

Testimony of Terry Royer, Winergy Drive Systems Corporation

House Committee on Science Space and Technology Subcommittee on Energy and Environment Subcommittee on Investigations and Oversight

Hearing on Impact of Tax Policies on the Commercial Application of Renewable Energy Technology

April 19, 2012

Good Morning. Thank you, Chairmen Harris and Broun, Ranking Members Miller and Tonko, and Subcommittee Members. My name is Terry Royer, and I am the CEO of Winergy Drive Systems Corporation. I appreciate the opportunity to speak with you today about the impact that tax policies have had on the commercialization of renewable energy, in particular, wind energy. I want to focus my testimony today on one particular tax policy – the Production Tax Credit (or PTC). While the wind industry has utilized other tax incentives to gain a foothold in the U.S. energy marketplace, the underlying PTC has, by far, been the most effective at generating the private capital and investment certainty that any industry needs to grow and prosper.

Let me back up for a moment to give you a little background on Winergy and how we fit into this conversation. Winergy Drive Systems Corporation is a division of Winergy Ag, an operating unit of Siemens Ag. Winergy Drive Systems Corporation is the US operating arm, which was incorporated in 2001. We are headquartered in Elgin, IL, a western suburb of Chicago. Winergy is the world leader in gearboxes for wind turbines. The gearbox is the key component inside a wind turbine. We operate two factories in Elgin and supply gearboxes to the top wind turbine manufacturers in the United States.

Winergy started here in the United States assembling and testing gearboxes with 11 employees in 2001. In the past six years when the PTC has not been allowed to expire, the demand it created has contributed to the expansion of our company, and has helped us weather the recent economic downturn. In 2009 we opened a new facility. Today we have 380 employees supporting our customers with the building of our products. Revenue from the wind industry accounts for 100% of my company's total income.

As one of the nearly 500 wind manufacturing facilities in the U.S., we are just one example of the critical role the PTC has played in the growth of our sector. The access to financing and the overall market certainty that the PTC has provided to investors, has led to the accelerated growth of wind farms projects in the U.S. In just the last six years, 38,094MW of wind have been constructed under a consistent PTC - this is over 80% of the total wind megawatts in the U.S. These projects demand huge pieces of equipment, intricate engineering, and a skilled construction force. Due to the economics of logistics and transportation costs, the wind industry has quickly realized that making these parts in the U.S. actually leads to lower costs and more efficiency. So, the growing demand for the construction of wind projects, brought on by the investor response to the PTC, has led to a

rapid growth of U.S. wind manufacturing. Indeed, in 2005 only 25% of the component parts of a wind project were built in the U.S. Now, we are making more than 60% of component parts in the U.S. This is a trend that must continue. Over 75,000 existing jobs in the industry depend on it, not to mention tens of thousands of potential jobs.

In addition to this growing domestic supply chain, technology innovations have also continued to push wind energy further down the cost curve. The cost of wind energy has come down 90% since 1980 and capital costs have dropped 33% since 2008 (Bloomberg New Energy Finance). Companies like my own contributed to these technological innovations that increased efficiency and drove down costs. Innovations in gearbox technologies that Winergy has led are a key input to the cost reductions we have seen over the last four years. Wind energy technology continues to improve as the industry scales up.

The PTC has benefited not just the manufacturers and developers, but the American electricity consumer and the U.S. economy as a whole. Wind energy now provides nearly 3% of America's electricity, with that number surpassing 20% in the states of Iowa and South Dakota. Overall, wind energy has accounted for 35% of all new electric generating capacity in the last five years, increasing the diversity and energy security of our country. The wind industry has generated investment upward of \$20 billion annually, which is greater than the economic impact on U.S. GDP from the Colombia, Panama, and South Korea free trade agreements combined (Senate Finance Committee Statement, 10/11/11).

It is imperative that the PTC remain in place for the near-future so that private investment continues to grow this market and so that U.S. manufacturing jobs continue to be created. The PTC is not a handout. It is a business tax credit, with funding based solely on project performance, not evaluation by government officials. Without a mechanism with which to fund wind projects past 2012, manufacturers like Winergy are already losing business. I expect Winergy orders for 2012 and 2013 to fall by nearly 60%, which will lead to subsequent job losses. Industry-wide, 37,000 jobs will be lost if the PTC is not extended. (2011 Navigant Study).

Again, thank you for the opportunity to speak with you today about the importance of federal tax incentives – particularly the PTC – for driving economic growth, energy diversity and U.S. manufacturing. I look forward to answering any questions you might have.