

September 24, 2014

The Honorable Chairman Ron Wyden
United States Senate
221 Dirksen Senate Office Building
Washington, DC, 20510

The Honorable Ranking Member Orrin G. Hatch
United States Senate
104 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Hatch,

On behalf of a coalition of energy efficiency organizations, small and large businesses, trade associations, and public interest groups, the undersigned urge you to consider the efficacy of energy efficiency tax credits when contemplating extension of expiring and expired tax provisions. In particular, we support extension and update of the 25C tax credit for certain nonbusiness energy property and the 179D tax deduction for energy-efficient commercial and multifamily buildings, and extension of the 45L tax credit for new energy-efficient homes.

Energy efficiency tax incentives have a proven track record of cutting energy use and helping consumers save money, but policies must adapt to fit with the times and our ever-shifting economic and energy needs. That is why we are asking Congress to extend the 25C and 179D tax incentives with some modifications to make them even more effective, and to extend the successful 45L tax credit.

Section 25C provides a ten percent tax credit for the purchase of certain nonbusiness energy-efficient materials up to \$500, providing an incentive for homeowners to choose energy-efficient products over less expensive and efficient alternatives. The current product efficiency levels in the code, however, are out of date and thus may reward many “free riders,” or tax credit recipients who would have made the same purchase decision even if no tax credit were available. We recommend that the qualification levels under 25C be revised to higher efficiency levels and that installation costs be included in the cost of the measure. For some measures, such as duct sealing, material costs are small and most of the cost is in labor; homeowners should be able to recoup some of those costs as well.

We would also urge the committee to consider using an updated 25C as a transition or companion to a new multi-year performance-based tax credit, 25E. The technology neutral 25E would reward energy saving levels rather than specific products, aligning taxpayer dollars directly with public policy objectives and supporting the most cost-effective improvements for each homeowner. 25E would help create an enhanced market for energy efficiency and an incentive for sound, efficient construction by trained contractors—resulting in significant energy savings and domestic job creation.

The tax deduction in Section 179D promotes energy efficiency in commercial and multifamily buildings, which account for more than twenty percent of energy consumption in the United States. 179D has been very successful in encouraging energy-efficient new construction and partial building system upgrades, but it has not yet proven to be a meaningful incentive for major energy efficiency retrofits for existing buildings. Up to eighty percent of U.S. buildings standing today will still be here in 2050; 179D should be extended and revised to be a meaningful incentive for energy efficiency upgrades to retrofit existing buildings.

We recommend that 179D be extended through at least the end of 2015 with a new performance-based component that rewards retrofits that produce actual and verified energy savings, and that retrofit incentives are scaled to increase with greater energy savings. The current incentive should be increased

to a maximum of \$3 per square foot of improved building, and REITs should be allowed to deduct retrofit project expenses for purposes of taxable income and dividend calculations. Finally, the base code should be updated to ASHRAE 90.1-2007 in order to raise the performance bar. These changes will result in an improved, technology neutral 179D that creates additional energy savings and jobs.

We also urge the extension of the 45L new energy-efficient home tax credit. That provision provides a credit of \$2,000 for builders of homes that use 50% less energy for space heating and cooling and a \$1,000 tax credit to the builder of a new manufactured home achieving 30% energy savings for heating and cooling or a manufactured home meeting the ENERGY STAR requirements. The credit has been renewed several times and most recently lapsed on December 31, 2013. The 45L tax credit has been successful in transforming the new homes market toward more energy-efficient homes. When the credit was enacted likely less than 1% of new homes met the qualification levels. In recent years the number of homes certified as complying with the tax credit rose to about 10% of new homes sold; this growing market share is attributable in substantial part to the new and manufactured homes tax incentive.

Lastly, we support a technical correction to the section 48 tax credit for combined heat and power to ensure crediting for waste heat to power as well. We believe this was an oversight when the CHP credit was established and are confident that Congress intended to incentivize utilizing these waste streams to maximize efficiency.

We urge you to extend and update these critical energy efficiency tax incentives. There is a growing, bipartisan, and nationwide commitment to a goal of doubling U.S. energy productivity, or cutting our energy waste in half, by 2030. A study commissioned by the Alliance to Save Energy found that doubling U.S. energy productivity by 2030 could save the nation \$327 billion annually in avoided energy costs, create more than 1 million jobs, and reduce our energy imports by more than \$100 billion. These new and improved energy efficiency tax incentives would help the country take a large step toward achieving this goal.

Updating and extending these tax incentives will ensure that the United States does more with less (energy) to the betterment of our economy, national security, and environment. We urge you to extend and update the 25C, 45L, and 179D tax incentives for the benefit of America's families and businesses.

Sincerely,

Alliance to Save Energy
American Council for an Energy-Efficient
Economy
Acuity Brands
Alliance for Industrial Efficiency
Big Ass Solutions
Center for Environmental Innovation in Roofing
Conservation Services Group
Council of the North American Insulation
Manufacturers Association
Cree, Inc.
Environmental Defense Fund
Efficiency.org
Efficiency First

Energy Future Coalition
Enterprise Community Partners
Environmental and Energy Study Institute
Illuminating Engineering Society
Institute for Market Transformation
Ingersoll Rand
Knauf Insulation
Legrand
Lime Energy
Manufactured Housing Institute
National Association of State Energy Officials
National Association of the Remodeling Industry
Natural Resources Defense Council

Polyisocyanurate Insulation Manufacturers
Association
Seattle City Light
Sheet Metal and Air Conditioning Contractors
Association

The Stella Group, Ltd.
US Green Building Council
Vermont Energy Investment Corporation
Vinyl Siding Institute

cc: Members of the Senate Finance Committee