

*3M Company * Alliance to Save Energy * American Public Power Association
American Standard Companies * Andersen Windows, Inc. * Cardinal Glass Industries
American Chemistry Council * American Council for an Energy-Efficient Economy
Building Owners and Managers Association International * California Energy Commission
The Dow Chemical Company * DuPont * Edison Electric Institute
Environmental and Energy Study Institute * Exelon Corporation
Manufactured Housing Institute * National Association of State Energy Officials
National Electrical Manufacturers Association * Natural Resources Defense Council
New York State Energy Research and Development Authority
North American Insulation Manufacturers Association * Northeast Public Power Association
Owens Corning * Pacific Gas & Electric Company * Plug Power, Inc.
Polyisocyanurate Insulation Manufacturers Association
Public Service Electric and Gas Company * The Real Estate Roundtable
Residential Energy Services Network * Sacramento Municipal Utility District
San Diego Gas and Electric Company * Southern California Gas Company
Union of Concerned Scientists*

October 2, 2006

Honorable Charles E. Grassley
Chairman
Senate Finance Committee
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Honorable Max Baucus
Ranking Member
Senate Finance Committee
Room 219
Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Grassley and Ranking Member Baucus:

We write to encourage your support of the 2006 EXTEND Act (S. 3628) recently introduced by Senators Snowe, Feinstein and Kerry. The EXTEND Act would provide consumers and businesses relief from high energy prices by extending energy-efficiency and solar energy tax incentives enacted by the Energy Policy Act of 2005 (EPAcT).

The primary purpose of the EXTEND Act is to restore the duration and levels of the EPAcT incentives to those that were in the Senate version of the bill, but cut in conference. This restoration is necessary to ensure that the incentives achieve their full potential benefits. The EPAcT incentives are available for only two years, which does not provide enough time for industry to respond to the incentives. The use of the EPAcT tax incentive for energy efficiency measures installed in commercial buildings, for example, will essentially be limited to replacement of lighting equipment because a typical commercial building takes three years to build.

Increasing energy efficiency and renewable energy is an essential near-term strategy to balance the demand and supply of tight natural gas markets and help bring natural gas prices down. A recent analysis by the American Council for an Energy-Efficient Economy (ACEEE) and Energy and Environmental Analysis (EEA) shows the potential of energy efficiency to achieve these goals. The analysis, using the same natural gas market model as used by the National Petroleum

Council, found that reductions in natural gas and electricity use of 4-5% over a five year period could reduce natural gas prices by more than 20%.

Preliminary estimates by ACEEE are that if the EXTEND Act were adopted, the two year EAct incentives plus the additional EXTEND incentives would reduce U.S. natural gas use by about 3 trillion cubic feet over the 2006-2020 period (almost enough to serve California and New York for a year), can reduce peak electric demand by about 12,500 megawatts by 2020 (equivalent to 42 power plants of 300 MW each) and can reduce consumer energy bills by about \$78 billion over the 2006-2020 period.

Energy efficiency and renewable energy technologies are a fast and cost-effective way to reduce stress on the nation's electric power grid during times of peak electricity demand. The EXTEND Act incentives would help avoid another blackout, such as the August 2003 blackout in the eastern U.S. and Canada, which had an economic cost of \$7-10 billion.

The EXTEND Act:

- Extends the EAct tax credit for retrofits to existing homes to 2009 so that homeowners who make energy-efficient improvements to their homes, such as adding insulation, can receive as much as \$500 off their taxes. The bill also establishes a new tax credit for home retrofits that save energy. The credit starts at \$800 for homes that are certified as saving 20% and increases on a sliding scale depending on the amount of savings up to \$2,000 for homes that save 50%. Homes occupied by owners or renters can qualify for the credit.
- Extends through 2011 the EAct tax deduction for energy efficiency property that is installed in commercial buildings. This includes efficient heating and cooling systems, interior lighting systems and insulation. The EXTEND Act allows property that is certified by 2011, but not placed in service until 2013, to also receive the deduction. The bill increases the amount of the deduction from \$1.80 per square foot to \$2.25 per square foot.
- Extends the EAct tax credit for energy efficient new homes to 2010. New homes that are certified to have annual heating and cooling energy consumption that is at least 50% below such consumption for a comparable home are eligible for a \$2,000 credit. Manufactured homes that are certified to have energy consumption 30% below comparable homes are eligible for a \$1,000 credit.
- Extends to 2010 the EAct tax credits for certain non-business (residential) energy efficient equipment, such as natural gas furnaces and oil hot water heaters. The credits range from \$50 to \$300 depending on the equipment, and the incentives are capped at \$500 per taxpayer over all prior taxable years. The EXTEND Act also establishes deductions for the same equipment covered by the credits. These deductions are available to businesses and individuals, and the deduction amounts are set at levels that achieve the same tax values for the taxpayer as the credits.
- Replaces the EAct tax credit for residential solar systems, which is based on the cost of installation, with a \$2 per peak watt tax credit, which is a dollar amount equivalent to the EAct tax credit. The new tax credit lasts until 2010 and covers all technologies that produce solar electricity, including both photovoltaic and concentrating solar technologies. The EXTEND Act also extends the 30%

investment tax credit for business solar and fuel cell systems until 2012 and establishes a new deduction of \$9 per peak watt of capacity for solar electric technologies.

- Creates a new deduction for energy efficient retrofits to low-rise residential buildings. The deduction starts at \$2,400 for buildings that are certified as having achieved 20% energy savings and increases on a sliding scale up to \$6,000 for buildings that achieve 50% savings or more.
- Creates a new tax credit for costs associated with the training, certification and purchase of equipment for individuals who perform the certifications needed by taxpayers to qualify for the new homes, existing homes and commercial buildings tax incentives covered by the EXTEND Act.

The EXTEND Act would enable energy efficiency and solar energy to become more significant components of our national energy policy. While energy efficiency technologies and solar thermal systems are already cost-effective energy resources, tax incentives are needed to overcome the market barriers that inhibit their use. The prices of solar electric technologies continue to decline, and tax incentives help to accelerate this trend. The EXTEND Act will not only save consumers and businesses money, but also protect our environment. We encourage you to support this important legislation

Sincerely,

Steve Baden
Executive Director
Residential Energy Services Network

Jared Blum
President
Polyisocyanurate Insulation Manufacturers
Association

Kateri Callahan
President
Alliance to Save Energy

Pat Hyland
Executive Director
Northeast Public Power Association

Thomas Kuhn
President
Edison Electric Institute

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

Kurt R. Padavano
Chairman
Building Owners and Managers Association
International

Jackalyne Pfannenstiel
Chairman
California Energy Commission

Alan H. Richardson
President and CEO
American Public Power Association

John W. Rowe
Chairman, President and CEO
Exelon Corporation

Jan Schori
General Manager
Sacramento Municipal Utility District

Peter R. Smith
Chairman
National Association of State Energy
Officials

Peter R. Smith
President and CEO
New York State Energy Research and
Development Authority

Carol Werner
Executive Director
Environmental and Energy Study Institute

Thomas F. Beddow
Vice President
Public Affairs
3M Company

Sherri Stone Cabrera
Assistant Vice President
Government Affairs
Manufactured Housing Institute

Steven D. Davis
Senior Vice President of External Relations
And Chief Financial Officer
San Diego Gas and Electric Company
Southern California Gas Company

Owen Kean
Senior Director
Energy Policy
American Chemistry Council

Steven Kline
Vice President
Corporate Environmental and Federal
Affairs
Pacific Gas & Electric Company

Erin Lane
Director of Federal Government Relations
Plug Power, Inc.

Jim Larsen
Director of Technology Marketing
Cardinal Glass Industries

John Libonati
Vice President
Government & Public Affairs
Owens Corning

Alden Meyer
Director
Strategy and Policy
Union of Concerned Scientists

Mark Mikkelson
Manager
Code Regulatory and Technical Marketing
Andersen Windows, Inc.

David Modi
Vice President
Public & Government Affairs
American Standard Companies

Peter Molinaro
Vice President
Federal and State Government Affairs
The Dow Chemical Company

Michael Parr
Senior Manager
Government Affairs
DuPont

George R. Phelps
Vice President
Government & Industry Affairs
North American Insulation Manufacturers
Association

Kyle Pitsor
Vice President
Government Relations
National Electrical Manufacturers
Association

Roger Platt
Senior Vice President and Counsel
The Real Estate Roundtable

Eric B. Svenson
Director
Corporate Issues and Federal Affairs
Public Service Electric and Gas Company

Karen Wayland
Legislative Director
Natural Resources Defense Council

cc: Senator Dianne Feinstein
Senator Rick Santorum
Senator Olympia Snowe