TAKING STOCK

They Tilt and Whirl While Spinning Off Cash

Paul Hellstern for The New York Times

Town Markers In Weatherford, Okla., the turbines not only make power but also symbolize the town's devotion to business and the environment.

By PETER MALONEY
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THE town of Weatherford, Okla., is proud of many things, and one thing it is proudest of is its wind turbines.

Whether you are heading west on Interstate 40 or cruising through the town's Web site, you can't miss them. They straddle the highway for miles, and on the Internet, the propellerlike blades greet every visitor to www.cityofweatherford.com. For Weatherford, the turbines signify its dual devotion to business and the environment.

They don't belong to Weatherford, but that hardly matters.

They belong to FPL Energy, the largest owner of wind farms in the United States, and an affiliate of Florida Power and Light. The 98 turbines in Weatherford and the 147 megawatts they can produce are a fraction of FPL's portfolio of 44 wind farms in 15 states, producing 3,210 megawatts, enough to power nearly one million homes.

Wind power is booming — not necessarily because of the environmental benefits, but because of the cash they spin off.

Wind power provides a risk-adjusted core return on capital, favorable accounting treatment for earnings and it is "good public policy," said Michael O'Sullivan, senior vice president for development at FPL Energy. Mr. O'Sullivan emphasizes that earnings from wind power turn into profits quickly in the first years of operation because of tax breaks.

Earnings from wind farms are sheltered by the Production Tax Credit. But when it expired in December 2003, the business of building wind farms came to a screeching halt all over. Work on the Weatherford project did not resume until Congress acted nine months later to extend the credit.

The Production Tax Credit originally became law in 1992, with a seven-year life span. It conferred a tax break on wind and other forms of renewable energy that lasted for a project's first 10 years.

Since it first expired in 1999, the credit has never been extended for more than two years at a time. As a result of repeated expirations and extensions, wind power has gone through a boom-bust cycle.

In the boom years of 2001 and 2003, new wind power installations had a production capacity of more than 1,600 megawatts. In 2002 and 2004, that figure was well under 500 megawatts. The tax credit is set to expire at the end of 2007.

Most developers and industry experts accept this cycle. They have little hope that the credit will become permanent, but neither do they expect Congress to cancel it.

"I've seen this movie four times now," said Jaime Steve, legislative director at the American Wind Energy Association. "Congress understands the problems it creates, but they say, 'This is just the way things are.' " The association's lobbying efforts are focused on passing a five-year extension of the tax credit.

If wind power is a national priority, why hasn't the credit been made permanent? Edwin F. Feo, a partner in the energy practice at the law firm Milbank, Tweed, Hadley & McCloy, said it's because of "the way they score budget impacts on a piece of legislation." The longer a tax credit lasts, he said, the larger its fiscal impact.

Still, industry experts say the credit doesn't account entirely for the boom in the wind business. Demand was the missing ingredient, and state legislators provided that. "We didn't really see any deals until 1998," Mr. Feo said.

That was when states began to pass standards requiring electricity suppliers to meet targets for the use of renewable energy. In 1999, 10 states had such requirements. There are now 21.

This means that FPL has made a big bet on an industry that depends on political whim. Wind power accounts for about 25 percent of FPL Energy's generation portfolio.

The tax credit has made wind power "a business for the big guys," favoring companies that have enough cash flow to be able to use the credit, said Jim Heidell of the PA Consulting Group.

Cash-rich utilities are taking note. PPM Energy plans to invest $2.4 billion on wind power by 2010. In 2005, the AES Corporation, a utility in Arlington, Va., bought SeaWest Holdings, a developer with wind farms that can produce 500 megawatts of power.

This activity has not escaped Wall Street's attention. In 2005, Goldman Sachs crossed the line from financing wind farms to owning them, buying Zilkha Renewable Energy. In December, Diamond Castle Holdings bought the Catamount Resources Corporation, the wind-power business of the Central Vermont Public Service Corporation, and may spend "a couple hundred million dollars" in more acquisitions, said Michael W. Ranger, co-founder of Diamond Castle, a private equity firm.

Over the last couple of years, the price of natural gas has risen fivefold, making wind power — helped by its tax credits — competitive. But there's a simpler explanation for the boom. "Anything the government guarantees to buy becomes a big business," said Jesse H. Ausubel, a policy expert at Rockefeller University.

The problem with wind power, Mr. Ausubel argues, is that to get more wind power, you need to cover more land, which is destructive to the environment.

Some developers acknowledge that. They put the limit of a profitable wind farm at 150 to 200 megawatts.

But as long as there are buyers, there will be builders.

"A lot of folks are talking about getting in, but a lot of people will be disappointed," said Michael Garland of Babcock & Brown, an investment and advisory firm.

Nevertheless, as long as natural-gas prices remain high, wind turbines will become more common. And though natural gas is expected to remain costly, 10 years ago experts predicted that prices would remain stable at a fraction of their current levels. That prompted developers to build hundreds of natural-gas-fired power plants, many of them now abandoned.

So if you're driving the Interstate through Weatherford years from now, look for the wind turbines and check to see if they are spinning.

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