

The Time is Now for Natural Gas Heaters and EAct Tax Incentives

By Charles R. Goulding, Andrea Albanese and Charles G. Goulding

Charles R. Goulding, Andrea Albanese and Charles G. Goulding discuss how recent sizeable natural gas finds offer opportunities to save energy, operation costs and taxes, particularly in industrial buildings and warehouses, by using Code Sec. 179D.

An abundance of natural gas has recently been uncovered in the United States. The increase in natural gas supply will help drive costs down, making natural gas heaters an attractive investment opportunity for commercial buildings. When combined with energy-efficient lighting, heaters become even more economical as they are likely to qualify for Code Sec. 179D tax incentives.

The Code Sec. 179D Tax Opportunities

Pursuant to Code Sec. 179D, as enacted by the Energy Policy Act of 2005 (EAct),¹ commercial property owners making qualifying energy-reducing investments in their new or existing locations can obtain immediate tax deductions of up to \$1.80 per square foot.

If the building project does not qualify for the maximum \$1.80-per-square-foot immediate tax deduction, there are tax deductions of up to \$0.60 per square foot

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for each of the three major building subsystems: lighting, HVAC (heating, ventilating and air conditioning) and the building envelope. The building envelope is every item on the building's exterior perimeter that touches the outside world including roof, walls, insulation, doors, windows and foundation.

Gas, Gas, Gas!

Three of the largest U.S. natural gas finds are the Marcellus, the Barnett and the Utica. The huge Marcellus Shale find, encompassing Pennsylvania, New York, Ohio and West Virginia, is one of many intriguing natural gas "plays" across the United States. In Texas, the Barnett play continues to yield more and more wells as exploration continues. While the concrete shale there gives up its gas stingily, Barnett's ever-growing count of wells make the aggregate production numbers significant. Meanwhile, the proximity of Marcellus to high-energy-cost Northeast customers makes it especially important to buyers of natural gas heaters.

Eastern Ohio's Utica Shale has rapidly become the state's natural gas reserve for the ages, with millions of acres for drilling and billions of dollars being pumped into the state's economy by energy companies looking to capitalize on the find. The size of the Utica find is vast; in fact, it is geographically twice the size of the large Marcellus find. Further,

Ohio benefits from its close access to the western portions of the Marcellus shale, making Ohio one of the leading natural gas sources in the country.

The four largest natural gas fields and their prime state locations are shown in Chart 1.

Chart 1.

Four Largest Shale Gas Fields

Field Name	State
Barnett	Texas
Utica	Ohio
Marcellus	Pennsylvania
Haynesville	Louisiana

Investment Follows Suit

Kinder Morgan, a large pipeline company, recently agreed to purchase El Paso Corp., an almost equally large firm, thereby doubling Kinder’s supply of natural gas pipeline. If the merge is approved, the companies will combine to form the largest natural gas pipeline operator in the United States, stretching over 80,000 miles from the Rocky Mountains to New England. Worldwide, energy and utility deals accounted for roughly one-third of all mergers and acquisitions in the last quarter of 2011, suggesting that many investors believe natural gas will play an integral part in the future of energy use.

Time to Buy a Natural Gas Heater

Most new natural gas heaters are sufficiently superior to previous generations making EAct savings a possibility. This is especially true for nonconditioned warehouses. Regardless, contemporary heaters, when combined with modern energy-efficient lighting, frequently qualify for at least \$1.20 per square foot in EAct tax savings. Often, the lighting alone is so efficient compared to the EAct baseline that leftover EAct deductions exist (in excess of project cost), which can be applied to the purchase of a new heater or building envelope measure including a roof. Depending on the state of domicile and on usage, all such factors combined can reduce payback periods to as little as one to three years in length. Therefore, companies that can reasonably expect to keep operations in a given facility for more than a few years have

every reason to consider buying an energy-efficient heater as part of their next retrofit.

Five Leading Natural Gas Heater Manufacturers

The five leading U.S. natural gas heater manufacturers are presented in Chart 2.

Chart 2.

The Five Largest U.S. Heater Manufacturers

Cambridge Engineering	http://www.cambridge-eng.com/
Hastings HVAC	http://www.hastingshvac.com/
Modine Manufacturing Company	http://www.modine.com/
Reznor HVAC Solutions	https://www.rezspec.com/
Sterling HVAC	http://www.sterlinghvac.com/

Whenever a company is considering purchasing a natural gas heater for a facility—whether or not from one of the manufacturers listed above—it should consider monetizing an EAct tax incentive.

Natural Gas and EAct Example

When combined with energy-efficient lighting, warehouses are particularly likely to qualify for EAct tax deductions. With the EAct tax calculations it is crucial to reduce the lighting wattage per square foot to prescribed levels, or less, to secure an EAct tax deduction since lighting is the largest overall energy user in a nonconditioned building.

A simple example illustrates how the EAct helps purchasers of natural gas heaters obtain sizable tax deductions. See Chart 3.

Chart 3.

Warehouse & Manufacturing Heater EAct Example

	Lighting LPD (watts/sq. ft.)	EAct deduction level (per sq. ft)	Potential Deduction
Warehouse Size - 200,000 sq.ft.	≤ 0.75	\$1.20	\$240,000
	≤ 0.45	\$1.80	\$360,000
Manufacturing Facility Size - 200,000 sq.ft.	≤ 1.375	\$1.20	\$240,000
	≤ 0.825	\$1.80	\$360,000

Conclusion

Now is the time to take advantage of recent U.S. natural gas finds. Warehouses and industrial buildings can substantially reduce their heating-related

operating costs and obtain large tax incentives to assist in the conversion process.

ENDNOTES

¹ Energy Policy Act of 2005 (P.L. 109-58).



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