April 15, 2015

The Honorable Orrin Hatch, Chairman
Senate Finance Committee
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden, Ranking Member
Senate Finance Committee
221 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch and Ranking Member Wyden:

The undersigned organizations thank you for your leadership in initiating efforts on bipartisan tax reform through the recently convened working groups.

Energy efficiency is our nation's cleanest, most cost-effective energy resource. Energy efficiency is about doing more with less energy; it is also the cheapest way to address many of our energy challenges. While most efficiency improvements more than pay for themselves over their lifetimes, the advance costs of these projects remain a barrier for many businesses and homeowners. Tax incentives for energy efficiency help defray these up-front costs, and allow more Americans to enjoy the benefits of energy efficiency.

Previous tax reform proposals, however, have focused on energy production and have largely ignored energy efficiency. In lieu of a national energy policy, the tax code informs our national energy direction, and shapes how investment is made in energy infrastructure and technologies. Energy efficiency is equally as important as production and avoids "picking winners and losers" among resources. Energy Efficiency should be incented and included in the tax code and given treatment within the code at least at parity with other energy sources.

Businesses, investors, and consumers need stable, predictable federal tax policy to create jobs, invest capital, and deploy energy efficiency technologies. Energy efficiency tax incentives will help ensure that the United States does more with less (energy) to the betterment of our economy, national security, and environment. The energy efficiency advocacy community is committed to working with Congress to develop tax incentives for efficiency that fit within the principled framework of previous drafts. To that end, we have developed a set of principles around which we commit to developing sound energy efficiency tax incentives that are **simplified and streamlined, technology neutral, performance-based, predictable, market-transformational, and self-improving.**

<u>Principles for Energy Efficiency Tax Incentives</u>

Simplified and streamlined. Currently, there are 42 energy incentives in the tax code, of which 25 are temporary and expire every year or two. These credits address a wide range of fuel choices, technologies, and economic sectors. The efficiency community understands the need for a simplified, streamlined, and targeted set of incentives.

Technology neutral. The existing (and recently expired) efficiency tax credits are technology specific. This creates two problems. First, by being technology specific, the code is static and must be updated as technology improves. Technology neutral provisions eliminate the need for updating specific product requirements. Second, by being technology specific, the code picks winners and losers. Technology neutral provisions allow the market to determine the successful products. Instead, we support technology neutral energy efficiency provisions,

which should be based on energy savings and give consumer more flexibility and choice in meeting their energy needs.

Performance-based. Existing efficiency tax credits provide a credit based on the purchase or transfer of a qualified technology or specific energy efficient product and are one time credits (e.g. credits are offered when a new home is built or a new product sold). Instead, tax credits should be performance-based – with eligibility determined by the amount of energy saved. This will enhance consumer choice and allow the taxpayer to pursue individualized energy efficiency improvement options.

Predictable. Of the existing energy incentives, over half are temporary and expire every year or two. Business and consumers need predictability to decide where to invest their money. Energy efficiency improvements, in particular, have multi-year paybacks. To encourage investment in efficiency improvements and technologies, predictable tax incentives over multi-year timelines are needed. The efficiency community is committed to developing incentives that do not expire, but have a determined phase-out deadline or that sunset after a certain market threshold is reached. This will create certainty for investors, which will drive investment, and help spur the efficiency market.

Market-transformational. Tax incentives should aim to drive market transformation and remove initial barriers to innovative technologies and practices. When left in place too long, tax incentives distort price and market signals and ultimately create barriers to entry for new technologies. Therefore, tax incentives should remain in place only until market barriers are overcome and the technologies can stand on their own. Each provision should have an automatic phase-out or periodic update built in to send clear signals to businesses and investors.

Self-improving. Over time, technology and industry practices (ideally) evolve and improve to become more energy efficient. Tax incentives for energy efficiency should not remain static, based on a moment-in-time metric, but should be dynamic and responsive to new developments. Tax incentives should be based on metrics that are consistently updated. One solution would be to use metrics that are external to the tax code (for example, ENERGYSTAR ratings, ASHRAE, or DOE standards) that are updated and improved on a predictable and consistent timeline to keep pace with technology development. This would eliminate the need for constant renewal or revision of the tax incentives through legislation.

We appreciate the opportunity to share our views and look forward to working with you and the members of the Senate Finance Committee to develop meaningful tax provisions to deliver the benefits of energy efficiency to American consumers and businesses.

Sincerely,
Alliance for Industrial Efficiency
Alliance to Save Energy
American Council for an Energy Efficient Economy
Efficiency First
Energy Future Coalition
Environmental and Energy Study Institute
Home Performance Coalition
Institute for Market Transformation
National Association of Energy Service Companies
North American Insulation Manufacturers Association
U.S. Green Building Council