November 14, 2018

The Honorable Paul D. Ryan
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Democratic Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Chuck Schumer
Democratic Leader
U.S. Senate
Washington, DC 20510

The Honorable Kevin Brady
Chairman
U.S. House of Representatives
Committee on Ways and Means
Washington, DC 20515

The Honorable Richard Neal
Ranking Democratic Member
U.S. House of Representatives
Committee on Ways and Means
Washington, DC 20515

The Honorable Orrin Hatch
Chairman
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Democratic Member
Committee on Finance
U.S. Senate
Washington, DC 20510

Dear Speaker Ryan, Democratic Leader Pelosi, Majority Leader McConnell, Democratic Leader Schumer, Chairman Brady, Ranking Member Neal, Chairman Hatch and Ranking Member Wyden:

We understand that preliminary discussions are underway regarding the future of tax incentives commonly known as "extenders," as well as unresolved tax issues stemming from the Tax Cuts and Jobs Act of 2017. As supporters of energy efficiency – by far the leading employer in the clean-energy sector and among the leading employers in the entire U.S. energy economy – we write to highlight a glaring omission in the federal tax code with the current absence of tax incentives encouraging energy efficiency.

We urge you to address this omission by updating lapsed energy efficiency incentives for homeowners, consumers and businesses and enacting multi-year, forward-looking extensions as quickly as possible. In addition, we would like to work toward permanent incentives that would give consumers and businesses the certainty they need to appropriately value and capitalize on the benefits of efficiency.

Energy efficiency is a cornerstone of American energy security, environmental policy and economic productivity. It creates jobs, saves households and businesses money, strengthens manufacturing productivity, and improves grid stability and energy security. It is also the single most effective and economic solution we have for reducing harmful pollution, including carbon

emissions. Nationwide, efficiency supports nearly 2.25 million U.S. jobs in construction, manufacturing, engineering and other fields.

The recently expired tax incentives – 25C tax credit for certain nonbusiness energy property, 179D tax deduction for energy-efficient commercial and multifamily buildings, and the 45L tax credit for new energy-efficient homes – have a proven track record of success in achieving these goals. They stimulate economic activity by encouraging efficiency projects and upgrades in homes and buildings across the country while ensuring reduced energy consumption in the built environment for decades to come.

While the incentives have been a remarkable success, they have not been updated in nearly a decade, and many are woefully out of date. For example, the 25C incentive for water heaters as currently written references an efficiency metric that is no longer used after the U.S. Department of Energy (DOE) updated its testing procedure. Additionally, manufacturers consistently report that the incentives are insufficient to significantly impact markets. The maximum incentive for boilers and furnaces is $150, for example, and $300 for central air conditioners.

The lapsed incentives are:

Sec. 25C Nonbusiness Energy Property Credit – This provision provides a 10 percent tax credit for the purchase of certain nonbusiness energy-efficient materials up to $500, providing an incentive for homeowners to choose energy-efficient products over less efficient alternatives. According to a recent DOE analysis, the national impact of extending this tax credit for 10 years would result in an average increase of sales for eligible equipment by 54 percent and an overall reduction in household energy bills by $13 billion. The full impact of the incentive is likely higher because the analysis looked only at five categories of equipment such as central air conditioners, water heaters, furnaces and heat pumps. Because 25C is a consumer-facing incentive, it is particularly important that it be extended forward to incentivize Americans to invest in energy efficiency in 2019 and beyond.

Sec. 179D Commercial Building Tax Deduction – Section 179D provides a tax deduction of up to $1.80 per square foot to help offset some of the high costs of energy efficient components and systems for commercial and larger multifamily buildings. The 179D deduction has leveraged billions of dollars in private capital, resulted in the energy-efficient construction of thousands of buildings, and created and preserved hundreds of thousands of jobs. It has lowered demands on the power grid and reduced carbon emissions. A recent analysis by Regional Economic Models, Inc. estimates that renewing the tax deduction would create 40,000 to 77,000 new design and construction jobs annually along with nearly $7.4 billion in annual GDP.

45L Energy Efficient Home Credit – The 45L incentive provides a credit of $2,000 for builders of homes that use 50 percent less energy for space heating and cooling and a $1,000 tax credit to the builder of a new manufactured home achieving 30 percent energy savings for heating and cooling or a manufactured home meeting the ENERGY STAR requirements. The 45L tax credit has been successful in transforming the new homes market toward more energy-

efficient homes. When the credit was enacted likely less than 1% of new homes met the qualification levels. In recent years the number of homes certified as complying with the tax credit rose to about 10 percent of new homes sold; this growing market share is attributable in substantial part to the new and manufactured homes tax incentive.

We urge you to update and reinstate these incentives for the benefit of America's families and businesses, and we are happy to answer any questions you might have. Please don't hesitate to contact Ben Evans at bevans@ase.org.

Sincerely,

A.O. Smith Corporation
Acuity Brands
Advanced Energy Economy
Air-Conditioning, Heating, and Refrigeration Institute
Alliance for Industrial Efficiency
Alliance to Save Energy
American Council for an Energy-Efficient Economy
American Institute of Architects
American Lighting Association
ASHRAE
Big Ass Fans
Business Council for Sustainable Energy
Covestro, LLC
Daikin U.S. Corporation
Danfoss
DuPont
E4TheFuture
Efficiency First
Energy Systems Group
Environmental and Energy Study Institute
Federal Performance Contracting Coalition
Green Business Certification Inc.
Home Performance Coalition
Illuminating Engineering Society
Ingersoll Rand
International Association of Lighting Designers
International Window Film Association
Johnson Controls
Knauf Insulation
Large Public Power Council
Lime Energy
National Association of Energy Service Companies
National Association of State Energy Officials
Natural Resources Defense Council
New Dominion Group, LLC

North American Insulation Manufacturers Association
Polyisocyanurate Insulation Manufacturers Association
Seattle City Light
Sheet Metal & Air Conditioning Contractors' National Association
The Dow Chemical Company
U.S. Green Building Council

cc: Members of the U.S. House of Representatives Committee on Ways and Means
Members of the U.S. Senate Committee on Finance