United States Senate
WASHINGTON, DC 20510

July 26, 2013

The Honorable Max Baucus
Chairman
Senate Committee on Finance
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Republican
Senate Committee on Finance
SD-219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Hatch:

We appreciate the chance to provide input to the Finance Committee on comprehensive tax reform and would like to express our strong support for tax incentives that will grow America's clean energy sector.

Access to clean, abundant, renewable and affordable energy is inarguably in the national interest. Sources of clean energy are critical to America's long-term economic growth, national security and energy future.

The clean energy sector has seen unprecedented growth in recent years, but that growth has occurred despite an uncertain policy environment. Renewable energy generation grew by approximately 175 percent from 2001 to 2011, and the sector now employs over half a million Americans.

Despite the overall growth, clean energy still only accounted for just over 12 percent of the domestically produced electricity in 2012, and new investment in the industry has recently become stifled by policy uncertainty. If we ever hope to see renewable energy markets grow to become a dominant supply of American energy, we must do better.

Going forward, tax policy that supports clean energy should achieve several goals:

1. **Increase investment in clean energy**

   If the United States hopes to remain globally competitive in the clean energy sector, we must invest more, not less. While global clean energy investment fell by 11% last year, China advanced to become the world leader in clean energy investment, attracting $65.1 billion in investment. In the United States, clean energy investment declined by 37 percent, to $35.6 billion. Continuation of important tax incentives, and new policies to attract increased private investment and also efficiently benefit end consumers, are integral to maintaining a globally competitive clean energy industry.

2. **Provide long-term policy certainty**

   The most important ingredient for growing the clean energy sector is policy certainty. Long-term policy incentives create certainty in project planning for clean energy project developers, and also attract more private investors. Tax credits like the production tax credit that only last a year or two and then lapse, only to return again with no apparent predictability, are not effective for projects that can take over five years to plan.

   Going forward, all clean energy tax credits under Section 45, 48, and 25D of the code should receive a long time horizon to allow for greater certainty in financial planning. In addition, we should not prematurely sunset any of the existing clean energy tax credits, as that would destroy investment-backed expectations for many projects currently being planned, and in turn destabilize already fragile markets.

   Moreover, all clean energy tax credits should use a consistent eligibility standard based on beginning construction, rather than the time that the project is placed into service. This incentive structure greatly enhances the predictability and certainty of the credit for project developers and investors.

3. **Create parity across clean energy technologies, while still accommodating diverse needs**

   While a goal of clean energy tax incentives should be to avoid "picking winners and losers" among clean energy technologies, to be effective, the tax code must also accommodate diverse needs across different technologies, business models, and project financing structures.

   Under any given tax incentive structure (like the production tax credit versus the investment tax credit), there should be parity in the tax code between technologies. This would mean updating the tax code to ensure that technologies receive comparable incentives rates within any given tax incentive structure.

   It will be important to also continue different types of production-based and investment-based tax incentive structures to accommodate unique needs across different technologies and project types. Having both options provides an important support structure for different segments of the clean energy sector.

4. **Expand access to low-cost private capital**

   Finally, we would urge you to look for new ways to encourage more private investment in clean energy. Creating long-term policy certainty is integral to attracting private investment, and more can be done to improve project finance and expand access to low-cost capital.

   For example, the PTC and ITC would be significantly more effective tax credits if they could be monetized more easily, either through payments in lieu of tax credits, or by creating policies that attract more investors to the tax equity market. Policies that reduce tax liability for investments in clean energy could also expand access to lower-cost private capital.

The clean energy sector has the potential to be one of the greatest engines of middle class job growth in the 21st century, while providing secure sources of clean domestic energy; but, to realize that objective, we must create a favorable policy environment. Therefore, if we move forward on comprehensive tax reform, we urge you to strive to meet the goals outlined in this letter.

We appreciate your consideration of our views, and we stand ready to work with you.

Sincerely,

Jeffrey A. Merkley
United States Senator

Edward J. Markey
United States Senator

Brian Schatz
United States Senator

Angus S. King Jr.
United States Senator

Tim Johnson
United States Senator

Elizabeth Warren
United States Senator

Tom Udall
United States Senator

Tammy Baldwin
United States Senator