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Collection/Record Group: Clinton Presidential Records
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Series/Staff Member: Roger Ballentine
Subseries:

OA/ID Number: 19508
FolderID:

Folder Title:
Climate Change Budget/Finance Tax [1]

Stack:	Row:	Section:	Shelf:	Position:
S	61	7	11	2

Tax Incentives Potential Small Package

Background:

Although fairly comprehensive “clean energy” tax incentives have been proposed for the past several years, it is clear that the best opportunity in the short term to get any incentive for clean energy will be with small, targeted initiatives that have some “political legs” of their own.

Tax incentives are the single best way to get new technologies established in the market. The Treasury Department has made it clear that they are most interested in breakthrough technologies that leave little chance for free riders and are fiscally responsible. When technologies are first introduced, their first costs tend to be high due to low volume. As volume increases, price per unit decreases; therefore, tax incentives allow more sales earlier and the ramp up of product manufacture and delivery.

Each of the suggested technologies is just at the breakthrough stage. Additionally, they each bring societal benefits as espoused by the Administration. These include ability to increase the reliability of the electric utility grid and stabilize energy prices, operate in an energy efficient manner, are environmentally friendly, and enhance national security through reduce imports of foreign energy sources. The package is well rounded and includes energy efficiency in the stationary and transportation market, and power generation from renewable and clean sources.

Suggested Package of Technologies:

Extension of the Electric Vehicle and Fuel Cell Tax Credit: This is very straightforward and is a part of the Administration package but has been independently introduced by Congressman Mac Collins (H.R. 1108) and has 24 cosponsors.

Building Equipment Tax Credit: This is essentially the Administration’s package that includes fuel cells, gas-fired heat pumps and heat pump water heaters. Congressman McNulty of Ways and means is including gas cooling under 20 tons and gas-fired desiccant technology under 5000 cfm. This addition would add little to the fiscal impact. Supporters include Knollenberg, Johnson, Upton, Chairman Roth and Sen. Murkowski.

Solar and Small Wind: This is the administration’s package that has been separately introduced by Congressmen Salmon as H.R. 1634 and has 10 cosponsors. Adding small wind is acceptable to all involved parties and would add little to the fiscal impact.

Super-efficient Appliances: Introduced by Sen. Grassley (S. 2939) and Rep. Nussle (HR 4977), would give a per unit tax credit for the production of super efficient clothes washing machines and refrigerators from 2001 through 2006. No company could receive more than \$60 million; washers must exceed Richardson-announced standards. Maximum per unit credit of \$100.

Large Wind: Extension of the production tax credit. Self-explanatory. JCT estimated \$76 million over five years; likely cost over 2.5 years of around \$20 million.

Budgetary Impact (Five Years)

Vehicles (EV and Fuel Cell Extender)	100 M
Building Equipment	221 M
Solar and Small Wind	108 M
Super-efficient Appliances	350 M*
Wind Energy PTC Extension	20 M
TOTAL	\$799 M

*--over 6-year life of credit



■ Washington Council Ernst & Young ■ Phone: (202) 293-7474
Ernst & Young LLP
1150 17th Street, N.W., Suite 601
Washington, D.C. 20036

MEMORANDUM BY FAX

TO: David Gardiner @ 395-2311

FROM: Dick Meltzer

RE: Super Energy-Efficient Appliance Tax Credit

DATE: Thursday, July 27, 2000

The text of the bills are not yet on Thomas, but the numbers are S. 2939 and H.R. 4977. In addition to Senators Grassley and Rockefeller, the Senate bill is cosponsored by Senator Blanche Lincoln. In addition to Reps. Nussle and Tanner, the House bill is cosponsored by fifteen members as listed in the attachment.

Also attached are the statements released at the press conference on Wednesday by the members, the industry association and the supporting environmental organizations. Two new supporters of the bills are the Sierra Club and Friends of the Earth.

Let me know if you need anything else.

Bill Summary & Status for the 106th Congress

Item 16 of 16

PREVIOUS | NEXT**PREVIOUS:ALL | NEXT:ALL****NEW SEARCH | HOME | HELP****H.R.4977**

Sponsor: Rep Nussle, Jim (introduced 7/26/2000)

Latest Major Action: 7/26/2000 Referred to House committee

Title: To amend the Internal Revenue Code of 1986 to provide a credit against tax for energy efficient appliances.

Jump to: Titles, Status, Committees, Related Bill Details, Amendments, Cosponsors, Summary**TITLE(S):** (*italics indicate a title for a portion of a bill*)• **OFFICIAL TITLE AS INTRODUCED:**

To amend the Internal Revenue Code of 1986 to provide a credit against tax for energy efficient appliances.

STATUS: (*color indicates Senate actions*)**7/26/2000:**

Referred to the House Committee on Ways and Means.

COMMITTEE(S):**Committee/Subcommittee:**House Ways and Means**Activity:**

Referral

RELATED BILL DETAILS:

NONE

AMENDMENT(S):

NONE

COSPONSORS(15), ALPHABETICAL [followed by Cosponsors withdrawn]. (Sort: by date)Rep Boswell, Leonard L. - 7/26/2000 Rep Camp, Dave - 7/26/2000Rep Cardin, Benjamin L. - 7/26/2000 Rep Ganske, Greg - 7/26/2000Rep Gillmor, Paul E. - 7/26/2000 Rep Hutchinson, Asa - 7/26/2000Rep Latham, Tom - 7/26/2000 Rep Leach, James A. - 7/26/2000Rep Lewis, John - 7/26/2000 Rep Markey, Edward J. - 7/26/2000Rep Matsui, Robert T. - 7/26/2000 Rep Regula, Ralph - 7/26/2000Rep Snyder, Vic - 7/26/2000 Rep Tanner, John S. - 7/26/2000Rep Upton, Fred - 7/26/2000**SUMMARY:**

NONE

NEWS RELEASE

Alliance to Save Energy

American Council for an Energy Efficient Economy

Natural Resources Defense Council

For Further Information

Martha Currier 202/530-2203

Edward Osann 202/429-8873

Daniel Lashof 202/289-6868

For Immediate Release

Environmental and Energy Advocates Applaud Legislation for Resource Efficient Appliance Incentives Saving Consumers \$25 Billion

Washington, DC, July 26, 2000 – Several leading environmental and energy groups today praised Senators Grassley, Rockefeller and Jeffords and Representatives Nussle and Tanner for their leadership on energy-efficient, environmentally friendly technology in introducing the Resource Efficient Appliances Incentives Act of 2000. This bill creates tax incentives for high-efficiency clothes washers and refrigerator-freezers from 2001 through 2006, complimenting a proposed federal efficiency standard agreed on by energy advocates, appliance manufacturers, and state and local governments in May.

The Alliance to Save Energy, the American Council for an Energy-Efficient Economy (ACEEE), and the Natural Resources Defense Council (NRDC) noted that the total savings from tax incentives and standards are projected at \$25 billion in consumer bills, 11 trillion gallons of water, 4 Quads of energy, and over 300 million tons of carbon dioxide over the life of the affected equipment. This will reduce consumer energy bills, save water, and prevent air pollution, all accomplished by encouraging manufacturers to build and sell these high-performance products years in advance of the standard's effective date.

"This bill will help America clean up – clean up our air quality, our climate, and our water. I commend Senator Grassley and his colleagues for working in a bipartisan fashion with environmental and clean energy leaders, and appliance manufacturers," stated Alliance to Save Energy President David M. Nemtsov.

"This bill is clearly consistent with the targeted tax incentives for energy efficiency and renewable energy technology that the President has repeatedly requested Congress to enact," commented ACEEE Senior Associate Edward Osann.

"The environmental benefits in this important legislation come not at the expense of consumers, but with a net benefit of more than \$1 billion in reduced energy and water bills. That is good policy by anyone's definition" stated Daniel A. Lashof, Senior Scientist at the NRDC.

The Sierra Club, Friends of the Earth and the Association of Home Appliance Manufacturers have also endorsed the bill.

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News Release

For Further Information
Martha Currier (202) 630-2203 mcurrier@ase.org

For Immediate Release

Energy consumers can save more money...

Statement of David M. Nemtzow President Alliance to Save Energy On Introduction of Resource Efficient Appliance Incentives Act

So often we hear public officials talk about how they came to Washington to clean things up. It now looks like Senators Grassley, Rockefeller, and Jeffords Congressmen Nussle, Tanner and the other cosponsors of 'The Resource Efficient Appliance Incentives Act' may just do that.

This important legislation will help clean up the nation's air. The bill will provide tax incentives for highly energy-efficient appliances that use less electricity, thereby burning less fossil fuels and emitting less pollution at power plants.

This legislation will help clean up our global climate. Energy efficient refrigerators and washers use less electricity and natural gas, thereby generating less carbon dioxide, the principal climate-changing pollutant.

This legislation will help clean up our water. Highly efficient washers tend to use less water, lessening demand on our water supply and wastewater treatment facilities.

This legislation will, literally, help clean American clothes. 'The Resource Efficient Appliance Incentives Act' provides incentives for consumers to purchase high-tech new washers – which are not only use fewer natural resources but perform exceptionally well.

The Alliance to Save Energy commends Senators Grassley, Rockefeller and Jeffords and Representatives Nussle and Tanner for their leadership in introducing this breakthrough legislation. These leading Members of Congress – who are all members of the Senate Finance or the House Ways and Means Committees – have worked with environmental and clean energy leaders and appliance manufacturers to write legislation that uses market-based incentives to promote a clean environment and lower utility bills.

It looks like American families will really clean up with this one.

###

The Alliance to Save Energy is a coalition of prominent business, government, environmental, and consumer leaders who promote the efficient and clean use of energy worldwide to benefit consumers, the environment, economy, and national security.



NATURAL RESOURCES DEFENSE COUNCIL

The Resource Efficient Appliance Incentives Act

Statement of

Daniel A. Lashof

Senior Scientist

Natural Resources Defense Council

July 26, 2000

Here in Washington we are enjoying a relatively cool and wet summer so far, but in *western Iowa and in the Gulf Coast states from Florida to Texas it is hot and dry. The Palmer drought severity index is showing severe to extreme drought conditions in many areas of these states and throughout much of the mountain West. But thanks to Senator Grassley and Representative Nussle, Congress has an opportunity to respond, not with hot air, but with legislation that will actually help to cool the air and water the crops.*

The senators' Resource Efficient Appliance Incentives Act would expand the market *share of clothes washers and refrigerators that are far more energy efficient than minimum standards, even as these standards are being updated by the Department of Energy. We estimate that the energy savings stimulated by the bill's tax credits alone would reduce global warming pollution by more than 3 million tons of carbon. At the same time, the bill would stimulate the sales of resource-efficient clothes washers that would save more than 850 billion gallons of water. When combined with new energy efficiency standards, pollution would be reduced by a staggering 60 million tons and water consumption would be reduced by more than 11 trillion gallons.*

At the same time, consumers would save more than \$1 billion in reduced energy and water bills, from the tax credits alone. That is good policy by anyone's definition, and I am pleased to announce that Friends of the Earth and the Sierra Club have joined the *Alliance to Save Energy, the American Council for an Energy-Efficient Economy and the Natural Resources Defense Council in endorsing this bill.*

So again, I would like to thank Senator Grassley, Representative Nussle and the cosponsors of the Resource Efficient Appliance Incentives Act. This legislation won't make doing the laundry fun, but we'll all feel better knowing that we're helping to clean up the environment while we're cleaning our clothes.





American Council for an Energy-Efficient Economy

WASHINGTON, DC

For Immediate release
July 26, 2000

For Further Information Contact:
Ed Osann or Howard Geller 202-429-8873

**Statement of Edward R. Osann
Senior Associate
American Council for an Energy-Efficient Economy
regarding the introduction of
*The Resource Efficient Appliance Incentives Act***

We welcome the introduction today of the Resource Efficient Appliance Incentives Act, and we commend Senators Grassley and Rockefeller, Representatives Nussle and Tanner, and all their original Senate and House cosponsors for their leadership on this important issue.

In the next few years, new and more stringent federal standards will go into effect that will greatly improve the efficiency of new refrigerators and clothes washers, two of the largest uses of energy in US households. This bill, however, looks beyond these new standards. It seeks to draw into commercial production the next generation of technologies that will make up the ultra-efficient appliances of the future.

This bill is narrowly targeted and modest in cost, yet its benefits will be broadly felt and large in scale. Consumer savings on energy, water, and detergent will be complemented by reductions in air pollution from power plants and reductions in demand for water and wastewater service. The positive effects of this bill can be felt quickly -- as early as next summer -- and that's important considering the widespread concerns for the reliability of the nation's electric power system. The bill will also help the United States maintain its world leadership in refrigerator efficiency, and help us attain world-class efficiencies for new clothes washers.

We have commended this proposal to the Clinton Administration, and we are encouraged by the initial reaction. This bill is clearly consistent with the targeted tax incentives for energy efficiency and renewable energy technology that the President has repeatedly requested Congress to enact. Come September, the climate may be right for some climate-friendly tax legislation, and the Resource Efficient Appliance Incentives Act would be a good place to start.

About ACEEE: The American Council for an Energy-Efficient Economy is a non-profit organization established in 1980 and dedicated to advancing energy efficiency as a means of promoting both economic prosperity and environmental protection. A diverse group of foundations, private companies, utilities, and federal and state agencies provide funding for ACEEE's work. For more information, visit the ACEEE web site at <http://aceee.org>.



U.S. Representative

Jim Nussle

Second District - Iowa



www.house.gov/nussle/

Nussleia@mail.house.gov

FOR IMMEDIATE RELEASE
Wednesday, July 26, 2000

Contact: Steve Webber
Phone: 202/225-2911

Congressman Nussle Introduces Bill To Encourage Production of Super Energy-Efficient Appliances

Congressman Jim Nussle and Senator Chuck Grassley announced today that they will introduce bills in the House and the Senate that would encourage appliance manufacturers to accelerate production of super energy-efficient clothes washing machines and refrigerators that exceed federal energy-use standards.

The Resources Efficient Appliance Incentives Act would provide a tax credit to manufactures of super energy-efficient appliances between from 2001 through 2006 - if those appliances exceed new federal energy efficiency standards. The new standards were announced by Energy Secretary Bill Richardson May 23 after agreement was reached between the U.S. Energy Department, the appliance industry, and various advocacy groups concerned about conservation and the environment.

Nussle, who serves on the House Ways and Means Committee, said, "This bill is a perfect example of how we can allow private industry to meet environmental goals without the heavy hand of government regulations. This tax credit will be a new incentive to increase the use of the latest energy-saving technology.

Manufacturers could claim a \$50 tax credit for each clothes washing machine they produce that uses 17% less energy, and a \$100 tax credit for each clothes washing machine that use 35% less energy than required by the new federal standards scheduled to take effect in July 2001.

Manufacturers could claim a \$50 tax credit for each refrigerator they produce between 2001 and 2004 that is at least 10 percent more energy efficient than the new federal standards, and a \$100 tax credit for each refrigerator produced between 2001 and 2006 that is at least 15% more energy efficient than the new federal standards.

"This bill provides an incentive for manufactures to help consumers conserve energy and water," Nussle said. "And by making these appliances more energy-efficient, we are not only conserving energy, but we're also lowering utility bills for Iowa families."

The Association of Home Appliance Manufacturers estimates these super energy-efficient appliances could save the average Iowa family \$100 per year - or \$1,400 per family over the lifetime of the appliance. That means a savings of \$11 million for Iowa families over the average lifetime of the appliance.

The average clothes washing machine uses 21,500 gallons of water per year. The new generation of super energy-efficient appliances are expected to save families 10,300 gallons of water per year. In Iowa, that would mean a savings of 9 billion gallons of water over the average lifetime of the appliance -- enough to supply drinking water for the entire state of Iowa for 30 years.

(Continued on Next Page)

AAAM

5/18/00

- EnergyStar? - raising standards for EnergyStar
- integrated package? tax credit necessary?
- cost of credit?
- tax credit for ballasts? refrigerators?
air conditioners?
- Is there a necessary link between energy
savings and water savings? (yes)
- state tax credits?
- commercial and residential machines?



Angela C. Mizeur

05/18/2000 10:58:24 AM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: meeting attendees

Joseph McGuire, AHAM
Charles Samuels, AHAM
Douglass C. Horstman; Maytag
Thomas Catania, Whirlpool
Richard Meltzer, Washington

David Nemtzw, Alliance to Save Energy
Edward R. Osann, ACEEE
Steven Nadel, ACEEE
Daniel Lashof, Natural Resources Defense Council

Recommended Administration Position on Clothes Washer Standards and Energy Efficiency Tax Credits

An agreement has been reached between the appliance industry and major stakeholders, including environmental groups, energy efficiency advocates, utilities, and state governments, regarding clothes washer energy efficiency. The agreement is an integrated package of energy standards, manufacturer tax credits, energy labeling and voluntary reporting and labeling programs for clothes washers. This agreement will provide to the public enormous future energy and environmental benefits. Over a 25-year period, the standards are expected to save nearly 5 quadrillion Btu (British thermal units) of energy and reduce greenhouse gas emissions by approximately 85 million metric tons. It will also reduce water use by some 10.5 trillion gallons over a 25-year period, enough water to supply 6.6 million homes for 25 years. In 2020, greenhouse gas emissions will be reduced by more than three million metric tons, the equivalent to eliminating the emissions from more than three million cars for a single year. In addition, the electricity savings in 2020 will be the equivalent of what is generated in a year by five large coal-fired power plants.

The Administration recognizes that an integral part of the agreement is a manufacturer's tax credit for the 2001-2006 period which would provide firms the incentive to sell highly efficient clothes washers as well as refrigerator-freezers. Under the agreement, there would be two tiers of credit available at \$50 and \$100 per unit with a corporate cap of \$30 million for each tier. The clothes washer first tier would be set at 1.26 MEF and the second tier at 1.42 MEF changing to 1.5 MEF in 2004. For refrigerator-freezers, the first tier would require products which are at least 10% higher than the 2001 standard and the second tier would require products at least 15% higher.

This proposed tax credit is consistent with the Administration's policy on energy efficiency and climate change incentives. The Administration will work with the parties to the agreement to support the enactment of a manufacturer's tax credit for clothes washers and refrigerator-freezers.

**White House Climate Change Task Force**

734 Jackson Place, N.W. • Washington, DC 20503

FACSIMILE TRANSMISSION SHEET

To	Ange Roger	From	JACIE
Office		Date	
Fax Number		Fax Number	395-2311
Office Number		Office Number	395-2310

Comments:

For 1100. From The Hfrs.

Pages: _____, including this cover sheet.

IF TRANSMITTAL IS INCOMPLETE, PLEASE PHONE

MAYTAG

Douglass C. Horstman
Vice President
Government Affairs

1310 G Street, NW
Suite 720
Washington, D.C. 20005
Tel: 202/639-8420
Fax: 202/639-8421

FAX

Date: May 18, 2000

To: Roger Ballentine, Deputy Assistant to the President
202/456-1736

From: Douglass C. Horstman

Subject: Maytag Neptune Water and Energy Savings

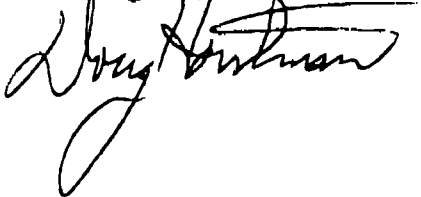
Pages (including cover sheet): 1

Roger –

Thanks again for meeting with us this a.m. Here are a couple facts about Maytag's Neptune washer, a horizontal axis machine introduced two years ago.

- ❖ Since its introduction, the Maytag Neptune washers used in homes across the U.S. have saved 7.8 billion gallons of water and 675 million kwh of electricity.
- ❖ That water savings is enough to supply all the people in the city of Dallas, Texas with drinking water for a lifetime.
- ❖ The energy saved is enough to light the homes of the citizens of Dallas for two years.

Best regards,



 David Gardiner
05/18/2000 03:58:00 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP
cc: John D. Gibson/WHCCTF/EOP@EOP
Subject: options on language for tax credit proposal

Wordsmith Gibson came up with these possible options about how to say something on the clotheswasher/fridge tax credits. Let us know if you want something more.

----- Forwarded by David Gardiner/CEQ/EOP on 05/18/2000 03:55 PM -----

 John D. Gibson
05/18/2000 03:51:13 PM
.....

Record Type: Record

To: David Gardiner/CEQ/EOP@EOP
cc:
Subject: options on language for tax credit proposal

Option 1: "The Administration welcomes today's agreement and believes that the proposed tax credit is a positive contribution to the debate over a comprehensive, fiscally responsible set of tax incentives to promote energy efficiency, combat global warming and enhance U.S. energy security. We look forward to building on the agreement and working with the Congress, the appliance industry and all major stakeholders to see that such a package is enacted into law."

Option 1A: "[first sentence the same] The Administration has proposed such a package and urges Congress to enact it into law. The Administration believes that there may also be a place in such a package – consistent with sound fiscal policy – for the tax credit proposal being advanced today for clothes washers and refrigerator-freezers, or one similar to it."

Option 2: "The Administration welcomes today's agreement. The Administration also believes that the proposal for a tax credit for clothes washers and refrigerator-freezers is positive development that should be considered as part of a broader set of fiscally-responsible tax incentives to promote energy efficiency, combat global warming and enhance U.S. energy security. The Administration has proposed such a package and urges Congress to enact it into law."



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JOSEPH M. MCGUIRE
president

May 16, 2000

Mr. Roger S. Ballentine
Assistant to the President
for Environmental Initiatives
115 OEOB
Washington, D.C. 20502

Re: Clothes Washer Energy Standard and Energy
Efficient Appliance Manufacturers Tax Credit

Dear Mr. Ballentine:

The undersigned organizations request a meeting this week with you and your White House colleagues to discuss our historic agreement on energy efficiency standards for clothes washers, tax credits for energy efficient appliances, and related programs.

The attached description indicates that the standards alone will provide enormous consumer benefits, energy and water savings, and carbon reductions and the tax credit will significantly enhance the benefits of the standards. We seek to meet with you as soon as possible to discuss the agreement and the Administration's support for its elements.

Charles Samuels of my office will call you today to make an appointment. We look forward to meeting with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe McGuire", is written over a horizontal line.

President
Association of Home Appliance Manufacturers

and on behalf of

The Natural Resources Defense Council
Alliance to Save Energy
American Council for An Energy Efficient
Economy

**Description of Agreement Between
Appliance Manufacturers and
Other Stakeholders Regarding
Clothes Washer Energy Efficiency Standards, Tax Credit for Energy Efficient Appliances,
And Water Use Information Programs**

May 15, 2000

An historic agreement has been reached between the appliance industry and major stakeholders, including environmental groups, energy efficiency advocates, utilities, and state governments, relating to an integrated package of energy standards, tax credit, voluntary reporting and labeling programs. This agreement will provide to the public enormous future energy and water savings and carbon emissions reductions. The Association of Home Appliance Manufacturers and its member companies have reached this agreement with organizations such as National Resources Defense Council, Alliance to Save Energy, American Council for an Energy Efficient Economy, Pacific Gas and Electric, and the California Energy Commission.

Clothes Washer Energy Standard

The group proposes to the Department of Energy a two-part energy standard for clothes washers which would revise significantly the 1994 standard. The standard requires all units manufactured after 2004 to achieve a 1.04 modified energy factor. In 2007, products must meet a 1.26 modified energy factor. For comparison sake, the current average MEF is .817. This standard will result in 4-5.5 quads (quadrillion BTU's) of energy saved and about 6 trillion gallons of water saved by 2030. Consumers should save up to 45 billion dollars in reduced energy bills cumulatively through 2030, not including the reduced water demand. Finally, 60-85 million metric tons of future carbon emissions will be eliminated over the next 30 years due to reduced energy demand.

In more common terms, the carbon savings equate to removing 3.7 million cars from the road and the electricity savings equals the deferral of 5 coal-fired power plants. This standard, however, will require hundreds of millions of dollars of investment by manufacturers.

Tax Credit for the Production of Energy Efficient Clothes Washers and Refrigerator-Freezers

In order to save significantly more energy than can be obtained through standards alone, the parties have agreed to a tax credit proposal. A manufacturer's tax credit will incent producers to sell more highly energy-efficient products and mitigate the burden on industry of the investment for the clothes washer standard.

Under the credit, there will be two energy efficiency tiers. The first tier provides a credit of \$50 per unit for specified high-efficient clothes washers and refrigerator-freezers. A second Tier provides a credit of \$100 per unit for products at even higher efficiency levels.

A manufacturer, over the 2001 through 2006 period, could receive up to \$30 million of tax credits in each efficiency category for any combination of high efficiency clothes washers and refrigerators sold. The cap of \$60 million per company for the tax credits over the six year period plus a limitation that the annual total tax credit cannot exceed in any taxable year two percent of corporate gross revenues ensures that neither small nor large companies unduly benefit from the credit program.

For clothes washers the two energy efficiency tiers would operate coterminously. The first tier would be set at product manufactured at 1.26 MEF or better and the second tier for products manufactured at 1.42 MEF or better which would change to the even higher 1.5 MEF in 2004. Residential clothes washers and residential-style "coin operated" clothes washers would be eligible.

For refrigerator-freezers, the first tier would be effective in 2001 and a \$50 per unit credit would be available for a products which are at least ten percent higher than the tough new 2001 minimum efficiency standard. This credit runs through 2004. A second tier would also be in effect in 2001 running through 2006 and would provide \$100 per unit for products manufactured 15% above these new 2001 standards. The credits are limited to full-size automatic defrost refrigerator-freezers at 16.5 cubic feet internal volume and above.

Energy Star Labeling Program

All the stakeholders have agreed to propose to DOE new energy star level for refrigerators and clothes washers. These levels will be coordinated with the tax credits.

Voluntary Industry Water Program

The appliance industry has agreed to provide for the first time information on the water use of clothes washers. This program will ensure good data and monitoring of industry progress by providing data on the average water factor (a measure of water efficiency) of new clothes washers shipped starting in 2001. Also, manufacturers will report the water factor of any model that qualifies for the Energy Star designation or the tax credit.



Janet Anderson

05/23/2000 09:40:06 AM

Record Type: Record

To: Angela C. Mizeur/WHO/EOP@EOP

cc:

Subject: Re: statement -Reply -Reply

----- Forwarded by Janet Anderson/WHCCTF/EOP on 05/23/2000 09:39 AM -----



David Gardiner

05/23/2000 09:06:33 AM



Record Type: Record

To: Leonard.Burman@do.treas.gov

cc: See the distribution list at the bottom of this message

Subject: Re: statement -Reply -Reply

I am disappointed with your last reply, and have an alternative phrasing of Roger's initial language that would seem to meet all of Treasury's concerns. It is:

The Administration has submitted to the Congress a balanced budget which includes important tax credits to promote clean and efficient products and technologies. While tax credits for super efficient clotheswashers are not part of our budget package, the Administration will carefully examine this proposal in the context of a fiscally responsible budget framework. We look forward to working with the Congress to enact the President's energy efficiency and clean energy tax proposals.

This statement reaffirms our commitment to fiscal discipline, is devoted largely to touting the President's budget, and doesn't suggest that this proposal will move to the head of the line, but rather that we will carefully examine it, which is what you have been saying that you want to do.

Message Copied To:

geraldine.gerardi@do.treas.gov
john.parcell@do.treas.gov
jon.talisman@do.treas.gov
lara.muldoon@do.treas.gov
todd.stern@do.treas.gov
leonard.burman@do.treas.gov
Janet Anderson/WHCCTF/EOP@EOP
Roger S. Ballentine/WHO/EOP@EOP



Janet Anderson

05/23/2000 10:07:31 AM

Record Type: Record

To: Angela C. Mizeur/WHO/EOP@EOP

cc:

Subject: Re: statement -Reply -Reply

This is Len's reply from late last evening; I don't think R has seen this yet.

----- Forwarded by Janet Anderson/WHCCTF/EOP on 05/23/2000 10:06 AM -----



David Gardiner

05/23/2000 08:44:37 AM



Record Type: Record

To: Janet Anderson/WHCCTF/EOP@EOP

cc:

Subject: Re: statement -Reply -Reply

Len's reply to the second attempt.

----- Forwarded by David Gardiner/CEQ/EOP on 05/23/2000 08:44 AM -----



Leonard.Burman@do.treas.gov

05/22/2000 10:49:41 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Re: statement -Reply -Reply

Date: 05/22/2000 10:43 pm (Monday)
From: Leonard Burman
To: DOPO7.GERARDIG, DOPO7.PARCELLJ, DOPO7.TALISMANJ,
DOM3.DOPO5.MULDOONL, DOM3.DOPO5.SternT,
ex.mail."David_Gardiner@ceq.eop.gov", ex.mail."Leonard.Burman"
Subject: Re: statement -Reply -Reply

I spoke to Jon about this and he agrees very strongly
that we can't signal support for this credit in any way.

The Administration simply does not have a view on it. Anything more forward leaning than "Treasury (and DOE) will look at the proposal and we'll get back to you" is too forward leaning.

It is hard to rule out the possibility that DOE did not tell Treasury about the credit because they thought we would reject it. We owe the President and the Administration due diligence to make sure that we are not publicly making happy sounds about a new kind of corporate welfare with little or no environmental or energy security benefit. I don't know that this credit falls in that category, but I have no way of knowing that it does not.

It is also true that tax credit proposals are being evaluated in the context of a fiscally responsible budget framework. That framework has caused us to reject lots of ideas with merit, including some that the President would have otherwise embraced (and some that the climate change task force would have adopted). I don't see why this industry proposal should move to the head of the queue, or why we should signal at this juncture that fiscal responsibility is no longer a constraint. (Again, I don't know that this proposal is a budget buster, but have no way of rejecting that hypothesis.)

I suggest that DOE delay the event until we have had a chance to vet the proposal, or tell the lobbyists that we will comment on the credit when we have had a chance to evaluate it.

Lets talk early on Tuesday.

Len

>>> ex.mail."David_Gardiner@ceq.eop.gov" 05/22/00 07:34pm >>>

Here are Roger's thoughts about how we might proceed.

Roger S. Ballentine
05/22/2000 07:26:36 PM

Record Type: Record

To: David Gardiner/CEQ/EOP@EOP

cc:

Subject: Re: statement -Reply (Document link not converted)

David -- I understand Len's point, and I am happy to use the least forward-leaning statement possible to make this event work. Despite the fact that DOE screwed up by not looping in Treas earlier, this does not change the fact that this deal is very important to this Administration and to the President. We will do everything we can to hold this deal together and we will sort out the pieces after that. We are not committing to anything, and a few appeasing words is a small price for an important achievement on a Presidential priority. Please work out language with Treas, DOE and industry that we can use tomorrow.

Message Sent To:

Geraldine.Gerardi@do.treas.gov
John.Parcell@do.treas.gov
Jon.Talisman@do.treas.gov
Lara.Muldoon@do.treas.gov
Todd.Stern@do.treas.gov
David Gardiner/CEQ/EOP
Leonard.Burman@do.treas.gov



David Gardiner

06/15/2000 11:00:35 AM



Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc: Janet Anderson/WHCCTF/EOP@EOP, Debra Reed/CEQ/EOP@EOP

Subject: alternative fuels tax bill

I talked to both Len Burman and Gerry Gerardi to get Treasury's reactions to the alternative fuels tax legislation, S. 2591, that has been introduced by Jeffords, Hatch, Rockefeller, Chafee, Robb, Bryan and Kerry NE. The bill, which would apply nationwide and not just in non-attainment areas as some other proposals have, provides:

a tax credit for for purchase of dedicated alternative fuel vehicles of up to 85% of the incremental cost of the vehicle. The incremental cost is capped on a sliding scale depending on the weight of the vehicle. A passenger car of less than 8500 pounds, for example, can have an incremental cost no higher than \$5,000, while a truck of more than 26,000 pounds is capped at \$50,000. This provision is in addition to an existing tax deduction for the purchase of alternative fueled vehicles.

a credit for the sale of alternative fuels of 25 cents per gallon of gasoline equivalent. Compressed and liquefied natural gas, liquefied petroleum, hydrogen, methanol qualify.

and an extension of the existing deductions for the refueling infrastructure itself.

In general, Treasury is very concerned about this proposal. They believe that the vehicle credit, especially when added to the existing deduction, is an unduly large subsidy. They are concerned about further subsidies for fuels and are not sympathetic to adding an additional subsidy to level the playing field with the existing ethanol subsidy, which they already think is bad tax policy. They are concerned about subsidizing all aspects of alternative fuels -- the vehicle, the fuel purchase, and the fueling station infrastructure. Finally, Treasury did not have an estimate of the cost of this legislation, but reminded us that any decision to support part or all of this legislation would require funding beyond what is already in our tax budget.

Memorandum

TO: Roger Balentine and Janet Anderson
FROM: Howard Feldman
DATE: June 1, 2000
RE: Motor Vehicle Tax Bill

As we are sure you are aware, on April 13 several House Members introduced H.R. 4720, the Advanced Technology Motor Vehicle Fuel Economy Act of 2000 which includes tax incentives for hybrid electric vehicles. The bill and a summary of the bill are attached. The bill is almost identical to the proposal that emanated from the White House, with the exception of the effective dates, which apply to vehicles placed in service after December 31, 1999 and before January 1, 2009.

When Stephen Fotis and I met with you on behalf of Toyota, we urged an earlier effective date for the hybrid vehicle tax provision. As you will note from the attached press release from the Alliance of Automobile Manufacturers, there is now unanimity among the automakers on the hybrid vehicle tax provision, including the earlier effective date.

We greatly appreciate your ongoing assistance on this matter and hope that the Administration will support the revised provision. Please let us know if we can supply any additional information.

cc: Linda Lance, CEO



For Immediate Release
April 13, 2000

Contact: Gloria Bergquist
(202) 326-5596

Automakers Support House Fuel Economy Legislation

Statement by Josephine S. Cooper, President, Alliance of Automobile Manufacturers, in response to fuel economy legislation introduced today in Congress:

"Today, the 'Advanced Technology Motor Vehicle Fuel Economy Act of 2000' was introduced by Reps. Kildee, Upton, Dingell, Knollenberg, Towns and Levin. Members of the Alliance of Automobile Manufacturers strongly support this bill. This legislation would foster technology advancements and fleet fuel economy increases through consumer tax incentives and the flexible fuel vehicle credit, and it would provide greater clarity to our public policy priorities through a comprehensive study of fuel economy measures.

"Federal tax credits applied to the purchase of advanced vehicles such as qualifying electric and hybrid-electric vehicles put us on the right track for fuel economy advancements. Today, there is fierce competition among automakers to be first to market with even cleaner, more fuel-efficient cars and light trucks. Vehicles with advanced fuel-efficient technologies are on sale now from automakers, and more advanced technologies are on the horizon. To get these advanced automobiles on the road, it is critical that this technology be attractive and affordable to consumers. Federal tax credits are a great incentive for consumers to buy advanced technology vehicles.

"The flexible fuel vehicle credit is one incentive that has worked. Automakers already offer more than 25 vehicles powered by alternative fuels, including natural gas, ethanol and liquefied petroleum gas. More than one million of these alternative fuel vehicles are on the road today. We have only been limited by the availability of the fuels. Congress needs to extend the flexible fuel credit, because it has been successful in advancing fuel diversity in vehicles. At the same time, the U.S. needs to work on developing the infrastructure to make these fuels more widely available.

"For those who have called for a study of Corporate Average Fuel Economy (CAFE) standards in the past, we ask them to join us in supporting this legislation. Since CAFE was enacted in 1975, many policies designed to increase energy conservation have come and gone, with some more successful than others. Meanwhile, our energy and economic situation has changed, along with American lifestyles. It's time to take a fresh look at current and future energy conservation without limiting our study to CAFE alone."

###

The Alliance of Automobile Manufacturers is a coalition of 13 car and light truck manufacturers. Alliance member companies have approximately 600,000 employees in the United States, with more than 250 facilities in 35 states. Alliance members represent more than 90 percent of U.S. vehicle sales. For more information, visit the Alliance website at www.autoalliance.org.

**BMW Group • DaimlerChrysler • Fiat • Ford Motor Company • General Motors • Isuzu • Mazda
Mitsubishi Motors • Nissan • Porsche • Toyota • Volkswagen • Volvo**

106TH CONGRESS
2D SESSION

H. R. 4270

To amend the Internal Revenue Code of 1986 to provide incentives for the production, sale, and use of highly fuel-efficient, advanced-technology motor vehicles and to amend the Energy Policy Act of 1992 to undertake an assessment of the relative effectiveness of current and potential methods to further encourage the development of the most fuel efficient vehicles for use in interstate commerce in the United States.

IN THE HOUSE OF REPRESENTATIVES

APRIL 13, 2000

Mr. KILDEE (for himself, Mr. UPTON, Mr. DINGELL, Mr. LEVIN, Mr. TOWNS, and Mr. KNOLLENBERG) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986 to provide incentives for the production, sale, and use of highly fuel-efficient, advanced-technology motor vehicles and to amend the Energy Policy Act of 1992 to undertake an assessment of the relative effectiveness of current and potential methods to further encourage the development of the most fuel efficient vehicles for use in interstate commerce in the United States.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the "Advanced Technology
3 Motor Vehicle Fuel Economy Act of 2000".

4 **TITLE I—AMENDMENTS TO THE**
5 **INTERNAL REVENUE CODE**
6 **OF 1986**

7 **SEC. 101. CREDIT FOR CERTAIN ENERGY EFFICIENT**
8 **MOTOR VEHICLES.**

9 (a) IN GENERAL.Ð Subpart B of part IV of sub-
10 chapter A of chapter 1 of the Internal Revenue Code of
11 1986 is amended by adding at the end the following new
12 section:

13 **"SEC. 30B. CREDIT FOR HYBRID VEHICLES.**

14 "(a) ALLOWANCE OF CREDIT.Ð There shall be al-
15 lowed as a credit against the tax imposed by this chapter
16 for the taxable year an amount equal to the sum of the
17 credit amounts for each qualified hybrid vehicle placed in
18 service during the taxable year.

19 "(b) CREDIT AMOUNT.Ð For purposes of this
20 sectionÐ

21 "(1) IN GENERAL.Ð The credit amount for each
22 qualified hybrid vehicle with a rechargeable energy
23 storage system that provides the applicable percent-
24 age of the maximum available power shall be the
25 amount specified in the following table:

"Applicable percentage	Credit amount
Greater than or equal to 5 percent but less than 10 percent	\$500
Greater than or equal to 10 percent but less than 20 percent ~~+++~~	~~\$1,000~~
Greater than or equal to 20 percent but less than 30 percent ~~+++~~	~~\$1,500~~
Greater than or equal to 30 percent	\$2,000.

1 “(2) INCREASE IN CREDIT AMOUNT FOR RE-
2 GENERATIVE BRAKING SYSTEM.Ð In the case of a
3 qualified hybrid vehicle that actively employs a re-
4 generative braking system which supplies to the re-
5 chargeable energy storage system the applicable per-
6 centage of the energy available from braking in a
7 typical 60 miles per hour to 0 miles per hour brak-
8 ing event, the credit amount determined under this
9 section shall be increased by the amount specified in
10 the following table:

"Applicable percentage	Credit amount
Greater than or equal to 20 percent but less than 40 percent	\$250
Greater than or equal to 40 percent but less than 60 percent	\$500
Greater than or equal to 60 percent	\$1,000.

11 “(c) DEFINITIONS.Ð For purposes of this sectionÐ
12 “(1) QUALIFIED HYBRID VEHICLE.Ð The term
13 ‘qualified hybrid vehicle’ means an automobile that
14 meets all applicable regulatory requirements and
15 that can draw propulsion energy from both of the
16 following onboard sources of stored energy:

17 “(A) A consumable fuel.

18 “(B) A rechargeable energy storage
19 system.

20 “(2) MAXIMUM AVAILABLE POWER.Ð The term
21 ‘maximum available power’ means the maximum

1 value of the sum of the heat engine and electric
 2 drive system power or other nonheat energy conver-
 3 sion devices available for a driver's command for
 4 maximum acceleration at vehicle speeds under 75
 5 miles per hour.

6 “(3) AUTOMOBILE.Ð The term ‘automobile’ has
 7 the meaning given such term by section 4064(b)(1)
 8 (without regard to subparagraphs (B) and (C) there-
 9 of). A vehicle shall not fail to be treated as an auto-
 10 mobile solely by reason of weight if such vehicle is
 11 rated at 8,500 pounds gross vehicle weight rating or
 12 less.

13 “(d) APPLICATION WITH OTHER CREDITS.Ð The
 14 credit allowed by subsection (a) for any taxable year shall
 15 not exceed the excess (if any) ofÐ

16 “(1) the regular tax for the taxable year re-
 17 duced by the sum of the credits allowable under sub-
 18 part A and the preceding sections of this subpart,
 19 over

20 “(2) the tentative minimum tax for the taxable
 21 year.

22 “(e) SPECIAL RULES.Ð

23 “(1) BASIS REDUCTION.Ð The basis of any
 24 property for which a credit is allowable under sub-

1 section (a) shall be reduced by the amount of such
2 credit (determined without regard to subsection (d)).

3 “(2) RECAPTURE.Ð The Secretary shall, by reg-
4 ulations, provide for recapturing the benefit of any
5 credit allowable under subsection (a) with respect to
6 any property which ceases to be property eligible for
7 such credit.

8 “(3) PROPERTY USED OUTSIDE UNITED
9 STATES, ETC., NOT QUALIFIED.Ð No credit shall be
10 allowed under this section with respect toÐ

11 “(A) any property for which a credit is al-
12 lowed under section 30,

13 “(B) any property referred to in section
14 50(b), or

15 “(C) any property taken into account
16 under section 179 or 179A.

17 “(4) ELECTION TO NOT TAKE CREDIT.Ð No
18 credit shall be allowed under subsection (a) for any
19 vehicle if the taxpayer elects to not have this section
20 apply to such vehicle.

21 “(f) REGULATIONS.Ð

22 “(1) TREASURY.Ð The Secretary shall prescribe
23 such regulations as may be necessary or appropriate
24 to carry out the purposes of this section.

1 “(2) ENVIRONMENTAL PROTECTION AGENCY.Ð

2 The Administrator of the Environmental Protection
3 Agency, in coordination with the Secretary of Trans-
4 portation and consistent with the laws administered
5 by such agency for automobiles, shall timely pre-
6 scribe such regulations as may be necessary or ap-
7 propriate solely for the purpose of specifying the
8 testing and calculation procedures to determine
9 whether a vehicle meets the qualifications for a cred-
10 it under this section.

11 “(g) APPLICATION OF SECTION.Ð This section shall
12 apply to any qualified hybrid vehicles placed in service
13 after December 31, 1999, and before January 1, 2009.”

14 (b) CONFORMING AMENDMENTS.Ð

15 (1) Subsection (a) of section 1016 of such Code
16 is amended by striking “and” at the end of para-
17 graph (26), by striking the period at the end of
18 paragraph (27) and inserting “, and”, and by add-
19 ing at the end the following new paragraph:

20 “(28) to the extent provided in section
21 30B(e)(1).”

22 (2) The table of sections for subpart B of part
23 IV of subchapter A of chapter 1 of such Code is
24 amended by adding at the end the following new
25 item:

 “Sec. 30B. Credit for hybrid vehicles.”

1 **SEC. 102. EXTENSION OF CREDIT FOR CERTAIN QUALIFIED**
 2 **ELECTRIC VEHICLES.**

3 (a) EXTENSION OF CREDIT FOR QUALIFIED ELEC-
 4 TRIC VEHICLES.Ð Subsection (e) of section 30 of the In-
 5 ternal Revenue Code of 1986 (relating to termination) is
 6 amended by striking "December 31, 2004" and inserting
 7 "December 31, 2008".

8 (b) REPEAL OF PHASEOUT.Ð Subsection (b) of sec-
 9 tion 30 of such Code (relating to limitations) is amended
 10 by striking paragraph (2) and by redesignating paragraph
 11 (3) as paragraph (2).

12 **SEC. 103. EFFECTIVE DATE.**

13 The amendments made by this title shall apply to ve-
 14 hicles placed in service after the date of the enactment
 15 of this Act.

16 **TITLE II—AMENDMENTS TO THE**
 17 **ENERGY POLICY ACT OF 1992**

18 **SEC. 201. STUDY OF CURRENT AND FUTURE ENERGY CON-**
 19 **SERVATION REGARDING MOTOR VEHICLE**
 20 **AND RELATED TRANSPORTATION IN INTER-**
 21 **STATE COMMERCE IN THE UNITED STATES.**

22 (a) IN GENERAL.Ð Subtitle G of title I of the Energy
 23 Policy Act of 1992 (42 U.S.C. 13451 note) is amended
 24 by adding the following new sections:

1 **"SEC. 174. TRANSPORTATION ENERGY CONSERVATION**
2 **STUDY.**

3 “(a) STUDY AGREEMENT.Ð The Secretary of Trans-
4 portation (with the participation of the Secretary of En-
5 ergy) shall, within 90 days after the date of enactment
6 of this section, enter into an agreement with the National
7 Academy of Sciences to conduct a comprehensive study of
8 voluntary, mandatory, and other means and measures
9 used by private and public sectors for the purposes of con-
10 serving energy in transportation of people and goods in
11 interstate commerce in the United States, and for the pro-
12 vision of services by motor vehicles and other modes of
13 transportation, and identify and examine potential vol-
14 untary, mandatory, and other approaches to such con-
15 servation. Such study shall also examine the use, accept-
16 ance, effectiveness, costs, impact on mobility, and other
17 relevant factors concerning such current and potential
18 means and measures for energy conservation and shall
19 consider the ubiquitous nature of such transportation and
20 its importance in the economy. The study shall also take
21 into consideration such factors as current and future en-
22 ergy supplies available to the United States, the avail-
23 ability in the United States of adequate, reliable, conven-
24 ient, consumer-friendly transportation locally, regionally,
25 and nationally, the geographic size and population of the
26 United States, and the availability and impact of tech-

1 nologies and fuels that affect energy conservation. The
2 study shall also compare existing and planned energy con-
3 servation approaches in other economically developed
4 countries and integrated economic regions, taking into
5 consideration similar factors.

6 “(b) REQUIREMENTS.Ð The study shall be comprised
7 of the following aspects:

8 “(1) An overview of the United States energy
9 supply situation, including an assessment of current
10 and projected fuel supplies.

11 “(2) The impact of current and projected fuel
12 supplies on national security and trade.

13 “(3) An assessment of energy use by the trans-
14 portation and several other sectors of the economy.

15 “(4) An assessment of the relative effectiveness
16 of past and current motor vehicle energy conserva-
17 tion programs for motor vehicles and other modes of
18 transportation, policies, and proposals in the United
19 States, including consideration of, among othersÐ

20 “(A) regulatory requirements, direct and
21 indirect;

22 “(B) corporate average fuel economy man-
23 date;

24 “(C) dispersal of authority over the provi-
25 sion and regulation of transportation;

1 ``(D) gas guzzler tax;

2 ``(E) alternative fuel vehicles and the avail-
3 ability of alternative fuels;

4 ``(F) tax credits for electric vehicles;

5 ``(G) fiscal measures, including taxation,
6 incentives and subsidies;

7 ``(H) higher fuel taxes;

8 ``(I) fuel economy labeling and reporting;

9 ``(J) integration of transportation and land
10 use planning;

11 ``(K) speed limits;

12 ``(L) carpooling requirements;

13 ``(M) high occupancy vehicle (HOV) re-
14 strictions;

15 ``(N) altering driving behavior;

16 ``(O) incentives for mass transit;

17 ``(P) development, use, and adequacy of
18 modeling for energy efficiency of motor vehicle
19 and other transportation modes;

20 ``(Q) congestion mitigation measures; and

21 ``(R) strategic and other measures and in-
22 centives, including communications and out-
23 reach strategies.

24 ``(5) An assessment of the effectiveness of
25 motor vehicle transportation energy conservation ef-

1 forts in economically developed countries and inte-
2 grated economic regions other than the United
3 States, including consideration of, among othersÐ

4 ``(A) regulatory measures and mandates;

5 ``(B) fiscal measures;

6 ``(C) higher fuel taxes;

7 ``(D) vehicle taxation by engine size;

8 ``(E) tolls;

9 ``(F) alternative fuel vehicles and the avail-
10 ability of alternative fuels;

11 ``(G) voluntary commitments in lieu of
12 mandates;

13 ``(H) gas rationing and mobility restric-
14 tions (e.g., no-drive days);

15 ``(I) monitoring; and

16 ``(J) other fuel economy programs.

17 ``(6)(A) The identification of potential future
18 approaches to motor vehicle and other transpor-
19 tation energy conservation efforts in the United
20 States, including consideration of, among othersÐ

21 ``(i) voluntary approaches by industry
22 versus regulatory mandates;

23 ``(ii) use of incentives to encourage market
24 penetration;

1 “(iii) cooperative government/industry ar-
2 rangements such as Smart Growth, Clean Cit-
3 ies, Energy Star, Partnership for a New Gen-
4 eration of Vehicles, European Automobile Coop-
5 erative Research program, and Japanese Coop-
6 erative Automobile Research program;

7 “(iv) efforts to encourage and accelerate
8 lean burn, clean diesel hybrids, fuel cells and
9 other advanced technologies, and alternative
10 fuels;

11 “(v) congestion mitigation measures;

12 “(vi) intelligent transportation systems
13 (ITS); and

14 “(vii) other potential approaches.

15 “(B) In making such identification, the study
16 should assess, to the extent applicable, the market-
17 ability, risks, benefits, practicability, acceptability,
18 and costs of such approaches as well as any legal or
19 market barriers to the introduction of such ap-
20 proaches, such as cost of energy, public awareness,
21 fueling infrastructure, fuel quality, and other exist-
22 ing regulations (e.g., Environmental Protection
23 Agency Tier 2 regulations, California emissions
24 standards, Federal Motor Vehicle Safety Standards).

1 “(7) An assessment of the effects on personal
 2 mobility and the United States economy that have
 3 resulted from the implementation of current con-
 4 servation policies and measures and that likely
 5 would result from the implementation of future
 6 approaches.

7 “(8) Conclusions that appropriately follow from
 8 the foregoing study, including

9 “(A) the effectiveness of prior and existing
 10 transportation policies in fostering increased en-
 11 ergy conservation;

12 “(B) the need for and timing of energy
 13 conservation measures for motor vehicles; and

14 “(C) other potential future approaches and
 15 policies that recommend themselves for further
 16 consideration.

17 “(c) REPORT. The Secretary of Transportation
 18 shall submit to Congress, not later than 18 months after
 19 the date of enactment of this Act, a report describing the
 20 results of the study under this section, including any ap-
 21 propriate recommendations, together with the basis for
 22 them and their estimated costs and benefits.

23 **“SEC. 175. STUDY OF LEAN BURN TECHNOLOGY.**

24 “(a) SCOPE OF STUDY. The Secretary of Transpor-
 25 tation (with the participation of the Secretary of Energy)

1 shall, within 60 days after the date of enactment of this
2 Act, commission a study regarding lean burn technology
3 in increasing fuel efficiency, to include consideration of,
4 among other things:

5 “(1) POTENTIAL BENEFITS.Ð The potential
6 benefits of introducing lean burn technology,
7 includingÐ

8 “(A) its impact on fuel consumption; and

9 “(B) the cost effectiveness (i.e., value) of
10 implementing lean burn technology as a bridge
11 to longer term advanced technologies for fuel
12 economy improvement.

13 “(2) POTENTIAL BARRIERS.Ð The potential
14 barriers to introduction of lean burn technology,
15 includingÐ

16 “(A) emissions control technology for lean
17 burn technology;

18 “(B) the compatibility of existing fuels to
19 advanced technologies;

20 “(C) the conflict between lean burn tech-
21 nology and stringent emissions limits; and

22 “(D) any legal and market barriers to the
23 introduction of lean burn technologies, such as
24 cost of energy, public awareness, fueling infra-
25 structure, fuel quality, and other existing regu-

1 lations (e.g., Environmental Protection Agency
2 Tier 2 regulations, California emissions stand-
3 ards, Federal Motor Vehicle Safety Standards);

4 “(3) RECOMMENDATIONS.Ð Recommendations
5 for removing or addressing any potential barriers,
6 includingÐ

7 “(A) the implementation of new tech-
8 nologies with the least disruption to the econ-
9 omy; and

10 “(B) the incremental cost of increasing
11 fuel efficiency.

12 “(4) Overall recommendations on the value of
13 pursuing lean burn technology as a means of im-
14 proving fuel efficiency.

15 “(b) REPORT.Ð The Secretary shall submit to Con-
16 gress, not later than 12 months after the date of enact-
17 ment of this Act, a report describing the results of the
18 study under this section, including any appropriate rec-
19 ommendations, together with the basis for them and their
20 estimated costs and benefits.”.

21 **SEC. 202. EXTENSION OF CREDITS FOR FLEXIBLE FUEL VE-**
22 **HICLES.**

23 (a) PURPOSE.Ð The purpose of this section is to ex-
24 tend the manufacturing incentives for dual fuel vehicles,
25 as set forth in subsections (b) and (d) of section 32905

1 of title 49, United States Code, from the 2004 model year
2 through the 2008 model year, and to extend in like man-
3 ner the maximum fuel economy increase, as set forth in
4 subsection (a)(1) of section 32906 of title 49, United
5 States Code.

6 (b) AMENDMENTS.

7 (1) Section 32905 of title 49, United States
8 Code, is amended as follows:

9 (A) Subsections (b) and (d) are each
10 amended by striking ``model years 1993±2004''
11 and inserting ``model years 1993±2008''.

12 (B) Subsection (f) is amended by striking
13 ``Not later than December 31, 2001, the Sec-
14 retary' and inserting ``Not later than December
15 31, 2005, the Secretary shall''.

16 (C) Subsection (f)(1) is amended by strik-
17 ing ``model year 2004'' and inserting ``model
18 year 2008''.

19 (D) Subsection (g) is amended by striking
20 ``Not later than September 30, 2000'' and in-
21 serting ``Not later than September 30, 2004''.

22 (2) Subsection (a)(1) of section 32906 of title
23 49, United States Code, is amended as follows:

1 (A) Subsection (a)(1)(A) is amended by
2 striking "the model years 1993~~±~~2004" and in-
3 serting "model years 1993~~±~~2008".

4 (B) Subsection (a)(1)(B) is amended by
5 striking "the model years 2005~~±~~2008" and in-
6 serting "2009~~±~~2012".

○

SUMMARY OF HOUSE CLEAN ENERGY TAX LEGISLATION

May 17, 2000

Autos

The auto industry has introduced its proposal (HR 4270 – Kildee). Similar to Administration proposal, but it begins the credit in 2000 and extends it to 2009. The Administration proposal begins in 2003 and extends through 2006. The bill also amends EPACT to require an NAS study of every aspect of the transportation sector.

Homes

Need to bridge gap between Administration proposal and homebuilders (HR 1358 – Thomas) to see if we can achieve bipartisan legislation this year. An interagency group has developed a proposal that could provide the basis for discussion. In general, NAHB would like more of a tax credit for doing less efficiency and with less accountability. Their proposal also does not fit into a balanced budget proposal. Key differences are:

- Industry wants a \$2000 tax credit for a home that is 30% more efficient, while Administration favors \$1000 credit for 30% homes and \$2000 credit for homes that are 50% more efficient. The \$1000 credit would be available for 3 years. Treasury estimates that the NAHB proposal would be more than \$1 billion.
- The industry credit would be available for new and existing homes, whereas the Administration would be available only for new homes. Existing homes would be very expensive.
- Industry wants an industry certification of homes, whereas the Administration wants government approval of certifiers and strong standards.
- In the case of new homes, industry's proposal would grant the tax credit to the home builder, while the Administration proposals grants the credit to the home buyer.

Landfill Methane

The industry has introduced their bill (HR 3466 – Camp). It differs from the Administration proposal in that it offers a credit not just for electricity produced from methane, but also from the production of the gas itself. This is strongly opposed by Treasury as a recreation of the old Section 29. In addition, the industry wants to discuss the Administration's definition of a facility so that expanded Section 29 facilities can also get the credit. The industry opposes the Administration proposal to create a distinction between facilities covered under EPA's New Source Performance Standard and those that are not. They appear willing to negotiate further on this point.

Biomass

The bill (HR 1731 – Herger, S. 414, companion bill -- Grassley) extending the closed loop biomass and expanding it to cover open loop biomass was introduced last year, and is still out there. The bill covers facilities placed in service through 2009, while our bill only covers those placed in service through 2006. We need Treasury to compare the bill to our proposal to examine further differences from the Administration's proposal.

Wind and Closed Loop Biomass Extension

The bill (HR 750 -- Thomas) providing for the five extension of the existing wind and closed loop biomass energy tax credit was introduced last year. These credits were extended for two and one half years in last year's tax package. It is not clear what efforts are being made to advance this proposal this year.

Solar Homes

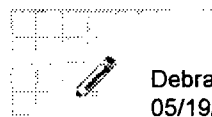
The solar industry has introduced their legislation (HR 1465 -- Salmon, S. 1634 – Allard). The bills are similar to the Administration proposal and we could likely support them.

Final Version of Tax Package

Tax Provision	FY2001 5 Year Estimate
Autos	2.078
Homes (New)	.633
Equipment	.201
Solar	.132
Wind/Bio	.457
Existing Biomass	.199
Combined Heat and Power	.010
Methane Landfill	.320
TOTALS	4.030

Specifically this includes:

- No change to auto package.
- Change last year's homes proposal to 30%, \$1000 for three years, and 50%, \$2000 for five years.
- Cut energy efficient equipment by \$1.4 billion, leaving only leapfrog technologies (electric heat pump water heaters, building fuel cells, and natural gas heat pumps).
- Retain last year's solar, wind and biomass provisions, but only make the cofiring at .5 cents per kwh available for 5 years.
- Add existing biomass facilities at 1 cent per kilowatt hour.
- Add methane landfills (non-NSPS @ 1.5 cent per kwh and NSPS @ 1 cent per kwh) for five years.
- CHP changed to an accelerated depreciation approach.



Debra Reed
05/19/2000 03:41:18 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP, David Gardiner/CEQ/EOP@EOP, Janet Anderson/WHCCTF/EOP@EOP

cc: Angela C. Mizeur/WHO/EOP@EOP, John D. Gibson/WHCCTF/EOP@EOP

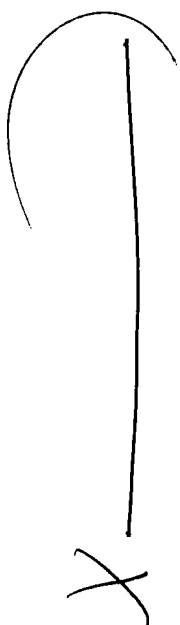
Subject: FSC / Reconciliation Bill

The Foreign Sales Corporation (FSC) tax benefit for Exporting and the WTO-- provides an income tax benefit for exporting, permitting firms to exempt between 15-30% of export income from taxation. FSC was enacted in 1984 to replace another tax benefit for exporting -- the Domestic International Sales Corporation (DISC).

Treasury has a FSC proposal that they've presented to WTO. Treasury, WTO, and Senate Finance all believe that this proposal is WTO compliant. It was developed by Covington, Burlington Washington (?) Counsel.

A competing provision developed by Price, Waterhouse is being shopped around by Mr. Archer's former staff director (Ken Casey). This version is based on VAT tax. If Mr. Archer supports this version, it is likely nothing will happen this year, since Senate Finance is generally supportive of the former provision.

In any case, it is unlikely even the former would move unless it is wrapped into an omnibus reconciliation bill with approps bills.



Talking Points on Energy Efficiency and Clean Energy Policy

- As America considers its long-term energy future, and as we deal with short-term market fluctuations, we must consider the fundamental benefits of becoming more energy efficient and using alternative energy. The President and Vice President believe that we should be in a position where the American people are protected from energy price shocks while having access to the energy and fuel they need. *We can do this by increasing our energy efficiency and diversifying our fuel supply base.*
- Some believe that the way to respond to market fluctuations is to unbalance the budget and hurt the environment. *The President and Vice President reject that false choice and have a plan to put us on a path of a more self-reliant energy future that will save Americans money, create new job opportunities, and protect our environment.*
- *This Administration has already presented the Congress an energy policy to achieve this.* For example, the President and the Vice President have proposed a budget that includes over \$1 billion next year to accelerate the research, development, and deployment of alternative and more efficient energy technologies, as well as \$4.0 billion in tax incentives over five years to benefit our energy-reliant consumers and businesses.
- *This Administration has a tax-cut plan to provide long-term benefits.* Our common sense tax package on clean energy and energy efficiency provides tax credits for the purchase of energy-efficient homes, cars, and appliances.
 - President and Vice President has proposed tax credits of \$1000 to \$2000 for homes that are 30% to 50% more energy efficient. ~~Americans understand that a home that is 50% more efficient can cut their heating bill in half.~~ So under this proposal, consumers get a double benefit – a tax credit as well as ongoing savings from reduced energy bills.
 - We have proposed tax credits ranging from \$500 to \$4000 for energy efficient cars, such as electric, fuel cell, and hybrid vehicles. That's money in Americans' pockets right now for cars that will cost them less at the pump.
 - And, we have proposed, tax credits for clean energy production – such as, wind, biomass, and methane from landfills – that will reduce demand for oil to produce electricity.
 - *These are the kinds of tax cuts that will make a real difference in our energy future, and will save consumers more money in the long run than a small break on the gas tax.*
- *We Are Making America's Homes and Buildings More Efficient:*
 - The Administration has proposed \$275 million in R&D efforts next year to make offices, homes, and appliances 50% more energy efficient within a decade. People understand what that means for their home heating bill. *Overall, meeting this goal would save consumers \$11 billion a year in energy costs.*
 - We are accelerating efforts to establish energy efficiency standards for appliances and encouraging more Americans to use Energy Star Products. *If we all used Energy Star products, America would reduce its energy bill by \$100 billion over the next 15 years!*
 - The President's recent Executive Order 13123 has made the Federal Government a leader in building energy efficiency, saving taxpayers \$750 million annually.

- We are expanding DOE's *Weatherization Assistance Program* that helps low-income households make their homes more energy efficient. These are the Americans that most need to reduce monthly energy costs. *This program has already weatherized almost 5 million low-income homes and is saving 3.0 million barrels of oil each year.* With funding from DOE and the states, we plan to add more than 150,000 homes to the list in the next year – *which will save more than an additional 91,000 barrels of oil per year.* Our budget seeks \$154 million for FY 2001 and an additional \$19 million for the current year in the FY 2000 supplemental spending bill.
- *We Are Making America's Vehicles More Efficient:*
 - Our *Partnership for a New Generation of Vehicles* is on track to deliver us attractive, affordable cars that get up to three times the fuel efficiency of today's cars. *A car that gets twice the fuel economy of today's comparable vehicle is the equivalent of cutting the price of gas in half for the American driver* and would save a typical consumer more than \$300 a year in fuel costs; SUV owners would save more than \$400 a year.
 - *By 2010, DOE will help develop and commercialize fuel efficiency and alternative-fuel technologies that reduce oil consumption by nearly 700,000 barrels per day. By 2020, these technologies will reduce oil consumption by nearly 1.5 million barrels per day.*
- *We Are Promoting Clean Renewable Energy:*
 - The President's FY01 budget proposes \$410 million for DOE efforts to develop key renewable technologies, including wind, photovoltaics and geothermal energy.
 - The President's Bioenergy Initiative will help us create new fuels for our cars that will reduce U.S. oil consumption, create new income opportunities in rural America, and meet environmental challenges, such as climate change.
 - The Administration has proposed restructuring electricity industry to make it more efficient and cleaner, while saving consumers at least \$20 billion annually on their electricity bills.
- *We Are Helping Make America's Industry More Efficient and Competitive:*
 - Our plan helps industry implement win-win strategies for cutting energy costs.
 - We invest in R&D with America's most energy intensive industries get more output for each unit of energy they use – this will save them \$30 billion in reduced energy costs through 2010.
- *We Have More Initiatives in the Works:*
 - We are finalizing an Executive Order that would require the Federal Government to reduce its own petroleum consumption.
 - We are finalizing an agreement with industry that will lead to dramatic increases in fuel efficiency for heavy trucks.
- *We Need the Congress to Stop Playing Politics Over Energy Policy and Pass Our Long Term Plan,*

so We can Give the American People the Energy Security they Deserve without Unbalancing the Budget and Harming the Environment.

TO: DEANA PERLMUTTER
FROM: DAVID GARDINER
RE: NEW TAX CREDIT FOR ENERGY EFFICIENT HOMES

January 28, 2000

Roger asked me to get you a summary of the Administration's FY2001 tax credit proposal for energy efficient homes. A short summary is attached.

We made several changes from last year's proposal to respond to concerns that have been raised by the homebuilding industry. First, we have increased the time availability of the credit for homes that are 30% more efficient than the IECC standard from two years to three years. Second, we have simplified the proposal by eliminating the tax credit for homes that are 40% more efficient than the IECC standard. Last year's proposal contained three tiers of credit, and this year's proposal has only two. The practical effect of these proposals is to increase the amount of money available for new energy efficient homes by \$120 million.

Please let me know if you have further questions. I can be reached at 202-395-2343.

Bioenergy & Bioproducts Tax Incentives

President Clinton's FY 2001 Budget includes \$976 million in tax incentives over 5 years and \$2.1 billion over ten years to accelerate the development and use of bio-based technologies, which convert crops, trees, and other "biomass" into a vast array of fuels and products. These tax credits support the President's August 1999 Executive Order 13134 and Memorandum on Promoting Biobased Products and Bioenergy, aimed at tripling U.S. use of biobased products and bioenergy by 2010. This initiative will increase the viability of alternative energy sources, help meet environmental challenges like global warming, support farm incomes, and diversify and strengthen the rural economy.

Cleaner Energy, Cleaner Environment. Bioenergy and bioproducts can dramatically reduce greenhouse gas emissions that contribute to global warming. Since crops absorb carbon during growth, their use for energy and other applications results in near zero net carbon release. Tripling our use of bioenergy and bioproducts by 2010 will reduce annual greenhouse gas emissions by up to 100 million tons – the equivalent of taking over 70 million cars off the road.

New Economic Opportunities for a New Century. The goal of these tax incentives is to take advantage of advances in farm, forestry, and other biological sciences that are making biomass a viable competitor to fossil fuels as an energy source. These advances are fueling a revolution in the use of biomass to make low polluting electricity by burning willows and switchgrass along with coal in existing plants and by converting paper industry by-products into fuel gases. By creating high-tech jobs and new economic opportunities, meeting the President's goal of tripling U.S. use of bioenergy and bioproducts could add \$15 billion to \$20 billion in new income for farmers and many rural communities.

Tax credits for electricity produced from biomass. This package of credits would:

- **Extend current "closed-loop" biomass credit.** This proposal, which includes plants and trees specifically grown for use as biomass, extends for 2.5 years the current 1.5 cent per kilowatt hour tax credit (adjusted for inflation after 1992), which covers facilities placed in service before January 1, 2002.
- **Provide credits for "open loop" biomass facilities.** This proposal expands the definition of biomass eligible for the 1.5 cent tax credit to include certain forest-related resources and agricultural and other sources for facilities placed in service from 2001 through 2005, and provides a 1.0 cent credit for electricity produced from 2001 through 2003 from facilities placed in service prior to July 1, 1999.
- **Provide a credit for cofiring biomass and coal.** This proposal adds a 0.5 cent per kilowatt hour tax credit for electricity produced by cofiring biomass in coal plants from 2001 through 2005.
- **Provide credit for methane from landfills.** This proposal adds a 1.5 cent per kilowatt hour credit for electricity produced from landfills not subject to EPA's 1996 New Source Performance Standards/Emissions Guidelines (NSPS/EG) and 1.0 cent per kilowatt hour for landfills subject to NSPS/EG. Qualified facilities would be facilities placed in service after December 31, 2000 and before January 1, 2006.

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These tax incentives are in addition to a proposed increase of \$93 million in research funding in the President's FY 2001 budget for biomass development, with \$49 million directed towards the

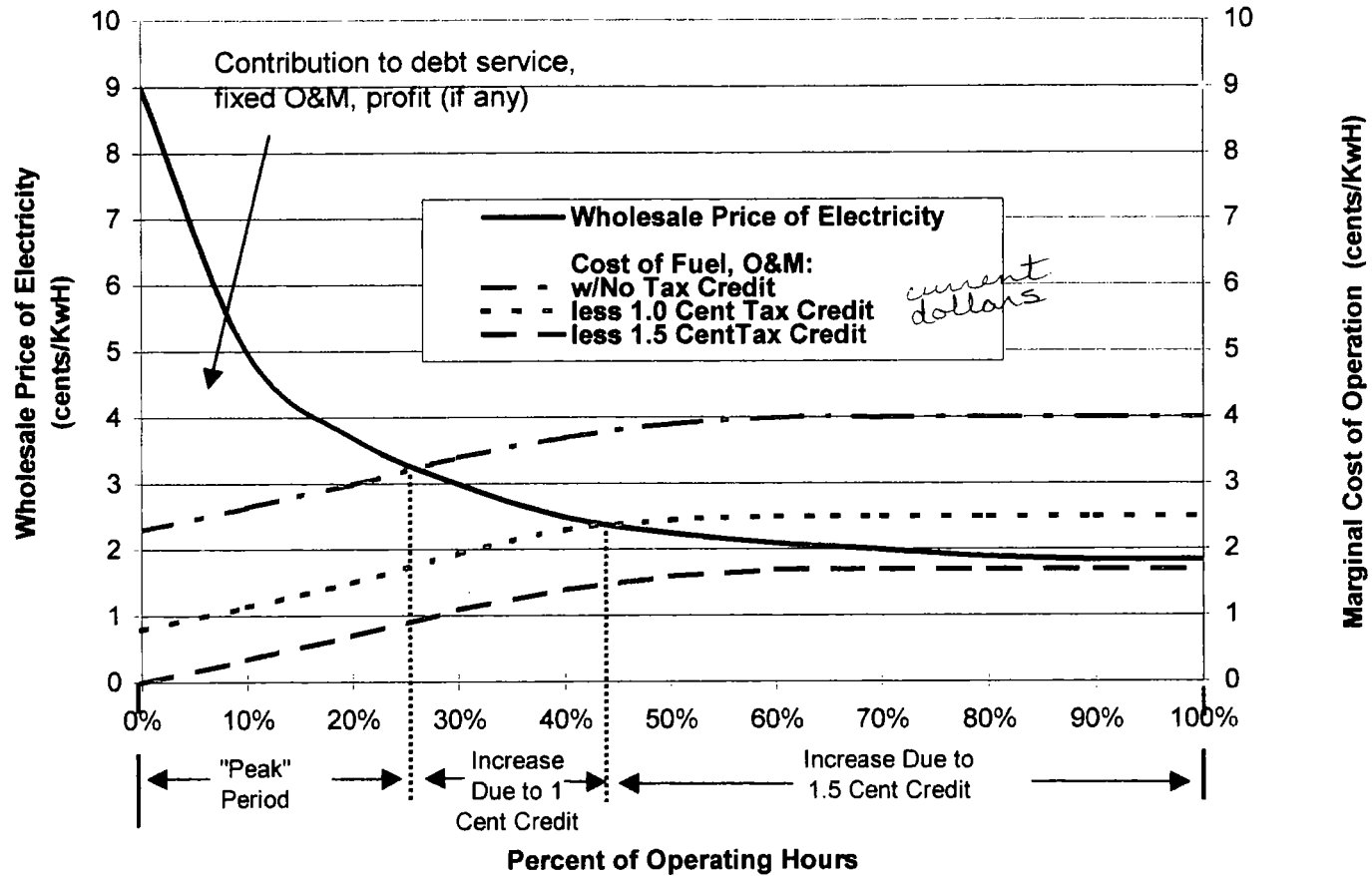
Department of Energy (DOE) and \$43 million for stepped-up efforts at the Department of Agriculture (USDA).

10 Jan

Roger, FYI, Most recent
paper from existing
biomass guys. Their
graph shows that our
proposed credit (1.2¢ in
current \$) will be a big
help. Pages 3-4 is an
overview of their tax-
exempt financing problem
- haven't heard how
Benny plans to resolve.

Janet

Impact of Production Tax Credit on Typical Biomass Power Plant Output *

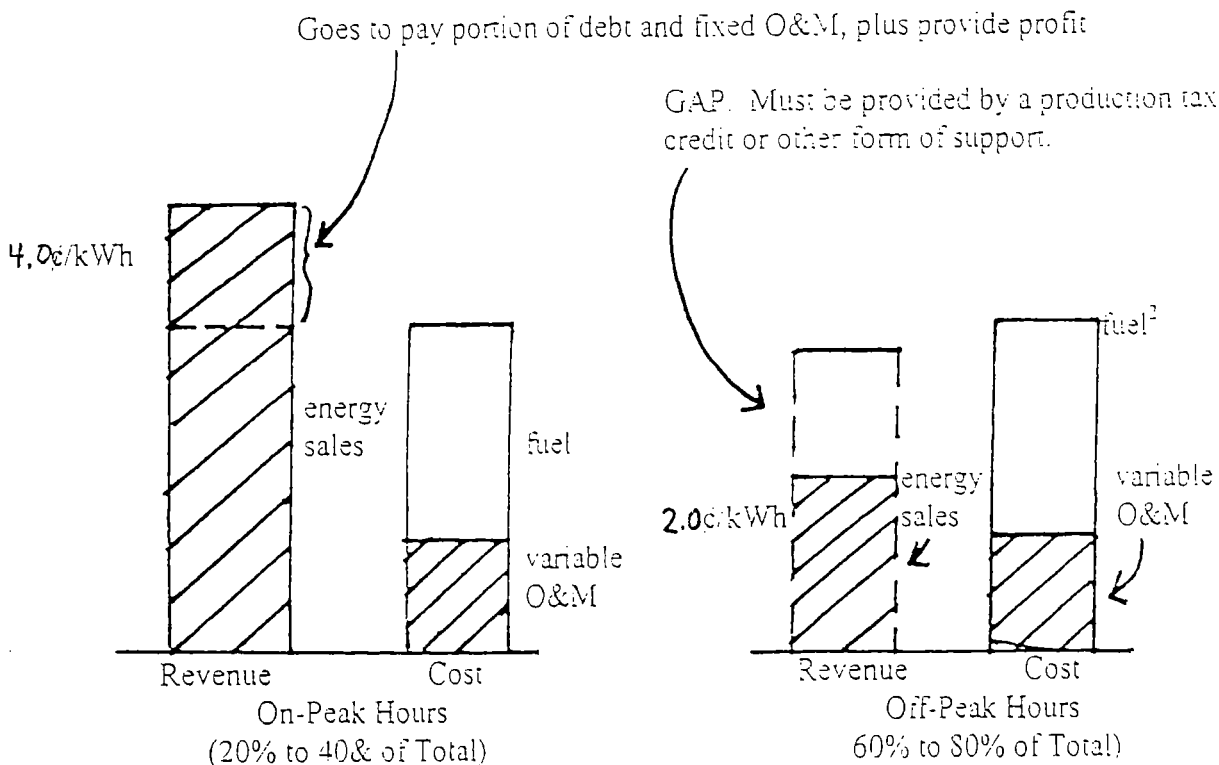


* based on 1999 California actual prices/costs

The Economics of Biomass Electricity Production

As PURPA contracts expire, and electricity deregulation advances across the nation, almost all biomass plants are now receiving market-based rates for their energy. While energy markets vary between different regions, in all cases the price of electricity within a market is a function of the level of demand. During peak demand periods – generally the hotter months and weekdays -- prices will be higher than in the off-peak periods – the colder months, weekends and nights. The wholesale price of electricity today typically varies between 3 to 4 cents for peak demand periods and 1 to 2 cents for off-peak periods.

The off-peak price of electricity is well below the cost of collecting, processing, and hauling the biomass fuels needed to produce electricity. As a result, many biomass plants have ceased operations and more are expected to shut down in the years ahead. Even for those plants still operating, it is simply not economical to produce electricity during off-peak periods. Furthermore, since biomass power plants cannot be turned off and restarted rapidly or frequently¹, the electricity markets do not support operation of a biomass facility except during periods of sustained on-peak electricity demands – in other words during the hottest months of the year. This means that with current electricity prices those biomass plants still in operation are likely to be operated no more than 20% to 40% of the time, preventing full realization of the environmental benefits of these plants. A production tax credit is needed to close the gap between the cost of operating a biomass facility and the market price for electricity, both to keep existing biomass plants in operation and to raise the utilization level of those that would be able to survive. This situation is illustrated graphically below.



¹ Thermal cycling damage prevents frequent restarts; the combustion-based steam generation does not permit rapid restarts.

² As the utilization of biomass fuel rises at a facility, the per unit cost of fuel also rises because plants must access fuels further from the plant.

Tax-Exempt Bonds and Biomass Facilities

Reduced production tax credit for tax-exempt bond financed facilities. Under section 45(b)(3) of the Internal Revenue Code, the amount of the renewable electricity production tax credits otherwise available for any taxable year is reduced by a factor that is the ratio between the tax-exempt debt issued for a qualified facility and the cost of that facility. If the renewable electricity production tax credit were to be extended to existing biomass facilities, this disallowance provision would have the effect of denying production tax credits to facilities that account for approximately 40% to 60% of total biomass electricity output nationwide.

The typical biomass facility financed with tax-exempt debt used that debt to finance up to 75% of the cost of the facility which would mean that a 1.5 cent production tax credit would be reduced to only 0.375 cents. In most cases, a credit of this amount would be insufficient to affect behavior, so it can be assumed that no facilities financed with tax-exempt debt would be able to utilize the production tax credit. Therefore a significant portion of the environmental benefits of extending the production tax credit to biomass facilities would be lost.

Reduction in production tax credit is excessive. While it is reasonable to take into account other federal subsidies that a biomass facility is receiving in determining eligibility for the production tax credit, the disallowance mechanism in section 45(b)(3) would be excessive. This is the case because the value of the credits that must be forfeited far exceeds the value of the tax-exempt debt to the facility. This can be quantified in the following example of a typical biomass facility.

In general, capital cost is about \$2 million for every megawatt (mW) of electric capacity output for a biomass facility. Thus a facility that costs \$100 million to construct would have a capacity of about 50 mW. The typical facility has an annual capacity factor (the amount of time over the course of year that it can be operated) of about 85%. Assuming a tax credit of 1.5 cents per kilowatt hour (kWh), a 50 mW facility would be eligible for an annual production tax credit of about \$5.6 million, calculated as follows:

$$\begin{aligned} 50 \text{ mW} &= 50,000 \text{ kW} \\ &\times 8,760 \text{ (hours in a year)} \\ &\times .85 \text{ (capacity factor)} \\ &\times \underline{\$0.015} \text{ (production tax credit)} \\ &\$5.584 \text{ million} \end{aligned}$$

The tax-exempt debt issued on a \$100 million facility will typically be in the range of \$75 million. Assuming a differential of 1.75%¹ in the interest cost of tax-exempt debt compared to the interest cost of taxable debt, this would be worth \$1.31

¹ Although the gross differential will be somewhat greater than 1.75%, biomass facilities were required to obtain insurance on their obligations which reduced the value of the differential to the 1.75% range.

million annually to the biomass facility in reduced borrowing costs. On an after-tax basis the value would be only \$853,000.

Therefore, as a result of the disallowance provision in section 45(b)((3), a 50 mW facility would have to forfeit \$4.188 million of annual production tax credits (5.584 x 75%) because it utilized tax-exempt financing worth \$0.853 million annually.

Alternative disallowance approach. A more appropriate approach – and one which would maintain the intended incentive effect of a production tax credit to keep biomass facilities in operation – would be to adjust the value of the tax credit to offset the value received from the tax exempt financing. This could be accomplished by designating in the statute an after-tax interest rate advantage for tax-exempt debt, multiplying that figure by the amount of tax-exempt debt issued on a facility and subtracting that product from the gross production tax credit that would be received by the facility absent any disallowance. Although the precise after-tax value of the tax-exempt debt will differ between facilities, a proxy amount can be established in the statute that approximates the average value.

Using this approach in the above example, the statute could designate an after-tax differential of 1.1375% ($1.75\% \times 65\%$), that figure would be multiplied by the amount of tax-exempt debt issued on the facility (\$75 million), and the product (\$853,125) subtracted from the production tax credit (\$5.584 million) otherwise allowed, which would result in a tax credit of approximately \$4.73 million ($\$5.584 \text{ less } [\$75\text{m} \times 1.1375\%] = \$4.730875\text{m}$).

New Homes Tax Credit -- proposed framework

Structure of the tax credit would be in two forms: 1) equipment purchased and installed from the prescribed tables to yield a 30% improvement over the MEC, and 2) homes that meet a 30% and 50% improvement over MEC as measured by a performance test. Homes meeting test #1 could qualify immediately; a rulemaking would begin immediately to establish the performance test requirements for homes wishing to meet test #2; third-party certification will be required. Test #1 would expire upon the completion of the rulemaking (no later than two years). Test #1 would be self-certifying: federal law currently requires the disclosure to the new-home buyer of insulation levels and with the addition of SEER, AFU, and window ratings this information could be easily recorded for proof of compliance with an energy efficiency improvement thru the installation of prescribed equipment.

The tax credit would be awarded to the builder. Disclosure to the buyer of both the credit and the expected decrease in energy costs is required.

1. A home meeting test #1 would earn **\$750** with simple “receipt-type” certification (expires after two years).
2. A home meeting test #2 at **30%** better than MEC would earn **\$1000** (available for three years).
3. A home meeting test #2 at **50%** (or 45%) better than MEC would earn **\$2000** (available for five years).

2001 CCTI TAX OPTIONS

Rescoring for 2001

Tax Provision	FY2000 Score	FY2001 Estimate
Hybrid	.9	2.1
Equipment	1.5	1.6
Homes (New)	.4	.6
Combined Heat and Power	.3	.3
Wind/Bio	.3	.4
Solar	.1	.1
TOTAL	3.6	5.1

Scoring for Possible New Provisions

Tax Provision	FY2001 Estimate
Homes (30%, \$1000, 3yrs; 50%, \$2000, 5yrs)	.7
Homes(30%, \$750, 5 yrs; 50%, \$2000, 5yrs)	.9
Existing Biomass (\$.01/Kwh)	.3
Existing Biomass (\$.005/Kwh)	.2
CHP Depreciation	.045
CHP Production Tax Credit	?
Methane Landfills (unregulated)	?

Option A – No Efficient Equipment

Tax Provision	FY2001 Estimate
Autos	2.1
Homes	.9
CHP Depreciation	.045
Solar	.1
New Wind/Biomass	.4
TOTALS	3.545

Option B – No Efficient Equipment or CHP, Add Existing Biomass

Tax Provision	FY2001 Estimate
Autos	2.1
Homes	.9
New Wind/Biomass	.4
Existing Biomass	.3
TOTALS	3.7

Option C – No Homes, Add Existing Biomass, Methane Landfills

Tax Provision	FY2001 Estimate
Auto	2.1
Equipment	.5
New Wind/Biomass	.4
Existing Biomass	.3
Methane Landfills	.3
TOTALS	3.6

Option D – No Equipment or Homes, Add Existing Biomass, Methane, CHP Production

Tax Provision	FY2001 Estimate
Autos	2.1
New Wind/Biomass	.4
Existing Biomass	.3
CHP Production Tax Credit	.4
Methane Landfills	.4
TOTALS	3.6

Option E – Reduce Autos 1/3 and Equipment 2/3

Tax Provision	FY2001 Estimate
Autos	1.4
Homes (New)	.9
Equipment	.5
Solar	.1
Wind/Bio	.4
Existing Biomass or Methane Landfills	.3
Combined Heat and Power	.05
TOTALS	3.6

9.	9	0	700	500	500
7.	7	200	500	800	
0	200	500	800	800	1.000

2 Beierfeld.

Tue - Gerry 12/10/99

- v.l. folks working on biomass.
- CTH - extend to electric or heat side. Reduce 1.5 \$/kw figure.
 - new CTH industry, gap? (Geller)
 - move from investment tax credit to production tax credit
 - go to depreciation
- Coal - tough sell.
- Landfill Methane
 - regulated facilities already collect and burn methane - we would add on electricity generation to capture methane
 - unregulated ~~methane~~ facilities don't collect methane, and just spew it into air. huge environ. problem, but need to 1) get gas collected, and add 2) electricity generation
 - ↳ trans. higher on ②.
- Bonds
 - Bruce Davis - does bonds 677-2976

Discussion with Treasury on FY2001 Tax Package

- We want to drop the energy efficient equipment tax credit. Although substantively sound, it is not politically viable and is not helping to promote our climate efforts.
- Our top priorities for tweaking the remaining credits in our package are: (1) work with homebuilders to find consensus on homes; (2) add existing biomass facilities to the wind/biomass credit and (3) modifying the CHP production credit.
- With respect to new ideas to complete the package, we have a short list of four proposals. We have some paper on all four of these and several of them you have seen before.
- Finally, we are working on a Clean Air Bond proposal that is part of our overtarget request for the 2001 budget.

FY2000 Tax Package

- | | |
|-------------------------------|------|
| 1. Energy efficient equipment | 1.5B |
| 2. Energy efficient homes | .4 |
| 3. Solar roofs | .1 |
| 4. Hybrid cars | .9 |
| 5. Wind/Biomass | .3 |
| 6. CHP | .3 |

3.6B

FY2001 Tax Package

- | | |
|---------------------------|---|
| 1. Energy Efficient Homes | .4B (+ for deal with homebuilders) |
| 2. Hybrid cars | .9 |
| 3. Wind/Biomass | .3 (- two years of wind credit; + existing biomass) |
| 4. Solar Roofs | .1 |

1.7B

New Ideas

- depreciation*
- | |
|------------------------------------|
| 1. CHP production tax credit |
| 1. Advanced Coal Technology credit |
| 1. Methane landfill gas |
| 1. Alternative Fuel vehicles |

Overtarget

- | |
|--------------------|
| 1. Clean Air Bonds |
|--------------------|

United States Senate

WASHINGTON, DC 20510

November 2, 1999

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500



404014

Dear Mr. President:

We write to encourage your support of the Senate passed open-looped biomass tax credit which is critical to sustain the environmental and economic contributions of the nation's existing biomass energy industry. This bill would remedy defects in the biomass portion of current IRC Section 45 which, since its enactment in 1992, has not been able to be used by the biomass energy sector due to its overly narrow definition of biomass.

Support of the biomass industry is clearly justified by its non-electric public benefits, including notable greenhouse gas reductions, essential waste management services to the agricultural and forestry sectors, major air quality benefits, and wildfire protection. The benefits of the industry clearly exceed its modest revenue loss. It is my understanding that in an analysis soon to be released by DOE, the monetized value of the industry's benefits is estimated to exceed \$500 million per year. This is in contrast to the estimated revenue loss of only \$28 million per year over a five-year period set forth in a recent Joint Committee on Taxation report.

Moreover, support of the biomass industry is entirely consistent with the objectives of the Administration as expressed in your Climate Change Technology Initiative in February 1999 and, more recently, in your Executive Order on BioBased Products and BioEnergy, dated August 12, 1999.

We encourage the Administration and the Department of the Treasury to support the Senate passed open-loop biomass energy tax credit.

We ask that this issue be given a high priority as you negotiate a year-end agreement on tax extenders. With your support, Congress and the Administration can obtain a meaningful and timely success on an important national environmental issue.

Respectfully,

10/29/99

Don Wye John F. Kelly Tony Vachle

November 12, 1999

Mr. Roger Ballentine
*Assistant to the President for
Environmental Initiatives*
Old Executive Office Building / Room 115
17th and Pennsylvania Avenue, NW
Washington, DC 20502

Dear Roger:

The fate of landfill gas (LFG) utilization projects in the United States appears to be in your hands. The Section 45 tax credit provisions in the House/Senate tax extender bills do not include LFG. Only the strong support of the Clinton/Gore administration can reverse this outcome.

Exclusion of landfill gas projects from the Section 45 incentives would, indeed, be a grave environmental mistake. President Clinton and, in particular, Vice President Gore must step forward and back up their environmental statements with real actions to support what, arguably, could be the most beneficial renewable source of energy (*because of the 21 multiplier vs. CO₂ for methane from landfills*).

Inclusion of LFG in Section 45 would only cause an incremental cost of about \$10 Million (*over five years*) for the one year extension of the placed in service date for LFG — this is out of the estimated \$178 Million for all types of projects under Section 45.

The administration (*and, especially, Vice President Gore*) is taking hits from all over the world on the global warming issue. I understand you were in Bonn and probably witnessed the demonstrations first hand. Landfill gas projects could potentially meet **10%** of the total U.S. goal for CO₂ equivalent reductions under the Kyoto Protocol. Please get the administration to take a position on this and insist that LFG be included in any Section 45 tax credit extension.

Thank you, in advance, for your help on this important issue.

Sincerely,

Zahren Alternative Power Corporation


Bernard J. Zahren
President

BJZ:mlk

cc: Senator Joseph I. Lieberman

JOSEPH I. LIEBERMAN
CONNECTICUT

COMMITTEES:
ARMED SERVICES
ENVIRONMENT AND PUBLIC WORKS
GOVERNMENTAL AFFAIRS
SMALL BUSINESS

United States Senate

WASHINGTON, DC 20510-0703

November 9, 1999

SENATE OFFICE BUILDING
WASHINGTON, DC 20510
(202) 224-4041

STATE OFFICE:

ONE STATE STREET
14TH FLOOR
HARTFORD, CT 06103
860-548-6483
TOLL FREE: 1-800-225-5605

INTERNET ADDRESS:
senator_lieberman@lieberman.senate.gov

HOME PAGE:
<http://www.senate.gov/~lieberman/>

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear President Clinton:

I am writing to encourage your leadership in securing a tax credit for renewable energy sources in the tax extenders bill pending in Congress. The Senate passed an extender bill last month that includes a provision extending and expanding the Section 45 tax credit. The pending House extenders bill has no comparable provision. Negotiations are ongoing between House Ways and Means Chairman Archer and Senate Finance Chairman Roth, and I urge you to support the Senate provision's inclusion in any final tax extender bill.

As you know, I am a strong supporter of the development and deployment of renewable energy sources, and I am pleased that the Senate bill not only extends the recently expired Section 45 tax credit for wind and closed-loop biomass, but also amends that section to allow energy from landfill gas, poultry waste and other biomass wastes to qualify for the tax credit. The cost of this Section 45 provision is relatively small, about \$178 million over 5 years, but it will facilitate tremendous progress in reaching the air pollution reduction goals you have set for our nation. These tax extenders are one of the few initiatives remaining on the Congressional agenda from your visionary budget proposal of spending \$6.3 billion over the next several years to encourage development of more energy efficient technologies and reductions in the emission of greenhouse gases. They would go a long way toward achieving these goals, as several landfill gas projects undertaken by one Connecticut company have had an impact on air quality estimated to be the equivalent of taking approximately 500,000 cars off of the road for a full year.

It is imperative that we open the door for greater use of renewable energy sources. Your efforts to keep the modest Senate provision intact as the Administration confers with Congress on a final tax extenders bill would ensure that this occurs. I look forward to working with you in any way that I can to support the availability of this important initiative as a stimulus for private sector efforts to cost-effectively utilize renewable energy resources.

Sincerely,


Joseph I. Lieberman
United States Senator

The Economist

OCTOBER 30TH - NOVEMBER 5TH 1999

BUSINESS

Emissions

Seeing green

BIG business, especially in America, has long been suspicious of claims that the globe is warming. Oil companies have noisily rubbished the science of climate change. Electric utilities have tried to stoke fears among ordinary folk that the Kyoto Protocol, a UN treaty on climate change being negotiated next week in Germany, would cut economic growth and cost jobs.

So it is all the more surprising that some of the world's biggest companies are changing their tune. Leading the way are BP Amoco and Royal Dutch/Shell, two large European oil firms, whose bosses now state plainly what was once considered heresy: global warming is real and merits immediate action. A number of American utilities vow to find ways to reduce the harm done to the atmosphere by their power plants. DuPont, the world's biggest chemicals firm, even declared in September that it would voluntarily reduce its emissions of greenhouse gases to 35% of their level in 1990 within a decade. What is going on?

These firms are the first to see that fixing global warming could give rise to the world's next trillion-dollar industry: the greenhouse-gas trade. An agreement that surfaced this week gives a glimpse of how such a business might emerge. Ontario Power Generation, a Canadian utility, has struck a deal with Zahren Alternative Power, a small American firm, to purchase environmental "credits" to offset OPG's emission of 2.5m tonnes of carbon dioxide, the principal greenhouse gas. Zahren creates these credits by capturing methane, another greenhouse gas, that would otherwise have escaped from landfills, and uses the gas to generate electricity.

This is but the latest in a series of unusual transactions. Last year, American Electric Power, a big electricity utility, declared that it would spend \$5.5m on protecting rainforests in Bolivia to offset emissions from its many coal-fired plants. In October a coalition of Canadian energy companies struck a deal with Iowa farmers to buy up to 3.3m tonnes of carbon dioxide credits. The farmers generate the credits by not tilling their soil; instead, they agree to inject seeds into

soil direct. Doing so, say scientists, will prevent the release of up to four tonnes of the gas per acre every year.

Such deals are happening now because the Kyoto treaty has prompted three sorts of companies to push for the creation of a global market in greenhouse gases: the losers, the winners and the middlemen. The big potential losers from the treaty are the heavy-industrial firms and energy companies. For such firms, the introduction of carbon taxes or fees on emissions could prove devastating. They see deals to offset liabilities, though speculative, as an inexpensive hedge.

They are also promoting experiments in trading that should help persuade sceptics in government. BP Amoco, for example, has this year launched an internal carbon-dioxide trading scheme among its many far-flung divisions to help them meet targets for reducing emissions. Unipede, a coalition of big European electricity utilities, and the International Energy Agency in October completed a full-fledged simulation of electricity and carbon-dioxide trading.

The winners are those that can cheaply create what the losers desperately want: reductions in emissions. Though the science is evolving, it is clear that agribusinesses, for-

estry firms and others who can keep greenhouse gases from entering the atmosphere could profit handsomely from the Kyoto deal. This has set off a flurry of research. Siemens and Shell, for example, have just announced a new fuel-cell technology for oil rigs that will capture emissions of carbon dioxide and methane, generate power from them cleanly, and sequester the exhaust.

Middlemen are keen too. Already, lots of energy and commodity exchanges are trying to get into the act. London's International Petroleum Exchange is promoting itself vigorously as the future home of global carbon trading; rival exchanges are also vying for the title. Banks and insurance companies worry that global warming increases the risk of catastrophes, but also spot an opportunity. Ivo Knoepfel of Swiss Re, a large reinsurance company, says his firm is keen to securitise international emissions-trading permits.

Keener still are energy- and commodity-trading firms. Peter Zaborowsky of Nat-source, one of America's biggest such firms, reckons that carbon trading will be a \$60 billion-a-year market in America alone; and that if politicians agree on clear rules for international trading, the global market could in time reach a trillion dollars a year.

In the meantime, one group looks likely to make a fortune out of all the uncertainty: the consultants. Swiss Re's Mr Knoepfel sees insurance companies rushing to get into the business of helping clients assess carbon liabilities and assets. Scientists are pocketing handsome sums advising on sequestration projects. Already, big accounting firms such as PricewaterhouseCoopers and KPMG have set up units dedicated to carbon consulting. Even green groups are profiting. As companies seek to win credibility for their efforts at reducing emissions, they are inviting mainstream green groups such as Washington's Environmental Defence Fund to advise them and to keep them honest. For industrialists paying reluctantly to clean up their act, that must be a bitter pill.



Now they're paying him not to till the soil

COMMENT

Lead vs TAP Financial News 5

Markets in permits for environmentally approved projects are on the move, writes Graham Cooper

Trading on a green future



As the world's environment ministers assemble in Bonn this week for the annual United Nations convention on climate change, they will be greeted by a motley crowd of scientists, academics, think-tank analysts, charity workers, religious zealots and lobbyists. The latter run the gamut from nuclear power advocates, through solar and wind energy enthusiasts to pressure groups such as Friends of the Earth and Greenpeace.

However, the 5,000 delegates also include a small but influential group from the world of finance. Banks, brokers, insurance companies, investment funds and derivatives exchanges are all represented.

What has drawn them here is the emerging market in carbon trading (or more precisely the trading of permits to emit greenhouse gases). This unlikely sounding market was conceived two years ago in the famous Kyoto Protocol – an international political agreement under which industrialised countries promised to cut their output of greenhouse gases over the next 10 years to at least 5% below their 1990 levels.

The idea is to treat permits to emit carbon dioxide as a commodity. They could then be traded both in a spot market and in the form of derivatives contracts, just like traditional assets such as currencies, interest rates, equities and conventional commodities. Exchange-based contracts and bilateral over-the-counter trading are envisaged.

There is a precedent for such a scheme –

sulphur dioxide emission permits have been trading successfully in the US since 1995.

This market was created to help reduce acid rain and now comprises a flourishing trade in OTC forwards, options and swaps as well as cash transactions and an annual auction at the Chicago Board of Trade. The leading players are US coal-burning power companies, but Wall Street brokers such as Cantor Fitzgerald and Natsource have found it a lucrative new business.

Although politicians are making heavy weather of fleshing out the bones of the Kyoto Protocol, many in the private sector believe it is only a matter of time before legally binding restrictions on greenhouse gas emissions are introduced and inevitable that national emission limits will be translated into caps on individual companies.

Anticipating such a development, several have already taken the plunge into trading. BP-Amoco is among those forcing the pace. A pilot carbon dioxide trading scheme was launched within BP in September 1998 and is now being rolled out across all the business units of the newly merged company.

Other multinationals plan similar initiatives and last week the CBI unveiled a national emissions trading scheme which could potentially involve all UK companies. A launch date of April 1 2001 is planned.

Within 24 hours of the CBI announcement, Ontario Power, a Canadian utility, announced the world's biggest greenhouse trade to date. It bought emission-reduction credits equivalent to 2.5 million tonnes of carbon dioxide from Zahren Alternative Power Corporation, the US renewable

energy company, for just under \$2.5m (€2.35m). An audit of the emissions reductions in this transaction will be undertaken by PricewaterhouseCoopers – the first time a big five accounting firm has participated in a deal of this type.

Until national or international trading schemes are up and running, the future value of emission credits is uncertain, but pioneers such as BP-Amoco and Ontario Power see many other advantages from early action. The experience they gain now will give them a competitive advantage when trading becomes widespread but, in the meantime, it is helping them identify valuable opportunities for energy efficiency savings. Just as important are the benefits in terms of investor relations.

Although the masked, flag-waving demonstrators in Bonn are often hard to take seriously, they represent the tip of a huge iceberg of "socially responsible" investors who are demanding ever more information about companies' impact on the environment.

Last month's launch of a new family of "sustainable" equity indices from the venerable Dow Jones shows the growing importance of this trend. Numerous research studies suggest that imposing such an environmental filter on stock selection incurs no penalty in terms of share price performance. Indeed, Dow Jones goes much further. It claims its global Dow Jones Sustainability index returned 137% in US dollars over the past five years, against 96% for the unfiltered Dow Jones Global index.

Graham Cooper is publisher of Environmental Finance magazine

David Creed takes a long look at the Bank of England's new guidance on share issues

Case for deep discounts

The Bank of England recently pub-

a bonus issue and three at the market price.

this determination for any dis-

to sell the nil paid rights or take up the new shares.

Often this would lead to a large drop in the share price, well below the theoretical ex-rights price at which the shares could be traded if there were to be no

Congress of the United States
House of Representatives
Washington, DC 20515

November 16, 1999

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

We are writing to encourage your support of an open-loop biomass tax credit in the final negotiations of the tax extenders bill. This credit is vital to promote future environmental and economic contributions by the US biomass industry and agricultural producers.

As you are aware, the Senate unanimously passed Chairman William Roth's tax extender package that included an expansion of the biomass provision. As defined in Senate bill (S. 1792), tax credits would be eligible to those who generate open-loop biomass energy from orchard, crop, forest, or poultry litter wastes. Promoting biomass energy will encourage an environmentally-friendly use of high cellulose waste that would normally be composted, burned, spread in an open field, or dumped into landfills. Increasing biomass energy opportunities will offer new economic opportunities to American farmers and, potentially, a cheaper source of electricity for rural areas.

Your support of an open-loop tax credit is entirely consistent with the Administration's objectives as expressed in Executive Order 13134 on Developing and Promoting Biobased Products and Bioenergy in August 1999. Current law allows for a closed-loop biomass tax credit. However, this narrow definition extends tax incentives only to those who use crops produced specifically for energy generation. No agricultural and biomass energy industries have been able to benefit from this provision since its enactment in 1992, because closed-loop biomass production is too costly. Expanding this tax provision will encourage viable utilization of waste products and promote compliance with the Clean Air Act.

Again, we urge your support of open-loop biomass energy provisions in current tax extender legislation.

Sincerely,

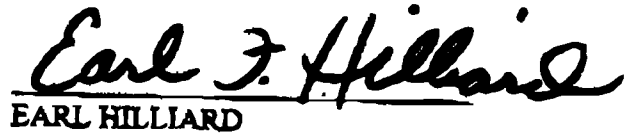

GARY A. CONDIT


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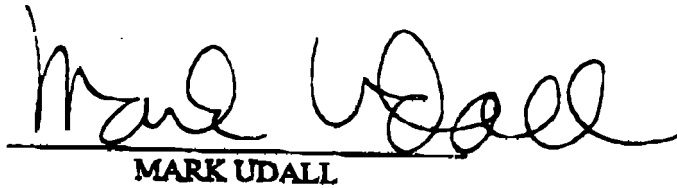

SANFORD BISHOP, Jr.


CALVIN DOOLEY


EARL HILLIARD


SHERWOOD L. BOEHLERT


MIKE THOMPSON


MARK UDALL

GAC/r

United States Senate

WASHINGTON, DC 20510

November 2, 1999

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

We write to encourage your support of the Senate passed open-looped biomass tax credit which is critical to sustain the environmental and economic contributions of the nation's existing biomass energy industry. This bill would remedy defects in the biomass portion of current IRC Section 45 which, since its enactment in 1992, has not been able to be used by the biomass energy sector due to its overly narrow definition of biomass.

Support of the biomass industry is clearly justified by its non-electric public benefits, including notable greenhouse gas reductions, essential waste management services to the agricultural and forestry sectors, major air quality benefits, and wildfire protection. The benefits of the industry clearly exceed its modest revenue loss. It is my understanding that in an analysis soon to be released by DOE, the monetized value of the industry's benefits is estimated to exceed \$500 million per year. This is in contrast to the estimated revenue loss of only \$28 million per year over a five-year period set forth in a recent Joint Committee on Taxation report.

Moreover, support of the biomass industry is entirely consistent with the objectives of the Administration as expressed in your Climate Change Technology Initiative in February 1999 and, more recently, in your Executive Order on BioBased Products and BioEnergy, dated August 12, 1999.

We encourage the Administration and the Department of the Treasury to support the Senate passed open-loop biomass energy tax credit.

We ask that this issue be given a high priority as you negotiate a year-end agreement on tax extenders. With your support, Congress and the Administration can obtain a meaningful and timely success on an important national environmental issue.

Respectfully,

John D. Dingell *James E. Cooper* *Barbara Boxer*
Patty Murray *Bob Graham* *Tom Harkin*

Don Wye John F. Kelly from Saxhle

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
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For
Julie

**Transition Language for Extension of
Section 45 Tax Credit for Producing
Electricity from Wind and Other
Renewable Sources**

A short term extension of a modified section 45 wind energy production tax credit (PTC) is likely to be included in the expiring tax package to be part of the final negotiated spending package. A four year extension of the PTC was included in the tax bill vetoed by the President. Wind energy has been a priority of Department of Energy Secretary Bill Richardson and the White House Task Force on Global Climate Change. Given that the PTC is only available if a wind facility is producing electricity, a short term extension makes it difficult, if not impossible, for the wind industry to get any new facilities in the ground and producing power before the credit expires again. Siting, financing, permitting, and constructing new facilities takes quite a bit of time, often two years or more. The wind industry is therefore seeking the addition of transition language to the PTC extension provisions that would give the industry some additional time to get some new facilities in the ground and producing power. This transition language is modeled after what has been done with the section 29 credit in the past. (The industry's proposed transition language is attached.)

Given that wind power produces no air emissions, and the wind industry's growing presence in the Farm Belt, and in Iowa in particular, the addition of this transition language has both environmental and political benefits. (See attached *Washington Post* article on Secretary Richardson's wind power initiative and the growth of wind in Midwest.)

Attachments

**PROPOSED TRANSITION LANGUAGE
FOR EXTENSION AND MODIFICATION
OF CREDIT FOR PRODUCING ELECTRICITY FROM CERTAIN RENEWABLE
RESOURCES**

Insert a new paragraph at the end of section 45 as follows:

“(e) EXTENSION FOR CERTAIN FACILITIES.

In the case of a facility producing electricity from wind, closed-loop biomass or poultry waste, for purposes of subsection (c)(3), such facility shall be treated as being placed in service before December 31, 2000, if such facility is placed in service before July 1, 2004, provided –

(1) Binding contract property. The facility is constructed, reconstructed or acquired by the taxpayer pursuant to a written contract binding on December 31, 2000;

(2) Self-constructed property. The facility is constructed or self-constructed by the taxpayer, and

(A) the lesser of (i) \$1,000,000, or (ii) 5 percent of the cost of such facility has been incurred or committed by December 31, 2000, and

(B) the construction or reconstruction of such facility began by such date; or

(3) Supply or service contracts. The facility is readily identifiable with and necessary to carry out a written supply or service contract which was binding on December 31, 2000.”

Explanation of Proposed Transition Rule

Assuming that the section 45 wind credit is extended for 18 months and that section 45(c)(3) is amended by inserting "December 31, 2000," in place of "July 1, 1999," it is proposed that section 45 be further amended by inserting the following new subsection (e) at the end thereof.

"(e) Extension for certain facilities.

In the case of a facility producing electricity from wind, closed-loop biomass or poultry waste, for purposes of subsection (c)(3), such facility shall be treated as being placed in service before December 31, 2000, if such facility is placed in service before July 1, 2004, provided -

- (1) Binding contract property. The facility is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract binding on December 31, 2000;
- (2) Self-constructed property. The facility is constructed or self-constructed by the taxpayer, and
 - (A) the lesser of (i) \$1,000,000, or (ii) 5 percent of the cost of such facility has been incurred or committed by December 31, 2000, and
 - (B) the construction or reconstruction of such facility began by such date;
- or
- (3) Supply or service contracts. The facility is readily identifiable with and necessary to carry out a written supply or service contract which was binding on December 31, 2000."

As adapted to wind projects, the binding contract rule in clause (1) treats any property which is constructed, reconstructed, or acquired by the taxpayer pursuant to a written contract which is binding on December 31, 2000, and placed in service prior to July 1, 2004, as placed in service by before December 31, 2000, so as to qualify for the tax credit. The self-constructed property rule in clause (2) extends this transition coverage to developers who serve as their own contractors to re-power or retrofit existing facilities as well as to similar developers who are self-constructing new projects, provided the requisite dollar amount or percentage is incurred or committed by the specified date. The supply or service contract rule in clause (3) similarly extends transition coverage to developers who have executed binding power sales agreements by the required date. This covers not only new power sales agreements but also the un-built portion of existing SO-4 contract.

The proposed place-in-service deadline requires that transition property must be placed in service before July 1, 2004. If the qualification period is extended for only 18 months until December 31, 2000, the transition property must be placed in service within 3 ½ years of that expiration date. For purposes of section 45(a)(2), the ten-year credit period will begin on the date the transition facility is placed in service, not December 31, 2000.

The Washington Post

SUNDAY, SEPTEMBER 19, 1999

Towers Reach Across Midwest For Ethereal Source of Power

Windmills Turning Air Into Energy for Thousands of Homes

By WILLIAM CLAIBORNE
Washington Post Staff Writer

STORM LAKE, Iowa—The winds of change are blowing over Buffalo Ridge in this corner of northwestern Iowa, where nearly as far as the eye can see gigantic propeller blades atop 200-foot steel towers move slowly in the breeze, casting daring shadows over corn and soybean fields like the wings of hundreds of prehistoric birds.

The scene somehow looks oddly out of place for the heartland of America. It seems more suited to California, where generating power with windmills first took hold in the early 1980s amid much derision and skepticism over it ever becoming a cost-effective source of alternative energy.

But federal energy officials, who have called the Great Plains states "the Saudi Arabia of wind power," helped dedicate the world's largest single wind power project here yesterday, setting the Midwest on a course policymakers hope will soon propel the region past California as the U.S. leader in wind turbine power. Another wind power project was dedicated Friday at Lake Benton, Minn.

"There's nothing more American than farmers in the Midwest," Energy Secretary Bill Richardson said in an interview. "I think that once people see so much wind power in the heartland, you'll see more support for it all across the country."

Richardson noted that seven of the 10 states ranked highest for wind energy potential, as measured by the consistency of the prevailing winds and factoring in environmental and land use exclusions, are in the Midwest—the Dakotas, Kansas, Nebraska, Oklahoma, Minnesota and Iowa—and that the Dakotas and Texas alone have sufficient wind resources to provide electricity for the entire nation. Paradoxically, California is 17th on the list because most of its best sites for wind power have already been used and because of land use restrictions. Texas is No. 2, with a potential for revenue of about \$30 billion a year from wind.

The problem is the same one that has bedeviled alternative energy advocates for decades: lowering the cost of wind power to the point where it can compete with conventional energy sources such as coal (the leading nonrenewable energy source), natural gas, and hydroelectric and nuclear power. Wind turbines have been so expensive to build and they each produce such a small amount of electricity that they have not been able to compete with the conventional sources.

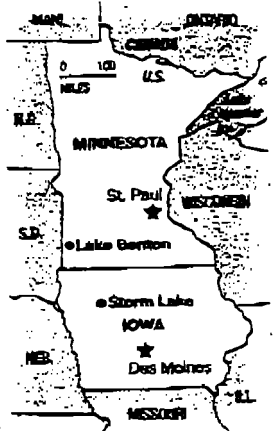
Harnessing the Wind

The largest single wind power project in the world is getting underway in Iowa, where wind is plentiful.

These are the 15 states with the greatest wind energy potential (BILLIONS OF KILOWATT-HOURS)

North Dakota	1,210
Texas	1,190
Kansas	1,070
South Dakota	1,030
Montana	1,020
Nebraska	868
Wyoming	747
Oklahoma	725
Minnesota	657
Iowa	551
Colorado	481
New Mexico	435
Idaho	173
Michigan	165
New York	162

SOURCE: American Wind Energy Association



However, federal energy officials say that shortcircuiting is falling away rapidly and that recent research breakthroughs, spurred in part by the development of highly efficient wind turbines in Europe, have reduced the cost of wind energy from 40 cents per kilowatt hour in 1980 to between 4 and 5 cents a kilowatt hour now.

With sufficient congressional backing for additional research and development, coupled with production tax credits, the cost could be reduced to 2½ cents a kilowatt hour by 2002, approximately equal to today's cost of natural gas power plants, according to Dan Reicher, assistant energy secretary for renewable energy. He said the Department of Energy is seeking \$40 million in fiscal 2000 for research and development of wind power.

"It'll take a lot of work and a genuine policy commitment, but it's not just a pipe dream anymore, it's an attainable goal," Reicher said. He cited a goal that Richardson announced in June of putting 10,000 megawatts of wind power on line by 2010, or enough electricity to meet the needs of 3 million households.

Richardson's "Wind Powering America Initiative" envisions at least 5 percent of the nation's electricity needs being filled by wind power by 2020, an increase from the less than 1 percent of total power currently generated by wind. While the percentage increases may seem small compared with the nation's total energy consumption, Richardson noted that in 1980 the United States had less than 10 megawatts of wind power, compared with the 2,500 megawatts on line today. Worldwide, about 10,000 megawatts of wind power are replacing conventional fuel.

Energy Department officials said one key to reducing per-kilowatt costs is a proposed four-year extension of the production tax credit for wind power development, which is part of the Republican tax cut bill that President Clinton is expected to veto for reasons unrelated to wind.

Although California still leads the nation in the number of wind towers connected to power grids—16,000, compared with fewer than 500 elsewhere in the United States—most of the older California windmills have relatively small, 50-kilowatt turbines, compared with the massive 750-kilowatt turbines that are operating here and at Lake Benton, about 60 miles northeast of this farming community.

The 259 wind turbines at the Storm Lake facility, located 80

miles east of the South Dakota border, generate 193 megawatts of power for the MidAmerican Energy Co. of Des Moines and Alliant Energy of Cedar Rapids. That is enough electricity to serve 72,000 households, or 192,000 people, according to officials of Euron Wind Corp. of Tehachapi, Calif., developer of the project.

Euron, a pioneer in wind energy, also built and is operating two facilities at Lake Benton for the Minneapolis-based Northern States Power Co., one with 138 turbines generating 104 megawatts and another with 143 turbines producing 107 megawatts.

The turbines here are a far cry from the cumbersome old windmills that used to dot the landscape across rural America, drawing water from underground wells.

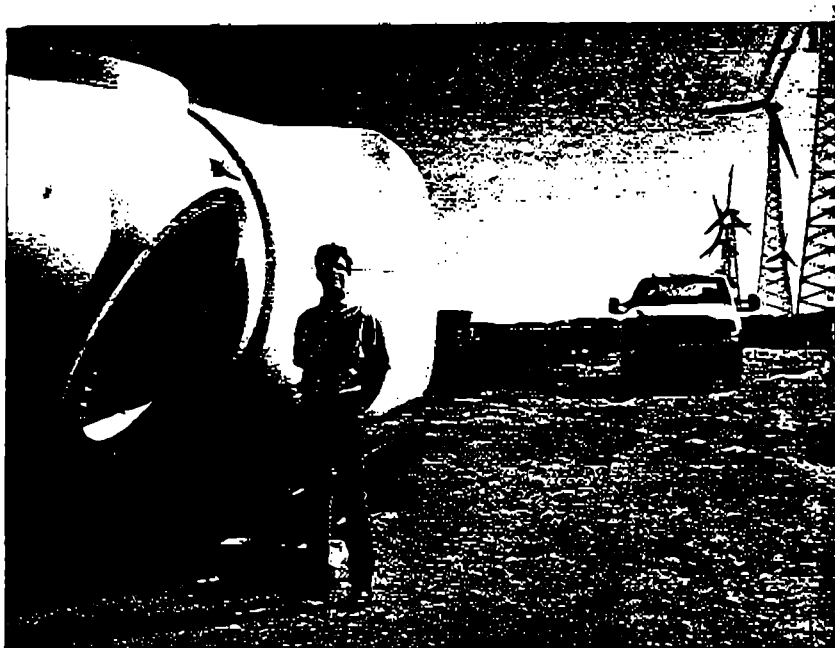
The lattice towers each weigh 57 tons and are topped with a housing nacelle the size of a fuselage of a small plane, large enough for a technician to stand inside while working on the gears, drive shaft, generator and other equipment. The three fiberglass blades are nearly 80 feet long, creating a rotor diameter equivalent to the wingspan of an MD-11 jumbo jet. The turbines are set on a track 17 miles long and 8 miles wide.

As the blades turn one revolution every two or three seconds, they power the generator that sends electricity through underground cables to nearby substations, which in turn feed it into the utility's power grid.

Mike Kelly, the Iowa facility's superintendent, said that as the output increases with the speed of the wind, it allows the purchasing utility to either "ramp down its fossil fuel plant somewhere" or export its excess load to another buyer.

Kelly said that Buffalo Ridge, a barely discernible rise that runs along the watershed divide between the Missouri and Mississippi rivers, was selected for the site because of the consistency of the 18-mph winds and its proximity to high-voltage power transmission lines.

"There's a great wind here, but it's not just the average annual wind speed that's important. It's the frequency distribution of the wind over the time periods when the utility needs it the most," Kelly said.



BY VALLEY COUNTRY—DC, WASHINGTON POST

Storm Lake superintendent Mike Kelly stands beside nacelle that sits atop 200-foot windmills with 80-foot propellers.

Enron officials said that if coal were burned to generate the same amount of electricity produced in the wind turbines here, more than 300,000 tons a year would be needed. They also said 502,000 tons of carbon dioxide, which is associated with the greenhouse effect of global warming, and 2,600 tons of sulfur dioxide, a major cause of acid rain, would be produced if fossil fuels were used instead of wind.

However, Enron and Energy Department officials were quick to point out that neither the Iowa nor the Minnesota projects were driven by market forces or a groundswell of public environmental demands, but instead by legislatures. In Minnesota, the legislature mandated that if Northern States Power wanted to continue storing spent nuclear fuel on its controversial Prairie Island site, it had to provide some renewable energy such as wind power. Iowa's legislature mandated that at least 1.5 percent renewable energy be produced by each utility. After a lengthy legal battle, the requirement was upheld by the Federal Energy Regulatory Commission.

But officials said that even so the projects bode well for a rapid growth in wind energy in the Midwest. And farmers here, who collec-

tively stand to earn more than \$500,000 in annual payments and a percentage of production revenue by leasing their land to Enron, generally have been enthusiastic supporters of the project. One reason is they can plant crops right up to the bases of the windmills.

"I would have thought small mid-western towns might be resistant to change like this," said Hap Boyd, Enron's director of governmental affairs. "But they are great stewards of their land, and this is a great combination of environmental consciousness and good business sense."

Jim Gossett, executive director of the Storm Lake Area Development Corp., said initially there was some local resistance to the idea of hundreds of wind towers dotting the landscape. But he said it faded quickly in the face of an increased tax base and the prospect of new jobs.

"Some areas may decide they don't want all these turbines, but I think they can look to this area five years down the road and find a comfort level with the residents who accepted wind power," Gossett said.

"Besides," he added, "we don't have people come here to look at the cornfields anyway."

ZAPCO / 40 Tower Lane / Avon, CT 06001

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ZAPCO

Fax

To: **Roger Ballentine****From:** Bernard J. Zahren**Fax:** 202 / 456-1736**Pages:** Five**Phone:** 202 / 456-1782**Date:** November 12, 1999**Re:** **Extenders Package****Cc:** Senator Joseph I. Lieberman☒ **Urgent**☐ **For Your Info**☐ **Please Comment**☐ **Please Reply**☐ **Please Recycle**

JOSEPH I. LIEBERMAN
CONNECTICUT

COMMITTEES:
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United States Senate

WASHINGTON, DC 20510-0703

November 9, 1999

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The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear President Clinton:

I am writing to encourage your leadership in securing a tax credit for renewable energy sources in the tax extenders bill pending in Congress. The Senate passed an extender bill last month that includes a provision extending and expanding the Section 45 tax credit. The pending House extenders bill has no comparable provision. Negotiations are ongoing between House Ways and Means Chairman Archer and Senate Finance Chairman Roth, and I urge you to support the Senate provision's inclusion in any final tax extender bill.

As you know, I am a strong supporter of the development and deployment of renewable energy sources, and I am pleased that the Senate bill not only extends the recently expired Section 45 tax credit for wind and closed-loop biomass, but also amends that section to allow energy from landfill gas, poultry waste and other biomass wastes to qualify for the tax credit. The cost of this Section 45 provision is relatively small, about \$178 million over 5 years, but it will facilitate tremendous progress in reaching the air pollution reduction goals you have set for our nation. These tax extenders are one of the few initiatives remaining on the Congressional agenda from your visionary budget proposal of spending \$6.3 billion over the next several years to encourage development of more energy efficient technologies and reductions in the emission of greenhouse gases. They would go a long way toward achieving these goals, as several landfill gas projects undertaken by one Connecticut company have had an impact on air quality estimated to be the equivalent of taking approximately 500,000 cars off of the road for a full year.

It is imperative that we open the door for greater use of renewable energy sources. Your efforts to keep the modest Senate provision intact as the Administration confers with Congress on a final tax extenders bill would ensure that this occurs. I look forward to working with you in any way that I can to support the availability of this important initiative as a stimulus for private sector efforts to cost-effectively utilize renewable energy resources.

Sincerely,


Joseph I. Lieberman
United States Senator

The Economist

OCTOBER 30TH - NOVEMBER 5TH 1999

BUSINESS

Emissions

Seeing green

BIG business, especially in America, has long been suspicious of claims that the globe is warming. Oil companies have noisily rubbished the science of climate change. Electric utilities have tried to stoke fears among ordinary folk that the Kyoto Protocol, a UN treaty on climate change being negotiated next week in Germany, would cut economic growth and cost jobs.

So it is all the more surprising that some of the world's biggest companies are changing their tune. Leading the way are BP Amoco and Royal Dutch/Shell, two large European oil firms, whose bosses now state plainly what was once considered heresy: global warming is real and merits immediate action. A number of American utilities vow to find ways to reduce the harm done to the atmosphere by their power plants. DuPont, the world's biggest chemicals firm, even declared in September that it would voluntarily reduce its emissions of greenhouse gases to 35% of their level in 1990 within a decade. What is going on?

These firms are the first to see that fixing global warming could give rise to the world's next trillion-dollar industry: the greenhouse-gas trade. An agreement that surfaced this week gives a glimpse of how such a business might emerge. Ontario Power Generation, a Canadian utility, has struck a deal with Zahren Alternative Power, a small American firm, to purchase environmental "credits" to offset OPG's emission of 2.5m tonnes of carbon dioxide, the principal greenhouse gas. Zahren creates these credits by capturing methane, another greenhouse gas, that would otherwise have escaped from landfills, and uses the gas to generate electricity.

This is but the latest in a series of unusual transactions. Last year, American Electric Power, a big electricity utility, declared that it would spend \$5.5m on protecting rainforests in Bolivia to offset emissions from its many coal-fired plants. In October a coalition of Canadian energy companies struck a deal with Iowa farmers to buy up to 3.3m tonnes of carbon dioxide credits. The farmers generate the credits by not tilling their soil; instead, they agree to inject seeds into

soil direct. Doing so, say scientists, will prevent the release of up to four tonnes of the gas per acre every year.

Such deals are happening now because the Kyoto treaty has prompted three sorts of companies to push for the creation of a global market in greenhouse gases: the losers, the winners and the middlemen. The big potential losers from the treaty are the heavy-industrial firms and energy companies. For such firms, the introduction of carbon taxes or fees on emissions could prove devastating. They see deals to offset liabilities, though speculative, as an inexpensive hedge.

They are also promoting experiments in trading that should help persuade sceptics in government. BP Amoco, for example, has this year launched an internal carbon-dioxide trading scheme among its many far-flung divisions to help them meet targets for reducing emissions. Unipede, a coalition of big European electricity utilities, and the International Energy Agency in October completed a full-fledged simulation of electricity and carbon-dioxide trading.

The winners are those that can cheaply create what the losers desperately want: reductions in emissions. Though the science is evolving, it is clear that agribusinesses, for-

estry firms and others who can keep greenhouse gases from entering the atmosphere could profit handsomely from the Kyoto deal. This has set off a flurry of research. Siemens and Shell, for example, have just announced a new fuel-cell technology for oil rigs that will capture emissions of carbon dioxide and methane, generate power from them cleanly, and sequester the exhaust.

Middlemen are keen too. Already, lots of energy and commodity exchanges are trying to get into the act. London's International Petroleum Exchange is promoting itself vigorously as the future home of global carbon trading; rival exchanges are also vying for the title. Banks and insurance companies worry that global warming increases the risk of catastrophes, but also spot an opportunity. Ivo Knoepfel of Swiss Re, a large reinsurance company, says his firm is keen to securitise international emissions-trading permits.

Keener still are energy- and commodity-trading firms. Peter Zaborowsky of Nat-source, one of America's biggest such firms, reckons that carbon trading will be a \$60 billion-a-year market in America alone; and that if politicians agree on clear rules for international trading, the global market could in time reach a trillion dollars a year.

In the meantime, one group looks likely to make a fortune out of all the uncertainty: the consultants. Swiss Re's Mr Knoepfel sees insurance companies rushing to get into the business of helping clients assess carbon liabilities and assets. Scientists are pocketing handsome sums advising on sequestration projects. Already, big accounting firms such as PricewaterhouseCoopers and KPMG have set up units dedicated to carbon consulting. Even green groups are profiting. As companies seek to win credibility for their efforts at reducing emissions, they are inviting mainstream green groups such as Washington's Environmental Defence Fund to advise them and to keep them honest. For industrialists paying reluctantly to clean up their act, that must be a bitter pill.



Now they're paying him not to till the soil

COMMENT

Hand vs TAP Financial News 5

Markets in permits for environmentally approved projects are on the move, writes Graham Cooper

Trading on a green future



As the world's environment ministers assemble in Bonn this week for the annual United Nations convention on climate change, they will be greeted by a motley crowd of scientists,

academics, think-tank analysts, charity workers, religious zealots and lobbyists. The latter run the gamut from nuclear power advocates, through solar and wind energy enthusiasts to pressure groups such as Friends of the Earth and Greenpeace.

However, the 5,000 delegates also include a small but influential group from the world of finance. Banks, brokers, insurance companies, investment funds and derivatives exchanges are all represented.

What has drawn them here is the emerging market in carbon trading (or more precisely the trading of permits to emit greenhouse gases). This unlikely sounding market was conceived two years ago in the famous Kyoto Protocol – an international political agreement under which industrialised countries promised to cut their output of greenhouse gases over the next 10 years to at least 5% below their 1990 levels.

The idea is to treat permits to emit carbon dioxide as a commodity. They could then be traded both in a spot market and in the form of derivatives contracts, just like traditional assets such as currencies, interest rates, equities and conventional commodities. Exchange-based contracts and bilateral over-the-counter trading are envisaged.

There is a precedent for such a scheme –

sulphur dioxide emission permits have been trading successfully in the US since 1995.

This market was created to help reduce acid rain and now comprises a flourishing trade in OTC forwards, options and swaps as well as cash transactions and an annual auction at the Chicago Board of Trade. The leading players are US coal-burning power companies, but Wall Street brokers such as Cantor Fitzgerald and Natsource have found it a lucrative new business.

Although politicians are making heavy weather of fleshing out the bones of the Kyoto Protocol, many in the private sector believe it is only a matter of time before legally binding restrictions on greenhouse gas emissions are introduced and inevitable that national emission limits will be translated into caps on individual companies.

Anticipating such a development, several have already taken the plunge into trading. BP-Amoco is among those forcing the pace. A pilot carbon dioxide trading scheme was launched within BP in September 1998 and is now being rolled out across all the business units of the newly merged company.

Other multinationals plan similar initiatives and last week the CBI unveiled a national emissions trading scheme which could potentially involve all UK companies. A launch date of April 1 2001 is planned.

Within 24 hours of the CBI announcement, Ontario Power, a Canadian utility, announced the world's biggest greenhouse trade to date. It bought emission-reduction credits equivalent to 2.5 million tonnes of carbon dioxide from Zahren Alternative Power Corporation, the US renewable

energy company, for just under \$2.5m (£2.35m). An audit of the emissions reductions in this transaction will be undertaken by PricewaterhouseCoopers – the first time a big five accounting firm has participated in a deal of this type.

Until national or international trading schemes are up and running, the future value of emission credits is uncertain, but pioneers such as BP-Amoco and Ontario Power see many other advantages from early action. The experience they gain now will give them a competitive advantage when trading becomes widespread but, in the meantime, it is helping them identify valuable opportunities for energy efficiency savings. Just as important are the benefits in terms of investor relations.

Although the masked, flag-waving demonstrators in Bonn are often hard to take seriously, they represent the tip of a huge iceberg of "socially responsible" investors who are demanding ever more information about companies' impact on the environment.

Last month's launch of a new family of "sustainable" equity indices from the venerable Dow Jones shows the growing importance of this trend. Numerous research studies suggest that imposing such an environmental filter on stock selection incurs no penalty in terms of share price performance. Indeed, Dow Jones goes much further. It claims its global Dow Jones Sustainability index returned 137% in US dollars over the past five years, against 96% for the unfiltered Dow Jones Global index.

Graham Cooper is publisher of Environmental Finance magazine

David Creed takes a long look at the Bank of England's new guidance on share issues

Case for deep discounts

The Bank of England recently pub-

lished a bonus issue and three at the market price.

This determination for any dis-

count to sell the nil paid rights or take up the new shares.

Often this would lead to a large drop in the share price, well below the theoretical ex-rights price at which the shares could be bought if there were to be no new shares.

JOSEPH I. LIEBERMAN
CONNECTICUT

COMMITTEES:
ARMED SERVICES
ENVIRONMENT AND PUBLIC WORKS
GOVERNMENTAL AFFAIRS
SMALL BUSINESS

United States Senate

WASHINGTON, DC 20510-0703

November 9, 1999

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HOME PAGE:
<http://www.senate.gov/~lieberman/>

The Honorable William Jefferson Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear President Clinton:

I am writing to encourage your leadership in securing a tax credit for renewable energy sources in the tax extenders bill pending in Congress. The Senate passed an extender bill last month that includes a provision extending and expanding the Section 45 tax credit. The pending House extenders bill has no comparable provision. Negotiations are ongoing between House Ways and Means Chairman Archer and Senate Finance Chairman Roth, and I urge you to support the Senate provision's inclusion in any final tax extender bill.

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Sincerely,


Joseph I. Lieberman
United States Senator

FROM
JULIE



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

October 22, 1999

MEMORANDUM

TO: GENE SPERLING
STUART EIZENSTAT
TODD STERN

CC: JONATHAN TALISMAN
LEONARD BURMAN
DAVID BEIER
ROGER BALLENTINE

FROM: GEORGE T. FRAMPTON, JR.
Acting Chair

GTF

SUBJECT: REFORESTATION TAX CREDIT

I am writing to highlight the environmental benefits of bipartisan legislation to expand the reforestation tax provisions in current law by raising the tax credit ceiling on reforestation expenses and by eliminating the current amortization ceiling for reforestation expenses. I would like to provide this information on this proposal to you for possible inclusion in the President's FY 2001 budget package. I would be pleased to discuss this proposal, as well as other conservation tax proposals we are considering.

BACKGROUND

In the last several years, domestic forest products companies have sold large tracts of forest land, because of international competition, higher domestic operating costs, and other factors. In 1997, Champion International announced the sale of 300,000 acres of forests in New York, New Hampshire and Vermont. In 1998, International Paper announced the sale of a large block of land in the upper St. John River watershed in Maine and, this year, it announced its intent to sell another 250,000 acres, including sensitive lands along the Allagash Wilderness Waterway. These sales, along with larger sales of several millions of acres of land in Maine, the mid-Atlantic and the Southeast, have generated significant concern nationally among environmental groups and government leaders.

LANDS LEGACY/BETTER AMERICA BONDS

In response to these large land sales, the federal government, along with state governments and non-profit organizations have worked very hard to ensure that this recent "sell-off" does not lead to the development and fragmentation of large blocks of forest lands, by conversion to non-forest

uses. To address this significant conservation challenge, the President's FY 2000 budget request includes substantial funding for the Lands Legacy initiative. This initiative includes \$250 million for land acquisition grants to states, \$50 million for Forest Legacy funding (authorized by the Farm Bill) and \$10 million for Northern Forest protection for the U.S. Fish and Wildlife Service. In addition, the Administration proposed permanent funding for the Land and Water Conservation Fund and sought legislation for Better America Bonds (BABs). Both the Lands Legacy and BABs initiatives are critically important tools to address this and other conservation issues.

As we work with Congress on the Lands Legacy Initiative and Better America Bonds, we are realizing that even if these initiatives pass, the capacity for the federal and state governments and non-profits to protect these vast tracts of land will quickly be overwhelmed as these large land sales continue.

Accordingly, we recognize the importance of keeping large tracts of private land in private ownership. From an ecological perspective, keeping some lands as "working forests" in private ownership would greatly help our efforts to preserve habitat for fish and wildlife and provide opportunities for outdoor recreation (most large forest company land is open to the public). Because larger landowners tend to own larger contiguous holdings and have more resources for conservation, providing tax relief to larger companies will yield greater benefits.

CLIMATE

In addition to the ecological benefit, preserving forests will help address the global challenge of climate change. Reforestation and sustainable forests are critical to increasing carbon sequestration. Forests and forest soils absorb carbon – current estimates are that in 2000, the U.S. Forest Carbon Stock will be an important part of a cost-effective approach to addressing climate change.

I would be pleased to provide additional information to you and your staffs on this important issue.

THE WHITE HOUSE

Roger —

I met w/ Champion &
The Paperworkers the other
day — The presented
this tax proposal —

Dauster was in the mtg w/
me — I've also included
a response from Tax Policy.

Byrd Young (Paperworkers) also
asked the VPOTUS to
support — What are
the chances? Sam



William G. Dauster

10/12/99 06:54:25 PM



Record Type: Record

To: Karen Tramontano/WHO/EOP@EOP

cc: jon.talisman@do.treas.gov, Joseph J. Minarik/OMB/EOP@EOP, John C. Williams/CEA/EOP@EOP,
Carolyn T. Wu/WHO/EOP@EOP

Subject: Reforestation

I just spoke with Jon Talisman at the Treasury Department's Office of Tax Policy regarding the reforestation tax proposals. In sum, he did not favor the proposal.

The proposal has two parts: (1) lifting the cap on expensing and (2) lifting the cap for a credit from \$10,000 to \$25,000.

Tax Policy opposes the proposal on the following grounds:

- (1) for large corporations, these changes would be just a windfall, as those corporations would conduct reforestation anyway;**
- (2) this proposal is unlikely to increase reforestation of difficult areas; and**
- (3) most of the companies currently taking the credit do not report eligible expenses up to the cap.**

The Administration apparently considered the proposal as part of its climate change tax package and rejected it in favor of other proposals.

Treasury Tax Policy notes that the forest industry cites a high effective tax rate, and Tax Policy has asked industry representatives for a copy of the study cited, but has not yet received it.

In general, Tax Policy cautioned against our being too forward leaning on tax provisions generally, as we will be coming under increasing pressures to find offsets as we put together the fiscal year 2001 budget.

CONGRESSIONAL TAX BILL ENCOURAGES REFORESTATION

Background: The forest products industry supports a provision in the conferenced tax bill passed by the House and Senate that would encourage both individuals and companies to engage in increased reforestation. Section 731 of the tax bill would improve the international competitive position of the forest products industry and, at the same time, improve the environment by encouraging additional reforestation and allowing forested land to remain forested.

Description of Current Law: The current tax law provides a 10 percent tax credit to timberland owners who spend up to \$10,000 to reforest their land and allows the same amount (\$10,000) of reforestation expenses to be amortized, i.e., deducted, over a 7 year period. While this tax provision is meaningful to small landowners, it does not provide any significant incentive to larger timberland owners who must spend much more than \$10,000 each year to replant their lands. Currently, reforestation costs in excess of \$10,000 must be capitalized and the landowner does not recover these costs until the trees are harvested which could be anywhere from 20 to 70 years later.

Description of Provision in the Tax Bill: The provision in the tax bill would increase the current dollar limitation from \$10,000 to \$25,000 on the amount of reforestation expenses that are eligible for the 10 percent tax credit. More important, however, it would also remove the limitation completely on the amount of reforestation costs that can be deducted, thus allowing forest landowners to recover all of their reforestation expenses in 7 years rather than waiting until the tree is harvested. The elimination of the amortization cap is sunset after 4 years and would revert to a \$25,000 cap in 2004 if the provision is not made permanent. The industry strongly supports making the provision permanent since it makes no sense to provide a 7 year write-off for all reforestation costs and then stop the provision after 4 years.

What are Reforestation Expenses: The initial expenses required to establish a new stand of trees such as site preparation, the cost of the seedlings, the labor costs required to plant the seedlings, as well as the cost to care for the trees in the first few years until the trees are considered established, are all eligible reforestation expenses.

Environmental Benefits of the Proposal: The provision will encourage the reforestation of forestland, whether it has been harvested for timber or previously cleared for other uses, such as agriculture. Trees provide a tremendous benefit to the environment – they prevent soil erosion, cleanse streams and waterways, absorb carbon dioxide from the atmosphere, and provide habitat for an incredible range of species. Positive tax treatment for planting on private lands also decreases the pressure to obtain timber from public lands, allowing more public land to remain untouched.

The Current Tax Code Discourages Reforestation: The decision to reforest, particularly after harvesting, can be a difficult one. The expenses are high and the eventual benefits quite remote since trees must grow for 20 to 70 years until mature enough for

harvest. During that long period, the trees are subject to numerous risks such as disease, fire, insects, etc., as well as ordinary market risks. The tax code does not allow for timely recovery of these costs, thus contributing to the high costs of reforestation.

Reasons for Complete Elimination of the Cap on Amortizing Reforestation Costs:

The arbitrary limit in current law on the amount of reforestation expenses that can be deducted over 7 years restricts the number of acres that can be economically reforested. With the ever decreasing availability of public timber, it is even more important to encourage the maximum amount of private reforestation possible. It is particularly essential that all landowners, including corporations, be eligible for such tax treatment. Corporations today are doing the most environmentally sensitive forestry because their professional foresters and wildlife biologists protect water quality and critical habitat for wildlife, as well as grow trees for wood products. Corporate owners are already penalized under current tax law because they are not eligible for a lower capital gains rate on timber. If the tax law is not changed to benefit all timber owners, it could encourage owners who cannot recover their expenses in a more timely manner to get out of the business and this would ultimately be very harmful to both timber supply and the environment.

International Competitiveness and Comparison of Effective Tax Rates on

Reforestation: PricewaterhouseCoopers recently completed a study comparing the effective tax rates on reforestation costs among all of the countries which are the major competitors in the forest products business. The U.S. has the highest effective tax rate at 61 percent, while Indonesia had the lowest at minus 2 percent. The U.S. industry is facing fierce international competition and will not be able to keep jobs in this country and continue to keep land forested if this inequity is not addressed. Since demand for paper and wood products will not decrease, these products will increasingly be grown and manufactured in countries with lower environmental standards for both forestry and manufacturing.

Cost of the Reforestation Provision: The Joint Tax Committee estimated that the reforestation provision in the tax bill would cost \$277 over 10 years. If the amortization provision were to be made permanent instead of sunseting after 4 years, the total 10 year revenue estimate is \$375 million. This is a small cost considering the multiple benefits from this provision: keeping the U.S. forest products industry, which directly employs 1.5 million people, competitive, thus keeping these jobs in the U.S.; and keeping America green and forested because landowners have an economic reason to plant trees, thus improving the quality of our air and water.

For more information, call Jeanne Connelly at 202-785-9888

August, 1999

**International Comparison
of
Total Effective Tax Rates on Reforestation Costs***

	<u>Corporate</u>	<u>Individual</u>
Brazil	23%	19%
Canada	56%	2%
Finland	15%	1%
Indonesia	-2%	1%
Japan	39%	21%
United States	61%	32%

* "Tax systems in Competing Nations: How They Affect Investments in Paper Manufacturing and Forestry and Timber," National Economic Consulting, Price Waterhouse Coopers, October 6, 1998

09/08/99 15:07 FAX 202 223 5140 REF. JAMES H. MALONEY 0002

Congress of the United States

Washington, DC 20515

September 8, 1999

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear President Clinton,

We are writing to urge your support for important reforms to the tax treatment of reforestation expenses. While we agree with you that the Republican tax plan was excessive, we hope that you will agree with us that the tax code should encourage replanting of trees.

The tax bill recently passed by the House of Representatives includes section 731 which would allow the costs of reforestation to be deducted over a seven-year period. Current law prevents all but the first \$10,000 of these expenses from being deducted until after the trees are harvested. This provision is also part of a larger forestry tax bill, H.R. 1083, which we have cosponsored. Additionally, we included a similar provision in H.R. 2547, the New Democrat Coalition tax plan, which we introduced on July 20th.

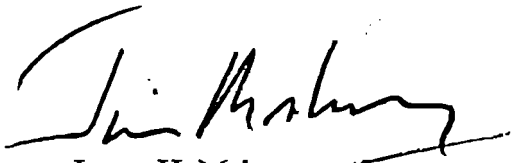
The forest products industry is facing intense international competition. While there are many factors contributing to this situation, the tax code is one area where we can make a difference. The U.S. tax costs imposed on reforestation expenses are higher than any of our major competitor countries. According to a recent PricewaterhouseCoopers study, the effective tax rate on reforestation ranges from a high of 61% in the U.S. and a low of -2% in Indonesia.

Additionally, this proposal would be good for the environment. It would encourage long-term sound forest management that helps keep the air and water clean. Paper and wood products made in the U.S. are subject to the most stringent environmental standards in the world. It is critical, both economically and environmentally, that the growing world-wide demand for paper and wood products be met from products in the U.S. -- not from other parts of the world that have lower standards.

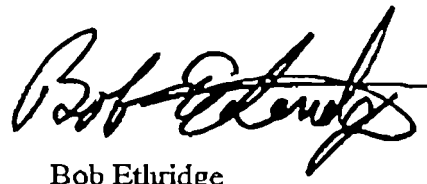
Letter to President Clinton
Page 2
September 8, 1999

Thank you for your consideration of this reforestation provision. It represents a common sense low-cost way to help both the environment, and the 1.5 million forest products industry workers whose jobs depend on having access to fiber. At a cost of only \$277 million over 10 years, we hope you will work with us to see that this language is included in any compromise tax bill that may be negotiated with Congress later this fall.

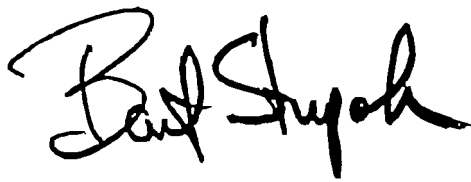
Sincerely,



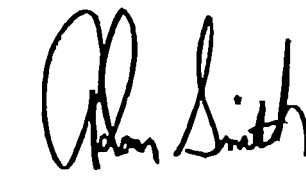
James H. Maloney
Member of Congress



Bob Ethridge
Member of Congress



Bart Stupak
Member of Congress



Adam Smith
Member of Congress

JOHN ELIAS BALDACCİ
SECOND DISTRICT, MAINE

COMMITTEE ON AGRICULTURE
COMMITTEE ON TRANSPORTATION
AND INFRASTRUCTURE

AT-LARGE WHIP

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Congress of the United States
House of Representatives
Washington, DC 20515-1902

September 16, 1999

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500 MAIN STREET
MAIDAWACKA, ME 04756
(207) 728-6160

The Honorable William Jefferson Clinton
President of the United States
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear President Clinton:

The tax bill passed by Congress this month, H.R. 2488, includes provisions promoting reforestation and sustainable forestry that will help maintain the environmental and economic health of Maine. Those provisions are part of broader legislation we have cosponsored (H.R. 1083) that is designed to help the domestic forest products industry remain competitive in markets at home and abroad. We urge your administration to support these provisions in any future compromise tax legislation that may be considered.

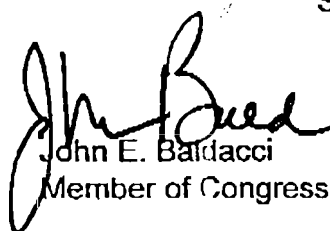
Section 731 of the tax bill would increase the current cap on the amount of reforestation expenses eligible for a 10 percent tax credit from \$10,000 to \$25,000. It would also remove completely the limitation on the amount of reforestation costs that can be deducted; thus allowing forest landowners to recover all of their reforestation expenses in 7 years rather than waiting until after they harvest the trees. As currently drafted, the provision is scheduled to sunset after four years. We believe it should be made permanent in future tax legislation.

According to a recent PricewaterhouseCoopers study, the United States imposes one of the highest tax burdens on capital investment by forest products companies and effectively taxes reforestation activities more heavily than any other major competitor nation. Improving the tax treatment of reforestation expenses would be a welcome first step in restoring a level playing field for this country's forest products industry. If this competitive imbalance continues, the world's demand for paper and wood products will increasingly be filled by countries with lower environmental standards for forestry and manufacturing. H.R. 1083 also restores more equitable capital gains treatment for timber, further promoting responsible, long-term forest management.

The forest products industry plays an important role in Maine's environmental and economic well-being. It directly employs 23,000 persons, with an annual payroll of nearly \$ 900 million – and is the largest manufacturing segment of our state's economy. In addition, the industry, comprised of both large and small landowners, manages more than 7.5 million acres of timberland in Maine. Legislation that promotes reforestation and long-term stewardship of these lands will have a positive impact on wildlife as well as air and water quality in our state.

We hope you will give strong consideration to these provisions designed to promote sustainable forestry, increased reforestation, and better management of precious forest resources in our state – and across the country – in any compromise legislation signed into law.

Sincerely,


John E. Baldacci
Member of Congress


Tom Allen
Member of Congress



UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA

Michael Draper

Member General Executive Board

May 27, 1999

The Honorable Bill Archer
Chairman
U.S. House Ways and Means Committee
1102 Longworth House Office Bldg.
Washington, DC 205150001

Dear Chairman Archer,

On behalf of the United Brotherhood of Carpenters and Joiners of America (UBC), I am asking you to support HR 1083, "The Reforestation Tax Act," introduced by Representative Jennifer Dunn (R-WA).

The UBC represents 500,000 members across the country, including 30,000 sawmill, pulp and paper workers in the forest products industry. Our members manufacture the wood and paper products used around the globe every day and are concerned with the industry's ability to compete in the future.

The forest products industry has changed dramatically over the last decade, and today we find ourselves at a competitive disadvantage in the global market. Foreign companies, whose wages are far below American standards, have easy access to the American market. At the same time they are keeping American products out of their own markets through tariff and other barriers to trade. U.S. negotiators and the U.S. forest products industry are working to lessen this trade threat, but there is obviously no guarantee our foreign competitors will agree to eliminate what is a significant benefit for them. Progress could take additional years our industry may not have.

The U.S. tax code, however, is one area where the U.S. government can help to mitigate these factors. And that is why we ask for your support of the Reforestation Tax Act. HR 1083 eliminates current inequities between our tax code and the tax treatment given to our competitor industries overseas. It levels the playing field for the U.S. forest products industry, ensuring the long-term viability of high-paying, high skilled jobs. The bill also provides incentives for reforestation activities critical to the future of our industry, our workers and our forests.

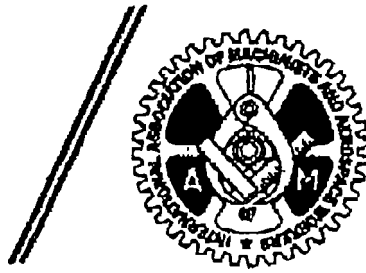
Please support this legislation that is important to the working men and women in the forest products industry. Thank you for your consideration.

Sincerely,

A handwritten signature of Michael Draper is located below the "Sincerely," text. The signature is in black ink and appears to be "Michael Draper".

Michael Draper

**International
Association of
Machinists and
Aerospace Workers**



9000 Machinists Place
Upper Marlboro, Maryland 20772-2687

Area Code 301
867-4500

OFFICE OF THE INTERNATIONAL PRESIDENT

GL-2 Legislative

July 9, 1999

Dear Representative:

The International Association of Machinists and Aerospace Workers (IAM) represents more than 20 thousand wood workers that plant and harvest timber across America. Timber is a renewable resource and, unlike other growth and harvest cycles in the agricultural industry, 90 years is considered a short period of time. HR 1083, if enacted into law would have a long-term, positive impact on a national treasure - our forests.

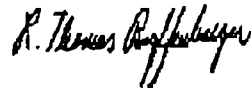
Previous legislative modifications to the IRS code discourage continued forestation, and have placed corporate timber at an economic disadvantage in the global environment. HR 1083 would remedy these disadvantages.

In order to sustain this renewable resource, government must take a proactive role to ensure responsible timber management. There are several factors that we as workers in this industry are concerned with: most importantly, jobs and the environment. This bill encourages long-term growth of our forests, responsible harvesting and re-forestation. All of these goals will be attained if this bill becomes law and concurrently will result in improving the industry's competitive edge in the global environment.

July 9, 1999. Page Two

On behalf of the IAM, its members and their families, I ask you to become a sponsor to HR 1053. Please contact Richard Michalski, Director, Legislative & Political Action Department, phone 301/967-4573, for further discussion.

Very truly yours,



R. Thomas Buffenbarger
International President

THE CONSERVATION FUND

1800 NORTH KENT STREET, SUITE 1120
ARLINGTON, VIRGINIA 22209-2156
(703)525-6300
FAX (703)525-4610

June 30, 1999

The Honorable Jennifer Dunn
United States House of Representatives
Washington, D.C. 20515-4708

Dear Congresswoman Dunn:

I am writing to express the support of The Conservation Fund for H.R. 1083, the Reforestation Tax Act of 1999, which you and others have introduced. Your leadership on this important issue is sincerely appreciated.

The Conservation Fund is a non-profit, conservation organization that focuses on conserving our nation's natural resources in the context of sustainable development.

The Reforestation Tax Act would help assure that all taxpayers that own timber and manage it in a sustainable manner over many years are treated equitably. It would also restore the historical balance in tax rates among the various forms of timberland ownership. Most importantly from our perspective, the bill offers incentives for landowners of all sizes to plant and grow trees and to reforest their land after harvest and to hold on to their timber assets longer. Tax incentives such as these can speed restoration and reforestation efforts and discourage premature conversion of these dwindling timberlands to other less environmentally sound uses.

Thank you again for your efforts to encourage future investments in sound, sustainable forestry.

Sincerely,


John Turner
President and CEO

Bill Summary & Status for the 106th Congress**NEW SEARCH | HOME | HELP | ABOUT COSPONSORS****H.R.1083**SPONSOR: Rep Dunn, Jennifer (introduced 03/11/99)**COSPONSORS(87):**

<u>Rep Smith, Adam</u> - 03/11/99	<u>Rep Ramstad, Jim</u> - 03/11/99
<u>Rep Sandlin, Max</u> - 03/11/99	<u>Rep Camp, Dave</u> - 03/11/99
<u>Rep Cramer, Robert E. (Bud) Jr.</u> - 03/11/99	<u>Rep Foley, Mark</u> - 03/11/99
<u>Rep Baldacci, John Elias</u> - 03/11/99	<u>Rep Watkins, Wes</u> - 03/11/99
<u>Rep Shows, Ronnie</u> - 03/11/99	<u>Rep Herger, Wally</u> - 03/11/99
<u>Rep Bishop, Sanford D., Jr.</u> - 03/11/99	<u>Rep Green, Mark</u> - 03/11/99
<u>Rep Peterson, Collin C.</u> - 03/11/99	<u>Rep Stupak, Bart</u> - 03/11/99
<u>Rep McCrery, Jim</u> - 03/11/99	<u>Rep English, Phil</u> - 03/11/99
<u>Rep Collins, Mac</u> - 03/11/99	<u>Rep Price, David E.</u> - 03/18/99
<u>Rep Hastings, Doc</u> - 03/18/99	<u>Rep Maloney, James H.</u> - 03/18/99
<u>Rep Barton, Joe</u> - 03/25/99	<u>Rep Aderholt, Robert B.</u> - 03/25/99
<u>Rep Riley, Bob</u> - 03/25/99	<u>Rep Pickering, Charles (Chip)</u> - 03/25/99
<u>Rep Callahan, Sonny</u> - 03/25/99	<u>Rep Thurman, Karen L.</u> - 03/25/99
<u>Rep Baird, Brian</u> - 03/25/99	<u>Rep Moran, James P.</u> - 03/25/99
<u>Rep Johnson, Nancy L.</u> - 03/25/99	<u>Rep Wu, David</u> - 04/12/99
<u>Rep Dickey, Jay</u> - 04/12/99	<u>Rep Metcalf, Jack</u> - 04/12/99
<u>Rep Boehner, John A.</u> - 04/21/99	<u>Rep Shays, Christopher</u> - 04/21/99
<u>Rep Cooksey, John</u> - 04/27/99	<u>Rep Blunt, Roy</u> - 04/27/99
<u>Rep Sessions, Pete</u> - 04/27/99	<u>Rep Snyder, Vic</u> - 04/29/99
<u>Rep Chambliss, Saxby</u> - 04/29/99	<u>Rep Nethercutt, George R., Jr.</u> - 05/04/99
<u>Rep Nussle, Jim</u> - 05/04/99	<u>Rep Walden, Greg</u> - 05/04/99
<u>Rep Wicker, Roger F.</u> - 05/06/99	<u>Rep Emerson, Jo Ann</u> - 05/13/99
<u>Rep Houghton, Amo</u> - 05/13/99	<u>Rep Hutchinson, Asa</u> - 05/13/99
<u>Rep Brady, Kevin</u> - 05/13/99	<u>Rep Crane, Philip M.</u> - 05/18/99(withdrawn - 05/24/99)
<u>Rep Boyd, Allen</u> - 05/19/99	<u>Rep Deal, Nathan</u> - 05/19/99
<u>Rep Jones, Walter B., Jr.</u> - 05/20/99	<u>Rep Baker, Richard H.</u> - 06/07/99
<u>Rep Kingston, Jack</u> - 06/07/99	<u>Rep Norwood, Charlie</u> - 06/07/99
<u>Rep Sweeney, John E.</u> - 06/07/99	<u>Rep Etheridge, Bob</u> - 06/07/99
<u>Rep Lewis, Ron</u> - 06/09/99	<u>Rep Isakson, Johnny</u> - 06/10/99
<u>Rep Hilleary, Van</u> - 06/10/99	<u>Rep Chabot, Steve</u> - 06/10/99
<u>Rep Pombo, Richard W.</u> - 06/15/99	<u>Rep Tavlör, Charles H.</u> - 06/15/99
<u>Rep Schaffer, Bob</u> - 06/15/99	<u>Rep Cubin, Barbara</u> - 06/18/99
<u>Rep Boehlert, Sherwood L.</u> - 06/18/99	<u>Rep Lucas, Ken</u> - 06/22/99
<u>Rep Goodlatte, Bob</u> - 06/23/99	<u>Rep Goode, Virgil H., Jr.</u> - 06/24/99

Rep Jefferson, William J. - 06/24/99

Rep Scarborough, Joe - 06/29/99

Rep Simpson, Michael K. - 07/01/99

Rep Tauzin, W.J. (Billy) - 07/01/99

Rep Oberstar, James L. - 07/12/99

Rep Clayton, Eva M. - 07/15/99

Rep Hill, Rick - 07/19/99

Rep Fowler, Tillie - 07/22/99

Rep McHugh, John M. - 07/27/99

Rep Ryan, Paul - 09/08/99

Rep Everett, Terry - 06/25/99

Rep Johnson, Sam - 07/01/99

Rep Kuykendall, Steven T. - 07/01/99

Rep Peterson, John E. - 07/12/99

Rep Whitfield, Ed - 07/13/99

Rep Sherwood, Don - 07/16/99

Rep Hilliard, Earl F. - 07/19/99

Rep Clyburn, James E. - 07/27/99

Rep Allen, Thomas H. - 07/29/99

Rep Berry, Marion - 09/21/99

MEMORANDUM

To: Jeff Seabright, Roger Ballantine, Gerry Gerardi, Dan Reicher, Elgie Holstein

From: David B. Goldstein

Date: September 22, 1999

Re: Necessary Elements of a Workable Program for Home Energy Efficiency Tax Credits and a Potential "Compromise"

I believe that there could be substantial industry support for an Administration home energy efficiency tax credit if it appears to be a compromise between the Matsui Bill and the Thomas Bill. Elements of a compromise that could be offered by the Administration are described below. They address key concerns of the construction industry and builders without sacrificing necessary conditions for something that works.

Workability is critical, not only to NRDC but to numerous other stakeholders, including the states of California and Florida and many utilities. The experience with hundreds of thousands of houses has proven that apparently small problems with verification protocols lead to huge problems with real compliance.

The basic components of the compromise are presented below:

A. Critical Elements of the Compromise

1. Extend the 30% credits for all 5 years.

This is the key issue for the builders; they believe that the 30% package is the only buildable one, and so does much of the industry. The only harm in extending this tax credit for the full 5 years is the budgetary impact, which is discussed next:

- a) Cut the dollar amount if necessary to remain within budgetary criteria. *NRDC believes that the \$1,000 amount is expensive; but if this is what it takes to achieve a compromise, we won't oppose it. We could accept anywhere between \$500 and \$1,000 as politically and technically reasonable.*
2. Specify that the percentage saved is in annual cost to the consumer, not source or site energy.

Specifying savings in terms of cost will mitigate any potential problems with AGA or EEI, and is likely to be preferable to the building industry.

3. Specify that the energy being counted in the percentage calculation is heating plus cooling energy only; that is, that water heating is not included.

Builders wanted this exclusion of water heating in the Thomas Bill.

- a) The prescriptive packages for 30% savings developed by Bill Prindle of the Alliance to Save Energy could be put in the Committee Report. *These apparently had good consensus support from NAHB and others.*
- b) The language needs to be modified to make new homes eligible for the water heating equipment efficiency credits.
4. Enforcement - Clarify the section on third party inspectors (page 35, line 4 of the Matsui Bill) at the end of the existing section to state that the Secretary (of Energy) may qualify Home Energy Rating System organizations, local building code agencies, state or local energy offices, utilities, or other organizations that can meet the requirements promulgated pursuant to (i) above.
5. Verification and Oversight - This is critical: builder self-certification (as in the Thomas Bill) invites abuse and fraud. The Matsui Bill gets it right. Modification of these sections would be unacceptable.

B. Optional elements of a compromise

1. The tax credit could be offered to the builder rather than the home buyer, because adequate oversight is required.
2. The bill could drop the 40% tier and offer only 30% and 50% tiers.

The homebuilders, with apparently some support from other stakeholder organizations, want fewer tiers, although the reasoning behind this request is unclear. (Utility incentive programs offering multiple tiers have worked successfully without confusing the builder.) The 40% tier has no real stakeholders; it was added in 1999 by the Administration as an attempt to reach a compromise with the builders' request for a 30% tier. If we retain only the 30% and the 50% tiers, both effective for 5 years, the builders have the proposal they want in the lower tier, and the environmental and efficiency community, as well as the Administration get the initial 50% tier intact. This is a much better approach than watering down the 50% tier.

FAX COVER SHEET

Date: September 23, 1999

FAX TO: Roger Ballantine

Fax Number: (202) 456-1736

FROM: David B. Goldstein

No. of Pages: 3 (including cover)

If you do not receive this complete transmission,
Please call: Evelyn J. Arévalo at (415) 777-0220

**Re: Necessary Elements of a Workable Program for Home Energy Efficiency
Tax Credits and a Potential "Compromise"**

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Fax 323 934-1210

1200 New York Ave., NW
Suite 400
Washington, DC 20005
202 289-6868
Fax 202 289-1060

40 West 20th Street
New York, NY 10011
212 727-2700
Fax 212 727-1773

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Steel mty 9/2/99

Tax Credit idea - 845 addition steel industry waste, gas and heat added into this section. ~~Projected~~ Total outside number could be \$400 million, but realistic # is \$200m in out years.

- already 33% tax credit for steel-would replace this. ~~[reimbursement?]~~

- retrospective application?

- Could you do a loan guarantee of purchase of CO-gas? Or it as a service - no new capital stock, all done as a service.

- They say it's "not economic"

- One way to approach this is to work back from gas and find ~~more~~ spots where market fails you in wrong way and address that problem (w/ tax credit, loan guarantee, depreciation schedule, etc.)

- industry problem is difficulty in domestic coke production vs. cheap foreign coke.

- Net operating loss carryback provision in our budget; similar to our provision in ^{with} tax bill which allows them to cash out AMT credits. Can NIX these provisions in favor of theirs. w/ AMT provision not in our report.

Vol. 145

WASHINGTON, WEDNESDAY, JULY 28, 1999

No. 108

Congressional Record



United States
of America

PROCEEDINGS AND DEBATES OF THE 106th CONGRESS, FIRST SESSION

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TITLE IX—STEELMAKING

SEC. 901. CREDIT FOR ENERGY-EFFICIENT STEELMAKING CAPACITY.

(a) ALLOWANCE OF ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—Subpart D of part IV of subchapter A of chapter 1 (relating to business related credits), as amended by section 701(a), is amended by adding at the end the following:

"SEC. 45G. ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.

"(a) IN GENERAL.—For purposes of section 38, the energy-efficient steelmaking capacity credit for any taxable year is an amount equal to the product of—

"(1) \$50, multiplied by

"(2) the metric tons of steel produced during such taxable year from a qualified steelmaking system placed in service by the taxpayer or that is acquired through purchase (as defined by section 179(d)(2)) by such taxpayer.

"(b) QUALIFIED STEELMAKING SYSTEM.—For purposes of this section, the term 'qualified steelmaking system' means a system which produces steel at a maximum net specific energy consumption of 17 GJ per metric ton."

"(b) CREDIT TREATED AS BUSINESS CREDIT.—Section 38(b), as amended by section 701(b), is amended by striking "plus" at the end of paragraph (14), by striking the period at the end of paragraph (15) and inserting ", plus", and by adding at the end the following:

"(16) the energy-efficient steelmaking capacity credit determined under section 45G(a)."

(c) CREDIT ALLOWED AGAINST MINIMUM TAX.—

(1) IN GENERAL.—Section 38(c) (relating to limitation based on amount of tax), as amended by section 502(c)(1), is amended by redesignating paragraph (6) as paragraph (7) and by inserting after paragraph (5) the following:

"(6) SPECIAL RULES FOR ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—

"(A) IN GENERAL.—In the case of the energy-efficient steelmaking capacity credit—

"(i) this section and section 39 shall be applied separately with respect to such credits, and

"(ii) in applying paragraph (1) to such credits—

"(I) subparagraph (A) shall not apply, and

"(II) the limitation under paragraph (1) (as modified by subclause (I)) shall be reduced by the credit allowed under subsection (a) for the taxable year (other than the credits described in this paragraph and paragraphs (2), (3), (4), and (5)).

"(B) ENERGY-EFFICIENT STEELMAKING CAPACITY CREDIT.—For purposes of this paragraph, the term 'energy-efficient steelmaking capacity credit' means the portion of the credit under subsection (a) which is attributable to the credit determined under section 45G(a)."

(2) CONFORMING AMENDMENT.—Section 38(c)(2)(A)(ii)(II), as amended by section 502(c)(2), is amended by striking "(other than the credits described in this paragraph and paragraphs (3), (4), and (5))" and inserting "(other than the credits described in this paragraph and paragraphs (3), (4), (5), and (6))".

(d) CLERICAL AMENDMENT.—The table of sections for subpart D of part IV of subchapter A of chapter 1, as amended by section 701(c), is amended by adding at the end the following:

"Sec. 45G. Energy-efficient steelmaking capacity credit."

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to production after the date of the enactment of this Act.

SEC. 902. EXTENSION OF CREDIT FOR ELECTRICITY TO PRODUCTION FROM STEEL COGENERATION.

(a) EXTENSION OF CREDIT FOR COKE PRODUCTION AND STEEL MANUFACTURING FACILITIES.—Section 45(c)(1) (defining qualified energy resources), as amended by section 802(a)(1), is amended by striking "and" at the end of subparagraph (A), by striking the period at the end of subparagraph (B) and inserting ", and", and by adding at the end the following:

"(C) steel cogeneration."

(b) STEEL COGENERATION.—Section 45(c) is amended by adding at the end the following:

"(4) STEEL COGENERATION.—The term 'steel cogeneration' means the production of steam or other form of thermal energy of at least 20 percent of total production and the production of electricity or mechanical energy (or both) of at least 20 percent of total production which meet regulatory energy-efficiency standards established by the Secretary, to the extent that such energy is produced from—

"(A) gases or heat generated during the production of coke,

"(B) blast furnace gases or heat generated during the production of iron, or

"(C) waste gases or heat generated from the manufacture of steel that uses at least 20 percent recycled material."

(c) MODIFICATION OF PLACED IN SERVICE RULES FOR STEEL COGENERATION FACILITIES.—Section 45(c)(3) (defining qualified facility), as amended by section 802(b), is amended by adding at the end the following:

"(C) STEEL COGENERATION FACILITIES.—In the case of a facility using steel cogeneration to produce electricity, the term 'qualified facility' means any facility meeting the environmental requirements of the Clean Air Act Amendments of 1990 which is owned by the taxpayer and originally placed in service after December 31, 1999, and before January 1, 2005. Such a facility may be treated as originally placed in service when such facility was last upgraded to increase efficiency or generation capability."

(d) CONFORMING AMENDMENTS.—

(1) The heading for section 45 is amended by inserting "and waste energy" after "renewable".

(2) The item relating to section 45 in the table of sections subpart D of part IV of subchapter A of chapter 1 is amended by inserting "and waste energy" after "renewable".

(e) EFFECTIVE DATE.—The amendments made by this section shall apply to electricity produced in taxable years beginning after December 31, 2001, and before January 1, 2005.

IRC Sec. 45 Extension to Steel Industry Cogeneration

Internal Revenue Code Section 45 tax credits can help offset the growing U.S. disadvantage in steel, iron and coke production resulting from disparities in existing environmental regulations and currently unfair levels of steel and coke imports. Section 45 tax credits for steel could also be used to achieve tax policy objectives in the President's FY 2000 budget for the steel industry and the environment.

U.S. steelmaking is once again the world leader in labor productivity with state-of-the-art technology and thousands of highly skilled jobs. However, the lack of environmental controls in Asia and elsewhere combined with foreign subsidies has made it increasingly more difficult for U.S. producers of steel. For example, when the strict environmental emissions requirements imposed by the 1990 Clean Air Act are triggered in 2003 and 2010, 58 of the remaining 64 U.S. coke oven batteries could be at risk without additional measures being taken at those facilities. Presently, there are not sufficient coking facilities operating in the U.S. to supply the domestic needs.

Steel, iron and coke facilities produce significant "waste energy" in the form of heat and gases -- energy that can be recaptured by cogenerating electricity and other usable power. By adding steel, iron and coke cogeneration facilities to the list of energy sources entitled to the existing tax credit, Congress will achieve several worthwhile objectives.

- **Consumers.** Electricity from these waste energy sources will avoid transmission and distribution losses associated with centralized power generation, and avoid some otherwise needed expansion of electricity generation and transmission capacity.
- **Global Steel Competitiveness.** It will help maintain the global competitiveness of domestically produced steel and coke by offsetting the pricing disruptions from unprecedented levels of unfair imports that have resulted from the lower environmental standards and economic failures in Asia and elsewhere.
- **Jobs.** By helping secure continued plant and equipment replacement in the U.S., it will reduce job-loss risk in the steel and coke industries and in the associated mining, equipment manufacturing, and construction industries.
- **Environment.** By encouraging investments in the U.S., it will reduce the likelihood that the industrial migration out of the U.S. will increase global emissions of the very particulates and gases that the U.S. environmental regulations are designed to curtail.
- **Government Financing.** Communities will benefit from the tax and wage base created by the steel and coke industries.

MARKING INITIALS: W DATE: 3/4/11
2017-103-6

CONFIDENTIAL

Explanation of the Proposed Legislative Change

The tax credit for steel and coke industry generation facilities is structured similar to the electricity production credits provided in Internal Revenue Code Section 45 for wind and biomass facilities. Thus the credit is equal to 1.7 cents (1.5 cents plus adjustments for inflation since 1992) per kilowatt hour of electricity produced from these qualified sources for a period of 10 years.

The credit is available only for facilities in the United States or possession that meet the 1990 Clean Air Act requirements that will be imposed in 2003 and 2010. Because it would be available for power produced entirely from waste heat and waste gas resources, it provides the same level credit as the pre-existing tax credit for wind and other renewable energy sources. It also is limited to those steel and coke production facilities that will be the source of jobs in the United States. Because the stream of tax credits is temporary and sunsets for facilities placed in service after 2005; it should have a significant impact in a short period.

Generation facilities entitled to the credit include generation facilities that use heat or gases from a steelmaking facility or steel and iron ore processing facility, blast furnace facility or coke production facility. It is limited to facilities that meet the environmental requirements imposed by the 1990 Clean Air Act. Thus, generation property would be defined under the regulations as property comprising a system that uses the same energy source for the simultaneous or sequential generation of (1) electricity or mechanical shaft power (or both) and (2) steam or other forms of useful thermal energy (including heating and cooling applications).

A qualified system would generally be required to meet the standards proposed by the Administration for its proposed investment tax credit for combined heat and power systems. Thus, a system would be required to produce at least 20 percent of its total useful energy in the form of thermal energy and at least 20 percent of its total useful energy in the form of electrical or mechanical power (or a combination thereof). Under the broadly applicable investment tax credit proposal, the cogeneration facility would also be required to satisfy an energy-efficiency standard. For cogeneration systems with an electrical capacity in excess of 50 megawatts (or a mechanical energy capacity in excess of 67,000 horsepower), the total energy efficiency of the system would have to exceed 70 percent. For smaller systems, the total energy efficiency would have to exceed 60 percent. For this purpose, total energy efficiency would be calculated as the sum of the useful electrical, thermal, and mechanical power produced by the system at normal operating rates, measured on a Btu basis, divided by the lower heating value of the primary fuel source for the system supplied. However, to the extent that the facility is primarily powered by gases or heat generated during the production of coke, iron, or

steel, it is deemed to meet the required energy efficiency standard and the requirement that the facility produce particular percentages of power in the form of steam or electrical energy shall not apply.

As with the existing credits for electricity produced from wind or closed-loop biomass, the credit for electricity production from a steel and coke production cogeneration is a component of the general business credit (sec. 38(b)(1)). This credit, when combined with all other components of the general business credit, generally may not exceed for any taxable year the excess of the taxpayer's net income tax over the greater of (1) 25 percent of net regular tax liability above \$25,000 or (2) the tentative minimum tax. For credits arising in taxable years beginning after December 31, 1997, an unused general business credit generally may be carried back one taxable year and carried forward 20 taxable years.

The benefit of the credit must be made available to the owner of the steel or coke production facility that produces the waste gases and waste heat fuel for the generation facility. For tax filing purposes, the credit is allocated among the owners' or operators' tax returns in proportion to their respective interests from the gross sales from the generation facility. The credit would be allowed with respect to qualified generation property only if its eligibility is verified under regulations prescribed by the Secretary of the Treasury. The regulations would require taxpayers claiming the credit to obtain proper certification by qualified engineers that the system meets any annual energy efficiency or percentage-of-energy tests that may apply. In addition, the regulations should provide rules to assure that the producer of the waste heat and gases has obtained the benefit of the credit.

The credits will become effective for taxable years beginning after December 31, 2001 and before January 1, 2005, for generation facilities placed in service after December 31, 1990 and before January 1, 2005. The credits would be available for production during the ten years following the date that the credit is made effective or, if later, when the facility is originally placed in service. In no event shall the credit extend beyond 10 years for any generation facility.

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: MS **DATE:** 3/4/14

2017-1093-f

CONFIDENTIAL

Environmental tax credit for cogeneration in U.S. coke and steel production facilities.

**Section 1. EXTENSION OF THE TAX CREDIT FOR
ELECTRICITY.**

(a) EXTENSION OF THE SECTION 45 TAX CREDIT FOR COKE PRODUCTION
AND STEEL MANUFACTURING FACILITIES -- Section 45 is amended by --

(1) retitling Section 45 to read as set forth below.

**“Section 45. ELECTRICITY PRODUCED FROM
CERTAIN RENEWABLE AND WASTE
ENERGY RESOURCES.”**

(2) amending subsection 45(c)(1) to read as set forth below.

**“(1) QUALIFIED ENERGY RESOURCES. -- The term
‘qualified energy resources’ means --**

(A) wind,

(B) closed-loop biomass, and

(C) steel cogeneration.”

(3) amending subsection 45(c)(3) by striking “The term” and
inserting in its place “Except as provided in paragraph (4), the term”.

(4) adding a new Subsection 45(c)(4) immediately following
Subsection (c)(3) to read as set forth below.

**“(4) STEEL COGENERATION. Steel cogeneration” means
the production of steam or other form of thermal energy and the**

1 production of electricity or mechanical energy (or both) meeting
2 regulatory standards established by the Secretary, to the extent
3 that such energy is produced from --

4 (A) gases or heat generated during the production
5 of coke,

6 (B) blast furnace gases or heat from iron
7 production, or

8 (C) waste gases or heat from steel manufacturing
9 that uses at least 10 percent recycled material annually.

10 For purposes of subparagraph (a)(2)(ii) and paragraph (c), a
11 facility meeting the terms of this paragraphs is a qualified
12 facility beginning on the date the generation equipment was
13 originally placed in service, if it is a facility owned or operated
14 by the taxpayer and originally placed in service after December
15 31, 1990 and before January 1, 2005. The taxpayer may elect to
16 treat a facility as originally placed in service for such purposes
17 on the date that section 45(c)(1)(C) is first effective, if such date
18 occurs after the date the facility would otherwise be treated as
19 placed in service.”

20 (b) EFFECTIVE DATE. The amendments made by this section shall take
21 effect for taxable years beginning after December 31, 2001 and before January 1,
22 2005.

23 # # # # #

CONFIDENTIAL

Environmental tax credit for cogeneration in U.S. coke and steel production facilities.

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10 For purposes of subparagraph (a)(2)(ii) and paragraph (c), a
11 facility meeting the terms of this paragraphs is a qualified
12 facility beginning on the date the generation equipment was
13 originally placed in service, if it is a facility owned by the
14 taxpayer and originally placed in service by the taxpayer after
15 December 31, 1999 and before January 1, 2005. Such a facility
16 may be treated as originally placed in service when such facility
17 was last upgraded to increase efficiency or generation capability,
18 but in no event shall the period referred to in subparagraph
19 (a)(2)(ii) extend beyond 10 years for any facility.”

20 (b) EFFECTIVE DATE. The amendments made by this section shall take
21 effect for taxable years beginning after December 31, 2001 and before January 1,
22 2005.

23 # # # # #

Extender Package Climate Change Priorities

Current Law: Section 45 provides for a 1.5 Cent/Kilowatt hour tax credit for electricity produced from wind and closed-loop biomass (a facility with dedicated plant matter).

Our priorities for an extender package are:

1. Administration's proposal: Expand this credit for 5 years to include:
 - open-loop biomass (by expanding the definition of biomass)
 - co-firing biomass with coal
2. Administration's proposal plus making existing biomass facilities eligible for the credit.
3. Administration's proposal plus (1) making existing biomass facilities and (2) landfill gas (methane) facilities eligible for the credit.
4. If no expansion of the existing credit is possible, it is critical to extend the credit for 5 years. We will lose wind energy project development with only a one year extension of the credit.



TO: Roger Ballentine, Deputy Assistant to the President for Environmental Initiatives
C/O: Julie Andersen
FAX: (202) 395-2342
FROM: Melissa I. Santoro, Assistant Director Legislative Affairs (202-383-2507)
RE: Meeting Request for AWEA Board of Directors
TOPIC: Wind Energy Production Tax Credit (PTC)
DATE: September 9, 1999

I write to request a meeting with you on behalf of the Board of Directors of the American Wind Energy Association. Members of our Board will be available to meet with you at any time after 10:00 a.m. on Thursday, September 23.

Specifically, we would like to meet with you to discuss the wind energy Production Tax Credit (PTC). As you may know, a four-year extension of the PTC is included in the wide-ranging tax legislation approved by the House and Senate. The Congressional tax package (H.R. 2488) would extend the PTC through June 30, 2003, applying the credit retroactively to June 30 of this year, the date it expired. The extension of the PTC will provide an opportunity to continue growing the U.S. wind industry, which has seen very slow growth over the last five years due to the impact of electricity restructuring. Without the PTC, clean energy development at cost-competitive rates to the consumer would not be possible.

Attached please find our two-page summary of the PTC, including all 25 co-sponsors in the Senate and 151 co-sponsors in the House.

Members of the AWEA Board of Directors who are scheduled to participate in this meeting include the following: William Adams (San Geronio Farms, Inc.); Leif Andersen (NEG Micon USA, Inc.); Karen Conover (Global Energy Concepts, Inc.); Robert Gates (Enron Wind Corp.); Dean Gosselin (FPL Energy, Inc.); Greg Jaunich (Northern Alternative Energy, Inc.); Peter Mandelstam (Arcadia Windpower, Ltd.); and, Ward Marshall (Central & South West Services, Inc.).

Please call me directly at (202) 383-2507 to respond to this request. I thank you for your consideration in this matter.

Van Scoyoc Associates, Inc.
1420 New York Avenue, NW
Suite 1050
Washington, DC 20005
Phone# 202-638-1950
Fax# 202-638-1928
Email: cmcmurray@vsadc.com

Fax Cover Sheet

TO: Roger Ballentine

FROM: Claudia A. McMurray

DATE: September 22, 1999

FAX#: 202.456.1736

PAGE(s): 3

COMMENTS: Per our discussion earlier this week.....

*Copy to
Julie Haneet*

CONFIDENTIALITY NOTICE

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LANDFILL GAS TAX CREDIT COALITION

September 22, 1999

Roger Ballentine, Esquire
Deputy Assistant to the President
for Environmental Initiatives
The White House
Washington, DC

Dear Roger,

The possible development of an "extenders" tax bill this fall is an opportunity to enact a tax credit for landfill gas-to-energy projects. Our assessment is that this opportunity will blossom only if a couple of favorable factors arise. One of those factors is active White House support for such a credit as part of its bottom line wish list. If such support is unlikely to materialize, we do not want to encourage the client group to devote substantial time and effort to an "extenders" bill. But if there is a reasonable chance that the Administration would include a landfill gas tax credit on its "list", we need to know so that we can get them persuaded and working quickly.

Set out below is a summary of the points in favor of including landfill gas on the Administration list of items for an "extender" bill:

1. Landfill gas ("LFG") projects -- both LFG-to-gas and LFG-to-electricity -- are proven technologies that have demonstrable greenhouse gas reduction benefits. The emissions reductions from new and all existing projects could by 2010 achieve approximately 10% of the Kyoto Treaty's greenhouse gas reduction target for the United States, *provided that* the credit remains in place without the probability of expiring for many years. A stable, dependable tax credit is necessary to get the full emissions reduction benefits, because it takes 18-to-24 months for a new LFG project to move from negotiations through permit work to final construction. .
2. The proposed LFG-to-energy credit is, in fact, an "extender." The LFG projects were covered by old sec. 29, which expired and is not available for projects *placed in service* (a tax term of art) after June 30, 1998. Other climate-related proposals from the Administration probably do not have extender "hooks" on which to hang this fall. We acknowledge that our LFG credit proposal would move the credit to sec. 45 and would rejuvenate that credit more than a year after its predecessor expired. Nonetheless, the LFG credit can legitimately be described as an extender.

3. Unless all participants agree that an extenders bill is going to be absolutely clean -- meaning that only those provisions like the R&D credit, etc., which expire/expired this year will be extended and that nothing else will be on that bill -- the Administration and Congressional Democrats will be in a position to attach items which can at least pass the laugh test on extenders. The LFG credit passes that test. In addition, the LFG credit is one that you can claim and might actually be able to get enacted this year.
4. Furthermore, the LFG credit is cheap relative to its benefits. While we were never given a direct revenue estimate during the tax bill's development, you can deduce that the Joint Committee on Taxation's staff ("JCT") computed a \$133 million effect over ten years for the LFG-to-electricity provision that was included in Roth's final mark and that passed the Senate.¹ This is done by comparing the JCT's first revenue table (JCX-47-99) for Roth's first mark, which did not include LFG (\$659 million for sec. 45) to their table (JCX-52-99) for his final mark (\$792 million for sec. 45 with the only change being LFG-to-electricity projects placed in service by June 30, 2004). We think this estimate is a little high, because new projects must be developed from scratch and thus cannot be brought on line quickly when the new credit becomes law. In any event, an estimate of \$133 million over ten years is not that large in the scheme of things.

In summary, the LFG credit is plausible as an extender, particularly if the extender bill is not squeaky clean. The Administration can adopt this proposal as a climate-related initiative that might actually be enacted this year. Cliff has talked briefly with Jon Talisman about who to go see at Treasury; if a lobbying effort goes forward on an extender bill, we will meet with the appropriate individuals at Treasury and would expect to find neither more nor less enthusiasm for this compared to other tax credits.

Your feedback on the viability of the landfill gas credit as an extender would be extremely valuable to our clients in determining whether or not to go forward. Thank you for your consideration.

Claudia McMurray
Cliff Massa III

¹ The Senate bill dropped landfill-to-gas projects based on the political decision to limit sec. 45 to its current electricity-related purpose. From the Administration's perspective, LFG-to-gas projects are just as environmentally beneficial (they were covered by sec. 29) and should be included in a new credit.

September 9, 1999

The President
The White House
Washington, DC 20500

Dear Mr. President:

The undersigned businesses and business associations urge you to insist that tax credits for energy efficiency and renewable energy technologies be included in any tax legislation enacted in 1999. We were pleased to see that such tax credits were included in your fiscal year 1999 and 2000 budget requests. As you and your Administration have noted many times, both the economy and the environment would benefit from stimulating the introduction and adoption of innovative energy-saving and renewable energy technologies such as:

- hybrid and fuel cell-powered cars and light trucks
- highly efficient new homes
- highly efficient gas and electric heating and cooling systems
- solar photovoltaic power and water heating systems
- wind power technologies
- biomass-based power systems
- fuel cell cogeneration systems
- combined heat and power systems

We hope that we can count on your continued leadership and support for such tax credits as tax legislation moves towards enactment.

Sincerely,

ACR Solar International
ASE Americas
AWS Scientific, Inc.
Air Conditioning and Refrigeration Institute
Air Conditioning Contractors of America
American Architectural Manufacturers Assoc.
American Bioenergy Association
American Gas Cooling Center
American Portland Cement Alliance
American Rockwool, Inc.
American Standard, Inc.
American Supply Association
Andersen Corporation

Apache Products Company
AstroPower, Inc.
Atlas Roofing Corporation
BG Technologies LLC
Bayer Corporation
Bergey Windpower
Cardinal IG
Carrier Corporation
Cascade Associates
Celotex Corporation
CertainTeed Corporation
Constellation Energy Source, Inc.
C.T. Donovan Associates, Inc.

E ₃ Ventures, Inc.	OEM Development Corporation
Energy Conversion Devices	Onsite SYCOM
Energy Insurance Brokers	Organic Power, Inc.
Evanite Fiber Corporation	Operational Energy Corporation
Exeltherm, Inc.	Owens Corning
enXco Inc.	Peachtree Doors and Windows
Evergreen Solar, Inc.	Plug Power, LLC.
Exergy Partners Corp.	Polyisocyanurate Insulation
Fibrex Insulations, Inc.	Manufacturers Association
Firestone Building Products Co.	PowerLight Corporation
Florida Solar Energy Industries Association	Ray Core
Ford Motor Company	Real Goods Trading Corp.
Global Biorefineries, Inc.	Reeve Agri-Energy
Global Energy Concepts	Renewable Aviation Fuels
GreenMountain.com	Development Center
HL Power Company	Renewable Ventures, Inc.
Hearth Products Association	Rmax, Inc.
Homasote Company	Rock Wool Manufacturing Co.
Honeywell, Inc.	Roxul, Inc.
ICI Polyurethane	Sea West Windpower, Inc.
I. C. Thomasson Assoc., Inc.	Sheet Metal & Air Conditioning Contractors'
Insulating Concrete Form Association	National Association (SMACNA)
Integrated Building & Construction Solutions	Simonton Windows
International Applied Engineering, Inc.	Sloss Industries Corporation
International District Energy Association	Society of the Plastics Industry
Isolatek International	Solar Energy Industries Association
Johns Manville	Solar Turbines, Inc.
Johnson Controls	Son Energy, Inc.
Kamzin Technology	Southern California Edison
Knauf Fiber Glass	Spire Corporation
Louisiana Pacific Corporation	Springtyme, L.L.C.
M+N Wind Power, Inc.	SUN Utility Network
MFS, Inc.	Tenneco Building Products
National Association of	Toyota Motor Sales, USA
Plumbing-Heating-Cooling Contractors	Trace Engineering
National BioEnergy Industries Association	Trigen Energy
NEG Micon USA, Inc.	True Wind Solutions, L.L.C.
NRG Systems, Inc.	USG Interiors, Inc.
Nichimen America, Inc.	W.A. Vachon + Associates
NiSource, Inc.	Vestas-American Wind Technology, Inc.
NORDYNE, Inc.	Western Fiberglass Group
North American Insulation	The Wind Turbine Company
Manufacturers Association	WindLite Corporation
North American Steel Framing Alliance	York International Corporation
Oak Creek Energy Systems, Inc.	

Questions or replies to this letter may be directed to the Edward R. Osann, Potomac Resources, Inc., 1001 Connecticut Avenue, NW, Suite 801, Washington, DC 20036; 202-429-8873

HOLD FOR RELEASE
September 9, 1999

FOR FURTHER INFORMATION:
Ken Mentzer (NAIMA): 703-684-0084
Jim Olson (Toyota): 202-775-1700
Karen Conover (GEC): 425-822-9008
Scott Sklar (SEIA): 703-248-0704

BUSINESSES URGE SUPPORT FOR CLIMATE-FRIENDLY TAX MEASURES

Over 100 companies and business trade associations -- including 12 Fortune 500 companies -- have written today to President Clinton urging that he continue to push for tax incentives for clean energy in the likely face-off with Congress over tax policy this fall. (See attached letter.) The \$792 billion tax cut approved by Congress contains no new incentives for energy efficiency or renewable energy.

"Tax incentives for energy efficient buildings and homes make sense for business and homeowners by increasing affordability, cutting energy costs, and reducing pollution, with the added benefit of improving our environment," said Ken Mentzer, Executive Vice President of the **North American Insulation Manufacturers Association (NAIMA)**.

"A flexible, market-driven system using tax credits to jump-start clean, energy-efficient new technology is obviously in the best interest of America's future and something everyone should support," said Jim Olson, Senior Vice President for External Affairs, **Toyota Motor Sales, USA**.

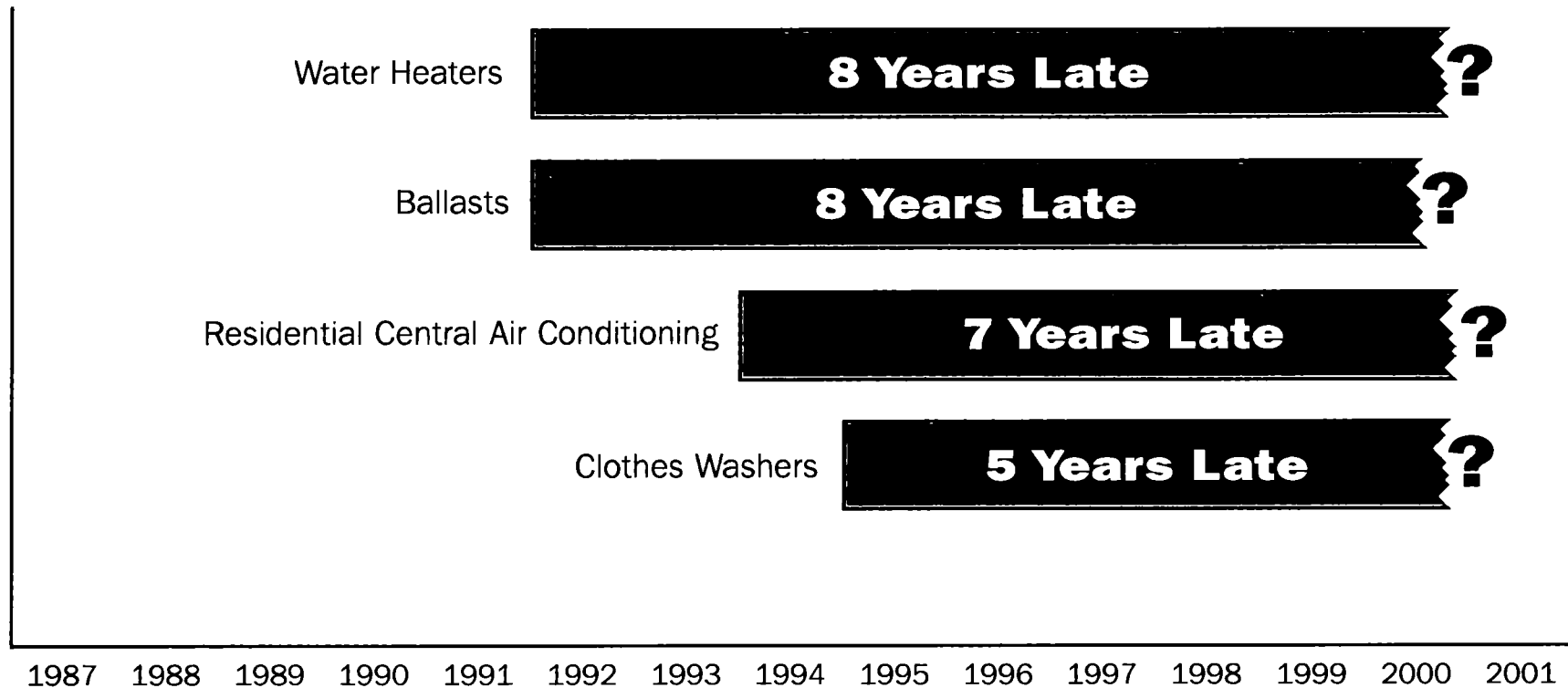
"With the right public policies in place, much of the new energy needs of the American people can be served with clean sources of renewable energy, including wind-generated electric power," said Karen Conover, president of **Global Energy Concepts** and immediate past president of the **American Wind Energy Association**. "The President should insist on tax policies that can ensure a healthy expansion of this home-grown industry."

"The role of government is not to subsidize mature industries with mature technologies in mature markets, but rather to support emerging clean technologies creating new markets with hundreds of thousands of new US jobs," said Scott Sklar, Executive Director of the **Solar Energy Industries Association (SEIA)**.

In the budget submitted earlier this year, President Clinton proposed a variety of tax incentives to speed up the production and use of energy efficient vehicles and equipment and electricity generated from renewable energy sources. Representatives Bill Thomas (R-CA), Matt Salmon (R-AZ), Wally Herger (R-CA), Mac Collins (R-GA), and Bob Matsui (D-CA) and Senators Chuck Grassley (R-IA) and Jay Rockefeller (D-WV) all had introduced legislation to provide tax incentives for clean energy, but none of these proposals were included in the final tax bill approved by Congress in early August except for a 4-year extension of expiring credits for power generated from wind and biomass. The White House has announced its intention to veto the Congressional tax bill.

Standards Adoption Schedule Violates the Law

Lag time between legislated date and currently scheduled date for final rulemaking

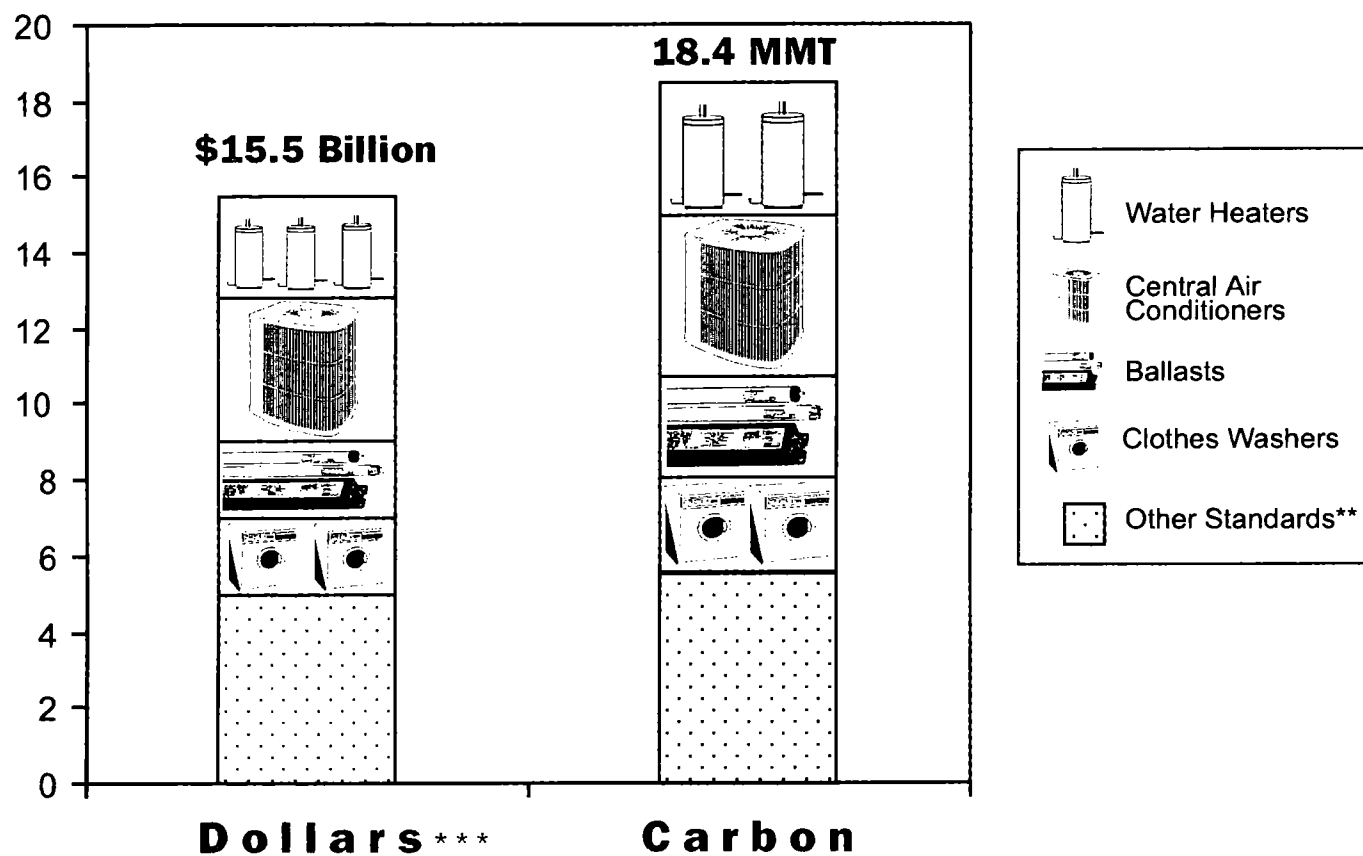


Other rulemakings are similarly behind schedule.

The Administration must accelerate appliance standards.

New Appliance Standards Can Save Billions of Dollars and Prevent Millions of Tons of Carbon Emissions

Savings in 2010 With Pending Appliance Standards



Current appliance standards are saving consumers \$150 billion* and will avoid the annual emission of 30 million metric tons of carbon in 2000.

Completing work on new appliance standards can significantly increase these savings.

Approving energy-efficiency standards for these appliances will save approximately \$155 per household.

*Net present value over appliance lifetime in 1996 dollars

**Other standards include transformers, commercial air conditioning, commercial heat pumps, refrigerators, furnaces, dishwashers, room air conditioners, etc.

***For appliances sold through 2010

**White House Climate Change Task Force**

734 Jackson Place, N.W. • Washington, DC 20503

FACSIMILE TRANSMISSION SHEET

To	Roger Ballentine	From	Jamel Anderson
Office	Env Initiatives	Date	20 Sept
Fax Number	6 1736	Fax Number	395-2311
Office Number	6 1782	Office Number	395-2310

Comments:

Ang / Roger -

This is the document my e mail
refers to.

Jamel

Pages: 3 , including this cover sheet.**IF TRANSMITTAL IS INCOMPLETE, PLEASE PHONE**

PROPOSED MODIFICATIONS TO THE SECTION 45 BIOMASS TAX CREDIT

In order to preserve the electrical and environmental benefits of existing biomass facilities and meet the overall renewable energy goals of the Administration, the USA Biomass Power Producers Alliance urges the following modifications to the Internal Revenue Code Section 45 Biomass tax credit, pursuant to which no credits have been claimed by the biomass power industry since its enactment in 1992. The Alliance estimates that in the absence of the existing U.S. biomass power industry, the U.S. commitment to reduce greenhouse emissions by 7% below 1990 levels would be at least 2.3% more difficult to achieve in the 2008-2012 timeframe. The modifications are embodied in H.R. 1731 (Herger/Matsui) and S. 1351 (Grassley/Harkin).

1. Definition: The definition of biomass material eligible for the credit is expanded to include both current law "closed-loop" facilities and existing facilities that combust biomass not grown for the purpose of combustion and derived from off-site sources¹. This language is an enhancement of the definition proposed by the President in his FY 2000 budget proposal and specifically excludes biomass derived from: old growth timber; wood wastes that are painted, chemically or pressure treated; unsegregated municipal solid waste; and paper that is commonly recycled.
2. Qualified biomass facility: A qualified biomass facility means, with respect to any month, a facility placed in service before July 1, 2004, if biomass comprises not less than 75 percent (on a BTU basis) of the average monthly fuel input of the facility for the taxable year in which the month falls.
3. Period of Availability: Similar to the wind credit, the biomass tax credit would be available for a ten year period, per facility, for electricity produced no earlier than date of enactment.
4. Placed in Service Requirements: To accomplish the policy goals of reducing pollution, managing waste streams and lowering the risks of forest fire, the biomass credit would be available to all existing facilities.

¹ The term "biomass" is defined as solid, nonhazardous, cellulosic waste material, which is segregated from other waste materials, and which is derived from any of the following forest related resources: mill residues, precommercial thinnings, slash and brush, but not including old-growth timber, waste pallets, crates and dunnage, manufacturing and construction wood wastes (but not including pressure-treated, chemically treated, or painted wood wastes), and landscape or right-of-way tree trimmings, but not including unsegregated municipal solid waste (garbage) and commonly recyclable paper, and agriculture sources, including tree crops, vineyard, grain, legumes, sugar, and other crop byproducts or residues.

5. Interaction with sec. 45(b)(3): The full credit would be available to all existing biomass facilities notwithstanding any use of tax-exempt financing.
6. Treatment of Lessees/Operators of biomass facilities: Taxpayers who lease and operate biomass facilities and sell electric power to unrelated third parties would be eligible for the credit in a manner identical to taxpayers who own and operate biomass facilities.

Climate Change Tax Credit Priorities

In 1998, the Climate Change Technology Initiative originally contained 9 tax credits. We were successful in getting the parking and transit parking benefit proposal in the highway bill. In 1999, upon review of the remaining credits, we dropped two of the credits and modified and improved the remaining 6 tax credits. The 1999 CCTI \$3.6 billion tax incentive package includes:

1. Energy Efficient Building Equipment
2. Energy Efficient New Homes
3. Electric and Hybrid Vehicles
4. Combined Heat & Power Systems
5. Rooftop Solar Equipment
6. Wind & Biomass Renewable Energy

Our priorities for this year are:

1. Wind & Biomass Renewable Energy - supply side \$300 Million over 5 years
2. Energy Efficient New Homes - demand side management \$400 Million over 5 years
3. Electric & Hybrid Vehicles - our deal w/ Detroit \$900 Million over 5 years

All three of these credits enjoy some Hill support. All three of these issues are receiving support and attention from industry. However, there are varying proposals floating with respect to each. There is great potential, if the Administration is willing to negotiate, to reach consensus with industry, the environmental community and the Hill on all three. The three are listed in order of viability – i.e., wind and biomass credit is probably the most easy to obtain.

The costs of all three would increase with revisions. Approximate revenue expenditures are:

1. Wind & Biomass \$500 Million over 5 years
(Adding existing biomass facilities)
2. New Homes Up to \$750 Million over 5 years
(Modification of tiers)
3. Vehicles \$1.4 billion over 5 years
(Combining electric, hybrids & alternative fuel vehicles)

Hon. William J. Clinton
August 25, 1999
Page

Friends of the Earth
1025 Vermont Avenue, NW
Suite 300
Washington, DC 20005

Mr. William J. Clinton
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

August 25, 1999

Dear President Clinton:

The undersigned environmental, conservation, human health, and community protection organizations are encouraged by your promise to veto the tax bill as passed by Congress. We are concerned that it contains numerous provisions that would harm efforts to protect natural resources, human health, and communities.

In 1999, harnessing the power of the tax code to help enhance the environment, human health and our communities should not be controversial policy. For instance, the President's Council on Sustainable Development comprising a diverse group of business, environmental and other interests recommended the nation make greater use of market forces to achieve environmental objectives.

The tax bill passed this month by Congress not only fails to encourage sustainable development, but further tilts the tax code against clean air, drinkable water, healthy forests, and livable communities. For instance, the tax bill would create more than \$7 billion in new subsidies for the oil and gas and nuclear, but establishes only \$195 million in tax incentives for cleaner renewable sources of energy like the production of electricity by wind or biomass. On balance, this is a heavy bias toward polluting energy sources that cause the release of global warming gases, other air pollution and risks, and threaten our communities. This tax bill will seriously undermine the efforts of your own Administration to encourage energy efficiency and renewable energy production. ?

The tax bill passed by Congress overlooks numerous tax policy proposals that would help the environment. These proposals have been championed by both Republicans and Democrats. For instance, Representative Nancy Johnson (R-CT) has proposed legislation to encourage the preservation of open space and control sprawl development by increasing incentives for conservation easements. Representative Bob Matsui (D-CA) has proposed legislation, similar to your own proposals that would encourage the development and use of energy efficient technology in buildings, industry, transportation, and electricity. These proposals would reduce

harmful carbon emissions that contribute to global climate change. Senator Jim Jeffords (R-VT) introduced legislation to encourage the preservation of open space, reducing sprawl into the suburbs and rural areas by providing favorable capital gains treatment on land sold to eligible conservation entities. Senator Max Baucus (D-MT) introduced legislation that would enhance existing conservation incentives and creates a new estate tax incentive for land that is managed to protect threatened or endangered species. Your own Administration has proposed innovative new tax credits to finance public bonds to preserve open space and preserve communities.

While the thrust of the tax bill is decidedly anti-environmental, there are a few positive line-items in the Senate bill that deserve mention. One provision expands estate tax rules for conservation easements at a cost of \$62 million over the next five years (although this incentive would be lost when the estate tax is eliminated). Another provision provides an increased tax deduction for renovating owner-occupied historic homes at a cost of \$486 million over the next five years. A third provision clarifies that special treatment for employer-provided transit passes encouraging the use of public transportation instead of solo-commutes. Another provision extends credits for wind and biomass electricity at a cost of \$195 million over the next five years.

When evaluating tax legislation, we urge you to consider how the environment would fare. We believe that provisions that encourage destructive activities must be removed before you approve a tax bill. Provisions in the current tax bill with which we are most concerned include:

- **Special Net Operating Loss Rules for Oil and Gas Properties:** The tax bill would carve out a special allowance for taxpayers to apply losses from oil and gas businesses to taxes paid five years in the past and provide a new subsidy to fossil fuel production that will cost taxpayers \$139 million over the next five years.
- **Pipeline Transportation Income:** The tax bill would create an additional tax break for oil- and electricity-related income of foreign-based companies. According to the Joint Committee on Tax, this proposal would cost the U.S. Treasury \$26 million over the next five years.
- **Repeal Special Rules Applying to Foreign Oil and Gas Income:** The final tax bill includes a provision from the House version that would repeal tax rules applying to income from oil and gas income earned in another country. An existing 35 percent tax credit limit on taxes from foreign oil and gas extraction income would be eliminated. To hide the huge cost of this change, the tax bill delays implementation until 2007. Between 2004 and 2009, this change would cost U.S. taxpayers \$1.7 billion.
- **Expand Percentage Depletion Allowance for Oil and Gas:** The tax bill extends and expands special tax breaks for oil and gas production known as the percentage depletion allowance. The tax bill makes oil and gas investments even more favorable. The percentage depletion allowance subsidizes fossil fuel development by allowing oil and gas businesses to deduct the depreciation of facilities based on a guaranteed percentage. The value of the tax break can exceed the actual value of the property. This makes investing in oil and gas more attractive than other investments, such as cleaner energy sources that do not contribute to global warming. Provisions in the tax bill would cost

U.S. taxpayers \$250 million over the next five years.

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- **Jeopardizing Financing of Hazardous Site Clean-up:** The tax bill includes a provision from the House version that plays a shell game with two trust funds set up to finance cleanup of hazardous contamination. The bill would consolidate the Superfund Trust Fund and the Leaking Underground Storage Tank (LUST) Trust Fund into a single "Environmental Trust Fund." This consolidation is a sleight-of-hand to shift approximately \$1 billion in the LUST trust fund into Superfund. This will provide a one-time infusion of funds to clean up contaminated sites without providing a sustained funding source. The Superfund tax on chemicals and petroleum products has expired and the balance of the Superfund Trust Fund is shrinking. The bill proposes to raid another clean up trust fund rather than reinstate the "polluter pays" tax.
- **Nuclear Decommissioning:** The tax bill contains provisions which would expand tax breaks to the already heavily-subsidized nuclear industry. The bill expands nuclear decommissioning tax breaks, giving an estimated \$418 million windfall to purchasers and owners of nuclear power plants over the next five years.
- **Eliminating Fuel Taxes Paid by Inland Waterway Barges and Rail:** The tax bill also would repeal fossil fuel taxes paid by inland waterway barges and rail. A portion of these taxes is deposited in the Leaking Underground Storage Tank (LUST) Trust Fund (see above for more info on that). This proposal would cost U.S. taxpayers \$125 million over the next five years.
- **Tax Exempt Bonds for Highways:** The tax bill authorizes new tax-exempt bonds for construction of highways. This is yet another federal subsidy for highway construction which receives tens of billions in taxpayer support annually. Environmentalists are concerned that this provision could undermine more environmentally-sensitive transportation alternatives and it is unclear how such bonding authority would interact with state, local, and federal transportation planning processes.
- **Expanding Private Activity Bonds for Certain Waste Facilities:** The tax bill will increase the limits on state private activity bonds to \$75 per resident of each state or \$225 million, whichever is greater. Many of these bonds have been used to finance solid waste facilities: 70 percent of bonds used to finance solid waste facilities are categorized as

"private activity" bonds, meaning that private individuals or businesses benefit rather than the general public. Federal law treats income earned on private activity bonds as tax exempt despite the benefits accruing to private entities because the infrastructure development serves a public interest. We believe that private activity bonds should not be used to finance new private- or governmentally-owned solid waste facilities including landfills that threaten water resources and incinerators. Incinerators emit harmful levels of toxic substances, such as cadmium, lead and dioxins, into our air and water. Many landfills present current and future threats to groundwater and air quality. Although recycling facilities are eligible to use private activity bonds, a disproportionate amount of the bonds go to landfills and incinerators because financing favors capital intensive projects. As a result, recycling facilities are more apt to receive financing through other sources. This proposal would cost US taxpayers \$430 million over the next five years.

- **Lowering Incentives for Conservation:** The tax bill would phase out the federal estate tax. Under tax legislation passed in 1997, estate tax rates are already set to decline over the next seven years. The estate tax has actually served as a significant factor for promoting land conservation because donations of land for conservation purposes can reduce the estate tax burden. Conservationists believe that estate tax relief should be used as an incentive to encourage property owners to permanently protect land as habitat for wildlife, recreation, and open space. By phasing out the estate tax, the tax bill eliminates a substantial incentive for landowners to grant conservation easements. The tax bill provides no equivalent or better mechanism to guarantee permanent protection of land from development and sprawl. Under the tax bill, phase out of estate tax would cost the U.S Treasury \$16.2 billion over the next five years.

We respectfully request that you give these concerns the thoughtful attention they deserve. The tax code is a powerful policy tool that has the potential to influence whether the United States meets its environmental protection objectives. If anti-environmental tax provisions are signed into law, they will result in increased financial incentives for pollution and environmental damage. Ensuring that the anti-environmental provisions outlined above are removed from the tax legislation and are replaced by positive environmental incentives would be a substantial achievement in protecting the environment for future generations. Thank you for your promise to veto this tax bill. We respectfully urge you to veto any other tax bill that contains such anti-environmental tax provisions.

Respectfully submitted,

Brent Blackwelder
President
Friends of the Earth

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Executive Director
20/20 Vision

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Vermont Natural Resources Council

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Friends of the Earth
1025 Vermont Avenue, NW
Suite 300
Washington, DC 20005

Mr. William J. Clinton
President of the United States
1600 Pennsylvania Avenue, NW
Washington, DC 20500

August 25, 1999

Dear President Clinton:

The undersigned environmental, conservation, human health, and community protection organizations are encouraged by your promise to veto the tax bill as passed by Congress. We are concerned that it contains numerous provisions that would harm efforts to protect natural resources, human health, and communities.

In 1999, harnessing the power of the tax code to help enhance the environment, human health and our communities should not be controversial policy. For instance, the President's Council on Sustainable Development comprising a diverse group of business, environmental and other interests recommended the nation make greater use of market forces to achieve environmental objectives.

The tax bill passed this month by Congress not only fails to encourage sustainable development, but further tilts the tax code against clean air, drinkable water, healthy forests, and livable communities. For instance, the tax bill would create more than \$7 billion in new subsidies for the oil and gas and nuclear, but establishes only \$195 million in tax incentives for cleaner renewable sources of energy like the production of electricity by wind or biomass. On balance, this is a heavy bias toward polluting energy sources that cause the release of global warming gases, other air pollution and risks, and threaten our communities. This tax bill will seriously undermine the efforts of your own Administration to encourage energy efficiency and renewable energy production.

The tax bill passed by Congress overlooks numerous tax policy proposals that would help the environment. These proposals have been championed by both Republicans and Democrats. For instance, Representative Nancy Johnson (R-CT) has proposed legislation to encourage the preservation of open space and control sprawl development by increasing incentives for conservation easements. Representative Bob Matsui (D-CA) has proposed legislation, similar to your own proposals that would encourage the development and use of energy efficient technology in buildings, industry, transportation, and electricity. These proposals would reduce harmful carbon emissions that contribute to global climate change. Senator Jim Jeffords (R-VT) introduced legislation to encourage the preservation of open space, reducing sprawl into the suburbs and rural areas by providing favorable capital gains treatment on land sold to eligible conservation entities. Senator Max Baucus (D-MT) introduced legislation that would enhance existing conservation incentives and creates a new estate tax incentive for land that is managed

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to protect threatened or endangered species. Your own Administration has proposed innovative new tax credits to finance public bonds to preserve open space and preserve communities.

While the thrust of the tax bill is decidedly anti-environmental, there are a few positive line-items in the Senate bill that deserve mention. One provision expands estate tax rules for conservation easements at a cost of \$62 million over the next five years (although this incentive would be lost when the estate tax is eliminated). Another provision provides an increased tax deduction for renovating owner-occupied historic homes at a cost of \$486 million over the next five years. A third provision clarifies that special treatment for employer-provided transit passes encouraging the use of public transportation instead of solo-commutes. Another provision extends credits for wind and biomass electricity at a cost of \$195 million over the next five years.

When evaluating tax legislation, we urge you to consider how the environment would fare. We believe that provisions that encourage destructive activities must be removed before you approve a tax bill. Provisions in the current tax bill with which we are most concerned include:

- **Special Net Operating Loss Rules for Oil and Gas Properties:** The tax bill would carve out a special allowance for taxpayers to apply losses from oil and gas businesses to taxes paid five years in the past and provide a new subsidy to fossil fuel production that will cost taxpayers \$139 million over the next five years.
- **Pipeline Transportation Income:** The tax bill would create an additional tax break for oil- and electricity-related income of foreign-based companies. According to the Joint Committee on Tax, this proposal would cost the U.S. Treasury \$26 million over the next five years.
- **Repeal Special Rules Applying to Foreign Oil and Gas Income:** The final tax bill includes a provision from the House version that would repeal tax rules applying to income from oil and gas income earned in another country. An existing 35 percent tax credit limit on taxes from foreign oil and gas extraction income would be eliminated. To hide the huge cost of this change, the tax bill delays implementation until 2007. Between 2004 and 2009, this change would cost U.S. taxpayers \$1.7 billion.
- **Expand Percentage Depletion Allowance for Oil and Gas:** The tax bill extends and expands special tax breaks for oil and gas production known as the percentage depletion allowance. The tax bill makes oil and gas investments even more favorable. The percentage depletion allowance subsidizes fossil fuel development by allowing oil and gas businesses to deduct the depreciation of facilities based on a guaranteed percentage. The value of the tax break can exceed the actual value of the property. This makes investing in oil and gas more attractive than other investments, such as cleaner energy sources that do not contribute to global warming. Provisions in the tax bill would cost U.S. taxpayers \$250 million over the next five years.
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