April 14, 2010

The Honorable Sander M. Levin
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Levin, Ranking Member Camp, and Members of the Committee:

On behalf of our 1.3 million members and online activists, I submit this letter for the record of the "Hearing on Energy Tax Incentives Driving the Green Job Economy." Well designed energy tax policies are essential for scaling up clean energy resources, which create jobs, reduce global warming pollution, enhance our national security and save consumers and businesses money on their energy bills. We ask that as you examine how current and proposed energy tax credits can drive the green job economy, you consider the following recommendations:

• **Extend the New Energy Efficient Home Credit (IRC 45 L)**. The new energy efficient home tax credit has been a huge success, exceeding even the most optimistic projections for the number of homes built to qualify. We urge you to extend the 45L credit and to add a higher tier credit to promote the construction of new homes that meet even greater levels of efficiency.

• **Modify the Energy Efficient Commercial Building Tax Deduction (IRC 179D)**. The commercial building tax deduction would be more effective with the modifications outlined below.

• **Establish a Renewable Electricity Integration Tax Credit:** A new tax credit to encourage utility integration of variable renewable electricity generation such as solar and wind.

• **Do not extend the Liquid Coal Tax Credits (IRC Sections 6426(d), 6426(e), and 6427(e))**.We urge you not to extend the liquid coal tax credits, which waste tax payer dollars on a fuel with unacceptable environmental risks.

• **Do not extend the Volumetric Ethanol Excise Tax Credit (VEETC, IRC Section 6426(b))**. The VEETC costs taxpayers over $5 billion annually and goes towards mature, conventional biofuels which have many negative environmental impacts. We urge you to let the VEETC expire at the end of this year or replace it with a technology-neutral, performance based tax credit so that it achieves real benefits.

• **Maintain the stringency of the window efficiency standard of the Non-Business Energy Property Tax Credit (IRC 25C) and do not extend the credit in its current form.**

These changes are essential to make sure we spend taxpayer dollars wisely to promote investment in advanced biofuels, renewable energy, and building efficiency, while creating jobs, reducing consumers' energy bills, and lessening dependence on oil.

New Energy Efficient Home Tax Credit

The New Energy Efficient Home Tax Credit (IRC Section 45L) has been a huge success, exceeding even the most optimistic projections for the number of homes built to qualify. According to a Residential Energy Services Network (RESNET) survey, the number of homes qualifying for the credit has grown by over 400 percent from the first year of the credit in 2006, when less than 1 percent of new home sales qualified. 37,506 homes qualified for the credit in 2009, representing 10 percent of new home sales. This growth has been sustained despite the fact that total new home sales decreased by 64 percent between 2006 and 2009.[1] According to NRDC's analysis, the credit has already saved 400,000 metric tons of CO2, equivalent to removing 70,000 cars from the road for a year. If extended, the credit will continue to grow in market share and save 13.6 million metric tons by 2020, equivalent to removing 2.4 million cars from the road for a year.

In order to qualify for the credit, new homes have to use 50 percent less energy for heating and cooling than a typical home constructed under the 2003 International Energy Conservation Code (IECC) – including supplements – and manufactured homes have to meet the Energy Star label criteria or use 30 percent less energy for heating and cooling than the 2003 IECC. Home energy use is responsible for approximately 25 percent of our country's global warming pollution. Because homes are long-term assets that are commonly in service for more than 100 years the most cost-effective time to make a home more energy efficient is when it is first built.

Congress needs to continue providing incentives that encourage the adoption of the most efficient technologies and building practices. These investments in energy efficiency are the most cost-effective way to achieve immediate and substantial reductions in global warming pollution, while also enhancing our economy. The New Energy Efficient Home Credit has begun to move the market in the right direction and we urge you to continue this success by extending the credit.

Adding a higher tier to the New Energy Efficient Home Credit would increase its success at transforming the market and increase pollution reduction and consumer savings benefits. We urge to you add two higher-tier credits to 45L: a $5000 credit for homes that reduce *total* energy use by 50 percent and a $2500 credit for manufactured homes that reduce energy use by 50 percent or meet new, more stringent Energy Star 2010 criteria.

Energy Efficient Commercial Buildings Deduction

Several modifications to the Energy Efficient Commercial Buildings Deduction (IRC Section 179D) would make it more effective. The credit currently provides developers of new commercial buildings a deduction of $1.80 per square foot of space for buildings that are 50 percent better than the ASHRAE 90.1-2001 energy code in terms of lighting, building envelope, and heating, ventilating and air-conditioning (HVAC) systems. The Commercial Buildings Deduction also provides a deduction of $0.60 per square foot for partial compliance for any individual system that meets this requirement. The following modifications would make the Commercial Buildings Deduction more effective:

- Increase the full compliance deduction to $3.00 per square foot.
- Increase the partial credit to $1 per square foot for single systems that meet the energy savings requirement.
- Increase the partial credit to $2.20 per square foot for the combination of heating, cooling, ventilation or hot water system improvements with envelope improvements that meet the energy savings requirement.

[1] US Census New Residential Sales, http://www.census.gov/const/quarterly_sales.pdf

- Direct DOE to establish a prescriptive compliance pathway for combined envelope and mechanical system compliance.

These changes will rapidly boost the effectiveness of Commercial Buildings Deduction and result in more efficient workplaces.

Renewable Electricity Integration Credit

The enactment of the Renewable Electricity Integration Credit proposed in HR 4149 would play a key role in integrating variable renewable electricity technologies such as wind and solar at the lowest cost. Aggressive deployment of renewable energy resources is a critical component of a comprehensive strategy to reduce global warming pollution. The integration of large quantities variable renewable electricity resources such as solar and wind represents a significant challenge for transmission and distribution system operation.

As the share of electricity from variable renewables continues to grow, the electric power sector will need to invest in major infrastructure upgrades to maintain transmission and distribution system reliability. This investment can be accomplished much more cheaply, quickly and effectively if utilities are provided incentives such as the Renewable Electricity Integration Credit to engage as an active partner to ensure that the lowest cost integration solutions are proactively implemented.

Liquid Coal Tax Credits

HR 4213, as passed by the Senate, extends several expired fossil fuel tax credits, including the liquid coal tax credits (IRC Sections 6426(d), 6426(e) and 6427(e)). Liquid coal has significant environmental disadvantages, making it a bad choice for the nation's energy supply. On a lifecycle basis, liquid coal emits nearly twice the global warming pollution as conventional fuel. Even if some of the production emissions are captured and stored, liquid coal may still be no cleaner than conventional fuel. In addition, liquid coal poses numerous ecological risks linked to coal mining. These include habitat loss, ground water contamination and mountaintop removal. Restoring the liquid coal credits could force taxpayers to heavily subsidize carbon-intensive technologies that destroy the environment.

Volumetric Ethanol Excise Tax Credit

Despite good intentions, many of the income and excise tax incentives used to foster the development of biofuels have become outdated due to changes in the biofuels market, the policy landscape, and emerging environmental concerns. A recent Government Accountability Office report, for instance, suggests that the Volumetric Ethanol Excise Tax Credit (VEETC, IRC Section 6426(b)) provides little, if any, benefit at great cost to taxpayers. The VEETC, which pays oil company blenders $.45 for each gallon of ethanol used, simply subsidizes conventional ethanol that is already mandated under the federal Renewable Fuel Standard (RFS). Worse yet, the VEETC subsidizes mature ethanol technologies that can have many negative environmental effects such as greater life cycle greenhouse gas emissions than conventional fuels, habitat destruction, and air and water pollution. The policy fails to contribute to energy security, technology development or environmental sustainability. Despite this, the VEETC cost taxpayers roughly $4 billion in 2008 and will grow to $5.3 billion this year, given new ethanol volumes required under the RFS. GAO predicts that the annual cost will balloon to $6.7 billion by 2015. A five year extension of the VEETC would cost taxpayers over $31 billion.

The VEETC and other tax incentives fail to consider environmental performance, providing no incentive to innovate beyond today's questionable ethanol technologies. The existing incentives do not even encourage achievable, incremental improvements to conventional biofuels. We urge you not to extend the VEETC in its current form. Taxpayer dollars should provide real benefits and not simply pay the oil companies to buy ethanol that they are legally required to buy under the RFS. We urge you to let the VEETC expire. Ultimately, in its place, we hope you will adopt a technology-neutral, performance based tax credit that only pays for real benefits and drives the transition to truly sustainable advanced biofuels.

Non-Business Energy Property Tax Credit

We urge that you maintain the current window efficiency standard for the Non-Business Energy Property Tax Credit (IRC Section 25C). Maintaining a strong window efficiency standard in the 25C tax credit has broad implications, since the Home Star legislation references this criteria. The Senate-passed tax extenders package (HR 4213) weakens the efficiency standard windows, doors and skylights have to meet to qualify for the credit. The bill lowers the standards to 2010 Energy Star standards, which are far too weak to be appropriate for a monetary incentive such as the Section 25C tax credit. While 28 percent of window models meet the current tax credit standard, up to 61 percent of models would meet the Energy Star 2010 standard (depending on the climate zone). Allowing such a large percentage of window models to qualify for the Section 25C tax credit would dramatically reduce the financial incentive the credit gives to manufacturers and retailers to sell high efficiency windows, as well as substantially increase the cost of the incentive to taxpayers. HR 4213 also provides that the Section 25C window efficiency standards would automatically update to conform to future versions of Energy Star. Such a process would greatly politicize the Energy Star program, making it much more difficult for the program to update its standards.

We also urge you not to extend or expand the Non-Business Energy Property Tax Credit in its current form. As currently constructed, the credit does not encourage implementation of the most cost-effective technologies and does not incentivize advanced performance. A technology-neutral performance-based credit that rewarded for energy savings would incentivize the market to achieve efficiency at the lowest cost.

Thank you for taking these points into account as you consider future energy tax policies. Well-designed energy tax policies are a critical tool to reducing global warming, enhancing our national security and saving consumers and businesses money on their energy bills.

Sincerely,

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