Energy Storage Association
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April 15, 2015

The Honorable Orrin Hatch
Chairman, Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member, Committee on Finance
United States Senate
Washington, DC 20510

RE: Energy Tax Reform Recommendations

Dear Chairman Hatch and Ranking Member Wyden;

As you consider comprehensively reshaping the United States tax code, the Energy Storage Association (ESA) appreciates the opportunity to put forth several suggestions that can make our electric grid more resilient and efficient while driving investment in U.S. innovation and manufacturing. ESA is an international trade association established to promote the commercialization of competitive and reliable energy storage systems. The association represents over 150 companies, organizations and individuals working together to open up markets for energy storage technologies and applications. We believe that smart public policy can create a stable market.

ESA is committed to the following guiding principles:

- Energy storage is the key to a resilient, efficient, clean and cost-effective grid.
- We must seize the opportunity to fully integrate storage to reduce outages, increase resilience, and avoid overspending to modernize the grid.
- Investing in energy storage will ensure economic security, foster innovation, and create sustainable jobs.
- Energy storage must be carefully considered by electric utilities, system operators, regulators, policy makers and other electricity providers and customers as we transition to a true 21st century grid.

Given these foundational principles, ESA believes that comprehensive tax reform should provide appropriate incentives for innovative industries to draw private sector investment in these U.S.-developed technologies. While energy storage technologies have been proven to be efficient, clean resources, the investment community and utilities still view them as higher risk than conventional generation technologies. With limited tax incentives, uncertainty would be greatly reduced for investors, entrepreneurs, and manufacturers. Hundreds of companies in nearly every state with technologies that enhance virtually all resources on the electric grid could benefit from these tax credits. Energy storage tax incentives will spur investment in storage technologies, creating jobs and economic benefits while reducing uncertainty in energy markets.

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Investment Tax Credit (ITC) for Energy Storage

Bipartisan legislation that would create an ITC for energy storage, the STORAGE Act, has previously been introduced in both chambers of Congress. Passage of this legislation would send the appropriate market signals to ensure this clean, efficient, and reliable technology choice is available to reduce our dependence on imported fuel, strengthen our infrastructure, and provide energy security through diversity. Specifically, this legislation would benefit the energy storage industry through several provisions:

- **Make available a tax credit modeled after the original 48C manufacturing tax credit.** The American Recovery and Reinvestment Act of 2009, Section 48C provided incentives to manufacturing facilities that support energy generation and conservation, including energy storage and excluding generation projects. This legislation will provide credits for owners of the storage equipment, while giving additional incentives for a wide variety of storage applications. As an emission-free technology, energy storage can enhance the effectiveness of the entire electric grid, maximizing the efficiency of traditional and renewable resources alike. The investment tax credit will give our nation more choices of a resource neutral technology to the benefit of everyone on the electric grid.

- **Enable the full deployment of energy storage technologies capable of providing multiple functions.** The tax credit will provide an incentive for grid-scale storage as a fuel-neutral choice for increased flexibility and reliability of the electric grid. The credit will include onsite energy storage that reduces peak demand, increases power quality and allows more balanced integration of renewable energy sources, including solar photovoltaics. The credit for residential energy storage equipment allows homeowners to take advantage of thermal storage technologies that reduce their energy use and demand during the hottest days of summer or coldest days of winter. Homeowners can also receive credit for electric vehicle charging equipment. The investment tax credit does not pick winners; it will benefit grid-scale applications as well as on-site and residential energy storage technologies, including electric vehicle charging.

- **Allow for this viable and important energy solution to gain penetration in the market.** Market uncertainty paralyzes investment and keeps viable technologies from entering the market. With this limited ITC, that uncertainty would be removed for investors, entrepreneurs, and manufacturers. Hundreds of companies in nearly every state with technologies that enhance virtually all resources on the electric grid will benefit from this investment. The investment tax credit will spur investment in storage technologies, creating jobs and economic benefits while reducing uncertainty in energy markets

Master Limited Partnerships and Energy Storage

Bipartisan and bicameral legislation was previously introduced in legislation that would open up Master Limited Partnerships (MLPs) to transmission, storage and generation from renewable resources. This tax construct is critical as market and investment incentives are considered to expand our nation's clean energy portfolio.

- **Master Limited Partnerships typically attract more capital investment, lowering the cost to develop the sector and increasing available equity.** MLP is a designation for company structure—dictating how a company is operated and taxed—that is considered a "pass through structure". MLPs are widely used and deliver billions of dollars of growth capital to sectors that qualify. To date, only fossil fuel development has been able to take advantage of this

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tax structure; renewable energy is excluded from the statute. Access to capital has been a chronic issue for the deployment of renewable energy technologies; this bill can correct that problem. Energy storage is included in the proposed MLP bill language.

- **MLPs provide a pass-through company structure and tax treatment.** As opposed to regular corporate taxation--35% before being available to shareholders, whereupon another tax is levied on dividends--the MLP allows the organization's income to be directly reported through the owner's taxable income at the personal tax rate rather than the corporate rate. This construct is typically used with private companies that have not benefitted from public equity markets. This structure would by its very nature benefit the energy storage market.

- **MLPs increase private investment in the technology markets.** MLPs combine pass-through tax benefits with access to public equity markets. These markets deliver greater benefits since the investor base is much larger. More investors add liquidity to these companies and ultimately a higher valuation and return for the owners. This bill simply expands the definition to include renewable resources and energy storage in addition to fossil exploration and resources. This bill levels the playing field for energy storage, allowing the public to participate directly in this growing sector—and, ultimately, in their energy future.

Additional tax reform recommendations include **technology-neutral innovation tax credits**, as well as **R&D partnership structures**, net operating loss reform and capital gains reform as submitted in collaboration with the Coalition of Small Business Innovators.

We hope that you will reach out to ESA should you have additional questions about tax policy for energy storage technologies and applications. We firmly believe that the tax code can provide some of the most important incentives to spur U.S. private investment, entrepreneurship, and manufacturing competitiveness.

Thank you for the consideration.

Sincerely,

Matt Roberts
Executive Director
Energy Storage Association