

**Statement for the Record**

**Submitted by**

**The National Association of Energy Service Companies  
1615 M Street, NW  
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**For**

**The House Ways and Means Committee**

**Hearing on How Tax Reform Will  
Grow Our Economy and Create Jobs**

**May 18, 2017**

NAESCO is the leading national trade association of the energy services industry. During the last thirty years, NAESCO member companies have delivered thousands of energy efficiency, renewable energy, demand response, distributed generation and combined heat and power projects across the United States and around the globe. Nationally, NAESCO member companies have delivered \$50 billion in projects that have produced \$55 billion in guaranteed and verified energy savings, which repay the cost of the projects and provide positive economic impacts to local communities.

NAESCO supports the Committee's efforts to reform the tax code, and believes any reform must reflect the important relationship between the public policy goal of reducing waste through the reduction of energy consumption and tax policy. Of particular importance to NAESCO's members is the continuation of the §179D deduction for commercial energy efficient property, which delivers demonstrated and widespread benefits to the U.S. economy.

Reducing waste and costs through the reduction of energy consumption by using the §179D tax deduction for efficient lighting, HVAC, and building envelope improvements, has proved to be an important public policy initiative and should remain a critical element of our nation's energy strategy. Tax incentives promoting energy efficiency, such as §179D, are a critical tool in advancing the country's budget deficit reduction, energy efficiency, and national security goals and result in a high value impact to taxpayers.

The §179D deduction enables accelerated cost recovery of energy efficiency investments made by commercial building owners, provides economic benefits of the deduction to government owned buildings, and assists designers of efficiency systems to develop advanced technologies that, when implemented, reduce energy waste. It does not reward the taxpayer simply for making an investment; rather, the deduction requires the achievement of verifiable reductions in energy usage. In its rules implementing this section of the code, the Internal Revenue Service requires inspection and testing of the energy efficiency (EE) project by qualified individuals to ensure the project qualifies for the deduction.

§179D advances our nation's energy policy priorities in a prudent and cost effective manner:

- **Economic Value:** Utilizing the §179D deduction creates additional economic value for building owners and has contributed to the increased use of energy efficient building design strategies resulting in the retrofit of energy inefficient aging buildings, many with significant deferred maintenance problems. In addition, the dollars saved on energy costs by businesses through efficiency improvements can be reinvested in areas that produce greater economic activity.
- **Job Creation:** §179D serves as an engine of economic growth that generates job creation in a variety of industry sectors. The incremental energy efficiency projects enabled by the availability of this tax deduction create and sustain more jobs in the construction,

engineering, manufacturing, and design sectors and reduce the need for investment in new energy supplies and production.

- **Encourages Efficiency Improvements to Building Stock:** The §179D deduction encourages energy efficiency improvements to aging commercial building stock, which otherwise may be neglected, by allowing for accelerated cost recovery of energy efficiency investments. Without §179D, energy efficiency retrofits are depreciated over a longer period of time as capital expenses. Even with full expensing provided for in the House Republican Blueprint on Tax reform, §179D is necessary to provide an incentive for projects to be implemented in government owned buildings that do not receive the direct benefit of full expensing. The benefit provided to the governmental entity from passing the deduction through to the energy service company delivering the energy efficiency retrofit allows for additional efficiency improvements to be provided and savings generated on behalf of the government entity at the same first cost.
- **Saves Energy and Reduces Emissions:** The acceleration of energy efficient building design and retrofits of inefficient aging buildings generates deep savings in building energy costs, significantly reduces energy demand, generates budgetary cost savings, and lowers the emissions of greenhouse gases – all of which benefit the nation’s energy security and infrastructure improvement priorities. In terms of value, efficiency is a far more cost effective means of meeting energy demand than is the generation of a new unit of energy particularly energy generated and delivered during peak usage periods.
- **Technology Driver:** The §179D deduction rewards achievement of significant energy savings regardless of the technology used to achieve those savings and places a premium on implementation of more sophisticated technologies. The incentive supports the modernization of aging U.S. building stock and enhances the overall performance of our nation’s building infrastructure.

Repealing the tax incentive for energy efficient commercial property undermines the significant advancements made to date in modernizing our nation’s building stock. In fact, the expiration of the deduction in December 2014, its retroactive reinstatement in December 2015, and its expiration in December 2016 have resulted in tremendous uncertainty on the part of commercial building owners, as well as the energy services companies and other industry providers whose businesses are directly tied to developing and implementing efficiency retrofits. Additionally, removing the only incentive that provides accelerated treatment for commercial efficiency property could result in a strong disincentive to invest in efficiency improvements. The tax code allows commercial businesses the ability to immediately deduct money spent on energy consumption (utility bills) as an ordinary and necessary business expense, while without §179D the cost of efficiency improvements would be depreciated over many years. This asymmetry in the tax code is successfully addressed through the 179D deduction. Eliminating the 179D provision brings back the economic bias in favor of higher energy costs created by, in many cases, the wasteful use of energy that could have been avoided through the use of energy efficient technologies.

An analysis by Regional Economic Models, Inc. (REMI), released in May 2017, provides evidence of the benefits to the U.S. economy provided by §179D. The report shows that a long-term extension of §179D would support up to 40,749 jobs annually and contribute almost \$3.9 billion annually to national gross domestic product (“GDP”), as well as over \$3.1 billion annually towards national personal income. Should Congress enact changes to §179D (such as those proposed in S. 2189 from the 113<sup>th</sup> Congress) that aim to strengthen and modernize the deduction, REMI forecasts 76,529 jobs would be supported and nearly \$7.4 billion added to the GDP.

According to the report, “Section 179D promotes the proper allocation of incentives in the real estate development process. A key challenge to realizing the benefits of energy-efficient improvements is that the associated cost savings flow to building occupants, not developers. By helping offset the cost of energy efficient investments, Section 179D allows building owners to share in the incentive to install energy-efficient improvements that help their occupants save money on electricity, water, and climate control costs.”<sup>1</sup>

In short, we strongly believe §179D should remain a permanent component of a reformed tax code. Importantly, §179D compliments the goals of tax reform by delivering economic growth, job creation, and enhanced economic competitiveness. If near-term enactment of comprehensive tax reform is not expected to be forthcoming, we strongly support an immediate, multi-year extension of §179D. An extension of §179D will provide needed certainty to the commercial and government building markets as well as the energy services company industry, and retain in the tax code the provision directed specifically at stimulating energy savings through investments in efficiency retrofits in the commercial building sector. Any discussion of a reformed tax code and energy tax policy is incomplete without a robust consideration of the positive budgetary impact of energy efficiency, and prudent and effective efficiency incentives – such as §179D – belong permanently in a reformed tax code.

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<sup>1</sup> Analysis of Proposals to Enhance and Extend the Section 179D Energy Efficient Commercial Buildings Tax Deduction, Prepared by Regional Economic Models, Inc. (REMI) May 2017, Page 4

## ***Introduction to NAESCO***

The National Association of Energy Service Companies proudly celebrates 33 years of leadership in promoting, developing, and advocating for the central role of energy efficiency as part of a comprehensive national energy agenda. NAESCO and its member organizations maintain a firm belief in the economic and environmental benefits of the widespread use of energy efficiency and embrace ethical market behavior as a core value.

### *Advocacy Voice*

NAESCO represents every facet of the energy services industry and actively advocates for the cost effective delivery of comprehensive energy services to all end user market segments. The Association places a high priority on making the Association a home for the broadest spectrum of market participants which gives our advocacy voice additional resonance. Through its robust advocacy program, NAESCO has been a key catalyst in creating, among federal and state lawmakers, regulators, and energy program managers, a continuing commitment to developing and implementing energy efficiency solutions.

### *Opening New Markets for Energy Services*

On behalf of its membership, NAESCO works to help open new markets for energy services. NAESCO has focused during the last three decades on reaching out to end users by directly promoting the value of energy efficiency to customers in all market segments through its seminars, workshops, training programs, and conferences; publication of case studies, guidebooks, customer manuals, and original research; and the compilation and dissemination of aggregate industry data drawing upon the project database created and maintained by NAESCO and the Lawrence Berkeley National Laboratory. NAESCO also works collaboratively with allied trade groups, policy groups and customer representatives to accelerate market development and growth.

### *Promoting Industry Best Practices*

NAESCO sponsors a rigorous accreditation program for ESCOs, Energy Service Providers and Energy Efficiency Contractors to recognize management capabilities, outstanding project experience, ethical business practices, and overall commitment to providing customers with comprehensive and successful energy solutions. NAESCO has ethical guidelines in place and has created an industry ombudsman to provide a transparent protocol for the review of ethical issues that may arise.

*Nationally, NAESCO member company projects have produced:*

- \$50 billion in projects paid from savings
- \$55 billion in savings – guaranteed and verified
- 450,000 person-years of direct employment
- \$33 billion of infrastructure improvements in public facilities
- 450 million tons of CO<sub>2</sub> savings at no additional cost

*Most of these projects are Energy Savings Performance Contracts (ESPC), which don't require new taxes, because they re-purpose the money that a customer is currently spending on wasted energy into a payment stream for the energy-saving capital improvements.*