and then layer on that effect for 10 years, prices will increase by \$25 or \$30 – close to the cost of producing electricity from natural gas. In the battle to determine the nation’s energy mix, and we assume a certain reduction of energy produced by coal and nuclear plants, the wind folks fear that gas will be the winner if the PTC goes away. Thus, the wind industry is pushing for an extension of the PTC, which will keep the industry running while it is continuing to make further efforts to lower the LCOE.

## Categories

Renewable Energy

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