Revised Federal Policy Platform
October 15, 2010

1. Need for Comprehensive Climate and Energy Legislation with a Price on Carbon

The New England Clean Energy Council (www.cleanenergycouncil.org) continues to support **immediate passage of comprehensive climate and energy legislation that provides a stable policy roadmap, caps greenhouse gas emissions and sets a price on greenhouse gas pollution. This is the single most important policy needed to level the playing field and grow New England's clean energy companies.** The consequences of failure to pass such a bill in this session of Congress are enormous. The Council is extremely disappointed with several New England's Senators lack of leadership in passing a comprehensive climate and energy bill before Congress. Particularly those that spoke out against the need for a price on carbon and did not join Kerry and Lieberman in their excellent and much needed APA.

Energy is a $6 trillion global industry, and will likely grow to more than $10 trillion by mid-century, and perhaps the most important industry of the 21st century. As clean energy replaces carbon-based energy sources around the world, new markets employing millions of people will emerge, but the United States will not be a major player without a clear policy roadmap.

The failure of the US Senate to pass comprehensive energy and climate legislation, including a price on carbon, jeopardizes the potential for the Massachusetts and New England clean energy sector to grow effectively and become a leader in this global market. Investment and clean energy jobs are already leaving the country[1] as we fall further behind countries like China, Germany, England and others.

This sector is composed of many companies, most of them young and small, with significant growth and job creation potential. These companies need investment capital, which unfortunately remains largely on the recession sidelines waiting for policymakers to deliver clear demand signals.

Comprehensive energy and climate legislation, that includes a price on GHG pollution, is urgently needed to unleash both private sector and public sector investment and -- though we realize it may be difficult -- we are actively supporting passage of a bill before the end of the year. Comprehensive legislation provides funding for government guarantees for project finance, clean energy product manufacturing, and "first-of-a-kind" scale-up. CEDA, the Clean Energy Development Agency, is a critical mechanism to address the scale-up capital gap, and remove the risk premium that has prevented private sector equity and debt from supporting scale up of new clean energy technologies and needs to be included and funded in the comprehensive climate and energy bill.

The Council supports an economy-wide, national price on carbon but is open to the possibility of starting with just the utility sector, and then phasing in other sectors over time. A price on carbon and other greenhouse gasses, and long-term price signals for increasingly cleaner energy supply would provide critically important signals for investment in energy efficiency, clean energy research and commercialization, and a range of innovations. This is the most critical policy needed to grow job creation in New England's clean energy sector and it must start right away even if only for the utility sector at first.

If the effort to pass a comprehensive climate and energy bill this year were to fail then we urge the new Congress to get to work on its passage immediately in January.

[1] Deutsche Bank spurns U.S. for climate investment www.reuters.com/article/idUSTRE67A3JK20100811; Shell reduces clean energy investments; GreatPoint Energy will site first plant in China; Ze-Gen considers moving its primary site to England; investors in Wave energy find most advanced technology opportunities in Scotland.

2. ***Stopgap Federal Priorities in Absence of Federal Climate Bill***

While we work to pass a comprehensive climate and energy bill there are several immediate policy priorities over the next few months that are needed to avoid irrevocable damage to the competitiveness of these young companies and nascent sector. There are a handful of short-term initiatives that could receive bipartisan support and can help this sector tread water until long-term policies can be considered in 2011.

To confirm our short-term priorities, we have reached out to approximately 50 of our member companies, sponsors, partners and policy experts in recent weeks. While measures such as Senator Reid's "Spill Bill" contain valuable proposals, in its current form it does not address most of the priorities of the Council's clean energy community. Our stopgap priorities to avoid significant setbacks are described below.

Climate

- **Preserving EPA's Ability to Regulate Greenhouse Gases until Congress Passes Comprehensive Climate Legislation (oppose efforts to weaken the current Clean Air Act and its ability to regulate CO_2 emissions).** Senator Jay Rockefeller (D-WV) has introduced the Stationary Source Regulations Delay Act that would postpone enforcement of EPA's CO_2 regulations scheduled to take effect in January, 2011, for two years and probably longer, since planning activities would also be halted. The Council does not believe that EPA CO_2 reduction enforcement by itself without climate legislation is the best approach, but the Council strongly supports EPA authority until Congress does pass comprehensive energy and climate legislation. Delaying EPA's CO_2 authority would tell potential clean energy investors to go abroad. It would hurt investments and new job creation in Massachusetts' emerging clean energy sector. Maintaining EPA enforcement would help ensure this issue will get the priority attention it needs in the new Congress.

Tax Extenders

- **Clean Energy Technology Leadership Act.** Introduced just before the recess by Senator Kerry, this bill extends and codifies the tax grant program and provides tax incentives for solar, electric vehicles and the batteries they run on, tax credits for energy efficient homes and buildings, incentives for natural gas vehicles and tax credits for companies making energy efficient appliances. Passage of this bill would make a considerable difference to our members in the short term. The bill:

    1. Extends the tax grant program created by the ARRA until 2012 and codifies it into law so that it is not just a Treasury administrative program. This program has been remarkably successful in enabling billions of private investment dollars to flow into clean power generation projects in the U.S., at no increased cost to the taxpayer over the original tax credit program. Currently, projects must begin construction by 12/31/2010 in order to qualify for the grant. This bill would allow additional projects to move forward that would otherwise stall for lack of private investment capital able to use the original tax credit.
    2. Normalization provision – The bill would fix an arcane tax matter that has had the effect of limiting utility investments in renewable power projects, especially solar projects.
    3. Allows the section 48c manufacturing tax credit to be paid as a direct payment (in lieu of the tax credit), at 85% of the tax credit amount. Expands the pool of investors able to make use of the manufacturing tax credit to include real estate investment trusts, thereby enabling REITs to help expand our country's renewable energy manufacturing capacity. Provides priority treatment for manufacturing over assembly facilities in allocations of the credit.
    4. Enhances the tax deduction from income attributable to production of advanced alternative energy technologies.
    5. Makes projects using energy storage technologies eligible for funding by federal clean renewable energy bonds (CREBs).
    6. Extends incentives for natural gas vehicles.
    7. Extends incentives for biodiesel and renewable diesel.
    8. Adds algae based biofuel to the list of cellulosic biofuels eligible for the producer credit.

Renewables and Clean Energy Scale-Up

The following two clean energy scale-up financing initiatives appear to be on the table for near-term consideration and are critical subsets of overall comprehensive legislation. Both have value in the long-term and stopgaps.

- **The Clean Energy Deployment Agency (CEDA).** The CEDA would provide loan guarantees supporting power generation projects using commercial and "first-of-a-kind" clean energy technologies and related clean energy product manufacturers. CEDA is a critical means to address the scale-up capital gap and overall financing shortfall. By assuming certain risks of such projects, CEDA would mobilize additional private sector equity and debt capital needed to commercialize new clean energy technologies. This initiative enjoys broad support now.

- **A Federal Renewable Energy Standard (RES).** A strong renewable energy standard, which substantially moves the needle in achieving more renewable energy that the current state standards, is needed to help the growth of renewables. We support an RES on the order of 25% by 2025 as part of comprehensive climate and energy legislation. A minimum federal standard must allow states to exceed the standard if they so choose.

Innovation

- **Regional Energy Innovation Consortia.** The Council has been the primary author of this initiative that was included in the Waxman-Markey Bill. This proposal calls for federal funding to regional public/ private consortia to support energy research, commercialization and the building of robust clean energy clusters to accelerate clean energy jobs and adoption of energy and climate solutions. The Council is coordinating a New England-wide effort to form one of these consortia. A pilot-scale version of this initiative was included in the America COMPETES Act passed by the House in May (with support from all 22 New England House members), and in the Senate version in committee in July (sponsored by Senator Mark Warner).

Efficiency

- **Legislation to Protect PACE**. Property Assessed Clean Energy (PACE) is an innovative financing mechanism that has received the support of local and state governments, the Department of Energy, and NGO's as a way to spur energy efficiency and renewable energy retrofits that would create jobs and save energy. The PACE structure uses the same method of "land-secured financing" that local governments have used for more than a century to levy special assessments through districts created for that purpose (to fund, for example, sewers, sidewalks, seismic retrofitting, fire safety improvements, and many other projects that serve a public purpose.) There are currently more than 37,000 special assessment districts in place in the US. In spite of this precedent, the Federal Housing Finance Agency has stated its opposition to PACE, and prohibited Fannie Mae and Freddie Mac, which it regulates, from purchasing residential mortgages with senior PACE liens. This has shuttered many programs and halted the development of others, many of which were intending to use ARRA funds for this purpose. The PACE Protection Act of 2010 has been introduced in both the House and the Senate and is the best opportunity to quickly save PACE programs.

- **HomeStar.** This well targeted two-year federal program would provide direct consumer incentives for residential efficiency retrofits. It was scheduled to be included in the Senate Oil Spill bill, which has now been postponed.

Possible sources of program funding:

1. **Reduce subsidies to fossil fuels.** Between 2002 and 2008 fossil fuels received over $72 billion in subsidies from the U.S. Government compared to $29 billion that went to renewables - primarily corn-based ethanol, according to a report from the Environmental Law Institute.[2] Clearly we should be providing greater incentives to the clean energy industries of the future, rather than those of the polluting fossil fuel industry.

[2] Estimating U.S. Government Subsidies to Energy Sources: 2002-2008 http://www.elistore.org/Data/products/d19_07.pdf

2. **Reduce subsidies to corn-based ethanol**. Refineries that blend the ethanol with gasoline now get a 45-cent tax break for every gallon they produce. This cost the government about $6 billion last year. That break is no longer needed because the 2007 energy law requires the country to produce steadily increasing volumes of corn ethanol — 11 billion gallons last year, rising to 15 billion gallons in 2014 — which guarantees a robust market for farmers and producers of ethanol. This needs to be crafted in such a way that cellulosic ethanol and other advanced biofuels continue to get the help that they need to supplant dirtier fossil fuels.

The policies above highlight <u>the Council's primary objective to place a price on greenhouse gas pollution. Immediate passage of a comprehensive climate and energy legislation is critical to leveling the playing field and creating market signals encouraging investment dollars to flow into the clean energy sector.</u> This remains the single most important policy for the success of the clean energy sector in New England, the clean energy-based jobs we can create, and American competiveness in the energy and climate industries. While we encourage passing a comprehensive energy and climate bill, the short-term priorities outlined above are necessary to preserve the growth and competiveness of young companies in this critical sector. In the coming year, Council will continue to work with companies, investors, legislators, and other stakeholders to further these objectives and increase support for legislation that supports and grows the energy and climate industry.