

The wrong approach

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Oklahoma! Where the wind comes sweepin' down the plain – and if some lawmakers have their way, it will be further taxed as it blows through.

For the wind industry, the tax landscape in Oklahoma changed dramatically in 2017. First, the five-year exemption from ad

valorem taxes was allowed to expire beginning Jan. 1. Then the Legislature repealed the tax credit for electricity produced from zero-emission facilities powered by wind. These two tax changes represent millions of dollars annually, which will now be applied to mitigate the state's revenue shortfall.

Now, a third major proposal has emerged: a per-kilowatt-hour production tax on wind energy, a rarity in the United States. At first blush, a production tax on wind energy may seem sensible. After all, natural gas is used to generate electricity, and it is subject to a gross production tax, so why not also impose such a tax on wind? A closer look, however, shows that the comparison is clearly strained.

Presently, the state's gross production tax, or severance tax, as state law interchangeably refers to it, applies to the production of mineral resources. Such activities are extracting, or severing, non-renewable mineral resources. However, wind is not severed from the land. Theoretically, Oklahoma can benefit from wind energy for as long as the wind blows.

Also, Oklahoma's gross production tax on mineral production is imposed in lieu of ad valorem taxes. Wind energy is presently subject to ad valorem taxes, which represent a major source of funding for local governments and schools. Oklahoma State University researchers have estimated that, when considering past and forecasted payments for planned projects, the wind industry will pay more than \$1 billion in ad valorem taxes to local communities. If a production tax is levied on wind energy in lieu of ad valorem taxes, this could reallocate that revenue away from local communities.

If a production tax were imposed in addition to ad valorem taxes, it would amount to a double-tax on wind energy. This could discourage further capital investment and raise electricity bills for Oklahomans.

Tax policy is not easy. However, imposing this tax on wind energy because others in the energy industry pay a gross production tax is the wrong approach.

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