

January 17, 2014

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
219 Dirksen Building
Washington, DC 20510

Dear Chairman Baucus:

On behalf of the National Association of Energy Services Companies (NAESCO), I appreciate the opportunity to offer comments on the “Cost Recovery and Accounting Tax Reform Discussion Draft” and the “Energy Tax Reform Discussion Draft.”

NAESCO strongly opposes the provision in the Cost Recovery Draft that would permanently repeal the Section 179D deduction for energy efficient commercial property. We believe reducing energy consumption through public policy initiatives, such as Section 179D, is and should remain a critical element of our nation’s energy strategy. Incentives promoting energy efficiency generate the greatest “bang-for-the-buck” in terms of value to the taxpayer, and are a critical tool in advancing the country’s energy conservation and security goals.

In short, we strongly believe Section 179D should remain a permanent component of a reformed tax code. Importantly, Section 179D serves to augment 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 Section 179D.

Section 179D serves as an engine of economic growth that generates job growth in a variety of industry sectors and reduces energy usage and costs for businesses. The incremental energy efficiency projects enabled by the availability of Section 179D create and sustain much needed jobs in the construction, engineering, manufacturing and design sectors. The American Council for an Energy-Efficient Economy (ACEEE) estimates that in 2010 as much as \$670 billion was spent in the United States on energy efficiency goods and services, which includes investments in building efficiency improvements. These investments in energy efficiency created a net gain of approximately 300,000 jobs in the U.S., while also reducing the need for investment in new energy supplies and production. In addition, the dollars saved on energy costs by businesses through efficiency improvements can be reinvested in areas that produce greater economic activity.

Section 179D advances our nation's energy policy priorities in a prudent and cost effective manner. The deduction delivers significant energy savings across the country's building stock by incentivizing greater private sector investment in commercial energy efficient property. Section 179D encourages the acceleration of energy efficient building design and retrofits of inefficient aging buildings, thereby generating deep savings in building energy costs, significantly reducing energy demand, and lowering the emissions of greenhouse gases – all of which benefit the nation's energy security and clean energy 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.

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 in December of the deduction already has 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 Section 179D the cost of efficiency improvements would be depreciated over many years. This asymmetry in the tax code was 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.

For the aforementioned reasons, we believe any discussion of energy tax policy is incomplete without a robust consideration of energy efficiency, and prudent and effective efficiency incentives – such as Section 179D – belong permanently in a reformed tax code.

Our members and I applaud the efforts of you and your committee with regard to tax reform and appreciate the opportunity to offer NAESCO's comments on the Cost Recovery and Energy Tax Reform Drafts. In closing, NAESCO supports the extension of the Section 179D deduction for energy efficient commercial buildings. NAESCO would be happy to serve as a resource for you and the Committee as you continue your important work.

Respectfully,

A handwritten signature in black ink, appearing to read "Donald Gilligan", with a long horizontal flourish extending to the right.

Donald Gilligan
President

Cc: The Honorable Orrin G. Hatch
The Honorable Benjamin L. Cardin
The Honorable Dave Camp
The Honorable Sander M. Levin

Introduction to NAESCO

NAESCO is the leading national trade association of the energy services industry. NAESCO numbers among its members some of the world's leading energy services companies, including: ABM Energy, AECOM Energy, Aireko Energy Solutions, Ameresco, Burns & McDonnell, CM3 Building Solutions, Chevron Energy Solutions, Clark Energy Group, ClearEnergy Contracting, Climatec, ConEdisonSolutions, Constellation New Energy, Control Technologies and Solutions, CTI Energy Services, Eaton Corporation, Energy Control Inc, Energy Solutions Professionals, Energy Systems Group, Entegriy, Excel Energy, The Fulcrum Group, NextEra Energy Solutions, Green Campus Partners, Honeywell, Johnson Controls, Lockheed Martin, M360, McClure Energy, Navitas, NORESKO, NXEGEN, Onsite Energy, Pepco Energy Services, Performance Services, Schneider Electric, Siemens Industry, Southland Industries, Synergy Companies, Trane, UCONS, Wendel Energy Services, and Wipro Limited. Utility members include the New York Power Authority, Pacific Gas & Electric, and Southern California Edison.

During the last twenty years, NAESCO member companies have delivered thousands of energy efficiency, renewable energy, demand response, distributed generation and combined heat and power projects across the U.S. as well as around the globe. Nationally, NAESCO member company projects have produced:

- \$45 billion in projects paid from savings*
- \$50 billion in savings – guaranteed and verified*
- 400,000 person-years of direct employment*
- \$30 billion of infrastructure improvements in public facilities*
- 450 million tons of CO2 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.