



October 30, 2007

U.S. Senator Barbara Boxer  
U.S. Senator Joseph Lieberman,  
Senate Committee on Environment and  
Public Works - Majority Office  
410 Dirksen Senate Office Building  
Washington, DC 20510-6175

U.S. Senator James Inhofe  
U.S. Senator James Warner  
Senate Committee on Environment and  
Public Works - Minority Office  
456 Dirksen Senate Office Building  
Washington, DC 20510-6175

U.S. Senator Jeff Bingaman  
U.S. Senator Pete Domenici  
Senate Committee on Energy and Natural  
Resources  
304 Dirksen Senate Building  
Washington, DC 20510

U.S. Congressman John Dingell  
House Committee on Energy and Commerce  
– Majority Office  
2125 Rayburn House Office Building  
Washington, D.C. 20515

U.S. Congressman Joe Barton  
House Committee on Energy and Commerce  
- Minority Office  
2322-A Rayburn House Office Building  
Washington, DC 20515

U.S. Senator Max Baucus  
U.S. Senator Chuck Grassley  
Senate Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510-6200

U.S. Congressman Charles B. Rangel  
U.S. Congressman Jim McCrery  
House Committee on Ways & Means  
U.S. House of Representatives  
1102 Longworth House Office Building  
Washington D.C. 20515

Re: Extension of the Solar Investment Tax Credit

Dear Honorable Congressional Leaders:

Clean Energy States Alliance (CESA), representing the leading state renewable energy programs in the U.S., writes to express strong state-based support for extension of the solar investment tax credit (ITC) in the pending federal energy legislation.

CESA, incorporated as a nonprofit state membership organization in 2002, is a multi-state coalition of the major state clean energy funds and programs working together to support and promote clean energy technologies.<sup>1</sup> Through these clean energy funds, states are investing significant public dollars each year to move wind, solar, biomass, and fuel cell technologies towards wider use in business and residential settings. Because of their substantial funding support to bring solar energy into the mainstream, CESA's state members have an important stake in the extension of the ITC. Simply put, failure to extend the ITC will hinder state efforts and investments to build a sustainable solar industry in this country. We urge Congress to continue to partner with the states to invest in a solar future.

The market for solar PV in the U.S. has grown dramatically in recent years, driven in large part by innovative solar grant programs delivered by CESA's state members, in California, New Jersey, Connecticut, New York, and many other states. With passage of the Energy Policy Act of 2005, the federal government also plays a critical role in supporting both commercial and residential PV systems through the Investment Tax Credit. Relying on Congress's continued support for the ITC, many of the CESA states have launched long-term solar programs for the next decade to build local PV markets and reduce system costs so that solar will become competitive with other electricity generation technologies. For example, last year, California committed to invest over \$3 billion in its PV program over the next ten years to drive solar growth. The state of New Jersey similarly has allocated hundreds of millions of dollars over the next decade to meet its ambitious solar goals.

These state efforts and investments in solar technology will be undercut and de-valued if Congress fails to provide long-term, stable support for the ITC. To ensure the development of a mature, highly competitive solar market, we need both Congress and the states to be pulling together in the same direction.

We offer several specific recommendations to extend and improve the ITC to maximize state efforts to support solar technology deployment. CESA's recommendations were developed in conjunction with analysis from experts at the Lawrence Berkeley National Laboratory.<sup>2 3</sup>

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<sup>1</sup> CESA's members include the California Energy Commission, the Energy Trust of Oregon, the New York State Energy Research and Development Agency, the New Jersey Bureau of Public Utilities, the Ohio Energy Office, the Connecticut Clean Energy Fund, the Massachusetts Renewable Energy Trust, the Sustainable Development Fund of PA, the Arizona Department of Commerce Energy Office, the Energy Conservation and Management Division of New Mexico, the Colorado Governor's Energy Office, the Alaska Energy Authority, the Maryland Energy Administration, the Wisconsin Focus on Energy, and the Vermont Clean Energy Development Fund. For more information about CEG and CESA, see [www.cleangroup.org](http://www.cleangroup.org) and [www.cleanenergystates.org](http://www.cleanenergystates.org).

<sup>2</sup> The recommendations herein represent the perspective of the Clean Energy States Alliance and its state members, but do not represent the specific position of any individual state.

<sup>3</sup> Among other analysis, Lawrence Berkeley National Lab and CESA published a leading case study to explore the economic value of the ITC for solar programs. See *Exploring the Economic Value of EPAct 2005's PV Tax Credits* (2007), available online at [www.cleanenergystates.org/CaseStudies/LBL\\_Exploring\\_Value\\_PV\\_TaxCredit.pdf](http://www.cleanenergystates.org/CaseStudies/LBL_Exploring_Value_PV_TaxCredit.pdf).

### **1. Extend the ITC for all residential and commercial solar equipment.**

It is crucial that the ITC be extended. Ideally, an eight-year extension would provide the long-term market demand certainty that is needed for the solar industry to build new manufacturing capacity and expand the installer work force necessary to develop a competitive industry. An extension also is needed to support and leverage the significant financial commitments being made by states like California, New York, Connecticut, New Jersey, Arizona, and Colorado to provide billions of ratepayer dollars over the next decade to reduce the cost of solar energy and develop self-sustaining markets. Lapse of the ITC will jeopardize the investments by states to build a solar market in the U.S. A stop-start ITC approach provides insufficient certainty for both the solar industry to make expansion decisions and for states to continue to provide the near-term funding for solar systems that will lead to cost reductions.

### **2. Remove the \$2000 cap on the 30% residential solar ITC.**

The current \$2000 ITC cap for residential systems renders the ITC ineffective as a strategy to help residential buyers afford a solar PV system. For example, a 4-kilowatt PV system, a typical size for a residential system, requires an initial investment of over \$30,000. Next to a home and car purchase, or college education, a PV system can be the largest single consumer purchase many homeowners may ever make. While state-provided incentives are picking up a portion of the initial cost in some states, the remaining out-of-pocket expense is considerable. Driving mainstream adoption of solar technology, and thereby reducing costs and technology development, requires tackling the key challenge facing PV buyers – the size of the initial investment. State incentives alone cannot overcome this investment challenge. The federal government must provide a further important economic boost for residential PV buyers by eliminating the cap on the ITC and structuring the ITC for residential installations identical to the ITC structure for commercial solar installations (which have no dollar cap on the ITC they can claim). It is critical that the ITC provide more economic value to residential PV system purchasers if the U.S. is to drive faster solar growth over the next decade and achieve solar market success.

### **3. Modify the ITC's formula for computing a project's basis.**

The current federal ITC contains provisions that exclude certain forms of state incentives from a project's "basis" to which the ITC applies, thereby reducing its value. These provisions, known as anti-double-dipping rules, undercut state efforts to support solar.

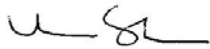
For example, the ITC basis provisions are directly at odds with state efforts to help achieve mainstream status for solar by creating favorable solar financing programs. In fact, many states have been discouraged from establishing low-interest solar financing programs – critical to creating mainstream customer demand for solar by making the purchase of solar systems as easy as financing an automobile – because the value of the ITC to the system owner will be reduced. To ensure that a re-authorized ITC leverages and enhances the growing state financial support for solar, Congress should fix this problem by changing the rules so that states can offer useful

low-interest solar loan and incentive programs without reducing the value of the ITC. This will complement the purpose of the ITC to build a sustainable solar industry as soon as possible.

### **Conclusion**

CESA hopes that Congress will consider the recommendations and interests of the major states that are supporting solar technology by extending and strengthening the ITC. The combination of state solar incentives with a long-term federal ITC represents a critical state/federal partnership that will lead to the creation of a robust solar market for the U.S. If you are interested in further information and support for the recommendations offered here, please do not hesitate to contact us.

Sincerely,



Mark Sinclair  
Deputy Director  
Clean Energy States Alliance

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

