

April 11, 2013

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

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

On behalf of the National Association of Energy Service Companies (NAESCO), I would like to strongly encourage the extension and expansion of the Section 179D tax deduction for energy efficient commercial buildings. We appreciate the opportunity the House Ways & Means Committee has provided, through its tax reform working groups, to stakeholders like NAESCO to offer recommendations of needed reforms to the tax code.

NAESCO is the leading national trade association of the energy services industry. 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 United States and around the globe. Nationally, NAESCO member company projects have delivered \$45 billion in projects that have produced \$50 billion in guaranteed and verified energy savings which repay the cost of the projects, and provide positive economic impacts to local communities.

NAESCO supports extending the Section 179D deduction past its current expiration date of December 31, 2013. The 179D federal tax deduction has been a valuable tool that allows a private commercial or multi-family sector building owner to receive a \$1.80 per square foot deduction for an energy efficiency upgrade. The current deduction also allows government buildings at the federal, state and local level to allocate this tax incentive to the designer of the efficiency project, thereby creating additional economic value.

An extension is sound public policy as the Section 179D deduction has already demonstrated success in meeting a number of economic and energy security challenges facing our nation. Energy Service Companies (ESCOs) have employed the 179D deduction in hundreds of projects implemented since the provision was first enacted. Utilizing a Section 179D deduction for an energy efficiency project creates additional economic impact, and can accelerate the use of energy efficient building design and the retrofit of inefficient aging buildings. This type of incentive increases the overall magnitude of energy savings generated by projects throughout the country; these projects significantly reduce energy-related costs for commercial building owners and government properties. In addition, they support

the modernization of an aging building stock and enhance the overall performance of our nation's building infrastructure. Moreover, each of the incremental energy efficiency projects directly attributable to the availability of Section 179D creates and sustains more jobs in the construction, engineering, manufacturing and design sectors.

Along with extending the Section 179D deduction, NAESCO recommends the Committee consider a number of reforms to the provision that would boost efficiency investments in commercial and government-owned buildings and spur greater job creation. Making some modest modifications to the Section 179D deduction, such as increasing the scope of eligible projects and providing greater flexibility in its qualifying parameters, could advance the national pursuit of energy efficiency and provide additional incentives to these critical energy investments.

Under the current law, a \$1.80 deduction is available to commercial and government-owned properties that achieve a 50 percent reduction in annual energy usage; partial deductions are available for properties achieving less than 50 percent energy use reduction. Energy savings are measured using the ASHRAE code as a baseline, rather than the building's actual energy usage. We believe that a more effective approach is to utilize the building's pre-upgrade energy consumption as the baseline for energy savings, thereby enabling the project developer and designer to recognize more precisely the true amount of energy savings achieved.

In addition, increasing the total dollar amount of the deduction from the existing \$1.80 per square foot and linking the deduction to a sliding scale, which ties the dollar amount of the deduction to the energy savings achieved, would provide additional flexibility without degrading the original intent (or stringent verification requirements) of the original provision.

Legislation addressing the aforementioned improvements to Section 179D was introduced in the Senate during the 112th Congress (S. 3591). Taking these steps to enhance the Section 179D deduction would improve the usefulness of the deduction and lead to more than 77,000 new jobs created in the construction, engineering, manufacturing and energy services sectors alone according to a 2011 analysis performed by the University of Massachusetts, Amherst.

I applaud the Committee's effort with regard to tax reform and appreciate the opportunity to offer NAESCO's recommendations. In closing, NAESCO supports the extension and enhancement of the Section 179D deduction for energy efficient commercial buildings. NAESCO would be happy to serve as a resource for the Committee as it continues its 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

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, Comfort Systems USA EnergyServices, ConEdisonSolutions, Constellation New Energy, Control Technologies and Solutions, Eaton Corporation, Energy Control Inc, Energy Solutions Professionals, Energy Systems Group, Excel Energy, The Fulcrum Group, NextEra Energy Solutions, Green Campus Partners, Honeywell, Johnson Controls, M360, McClure Energy, Navitas, NORESKO, NXEGEN, Onsite Energy, Pepco Energy Services, Schneider Electric, Siemens Industry, Southland Industries, Synergy Companies, Trane, UCONS, Wendel Energy Services, Willdan Energy Solutions, 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.