

April 10, 2015

The Honorable Orrin Hatch  
Chairman  
Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510

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

The Honorable John Thune  
Co-Chair Business Income Tax  
511 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Ben Cardin  
Co-Chair Business Income Tax  
509 Hart Senate Office Building  
Washington, DC 20510

The Honorable Dean Heller  
Co-Chair Community Development and  
Infrastructure  
324 Hart Senate Office Building  
Washington, DC 20510

The Honorable Michael Bennet  
Co-Chair Community Development and  
Infrastructure  
261 Russell Senate Office Building  
Washington, DC 20510

RE: Comments to the Business Income Tax Working Group and the Community Development and Infrastructure Working Group

Dear Chairman Hatch, Ranking Member Wyden, and Senators Thune, Cardin, Heller, and Bennet:

On behalf of the National Association of Energy Services Companies (NAESCO), I would like to strongly encourage the permanent extension and expansion of the Section 179D tax deduction for energy efficient commercial buildings. We appreciate the opportunity the Senate Finance 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 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 extending the Section 179D deduction past its current expiration date of December 31, 2014. The 179D federal tax deduction has been a valuable tool that allows a private commercial or multi-family sector building owner to receive up to 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 for the government building owner in the form of additional efficiency improvements.

Significant investment is required to make a property more energy efficient. Prior to enactment of Section 179D, the upfront costs associated with retrofitting existing buildings and the relatively small near-term economic payback of the efficiency investments created a barrier to the market for energy efficiency services. Section 179D simply accelerates to the year placed in service the depreciation deduction for the cost of the energy efficiency asset up to the amount of the 179D deduction. Without Section 179D, the depreciation schedule for some energy efficiency property could be as much as 39 years. It is important to note that Section 179D is not a tax credit and is only a deduction that reduces a building owner's or energy service company's taxable income. In addition, the deduction can be claimed only after an independent third-party verifies that the energy efficiency retrofit has met stringent statutory and Internal Revenue Service standards and is creating measurable energy savings.

An extension is sound public policy, as the Section 179D deduction provides a technology neutral incentive that 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, 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 by significantly reducing energy-related costs for commercial building owners and government properties. In addition, the incentives 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.

Legislation addressing the aforementioned improvements to Section 179D was introduced in the Senate during the 113<sup>th</sup> Congress (S. 2189). 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. Additionally, the EXPIRE Act (S. 2260), as passed by the Senate Finance Committee in April 2014, included a two-year extension of Section 179D.

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 the Committee as it continues its important work. I applaud the Committee's effort with regard to tax reform and appreciate the opportunity to offer NAESCO's recommendations.

Respectfully,



Donald Gilligan  
President

## **Introduction to NAESCO**

### **About NAESCO**

*The National Association of Energy Service Companies proudly celebrates 31 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. 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 CO2 savings at no additional cost*

### **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.*