

# Life Beyond the Tax Credit Cliff

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## Let's take a look back....

- What was the sales climate like for geothermal before we had a tax credit (2006)?
  - Biggest new housing market was from 2000-2009
  - All forms of energy prices were on the rise:
    - Over \$3.00/gal LP gas
    - Over \$1.00/therm Nat gas
  - Interest rates were still relatively low – and financing was available
  - Up to 2006 only a few GHP manufacturers were around (less than 10)
  - Loop costs (especially vertical) were still under \$1500/ton
  - Costs of all materials and heat pumps were lower
  - Utility rebates were about the same, maybe slightly less
  - Electric rates were lower
  - Mostly geothermal focused contractors only in the market which were trained and specialized, resulting in mostly proper design and installations.
- So this set up for positive growth for the geothermal market for all companies involved at that time!
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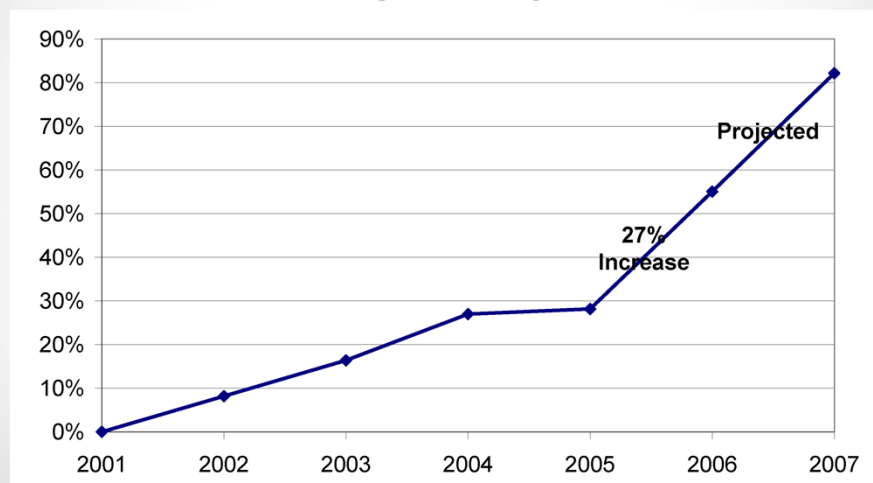
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## What happened in 2006?

- The tax credit happened – first it was up to \$2000 total for a credit, then in 2007 it went uncapped.
- What did this do to the GSHP market:
  - It flooded the market with every level of industry companies - contractors, distributors, manufacturers
  - Currently today every HVAC distributor has a GSHP product line
  - There are currently over 25 brands of GSHP's available
  - All contractors are now geo contractors – many were untrained, unqualified, and only doing it as a me too which multiplied the number of bad installations that were done since that time.
  - The costs of all materials and services have gone up (not due to the tax credit, but economy, inflation, gas prices, etc.)
  - Tax Fraud? I won't go there, but think about it!!!

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## So this is what happened to sales in the beginning.



## Since 2010....

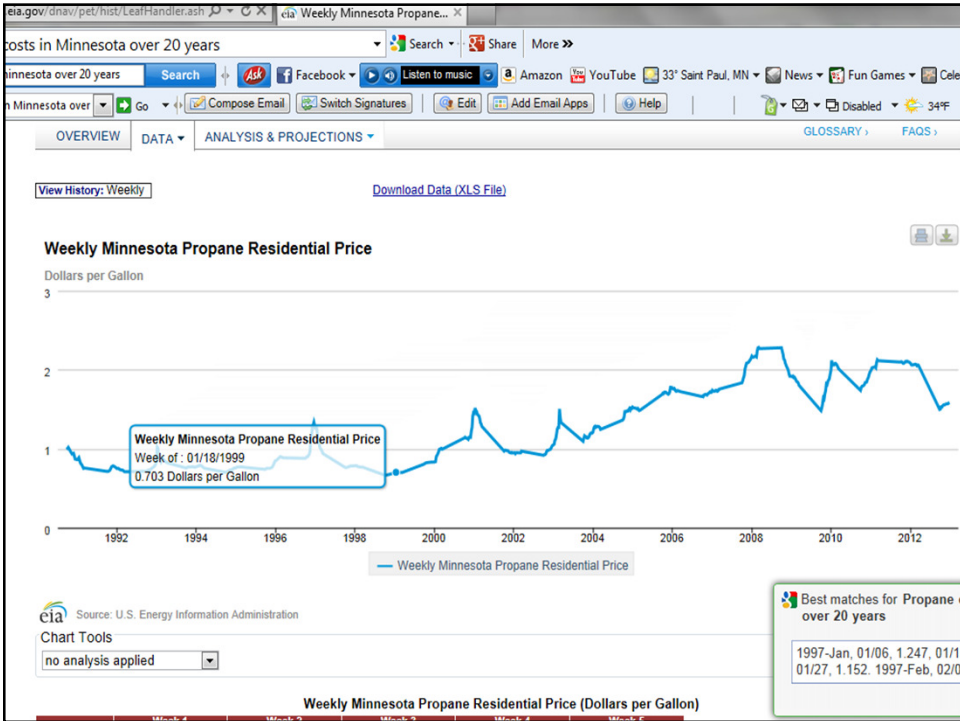
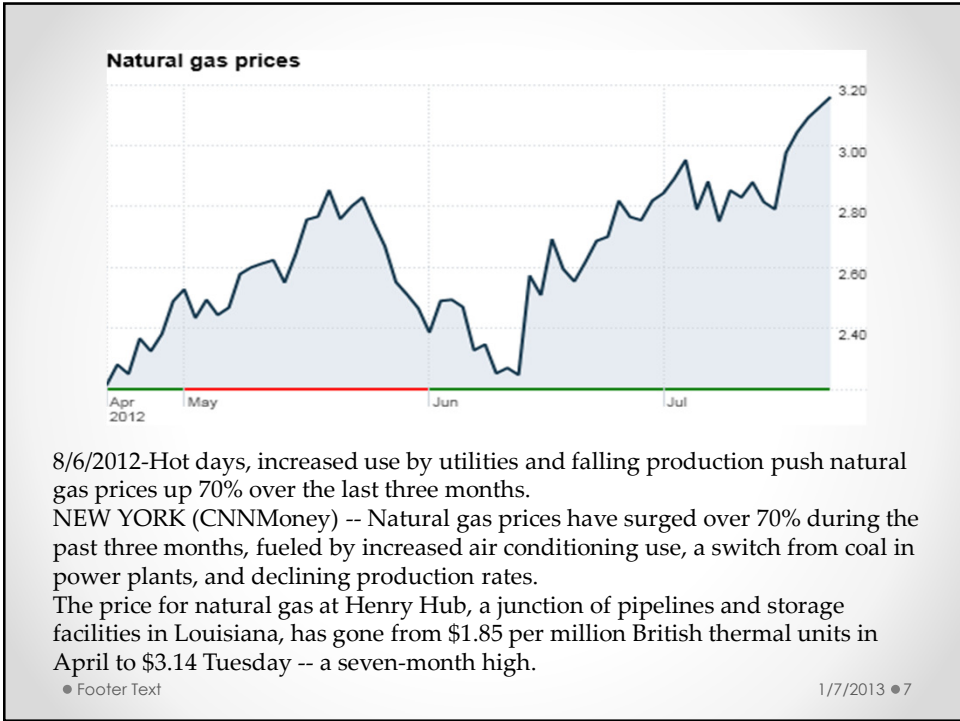
- The perfect storm has hit our industry to slow our momentum:
  - The housing market fell out after 2009 which is one of our primary demographics
  - Nat Gas and LP gas prices have come down to a 15 year low in 2012
  - Electricity prices have gone up due to the "renewable" energy policies for electric generation which caused a large influx in spending on generation and transmission systems.
  - Raw materials, etc. haven't come down with the energy prices so pipe, heat pumps, etc. are still at an all time high, plus technology has driven the cost of the heat pumps upward (two stage, ECM, Controls)
  - For a short time with energy prices higher, the retrofit market was the savior, but with low energy prices, and limited financing options, the retrofit market has also slowed.
- So now there isn't enough work to go around for all companies that became involved.

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## Where are we at today?

- Tax credit is still available for another 4 years.
- Energy prices look to slowly increase - speculation
- Electricity rates should stabilize since most of the infrastructure needed has been completed to meet the new renewable standards - speculation
- Electric Utility rebates should remain in place, and possibly have additional means of helping offset the costs of geothermal.
- Economy is coming back every so slightly – new housing starts are the best its been in 4 years.
- **So its safe to say we should see slight growth in the industry over the next 4 years. But is that enough?**

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generation in Minnesota

**GET SMART**

- The Value of Electricity
- Supply and Demand
- Climate Change
- Take Our Quiz

**GET ACTIVE**

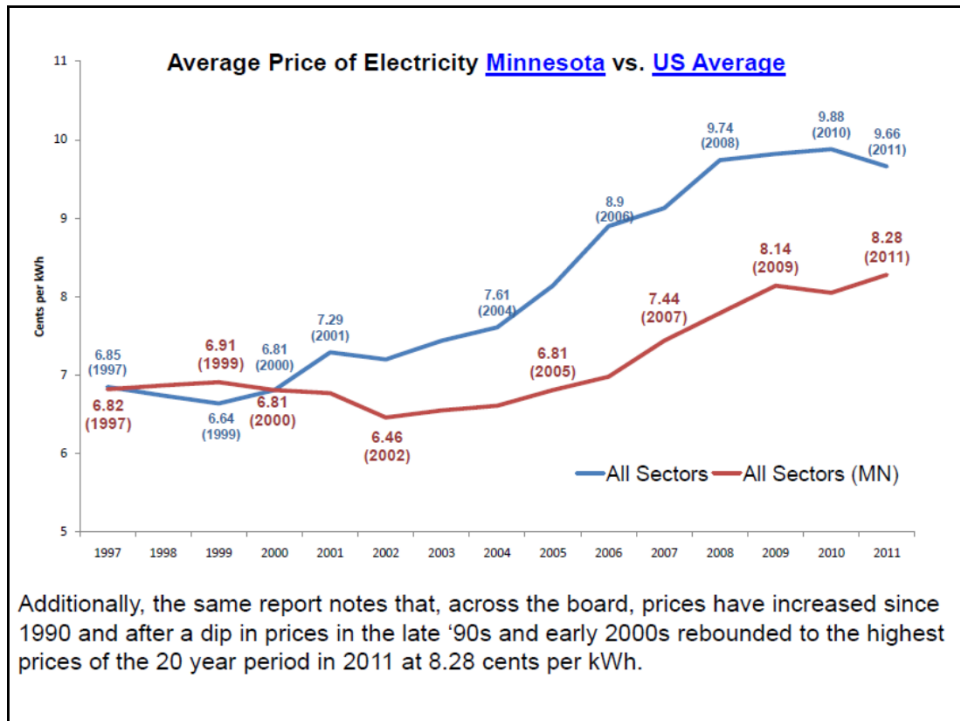
- Use Electricity Wisely
- Keep Our Fuel Mix Diverse**
  - The U.S. Fuel Mix
  - What's The Fuel Mix Where I Live?
  - The Role of Renewables
  - Fuels and Technologies
- Invest in the Future
- Get Involved

**Different Regions Use Different Fuels**  
 Electric generation fuel mixes vary from state to state and region to region, depending upon the availability and cost of fuels located there. Major changes in the generation mix can have economic and reliability impacts, especially on a regional basis.

**Minnesota's Net Generation**

Coal	52 %
Nuclear	25 %
Natural Gas	8 %
Oil	0 %
Hydro	1 %
Non-Hydro Renewables and Other	14 %

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## 2016.....2017

- Most GSHP companies are preparing for **NO** tax credit after 2016!!!
  - What does this mean? Different products in different segments of HVAC.
- If nothing else changes from a state or federal level to help our industry there will certainly be a **dip** in the geothermal sales across the country.
- **How long and how deep will the dip be??**
- **P.S. 2016 will be so busy there aren't enough drill rigs, Heat Pumps, contractors, etc. that can get to all the work (if energy prices go back up)!**

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## Here is what happened to the solar industry

- With the rising utility costs after the OPEC embargo in the 70's, ACS expanded their services to include solar energy. At this time the fledgling US solar industry exploded because of tax credits. 50% of a solar energy system could be recouped the first year as a tax credit. ACS enjoyed this robust period that was the glory days for the U.S. solar industry.
- ACS witnessed a growing horde entering the solar business. It at first appeared that they had little impact on ACS; most employed high pressure sales tactics, charged exorbitant money for systems that were not engineered to endure in the High Desert and were sloppily installed by inexperienced installers.
- The solar glory days ended abruptly at midnight January 31, 1985 when the federal solar tax credits expired. Within 6 months, 90% of the US solar industry expired as well. The resulting detriment to the solar industry by the fly-by-night solar companies did not become apparent until after they were gone.

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## Does any of that look familiar?

- The interesting fact about the tax credit is that there was really only one or two companies that were for the tax credit and spent a lot of their own money lobbying for the tax credit.
- Most of the other small companies were doing just fine and knew that the industry could continue on its own merit without a tax credit.
- Once a program (tax credit) is in place, it does provide short term exposure and of course industry growth. This has never helped sustain an industry since the tax credits always come to an end.
- So sales that would have happened anyway without a credit are now condensed due to the credit. And consumers won't buy after the tax credit, its like buying after a rebate. They will wait until the next sale or rebate. Unfortunately, this one won't come back.

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## Do we really want a tax credit extension?

- That is a tough question. It depends on where you sit and from what viewpoint you can see from.
- Did we really need one to begin with?
- Now that we have one, will it hurt if it goes away?
- How long can we continue if it stays?
- Do we not fight for it, but fight for some state incentives?
- **What is the path for our future?**

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## Path #1 - Doomsday

- We can all enjoy a very good 2016, but in 2017 with no tax credit, and if all else stays the same, we might all take a years vacation from geothermal.
- A lot of contractors will just go back to what they did before 2006 and sell conventional systems, which is most likely to happen.
- Many small HP manufacturers may go back to doing what they did before? With Energy Star requirements, its very expensive to be in the game.
- So basically we will end up just like the solar industry, until another tax credit comes along 20 years later to get us going again.

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## Path #2 – Kick the can

- There is always a chance the Federal Govt. will extend the tax credit another 4 years, etc.
- Well that is just kicking the can down the road. Eventually the tax credit will end, so then what? Do we want this to happen now or later?
- I guess ask me in 4 years to see what the sales climate for geothermal is like at that time? What are energy prices, etc.

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## Path #3 – Hope & Pray

- Hope and pray is just that.
- Maybe the economy comes back better than ever by 2017?
- Maybe home energy prices (nat gas & LP) hit an all time high by 2017?
- Maybe out of nowhere an industry savior appears and helps us out of this jam?
- Maybe loop contractors, or GSHP Mfrs will give away equipment for free?
- **See where this is going????**

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## Path #4 – Old School

- Maybe we go back to doing what we did before the tax credit?
- Sell geothermal to people that understand the benefits, and not just for a tax credit.
- Learn how to do it right, have happy customers, etc. which will grow your business by referrals.
- Sell all the other benefits of geothermal vs. just payback!
- Our industry may take a step back, but moving forward for the long term this may be the best and/or only option!

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## Path #5 – Get Involved

- Forget the Federal tax credit. We know all the reasons why it isn't good for our industry.
- Let's work together on the state level to try and get some type of incentive or deferral to offset the cost of the loop field.
- If we get this done on a state level, it is more likely to stay around, and we can be more influential of the outcome.
- If we can take the loop cost out of the upfront cost, it isn't much different than putting in a new furnace & AC.

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## How do we do this?

- Be actively involved in the MNGHPA.
- The MNGHPA will start to be more active in state legislation. In doing this, we can start to talk about ways to help advance our industry in MN.
- This only gets done if it is a group effort. We need numbers. We need everyone that is passionate about geothermal to be involved! We can't have people on the sidelines doing nothing.

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If we don't all chose Path #5, then Path #1 will be the only other option (unless by some chance Path #3 happens).

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## In Closing

- So if anyone has a crystal ball, please pass it to me!
- Otherwise, I am pleading with you all to get involved if you want this industry to continue to grow and have success, and have enough for all of us to enjoy life after the tax credit.

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Thank You!

Questions???

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