MEMBER PROPOSALS ON ENERGY TAX INCENTIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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MEMBER PROPOSALS ON ENERGY TAX INCENTIVES

TUESDAY, APRIL 24, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SELECT REVENUE MEASURES,
Washington, DC.

The Subcommittee met, pursuant to notice, at 3:14 p.m., in Room 1100, Longworth House Office Building, Hon. Richard E. Neal (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE
April 24, 2007
SRM–4

CONTACT: (202) 225–5522

Neal Announces Hearing on Member Proposals on Energy Tax Incentives

House Ways and Means Select Revenue Measures Subcommittee Chairman Richard E. Neal (D–MA) announced today that the Subcommittee on Select Revenue Measures will hold a hearing on specific Member proposals on tax incentives for alternative energy sources that have been introduced in the 109th and 110th Congress. **The hearing will take place on Tuesday, April 24, 2007, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

Oral testimony at this hearing will be limited to Members of the House of Representatives. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

The hearing provides Members the opportunity to speak on behalf of specific tax proposals they have introduced in the 109th or 110th Congress that would encourage the development of alternative energy sources, or that would act to reduce carbon dioxide emissions.

BACKGROUND:

This hearing is the third in a series of hearings on energy policy conducted by the House Ways and Means Committee, and the second conducted by the Subcommittee on Select Revenue Measures exploring the nexus between energy policies and tax incentives. The Committee has heard testimony from scientists and policy experts who have urged Congress to develop legislation that would reduce carbon dioxide emissions, which are a primary source of global warming. These experts testified that enacting tax incentives to support alternative sources of energy is one way that Congress can act to reduce these emissions. Numerous proposals designed to utilize tax incentives that would encourage the development of alternative energy sources have been referred to the Committee during this Congress and the previous Congress. Some of these proposals would use tax incentives to increase efforts to reduce carbon dioxide emissions. This hearing will provide Members the opportunity to speak on these issues.

In announcing the hearing, Chairman Neal stated, **"Members of the House of Representatives regularly speak to the Committees of jurisdiction about issues of importance to their congressional district and to our nation. The need to explore ideas that would update and improve our existing tax incentives for alternative energy ranks high on the list of national priorities."**

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee

website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, May 8, 2007**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman NEAL. Good afternoon. I want to welcome all of you to the second of two hearings to be held by this Subcommittee on alternative energy issues.

The full Committee began this process back in February, hearing from scientists and experts on climate change and global warming. They urged Congress to act to reduce carbon dioxide emissions, which are a primary cause of global warming.

Last week we heard from industry experts, who advocated for certain tax incentives to support or enhance alternative energy sources and carbon reduction. And today we will hear from Members of Congress, who will share with us their proposals for tax incentives for America and to make sure we go green. Soon after these hearings conclude, I expect the full Committee will mark up tax legislation on these very issues.

I want to welcome each of you who will be sharing with us today your ideas on alternative energy and carbon reduction. I believe we have several bipartisan panels representing a broad range of ideas and geography.

This hearing provides us the opportunity to hear from our colleagues regarding tax proposals that are important to them and their constituents, and I look forward to all of the testimony we are about to hear today.

And I would now like to recognize my friend, Mr. English, for his opening statement.

Mr. ENGLISH. Thank you, Mr. Chairman. Thank you for bringing together this array of Member expertise to testify to us. I have a written statement that I would like to submit for the record. But in the interest of moving this process forward, I would simply like to do that and yield back the balance of my time.

[The prepared statement of Mr. English follows:]

[Not available at the time of printing.]

Chairman NEAL. Thank you.

I don't believe that there are any other Members of the Subcommittee who are seeking recognition for an opening statement. But without objection, any other Members wishing to insert statements as a part of the record may do so. And all written statements by the witnesses will be inserted in the record as well.

Mr. McDermott, thank you for being here.

STATEMENT OF THE HONORABLE JIM MCDERMOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. MCDERMOTT. Mr. Chairman, thank you for holding this hearing.

We all know that reversing global warming poses one of the most significant challenges of the 21st century. Responding inadequately to this challenge is not a legacy I want to leave to my grandchildren or any others. And we also know that there is no magic bullet.

The task before us really is not easy, but it can be done. But we have got to be honest and pragmatic and realistic. We are the number one emitter of carbon into the atmosphere, and so we should be the acknowledged leader in reversing global warming. We can make this effort one of the defining moments in the history of our nation.

It is going to take a combination of innovation, Federal support, lifestyle adjustment, and multilateral diplomacy to make a real difference. And we have to start now in order to stave off the potentially disastrous repercussions that global warming will mean for America and the world. In the U.S., the single largest source of the carbon we emit into the atmosphere—about 40 percent—comes from power plants fired by coal, oil, and gas.

In my view, there are two very obvious ways we can be combating this problem, one of which is frequently acknowledged and one of which is all too often overlooked. The first thing we must do is develop a national policy to generate power from clean and renewable sources. Wind, solar, hydro, biomass, and geothermal

sources can supply power to the nation's electrical grid while emitting dramatically less carbon into the atmosphere.

To that end, I am pleased to hear so much discussion about passing long-term extensions, and I emphasize long-term, of the Production Tax Credit to provide clear market signals for private investors in renewable energy production. And we need to expand and improve the current Federal incentives for public power utilities to generate clean energy. We have not paid attention to the public sector in the past very much.

The Clean Renewable Energy Bond program needs to be revamped so that large public power projects can be financed and brought online by public power utilities that now serve over 44 million Americans, or about 15 percent of the population.

Federal incentives for both public and private utilities are crucial to making clean energy an affordable and cost-competitive alternative. Providing private and public utilities the tools and mandate to develop clean and renewable energy is a major step in the right direction.

But let me advocate on behalf of an effective policy that is overlooked all too often: that is energy efficiency. Every kilowatt we save through improvements in energy efficiency is one that doesn't have to be produced. We can reduce carbon emission and save money at the same time. It makes perfect sense, but today we are inadvertently rewarding the wrong approach.

Under the current tax code, we allow businesses to deduct their energy costs from their taxable income. In other words, when a business's activities are energy inefficient, they receive a larger Federal tax subsidy. We need to change that course.

We can quickly reduce carbon emissions and put downward pressure on electricity and natural gas prices with a Federal policy that promotes and rewards energy efficiency. This approach is comparatively inexpensive to implement, and would provide a bigger bang for the buck than any other Federal incentive. The Energy Policy Act of 2005 included some important, temporary energy efficiency provisions, but there is much more that we can do.

Mr. Weller and I introduced legislation to expand and extend the current Federal tax credits and deductions for residential and commercial properties that meet targeted energy savings goals. Importantly, our bill creates a new sliding scale for the credits, basing the credit awarded on the level of energy savings.

This should create additional market incentives for cheaper, more efficient technologies for consumers to use. And because these technologies are typically developed in America, as the rest of the world responds to the global climate change, American technology and products will have application and appeal worldwide.

I believe that our bill, at a relatively minimum cost, can dramatically reduce carbon emissions by comprehensively reducing the demand for power to our Nation's homes and commercial buildings, which account for approximately 70 percent of the electrical load produced by power plants in this country.

In conclusion, the tax code is one of the most effective tools we have at our disposal in this effort. With it, this Committee can send a clear signal to the marketplace to promote renewable energy

generation. At the same time, the Committee should promote energy efficiency.

The last time we had these green amendments before us, we put them on for a couple of years, like wind and solar and so forth, and then they went away. We were leading the world in wind energy development. Today, every generator in the world is made in Denmark because we stopped giving that support to this technology.

So it is within our power to combat global warming. The question is, will we have the political will to use it and the courage to stick with it? For the sake of all of us, including our grandchildren, I hope the answer is yes.

Thank you.

[The prepared statement of Mr. McDermott follows:]

Prepared Statement of The Honorable Jim McDermott, a Representative in Congress from the State of Washington

Mr. Chairman, thank you.

We know that reversing global warming poses one of the most significant challenges of the 21st century. Responding inadequately to this challenge is not a legacy I want to leave to my grandchildren. And we also know there is no magic bullet. The task before us is not easy, but it can be done. We've got to be honest, pragmatic and realistic. We're the number one emitter of carbon into the atmosphere and so we should be the acknowledged leader in reversing global warming. We can make this effort one of the defining moments in the history of our nation.

It is going to take a combination of innovation, Federal support, lifestyle adjustment, and multilateral diplomacy to make a real difference. And we have to start now in order to stave off the potentially disastrous repercussions that global warming will mean for America and the world. In the U.S. the single largest source of the carbon we emit into the atmosphere—about 40 percent—comes from power plants—fired by coal, oil and gas.

In my view, there are two very obvious ways we should be combating this problem—one of which is frequently acknowledged and one of which is all too often overlooked. The first thing we must do is to develop a national policy to generate power from clean and renewable sources. Wind, solar, hydro, biomass, and geothermal sources can supply power to the nation's electrical grid while emitting dramatically less carbon into the atmosphere. To this end, I am pleased to hear so much discussion around passing a long-term extension of the Production Tax Credit to provide clear market signals for private investors in renewable energy production. And we need to expand and improve the current Federal incentives for public power utilities to generate clean energy.

The Clean Renewable Energy Bond program needs to be revamped so that large public power projects can be financed and brought online by the public power utilities that now serve over 44 million Americans, or about 15 percent of the population. Federal incentives for both public and private utilities are crucial to making clean energy an affordable and cost-competitive alternative. Providing private and public utilities the tools and mandate to develop clean and renewable energy is a major step in the right direction.

But let me advocate on behalf of an effective policy that is overlooked all too often: energy efficiency. Every kilowatt we save through improvements in energy efficiency is one that doesn't have to be produced; we can reduce carbon emission and save money at the same time. It makes perfect sense, but today we are inadvertently rewarding the wrong approach.

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credits, basing the credit awarded on the level of energy savings. This should create additional market incentives for cheaper, more efficient technologies for consumers to utilize. And because these technologies are typically developed in America, as the rest of the world responds to global climate change, American technology and products will have application and appeal worldwide.

I believe that our bill, at a relatively minimal cost, can dramatically reduce carbon emissions by comprehensively reducing the demand for power to our nation's homes and commercial buildings, which account for approximately 70 percent of the electric load produced by power plants in this country.

In conclusion, the tax code is one of the most effective tools we have at our disposal in this effort. With it, this committee can send a clear signal to the marketplace to promote renewable energy generation. At the same time, this committee should promote energy efficiency.

Mr. Chairman, it is within our power to effectively combat global warming; the question is: Will we have the political will to use it. For the sake of my grandchildren, I hope so.

Thank you.

Chairman NEAL. We thank the gentleman for his very instructive testimony.

And the chair will now recognize a Member of the Subcommittee, Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman and Members.

I would formally bring to the Subcommittee's attention H.R. 1331, the Plug-in Hybrid Electric Vehicles Tax Credit Act, which is cosponsored by almost a hundred of our colleagues, Democrats and Republicans, including a number of Members of this Subcommittee.

This bipartisan bill that I have authored will help build a market for an important new emerging technology, plug-in hybrid electric vehicles. All of you are familiar with hybrids, but today the only plug-in hybrids exist as prototypes.

Some of you may have had an opportunity to take a ride in one of the plug-in prototypes that were here on Capitol Hill recently. It is the battery and the convenient method of recharging it that distinguishes plug-in hybrids from the more traditional variety.

This battery offers enough energy on board to power the vehicle for at least 40 miles solely on stored power. Considering that half the cars in America each day travel 25 miles a day or less, a plug-in with this range could eliminate gasoline use in the daily commute of millions of our neighbors.

The cost of an electric gallon of gas is estimated to be less than a dollar a gallon. By implementing this consumer tax credit, we will support plug-in vehicle technology that can achieve the equivalent of 150 miles per gallon of gasoline. These normally emission-free vehicles also contain a small combustion engine for longer trips. H.R. 1331 also includes an incentive for combining this battery power with existing flex fuel technology.

Plug-in hybrids are an important part of our National effort to combat global warming. The Environmental Protection Agency just within the past month estimated that a nationwide switch to electric-based fuel would decrease greenhouse gas emissions by 47 percent.

This confirms the position taken by the American Public Power Association, the Electric Power Research Institute, the Energy and

Environment Study Institute, and the Alliance to Save Energy, along with many others.

The Wall Street Journal recently did a front-page article that I would ask unanimous consent to make a part of our record.

Chairman NEAL. Without objection.

Mr. DOGGETT. And it directs or focuses its attention on the role that Austin Energy and the National Plug-in Partners Campaign have spirited on this issue. Plug-in Partners represent a network of many cities, states, public power utilities, investor-owned utilities, individual businesses, and environmental groups across America that are promoting plug-in electric vehicles.

I have worked with them since their inception, and this bill is the only one of several plug-in alternatives that Plug-in Partners has endorsed. It is a targeted consumer tax credit linked directly to the purchased vehicle's most important cost element, the battery, and its capacity to perform independent of foreign oil.

While the short-term cost of this credit over the next few years is zero since these are not in production, and joint tax has scored the bill already at a 5-year cost of only $155 million, there is no doubt that it will cost more than that as these come on line.

To ensure that the long-term cost is manageable, the bill establishes a per-manufacturer limitation on the number of vehicles covered similar to that that we did for hybrid, but separate from the hybrid tax cap. The per-manufacturer limitation used for hybrids has already proven to be effective as an affordable incentive.

This is a next generation of hybrids, and I believe that decisive action on this technology in making it widely accessible to consumers will help us move from the fossilized ideas of our energy past to the renewable promise of our energy future.

Thank you.

[The Wall Street Journal article follows:]

THE WALL STREET JOURNAL.

MONDAY, MARCH 26, 2007 - VOL. CCXLIX NO. 70

AUSTIN POWER

In Quest for Cleaner Energy, Texas City Touts Plug-In Car

Mayor's Unusual Plan Links Wind, Batteries; Pitching Auto Makers

By JOHN J. FIALKA

AUSTIN, Texas—Of all the plans cooked up by cities to combat pollution and global warming, the one hatched here is among the most ambitious—and, some say, one of the more quixotic.

Mayor Will Wynn is pushing a new version of the electric car called the plug-in, which runs almost entirely on electricity and has a big rechargeable battery. But that's not all. Mayor Wynn envisions the parked electric cars plugging into a network operated by the city's utility, which would then use the powerful car batteries as a big storage system from which to draw power during peak demand.

Roger Duncan, deputy manager of Austin Energy, the city-owned electric utility, dreamed up the scheme three years ago after the mayor ordered him to get more electricity from "green" sources, especially from wind. Austin Energy already got 6% of its power from wind, but wind production peaked at night, when electricity demand was low. Mr. Duncan needed more clean power during hot days, when demand was high.

If there were enough plug-ins around Austin, Mr. Duncan figured, he could buy more wind-generated electricity, sell it to plug-in owners at night, then buy some of it back during the day from cars sitting in parking lots equipped with special sockets.

With concern about climate change on the rise, interest in renewable energy sources is moving from the fringe to the mainstream. Some utilities will buy extra power that their customers produce by home solar panels. These days, seemingly far-fetched plans like Austin's are drawing a level of support that would have been unlikely just a few years ago.

Austin, a city of 719,000 and the capital of Texas, is becoming one of the nation's biggest promoters of plug-ins. To give the market a push, it has launched a campaign—called Plug-In Partners—to line up people to buy the cars when they reach the market. Organizers say they've secured 8,000 pledges from individuals and organizations around the country to buy one

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FOR THE RECORD

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Austin, Texas, Seeks Energy From Wind and Plug-In Cars

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when they're introduced.

The mayors of 50 major cities, several environmental groups and hundreds of utilities have endorsed the campaign, and many are intrigued by the power-storing concept. In California, the Bay Area Rapid Transit System, or BART, is looking into setting up a similar system for tapping into electric-car batteries in commuter parking lots, and several large utilities are studying the concept.

Although Mr. Duncan's 8,000 pledges are dwarfed by the 16 million vehicles sold annually in the U.S., both General Motors Corp. and Toyota Motor Corp. have said in recent months that they plan to develop plug-ins and bring them to market. Their intention is to try to tap growing consumer demand for nongasoline-powered vehicles—not to provide power storage for utilities. Other car makers also have expressed interest. GM spokesman Greg Martin says Mr. Duncan's effort played a part in the decision.

President Bush, in his last two State of the Union addresses, has cited plug-in cars as a promising alternative to gas-powered ones. Legislation has been introduced in Congress that would provide a tax credit to partially offset the cost of buying the vehicles when they become available.

Big hurdles remain. The cars require expensive lithium-ion batteries that haven't been perfected. Production of plug-ins is at least three to five years off, and experts say the cars could cost $50,000.

"Plug-ins will have a niche market," says Red Cavaney, president of the American Petroleum Institute, which represents the oil industry. "They're certainly not going to replace the family car."

Austin's plan to use the plug-in batteries as a power-storage network also requires additional work. Mr. Duncan will have to devise financial incentives, such as cheaper parking or discounted power, to induce car owners to allow Austin Energy to buy back extra power from their batteries. The city will have to install a computer-monitoring system to make sure the utility doesn't leave car owners without enough battery juice.

Mr. Duncan has found his most enthusiastic backers in the electric-utility business. Shifting some of the nation's vehicles from gasoline to electricity, these people say, would curb pollution and reduce reliance on imported oil—and would make utilities more profitable and efficient. The Electric Power Research Institute, an industry group, has spent years researching and touting plug-ins, and supports efforts to use their batteries to store extra power. Utilities, which use thousands of vehicles, would likely be the first big buyers of the vehicles, the group says.

The idea of tapping the electricity stored in car batteries—called vehicle-to-grid power, or V2G—originated with Willett Kempton, an electrical engineer and associate professor at the University of Delaware. He came up with the idea in the late 1990s after he learned that electric cars require large batteries and that most cars sit parked most of the day.

"I said to myself, 'Wait a minute, this is a big storage system,'" Dr. Kempton recalls. In a 1997 paper, he and economist Steven Letendre detailed how electric cars, using computer-controlled connections, could draw power from the electric grid at times and pump it back into the grid at other times. Much of the software and hardware needed to do this, Dr. Kempton discovered, already existed. But car makers thought the idea was crazy, he says.

In 2001, Dr. Kempton went to San Dimas, Calif., where AC Propulsion was developing one-of-a-kind prototypes for electric cars, including a roadster called the Tzero. He and Alan Cocconi, the founder of the company, conducted an experiment using a two-way charging system that Mr. Cocconi had developed. The car's special lithium-ion battery was drawing power from a wall socket. With a laptop computer, the two men directed the electricity to move the other way—from the car into the power line. The car's powerful battery generated more than enough electricity to temporarily meet the modest needs of the small company.

Electric cars first appeared in the 1890s. But they were overshadowed within 20 years by gasoline-powered cars, which were cheaper and had unlimited range. In the 1990s, concerns about reliance on imported oil and about climate change rekindled interest. Hybrids such as the Toyota Prius, which married electric drive systems with small gasoline engines—but don't have to be plugged in—have come to market and proven popular. But GM canceled its $1 billion drive to market an electric car, the EV1, in 2003 after California dropped a regulation requiring auto makers to sell some.

Austin takes pride in both its environmental record and its quirkiness. Austin Energy's Mr. Duncan, 59 years old, once raised money for local anti-nuclear campaigns by producing concerts starring Willie Nelson and other local musicians. These days, Austin Energy is part owner of a nuclear plant, and Mr. Duncan considers such plants part of the solution to global warming because they don't generate the pollutants that coal-burning ones do. The utility already uses more wind-generated power than any other major utility does, according to the U.S. Department of Energy. "This global-warming problem is so severe that we've got to use everything we have to fight it," he says.

Mr. Duncan concluded that plug-in vehicles would be especially useful in Texas, where wind-turbine "farms" in the western part of the state now supply the cheapest electricity. He figured he could sell the wind energy to plug-in owners at night, and during the day buy back extra power to help cool homes and office buildings.

To make the plan work, electric cars would have to plug in during the day at parking lots equipped with computer-monitored plugs. Dr. Kempton and other V2G devotees have written about existing technology that can track how much power utilities drain from each battery, so that too much isn't removed and car owners can be credited.

As Mr. Duncan saw it, the battery power could supplant dirtier energy generated by coal-fired plants and more expensive power from natural-gas-fueled facilities. The bottom line, he concluded, would be cleaner air for Austin and, assuming several thousand plug-in customers, $27 million more in annual electricity sales for Austin Energy.

But Mayor Wynn and Mr. Duncan quickly discovered that pushing plug-ins wasn't easy. Hardly anyone knew what they were talking about. At the moment, only a few hundred plug-in vehicles exist. Some are custom-made experimental cars; others are conventional hybrids like the Toyota Prius and Honda Civic Hybrid that have been converted using kits, a process that car makers discourage.

Conventional hybrids, which average 40 to 60 miles a gallon, are propelled by both electric motors and small gasoline engines, which also keep the batteries charged. Plug-ins have much bigger batteries and are propelled solely by electric motors, with their smaller gasoline engines serving only to recharge batteries that run down on the road. Because they can run most or all of the day on electric power, they can travel more than 100 miles per gallon of gasoline.

In 2005, Austin's city council launched a public-awareness campaign about plug-ins. More than 11,000 residents signed petitions calling on auto makers to produce them, and local government agencies and businesses signed pledges to buy as many as 600.

Early on, Mr. Duncan met with some car-company officials in Washington to urge them to make plug-ins. "I didn't get a no, or anything. There was just plain silence," he recalls. "Finally, one of them asked me why was Austin doing this. I explained, and there was more silence."

In 2006, Austin's city council poured up $1 million to mount a national campaign to drum up support. Mr. Duncan hit the road with a PowerPoint presentation, telling audiences that the cost of driving a plug-in car was comparable to paying 56 cents a gallon for gasoline.

Mayor Wynn, who headed the energy committee of the U.S. Conference of Mayors, rounded up endorsements from fellow mayors in Baltimore, Boston, Chicago, Minneapolis, Dallas, Los Angeles and San Francisco. He lobbied the U.S. head of Toyota during a meeting in New York City. Mr. Duncan pitched farm groups, emphasizing that the plug-in's auxiliary motor could be made to run mainly on ethanol or biodiesel fuel.

Some environmental groups have been leery of the campaign, worried that utilities would want to use coal-fired plants, rather than clean energy sources, to power plug-ins.

Technical challenges need to be overcome. Developing the plug-in battery "is the biggest show stopper, if you want to call it that," says Ahmad Pesaran, a battery expert at the Energy Department's National Renewable Energy Laboratory. Plug-ins need big lithium-ion batteries, 200- to 300-pound versions of the ones used in many laptop computers. The batteries have to store 100 times as much power as conventional car batteries and at least five times as much as batteries in current hybrids. Batteries for prototype plug-ins, Mr. Pesaran says, run $15,000 to $20,000 apiece. Plug-ins won't be commercially viable, he says, until the battery costs are cut by 75%.

A joint government-industry research program could help reduce the cost, as could economies of scale from mass production, he says. While plug-ins might reduce dependence on imported oil, they'd require imported copper, nickel and cobalt, and lithium-ion technology currently dominated by Japan, South Korea and China.

Optimists predict that plug-ins will be in showrooms within three to five years. It's likely to take longer for utilities to be able to tap the extra power stored in plug-in batteries.

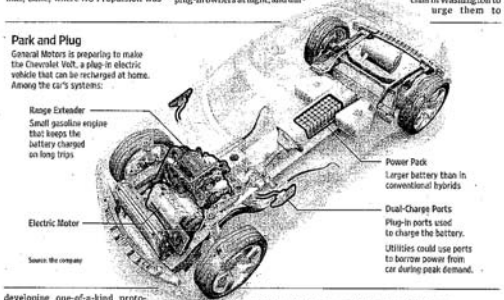
Mr. Duncan says he's willing to wait. During a four-year stint on Austin's city council, he sometimes practiced a Tibetan form of Buddhism during fights between pro-environment and pro-business members. "He meditates a lot and remains a completely calm person," says Jim Marston, director of the Texas office of Environmental Defense, a New York-based nonprofit group. "I don't think I've ever seen him raise his voice."

The vehicle-to-grid technology that utilities would need is slowly taking shape. In California, utilities are introducing computer-driven "smart meters" that can be set to run appliances, such as washing machines, at night, when rates are lower. A plug-in family car sitting in the garage could be one of those appliances, says Sven Thesen, an engineer who is exploring electric-drive systems for PG&E Corp. in San Francisco.

This two-way process could be used on the nation's electric-power grid, according to a study released in January by the Department of Energy's Pacific Northwest National Laboratory. The national grid has enough spare capacity at night to fuel as many as 180 million electric cars, which is equivalent to 84% of the nation's current automobile fleet, the study says. Fuel for cars powered by electricity would cost customers only about 30% as much as fuel for gasoline-powered cars, the study estimates.

Auto makers haven't said when plug-ins will reach market, but Mayor Wynn says Austin's City Council has already set aside $1 million to fund rebates for the first 1,000 residents to buy plug-ins. The city intends to change building codes to require plugs in municipal parking lots, with Internet connections to Austin Energy. After that, the mayor explains, "we'll be able to start harvesting parking garages."

—Mike Spector contributed to this article.



Power Shift

- **The Situation:** Austin, Texas, wants to clean its air by getting more electric power from alternative sources.
- **The Plan:** Get people to buy plug-in electric cars, then link the parked ones together in a grid that forms a storage system for wind-generated power.
- **What's Next:** Wait for models to reach the market while working out the details of the power-sharing system.

Chairman NEAL. I thank the gentleman for his testimony.
Dr. Weldon.

STATEMENT OF THE HONORABLE DAVE WELDON, M.D., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Dr. WELDON. Thank you, Mr. Chairman, and I have submitted my testimony in writing. So I will very briefly summarize.

I have introduced legislation, H.R. 3319, the Short Sea Shipping Act, again in this Congress, which would modify the tonnage fee that is applied to the harbor maintenance tax. What this bill does in essence is to try to promote moving goods by barge or ship along our coasts and our rivers rather than the current paradigm, which is big freighters come in and everything goes off in trucks.

The goal here is to get more of our freight moving by our waterways as opposed to by trucks. Our highways are overloaded. It is very costly to expand our highways. And the important thing, and the relevance to your Committee and this hearing, and I commend you for conducting this hearing, is it is green.

The Europeans are ahead of us on this issue. They are moving toward a blue water highway kind of system in Europe, moving goods more around by canal and rivers. And of course, we have our oceans that we can use. They studied this issue, and they said you save a third in their research on the fuel consumption per ton moving freight from point A to point B.

I will point out that your Ranking Member was on this bill last year, along with some of the people sitting here with me. And additionally, I will point out to you this is a bipartisan issue. Representative Tubbs-Jones and Representative Cummings have introduced very similar pieces of legislation that deal with the Great Lakes.

This is a win/win all around, Mr. Chairman, and I would highly encourage you to seriously take a look at it. I know your Ranking Member is on this issue. It is something I think Republicans and Democrats can both embrace, good for the environment, good for our roads and highways, and it allows our economy to keep churning.

And I yield back. Thank you very much.

[The prepared statement of Dr. Weldon follows:]

[Not available at the time of printing.]

Chairman NEAL. Thank you. I believe Mr. Abercrombie has spoken to me as well about this issue, Doctor.

The chair would recognize the gentleman from North Dakota, Mr. Pomeroy.

STATEMENT OF THE HONORABLE EARL POMEROY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. POMEROY. I thank the chair. And I also have written testimony submitted. I will try and abridge as quickly as I can, recognizing the disruption to this Committee caused by the earlier evacuation of the building.

I want to talk about the wind production tax credit, clean renewable energy bonds, and the tax support for ethanol and biodiesel.

All of these are important components of expanding our renewable energy usage in this country.

First, production tax credit for wind: Congressman McDermott is exactly correct when he talks about the disruption caused by this production tax credit expiring, as it has on three occasions since 1999. I will tell you, those Congresses were absolutely guilty of malfeasance when it comes to this one because it had no serious detractors as a component of energy policy. It just got put in the extenders and allowed to expire.

In 2005 and 2006, more than 2400 megawatts of wind were being installed each year, yet in 2004, when the tax had expired for 10 months, 389 megawatts were developed. A facility in North Dakota that now has 800 employees producing blades for these turbines was down to fewer than 25 employees at the end of 2003. That is just a very real indication of the utter disruption to this industry of having that credit lapse.

Congressman Ramstad and I have introduced a bill that would extend that production tax credit for 5 years. I believe that is precisely what is needed to maximize the potential of wind.

I was fascinated, Mr. Chairman, at the excellent hearing you had last week to have the proponent of the wind energy indicate that potentially 20 percent of the nation's energy needs could be ultimately met if we really get at it in a serious way. It is going to take an extended production tax credit to do it.

Clean renewable energy bonds: Again, Congressman McDermott is precisely correct when he talks about how we need to get municipal power systems and rural electric coops fully engaged in the business of moving toward renewable energy sources. The way we try and incentavize activity is through the tax code, but each of these entities, public power and coops, are not taxed.

We have in the past floated, although it was not met with the approval of the prior chair, a notion of tradable tax credits so that a nontaxed entity could get the value of a tax credit and trade it to somebody who could then pay them for it.

That didn't go. So we developed this Clean Renewable Energy Bond mechanism whereby the ultimate bondholder—the bonds are sold. The ultimate bondholder, who is a taxed entity, gets the value of the tax incentive and the coop or public power system gets essentially the value of interest-free money.

The benefit of this is very real, and the first year's results surprised everyone. Eight hundred million dollars of Clean Renewable Energy Bonds were made available. It was estimated that that amount wouldn't go for 2 years, take care of 2 years' worth of need. It was over-subscribed the first year, and in fact, the waiting list was 176 projects that didn't get any funding at all. Projects were allocated on a small to large basis, which meant some of the largest, most significant projects didn't get a dime on this one.

So we are seeking a billion dollars in each of the next 2 years in Clean Renewable Energy Bonds to provide meaningful incentives to the 25 percent of our nation's power system that comes from nontaxed entities, public power and rural electric coops.

Finally, Mr. Chairman, the biodiesel tax credit expires in 2008. Ethanol expires in 2010. We believe each of these should be made permanent. The biodiesel tax credit, for an example, has generated

very substantial production enhancement. In 2000, about 25 million gallons produced; in 2004, when the tax credit came online, 250 million gallons.

The ethanol story is unfolding even as we speak. We are going to blow past the goals of the Energy Policy Act of 2005. That is a good thing. But undergirding it all is this tax credit that needs to continue, and those contemplating massive investments in new renewable energy plants, ethanol and biodiesel, need to know that that credit is going to be there to support them.

Thank you, Mr. Chairman, for your consideration.

[The prepared statement of Mr. Pomeroy follows:]

Prepared Statement of The Honorable Earl Pomeroy, a Representative in Congress from the State of North Dakota

Chairman Neal and Ranking Member English, I would like to thank you for the opportunity to testify before the subcommittee today regarding three pieces of legislation that I have introduced in the 110th Congress to incentivize the development of renewable energy. These bills would extend the current tax credits for ethanol and biodiesel, the renewable energy production tax credit and would allocate more money for the Clean Renewable Energy Bonds program.

I would first like to discuss my bill H.R. 197, which will extend for 5 years the production tax credit (PTC) for electricity produced from wind and other renewable energy sources such as closed and open-loop biomass and geothermal power. The PTC provides a 1.5 cent per kilowatt hour tax credit for electricity that is produced from these qualified renewable sources. The credit is adjusted for inflation and is currently 2 cents per kilowatt hour. It is currently scheduled to expire at the end of 2008. Rep. Jim Ramstad (R–MN) and I introduced H.R. 197 on the first day of the 110th Congress and there are currently 87 bipartisan cosponsors.

The PTC has a history of short term extensions and expirations that have hampered industry's ability to effectively develop generation capacity. Since 1999 the PTC has expired three times. With each of these expirations came dramatic slow down in wind power investment and the loss of thousands of jobs across the industry. LM Glasfiber, a blade manufacturer in my district that is currently approaching 800 employees, was forced to furlough 60–70 of what was then approximately 100 employees when the credit had expired 2004. A 5-year extension will prevent this from happening and provide a level of stability for the industry that it has not had for many years.

We have seen over the past 2 years how effective the PTC has been when there is some level of certainty that the credit will not expire. Over 2,400 megawatts (MW) of wind power were installed in each 2005 and 2006 when industry was assured that the credit was not going to expire at the end of that year, versus only 389 MW in 2004 when the credit was expired for the first 10 months of the year.

In my state of North Dakota we can see an example of a project that would not be going forward if the most recent extension had not been enacted. The 179 MW Langdon Wind Farm is scheduled to begin construction this year. Had the most recent one year extension not been enacted, this project would not be proceeding due to the risk that the facility would not be placed in service by the previous December 31, 2007, expiration date. A 5-year extension will help utilities in their efforts to plan and construct renewable energy projects by providing the certainty that is necessary for large scale development.

While investor-owned utilities and private developers are eligible for the PTC to incentivize renewable electricity development, rural electric cooperatives and public power utilities are ineligible for the PTC as they are not-for-profit utilities and therefore do not pay income tax. Rural electric co-ops and public power utilities, who serve 25% of the nation's power needs, should be provided an incentive similar to the PTC to encourage them to develop renewable energy in a cost effective manner.

To address this issue, Rep. Ron Lewis (R–KY) and I introduced the Clean Energy Bonds Act of 2005 (H.R. 2794) in the 109th Congress to create a new type of bond to help fund renewable energy projects by not-for-profit utilities. When a person purchases a regular bond, the issuer gives the bondholder interest payments on their investment. With clean energy bonds, instead of the issuer (the cooperative or public utility) paying out interest to bondholders, the bondholders receive a Federal income tax credit in recognition of their investment. The issuer can then utilize all bond proceeds to finance clean energy projects.

The Energy Policy Act of 2005 authorized the creation of the Clean Renewable Energy Bonds (CREBs) program and allocated $800 million for the bonds. The first round of allocations was announced by the IRS at the end of 2006 with 610 projects awarded allocations. The IRS is currently in the process of accepting applications for an additional $400 million in allocations that were approved in the Tax Relief and Health Care Act of 2006.

While the program has been a success to date, there has been one major flaw—an insufficient availability of the bonds to meet demand. The IRS received over $2.5 billion in requests for the initial allocation of $800 million. To address the need for greater allocations of these bonds, Rep. Lewis and I have introduced H.R. 1965, which would provide a $1 billion allocation of CREBs in each 2008 and 2009. This additional allocation will provide not-for-profit utilities, who are often better situated to harness renewable energy sources like wind and biomass, further resources to finance renewable energy projects. I strongly urge the Committee's support for increased allocations of Clean Renewable Energy Bonds.

Finally, I would like to discuss H.R. 196, which Rep. Kenny Hulshof (R–MO) and I have introduced to permanently extend the current tax credits for biodiesel and ethanol as well as the current tariff on imported ethanol. As Congress debates energy policy that will reduce America's dependence on foreign oil, many different technologies will need to be developed. Increased renewable electricity generation and energy efficiency will be vital, as will the increased use of alternative fuels in the transportation industry.

Long term extensions of the current ethanol and biodiesel credits are necessary to ensure that these industries are able to gain a significant foothold in the market so that traditional petroleum based fuels are not able to force alternative fuels out of the market.

The Energy Policy Act of 2005 mandated that 7.5 billion gallons per year of biofuels be used by 2012. Just 2 years ago that level seemed unreachable to some. Now a mere 20 months after the passage of the Energy Policy Act, over 5 billion gallons of biofuels will be produced this year and the 7.5 billion mark will be passed long before the 2012 deadline. This has largely been achieved because of the current tax credits for ethanol and biodiesel. These developing industries do not have the developed infrastructure that the oil and gas industry possess and there for need an incentive to compete.

The statistics show that these credits have had their intended effect. The ethanol industry has more than tripled production capacity since 2000 and the biodiesel industry has increased its sales from 25 million gallons in 2004 when the biodiesel credit was first enacted to 250 million gallons in 2006. The increase in biofuels development in North Dakota alone has been astounding. Two years ago North Dakota produced just 35 million gallons of ethanol. Now, an additional 100 million gallons have come online with more than 250 million gallons of production capacity in various stages of development, as are over 100 million gallons of biodiesel production.

The current ethanol credits include 51 cents per gallon available at the blender lever and 10 cents per gallon for small producers (those producers with less than 60 million gallons per year of capacity). The biodiesel credits include the same 10 cent per gallon credit for small agri-biodiesel producers and a $1 per gallon credit at the blender level for agri-biodiesel (50 cents per gallon of non agri-biodiesel). As the 51 cent per gallon credit for ethanol is also available for imported ethanol, a 54 cent per gallon tariff on imported ethanol is imposed to prevent foreign ethanol that already receives subsidies in many countries around the word, from flooding the U.S. market and putting domestic producers out of business.

As the Committee knows, currently, most of the ethanol produced in America is produced using corn as the primary feedstock. Though this has the potential to change, technology continues to develop that will allow the utilization of cellulosic ethanol. A long term extension of ethanol and biodiesel credits will provide an incentive to ensure that research into cellulosic ethanol technologies continues. This research has the potential to lead to commercial scale cellulosic ethanol plants that will be more energy efficient and dramatically increase the volume of biofuels that can be domestically produced.

In addition to reducing America's dependence on foreign oil, the biofuels industry represents a tremendous opportunity to revitalize America's rural economies. The construction and operation of biofuels plants has led to the creation of thousands of jobs and billions of dollars in economic activity, much of it in rural states like North Dakota. A vibrant biofuels industry will ensure that money that would have otherwise flown outside of the country to pay for oil imports will flow into America's heartland.

Mr. Chairman, no single technology is going to cure America of its dependence on foreign oil or significantly reduce carbon emissions to address global warming.

Instead multiple technologies and approaches must be implemented. The incentives that I have discussed will go a long way towards developing America's renewable energy industries and aid in meeting those goals. I look forward to working with the Committee on these proposals. In addition to the industries I have discussed today, I believe that we must make significant investments in clean coal technology, energy efficiency and in the nations electric transmission grid which is currently inadequate to meet the growing demands of renewable energy and the American people. Thank you.

Chairman NEAL. Thank you, Mr. Pomeroy.

The gentleman from Oregon, Mr. Blumenauer, is recognized.

STATEMENT OF THE HONORABLE EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. BLUMENAUER. Thank you, Mr. Chairman. I appreciate the work that you have done focusing on areas of climate change and energy independence, issues that must be very closely linked.

The importance of addressing the two issues simultaneously cannot be overestimated. Energy independence alone could drive us into a polluted, coal-dependent future. Tackling climate change without looking at how we produce and use energy is pointless. Fortunately, progress on these two challenges presents an opportunity to revitalize economies based on a clean, renewable energy and improve the quality of life.

Unfortunately, the current tax policy takes us in precisely the wrong direction. The current tax code values wasteful and dirty energy generation by five to one, perhaps more, over clean, renewable technology. Under the current tax code, the oil industry receives over $5 billion each year to engage in policies that lead us further away from a sustainable future.

Before I get to some specific ideas, I would like to lay out a series of principles that I hope we can work on with this Subcommittee to guide actions in the future, to serve as a screen to make sure that all our work takes us in the right direction on carbon.

First, I hope that we make a commitment to reducing greenhouse gas emissions to make the tax code carbon neutral at the least, and make sure any changes result in reducing carbon emissions.

Second, I think we ought to level the playingfield for energy sources as much as possible. Where there is favoritism in terms of the tax code or other incentives, it ought to be directed toward emerging sustainable technologies.

We must make sure that all subsidies are cost-effective, sustainable, and consider the net environmental impacts of each.

I join with my colleagues in urging that adequate time and certainty be provided for tax benefits under the code. We ought to promote cost-effective conservation and efficiency first. I couldn't agree more with my colleague from the Northwest, Mr. McDermott. Since 1980, our region has saved the equivalent of eight large coal plants directly through a regional strategy of conservation.

We want to promote the most appropriate and efficient use of energy sources such as the direct use of natural gas instead of using it to produce electricity. It has been likened by a friend of mine that using natural gas to produce electricity is like using fine Scotch to wash your dishes. We have homes all across America

with both gas and electric service that have electric hot water heaters. We ought to be thinking about ways to fix that.

We ought to ensure that the Federal Government leads by example, that as the largest landlord, landowner, and employer, we set the standard; and finally, working on this Committee to make sure that United States trade policy promotes carbon reduction and energy efficiency.

I would hope that we start with your work by commissioning a carbon audit of the tax code. I am currently drafting legislation to have the National Academy of Sciences convene a panel of experts to look at the code and identify activities that impact our carbon emission. I strongly support the references that have been made here to the production tax credit. I am pleased to cosponsor that legislation, and certainly would support a longer-term extension.

Two ideas that I hope the Subcommittee will consider, either independently as legislation that has been introduced or that could be wrapped into larger legislation: One is House Resolution 1772, with Representative Cole and I, the Rural Wind Energy Act to produce an investment tax credit of $1500 per half kilowatt of capacity for small wind systems.

I also have another piece of legislation that I hope you will look favorably upon to reward people who burn calories instead of gasoline. It is the Bike Commuter Act. Right now we provide substantial free parking to commuters, tax-free. We provide less support for commuters who use transit systems. We use zero support for people who don't commit an assault on the environment in terms of emission, congestion.

It is a relatively minor bill, but it would have a profound effect for millions of potential bike commuters. The typical commuter averages five miles, half of them five miles or less. A bike could make a difference. I wanted to put that on the table before I concluded my testimony.

Thank you very much.

[The prepared statement of Mr. Blumenauer follows:]

Prepared Statement of The Honorable Earl Blumenauer, a Representative in Congress from the State of Oregon

Thank you for the opportunity to testify today on changes to the tax code that will help us address two closely linked issues: climate change and energy independence.

The importance of addressing these two issues simultaneously cannot be overstated. Energy independence alone could drive us to a polluted, coal dependent future. Tackling climate change without looking at how we produce and use energy is pointless. Fortunately, progress on these two challenges presents an opportunity to revitalize economies based on clean, renewable energy and improve quality of life.

Addressing these issues through the tax system is logical. Unfortunately, current tax policy takes us in the wrong direction. The tax code values wasteful and dirty energy generation by 5 to 1—if not more—over clean, renewable technology. Under the current tax code, the oil industry receives over $5 billion *each year* to engage in policies that lead us further away from a sustainable future. This includes money to mine shale and tar sands, to expense various attributes of mining, drilling and refining, and to subsidize the extraction of oil from marginal sources.

In my testimony I will discuss a few ideas that I have been working on to use the tax code to produce and use energy in a less carbon-intensive manner. But before I get to that, I'd like to lay out a series of principles that I hope can guide this Committee's action on the issue in the future and serve as a screen to make sure all of our work takes us in the right direction on carbon.

- A commitment to reducing greenhouse gas emissions: make the tax code carbon neutral at least, and make sure any changes result in reducing carbon emissions;
- Level the playing field for energy sources as much as possible;
- Where there is favoritism in terms of the tax code or other incentives, direct it towards emerging technologies;
- Make sure all subsidies are cost-effective, sustainable, and consider the net environmental impacts of each;
- Give adequate time and certainty for tax benefits;
- Promote cost-effective conservation and efficiency first;
- Promote the most appropriate and efficient use of energy sources, such as the direct use of natural gas instead of using it to produce electricity;
- Ensure that the Federal Government leads by example;
- U.S. trade policy should promote carbon reduction and energy efficiency.

An action that could help direct our efforts to make the tax code as carbon friendly as possible would be to commission a carbon audit of the tax code. I am currently drafting legislation which would have the National Academy of Sciences convene a panel of experts to look at the tax code and identify activities that impact our carbon emissions. In addition to providing us with important information on how to "green the tax code," this exercise could also supply us with ideas on how to raise revenue. This audit could take some time, and there may be some obvious changes to the tax code we need to make immediately for the sake of carbon reduction. I would not want to hold those up with this audit. But to truly address global warming we need to go beyond the obvious.

It is vital that any changes to the tax code increase incentives for producing energy in a clean, renewable manner. I strongly support the renewable production tax credit (PTC), which has made a huge difference to the development of renewable energy, especially wind, in my state and around the country.

I am pleased to be a co-sponsor of Rep. Earl Pomeroy's legislation to extend the production tax credit for five years. In fact, I would support a longer-term extension to give even more certainty to the industry. As has been discussed in this Committee, the short-term extensions of the credit in the past have created a boom-and-bust cycle that is not conducive to the development of capital intensive projects like wind farms and geothermal plants. I understand this is an expensive endeavor, and pledge to help the Committee to look for additional revenue raisers in the energy realm that could offset the additional cost.

There are a number of improvements we could make to the tax code to help meet our goals of reducing greenhouse gases and addressing energy independence. But I would like to focus on two ideas that I have put forward in legislation.

Last month, Rep. Tom Cole and I introduced H.R. 1772, the Rural Wind Energy Development Act. This legislation would provide an investment tax credit of $1500 per ½ kilowatt of capacity for small wind systems, which could be carried over for a customer unable to take advantage of the entire credit within a 1-year period. The bill also calls for a 3-year accelerated depreciation for small wind systems.

Small wind systems are electric generators that produce 100 kilowatts or less of energy—but the wind energy industry estimates that this credit will be mostly used for turbines between 2 and 10 kW in size. The tax credit would be available to offset the high up-front costs of owning a small wind turbine for homeowners, farmers, and small businesses. It would allow these individuals to generate their own power, independent from the electric grid. They would be able to cut their energy bills and, at times, put power back into the grid.

There is an existing investment tax credit available to homeowners who install small solar systems, which has been very successful in increasing the number of solar panels installed. This bill would simply expand that to include wind.

I am pleased to tell you that H.R. 1772 currently has 17 bi-partisan co-sponsors, including the Chairman of the Ways and Means Committee, Charlie Rangel.

Another piece of legislation I would like to highlight is H.R. 1498, which would address not the production of energy but the use of oil. The "Bike Commuter Act" would extend the transportation fringe benefit to bike commuters. It would reward commuters who burn calories instead of gas.

Currently, employers may offer a transportation fringe benefit to their employees for certain costs incurred while commuting to work. Employees who take advantage of this benefit may receive a tax-exempt benefit of up to $215/month for drivers participating in qualified parking plans or $110/month for those who use transit or vanpooling. Current law also allows the option of taking cash compensation. My legislation aims to balance the incentive structure by extending the transportation fringe benefit to include bicycling.

With over 50 percent of the population commuting 5 miles or less to work, incentives for bicycle commuting have great potential to reduce single occupancy vehicle trips. A Rodale Press survey recently found that Americans want to have the opportunity to bike to work instead of drive, with 40% of those surveyed indicating they would commute by bike if safe facilities were available. I believe this is the type of message that Congress should be sending to our communities through the tax code: that we support efforts to reduce energy consumption, ease traffic congestion, and encourage healthy activities as part of our daily routines.

I appreciate the opportunity to discuss the ways that we can reform the tax system to spur innovation, save energy, and make our communities more livable. I look forward to working with this Committee to craft legislation that will take us a big step in the right direction.

Chairman NEAL. We thank the gentleman. We always appreciate your vision on these energy issues.

The gentlelady from Nevada, Ms. Berkley, is recognized.

STATEMENT OF THE HONORABLE SHELLEY BERKLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEVADA

Ms. BERKLEY. Thank you, Mr. Chairman. And I can't thank you enough for holding this hearing.

I am here today to talk about a bill I have introduced, H.R. 1133, the Freedom through Renewable Energy Expansion Act, the FREE Act. I first introduced the FREE Act in the 109th Congress because it became clear to me that this nation cannot continue to depend on foreign countries for our energy needs. It is a matter of national security to become energy independent, and we can do this by turning to our own vast resources for alternative energy.

The nation's tax policy should be an integral part of the congressional effort to free the nation from polluting sources of energy. The FREE Act addresses this issue in two ways. First, it repeals tax breaks and other subsidies to oil, gas, and nuclear industries. Not only are these industries reaping record profits, but the energy they produce and the waste that results from it is harmful to the environment and exacerbates the problem of global warming. Repealing giveaways to these industries will free up some of the finances needed to achieve energy independence.

Earlier this year, the House set aside $14 billion for the promotion of alternative energy when we passed the Clean Energy Act. By repealing additional subsidies that are unnecessary and wasteful, the FREE Act would cut Federal spending by nearly $13 billion. Of this total cost savings, over $6 billion would come from repealed tax subsidies.

The FREE Act's second approach to securing independence is by changing the energy we use and how we use it. The FREE Act promotes the production and use of renewable energy, funds renewable energy research, and requires energy efficiency.

Today I will highlight the use of tax credits to promote the production of renewable energy because it is under the jurisdiction of this Subcommittee.

Various energy tax credits are currently available to the business and residential sectors, several of which Congress extended in the Energy Policy Act of 2005. However, these are about to expire, and without a long-term extension, the renewable energy will not be able to deliver the clean energy our nation needs.

The production tax credit is currently available to facilities that produce alternative forms of power. This credit is set to expire at the end of 2008, and the FREE Act would extend it until January 1, 2016. The commercial investment tax credit is currently available to businesses investing in solar, fuel cell, and geothermal properties. The FREE Act would extend this credit until January 1, 2016, and would modify the geothermal ITC to match the solar ITC, which receives a higher credit level.

We must also provide incentives to homeowners to promote renewable energy consumption to all sectors. The ITC for residential energy-efficient properties that use solar and fuel cell equipment currently expires on December 31, 2008, but the FREE Act would extend it another 7 years until 2015.

Finally, the FREE Act would create a new small wind ITC that covers small wind systems used to power homes, farms, and small businesses.

The FREE Act would provide long-term extension of these tax credits because it has become clear that short-term extensions will not provide a sufficient incentive. Southern Nevada, the community that I represent, has some of the best solar resources in the entire world, offering between 7,000 and 7,500 watt hours per square meter—but the construction of large-scale solar power plants takes 5 to 7 years from planning to startup.

Nevada Solar One, a 450-acre concentrating solar power facility just outside Las Vegas, will provide 64 megawatts of solar power when it comes online this spring. It took 6½ years to build from planning to startup, and it is the only facility of its kind in the United States created in the last 15 years.

If Congress does not pass a long-term extension of this credit, projects such as this with long construction periods will never be financially viable. A short-term extension of this credit will not offer enough incentives.

The same is true for the effectiveness of the PTC as an incentive for geothermal energy production. Geothermal plants have a construction lead time of 3 years or more, which means that some of the largest new geothermal facilities may not go forward because they will not be able to meet the deadline for the PTC.

Oftentimes, investors are scared away from a geothermal project because they are afraid they will not be able to place the facility in service in time to receive the credit. Geothermal is an untapped energy resource that is abundant in the state of Nevada and has enormous potential for energy production across the Western states. It would be inexcusable for Congress to let this clean energy resource go unused.

In conclusion, while this Committee will deal with using tax credits to promote renewable energy production, there are other ways for the Federal Government to pave the way toward energy independence, and the FREE Act would help in those areas.

I won't go into them now because I see that my time is up. I will submit my entire statement for the record. I am delighted that we are doing this, Mr. Chairman. When I was in law school, standing in those long lines in the 1970s to gas up on an odd day or an even day depending on my license plate, if you would have told me that 30 years later I would be sitting in Congress and this nation has

done little or nothing to make a difference and change the way we do business in this country, I would have told you you were out of your mind.

But I am here in Congress now. I think we all understand the urgency. And I am looking forward to working with all of you to make a difference for future generations of Americans.

[The prepared statement of Ms. Berkley follows:]

Prepared Statement of The Honorable Shelley Berkley, a Representative in Congress from the State of Nevada

Mr. Chairman,

Thank you for holding this hearing. I am here today to talk about a bill I have introduced, H.R. 1133, the Freedom through Renewable Energy Expansion Act, or FREE Act.

I first introduced the FREE Act in the 109th Congress because it had become clear to me that this country cannot continue to depend on foreign countries for our energy needs. We must become energy independent and *free* from foreign fuels, and we can do this by turning to our own vast resources for alternative energy.

The nation's tax policy should be an integral part of the congressional effort to *free* the nation from polluting sources of energy. The FREE Act addresses this issue in two ways. First, it repeals tax breaks and other subsidies to the oil, gas and nuclear industries. Not only are these industries reaping record profits, but the energy they produce and the waste that results from it is harmful to the environment and exacerbates the problem of global warming. Repealing giveaways to these industries will *free* up some of the finances needed to achieve energy independence.

Earlier this year, the House set aside $14 billion for the promotion of alternative energy when it passed the CLEAN Energy Act. By repealing additional subsidies that are unnecessary and wasteful, the FREE Act would cut Federal spending by nearly $13 billion. Of this total cost savings, over $6 billion would come from repealed tax subsidies.

The FREE Act's second approach to securing independence is by changing what energy we use and how we use it. The FREE Act promotes the production and use of renewable energy, funds renewable energy research, and requires energy efficiency.

Today I will highlight the use of tax credits to promote the production of renewable energy because it is under the jurisdiction of this subcommittee.

Various energy tax credits are currently available to the business and residential sectors, several of which Congress extended in the Energy Policy Act of 2005. However, these are about to expire, and without a long-term extension, the renewable industry will not be able to deliver the clean energy our country needs.

The Production Tax Credit (PTC) is currently available to facilities that produce alternative forms of power. The PTC is set to expire at the end of 2008, and the FREE Act would extend it until January 1, 2016, another 7 years.

The commercial Investment Tax Credit (ITC) is currently available to businesses investing in solar, fuel cell, and geothermal properties. The FREE Act would extend the ITC until January 1, 2016, and would modify the geothermal ITC to match the solar ITC, which receives a higher credit level.

We must also provide incentives to home owners to promote renewable energy consumption in all sectors. The ITC for residential energy efficient properties that use solar and fuel cell equipment currently expires on December 31, 2008, but the FREE Act would extend it another 7 years, until December 31, 2015.

Finally, the FREE Act would create a new small wind ITC that covers small wind systems used to power homes, farms, and small businesses.

The FREE Act would provide a long-term extension of these tax credits because it has become clear that short-term extensions will not provide a sufficient incentive. Southern Nevada has some of the best solar resources in the entire world—offering between 7,000 and 7,500 watt-hours per square meter—but the construction of large scale solar power plants takes 5–7 years from planning to startup.

Nevada Solar One, a 450-acre concentrating solar power facility just outside of Las Vegas, will provide 64 megawatts of solar power when it comes online this spring. It took 6½ years to build, from planning to startup, and it is the only facility of its kind built in the U.S. in the last 15 years. If Congress does not pass a long-term extension of this credit, projects such as this with long construction periods will not be financially viable. A short-term extension of this credit will not offer enough incentive.

The same is true for the effectiveness of the PTC as an incentive for geothermal energy production. Geothermal plants have a construction lead-time of 3 years or more, which means that some of the largest new geothermal facilities may not go forward because they will not be able to meet the deadline for the PTC. Often times, investors are scared away from a geothermal project because they are afraid they won't be able to place a facility in service in time to receive the credit, and the project would not be financially viable without the credit. Geothermal is an untapped energy resource that is abundant in Nevada and has enormous potential for energy production across the Western states. It would be inexcusable for Congress to let this clean energy resource go unused.

While this Committee will deal with using tax credits to promote renewable energy production, there are other ways for the Federal Government to pave the way toward energy independence, and the FREE Act would help in those areas. The FREE Act calls for several non-tax provisions, including a Federal Renewable Portfolio Standard that would require 20 percent of the nation's energy come from renewable sources by 2016. The FREE Act would also strengthen the Federal energy purchase requirement to require that the Federal Government consume at least 20 percent of its energy from renewable sources by 2015.

The FREE Act would also create a Federal grant to schools that produce renewable energy, provide research funding for geothermal energy, and would raise the nation's average fuel economy standards to 33 mpg by 2017.

This government action combined with market incentives will help create a healthy renewable energy industry and move us in the direction of energy independence. Funded by repeals in unnecessary tax breaks, these efforts will *free* the country from foreign oil and unclean energy. Becoming energy independent will take time, and that is why we need to begin now. The FREE Act will point us in the right direction.

Chairman NEAL. We thank the gentlelady.

The gentleman from California, Mr. Nunes, is recognized.

STATEMENT OF THE HONORABLE DEVIN NUNES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. NUNES. Thank you, Mr. Chairman and Ranking Member English. I appreciate the opportunity to testify today on our nation's energy future. While gas prices have fallen over the winter, they are back on the rise just in time for the summer driving season. All we need is a hiccup in the supply chain of crude oil and the prices at the pump can quickly return to the historic levels we saw last year, or even higher.

We have heard over and over again that we import 65 percent of our petroleum needs and that number is expected to rise. The situation has stifled economic development, put our nation's security at risk, and placed an unnecessary burden on the family budget.

We need to come to grips with the onerous policies of the past that are strangling us now. What we need is a comprehensive market-based strategy that will reduce our dependence on foreign sources of oil while bridging the gap to the next generation of energy.

For these reasons, I and a number of my colleagues from both sides of the aisle introduced the American-Made Energy Freedom Act last Congress. This bill would provide short-term relief while funding a long-term solution for energy freedom.

I am certainly flattered that H.R. 6, which was brought to the floor under the 100-hour agenda, included my idea of a secure trust fund to pay for the next generation of energy. However, I am con-

cerned with the approach taken in the bill. Instead of taxing energy companies, which will be inevitably passed on to consumers, I believe we should provide incentives for them to pay for the development of renewable and alternative energy.

This could be accomplished by opening ANWR and investing the Federal share of the lease and royalty revenue into a trust fund. This fund would be used to pay for numerous renewable, alternative and advanced energy programs.

Within the first 2 years of enactment, this legislation would provide an infusion of investment into numerous renewable and alternative energy programs, including the next generation of ethanol, coal to liquid technology, solar and fuel cell technology, and biofuel energy production.

With that said, I am currently working on a new and improved version of my legislation. The general concept in the bill will remain the same, but I am expanding it into other areas of renewable energy production and conservation that have shown promising results. I expect that I will re-introduce some time this coming month.

Certainly there are no quick fixes to our energy challenges. However, a few things are clear. We must recognize the possibility of global shortages and disruptions as demand continues to grow. We are in the midst of a Global War on Terror, fighting radicals whose stated objective is to destroy Western civilization.

At the same time, we rely on certified state sponsors of terrorism for our petroleum needs. Therefore, we must contemplate the real possibility that oil will be used an economic weapon. Consequently, in my view, it is irresponsible for the United States to buy oil from fanatical regimes that are determined to destroy our way of life.

It is time for energy freedom. It is time for energy security. And it is time for action on an American-made solution.

Thank you, Mr. Chairman, and I yield back.

[The prepared statement of Mr. Nunes follows:]

Prepared Statement of The Honorable Devin Nunes, a Representative in Congress from the State of California

Chairman Neal and Ranking Member English;

I appreciate the opportunity to testify today on legislation that I and a number of my colleagues, including Senator Burr, introduced last Congress to address our nation's energy future. While gas prices fell over the winter, they are back on the rise just in time for the summer driving season. All we need is a hiccup in the supply chain of crude oil, and the prices at the pump can quickly return to the historic levels we saw last year—or even higher.

Indeed, in the past, we have attempted to address our nation's energy security by looking at renewables and alternatives—only to see crude oil poured into the international market driving down the price per barrel of oil. In this case, basic economics take over and the cheaper energy source prevails. Because of this, crude oil has been the fuel of choice for more than a century. This economic addiction to cheap energy has led to the crisis we are now experiencing.

As everyone on this Committee knows, **we import 65% of our petroleum needs, and** the Energy Information Administration (EIA) projects that by 2025 we will import 71% of our petroleum. While this is a tenuous situation, it is exacerbated by the fact that **two-thirds of the world's proven oil reserves are located in the volatile Middle East. The nexus of instability with the Middle East, as well as the threat of lost production from Nigeria and Venezuela, and a virtual halt to new energy exploration in the United States resulted in the price of oil reaching all-time highs last year. With this in mind, it** does not surprise me that year after year we pay higher and higher prices for energy—whether at the pumps or in our home energy bills. This situation has stifled

economic development, put our nation's security at risk, and placed an unnecessary burden on the family budget. We need to come to grips with the onerous policies of the past that are strangling us now; this is an American-Made problem that requires an American-Made solution.

Unfortunately, we, as legislators, have tried time and again to enact solutions to expand our energy resources only to be thwarted by a vocal minority of interest groups. Their only solution is social engineering by mandating that the American people change their lifestyle. This has not worked in the past and will not work today. What we need is a comprehensive market-based strategy that will reduce our dependence on foreign sources of oil while bridging the gap to the next generation of energy. Congress has a responsibility to deal with our nation's energy demands in a bi-partisan manner that benefits all Americans.

My bipartisan, bicameral, bill would provide short-term relief while funding a long-term solution for energy freedom. We would accomplish this by opening the Arctic National Wildlife Refuge (ANWR) to exploration and investing the Federal share of the lease and royalty revenue into an energy trust fund. This trust fund would be used to pay for numerous renewable, alternative, and advanced energy programs. At an estimated $40 billion over 30 years, this trust fund would be the largest investment in renewable, alternative, and advanced energy in our nation's history—***all at no cost to the taxpayer***.

Within the first 2 years of enactment of this legislation, numerous renewable and alternative energy programs would receive billions of dollars in much needed investment. This would include an infusion of investment into the next generation of ethanol (cellulosic), a deployment of Coal-to-Liquid (CTL) technology, an expansion of the use of solar and fuel cell technology, and significant growth in the biofuel energy production industry. A number of these investments would come in the form of market-based tax credits.

Moreover, the bill funds numerous renewable energy provisions that were originally authorized in the Energy Policy Act of 2005 and have yet to receive significant funding. These Federal investments are needed to ensure breakthroughs in biotechnology, new feedstocks, harvesting, storage, transportation, and processing to produce a sustainable transportation fuel at a price competitive with fuel from the mature petroleum industry. Furthermore, enhancing Federal consumer tax credits is necessary to ensure that every home owner or small business has the opportunity to participate in our energy freedom by installing alternative energy systems that are economically viable and environmentally sensitive.

Indeed, the proposals put forth in this legislation will have numerous benefits. First, it will bridge the gap in our efforts to transition to homegrown energy and reduce our dependence on foreign oil. Second, it will assist us in meeting Renewable Portfolio Standards which have been set by many states. Third, it will significantly reduce greenhouse gas emissions. Finally, all of this is accomplished by incubating technology *rather than subsidize an industry*.

With that said, I am currently working on a new and improved version of my legislation. The general concept in the bill will remain the same, but I am expanding it into other areas of renewable energy production and conservation that have shown promising results. I expect that I will reintroduce it some time in the coming month.

Certainly, there are no quick fixes to our energy challenges. However, one thing is clear. Americans cannot continue to rely on cheap imports for our energy future. It is important for us to recognize the possibility of global shortages or disruptions as demand for fossil fuel continues to grow. We must also contemplate the real possibility that oil will be used as an economic weapon against us. We are in the midst of a Global War on Terrorism, fighting radicals whose stated objective is to destroy Western civilization and install religious theocracies. At the same time, we rely on certified state-sponsors of terrorism for our petroleum needs. In my view, it is irresponsible for the United States to buy oil from fanatical regimes that are determined to destroy our way of life. It is time for energy freedom, it is time for energy security, and it is time for action on an American-Made solution.

I appreciate the opportunity to testify today and I look forward to working with my colleagues on the Committee to address the tax provisions in my proposed legislation.

Chairman NEAL. We thank the gentleman.

The gentleman from Louisiana, Mr. Jefferson, is recognized.

STATEMENT OF THE HONORABLE WILLIAM J. JEFFERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. JEFFERSON. Thank you, Mr. Chairman. It is a pleasure to be here with you and the Subcommittee, and to hear the remarkable expressions I have heard of so many Members today who talk about forward-looking proposals for energy independence.

I have two proposals that would set a good example of collaboration between the oil and gas industries, alternative energy, agricultural industries, and finally, environmental groups.

The first would be the Biomethane Tax Credit, which would ultimately provide Federal incentives for the production of biomethane from landfills, animal waste, sewage, biomass, and other renewable resources.

Due to its environmental advantages, the demand for natural gas will continue to grow in the United States. Biomethane is a pipeline-quality natural gas substitute produced by purifying biogas. This biogas is a mixture of methane and other gases produced from the decomposition of organic materials, produced naturally in landfills, animal waste, sewage, and crop waste. It would definitely be a wise alternative to capture the biogas from these renewable waste sources, convert them, and use the biomethane for transportation or other energy applications.

In 1998, the U.S. Department of Energy completed a study that estimated that worldwide, between 25 and 37 quadrillion BTUs of methane are released each year into the atmosphere due to natural decomposition of organic material. This would be the equivalent of up to 38 percent of all energy used in the country annually. According to this study, the amount of biomethane that can be captured domestically, for example, would be enough to replace 10 billion gallons of gasoline each year.

There are several opportunities and benefits that can be realized from this. The sources of this biomethane would come from landfills, animal waste, and sewage, as I have said, which are largely untapped sources. Landfills generate a substantial amount of biogas through anaerobic degradation of waste.

According to the EPA, there were 380 landfill gas electrification projects in place at the end of 2006. The EPA estimates that there are 600 to 700 additional landfill gas-to-energy projects that could be constructed nationwide. Farmers and other animal facility operators can install systems to convert their waste into usable biomethane, with a valuable sanitary fertilizer as a by-product.

The environmental benefits are immeasurable. This natural gas is one of the cleanest fuels on the market today. Methane leaking from landfills, animal lagoons, and other waste sites pose significant greenhouse gas problems. Just by processing animal waste in lieu of streaming it into animal lagoons significantly reduces groundwater contamination.

Finally, increasing the production of biogas and biomethane would do these things: one, substantially increase the supply of domestically produced, renewable non-fossil fuel energy; second, create jobs at home; third, convert a waste problem for farmers as well as provide them a valuable supplemental revenue source; and fourth, provide a valuable supplemental revenue source to munici-

palities while reducing the amount of sewage solids that need to be processed.

A tax credit for biomethane fuel produced from waste biogas for a reasonable time would lower the risk often associated with the price of natural gas and encourage the creation of more biomethane production facilities.

Currently there are tax credits available for projects that produce electricity using biogas produced from waste of renewable sources. The Waste to Biomethane Tax Credit of 2007, which I advocate, will provide comparable tax credits for waste-to-biomethane production. By doing so, many of these sites could be economic energy generators. Since virtually every community faces the problem of waste disposal of sewage, solid municipal waste, or animal or crop waste, the environmental and economic impacts of this incentive would be far-reaching.

The second proposal I have is the Waste Vegetable Oils Tax Credit. Used in its pure form in diesel engine vehicles, or blended with petroleum diesel to boost vehicle performance, biodiesel has significantly lower emissions than petroleum-based diesel when burned. According to a 1998 report by the U.S. National Renewable Energy Laboratory, it results in carbon monoxide reductions of approximately 50 percent over regular diesel, and carbon dioxide reductions of 78 percent.

China actually serves as a good example of this policy's importance. China's biodiesel production began in 2001. At that time the oil wastes cost $212 per ton, while the price of petroleum-based diesel was $350 per ton. With little research or information available, a group began to design rudimentary equipment and experimented with fuel production. Since that time, the government there has stepped in and helped to expand them and boost their biodiesel industry.

Market incentives and government support have enabled biodiesel production projects to expand nationwide since 2005. China now boasts more than 100 biodiesel production facilities. China generates more than 4.5 million tons of used oil and grease each year, roughly half of which could be collected through the establishment of an integrated collection and recycling system.

As of 2000, the United States was producing in excess of 3 billion gallons of waste vegetable oil annually, mainly from industrial deep fryers in potato processing plants, snack food factories, and fast food restaurants. Waste vegetable oil has a stable market value of approximately 40 cents per gallon as of 2003, which is enough to make collection economically viable.

The restaurant industry in Louisiana is one of the largest business organizations in the state, representing more than 7,000 establishments and related businesses, and is also one of the state's largest private employers, with more than 132,000 employed directly and another 55,000 indirectly employed. The bill will amend the Internal Revenue Code 1986 to allow the small agri-biodiesel credit for biodiesel to extend to biodiesel produced from 100 percent waste vegetable oil products. The tax credit would give birth to a new lucrative industry such as an integrated collection and recycling of used oil to produce biodiesel.

I thank the Committee for listening to what I have had to say here. I would like to thank you for your attention to this matter and urge the Committee to take these under consideration.

Thank you very much.

[The prepared statement of Mr. Jefferson follows:]

Prepared Statement of The Honorable William J. Jefferson, a Representative in Congress from the State of Louisiana

Thank you, Mr. Chairman, for inviting me to present my remarks on this important matter. I wish to express my sincere gratitude to the Committee for its continued interest in addressing our energy crisis as well as our environmental challenges. I would also like to take this opportunity to thank my colleagues from this panel, Congressmen McDermott and Peterson, whom I have partnered with in the past to address the energy needs of our country.

I have two proposals that would set a good example of collaboration the oil and gas industries, alternative energy, agricultural industries and finally environmental groups.

The first would be the *Biomethane Tax Credit* which would ultimately provide Federal incentives for the production of biomethane from landfills, animal waste, sewage, biomass and other renewable resources.

Due to its environmental advantages, the demand for natural gas will continue to grow in the United States. Biomethane is a pipeline quality natural-gas substitute produced by purifying biogas. This biogas is a mixture of methane and other gases produced from the decomposition of organic materials, produced naturally in landfills, animal waste, sewage and crop waste. It would definitely be a wise alternative to capture the biogas from these renewable waste sources, convert them, and use the biomethane for transportation or other energy applications.

In 1998, the U.S. Department of Energy completed a study that estimated that, worldwide, between 25 and 37 quadrillion BTUs of methane released each year into the atmosphere due to natural decomposition of organic material. This would be the equivalent of up to 38% of all the energy used in the country annually. According to this study, the amount of biomethane that can be captured domestically for example would be enough to replace 10 billion gallons of gasoline each year.

There are several opportunities and benefits that can be realized from this. The sources of this biomethane would come from landfills, animal waste, and sewage, which are untapped sources. Landfills generate a substantial amount of biogas through anaerobic degradation of waste. According to the EPA, there were 380 landfill gas electrification projects in place at the end of 2006. EPA estimates that there are 600–700 additional landfill gas-to-energy projects that could be constructed nationwide. Farmers and other animal-facility operators can install systems to convert their waste into usable biomethane with a valuable sanitary fertilizer as a byproduct.

The environmental benefits are immeasurable. This natural gas is one of the cleanest fuels on the market today. Methane leaking from landfills, animal lagoons and other waste sites pose significant greenhouse gas problems. Just by processing animal waste in lieu of streaming it into animal lagoons significantly reduces groundwater contamination.

Finally increasing the production of biogas and biomethane would:

- substantially increase the supply of domestically produced, renewable non-fossil fuel energy
- create jobs at home
- convert a waste problem for farmers as well as provide them a valuable supplementary revenue source
- provide a valuable supplemental revenue source to municipalities while reducing the amount of sewage solids that need to be processed.

A tax credit for biomethane fuel produced from waste biogas for a reasonable time would lower the risk often associated with the price of natural gas and encourage the creation of more biomethane production facilities.

Currently, there are tax credits available for projects that produce electricity-using biogas produced from waste or renewable sources. The Waste to Biomethane Tax Credit of 2007 will provide comparable tax credits for waste-to-biomethane production. By doing so, many of these sites could be economic energy generators. Since virtually every community faces the problem of waste disposal of sewage, solid municipal waste or animal or crop waste, the environmental and economic impacts of this incentive would be far-reaching.

The second proposal I have is the *Waste Vegetable Oils Tax Credit*. Used in its pure form in diesel-engine vehicles, or blended with petroleum diesel to boost vehicle performance, bio-diesel has significantly lower emissions than petroleum-based diesel when burned. According to a 1998 report by the U.S. National Renewable Energy Laboratory, it results in carbon monoxide reductions of approximately 50% over regular diesel, and carbon dioxide reductions of 78%.

China actually serves as a good example of this policy's importance. China's bio-diesel production began in 2001. At that time, the oil wastes cost $212 per ton, while the price of petroleum-based diesel was $350 per ton. With little research or information available, a group began to design rudimentary equipment and experimented with fuel production. Since that time, the government there stepped in and helped to expand them and boost their bio-diesel industry.

Market incentives and government support have enabled bio-diesel production projects to expand nationwide since 2005. China now boasts more than 100 bio-diesel production facilities. China generates more than 4.5 million tons of used oil and grease each year, roughly half of which could be collected through the establishment of an integrated collection and recycling system.

As of *2000*, the *United States* was producing in excess of 3 billion gallons of waste vegetable oil annually, mainly from industrial *deep fryers* in *potato* processing plants, *snack food* factories and *fast food restaurants*. Waste vegetable oil has a stable market value of approximately 40 cents per gallon as of 2003, which is enough to make collection economically viable.

The restaurant industry in Louisiana is one of the largest business organizations in the state, representing more than 7,000 establishments and related businesses and is also one of the state's largest private employers with more than 132,000 employed directly and another 55,000 indirectly employed. The bill will amend Internal Revenue Code of 1986 to allow the small agri-biodiesel credit for bio-diesel to extend to biodiesel produced from 100% waste vegetable oils. This tax credit could give birth to a new lucrative industry such as an integrated collection and recycling of used oil to produce bio-diesel.

I would like to once again thank the Committee for their time and attention to this matter.

Thank you

Chairman NEAL. We thank the gentleman from Louisiana.

Mr. JEFFERSON. And tell Mr. Doggett I missed him. I enjoyed his remarks. I wanted to make that remark to him myself.

Chairman NEAL. We will give the panelists the chance to move along if they feel that they have to. And I know we have been joined by two new panelists.

The chair would like to recognize the gentleman from Pennsylvania, Mr. Doyle.

STATEMENT OF THE HONORABLE MIKE DOYLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. DOYLE. Thank you, Mr. Chairman. And thank you for holding this hearing today and inviting me to testify.

Today we will hear about the nexus between energy policies and tax incentives. At a local level, this is an important issue for my constituents in Pittsburgh, Pennsylvania; on a broader scale, it is an important issue for the residents of the Commonwealth of Pennsylvania and for our nation.

Energy policy and taxes intersect in many areas, and Congress has often provided tax incentives, such as tax credits, to promote projects that exploit domestic sources of energy. The tax credits are necessary to attract the financing for projects that might not otherwise prove economically viable in the short term.

However, in the long term, these projects often provide significant positive externalities, such as the use of alternative energy sources, environmental benefits, and to reduce reliance on foreign energy sources. For this reason, tax incentives play an important role in the development of energy resources and provide an important public-private partnership for the continued advancement of energy policy.

The key to the nation's long-term energy health is a comprehensive and inclusive national energy policy. Such a policy would include both traditional fossil fuels: coal, oil, and gas. It would also diversify the portfolio of fuels with renewable energy sources such as fuel cells, solar, wind power, and combined heat and power systems, as well as developing new technologies, like the research that is ongoing to extract gas from methane hydrates.

One type of fuel source combines both the traditional fossil fuel, coal, with a substance that would otherwise be a hazardous waste to create a fuel product that is used in coke batteries as a feedstock for the production of coke. This type of fuel is known as refined coal from a qualified coal waste sludge recycling process, and last week I introduced a bill, H.R. 1976, that would expand the existing Section 45 refined coal credit to include a tax incentive for the production of this fuel.

I would also like to recognize my distinguished colleague from Pennsylvania and the Ranking Member of the Select Revenue Measures Subcommittee, Congressman Phil English, who joined me as an original cosponsor of this important legislation.

I believe that refined coal from a qualified coal waste sludge recycling process provides significant energy and environmental benefits because the process recaptures the BTU content of coal waste sludge and has the associated environmental benefits of disposing of the coal waste sludge in a manner that is approved by the Environmental Protection Agency.

This is exactly the type of alternative energy technology that Congress has desired to encourage in the past, and the provision of a tax incentive for the production of refined coal from a qualified coal waste sludge recycling process significantly furthers sound energy, environmental, and economic policies.

The qualified coal waste sludge recycling process combines coal and coal waste sludge to create a solid fuel product that is used by the domestic steel industry as a feedstock for the manufacture of coke. Coal waste sludge is the tar decanter sludge and other byproducts of the coking process, including such materials that have been stored in ground, in tanks, and in lagoons that have been generally treated as hazardous waste under applicable Federal environmental rules.

Presently, there are three primary methods for the disposal of coal waste sludge: No. 1, manufacture of refined coal from a qualified coal waste sludge recycling process; No. 2, transportation to incinerators; or No. 3, transportation to foreign landfills.

The most favorable method, from an energy and environmental perspective, is to use a process that processes liquefied coal waste sludge with coal into a refined coal fuel product for use in steel producers' coke batteries. This method recaptures the significant energy content of the coal waste sludge and can be performed on the

site of the steel producers' coke operations. The disposal of coal waste sludge in this manner has been approved by the EPA.

The alternative methods of disposal are to transport the coal waste sludge offsite for incineration, or to foreign countries for landfilling. The alternative methods have significant drawbacks, including the need to physically convey a hazardous waste—which is a dangerous, cumbersome, and expensive undertaking—and the failure to recapture the energy content of the coal waste sludge if it is incinerated or landfilled rather than combined with coal to create a coke feedstock.

It is important to note that the production of domestic steel would greatly benefit from Section 45 tax credit for qualified coal waste sludge recycling. Steel companies can directly or indirectly share in the benefits of the tax credit, and this results in cheaper coke, which can result in steel companies being more competitive against coke imported from foreign countries like China.

In the past, cheap Chinese coke has flooded the domestic market. Such competition has drastic implications because once a coke battery shuts down, it is no longer able to function to produce coke and new coke batteries must be built to fill that void that is left behind. The potential for cheap coal through unfair foreign competition is a threat to our domestic energy security. The availability of the credit has a secondary benefit of mitigating this threat.

Finally, Mr. Chairman, H.R. 1976 would amend Section 45 to provide that refined coal from a qualified coal waste sludge recycling process is eligible for a credit. The amount of the credit would be set at an inflation-adjusted $3 per barrel of oil equivalent for refined coal from a qualified coal waste sludge recycling process produced and sold to an unrelated party.

That credit would be in place for 4 years to allow for a sufficient period to encourage coke batteries to adopt the coal waste sludge recycling process. This incentive is an important component to the development of a national energy policy that includes a diverse portfolio of energy resources.

These incentives can be used effectively to promote the development of projects that would not otherwise go forward, notwithstanding their positive energy and environmental benefits. Such incentives have seen success in areas like landfill gas and other alternative fuels. My legislation, H.R. 1976, to amend Section 45 to include refined coal, is part of an effort to follow the past successes with tax incentives that will have similar results.

I encourage the Committee to include H.R. 1976 in the upcoming effort to stimulate energy innovation through the tax code, and look forward to working with you, Mr. Chairman, and the Members of the Committee to make our shared vision of a national energy policy a reality. And I thank you for your time.

[The prepared statement of Mr. Doyle follows:]

Prepared Statement of The Honorable Mike Doyle, a Representative in Congress from the State of Pennsylvania

Background

Thank you, Mr. Chairman. Today, we will hear about the nexus between energy policies and tax incentives. At a local level, this is an important issue for my constituents in Pittsburgh, Pennsylvania; on a broader scale, it is an important issue for residents of the Commonwealth of Pennsylvania and of our Nation. Energy pol-

icy and taxes intersect in many areas and Congress has often provided tax incentives, such as tax credits, to promote projects that exploit domestic sources of energy. The tax credits are necessary to attract the financing for projects that might not otherwise prove economically viable in the short term. However, in the long-term, these projects often provide significant positive externalities, such as the use of alternative energy sources, environmental benefits, and reduce reliance on foreign energy sources. For this reason, tax incentives play an important role in the development of energy resources and provide an important public-private partnership for the continued advancement of energy policy.

The key to the nation's long-term energy health is a comprehensive and inclusive national energy policy. Such a policy would include both traditional fossil fuels: coal, oil, gas, etc. It would also diversify the portfolio of fuels with renewable energy sources such as fuel cells, solar, wind power and combined heat and power systems, as well as developing new technologies, like the research that is ongoing to extract gas from methane hydrates.

One type of fuel source combines both a traditional fossil fuel, coal, with a substance that would otherwise be a hazardous waste to create a fuel product that is used in coke batteries as a feedstock for the production of coke. This type of fuel is known as refined coal from a qualified coal waste sludge recycling process and last week I submitted a bill that would expand the existing Section 45 refined coal credit to include a tax incentive for the production of this fuel.

I believe that refined coal from a qualified coal waste sludge recycling process provides significant energy and environmental benefits because the process recaptures the BTU content of "coal waste sludge" (described below) and has the associated environmental benefits of disposing of the coal waste sludge in a manner approved by the Environmental Protection Agency. The use of coal waste sludge as a fuel product offsets other fuels that would otherwise be used in the coke manufacturing process. This is exactly the type of alternative energy technology that Congress has desired to encourage in the past and the provision of a tax incentive for the production of refined coal from a qualified coal waste sludge recycling process significantly furthers sound energy, environmental, and economic policies.

Description of Process

The qualified coal waste sludge recycling process combines coal and coal waste sludge to create a solid fuel product that is used by the domestic steel industry as a feedstock for the manufacture of coke. Coal waste sludge is the tar decanter sludge and other byproducts of the coking process, including such materials that have been stored in ground, in tanks and in lagoons, that have generally been treated as hazardous wastes under applicable Federal environmental rules.

Presently, there are three primary methods for disposal of coal waste sludge:

- Manufacture of refined coal from a qualified coal waste sludge recycling process.
- Transportation to incinerators.
- Transportation to foreign landfills.

The most favorable method, from an energy and environmental perspective, is to use a process (described in patent numbers 4,579,563 (April 1, 1986), 4,758,246 (July 19, 1988) and 4,778,115 (October 18, 1988)) that processes liquefied coal waste sludge with coal into a refined coal fuel product for use in steel producers' coke batteries. This method recaptures the significant energy content of the coal waste sludge and can be performed on the site of the steel producers' coke operations. The disposal of coal waste sludge in this manner has been approved by the EPA. *See* 50 Federal Register No. 120 (June 22, 1992).

The alternative methods of disposal are to transport the coal waste sludge off-site for incineration or to foreign countries for land-filling. The alternative methods have significant drawbacks, including the need to physically convey a hazardous waste (which is a dangerous, cumbersome and expensive undertaking) and the failure to recapture the energy content of the coal waste sludge if it is incinerated or landfilled rather than combined with coal to create a coke feedstock.

The manufacture of refined coal from a qualified coal waste sludge recycling process is a technology that should be promoted. While currently the process is primarily used to convert coal waste sludge produced in the current operations of coke batteries into a fuel product, there are other sources of coal waste sludge available to be processed into a refined coal product. For example, coal waste sludge was historically stored in domestic storage lagoons and storage tanks. There exists an abundant supply of coal waste sludge in these areas. In addition, "town gas" waste sites, which date back to the 19th century when coal gas was widely used as an energy source, also provide another potential source for an alternative fuel that could be capitalized upon by using the coal waste sludge recycling process. However, to fully

achieve these benefits, technological advances are needed to spur other industrial developments allowing economical and efficient clean up of these sources of coal waste sludge.

Finally, it is important to note that the production of domestic steel would benefit greatly from the Section 45 tax credit for qualified coal waste sludge recycling. Steel companies can directly or indirectly share in the benefits of the tax credit and this results in cheaper coke, which can result in the steel companies being more competitive against coke imported from foreign countries such as China. In the past, cheap Chinese coke has flooded the domestic market and played a role in the demise of various coke operations that could not compete. Such competition has drastic implications because, once a coke battery shuts down, it is no longer able to function to produce coke and new coke batteries must be built to fill the void let behind. The potential for cheap coal through unfair foreign competition is a threat to domestic energy security. The availability of the credit has a secondary benefit of helping to mitigate such a threat.

Explanation of Section 45 Amendment

The bill that I have submitted would amend Section 45 to provide (i) that refined coal from a qualified coal waste sludge recycling process is eligible for a credit, (ii) a definition of "coal waste sludge" (*i.e.*, the tar decanter sludge and related byproducts of the coking process, including such materials that have been stored in ground, in tanks and in lagoons, that have been treated as hazardous wastes under applicable Federal environmental rules absent liquefaction and processing with coal into a feedstock for the manufacture of coke), (iii) that a qualified coal waste sludge recycling facility shall be treated as placed in service for purposes of this amendment when such facility is in place and functioning to process coal with coal waste sludge, (iv) a placed-in-service window of 1 year from the date of enactment of the bill allowing for the construction of new qualified coal waste sludge recycling facilities, and (v) that the credit period would be for such refined coal that is produced and sold during the period beginning on the date of enactment of this amendment and ending on the date that is 4 years after the later of the first day of the fifth full month after the date of enactment or the facility's placed-in-service date.

Additional details set forth in the legislation include the following:

- A qualified coal waste sludge recycling process liquefies and distributes approximately one-quarter to one-half gallon of liquefied coal waste sludge per ton of coal. Liquefied coal waste sludge in excess of such amounts would have adverse effects on the operations and equipment of the coke batteries that use refined coal from a qualified coal waste sludge recycling process as a feedstock to produce coke. Based on industry research, an excessive amount of coal waste sludge causes extreme and irreparable damage to the coke battery. Coal waste sludge has an energy content of approximately 7,000 to 16,000 BTUs per pound.
- For purposes of this amendment, a "qualified coal waste sludge recycling facility" includes a plant, comprised of one or more batch tanks and/or one or more storage tanks, steam and spray pipes, processing pumps, variable speed drives, a flowmeter and related electrical equipment, that processes coal and liquefied coal waste sludge.

The amount of the credit would be set at an inflation-adjusted $3.00 per barrel-of-oil equivalent for refined coal from a qualified coal waste sludge recycling process produced and sold to an unrelated party. Producers of refined coal from a qualified coal waste sludge recycling process would only be able to claim credits once; i.e., if an income tax credit for the fuel production is claimed under Section 45, an income tax credit could not be claimed under any other code provision. However, the Section 45 credit shall be available for refined coal that meets the requirements of Section 45, notwithstanding the fact that such refined coal is purchased for use as a feedstock for coke by a taxpayer that has previously claimed credits under Section 45K for the production of coke or coke gas. Coke or coke gas produced from refined coal from a qualified coal waste sludge recycling process for which credits have been claimed under Section 45 would not be eligible for an income tax credit under Section 45K. However, a coke or coke gas credit under Section 45 may be claimed if such coke or coke gas was produced from a feedstock for which the refined coal credit under Section 45 has not been claimed.

Final Remarks

Tax incentives are an important component to the development of a national energy policy that includes a diverse portfolio of energy resources. Tax incentives can be used to effectively promote the development of projects that would not otherwise go forward—notwithstanding their positive energy and environmental benefits. Such

incentives have seen success in areas like landfill gas an other alternative fuels. The amendment of Section 45 to include refined coal from a qualified coal waste sludge recycling process is part of an effort to follow the past successes with tax incentives that will have similar results. Refined coal from a qualified coal waste sludge recycling process will achieve this benefit by utilizing a traditional fossil fuel, coal, together with what would otherwise be a hazardous waste, coal waste sludge, to create an alternative fuel. For this reason, tax incentives should be provided to attract the capital necessary to develop these projects.

Mr. LARSON [presiding]. We thank the gentleman from Pennsylvania for his succinct and insightful testimony. We know him to be a champion of energy conservation, and we are pleased to take his testimony before the Committee.

The chair now recognizes the distinguished gentleman from Minnesota and Chairman of the Agriculture Committee, Mr. Peterson.

STATEMENT OF THE HONORABLE COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman, and I will try to be brief. You have my written testimony. I just want to hit on a couple points.

We have been working in the Ag Committee on feedstock issues for the new cellulosic ethanol and biodiesel industry. But in my district, we have a big wind energy industry that has developed. And I have introduced a bill before, and have been working on this for a number of years.

For whatever reason, when the electricity credit for these windmills was put in, it was done differently than was done for the low-income housing tax credit program. When we set that program up back in 1986, I think there was a provision in there that allowed you to use as much as $25,000 of your earned income, where you could offset the credit against that earned income. When we set up the Section 45 credits, we didn't allow that, so that you have to either have corporate income or passive income in order for you to utilize these credits.

And I don't know why it was done differently, when you have the same kind of basic issue. And so what has happened is the big utilities from outside of the state of Minnesota own all of these windmills in Minnesota. They are the ones that put them up, that got the tax credits and so forth.

So what we are proposing is that my bill would have adopted the same basic formula that we have in the low-income tax credit area, which would allow ten farmers to go together and put up one of these wind generators and be able to use the credits against their Schedule F income or earned income. And it gives them an opportunity to be part of the ownership of this.

There is a lot of interest out there in doing this. But they are precluded by the tax law. And I don't think this would cost any money because all it does is change who gets the credits. Instead of a big power company getting it or a big corporation getting this and using it against their corporate income, ten farmers could go together and use it. It is the same amount of tax credit. The only thing it changes is who it goes to.

The more we look at this, I don't know why we have these earned income limitations on there in the first place. We have got some questions on the amount of the credit. We are working on legislation now with Congressman Walz, who also has a lot of these windmills in his district, and Congresswoman Herseth in South Dakota, where we may actually come in with some additional requests over and above what we initially put together in the last session to try to make this work.

The long and the short of it is farmers are getting $2- to $3,000 per wind generator rent on their farmland, and these corporations that are buying the tax credits after 10, or 15 years are making $100,000 a year. And we created this market in Minnesota by requiring that 10 percent of the renewable energy be wind energy. So we created this market, and we are letting out-of-state corporations benefit from it. It doesn't make a lot of sense. I would encourage you to look at this issue.

In addition to that, there is one other thing I wanted to put on the table. I haven't introduced a bill on this, but we have been working on these feedstocks for the next generation ethanol plants and cellulosic ethanol. And initially, these plants are going to use agricultural waste. They are going to be using wheat straw, rice straw, and so forth. But eventually, we want to use switch grass and wood and those kinds of things in the future.

But the more I look at this, I think as we develop this industry there is going to be an intermediate step where we are going to be looking at making some use of the next generation of feed stocks, either pelletizing the switch grass or maybe gasifying it. And there is nothing in the tax code to encourage us to be able to put those plants in, to get us so we can actually get the feedstock established, and have a place to use it, as we build these ethanol plants, which are going to take 5 or 6 years.

So we are going to be putting something together in this area to try to fill that gap so that we can help build this industry as quickly as we can. And I haven't got that bill ready yet, but when I do get it introduced, I would appreciate it if you would look at it.

So I thank the Committee listening to me, and hope that you can do something to help us as you move through this process.

[The prepared statement of Mr. Peterson follows:]

Prepared Statement of The Honorable Collin C. Peterson, a Representative in Congress from the State of Minnesota

Chairman Neal, Ranking Member English and other Members of the Subcommittee, I appreciate the time you are taking to hold a series of hearings to examine the need for tax incentives to continue us on a path to energy independence using renewable energy resources.

Thank you for allowing me to appear today to talk about legislation that I have introduced to help encourage more local investment in wind turbines to provide renewable electricity. My legislation would allow individuals investing in wind energy facilities to be eligible for the $25,000 passive loss offset in the Internal Revenue Code.

Under current tax law, individuals are eligible for tax deductions for losses incurred by industry investments. The passive loss limitation rule prevents individuals from making investments in an industry in which they are not active, simply to receive tax deductions. However, a $25,000 passive loss offset exists for individuals investing in oil and gas development and real estate.

In rural areas, farmers, ranchers and other local individuals are looking to diversify their income by installing wind turbines for the production of electricity. This electricity generation could be connected to the grid, and farmers and ranchers

would help provide power from a renewable, domestic energy source, while creating sustainable rural development.

Unfortunately, most rural residents do not have the ability to finance such projects, and attracting investors is difficult since the first years after installation often produce losses. My legislation would allow the $25,000 passive loss offset, currently only for oil, gas and real estate investments, to apply to individuals who invest in wind energy facilities. Individuals can use credits against their earned income.

I would also like to take this opportunity to encourage you to keep in mind the chicken and egg situation that I know you are well aware of. Our inability to provide a longer term Section 45 Production Tax Credit is continuing our reliance on foreign component suppliers and leaving our country waiting to take advantage of the huge potential we have for wind energy. We are fortunate to have a plant that has recently opened in southern Minnesota to make the nose cones and blades for turbines. This company will provide 275 jobs in a town of 4,400 when it reaches full capacity—that is a huge economic impact in a rural Minnesota city.

The continuation of the Section 45 credit and the continuation of the Section 29 credit or another form of a credit that would apply to other types of renewable energy is another important discussion that I hope you will have. We need to provide the incentive to allow local communities, ag producers and businesses large and small to turn to renewable sources such as gasification and digesters to help with their power needs. This would be a nice compliment to the proposal that we hope to include in the farm bill to increase the availability and type of feedstocks for cellulosic ethanol. It would also work well with the incentives currently in the farm bill for removing livestock manure and poultry litter from watersheds that have too many nutrients—these are valuable commodities that can be made into energy.

My state of Minnesota has been and continues to be a leader in the use of renewable energy, and the recent passage of an aggressive renewable portfolio standard continues that tradition. I believe it is important to give our average citizens the opportunity to participate in making our goals of renewable energy reachable.

Thank you again for allowing me to testify, and I look forward to working with you to encouraging local ownership of renewable energy resources. I also look forward to working with you as we craft a new farm bill to ensure that your tax policies and our farm bill programs work in concert to help us supply more home-grown renewable energy.

Mr. LARSON. Thank you. Thank you, Mr. Chairman, and thank you for your testimony. And the Committee is honored to receive it.

The chair now recognizes the distinguished Member of the Rules Committee from Massachusetts, Mr. McGovern.

STATEMENT OF THE HONORABLE JAMES P. MCGOVERN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. MCGOVERN. Thank you, Mr. Chairman. And I want to thank you and Members of the Committee for giving me this opportunity to testify before you today.

I am here to discuss legislation I introduced, H.R. 1475, the Commuter Benefits Equity Act of 2007. H.R. 1475 seeks to amend the Internal Revenue Code 1986 to increase and equalize the exclusion from gross income for parking and transportation fringe benefits and to provide for a common cost of living adjustment, and for other purposes.

Transit benefits are authorized by Section 132(f) of the Internal Revenue Code, which allows for pretax salary deductions for transit and parking or employer-subsidized transit or parking. The current tax-free limit for transit is $110 per month, and the limit for parking is $215 per month. H.R. 1475 would create parity between the transit and parking portions at $200. To offset the cost of creating

parity, the tax-free limit of $215 per month for parking would be reduced to $200, and the cost of living adjustment included in Section 132(f) would be frozen in order to pay for the increase in the transit portion.

Mr. Chairman, the transit benefit inequity has created a financial incentive for commuters to drive to work by themselves rather than utilize a form of public transportation or vanpool. In our efforts to reduce traffic congestion and end our fossil fuel dependencies, we simply cannot afford to promote tax policies that do more harm than good to the environment.

As the Committee searches for ways to promote energy conservation, the role of public transportation cannot be ignored. Public transportation eases congestion by keeping cars off the road. It improves air quality by reducing automobile emissions, and perhaps most importantly, it reduces our dependency on foreign oil.

Currently, public transportation reduces gasoline consumption in the United States by 1.4 billion gallons per year. Now, if we equalize the transit benefit with the parking benefit, the amount of savings will increase and our dependency on gasoline will be reduced. By leveling the playing field between the transit and parking portions, we can fix the current policy which discourages public transit use and encourages gasoline consumption.

Mr. Chairman, I would also like to note the widespread support for this legislation. The bill currently has 50 cosponsors from every state and region of the country. And I encourage all Members of the Committee to consider supporting my legislation, and I look forward to working with you.

I would like to ask unanimous consent to insert for the record letters of support from the American Public Transportation Association, letters from the Vanpool Services Corporation, and a report by Linda Bailey of INTERFACE International, all in support of what I am trying to do.

Mr. LARSON. Without objection, so ordered.

Mr. MCGOVERN. I thank the Chairman for listening to me, and Members of the Committee, and I hope that you will support this legislation.

[The prepared statement of Mr. McGovern and the letters of support follow:]

Prepared Statement of The Honorable James P. McGovern, a Representative in Congress from the State of Massachusetts

I would like to thank my friend and colleague from Massachusetts, Chairman Neal, and the Committee for giving me the opportunity to come here today and testify.

I would also like to thank the Chairman, as well as Representative Schwartz, Representative McDermott, and Representative Blumenauer for cosponsoring the bill. Your support is truly appreciated.

I am here to discuss legislation I have introduced, H.R. 1475, the "Commuter Benefits Equity Act of 2007." H.R. 1475 seeks to amend the Internal Revenue Code of 1986 to increase and equalize the exclusion from gross income for parking and transportation fringe benefits and to provide for a common cost-of-living adjustment, and for other purposes.

Transit Benefits are authorized by Section 132(f) of the Internal Revenue Code, which allows for pre-tax salary deductions for transit and parking or employer subsidized transit or parking. The current tax-free limit for transit is $110 per month and the limit for parking is $215 per month.

H.R. 1475 would create parity between the transit and parking portions at $200. To offset the cost of creating parity, the tax-free limit of $215 per month for parking

would be reduced to $200, and the cost of living adjustments included in Section 132(f) would be frozen in order to pay for the increase in the transit portion.

Mr. Chairman, this transit benefit inequity has created a financial incentive for commuters to drive to work by themselves, rather than utilize a form of public transportation or vanpool. In our efforts to reduce traffic congestion and end our fossil fuel dependencies, we simply cannot afford to promote tax policies that do more harm than good to the environment.

As the Committee searches for ways to promote energy conservation, the role of public transportation cannot be ignored. Public transportation eases congestion by keeping cars off the road. It improves air quality by reducing automobile emissions. And perhaps most importantly, it reduces our dependency on foreign oil.

Currently, public transportation reduces gasoline consumption in the United States by 1.4 billion gallons per year. If we equalize the transit benefit with the parking benefit, the amount of savings will increase, and our dependency on gasoline will be reduced.

By leveling the playing field between the transit and parking portions, we can fix the current policy which discourages public transit use and encourages gasoline consumption.

Mr. Chairman, I would also like to note the widespread support this legislation has demonstrated. The bill currently has over 50 cosponsors from states in every region of the country.

I encourage all Members of this Committee to consider supporting my legislation and look forward to working with you.

Mr. LARSON. We thank the gentleman from Massachusetts for his cogent testimony.

Now I will prevail upon the distinguished Member and classmate from the great state of Nebraska, Mr. Terry.

STATEMENT OF THE HONORABLE LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. I appreciate that. And before I go into my remarks, let me thank this Subcommittee for actually allowing us nonmembers of your prestigious Subcommittee and Committee to come and let you know about some of the ideas that we have to make sure that we become a more energy-independent country.

Together with my good friend and Committee Member and cofounder of the Distributive Power Caucus, Mr. Doyle, sitting next to me, we wrote H.R. 805. And Albert Wynn is also an original cosponsor with us. And it allows for tax credits for both the creation and use of hydrogen fuel cells.

President Bush, in his 2006 State of the Union address, outlined an Advanced Energy Initiative to drastically reduce our dependence on foreign sources of oil. The President set a national goal of 75-percent reduction of oil imports from the Middle East by 2025. I think if we use the ideas that are being brought before you today, especially H.R. 805, we can significantly reduce our dependence on foreign oil a lot sooner than 2025.

We are making tremendous breakthroughs in advanced energy technologies, like the use of hydrogen fuel cells for both vehicles and as a source of electrical production. In my home town, Omaha, several stationary fuel cells are used to power a data center in a large banking facility, First National Bank in downtown Omaha. The Lied Jungle uses fuel cells and co-generation to supply the electricity and humidity for their Lied Jungle. An office area on our Air Force base also uses this power.

Our bill, H.R. 805, is designed to provide tax credits for new technologies like advanced automotive, stationary, and portable fuel cells, as well as refueling infrastructure and hydrogen production. It would allow a tax credit for devices using hydrogen up to 30 percent of the amount paid by the taxpayer or $1,500, whichever is less. The credit would be available for amounts paid or incurred for hydrogen fuel devices prior to December 31, 2015.

The bill also extends the existing residential energy efficiency tax credit for fuel cells and micro turbines through December 31, 2013, which this Committee did in the energy package of 2 years ago. This has been an important tax benefit that has helped push these technologies into the consumer marketplace.

Testimony before our Committee, we had representatives of the automobile industry who testified—Energy and Commerce—it is going to be these breakthroughs in the consumer marketplace that are going to speed up the rollout of hydrogen fuel cells for the automobile industry.

And then finally, Mr. Chairman, this bill also adds the requirement that these secondary uses of fuel or fuel cell power sources be used in public buildings. So the next building built that is a Federal Government building should have this type of technology in it, I would hope, for the baseload, then be able to help with peak power as well.

Now, if we do all of these types of things to help the rollout of this technology in the marketplace sooner than later, we will have the technology breakthroughs to make sure that we meet our goals of 75-percent reduction of dependence on foreign oil a lot sooner than 2025.

I appreciate your Committee listening to these type of ideas and initiatives, and I look forward to the bill that you all put together and hope that H.R. 805 can be part of that. Thank you.

[The prepared statement of Mr. Terry follows:]

Prepared Statement of The Honorable Lee Terry, a Representative in Congress from the State of Nebraska

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear today in support of H.R. 805, a bill I have cosponsored with my friend and colleague on the Energy and Commerce Committee, Mr. Doyle (PA–14), and several others.

In President Bush's 2006 State of the Union address to Congress, he outlined the Advanced Energy Initiative to drastically reduce our dependence on foreign sources of energy. The President set a national goal of replacing more than 75% of our oil imports from the Middle East by 2025. We are making tremendous breakthroughs in advanced energy technologies, like the use of hydrogen fuel cells for both vehicles and stationary sources of power. Omaha is home to several stationary fuel cells including those at Henry Doorly Zoo, the First National Bank building in downtown Omaha, and Offutt Air Force Base.

Our bill, H.R. 805, is designed to provide tax credits for new technologies like advanced automotive, stationary and portable fuel cells, as well as refueling infrastructure and hydrogen production. It would allow a tax credit for devices using hydrogen up to 30 percent of the amount paid by the taxpayer or $1,500 whichever is the lesser amount. The credit would be available for amounts paid or incurred for hydrogen fuel devices prior to December 31, 2015.

The bill also extends the existing residential energy efficiency tax credit for fuel cells and micro turbines through December 31, 2013. This has been an important tax benefit that has helped push these technologies into the consumer marketplace.

Finally, Mr. Chairman, H.R. 805 adds a requirement for the increased use of secondary fuel cell power sources in public buildings. Under the bill, any new Federal buildings constructed after December 31, 2008 in excess of 50,000 square feet must

have as part of its design, provisions for a secondary, independent backup source of electrical power. The Administrator of the General Services Administration (GSA) must also consider the use of a fuel cell as part of the base load electric power needs of the Federal building.

Thank you again, Mr. Chairman, for the opportunity to testify in support of H.R. 805 and I urge the Subcommittee to move this legislation through the Committee to the House floor.

Mr. LARSON. Thank you, Mr. Terry. And as a cosponsor of your legislation along with Mr. Doyle, I am proud to receive it on the Committee.

I am going to ask Members if they would care to inquire because I know the distinguished Ranking Member would look to do so. But we are going to switch panels. But does the distinguished Ranking Member have any questions he would like to ask the panelists before they——

Mr. ENGLISH. No. I want to thank Mr. Doyle for bringing to us a very detailed tax policy that I know has been worked through and interacts well with provisions that are already in the code. I am very grateful for his focus on how to take what is, in effect, sludge that has been declared a hazardous substance and recycle it.

And I particularly want to thank Mr. Terry for thinking through how we can bring into the market aggressively hydrogen as a major energy source, which in my view is potentially one of the most flexible sources of energy. If we can use incentives to develop the technologies to make that transition, I think you have made a compelling case, sir.

I want to thank both of these witnesses for their presentations.

Mr. LARSON. Thank you. And if we could have—I know that we are joined by Representative Baird and Representative Davis. And if they could come forward.

Let us begin with the distinguished gentleman and fellow classmate from the state of Washington, Mr. Baird.

STATEMENT OF THE HONORABLE BRIAN BAIRD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. BAIRD. I thank my good friend and the Committee Members, and thank Ranking Member English, and appreciate very much this time.

Legislation that we are proposing is supported by industry, supported by labor, and would have a very positive impact on energy consumption in this country. As we all know, our nation faces important energy challenges, and we have to work together to find ways to conserve energy. That is why I have been pleased to work very closely with my colleague, Ms. Schwartz, on introducing this legislation.

What we are focusing on here is the potential to save energy by making our buildings more efficient. Buildings use 71 percent of all the electricity used in this country and comprise 80 percent of all electric expenditures in the U.S. Commercial buildings alone accounted for 35 percent of our entire nation's electricity consump-

tion. This is not only a drain on our economy, it is a significant environmental impact.

I am pleased to have introduced, therefore, H.R. 539 with my colleague, Congresswoman Schwartz, a Member of the Committee. The intent of this bill, the Buildings for the 21st Century Act, is to encourage energy-efficient, cost-saving commercial properties.

Briefly, what the bill does is extend and improve upon the commercial buildings tax deduction, which was established in the Energy Policy Act of 2005. There are essentially two significant improvements. This is a tax deduction for energy-efficient building expenditures made by a building owner.

In the 2005 energy bill, the deduction was limited to $1.80 per square foot for buildings that reduce their annual energy and power costs by at least 50 percent; and for buildings that do not achieve a 50 percent overall cost savings, there was nevertheless an allowance for partial deductions for reductions in lighting, heating, and cooling energy use.

The provision, however, was set to expire at the end of 2007. Fortunately, we worked with the Committee to extend the provision until December 31, 2008. While we are pleased for the extension, we believe it is important to extend it to 2013, and the simple reason is there is a long startup time to planning and conducting some of these changes. And if it expires very quickly, people might say, we don't think we can get in under the wire, and then they will forego the effort, and thereby we forego the savings and don't take advantage of that. Increasing the level of deduction will be an added incentive for people to engage in these activities.

Again, I would note we have 136 bipartisan cosponsors. The bill is supported by a coalition of business, trade, government, and agency groups ranging from the Edison Electric Institute to the Natural Resources Defense Council. It alone will not solve our energy challenges, but it is an important step.

Again, I am very, very pleased and honored to be able to work with Ms. Schwartz on this. I thank the Committee for their consideration, and would hope we can include it.

[The prepared statement of Mr. Baird follows:]

Prepared Statement of The Honorable Brian Baird, a Representative in Congress from the State of Washington

Good afternoon Chairman Neal, Ranking Member English, and Members of the Subcommittee. Thank you for the opportunity to address you today.

As we all know, our nation is facing an energy crisis. We must work together to identify ways to conserve energy and protect our environment, and do so in a way that does not have a negative impact on our economy.

I have focused on one area that I think presents an enormous opportunity for our nation to conserve our resources and improve our environment, while also saving businesses money. Congresswoman Allyson Schwartz, a Member of this Committee, and I have developed legislation that will provide the necessary economic incentives to make substantial progress towards becoming a more energy-efficient and environmentally-friendly nation.

Before I get into the details of our bill, I would like to share some statistics with you about the impact of commercial buildings on the environment and on businesses' bottom line.

Buildings use 71% of all electricity, and comprise 80% of all electric expenditures in the U.S. Commercial buildings alone account for 35% of our entire nation's electricity consumption.

This not only indicates a huge drain on our natural resources but also represents a significant cost to businesses. In fact, energy accounts for nearly a third of a typ-

ical building's costs and is generally a property owner's single largest operating expense.

For these reasons, I am pleased to have introduced H.R. 539 with my colleague, Congresswoman Schwartz. The intent of this bill, the Buildings for the 21st Century Act, is to encourage energy-efficient, cost-saving commercial properties.

Why exactly does our bill do?

The Buildings for the 21st Century Act extends and improves upon the commercial buildings tax deduction established in the Energy Policy Act of 2005. This is a tax deduction for energy efficient building expenditures made by a building owner. In the 2005 energy bill, this deduction was limited to $1.80 per square foot for buildings that reduce their annual energy and power costs by at least 50%. For those commercial buildings that do not achieve the 50% overall cost savings, the 2005 bill also allowed for partial deductions for reducing lighting, heating, and cooling energy use.

This provision was set to expire at the end of 2007. Fortunately, we worked together to get it extended at the end of last year until December 31, 2008.

While we were pleased to see this extension, we believe it is very important that the deduction be extended to 2013. Our legislation does this. It also enhances the deduction to $2.25 per square foot and 75 cents per square foot for the partial deduction.

Due to the significant amount of time and resources needed to plan and prepare for major construction, it is important that the deduction be extended for a significant amount of time. The truth is that commercial buildings have lead times for planning of 2 to 4 years. This means that, if the deduction is set to expire in the near future, many companies will simply choose not to make improvements on their buildings.

Increasing the amount of the deduction will also encourage more builders and business owners to utilize the deduction. As you may know, $2.25 per square foot was the initial proposal supported by a large environmental and industry coalition. This figure was based on calculations to ensure that the deduction maximized market participation without extraneous cost to taxpayers. Unfortunately, a last minute agreement in Congress reduced the deduction to its present $1.80.

The Buildings for the 21st Century Act has 136 bipartisan cosponsors. It is supported by a coalition of business, trade, government, and energy efficiency groups, ranging from the Edison Electric Institute to the Natural Resources Defense Council.

Although our impending energy crisis cannot be solved with one piece of legislation alone, the Buildings for the 21st Century Act takes a meaningful step towards a more energy-efficient economy. Our bill will have an overall positive effect on both the environment and the economy, and should be enacted.

I strongly believe that we can take considerable steps towards becoming a more environmentally conscious society with legislation such as this. When we create environmental policies that make sense for business, we will achieve greater cooperation in conserving energy and protecting the environment.

Thank you.

Mr. LARSON. I thank the gentleman for his succinct testimony, and I am going to yield to the gentlelady from Pennsylvania for a comment. But I would just say to the panelists that we are pleased that you are all here. But we are anticipating having votes in about 20 minutes, so brevity is the soul of wit.

The gentlelady from Pennsylvania.

Ms. SCHWARTZ. Thank you, Mr. Chairman. And I am pleased to just take a couple minutes to thank Mr. Baird for working with me on this legislation. And I think the fact that we have 136 of our colleagues working with us on this—and I have certainly heard from many, many different segments, whether they are architects or builders or contractors, that this is really very important for us to do, to be able to really work in a very constructive way, and in this case to reduce our use of electricity.

I think many people—we often concentrate on other uses, whether they are industrial uses or cars. The fact that buildings use 80

percent of our electricity, and that commercial buildings alone consume 35 percent of the electricity in this country, if we could reduce that by a few percentage points would be very dramatic in our use.

And as we move toward energy independence—and this legislation also doesn't pick winners and losers. I think this is going to be one of the most difficult things for our Committee and the Congress to work on, is to think about new ways and to be able to encourage new sources of energy.

But this is a case that really is going to help reduce use, and that is very exciting. And at the same time, it is also going to reduce cost. And if we can help build buildings that are going to last for 75 years, many of them, if we can do that right and help businesses be able to reduce costs, I am really just very excited about doing that. Thank you for your work that you have done.

Mr. LARSON. I am sure the gentlelady will submit for the record additional comments as well.

Ms. SCHWARTZ. I will.

Mr. LARSON. And the chair will now recognize the distinguished gentleman from New Jersey, Mr. Ferguson.

Ms. SCHWARTZ. And I am going to just ask if I can submit some letters of endorsement.

Mr. LARSON. Without objection, so ordered.

Ms. SCHWARTZ. Thank you very much.

[The prepared statement of Ms. Schwartz and letters of endorsement follow:]

February 21, 2007

The Honorable Allyson Schwartz
United States House of Representatives
Washington, DC 20515

Dear Ms. Schwartz:

We the undersigned members of the building industry congratulate you for your introduction of H.R. 539, the *Buildings for the 21st Century Act*. Buildings are major consumers of energy in our country and they generally have a lifespan that reaches 75 years. All of our organizations strongly support increases in building energy efficiency. In many cases, building to a higher standard of efficiency requires greater capital costs during construction. While these costs will be paid back over the lifetime of the structure, they can serve as a financial impediment to building sustainably today.

The Commercial Building Tax Deduction incorporated into the Energy Policy Act of 2005 provided a good first step in overcoming that impediment. Unfortunately, it will sunset at the end of this Congress. It is also not as robust a deduction as most of us lobbied for in the past Congress.

Your legislation would fix both of these problems by extending the deduction until 2013 and deepening it from $1.80 to $2.25 per square foot. We commend you for taking the leadership on these complex issues that are closely entwined with our Nation's energy and environmental future. We support your efforts. We support your bill. And we look forward to working with you to getting it signed into law.

Sincerely yours,

Christine McEntee
Executive Vice President/CEO
The American Institute of Architects

Nancy C. Somerville
Executive Vice President/CEO
American Society of Landscape Architects

Carin Nersesian
Director, Legislative Affairs
Associated Builders and Contractors

R. Craig Silvertooth
Director of Federal Affairs
National Roofing Contractors Association

Jack Muma
President
Construction Owners Association of America

Heidi Blumenthal
Director, Congressional Relations
The Associated General Contractors

Lawrence A. Jacobson
Executive Director
National Society of Professional Engineers

S. Richard Fedrizzi
President, CEO and Founding Chair
U.S. Green Building Council

Henry Chamberlain
President & Chief Operating Officer
BOMA International

ASHRAE

Technology for a Better Environment

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Terry E. Townsend, P. E.
President

Reply to: TOWNSEND ENGINEERING, INC.
P. O. Box 23526
Chattanooga, TN 37422-3526
☎ 423-855-1184
Fax 423-855-1185
E-mail terry@townsend-engineering.com

February 8, 2007

The Honorable Allyson Schwartz
United States House of Representatives
423 Cannon House Office Building
Washington, DC 20515

Dear Representative Schwartz:

We commend you for your introduction of H.R. 539, the *Buildings for the 21st Century Act*. According to the U.S. Department of Energy, buildings consume about one-third of America's energy. Therefore, the efficient use of energy in buildings is critical to maintaining the planet's health and the sustainability of civilization. In many cases, building owners need financial incentives to consider implementing energy efficient technologies. Occasionally, building to for higher performance slightly increases capital costs during construction. While these costs can be paid back quickly through reduced energy bills, they can serve as a financial impediment to building sustainably today.

The American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE), founded in 1894, is an international organization of 50,000 persons. ASHRAE fulfills its mission of advancing heating, ventilation, air conditioning and refrigeration to serve humanity and promote a sustainable world through research, standards writing, publishing and continuing education. In recognition of the impact energy use by buildings has on the economy and the environment, since 1975, ASHRAE has developed and maintained the premier energy standard for commercial buildings (ANSI/ASHRAE/IESNA Standard 90.1 and ANSI/ASHRAE/IESNA Standard 90.2).

The Commercial Building Tax Deduction incorporated into the Energy Policy Act of 2005 provided a good first step to encourage adoption of energy efficient technologies and designs. Unfortunately, as adopted this tax incentive only applied only to buildings placed in service during calendar years 2006 and 2007. This fall, the Congress extended the deduction through 2008. Such piecemeal extensions of the provision are counterproductive because the planning, design, and construction cycle for substantial buildings take longer than two years. Owners need to be able to count on the availability of these tax benefits in their planning, which recognizes the possibility of delays, too.

Your legislation addresses these issues by extending the deduction until 2013 and deepening it from $1.80 to $2.25 per square foot. We commend you for taking the leadership on these complex issues that are closely entwined with our Nation's energy and environmental future. ASHRAE members and staff look forward to continued work with Congress, Federal agencies, and the American people in

improving built environment energy efficiency. If you, or your staff, have any questions or would desire more information, please contact Ryan Colker, Government Affairs Representative at 202/833-1830 or rcolker@ashrae.org.

Sincerely,

Terry E. Townsend
President

TET/rmc

EVAN R. GADDIS
President and Chief Executive Officer

February 5, 2007

The Honorable Allyson Schwartz
United States House of Representatives
423 Cannon Office Building
Washington, D.C. 20515

Dear Representative Schwartz:

I am writing to express our sincere appreciation and support for sponsoring H.R. 539, *Buildings for the 21st Century Act.*

The commercial building tax deduction is a critical tool in assisting building owners to install today's energy efficient products and systems, both for new construction and for renovation of existing buildings. Buildings consume 22-percent of the nation's electricity, and making buildings more energy efficient will reduce that consumption with attendant environmental benefits. NEMA actively supported this provision (Section 1331) in the *Energy Policy Act of 2005.*

NEMA members manufacture the electrical systems and products used in commercial buildings including lighting, motors, transformers, controls, electrical distribution products, and HVAC components. As an association representing companies firmly engaged in the energy efficiency business, I applaud your leadership to extend this important tax provision through 2013 and to increase the deduction amount to $2.25 per square foot.

NEMA is ready and committed to working with you to enact H.R. 539.

Sincerely yours,

Evan Gaddis

National Electrical Manufacturers Association
www.nema.org

1300 North 17th Street, Suite 1752
Rosslyn, VA 22209
703. 841.3210
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evan_gaddis@nema.org

Mr. BLUMENAUER. Mr. Chairman, just would you entertain 30 seconds from another Member of the Committee?

Mr. LARSON. How about 20 seconds? You are so recognized, Mr. Blumenauer.

Mr. BLUMENAUER. I just want to say, the notion of being able to deal with the energy footprint up front in the design function, we are getting there sooner rather than later. But the legislation that is being discussed here ought to be a part of something that we do because it will pay dividends forever if we can move that up earlier in the process.

By the time the footings are poured, about 80 percent of the energy footprint is established. And so I would like us to probe this to see if there are ways that this could be a part of the comprehensive effort that the Committee does.

Mr. LARSON. As always, the gentleman from Oregon adds insight to our process.

The distinguished gentleman from New Jersey, Mr. Ferguson.

STATEMENT OF THE HONORABLE MIKE FERGUSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. FERGUSON. Thank you, Chairman Neal and—I am sorry, Chairman Larson today, and Mr. English, for allowing me the opportunity to testify before the Subcommittee on tax incentives and alternative energy sources. Recent months, renewable energy and energy security have dominated the domestic energy debate. Renewable energy technology holds tremendous potential to make great advancements toward energy security in the 21st century.

In my home state of New Jersey, we have seen what a difference renewable energy can make not only in promoting a clean, healthy environment by reducing greenhouse gases, but also in cutting the cost of energy bills for consumers. In 2001, New Jersey began offering 70 percent rebates on solar power installations for residential homes and businesses. Five years later, New Jersey is the second largest state market for solar power, and 2,000 homes and businesses have taken advantage of the program. There continues to be a long waiting list for that program.

That is why in the 110th Congress I introduced H.R. 1596, the Clean and Green Renewable Energy Tax Credit Act. This legislation builds upon the efforts that I began in the 109th Congress with H.R. 4300. My bill would extend the existing Federal tax credits for solar energy until 2016.

Under this legislation, consumers would receive a $3,000 per kilowatt Federal tax credit for any solar energy installation. For example, the typical home roof-mounted system is $10,000 per kilowatt installed, and the average system is 3 kilowatts, making the total cost to the homeowner $30,000. Under the legislation, the consumer would receive a Federal tax credit of $9,000 for a $30,000 system.

The Clean and Green Renewable Energy Tax Credit Act would also extend the tax credits created in the Energy Policy Act of 2005 for insulation, windows, and heating and cooling equipment for 2 years. Additionally, it extends the production tax credit for wind fa-

cilities through 2013, and creates a 30 percent investment tax credit for small wind systems for both businesses and residents.

I am also a cosponsor of H.R. 550, the Securing America's Energy Independence Act. This legislation, led by Representative Camp and Representative McNulty, not only extends the investment tax credit for residential and commercial solar and fuel cell equipment for an additional 8 years, but also provides alternative minimum tax relief for fuel cells and solar energy. While the solar tax credits created in the Energy Policy Act are a good first step, this 8-year extension is critical to leave more time for research and development and for the additional time that is required to finance solar and fuel cell projects.

Throughout my terms in Congress, I have been a strong proponent for solar energy. I believe that solar energy holds significant promise in job creation, energy security, reliability, and helping to decrease the number of dangerous emissions being released into our atmosphere. And one must look no further than New Jersey to see how successful these cooperative state and Federal tax incentive programs can be.

However, to truly benefit from this energy source, it is our job as lawmakers to make this technology widely available and affordable to both consumers and utilities. While it is of the utmost importance to make this technology an energy option for homeowners, I believe we also must take these initiatives even further and remove the exclusion for utilities in the investment tax credit.

Many energy companies, namely PSEG, a large energy company headquartered in New Jersey, have stated their interest in investing in solar technology. These companies recognize the potential in solar energy, and are taking the lead in environmental responsibility and energy independence.

Again, I would like to thank you for allowing me to testify today. And I urge you to take action to extend and expand these renewable energy tax credits and make this energy more affordable and accessible to consumers. I have seen the success that we have had in New Jersey with these initiatives, and I believe that we can see the same kind of success on a national level.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ferguson follows:]

Prepared Statement of The Honorable Mike Ferguson, a Representative in Congress from the State of New Jersey

I'd like to thank Chairman Neal and Ranking Member English for allowing me the opportunity to testify before the Subcommittee on Select Revenue Measures on tax incentives for alternative energy sources. In recent months, renewable energy and energy security have dominated the domestic energy debate. Renewable energy technology holds tremendous potential to make great advancements towards energy security in the 21st century.

In my home state of New Jersey we have seen what a difference renewable energy can make not only in promoting a clean, healthy environment by reducing greenhouse gasses, but also in cutting the cost of energy bills for consumers. In 2001 New Jersey began offering 70% rebates on solar-power installations for residential homes and businesses. Five years later, New Jersey is the second largest state market for solar power and 2,000 homes and businesses have taken advantage of the program and there continues to be a long waiting list.

That is why in the 110th Congress I introduced H.R. 1596; the Clean and Green Renewable Energy Tax Credit Act. This legislation builds upon efforts that I began in the 109th Congress with H.R. 4300. My bill would extend the existing Federal tax credits for solar energy until 2016. Under this legislation, consumers would re-

ceive a $3,000 per kilowatt Federal tax credit for any solar energy installation. For example, the typical home roof-mounted system is $10,000 per kilowatt installed, and the average system is 3 kilowatts, making the total cost to the homeowner $30,000. Under this legislation the consumer would receive a Federal tax credit of $9,000 for a $30,000 system.

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Throughout my term in Congress I have been a strong proponent of solar energy. I believe that solar energy holds significant promise in job creation, energy security, reliability, and helping to decrease the number of dangerous emissions being released into our atmosphere and one must look no further than New Jersey to see how successful these cooperative state and Federal tax incentive programs can be.

However, in order to truly benefit from this energy source, it is our job, as lawmakers, to make this technology widely available and affordable to both consumers and utilities. While it is of utmost importance to make this technology an energy option for homeowners, I believe that we must take these initiatives even further and remove the exclusion for utilities in the investment tax credit. Many energy companies, namely PSEG, a large energy company headquartered in New Jersey, have stated their interest in investing in solar technology. These companies recognize the potential in solar energy and are taking a lead in environmental responsibility and energy independence.

Again, I'd like to thank you for allowing me to testify today and I urge you to take action to extend and expand these renewable energy tax credits and make this energy more affordable and accessible to consumers. I have seen the success that New Jersey has had with these initiatives and I believe that we can see the same kind of success on a national level.

Mr. LARSON. And thank the gentleman from New Jersey for his testimony.

And now I recognize the gentleman from Illinois, Mr. Shimkus.

STATEMENT OF THE HONORABLE JOHN SHIMKUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. SHIMKUS. Thank you, Mr. Chairman. I will be brief. I will ask that my whole statement be submitted for the record, and just say a couple quick things.

Congress recognized the potential for coal to liquid in the 2005 Highway Reauthorization and Excise Tax Simplification Act. The Act provides a 50 cents per gallon tax credit for coal to liquid production through September 2009. But since it takes 5 to 7 years to build a coal-to-liquid facility, and since no facilities are yet being built, the current law credit is having no impact. So my basic legislation is to extend that to 2020.

Other provisions that we hope that you all will consider—Jeff Davis is going to testify here. This is legislation that I am on with Chairman Rahall and Rick Boucher, which would extend a 20-percent investment tax credit for the construction of coal to liquid fuels production facilities, and alternatively, an election to expense investment in such facilities; and for the global warming crowd, a

tax credit to facilitate projects that will capture and second quarter carbon dioxide produced from coal to liquid facilities.

Thank you, Mr. Chairman, and I will yield back.

[The prepared statement of Mr. Shimkus follows:]

Prepared Statement of The Honorable John Shimkus, a Representative in Congress from the State of Illinois

Mr. Chairman,

Thank you for the opportunity to testify today before your Subcommittee in support of legislation that would accelerate the deployment of coal-to-liquid CTL production facilities in the United States.

America's abundant coal reserves can produce the ultra-clean CTL transportation fuels needed to help the United States reduce its dependency on oil imported from unfriendly and unstable regimes. CTL fuel would be readily usable today in existing transportation markets and could be delivered through existing pipelines.

And we can produce CTL fuels in an environmentally-friendly way. Coal liquefaction plants generate carbon dioxide in a highly concentrated form which allows for the capture CO_2 for use in enhanced oil and coal bed methane recovery, or for safe storage underground. Further, the tailpipe emissions from CTL fuels are cleaner than conventional diesel.

Unlike many other potential alternative energy sources, CTL technologies are proven to be effective. CTL technology has been used internationally for decades. Today, CTL technologies are being developed for industrial-scale production in China and by other major industrial competitors of the United States. CTL fuels are used today to meet more than 30 percent of South Africa's transportation needs.

Unfortunately, CTL production facilities are not yet being built in the United States. The costs of engineering and building a CTL facility are huge—in the billions of dollars—and private investors face risks that future changes in energy prices will destroy the economics of CTL production. As a result, investors today simply lack the financial certainty they need to undertake these projects.

For these reasons, Federal participation in the development of a U.S. CTL industry is critically important. Congress recognized the potential for CTL in the 2005 Highway Reauthorization and Excise Tax Simplification Act. The Act provided a 50-cents-per-gallon tax credit for CTL produced through September 30, 2009. But since it takes 5 to 7 years to build a CTL facility, and since no facilities are yet being built, the current-law credit is having no impact. Investors need a longer-term production credit, and other incentives, before they can commit funds to CTL projects.

To foster U.S. CTL production, I joined with 28 of my colleagues, including Chairmen Rahall and Boucher, as an original cosponsor to legislation introduced by Chairman Rahall and Representative Geoff Davis of Kentucky. Included in H.R. 370 are the following critical tax incentives that I would urge the Committee on Ways and Means to approve.

- Extension through September 30, 2020, of the 50-cent alternative fuel tax credit for production of transportation fuel derived from coal.
- A 20-percent investment tax credit for the construction of CTL fuels production facilities or, alternatively, an election to expense investments in such facilities.
- A tax credit to facilitate projects that will capture and sequester carbon dioxide produced from CTL facilities.

I would urge the Committee to include these provisions in an energy bill this spring. Enactment of these incentives would be a major step in our efforts to increase alternative energy production and reduce our reliance on imported oil. Thank you for your consideration of these issues.

Mr. LARSON. I thank the gentleman from Illinois for his brevity. And of course, as you have indicated, you will submit your testimony for the record and we deeply appreciate that.

And the chair will now recognize the distinguished gentleman from Arizona, Mr. Grijalva.

STATEMENT OF THE HONORABLE RAÚL GRIJALVA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. GRIJALVA. Thank you, Mr. Chairman, Ranking Member English, and Members of the Subcommittee. It is a pleasure to be here with you to discuss a piece of legislation that I hope you will agree is an important measure for Indian Country and for the nation at large.

The legislation I am speaking about, my bill, cosponsored by my colleague from Arizona, Congressman Pastor, H.R. 1954, would amend the Internal Revenue Code of 1986 to allow Indian tribal governments who are tax-exempt to transfer their share of the production tax credit to their taxable partners in joint venture renewable energy projects on tribal lands. This is a relatively small change in the current law, but would be meaningful and important for Native people and their economic development.

Under current law, if a tribal government wishes to enter into a joint venture with an outside partner for a renewable energy project taking place on its land, the tribe cannot take advantage of the production tax credit for renewable resources as a private landowner could because it has no tax liability to offset, nor can it transfer its portion of credit to its taxable partners.

So by way of example, if you have a private business providing 100 percent of financing for a renewable energy joint venture with a tribe, the private business may only receive 50 percent of the tax credit, whereas if that business located its project on private lands, it could take advantage of 100 percent of the tax credit.

This situation puts tribes at a tremendous disadvantage when trying to attract renewable energy projects to their lands. Let me just emphasize that by excluding tribes from this activity, we are missing out on a huge opportunity to not only facilitate production of many thousands of megawatts of clean power, but we are also losing an opportunity to help improve conditions for tribal peoples who are in dire need of sustainable economic development on their lands.

Tribal lands in the U.S. have a vast potential in renewable energy production. Wind generation potential on tribal lands could produce a net estimated 14 percent of the total U.S. energy production, while the solar electricity potential is estimated at 4.5 times the annual total electricity needs of the U.S. Tribal lands also contain significant geothermal resources.

While providing for much-needed economic development in these areas, renewable energy projects would also allow tribes to offer power to their own people. I should note that in Arizona, the Navajo Nation, for example, 37 percent of the households on that nation do not have electricity.

In addition, many tribes would like to play a role in helping to address the climate crisis. This would provide outside businesses an incentive to partner with tribes and tap into the vast renewable resources on tribal lands.

To show their commitment to producing renewable energy, tribes are moving forward with small projects, with grants, and funding from carbon offset purchases. However, these are small-scale demonstration projects. What tribes need to do now is to be on an even playing field with other private landowners in the development of

utility-sized projects that can begin to benefit from the outstanding resources on tribal lands.

My proposal, all it would do is level the playing field for Native people who want clean and sustainable economic development on their lands, by putting them in the same position as any other landowner. I hope you will join me in looking at this legislation, and hopefully your support.

Thanks for your time, and I will be glad to answer any questions or submit any additional information for the record. Thank you, Mr. Chairman.

[The prepared statement of Mr. Grijalva follows:]

Prepared Statement of The Honorable Raúl M. Grijalva, a Representative in Congress from the State of Arizona

Mr. Chairman, Ranking Member English and Members of the Subcommittee. It is a great pleasure to be here this afternoon to discuss a proposal that I am personally very excited to be working on. I hope you will agree that this is an important measure for Indian Country and for the nation at large.

My bill, H.R. 1954, would amend the Internal Revenue Code of 1986 to allow Indian tribal governments, who are tax-exempt, to transfer their share of the production tax credit to their taxable partners in joint venture, renewable energy projects on tribal lands.

This is a relatively small change in current law, but would be meaningful and important for Native peoples and their economic development.

Under current law, if a tribal government wishes to enter into a joint venture with outside partners for a renewable energy project taking place on its lands, the tribe cannot take advantage of the production tax credit for renewable resources as a private landowner could because it has no tax liability to offset, nor can it transfer its portion of the credit to its taxable partners.

By way of an example, if you have a private business providing 100% financing for a renewable energy joint venture with a tribe, the private business may only receive 50% of the tax credit, whereas if the business located its project on *private* lands, it could take advantage of 100% of the credit.

This situation puts tribes at a tremendous disadvantage when trying to attract renewable energy projects to their lands.

By excluding tribes from this activity, we are missing out on a huge opportunity to not only facilitate production of many thousands of megawatts of clean power, but we also are losing an opportunity to help improve conditions for tribal peoples, who are in dire need of sustainable economic development on their lands.

Tribal lands in the U.S. have vast potential in renewable energy production. Wind generation potential on tribal lands could produce an estimated 14% of total U.S. energy production, while the solar electricity potential is estimated at **4.5 times** the annual total electricity needs of the U.S.[1] Tribal lands also contain significant geothermal resources.

While providing for much-needed economic development in these traditionally impoverished areas, renewable energy projects would also allow tribes to offer power to their own people, many of whom do not have electricity in their homes. Arizona tribes are in great need of electrification. For example, almost 37 percent of all households on the Navajo Nation do not have electricity.

In addition, many tribes would like to play a role in helping to address the climate crisis, and this would provide outside businesses an incentive to partner with tribes and tap into the vast renewable resources on tribal lands.

To show their commitment to producing renewable energy, tribes are moving forward with projects with Federal grant money and with funding from carbon offset purchases, however, most of these are small-scale demonstration projects. What tribes need now is to be on an even playing field with other private landowners in the development of utility-sized projects that can begin to benefit from the outstanding resources on tribal lands.

In short, all my proposal would do is level the playing field for Native peoples who want clean and sustainable economic development on their lands, by putting them in the same position as any other landowner. I hope you will join me in supporting this important legislation.

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[1] 2004 Department of Energy figures.

Thank you for your time and I am happy to answer any questions you might have.

Mr. LARSON. I thank the gentleman from Arizona and his long-standing commitment to Native Americans and to their economic security, which makes the whole nation secure. And I look forward to following through with you on your legislation.

The chair will now recognize the distinguished gentleman from Kentucky, Mr. Davis.

STATEMENT OF THE HONORABLE GEOFF DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. DAVIS. Thank you, Mr. Chairman, Ranking Member English, and Members of the Committee. Thank you for allowing us this time to present ideas on ways to update and improve our existing tax incentives for alternative energy. I support offering tax incentives to promote the commercial development of technology that increases the availability of alternative fuels. There are many proposals before the Ways and Means Committee to encourage its development.

What I propose today is not a tax incentive in the traditional sense. Rather, the tax provision I am here to discuss is a simple method of returning money paid in the form of an unconstitutional tax. That money should be returned to the taxpayer and could be better used for reinvestment in research and development and the deployment of new technology and the production of cleaning energy.

I am here to discuss H.R. 1762, a bill to facilitate and expedite direct refunds to coal producers and exporters of the coal excise tax, unconstitutionally imposed and collected on coal exported from the United States. Representative Artur Davis and I introduced this bill in March. The bill enjoys bipartisan support in both the House and Senate, with the Senate bill being S. 373 introduced by Senators Bunning and Rockefeller.

The bill is necessary to facilitate the refund of an unconstitutional excise tax collected on coal exported from the United States. The tax should never have been collected in the first place. This provision will help U.S. coal producers and exporters harmed by the collection of this tax on coal exports to recover the funds paid. These refunds can be used for reinvestment and research and development on coal to liquids technology, clean coal technology, and coal blending.

This is an issue of equity and fairness. The Export Clause of the United States Constitution provides that "No Tax or Duty shall be laid on Articles exported from any State." The Coal Excise Tax was declared unconstitutional as applied to exported coal in a 1998 district court case, Ranger Fuel v. United States. The U.S. Government never appealed the ruling. The Ranger Fuel case clearly establishes that the money paid in the unconstitutional taxes are due to the taxpayer.

H.R. 1762 addresses problems associated with the two types of refund claims, administrative claims pursuant to the Internal Revenue Code, and Tucker Act claims. Claims were filed by the indus-

try under both scenarios, and to date, the IRS has refused to refund all the money owed, despite repeated court decisions requiring refund of principal and statutory interest.

Tucker Act claims going back to approximately 1990 are based on a 2000 U.S. Court of Appeals for the Federal Circuit entitled Cyprus Amax Coal v. United States. In that case, the Court of Appeals held that producers and the exporters could claim a refund under the Tucker Act. The Tucker Act allows for the recovery of any IRS tax illegally or erroneously collected within a 6-year statute of limitations. In the subsequent case of Elkhorn Mining v. United States, the Court of Appeals for the Federal Circuit held that principal and statutory interest are due to the producers and exporters for the "illegally levied taxes."

Notwithstanding repeated rulings by the courts against the IRS that the principal and statutory interest amounts on certain CET refund claims are owed to coal producers and exporters, the IRS has again appealed the issue. The IRS has taken this position even though the courts have clearly established that the export of coal makes the tax unconstitutional and makes the refund due.

The IRS continues to appeal the issue of whether or not it owes principal and interest on Tucker Act claims filed by coal producers and exporters. The legislation is necessary to ensure that all claimants will be able to recover all amounts owed during the 6-year period of recovery under the Tucker Act, and all administrative refund claims.

The correction provided by H.R. 1762 is set out in the form of an off-code provision and will not result in a change to the Internal Revenue Code. There is no need for legislation to apply prospectively because the marketplace has addressed the issue for the foreseeable future.

H.R. 1762 is simple and straightforward and will facilitate direct refunds plus statutory interest on the unconstitutionally collected tax to producers and exporters when they establish that the coal upon which the tax was paid was exported. The IRS has 180 days from filing of a claim to determine whether the exporter has proved the coal was exported and that a refund is due, and another 180 days to refund the money owed the taxpayer.

The bill also tracks the exact statutory time periods for which refunds of the unconstitutionally collected tax are allowed under current law. Refunds will be made from the fourth quarter 1990 to present, even though the unconstitutional burden of this tax was imposed an additional 12 years for exports, since 1978. Refunds of tax already paid through the administrative claims process will be prohibited to prevent any possibility of double dipping.

This resolution will also end the needless litigation between industry and the U.S. Government concerning CET refunds. Although entitled to the refunds of the unconstitutional coal excise tax on exported coal, the IRS continues to deny certain administrative claims and continues to litigate issues that have been repeatedly rule on by the courts. This affects both the producers and the unaffiliated coal exporters.

The refunds will infuse the industry with additional capital that can be used for reinvestment and job creation. This was unconstitutionally levied. Coal excise taxes paid to the Treasury are owed

to the taxpayers who bore the burden of these taxes, and the monies can in turn be used for reinvestment in alternative energy, clean burning coal, and ultimately help our economy.

I appreciate the Committee's time, and I am open to any questions.

[The prepared statement of Mr. Davis follows:]

Prepared Statement of The Honorable Geoff Davis, a Representative in Congress from the State of Kentucky

Chairman Neal, Ranking Member English and Members of the Committee, my name is Geoff Davis, and I represent Kentucky's 4th Congressional District. Thank you for allowing us this time to present ideas on ways to update and improve our existing tax incentives for alternative energy. I support offering tax incentives to promote the commercial development of technology that increases the availability of alternative fuels. There are many proposals before the Ways and Means Committee to encourage the development of energy alternatives.

What I propose today is not a tax "incentive" in the traditional sense. Rather, the tax provision I am here to discuss is a simple method of returning money paid in the form of an unconstitutional tax. That money should be returned to the taxpayer and could better be used for reinvestment in research and development and the deployment of new technology for the production of cleaner energy.

I am here today to discuss H.R. 1762, a bill to facilitate and expedite direct refunds to coal producers and exporters of the coal excise tax (CET) unconstitutionally imposed and collected on coal exported from the United States. Representative Artur Davis and I introduced this bill in March. The bill enjoys bipartisan support in both the House and Senate. The Senate bill is S. 373 and was introduced by Senators Jim Bunning and Jay Rockefeller.

The bill is necessary to facilitate the refund of an unconstitutional excise tax illegally collected on coal exported from the U.S. The tax should never have been collected in the first place. This provision will help U.S. coal producers and exporters harmed by the collection of this tax on coal exports to recover the funds paid. Refunds can be used for reinvestment, research and development and the commercial deployment of programs such as CO_2 sequestration, coal-to-liquids, clean coal technology and coal blending technology.

This is an issue of equity and fairness. The Export Clause of the United States Constitution provides that "No Tax or Duty shall be laid on Articles exported from any State." The Coal Excise Tax (CET) was declared unconstitutional as applied to exported coal in a 1998 U.S. district court case, *Ranger Fuel v. United States*. The U.S. Government never appealed this ruling. The *Ranger Fuel* case clearly establishes that the money paid in the unconstitutional taxes are due to the taxpayer.

H.R. 1762 addresses problems associated with the two types of refund claims: administrative claims pursuant to the Internal Revenue Code and Tucker Act claims. Claims were filed by the industry under both scenarios. To date, the IRS has refused to refund all money owed, despite repeated court decisions requiring refund of principal and statutory interest.

Tucker Act claims going back to approximately 1990 are based on a 2000 U.S. Court of Appeals for the Federal Circuit ruling entitled, *Cyprus Amax Coal v. United States*. In that case, the Court of Appeals held that producers and the exporters could claim a refund under the Tucker Act. The Tucker Act allows for the recovery of any Internal Revenue Tax illegally or erroneously collected within a 6-year statute of limitations. In the subsequent case of *Clintwood Elkhorn Mining Co., et al vs. United States*, the Court of Appeals for the Federal Circuit held that principal and statutory interest are due to the producers and exporters for the "illegally levied taxes."

Notwithstanding repeated rulings by the courts against the IRS that the principal and statutory interest amounts on certain CET refund claims are owed to coal producers and exporters, the IRS has again appealed the issue. The IRS has taken this position even though the courts have clearly established that the export of the coal makes the tax unconstitutional, and make the refund due. The IRS continues to appeal the issue of whether or not it owes principal and interest on claims filed by coal producers and exporters. The legislation is necessary to ensure that all claimants will be able to recover all amounts owed during the six year period of recovery under the Tucker Act and all administrative refund claims.

The correction provided by H.R. 1762 is set out in the form of an off-code provision and will not result in a change to the Internal Revenue Code. There is no need for

the legislation to apply prospectively because the marketplace has addressed the issue for the future.

H.R. 1762 is simple and straightforward. It will facilitate the direct refunds of, plus statutory interest on, the unconstitutionally collected tax to producers and exporters when they establish that the coal upon which the tax was paid was exported. The IRS has 180 days from filing of a claim to determine whether the exporter has proved the coal was exported and that a refund is due. The IRS then has another 180 days to refund the money owed to the taxpayer. The bill also tracks the exact statutory time periods for which refunds of the unconstitutionally collected tax are allowed under current law. Refunds will be made on taxes paid from the 4th quarter of 1990 to present, even though the unconstitutional burden of this tax was imposed for an additional 12 years of exports (since 1978). Refunds of tax already paid through the administrative claims process will be prohibited to prevent any possibility of "double dipping."

H.R. 1762 will also end the needless litigation between industry and the U.S. Government concerning CET refunds. Although entitled to the refunds of the unconstitutional CET on exported coal, the Internal Revenue Service (IRS) continues to deny certain administrative claims, and continues to litigate issues that have been repeatedly ruled on by the courts. This affects both coal producers and unaffiliated coal exporters.

These refunds will infuse the industry with additional capital that can be used for reinvestment and job creation. The coal excise tax was unconstitutionally levied. Coal excise taxes paid to the Treasury are owed to the taxpayers who bore the burden of this tax. These funds are better spent by the industry creating jobs and investing in research and development that promotes clean burning fuels and alternative energy sources.

I appreciate very much the Committee's time and consideration of this important measure, and ask that the measure be given consideration for passage this Congress.

Mr. LARSON. Thank you very much. I appreciate the testimony from the gentleman from Kentucky.

I will now recognize the gentleman from Pennsylvania, Mr. Murphy, and ask that the gentleman from Washington state, Mr. Inslee, come forward as well, and just remind the panelists that we have a vote that is going on.

Mr. Murphy.

STATEMENT OF THE HONORABLE TIM MURPHY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. MURPHY. Thank you, Mr. Chairman and distinguished colleagues of the Committee. And thank you for allowing me to speak on behalf of my legislation, the Environmental Restoration Act. Please allow me to explain how this bill can be a key component of our national strategy to achieve energy independence.

This Congress has been keenly aware of our nation's need to produce more energy here at home. We import too much energy sources from the most volatile regions of the globe. These dependent relationships compromise our long-term national security, economic security, and energy security.

More than a century ago, much of the modern industrial world was literally built by Pittsburgh Energy and Pittsburgh Steel. Andrew Carnegie did not manufacture steel in Pittsburgh because the region had abundant supplies of iron ore. Rather, steel was made in Southwestern Pennsylvania because we had energy, and lots of it, in the form of coal and the water resources to transport it.

To this day, Pittsburgh sits on top of a 250-year supply of coal. The Pittsburgh coal seam is one of the most valuable natural resource stockpiles in the entire world. As we seek to capitalize on domestic energy supplies, we must make coal, clean coal energy, a big part of this equation.

Coal produces more than half our domestic electricity, and this Congress has provided extensive funding for research and clean coal initiatives that will virtually eliminate emissions in future plants. However, the coal mines of decades past did not emphasize clean air or clean water.

One of the unfortunate legacies of the coal mining industry are mountains and mountains of waste coal, also known as gob. In the past, mining technology was less sophisticated in separating out coal from other materials. These gob piles are a mixture of coal, clay, rocks, soil, and other unusable raw materials. These massive piles can be seen on the horizon in any mining state. They are unsightly, and a source of air pollution from their dust and acid mine runoff that pollutes our streams every time it rains.

However, the 1.1 billion tons of waste coal in the U.S. are potential sources of energy. By using waste coal as a fuel source in power plants, the existing waste coal sites can be reclaimed, the mine drainage associated with these sites ameliorated, and the mine lands can be reclaimed for other uses. It is an expensive process, however. But creating energy out of waste coal has obvious benefits for cleaning up the environment while producing that energy.

Toward the objective of recycling more waste coal, the Environmental Restoration Act would encourage energy producers to address waste coal by providing a business tax credit for waste coal energy production. This year's bill would provide a tax credit to an energy producer of 51.7 cents per million BTUs of heat input from the qualified waste coal recycling. Simply put, the bill would provide an essential incentive for the private sector to overcome the financial costs of recycling waste coal and maximize its energy potential.

Mr. Chairman, I know you and Members of the Subcommittee share my unequivocal goal of obtaining energy independence based on cleaner alternative sources for energy for America. In pursuit of that energy independence, we need to conserve our energy use, diversify our energy sources, and explore new sources of energy. I believe the Environmental Restoration Act can be an indispensable part of such a strategy.

Thank you for allowing me this time today and for your consideration of the Environmental Restoration Act. I look forward to continuing cooperation to secure an energy-independent future for our nation. Thank you.

[The prepared statement of Mr. Murphy follows:]

Statement of Representative Tim Murphy
On behalf of H.R.__, the Environmental Restoration Act
Ways and Means Subcommittee on Select Revenue Measures
U.S. House of Representatives
April 24, 2007

Chairman Neil, Ranking Member English, distinguished colleagues of the subcommittee, thank you for allowing me to speak before you today on behalf of my legislation, the Environmental Restoration Act. Please allow me to explain how this bill can be a key component of our national strategy to achieve energy independence.

This Congress has been keenly aware of our nation's need to produce more energy here at home. We import too much energy sources from the most volatile regimes on the globe; these dependent relationships compromise our long-term national security, economic security and energy security.

More than a century ago, the modern industrial world was literally built by Pittsburgh energy. Andrew Carnegie did not manufacture steel in Pittsburgh because the region had iron ore. Steel was made in Southwestern Pennsylvania because we had energy in the form of coal, and the water resources to transport it. To this day, Pittsburgh sits on a 250-year supply of coal—the Pittsburgh coal seam is one of the most valuable natural resource stockpiles in the entire world. As we seek to capitalize on domestic energy supplies, we must make coal; clean coal energy a big part of this equation.

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Mr. Chairman, I know you and Members of the subcommittee share my unequivocal goal of attaining energy independence based on cleaner, alternative sources of energy for America. In pursuit of that energy independence we need to conserve our energy use, diversify our energy sources, and explore new sources of energy. I believe the Environmental Restoration Act can be an indispensable part of such a strategy.

Thank you for allowing me this time today, and for your consideration of the Environmental Restoration Act. I look forward to continuing our cooperation to secure an energy independent future for our nation.

Mr. LARSON. I thank the gentleman from Pennsylvania for his insightful testimony, and would now call upon the gentleman from Washington state, Mr. Inslee, a leader and introducer of an Apollo plan for energy independence for the country.

Mr. Inslee.

STATEMENT OF THE HONORABLE JAY INSLEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. INSLEE. Thank you, Mr. Chairman. And we are all leaders on energy. We need to be.

I have got four points I would like to quickly make. The first point, I was just reading an article asking what the new frontier is for America after the original western frontier and then the space frontier. What is the new frontier?

And I would suggest the new frontier is clean energy. And we are here today, and this Committee can really advance the ball on that and I hope to work with the Committee to do that. I have introduced several bills—a plug-in hybrid bill, a co-generation bill, a Marine energy bill, and lastly, the big smorgasbord piece, the new Apollo energy project bill, which has a whole host of new tax incentives to help American businesses develop these new technologies. And I think this can play a pivotal role in what really is the new frontier of the new Apollo project for our country.

The second point, I want to point to the Committee that it will have, I believe, some funds available to us to help develop these new economic marvels because we are at some point going to have a cap and trade system that will generate significant revenues to be used in these new investments.

If you look at—we don't know the precise contours of that program, but I think it is reasonable to expect that it could generate $20 billion by 2020 and $60 billion by 2025 from the auctions, permits that would be sold to bidders on the open market for the right to put carbon dioxide in the atmosphere.

So as we go forward, this discussion of where we find tax incentives to incentivize new investment in American technology, I think we should be aware we are going to have some funds with which to make those investments. And that is a nice parallel situation, where we have a fund to produce this money and a way to use it to create technologies to reduce CO_2 emissions.

The third point, and I think it maybe might be one of the most important ones I would like to make, is that whatever this Committee does, I think it is extremely important to take a position that tax incentives are effective when they are long-term and predictable, and investors can have confidence that they will be there for longer than short periods of a 1- or 2-year period.

I have been writing a book for the last year about the development of the clean energy in the United States—the electrification of the car, the wave energy, the solar energy, wonderful things that are going on, the energy efficiency industries, companies that are finding out how to use our computer systems, for instance, more efficiently.

And I think every single businessperson I have talked to that is engaged in developing these new technologically oriented companies, they all have one thing to say to me: Do not do short-term

tax incentives. Do them long term. Because when you go to a venture capitalist or the equity funds, the only way to really make them work is to give predictability that the business plan is going to last more than 1 or 2 years.

Investors are not interested in putting money into companies that are going to fold in 14 months because Congress has a change of flavor, and the tax break dries up and goes away. So the one thing I would really urge the Committee to do is whatever we do, do it for a longer period of time so that we can unlock the investment capital.

One difference from the Apollo project, the original one and the second one that I am advancing, is that that one was done pretty much with all public funds. This one is one where we have got to use public funds to leverage huge investments from the private capital system, which can be much more change-inducing than even the original Apollo project. So I would urge you to make them long term.

Fourth, I would urge the Committee to be scrupulous in its review of these new sources of energy. Not all "alternative" energy sources are created equal when it comes to carbon dioxide in particular. And I would urge the Committee to focus its precious resources of tax incentives on the measures that will help us deal with global warming.

Now, one case in point is coal. I think there is a good possibility we can burn coal cleanly, capture the CO_2, bury it underground, and produce electricity in an economic manner. However, some have suggested we do what is called coal to liquids, where we gasify coal, we make it into a liquid, and we burn it in our cars.

That is something that does not reduce CO_2 emissions, unfortunately. It will either create twice as many emissions per gallon of gasoline or, at best case scenario, only as good as gasoline. I don't think we have enough resources to use our tax breaks on industries that will not solve the global warming problem. I urge us to target.

And thank you for your interest, Mr. Chair.

[The prepared statement of Mr. Inslee follows:]

Prepared Statement of The Honorable Jay Inslee, a Representative in Congress from the State of Washington

Thank you for allowing me the opportunity to testify before this Committee regarding the tax provisions included in energy proposals that I am leading. While I serve on the Energy and Commerce Committee, the Select Committee on Energy and Global Warming and the Natural Resources, this Committee has the opportunity to significantly impact policy that will take this country into the next new energy economy.

Climate change is a fact. We have the opportunity to create jobs and become an international leader on the development of new technologies that reduce our emissions and change the way we rely on energy.

The energy proposals that I have worked on with my colleagues from all over the country include the following tax provisions that I request your favorable review on.

- The Get Real Incentives to Drive (GRID) PLUG–IN Vehicles bill, H.R. 589, will provide a $3,000 tax credit to consumers that purchase a vehicle that runs on electricity.
- The Marine Hydrokinetic Renewable Energy Act provides for the inclusion of ocean, tidal and wave power in Section 45 Production Tax Credits, extends the 5-year accelerated depreciation benefit to ocean and tidal technologies, as well as establishes a 30 percent Investment Tax Credit.

- The Industrial Cogeneration Act of 2007 would provide a 10 percent investment tax credit for combined heat and power properties with electrical capacities up to 50 megawatts.
- The New Apollo Energy Act of 2007 is currently in draft form. This new bill will include several provisions that were in the New Apollo Energy Act of 2005. During the 109th Congress, H.R. 2828 included the following tax provisions:
  - Extension of the Biodiesel Tax Credits for 10 years.
  - Expand the Production Tax Credit for renewable resources by removing the ½ credit periods for solar and geothermal so that they receive the full 10-year credit period.
  - Create incentives for re-tooling investment in new facilities and assets to produce energy efficient technologies and domestic clean energy production technologies.
- There are provisions that will be included in the New Apollo Energy Act of 2007:
  - Expansion of the Investment Tax Credit provided for solar energy and fuel cells and include small wind, geothermal, biomass and kinetic hydropower projects.
  - Extension and expansion of the Clean Renewable Energy Bonds for 10-years.
  - Increase in the annual cap on the 30 percent tax credit for residential solar tax credits and water heaters from $2,000 to $4,000.

A cap-and-trade program to reduce greenhouse gas emissions would include an emissions allowance auction program that could generate tens of billions of dollars to offset tax incentives. Following the allocation and auction scheme proposed by Senator Feinstein and assuming that carbon credits will be trading at a minimum of $20 per ton—a conservative estimate, according to experts—we can expect annual revenues in 2010 to be about $20 billion. Following the same scheme—whereby a decreasing number of credits will be given away for free and an increasing number of credits will be sold at auction—we estimate that annual revenues by 2025 will be in the range of $60 billion. I advocate using a large portion of these revenues to fund tax provisions that will encourage private investment in energy efficiency and renewable energy technologies. That way we can help American businesses meet emissions reductions targets while increasing America's competitive edge in a global clean energy economy.

Lastly, as we move forward with crafting these proposals, I urge you to keep in mind that not all energy solutions are created equally. When it comes to providing for energy security ***and*** protecting the climate system, Congress must address the impacts that technologies like IGCC, or Coal to Liquids, have on the environment. With this in mind, I support IGCC (integrated gasification combined cycle) clean coal technology for electricity generation because it improves air quality and is highly compatible with carbon capture and sequestration. On the other hand, I do not think that the Federal Government should be providing incentives for the construction of coal-to-liquids plants, which could lead to a doubling of carbon dioxide emissions from transportation fuels.

I look forward to working with the Committee to identify truly clean alternative energy technologies that will put America on a path toward a sustainable, secure and clean energy future.

Mr. LARSON. Well, I thank the gentleman from Washington state, and it is an honor to serve with him on the Select Committee on Energy Independence and Global Warming. And again, your knowledge and understanding of the need to leverage new financial platforms that will assist in this area of technology transfer, and your admonitions to the Committee with regard to the scarcity of resources and to appropriately invest them, are well received and taken.

I thank the gentleman for his testimony. You may submit further testimony if you like. I would like to thank all the witnesses for their testimony today. It was extremely helpful as we move forward in crafting our legislation in the Committee.

Without objection, Chairman Neal has asked that the record will remain open for 2 weeks for any additional material that needs to be included.

If there are no further comments or questions, the hearing will stand adjourned.

[Whereupon, at 4:45 p.m., the Subcommittee was adjourned.]

[Submissions for the record follows:]

Statement of The Honorable Jerry Weller, a Representative in Congress from the State of Illinois

Thank you, Mr. Chairman, for allowing me to testify on what I feel is one of the most important issues facing our Nation.

As we look for ways to become a more energy independent nation, I believe we should continue down the path that we laid in the Energy Policy Act of 2005. With the Energy Policy Act of 2005, we took steps forward in reducing our dependence on foreign oil by creating policy that increased the use of renewable energy in tandem with increasing our domestic production and increasing energy efficiency and conservation.

Mr. Chairman, as I mentioned last week at the hearing many of the tax incentives included in the energy bill have produced real results in my district back home.

Due to the energy bill, we have seen over $100 million invested in wind energy and 4 to 5 new ethanol and biodiesel plants in my district. Stepan Company, a biodiesel producer located in Joliet, Illinois, doubled its production of biodiesel fuel because of the changes made in the energy bill. Transco Products Inc., a small manufacturing facility that provides services for many of our energy providers, has tripled the number of people they employ since passage of the energy bill. Even last week, I was at the ground breaking of a new biodiesel facility in Seneca, Illinois that will produce roughly 30 new permanent jobs and approximately 60 million gallons of biodiesel.

In total, we saw investment in renewable energy double in the United States to $68 billion. It is this investment we need to continue to fuel. The tax incentives we passed are spurring investment and in turn aiding us towards the goal of energy independence.

As Congressman McDermott mentioned in his testimony, together we introduced H.R. 1385, the EXTEND the Energy Efficiency Incentives Act of 2007. With the support of a broad business coalition, from the utilities to builders and manufacturers, this measure continues on what we started in the energy bill with tax incentives for residential and commercial energy efficiency.

Among its provisions the bill extends both the tax credit for energy efficient residential new home and equipment and the tax deduction for energy efficient buildings to 2010 and 2011. Often overlooked, energy efficiency is a great tool that we can use to achieve energy independence. By increasing efficiency, we can reduce energy demand and also reduce carbon emissions.

Mr. Chairman, in closing, I want to also touch upon another bill I introduced earlier this year.

H.R. 765 establishes a new tax credit for consumers who purchase a new concept vehicle, which a U.S. auto manufacturer has introduced, that combines hybrid and flexible fuel technologies that will be available to consumers in the near future. With a maximum credit amount of $3,500, it is this marriage of these technologies that will create a vehicle that will be a better steward to our environment and will further reduce our dependence on foreign sources of oil.

If just 5 percent of the U.S. vehicle fleet were powered by hybrids operating on E85 ethanol, oil imports could be reduced by about 140 million barrels a year. In addition, these vehicles will produce about 25% less carbon dioxide. In providing this tax credit, we can promote a greater sense of innovation for the future of automobiles.

Mr. Chairman, I want to thank you again for letting me testify here today and I look forward to working with everyone on the Committee as we look for solutions to the energy crisis we as a Nation are facing.

Statement of The Honorable Pete Hoekstra, a Representative in Congress from the State of Michigan

Thank you, Chairman Neal and Ranking Member English, for the opportunity to testify before you on tax legislation that is important for energy conservation, the reduction of harmful emissions and the growth of our nation's economy.

A small business owner in Michigan's Second Congressional District brought to my attention a problem with the U.S. tax code, a problem that harms the environment and limits economic activity in an important American industry. The problem is that many of the heating, ventilation, air conditioning and refrigeration (HVACR) systems in today's buildings are old, inefficient and harmful to the environment and need to be replaced.

The average lifespan of an air conditioning system in a commercial building is 15 to 20 years, yet the tax code treats them as though their lifespan is 39 years. The depreciation schedule in the tax code acts as a disincentive to invest and replace large, old and inefficient HVACR systems in commercial buildings.

The unfair treatment of HVACR systems in the tax code is the reason I introduced, with bipartisan support, H.R. 1888, the Cool and Efficient Buildings Act.

The legislation would shorten the depreciation schedule for HVACR systems in commercial buildings to 20 years, which would more accurately reflect the lifespan of these units. The commonsense change would positively impact energy efficiency, the environment and economy.

Reducing the depreciation period will provide an incentive for building owners to retire old systems and upgrade to more efficient equipment by allowing them to expense more of the costs of the systems each year. By replacing a building's existing units, building owners and managers lower energy costs and energy demand.

Such a simple change in the tax code will improve the environment in many important ways: First, as I mentioned, the replacement of old systems with newer, advanced technological systems greatly increases efficiency. New chillers are 40 percent more efficient than chillers installed 20 years ago.

The EOP Group, an analytical consulting firm, found replacing inefficient commercial cooling equipment will save 137 trillion BTUs a year by 2015. The savings is equivalent to the amount of energy consumed by approximately 1.4 million average U.S. households. Commercial cooling equipment is one of the largest users of electricity, replacing old systems with newer technology is one of the easiest energy efficiency measures to undertake.

Secondly, it is estimated that the accelerated replacement of cooling equipment would reduce carbon dioxide emissions by 1 million metric tons in 2007, rising to 95 million metric tons in 2015. The savings are equivalent to emissions released by approximately 174,672 U.S. passenger vehicles in 2007 and would increase to about 16.5 million passenger vehicles in 2015.

Thirdly, it would provide an incentive for the replacement of the 33,300 chillers still in use in 2005 that use chlorofluorocarbon (CFC) refrigerants. This represents 42 percent of the original 80,000 CFC chillers banned from production in the United States in 1995 due to concerns over the impact of CFCs on the environment.

The U.S. air conditioning and refrigeration industry employs more than 130,000 workers and contributes $30 billion annually to the U.S. economy. The U.S. HVACR industry exports $4.7 billion annually, providing an industry trade surplus of more than $2.1 billion.

Lowering the depreciation period to an accurate 20 years would encourage building owners to invest in new systems, save small businesses money and create business for American manufacturers and contractors.

H.R. 1888, the Cool and Efficient Buildings Act, would make a commonsense change to the U.S. tax code to the benefit of the U.S. economy and all Americans. I would like to express my appreciation to the 28 Members of Congress who have joined me in co-sponsoring H.R. 1888 in the 110th Congress and the various organizations that support this measure, including the Air Conditioning Contractors of America, the Air-Conditioning and Refrigeration Institute, Associated Builders and Contractors, Associated General Contractors, the Council for an Energy Efficient Economy, and the Sheet Metal Air Conditioning Contractors National Association.

Mr. Chairman, thank you again for the opportunity to present this legislation before your Subcommittee.

Statement of AARP

On behalf of AARP's 38 million members we thank you for holding this hearing on the 2007 Medicare Trustees' Report. The annual Report of the Trustees offers

an important opportunity for Members of Congress to closely examine the financial health of the Medicare program.

Hospital Insurance (HI) Trust Fund

The new insolvency date for the Hospital Insurance (HI) Trust Fund is 1 year later than projected in last year's report, which means that Medicare beneficiaries' coverage is not in immediate jeopardy. It is important to note that predicting solvency over the long term is very difficult since it depends on estimates of both payroll tax income and health care spending. Part A solvency has averaged 12 years since the program began 36 years ago. In the past, Congress has stepped in to either increase Trust Fund income or decrease spending from the Trust Fund so that the reserves are not depleted.

The Trustees' findings are not unusual for Medicare Part A which has averaged a 12 year solvency projection since the program began 36 years ago (see Chart 1, p. 8).

The HI Trustees' report can be viewed as an early warning system—providing Congress with ample opportunity to act judiciously to strengthen and improve the Medicare program for current and future beneficiaries. This report is no different, but it does highlight the urgent need to control rising costs across the entire health care system—not just within Medicare.

Supplementary Medical Insurance (SMI) Trust Fund

Because the SMI or Medicare Part B Trust Fund is funded by premiums and general tax revenues, it faces cost pressure, but not insolvency. As in the private sector, Part B growth still outpaces the growth in the Gross Domestic Product (GDP) due in large part to growth in physician and hospital outpatient spending. Estimating conventions require the Trustees' baseline to reflect current law, which include significant cuts in physician payments scheduled to take effect as a result of the Sustainable Growth Rate (SGR) formula. Congress has consistently voted to override these mandated reductions since 2003. CMS actuaries have estimated that continuous overrides of the SGR would result in $300–$400 billion in aggregate expenditures in the Part B program over 10 years.

Each time Congress overrides the SGR there is a direct cost for Medicare beneficiaries. That's because by law, the monthly Part B premium is set at 25 percent of Part B spending. The Part B premium has doubled since 2000—due in large part to increases in physician spending. The Trustees estimate that premium increases could be as much as 20 percent higher over 10 years if Congress prevents projected reductions in physician payments. Medicare beneficiaries would also pay higher copayments for physician care as payments to physicians increase.

Congress must address the physician payment issue in order to control Part B expenditures and protect Medicare beneficiaries from burdensome out-of-pocket costs. Short-term fixes simply exacerbate spending growth and only delay needed discussions about how to slow rising expenditures. A new Medicare physician payment system should be designed with the beneficiary in mind by holding cost-sharing and premium increases down and improving the care beneficiaries receive. AARP believes Medicare's physician payment system should be changed from one that rewards quantity to one that rewards quality.

Medicare Advantage

Because Medicare Advantage (Part C) plans are required to offer all Part A and Part B benefits, they are paid for from both the HI and SMI trust funds.

The Medicare Trustees note that in 2006 there was a substantial increase in MA enrollment due to higher payments for MA plans provided under the Medicare Modernization Act (MMA). Ultimately, the solvency of the Medicare Trust Funds is negatively affected by current excess payment policies to MA plans.

AARP believes Medicare payments should be neutral with respect to coverage options. Therefore, AARP urges Congress to more closely align MA plan payments with payments for traditional Medicare.

Currently, Medicare payments clearly favor the MA program over traditional Medicare, which is unfair to the majority of beneficiaries who participate in the traditional program. All taxpayers and all Medicare beneficiaries—not just the 18 percent of Medicare beneficiaries enrolled in private MA plans—are funding these excess payments.

When private plans were introduced to Medicare, they were expected to provide extra benefits to beneficiaries by achieving greater efficiencies at a lower cost to the program than traditional Medicare through the use of care coordination, negotiated prices, provider networks and other strategies. Given the fact that MA plans have control over hospital and physician services, as well as the opportunity to manage

and coordinate care, it is reasonable for Congress to hold MA plans to payment levels that are no more than those for the fee-for-service program.

In order to minimize the disruption to beneficiaries who rely on MA plans for their health care, AARP believes Congress should phase out MA plan payments that exceed fee-for-service costs over a period of time. Because geographic variations in spending continue to be a problem in the Medicare program, including within the MA program, AARP believes it is important that Congress address the payment areas with the largest discrepancies first. It is important that those areas of the country that provide care most efficiently are not penalized.

Medicare Funding Warning

The Trustees' report includes the second "funding warning" in this year's annual report. The Medicare Modernization Act requires the Trustees to issue this warning if general revenues account for 45 percent of combined HI and SMI expenditures at any period during a 7-year window.

AARP believes the 45 percent trigger is an arbitrary limit and provides a false alarm about Medicare's funding situation. General revenues have always financed a significant portion of Medicare Part B.

Moreover, because of the way the trigger is designed, policy options to avoid the trigger are limited and may do little to help long-run cost growth. For example, while researchers have documented worrisome trends in obesity rates and chronic conditions for current and future Medicare beneficiaries, efforts to improve preventive services may reduce Part A costs, but increase Part B costs, thereby setting off the trigger. Similarly, shifting services from inpatient to outpatient settings has the same effect.

AARP believes the 45 percent trigger should ultimately be repealed so that Congress is not distracted from the real issue—runaway health costs in the entire health care system. Runaway costs burden not only Medicare and other Federal health care programs, but negatively impact state and local governments, employers, and individuals. Congress must begin to address the problem of system wide health care cost growth—it is not just a Medicare problem, and it cannot be addressed in Medicare alone.

Medicare Part D

Because Part D is financed similarly to Part B, it too faces cost pressure, but not insolvency. The Trustees' Part D cost estimates are substantially lower than those reported last year, primarily due to lower prescription drug plan bid submissions. However, the Trustees are projecting the average annual increases in spending to be nearly 13 percent—due mainly to increases in per capita drug costs (about ⅔) and enrollment (about ⅓).

The projected increase in Part D spending is clear evidence of the need for Congress to enact policies to further help lower drug costs.

AARP supports legislation to:

- Remove the prohibition on the Secretary of HHS from negotiating with pharmaceutical manufacturers on behalf of Medicare beneficiaries (H.R. 4, S. 3);
- Allow for a pathway for the approval of lower cost, safe, comparable, and interchangeable versions of biologic drugs (H.R. 1038, S. 623);
- Legalize personal and wholesale importation of prescription drugs, starting with Canada (H.R. 380, S. 242);
- Prevent abuses in patent settlements between generic and brand name prescription drug manufacturers (S. 316); and
- Provide full funding for comparative effectiveness research authorized in the MMA.

Conclusion

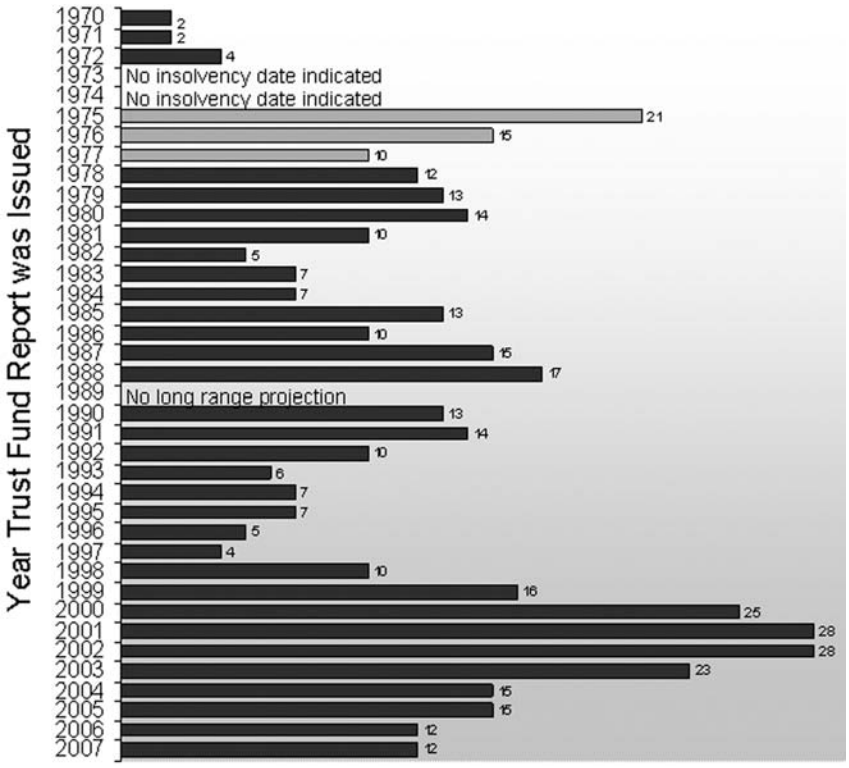
The Medicare program is vitally important to tens of millions of Americans and their families. Each year, the Trustees' Report presents the challenges faced by the program and offers the opportunity to make some improvements for the future.

AARP believes Congress must make changes to the way Medicare pays physicians and Medicare Advantage plans to keep the program strong for the future. In addition, Congress can take important steps to help reduce the price of prescription drugs for all Americans. Ultimately, however, it must address the underlying rate of growth of health care costs in the entire health system—not just Medicare—if we are truly to achieve meaningful reform.

Chart 1

Projections of Part A Solvency Have Varied Widely

Average number of years until insolvency is 12 (1970–2007)



Source: Derived from CRS, April 1995, and the Annual Reports of the Board of Trustees of the Hospital Insurance Trust Fund, 1996–2007.

Notes:

- No insolvency dates indicated in 1973 and 1974.
- No long-range projection in 1989.
- Range reported, as indicated by the white bars: 1975 Report—late 1990s; 1976 Report—early 1990s; 1977 Report—late 1980s.

Statement of David B. Goldstein, Natural Resources Defense Council

I. Introduction

My name is David B. Goldstein and I am Energy Program Director of the Natural Resources Defense Council, a national environmental advocacy organization with over 1.2 million members and activists nationwide. NRDC has been active in developing and advocating an energy strategy that is based on *providing energy services at least cost*. The strategy offers environmental benefits as well as promoting economic development and the growth of jobs.

The Alliance to Save Energy, a bipartisan, nonprofit coalition of more than 120 business, government, environmental, and consumer leaders, also supports the recommendations in this testimony.

The foundation of a least cost strategy is energy efficiency. Energy efficiency means the provision of the same (or better) energy services for lower energy use and cost, substituting more advanced technologies or designs for brute force use of energy resources. Although energy efficiency is defined as providing at least the same

level of energy services, in many or all cases, the value of service improvements for efficiency technologies and designs exceeds the energy savings themselves.

Comprehensive studies of least cost energy futures, whether performed by state energy offices, national labs, environmental advocates, or national governments virtually always find that energy efficiency is the dominant new resource by virtue of its lowest cost and its near-universal availability.[1]

And more recent analysis shows that where policies have promoted efficiency aggressively, the remaining efficiency resource grows, because the policies lead to innovation and new technology development.[2]

II. Energy Efficiency is the Biggest, Cheapest, and Fastest New Energy Resource Available to the Nation

A. Energy Efficiency is the Biggest GHG Reduction Resource

Both prospective analyses of energy options and retrospective studies of where new energy has come from in jurisdictions that have promoted energy efficiency reach the same conclusions: that energy efficiency is by far the largest available re-

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[1] A large number of books and articles documenting the large efficiency potential that can be realized at no cost has been published over the past 30 years. The following is a selection of some of the most convincing:

S.D. Freeman, et al. "A Time To Choose." Cambridge, MA: Ballinger Publishing, 1974.

Ahern, Doctor, et al. "Energy Alternatives for California: Paths to the Future" RAND Corporation, R–1793–CSA/RF, 197.

Lovins, A. and H. *Soft Energy Paths*.

P. Craig, D. Goldstein, R. Kukulka, A. Rosenfeld. "Energy Extension for California: Context and Potential." Proceedings of the 1976 Summer Workshop on an Energy Extension Service. Lawrence Berkeley Laboratory, LBL–5236, 1977.

R. Cavanagh, et al. "Choosing an Electrical Energy Future for the Pacific Northwest: An Alternative Scenario." U.S. Department of Energy. DOE/CS/10045–T1, 1980.

L. King, D.B. Goldstein, et al., "Moving California Toward a Renewable Energy Future," Natural Resources Defense Council, San Francisco, 1980.

Solar Energy Research Institute: "A New Prosperity: Building a Sustainable Energy Future—The SERI Solar/Conservation Study," Brickhouse Publishing, Handover, MA 1981.

D.B. Goldstein, M. Gardner, et al. "A Model Electric Power and Conservation Plan for the Pacific Northwest," Northwest Conservation Act Coalition, 1982.

Northwest Conservation and Electric Power Plan, Northwest Power Planning Council, Portland, OR, 1986.

J. Goldemberg, et al., *Energy for a Sustainable World*, World Resources Institute, Washington, D.C., 1987.

1989 Supplement to the Northwest Conservation and Electric Power Plan. Northwest Power Planning Council, Portland, OR, 1989.

"California's Energy Outlook, 1987 Biennial Report" and "1987 Conservation Report," California Energy Commission.

A. Meyer, H. Geller, D. Lashof, M.B. Zimmerman, P.M. Miller, D.B. Goldstein et al., *America's Energy Choices*, Union of Concerned Scientists, Cambridge, MA (1991).

Energy Efficiency Report, California Energy Commission, 1993.

S. Bernow, et al., "Energy Innovations: A Prosperous Path to a Clean Environment," ASE, ACEEE, NRDC, Tellus Institute, UCS, 1997.

Inter-Laboratory Working Group on Energy Efficient and Low-Carbon Technologies, "Potential Impacts of Energy Efficient and Low-Carbon Technologies by 2010 and Beyond," U.S. Department of Energy, Sept. 1997.

A.H. Rosenfeld, and D. Hafemeister, "Energy Efficient Buildings," Scientific American, April 1998.

R. Watson, *Oil and Conservation Resources Fact Sheet: A Least-Cost Planning Perspective*, NRDC, San Francisco, 1998.

Douglas H. Ogden. Boosting Prosperity: Reducing the Threat of Global Climate Change Through Sustainable Energy Investment. American Council for an Energy Efficient Economy, ACEEE Report Number E963, 1995.

"Northwest Power in Transition." (Northwest Power Planning Council, Portland, OR, Publication 98–22A, Adopted July 1, 1998.

Howard Geller, Stephen Bernow, and William Dougherty. Meeting America's Kyoto Protocol Target: Policies and Impacts. American Council for an Energy Efficient Economy, ACEEE Report #E993, 1999.

Howard Geller, Steven Nadel, R. Neal Elliott, Martin Thomas, and John DeCicco. Approaching the Kyoto Targets: Five Key Strategies for the United States. American Council for an Energy Efficient Economy, ACEEE Report #E981, 1998.

Inter-Laboratory Working Group. *Scenarios for a Clean Energy Future*, Oak Ridge National Laboratory and Lawrence Berkeley National Laboratory, (2000).

"Cutting Carbon Emissions at a Profit" (F. Krause, International Project for Sustainable Energy Paths, IPSEP, 2001).

Geller, H. *Energy Revolution: Policies for a Sustainable Future.* Island Press, 2003.

[2] Saving Energy, Growing Jobs: How Environmental Protection Promotes Economic Growth, Profitability, Innovation, and Competition. David B. Goldstein. (Point Richmond, California: Bay Tree Publishing, 2007.)

source. Usually the contribution of efficiency is larger than all other options combined.

An International Energy Agency study that concluded that global emissions could be held constant by 2050 (compared to a business as usual doubling) found that 78% of the emission savings were due to energy efficiency, 12% to renewables, and 10% to nuclear power.[3] Yet, despite accounting for the lion's share of the benefits, very little discussion is devoted to efficiency and to the policies needed to achieve it.

The energy efficiency advocacy community's 1992 study *America's Energy Choices* found that greenhouse gas emissions could be cut by 70% in 40 years, when the business as usual projection was for an increase of about 55%. Efficiency alone reduced emissions by 55% compared to business as usual, while renewables increased the reduction to 82%. So efficiency was more than twice as important as an emissions reduction strategy than renewables and fuel substitution combined. This result occurred despite the fact that efficiency levels were limited to then-current technology, while we now see that where policy has been aggressive, new options are available in 2006 that were not foreseen in 1992.

Looking retrospectively, California has held its energy electricity consumption per capita constant since 1975, compared to 60% growth for the rest of the country. Considering that the rest of the country was also improving efficiency, this result means that California now derives *more than half of its electricity supply from energy efficiency*. Renewables make up 13% or 14% of what's left.

B. Energy Efficiency is the Cheapest GHG Reduction Resource

While some zero carbon approaches, such as renewable energy are cost-effective today, they offer little purely cost advantage compared to conventional resources. (They do offer other economic advantages such as diversity of energy supply, promotion of U.S. competitiveness, and reduction of import dependence.) Other zero carbon sources, such as nuclear, are substantially more expensive than conventional supply. But efficiency is typically one-third to one-half the cost of conventional energy supply.

Efficiency is based on investments in new technologies, and on better designs that out-perform existing ones. Frequently, these more efficient products have side benefits whose values dwarf even the value of the energy savings.

By promoting efficiency, we encourage innovation and the development of new technologies. Thus, even the potential contributions in studies like that of the IEA underestimate what efficiency can deliver if we really try, and overestimate the costs of expanding the markets for efficiency. For the products in which standards and incentives have been strongest and most consistent, the potential for further increases in efficiency is undiminished. In contrast, in products where little progress has been made, due to failure of energy policy to promote them, the potential is smaller.

So efficiency technologies follow a learning curve, in which increased experience leads to improved performance and lower cost.

Renewable energy sources have also exhibited a learning curve effect, which is another reason for supporting them. But they are mostly at least twice the cost of efficiency.

C. Energy Efficiency is the Fastest GHG Reduction Resource

Energy efficiency can be obtained much faster than other resources. For example, the Energy Policy Act of 2005 established tax credits for super efficient air conditioners when it was passed in August 2005. By 2006, in markets where the tax credit was promoted by utilities, 15% of all air conditioners sold to existing homes were at the efficient level. No other resource could have come on line from a standing start so strongly in one year.

Other incentives for efficient products have achieved their savings with lead times measured in months, not years. Even the slower policy mechanisms for energy efficiency deployment, such as codes and standards, have lead times of only 3–5 years.

III. Incentives for Energy Efficiency

A. Efficiency Provides the Best Bang for the Buck

Efficiency resources are cheaper than conventional resources as discussed above. But from the point of view of the Federal budget, the situation is even better than that. Tax incentives for energy efficiency are leveraged in two different ways.

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[3] "Energy Technology Perspectives—Scenarios and Strategies to 2050." International Energy Agency, 2006.

The first form of leverage is straightforward. Tax incentives such as those in the McDermott/Markey/Weller Bill (H.R. 1385) are designed such that the tax incentive covers typically 30%–50% of the incremental costs of energy efficiency. Thus, each dollar spent by the Treasury is matched by $1–$2 of investment by the private sector.

More importantly, these tax incentives are designed to encourage only the most advanced technologies. Virtually no Federal money will be spent on "free riders" because the number of taxpayers achieving these levels of efficiency is utterly insignificant. For the commercial buildings tax deduction, for example, a detailed study by the New Buildings Institute could find only 100 buildings nationwide that met the McDermott/Markey/Weller energy efficiency target.[4] So virtually any taxpayer taking advantage of the incentives is producing new energy savings that would not have occurred otherwise.

More importantly, these incentives, along with the manufacturer tax credits for efficient appliances, are part of a program that has been called *market transformation*. Such a program is an effort to introduce new technologies into the marketplace by making it financially feasible for suppliers to offer them, or viewed alternately, by providing market signals such that consumers will be able to buy or specify them. These products and services are expected to be (and have always turned out to be) cost effective on their own merit. The incentives are merely priming the pump by providing reinforcing market signals that these heightened new levels of efficiency can be produced and sold by suppliers and that a market for them exists so that consumers can demand them.

The tax incentives will greatly ramp up the prevalence of these efficiency measures for the 3 or 4 or 5 years they are in effect, but after the incentives expire, other market interventions and perhaps simply the self-interest of all participants is overwhelmingly likely to provide greater and greater market share for these technologies in the future. Thus, by paying for the first few years of super efficiency, the government is buying higher market shares and infinitely many years into the future of new energy savings.

Perhaps the best example of this sort of market transformation is the "Golden Carrot"™ program of the Super Efficient Refrigerator Program, Inc. (SERP). The utilities participating in SERP offered a contract of up to $30 million to the manufacturer that could offer the greatest energy savings in mass-produced refrigerators for the least incentive per unit. This contest produced a new generation of refrigerators that saved 30%–40% compared to the stringent 1993 standards by the mid-1990s.

But the experience in meeting the SERP specifications, both by the winner of the program and by other companies that needed to compete with the winner, produced technologies that were so well-established in industry that they were accepted in a consensus efficiency standard adopted by the Department of Energy effective in 2001.

So, by paying for less than 200,000 refrigerators, the SERP market transformation effort produced a situation in which *over 7 million refrigerators sold every year from 2001 and onward* will meet the efficiency targets of the program. This is the kind of leverage that we can expect from the tax incentives for energy efficiency in buildings and appliances.

B. The Consequences of Better Cost Effectiveness in a Budget-Constrained World

Ideally, Congress should provide economic incentives for any improvements to the energy system that are cost effective or needed for the environment. But this would likely entail a budget far greater than will actually be available. How can we achieve the best environmental and economic result within a budget constraint?

The answer to that is very clear. Congress can get the greatest amount of greenhouse gas emission savings—and also the greatest amount of economic benefits—within a given budget constraint by rank-ordering all of the available options in terms of environmental and economic benefits per dollar of Federal money spent, and then picking the cheapest resources first. This economic-based approach is much different from a politically-based approach of "sharing the wealth" among different aspirants to tax incentives. The "sharing the wealth" principle guarantees that every dollar spent on the less cost-effective resources will reduce environmental benefits and economic benefits compared to a scenario that goes with the cheapest buys first.

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[4] See http://newbuildings.org/gtf/index.htm.

While NRDC has not done a comprehensive analysis of all the options before this Committee, we feel confident that when such an analysis is done, it will find that the energy efficiency measures for buildings are at the very top of the list.

Therefore, assuming that this result is validated, the efficiency tax incentives should be fully funded and the remaining budget either divided up among other aspirants or increased to cover all meritorious investments.

C. Additional Economic Benefits of Energy Efficiency in the Commercial Sector

While the following may or may not be counted by the Joint Committee on Taxation, the plain economic fact is that tax incentives for energy efficiency in commercial applications, such as the commercial buildings tax deduction in McDermott/Markey/Weller, *actually raise revenues for the government* rather than decreasing them.

The reason for this is that energy costs in a business are a deductible business expense. A company in the 35% tax bracket that saves $1.00 square foot on in its energy bill (about the amount that it would take to qualify for the commercial buildings tax deduction) finds itself with that extra dollar no longer being deductible on its corporate income tax return, so the Federal Government gets $0.35. It is quick to see that a $2.25 tax deduction that produces a $1 *annual* increase in taxable income will pay back its initial cost to the government in enhanced tax collections within 3 years of the building being placed in service. This effect is so large that we have estimated that by the end of 10 years, the cumulative enhanced revenues from the commercial buildings tax deduction will pay for the entire cost of all the other incentives in the bill. And over 20 years, of course, the effect becomes much larger because of market transformation effects increasing the revenue generation and the fact that the tax deduction sunsets after 5 years.

IV. Energy Efficiency Incentives Produce Jobs

Expanding energy efficiency increases jobs in 2 different ways. First, the employment intensity of energy efficiency is similar to that of the rest of the economy. Energy efficiency involves contractor labor in installing efficiency measures in buildings, manufacturing labor in producing the efficiency technologies, and service sector labor in designing more efficient buildings and products. These are similar in labor intensity to the rest of the economy. But energy supply itself has much lower job intensity. Thus, a project that costs a million dollars and saves a million dollars in energy costs over its lifetime will produce an increase in net jobs because the million dollars spent on efficiency is more labor intensive than the million dollars spent on energy.

This effect is enhanced by the fact that all of the energy efficiency measures of the type being discussed here are cost effective. Rather than $1 million of investment in energy efficiency saving a $1 million in energy supply, it saves $2 or $3 million in direct energy costs. The additional savings represents money available to businesses and consumers to either distribute to their shareholders or to spend on other pursuits. This re-spending also produces substantial increases in employment.

Energy efficiency also serves to enhance domestic employment as opposed to foreign jobs. And the new jobs produced are not merely within the United States as a whole, but within communities as they currently exist. So, for example, when new energy efficient homes are constructed, the builders and their contractors offer these services through jobs that are located at the site of the construction. These jobs cannot be outsourced to another region of the United States, much less to a foreign country. When home retrofit projects are initiated, they provide domestic jobs for energy raters who will advise the householder on what the most profitable upgrades are and then will inspect the finished work to assure both the IRS and the resident that the work has been done properly, for contractors and subcontractors who will do the work, and to component suppliers who will sell the insulation, equipment, etc. All of these jobs are domestic.

In contrast, most supply-side resources (with the exception of distributed energy resources such as solar) may or may not offer domestic jobs, but even when they do, the jobs often are located in remote areas where the new employment opportunities may come at the cost of disrupting family lives and establishing unstable (boom and bust) energy development communities.

More broadly, incentives for energy efficiency at the highest levels of technology encourage American businesses to be at the cutting edge of the world in terms of new technologies. These build on American strengths: innovation and the ability to start small businesses that can be competitive and facilitate the development of new companies that can become global leaders.

They increase U.S. competitiveness and promote export markets.

V. Summary

We urge the Committee to consider the manifold economic as well as environmental benefits of energy efficiency when deciding what energy incentives to offer. We encourage the Committee to support all cost effective, performance-based green energy incentives.

If all worthy efficiency and renewable energy incentives cannot be funded, we urge the Committee to maximize environmental and economic benefits by fully funding the most cost effective proposals first.

Enterprise Rent-A-Car
April 23, 2007

The Honorable Richard E. Neal, Chairman
Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Neal and Ranking Member English:

Enterprise Rent-A-Car Company ("Enterprise") respectfully tenders this letter in response to the Subcommittee's request for submissions in connection with its April 24, 2007 hearing on proposals for Federal tax incentives for alternative energy sources. Enterprise appreciates the opportunity to communicate its views to the Subcommittee.

Enterprise is a family-owned company headquartered in St. Louis, Missouri, that is celebrating its 50th Anniversary in 2007. Enterprise is the largest car rental company in North America with almost 7,000 airport and local rental offices, 65,000 employees, and approximately 900,000 vehicles in its rental and leasing fleet.

For its 50th Anniversary, Enterprise recognized the opportunity to celebrate the company's first 50 years by making meaningful and significant commitments for the next 50 years. To that end, Enterprise has:

- Partnered with the National Arbor Day Foundation and the U.S. Forest Service to underwrite the planting of 50 million trees—1 million trees a year for each of the next 50 years in national forests throughout the United States, as well as in Canada and Europe.
- Donated $25 million to a leading plant science center to start the Enterprise Rent-A-Car Institute for Renewable Fuels, which is tasked with finding new ways to create fuel from renewable and reliable plant sources.

Enterprise will continue its efforts to decrease the impact of the company's operations on the environment in the future. The company's approach is built on a commitment to ensure the sustainability of Enterprise's business, as well as the sustainability of the world Enterprise shares. For example:

- 47% of the company's worldwide rental fleet averages 28 mpg or better . . . and 28% averages 32 mpg or better.
- 33% of Enterprise's U.S. fleet qualify for the Environmental Protection Agency's "SmartWay Seal."
- Enterprise's fleet is populated with a significant number of alternative fuel vehicles—from 38,000 FlexFuel vehicles to 3,000 gasoline/electric hybrid vehicles—making it the largest fleet of alternative fuel vehicles among the country's car rental companies.
- Enterprise manages, in major metropolitan areas, vanpool businesses that provide more than 1,700 vans that transport over 16,000 urban commuters each day.

Enterprise does not have a set of concrete policy recommendations to make to the House Ways and Means Committee or to Congress with respect to proposals on tax incentives for alternative energy sources. However, Enterprise believes that it is the role of the Federal Government to incentivize the economic behavior it seeks to encourage—such as more widespread use of biofuels such as E85 and biodiesel, increased consumer demand for flexible fuel vehicles, and the expansion of the infrastructure for providing these biofuels to consumers. As a nationwide company that has already made both the financial and operational commitment to biofuels, Enterprise is prepared to provide whatever information may be of interest to the Committee as it considers its Federal policy options in the alternative fuel area.

Please do not hesitate to contact me if there are questions about Enterprise's comprehensive environmental platform or the public policy steps that Congress can take to encourage Enterprise and other companies to expand their commitment to alternative energy sources, particularly biofuels.

Sincerely yours,

Gregory M. Scott
Partner

Methanol Institute
April 30, 2007

Hon. Richard E. Neal
U.S. House of Representatives
2208 Rayburn House Office Building
Washington, DC 20515

Dear Ways and Means Select Revenue Measures Subcommittee Leaders,

First, while the Energy Policy Act of 2005 (P.L. 109–58) did include methanol fueled vehicles under the definition of qualifying alternative motor vehicles for the vehicle tax credits (Section 1341), the final legislation *mistakenly did not include methanol alternative fueling stations as qualifying for the infrastructure installation tax credit* (Section 1342).

Second, the Volumetric Ethanol Excise Tax Credit established under the American Jobs Creation Act (P.L. 108–357) includes methanol produced from renewable resources as a qualifying alcohol fuel for VEETC treatment. However, the alternative fuel tax incentives adopted under the SAFETEA bill (P.L. 109–59) mistakenly failed to include methanol as a qualifying alternative fuel along with CNG, LNG, LPG, hydrogen, Fischer-Tropsch fuels, and P–Series fuels. This means that methanol produced from natural gas or coal gasification does not qualify for any Federal tax incentives *even though these fuels have been defined as qualifying alternative fuels under previous Federal legislation* (Alternative Motor Fuels Act of 1988 and Energy Policy Act of 1992).

During the 1990s methanol was considered a viable alternative to gasoline, with thousands of methanol flexible fuel vehicles on the road, served by nearly 200 fueling stations. While support for methanol gave way to compressed natural gas, battery electric and ethanol vehicles, there is a resurgence of interest in the use of methanol today. Much of this interest is generated by simple economics: the current contract price for methanol is about $1.00 per gallon, and we have recently seen spot sales of less than 80¢ per gallon. Even adjusting for methanol's slightly lower energy content than gasoline, the full delivered cost to the consumer would be just $2.00 per gallon.

Methanol also offers the broadest range of potential production feedstocks. In the U.S. and on a global basis, natural gas is the typical feedstock for methanol production. Today, much of the 2.4 billion gallons of methanol consumed each year is imported from countries with access to inexpensive natural gas, such as Trinidad and Chile. In Kingsport, Tennessee, Eastman Chemical operates a coal-based methanol plant that was the U.S. DOE's first successful integrated gasification combined cycle commercial demonstration project. Mature gasification technologies—like that employed in Kingsport—can be utilized for the gasification of biomass (forest thinnings, waste wood, municipal waste) for the production of cellulosic methanol. With energy efficiencies in the 60–70% range, one ton of biomass can be converted into 165–185 gallons of methanol. By comparison, the potential yields from cellulosic ethanol may only reach 60 gallons of fuel per ton of biomass.

With bills like the DRIVE Act (H.R. 670), there is an increasing call for truly flexible fuel vehicles that can run on any combination of gasoline ethanol or methanol. An "A–85" or alcohol compatible FFV would offer significant benefits in fuel diversity, price competition and consumer choice. The late Roberta Nichols, who founded the Ford Motor Company's industry leading FFV technology development wrote, *"The good news is, the FFV can use either methanol or ethanol and, in fact, some of the early experimental cars ran well on a combination of all three fuels (methanol, ethanol, and/or gasoline), which made them really flexible!"*

As the trade association for the global methanol industry, the Methanol Institute is *seeking a level playing field* with respect to Federal tax incentives for the use of methanol as an alternative fuel. We believe that technical corrections to current tax

credits for alternative fuels and alternative fueling station equipment installation can greatly help put the methanol option back on the table.

Sincerely,

John Lynn
President & CEO

Statement of Wayne F. Krouse

As the President, C.E.O. and Founder of a U.S. company with hydrokinetic power projects currently in development, I appreciate the opportunity to provide my thoughts in writing to the Subcommittee on Select Revenue Measures regarding the need to include hydrokinetic power technologies (river, ocean and tidal) as qualifying resources in the Section 45 Production Tax Credit (PTC). I also would like to express my support for **H.R. 2036**, Congressman Jay Inslee's Marine and Hydrokinetic Renewable Energy Promotion Act of 2007, as well as Senator Gordon Smith's **S. 411** and **S. 425**.

Hydro Green Energy, LLC (HGE) is a Houston, TX-based renewable energy project developer and equipment manufacturer that designs, builds and operates hydrokinetic power systems that generate electricity exclusively from moving water without having to first construct dams, impoundments or conduits. Our systems operate in rivers, tidal areas and oceans. HGE has a U.S. Patent and several U.S. and international patents are pending.

Hydro Green Energy is presently in the Federal Energy Regulatory Commission's (FERC) licensing and permitting process for its first project Minnesota, with the goal of becoming the first commercially-operational, licensed hydrokinetic power project in the United States. Hydro Green Energy is also in various stages of development in Illinois, Mississippi, New York, Texas and Washington.

Hydrokinetic power holds great promise as a new, carbon-free, low or no impact, domestic energy source. In fact, a recent study by the Electric Power Research Institute (EPRI) found that the U.S. could develop at a minimum 13,000 megawatts of river and ocean-based hydrokinetic power by 2025. Earlier estimates by the Department of Energy (DOE) showed even greater potential and suggested that the U.S. might be able to double its existing hydropower output with the development of new technologies.

Like all emerging energy technologies, hydrokinetic power sources face high capital costs. In addition, these technologies face costly and time-consuming regulatory hurdles not faced by any other energy source. The development costs for hydrokinetic technologies are very similar, if not higher, to the development costs of the resources presently included in the Section 45 production tax credit. In short, hydrokinetic power deserves inclusion in all policies designed to encourage the development of new renewable energy sources, such as the Section 45 PTC.

As the Committee moves forward with the implementation of policies to better develop our abundant supply of renewable energy, I hope that the Committee will act to include hydrokinetic power in the Section 45 PTC. By doing so, we will ensure that these promising technologies are given an opportunity to develop, which will give the U.S. an abundant new source of clean energy, as well as an exportable technology for a potentially vast worldwide market that is already developing.

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