



April 15, 2015

The Honorable Dean Heller
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Washington, DC 20510

The Honorable Michael Bennet
261 Russell Senate Office Building
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The Honorable Dan Coats
493 Russell Senate Office Building
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The Honorable Maria Cantwell
511 Hart Senate Office Building
Washington, DC 20510

The Honorable Tim Scott
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Washington, DC 20510

The Honorable Bill Nelson
716 Hart Senate Office Building
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Re: NEMA and ACEEE Comments to the Community Development and Infrastructure Working Group

Dear Senators:

Thank you for the opportunity to provide our suggestions for how the Senate Finance Committee's bipartisan Community Development and Infrastructure Working Group should address tax reform questions related to energy efficiency in buildings, homes, the electric grid, and in industry.

The National Electrical Manufacturers Association (NEMA) and the American Council for an Energy-Efficient Economy (ACEEE) have been working together over the past few months to develop a performance-based, technology-neutral approach to encourage substantially improved levels of energy efficiency relative to current practice.¹

Presently, there are three tax incentives that encourage energy efficiency in buildings: §25C for existing homes, §45L for new homes, and §179D for both existing and new commercial buildings. We recommend that these provisions be replaced with a new tax incentive provision that would be performance-based, technology-neutral, would promote high levels of efficiency that are not presently common in new and existing buildings, would semi-automatically tighten the qualification levels as the market for efficient buildings grows, and would ultimately phase out when specific market milestones are reached. We are now developing a detailed proposal, in consultation with other industries and experts, and will share that with staff when it is ready.

We also encourage Congress to fix currently broken depreciation rules for building equipment. Under the current tax code, any property that is connected to a commercial building is depreciated over the life of the building (39 years), even though many assets have a much shorter service life. The 39-year depreciation period acts as a barrier to greater energy efficiency as it makes efficiency investments less financially attractive since many businesses will choose to repair equipment when it fails so as to avoid

¹ NEMA and ACEEE have both previously submitted comments to the Senate Finance Committee. NEMA submitted comments on September 17, 2014 with suggested draft language: http://www.nema.org/Policy/Documents/NEMA%20Tax%20Reform%20Legislative%20Language_October%2030%202014.pdf. ACEEE submitted comments on January 17, 2014 with specific draft language on depreciation and technical backup materials: <http://aceee.org/comments-senate-finance-committee-topic-cost-recovery-and-accounting>.

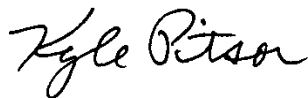
having to write off the un-depreciated value. Thus, use of a 39-year life is effectively “penalty depreciation.” This should be ended, and at a minimum depreciation periods should be based on actual typical service lives and not some longer period.

Energy efficiency improvements can also be made in industrial facilities across the country. According to the U.S. Department of Energy, the industrial sector accounted for 21 percent of the nation’s total energy consumption, and 23 percent of the nation’s electricity. When high-efficiency drives and premium motors are combined with sensors, intelligent process controls and monitoring systems, it is estimated that 15-30 percent energy savings are attainable in most industrial environments. However, only one out of five U.S. companies has invested in industrial energy efficiency in the past three years, with many citing inadequate funds or financing as a barrier. To address this disparity between the potential for energy savings and actualized savings in the industrial sector, we propose that Congress include an accelerated (five-year) depreciation treatment for investments in energy-efficient industrial technologies.

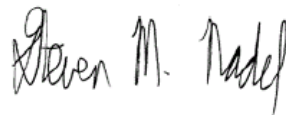
Similar to the industrial sector, investments are needed to improve the efficiency, reliability, and resiliency of the nation’s electric grid infrastructure. Accelerated (five-year) depreciation treatment should also be given for technologies that manage or reduce energy consumption by sensing, collecting, monitoring, analyzing, or controlling energy or data on an electric transmission or distribution grid, or by reducing peak demand through demand-response systems or through enhanced control of voltage and power flows. For both this provision and the previous ones, details should be delegated to the Treasury and Energy Secretaries.

Thank you once again for the opportunity to share our thoughts with you. As the Senate Finance Committee continues to focus on improving America’s tax code, we look forward to providing you with more detailed information on the aforementioned tax reform proposals.

Sincerely,



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National Electrical Manufacturers Association



Steven Nadel
Executive Director
American Council for an Energy-Efficient Economy

CC:

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