

Statement of Senate Finance Committee
Chairman Max Baucus

August 24, 2001: Field Hearing, Billings, Montana
The Role of Tax Incentives in Addressing Rural Energy
Needs and Energy Conservation

Good morning. Thank you all for coming. First, I just want to say how glad I am to be here today. I've been enjoying the Montana summer all month, traveling and meeting with groups across the state. If I could, I'd stay through the fall. But it's going to be a busy few months in D.C. And the energy debate will continue to heat up. That's why I called this hearing. So we can get a jump start and hear from Montanans, especially those in rural areas, and others in the region about solutions to our energy shortage. The Finance Committee has been investigating ways in which the tax code can facilitate these goals. And my goal is to make sure Montana's voice is heard in the debate.

Today's hearing is the third I've held exploring the role tax incentives can play in energy policy. The Committee conducted the first two hearings on energy tax issues in July. The first hearing discussed alternative fuels and alternative fuel vehicles. And the second provided information on national energy production and consumption. I plan on holding another hearing this fall to address electricity restructuring issues.

But today's hearing is the most important for me. That is because today I hope to identify some of the areas where federal tax policy can help Montanans afford the energy they need. In June, we held our second annual Economic Development Summit in Great Falls. The Congressional delegation and Governor Martz joined me in hosting the event. Energy issues were raised time and again. And we heard just how closely strong energy policy is tied to a healthy economy.

The energy needs of our rural areas were especially emphasized during the Summit. We know that sustained economic development for rural areas depends on a healthy U.S. energy industry. But it must also be balanced with effective energy conservation measures. We need efficient use of renewable resources and consideration for our environment. Increased energy prices are felt acutely by Montana residents and businesses. Rural areas are slow to see the benefits of competition, because suppliers won't fight for a small number of customers.

Last winter we saw how fragile our energy markets can be. California's failed foray into competition touched most western states, including Montana. Our state has been more cautious with deregulation. Still, energy prices have risen and threaten to go even higher. Congress this year pressured the Federal Energy Regulatory Commission to rein in wholesale prices that had skyrocketed in response to market failures in California. These were short-term, emergency

efforts. Congress must also seek ways to improve energy markets over the long term.

Innovative tax policy may be a key to our long term energy solutions. We all know that energy markets are driven by supply and demand. And the federal tax code can influence these market forces. For example, the research and development tax credit can drive technology or overcome barriers to development in general. But there are a lot of other ideas.

Montana boasts enormous coal reserves, yet most new electricity generation is natural gas-fired. Today we will hear about current proposals to increase investment in advanced clean coal technologies. Appropriate tax credits will help generators use the most advanced and cleanest technologies for coal-fired generation.

Indian Country is another example of unrealized potential. Tribal lands hold a wealth of untapped resources. Natural gas, coal, and wind are energy sources abundant in the region. Montana's tribes, however, also offer the most important input for development—an eager labor force. But there are barriers to development in Indian Country. Tax incentives could lower these obstacles and spur investment on tribal lands.

Earlier this year, along with Senator Bingaman, who is Chairman of the Senate Energy Committee, I sponsored an energy tax package to boost energy supplies and promote conservation. It included increased tax incentives for wind-, solar-, and hydro-generated power. The bill expands the ethanol producers tax credit, and expands the tax credit for electricity derived from the burning of wood or agricultural products to create energy. These are just some of the possibilities open to us. Today's hearing will explore even more ways to lessen the impact our energy shortage is having on folks across the state.

But I also realize that tax incentives are only one part in what needs to be a national energy policy. Regulatory burdens, dysfunctional markets and many environmental issues may not be covered today. But I will be concentrating on those issues as well on the Senate floor, with other Committees, or with the Administration.

That said, today's hearing will explore energy development issues of particular importance in Montana and other western states. We will hear about energy tax provisions affecting rural electric cooperatives, transmission infrastructure, and development on Indian lands. Panelists will discuss targeted incentives directed toward clean coal technologies, renewable and alternative energy sources, energy efficiency and energy conservation. They will also discuss incentives for the oil and natural gas industry.

We have to be realistic about what tax incentives can and can't do. And we will face limits on the size of the tax incentives we can enact. In short, we will need to prioritize. That is why this hearing is so important. I look forward to hearing from Montanans and others in the region about when they feel tax incentives are appropriate, and which are most important to Montana.

Three panels make up today's hearing. We will hear brief testimony from each witness, followed by questions from the dais. The first panel will address the infrastructure needs of Montana and other rural, western states. The second panel will focus on regional energy production issues. These first two will set the stage for a discussion of energy development issues on tribal lands in our third panel. Thank you all for coming.