ESG ENERGY SYSTEMS GROUP

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The Honorable Dave Camp
Chairman
Committee on Ways & Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways & Means
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Kevin Brady
301 Cannon House Office Building
Washington, DC 20515

The Honorable Mike Thompson
231 Cannon House Office Building
Washington, DC 20515

RE: Section 179D Deduction Extension and Expansion

Dear Chairman Camp, Ranking Member Levin and Congressmen Brady and Thompson:

As President of Energy Systems Group (ESG), I would like to offer my support for the extension and improvement of the Section 179D deduction for energy efficient commercial building property. The efforts being undertaken on tax reform by the Committee and its working groups are of critical importance and I appreciate the opportunity to provide my views.

ESG is an energy services company (ESCO) specializing in the development of sustainable energy solutions which allow building owners to maximize their energy efficiency and operational performance, while reducing their carbon footprint. ESG's comprehensive offering includes facility-wide audits, energy and facility project development, engineering and design services, implementation, financing, operations and maintenance services and measurement and verification of savings. Through our core business of performance contracting and extensive network of utility partnerships, ESG provides innovative solutions for the modernization of buildings and energy infrastructures in the government, education, healthcare and commercial sectors. ESG has developed more than $1.4 Billion in facility improvements and energy efficiency projects for more than 300 customers nationwide.

The Section 179D deduction allows a private commercial or multi-family sector building owner to receive a $1.80 per square foot deduction for an energy efficiency upgrade. Section 179D also allows government buildings to allocate the deduction to the designer of the efficiency project. The current $1.80 deduction is available to commercial and government owned properties that achieve a 50 percent annual reduction in energy usage, and partial deductions are available for those properties achieving less than 50 percent energy and power cost savings as compared to a like-use building (following the ASHRAE 90.1 2001 standard).

The Section 179D deduction has furthered many public policy, corporate responsibility and good government goals. The practical effects of the deduction have fostered a cleaner environment; reduced energy consumption in the public and private sector; and made available greater tax revenue to the federal government through energy cost savings derived from efficiency retrofits. In addition, the deduction offers significant job creation opportunities. According to industry estimates, every $1 million in project value can generate the creation of 10 jobs within the real estate, construction, manufacturing, industrial, design and engineering sectors, among others.

With respect to ESCOs, Section 179D is viewed as a critical tool in persuading investment in energy efficiency upgrades. Structured as an output-based incentive, the deduction requires a retrofit to achieve certain verifiable efficiency results. This has induced ESCOs, as designers of retrofit projects, to research and develop innovative efficiency solutions geared toward achieving the full deduction. In some cases, empirical evidence suggests the deduction has encouraged certain taxpayers to opt for a longer payback period from which to recoup the investment. In turn, greater cost and energy savings impacts are derived from the retrofit as longer payback periods typically reflect larger and more expansive projects.

ESG, as a specialist in the design of government efficiency systems, is a direct beneficiary of the Section 179D deduction. Because governments are not taxpayers and therefore unable to take advantage of the deduction, statute allows the allocation of the deduction to firms responsible for the project design. Considering ESG's extensive work with governments at all levels, the ability to receive the deduction has given a tremendous boost to our bottom line. This allows us to reinvest in the company, hire more professionals and expand the research and development of innovative new efficiency systems.

While Section 179D remains a valuable tool for the reasons outlined above, an extension of the deduction past its 2013 expiration coupled with moderate improvements would enhance the provisions effectiveness and accessibility. Along with an extension, ESG offers the following recommendations for consideration:

- Energy Savings Baseline: The current deduction does not take into account a building's previous energy and power consumption for the purposes of determining the amount of deduction available to the taxpayer. The amount of deduction is determined by comparing a building's energy and power reduction (post-retrofit) to that of a reference building that meets the requirements of the ASHRAE 90.1. 2001 standard. ESG recommends the Committee consider utilizing a building's own energy and power usage pre-retrofit as the baseline, which would deliver a more precise measurement of the energy savings achieved and a more logical standard by which to determine the amount of deduction.

- Increase Deduction & Link to Savings: Increasing the deduction available under Section 179D and linking the amount of the deduction directly to the energy savings achieved will encourage greater utilization of the deduction. This can be achieved without undercutting the intent or stringent verification requirements of the original provision.

The Section 179D deduction is good public policy, spurs innovation in the development of energy efficiency systems, and has a broad effect on the economy. I encourage Congress to consider extending and improving the deduction as outlined above. Please do not hesitate to contact me if I can offer additional information as the Committee develops a comprehensive tax reform package.

Respectfully,

Greg Collins
President