

July 26, 2013

The Honorable Max Baucus, Chairman
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Orrin Hatch, Ranking Member
Committee on Finance
104 Hart Senate Office Building
Washington, DC 20510

The Honorable Dave Camp, Chairman
Chairman, House Ways & Means Committee
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Sander Levin
House Ways & Means Committee
1236 Longworth HOB
Washington, DC 20515

Dear Chairmen Baucus and Camp and Ranking Members Hatch and Levin:

On behalf of the nation's 6,900 home heating oil dealers and the nearly seven million households they serve, we write to request modifications to certain provision of the tax code that will enable our members to be more competitive, increase home energy efficiency and cut consumers' heating bills.

About our Industry

Our associations collectively represent America's mostly small, family owned- and operated-home heating oil providers and their employees. In addition to providing American consumers with safe and dependable heating oil, many of our members also market Bioheat®, propane, kerosene and motor fuels; service home heating, ventilation and air conditioning (H-VAC) systems and emergency generators; and offer comprehensive home energy auditing. Because of the at-your-doorstep nature of the home heating oil industry, we often have a close relationship with our customers and local communities setting us apart from other energy providers, such as large and in some cases foreign-owned private utilities.

The home heating oil industry has a long history of support for federal, state and local initiatives that promote research, development and deployment of ultra-efficient home heating systems and consumer-oriented tax incentives to encourage their installation. Unfortunately, Congress has offered home heating oil customers minimal benefits with respect to such tax incentives, including the current IRS Section 25C tax credit for the installation of non-business energy property.¹

Problems with the Section 25C Tax Credit for Non-business Energy Property

The Section 25C credit was enacted as part of the Energy Policy Act of 2005 to incentivize taxpayers to reduce home energy consumption through the installation of efficient space and water heating appliances, air conditioners, doors, windows, etc.² For tax years 2006 and 2007, the maximum claim for the installation of any one of a number of qualifying home energy retrofits was a mere \$500. Further, individual limits were established for certain types of residential energy properties including a \$150 cap on the installation of a qualifying furnace or boiler. Congress also set the bar unfavorably high for oil furnaces and boilers, requiring an annual fuel utilization efficiency (AFUE) rating of 95 or greater.

The American Recovery and Reinvestment Act (ARRA) of 2009 made some welcome improvements to the Section 25C program. The ARRA offered homeowners a tax credit of 30 percent of the cost of

¹ 26 USC § 25C

² Pub.L.109-58, § 1333, 119 Stat. 594 (Aug. 8, 2005).

qualifying home energy retrofits, up to a maximum credit of \$1,500. It also removed individual appliance caps, including the \$150 cap on the installation of home heating systems. This allowed customers to claim up to \$1,500 for one preferred energy-saving retrofit, such as the installation of an efficient furnace or boiler. Congress also lowered the AFUE rating requirement for eligible oil furnaces and boilers to 90 or greater.

The ARRA amendments expired at the end of 2010. While Congress renewed the Section 25C credit every year since 2011, it was largely returned to its pre-ARRA credit amounts and qualifying language for appliances and retrofits. The current tax credit, which expires on December 31, 2013, presents two major challenges for homeowners looking to upgrade to a more efficient existing heating oil furnace or boiler.

First, the current tax credit provides minimal benefit to consumers. The amount of the credit is too small to motivate homeowners to make the necessary financial investment in a more efficient home heating system. Furthermore, current law places a \$150 cap on claims for the installation of qualifying furnaces and boilers, providing a mere 3-5 percent tax benefit on the average cost of a heating oil system installation. Such a small credit is unlikely to motivate a homeowner to upgrade their existing home heating system or to make any other capital intensive home energy retrofit.

Second, the overly restrictive eligibility requirements for oilheat appliances have left the tax credit inaccessible to heating oil consumers. Homeowners with oilheat must upgrade to a furnace or boiler with a 95 or greater AFUE rating to be eligible for the credit. There are currently no (*that is, zero*) boilers and only two furnaces that meet this qualification. Even under the 2009-2010 ARRA credit, which temporarily lowered the requirement to 90 AFUE, there were only two furnaces and three boilers that would have been eligible for the credit.

Changes Needed

In order to address these issues, Congress should not renew the Section 25C tax credit without first:

1. Eliminating the \$150 cap on home heating appliances and consider raising the maximum benefit under Section 25C to at least \$1,000, and
2. Extending the benefit to home heating oil businesses and consumers by amending the qualifying language to include more readily available, high-efficiency oilheat appliances.

The National Oilheat Research Alliance (NORA) has led the development of highly efficient boilers of up to 93 AFUE. However, they are not yet widely available in the marketplace and in some cases may be difficult to install. In the meantime, Congress should allow oilheat consumers to claim the tax credit for the installation of modestly efficient home heating systems installed in such a manner as to achieve efficiency gains that are nearly equivalent to current requirements. By doing so, Congress will expand the pool of installation-ready oilheat appliances, reduce consumption of home heating oil, improve overall home energy efficiency and reduce constituents' home heating bills.

Two things should be considered. First, the Department of Energy's (DOE) current efficiency test procedures do not contemplate the latest in control technologies that may result in even higher efficiency gains. Second, NORA and Brookhaven National Lab tests have shown that very high efficiency gains can be achieved through alternate venting strategies that recapture the heat in the vent system. And finally, an oil-fired boiler that delivers heat through a typical radiator system in use in many Northeast homes will top out at 93 AFUE under current DOE test procedures.

As the industry moves towards a cleaner-burning, lower-sulfur and biofuel-blended heating oil, a new generation of ultra-efficient heating technologies will soon become available to consumers. Until that time, we urge necessary modifications to expand the credit to home heating oil consumers and to achieve the goal of efficiency gains through installation-ready home heating appliances. As per NORA and Brookhaven findings, an oilheat appliance that meets a minimum efficiency of 86 AFUE should be eligible for the credit if installed in such a manner as to achieve an efficiency performance equivalent to at least 90 AFUE.

Therefore, we recommend the following modification to the exiting statute: *A qualified oil furnace or boiler means an oil furnace or a hot water or steam oil boiler which achieves an annual fuel utilization efficiency (AFUE) rating of not less than 95, or not less than 86 and (a) for an oil hot water or steam boiler, is installed with temperature reset or thermal purge controls and an indirect water heater; or (b) for an oil furnace, is installed with an electronically commutated blower motor.*

Thank you in advance for your consideration and support in this important matter.

Sincerely,

Connecticut Energy Marketers Association
Empire State Petroleum Association
Fuel Merchants Association of New Jersey
Maine Energy Marketers Association
Massachusetts Oilheat Council
Mid-Atlantic Petroleum Dealers Association
National Association of Oil & Energy Service Professionals
New England Fuel Institute
New York Oil Heating Association
Ohio Petroleum Marketers & Convenience Store Association
Oil Heat Institute of Long Island
Oil Heat Institute of Rhode Island
Oilheat Council of New Hampshire
Oilheat Manufacturers Association
Pennsylvania Petroleum Marketers & Convenience Store Association
Petroleum Marketers Association of America
Vermont Fuel Dealers Association
Virginia Petroleum, Convenience and Grocery Association
Washington Oil Marketers Association

cc: Members of the Senate Committee on Finance
Members of the House Committee on Ways & Means