TESTIMONY

OF

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On behalf of the

NATIONAL ASSOCIATION OF STATE ENERGY OFFICIALS

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NASEO National Association of State Energy Officials

ENERGY'S WASHINGTON VOICE

Mr. Chairman and members of the Committee, my name is Malcolm Woolf and I am Director of the Maryland Energy Administration. I am appearing today on behalf of the National Association of State Energy Officials (NASEO). NASEO represents all of the state energy offices in Washington, D.C., and helps coordinate the work of the energy offices throughout the United States. We are pleased to have this opportunity to discuss immediate steps the federal government can take to accelerate energy solutions that will promote affordable, reliable and clean energy, and also help address our immediate fiscal challenges. Prior to joining the Maryland Energy Administration, I served as Staff Director of the Natural Resources Committee of the National Governors Association, counsel on the U.S. Senate Environment and Public Works Committee and in private legal practice.

SUMMARY

It is hard to overestimate the promise of clean energy to stimulate the economy, create green collar jobs, advance energy security and address our climate and environmental challenges. To be successful, however, we need to re-establish a true partnership between the states and the federal government on energy matters. We need to leverage the federal government's resources with the ability of states to experiment with innovative new strategies and implement programs on the ground. By building a more meaningful partnership, we can achieve our ambitious energy goals.

Major new investments in clean energy should be a critical part of the emerging economic recovery package. Like roads and bridges, such investments immediately create new green collar jobs, ranging from attic insulators to solar installers. Such jobs can't be outsourced overseas. And these investments will continue to pay dividends in the years to come by reducing our monthly energy bills, increasing generation of clean, renewable power, and accelerating our nation's transition to a more sustainable energy future.

For many years we have discussed the need to achieve significant increases in energy efficiency in order to strengthen our economy and reduce dependence on foreign imports. We are now facing an historic opportunity where Congress and the Administration are committed to this effort.

States are uniquely positioned to immediately implement major new energy investments. Currently, state energy offices and research institutions manage approximately $3 billion in program funding annually. As such, energy offices can provide a ready-made, 50-state delivery mechanism.

These proposals would strengthen the Federal, state and local partnerships and create the opportunity for significant success. Many states and local governments are already setting ambitious goals and the funds that we are requesting would help establish a real partnership, not just one based on platitudes.

For example, under Governor O'Malley, Maryland enacted earlier this year one of the nation's most ambitious energy efficiency goals to reduce consumption 15% by 2015. We already have a list of pre-approved energy performance contractors ready to overhaul state buildings, as well as programs for energy efficiency grants and low interest loans to

local governments, non-profits, and private businesses, and workforce training to create qualified contractors that can improve home performance. While every state has a slightly different set of tools, there is no other existing vehicle that can coordinate local implementation in all 50 states.

For the proposed stimulus package, we recommend the following immediate actions, which utilize existing delivery mechanisms:

1) Provide $10 billion for an energy efficiency buildings retrofit program, utilizing existing delivery mechanisms (Draft Legislation and Appropriations Language attached as Appendix A);

2) Provide $6 billion for the Energy Efficiency and Conservation Block Grant (Authorized in the Energy Independence and Security Act of 2007 ["EISA"]);

3) Expand funding for proven programs, including:
(a) $125 million for the State Energy Program (Reauthorized in EISA);
(b) $1 billion for the Low-Income Weatherization Assistance Program (Reauthorized in EISA);
(c) $100 million for Energy Efficiency Building Codes (consistent with the authorization contained in the Energy Policy Act of 2005 ["EPACT 2005"]);
(d) $100 million for the EPA ENERGY STAR program (consistent with the authorization contained in EISA);
(e) $250 million for Green Jobs (Authorization contained in EISA);
(f) $250 million for the REAP program at USDA, authorized in the 2002 Farm Bill, and reauthorized in the 2008 Farm Bill, to provide energy efficiency and renewable energy funds for farmers, ranchers and rural small businesses; and
(g) $2.5 billion for the Low-Income Home Energy Assistance Program ("LIHEAP"), in addition to the $5.1 billion in FY'09 appropriation.

4) Provide 8 year extensions for the energy efficiency and renewable energy tax provisions (including e.g., Production Tax Credit ["PTC"], Investment Tax Credit ["ITC"], CREBS, energy efficiency commercial buildings deduction, etc.) to ensure long-term job creation, and expand the energy efficiency tax credits to create immediate incentives for home energy efficient makeovers.

DISCUSSION

A) STIMULUS PACKAGE

1) Launch Energy Efficient Buildings Retrofit Program ("Direct Install")

With seventy percent of electricity consumed in buildings, minimizing the amount of energy that literally goes out the window – or through a leaking air duct - is a great investment. In addition, numerous studies have documented the significant number of jobs created by energy efficiency programs. For example, for every $1 million in

energy performance contracting, twenty green collar jobs are created. A massive new investment in energy efficiency building retrofits should therefore be a central part of an economic recovery package, as long as is implemented quickly.

Let me suggest four fundamental principles essential to success. First, we need aggressive standards in all types of buildings – residential, industrial, commercial, institutional, state and local government. This is important because, once a building is in place, it lasts decades. Second, we should focus on upgrading infrastructure as this will generate energy cost savings, help households as well as businesses, and produce sustainable high quality jobs. Third, rapid deployment of energy efficiency measures is important to reduce the costs of climate change mitigation measures to all consumers. Energy efficiency reduces regulated air pollutants and greenhouse gas emissions, and will be a critical step in any climate bill that is developed. Finally, and perhaps most importantly, speed requires a deployment mechanism utilizing existing deployment routes, i.e., states.

The recommended approach for this new program is quite simple, and we have attached the draft legislative language and associated appropriations language (Appendix A). This proposed $10 billion plan would have $5 billion disbursed to the states within 30 days of the date of enactment, utilizing the existing State Energy Program formula. The existing authorization for SEP is quite broad and the only modification necessary would probably be to increase the authorization level. The states would disburse the funds utilizing all deployment routes, including energy service companies, utilities, contractors, community action agencies, etc. The savings would have to be monitored and verified. Within three months of the date of enactment, DOE would be required to publish guidance on metrics for the remaining portion of the funds. Within ten months of the release of funds, the states would provide a report on implementation of the energy efficiency buildings retrofit measures, and within twelve months of the release of the initial funds, the remaining $5 billion would be disbursed in accordance with performance. This is a highly aggressive schedule. It will require speed from DOE, which has not generally been a hallmark of their efforts. Leadership from Congress and the new Administration will help.

A number of complimentary proposals have been suggested, including efforts in schools and creating a residential energy efficient buildings retrofit program. These suggestions from groups such as the Center for American Progress, the Energy Future Coalition, ACEEE and NRDC should be quickly and closely examined. We have worked with these other groups on these proposals A melding of these ideas is possible as well. From our perspective, the key element is speed, which can only be achieved utilizing a deployment mechanism which exists in all the states, territories and the District of Columbia.

2) Appropriate Funds for Energy Efficiency and Conservation Block Grants

Sections 541-548 of EISA established a new Energy Efficiency and Conservation Block Grant ("EECBG"). This is a strong priority of the U.S. Conference

of Mayors, other local governments and the state governments. If implemented quickly, it could provide critical near-term investments in clean energy technologies.

We support the efforts of the U.S. Conference of Mayors and others to streamline this process, so that the funds can be disbursed to local governments quickly. If the EECBG funds wait for DOE to go through a normal rulemaking process, followed by a competition among the local governments, the funds could take years to distribute. That is absolutely contrary to the intent of the incoming President and, I expect, this Congress.

We recommend that the state portion of these funds be released within thirty days in accordance with the existing formula for the State Energy Program. NASEO recently wrote to Energy Secretary Bodman to implement these measures urging DOE to take certain administrative steps immediately to avoid delay in the distribution of funds early in the Obama Administration. There is sufficient statutory and legal authority to act in this manner. In short, the state energy offices are committed to sharing best practices with the local governments and ensuring regional coordination so that we actually can increase the leverage and the success of these programs.

3) Expand Proven Energy Programs

a) State Energy Program

The State Energy Program ("SEP") provides funds to the state energy offices through the Department of Energy to fund energy efficiency and renewable energy programs impacting every sector of the economy. A study conducted a few years ago by Oak Ridge National Laboratory concluded that for every federal dollar invested, over $7 in direct energy savings is achieved and almost $11 in non-federal funds are directly contributed to energy programs and projects. As noted, this study was conducted several years ago when energy prices were substantially lower, thus the projected savings today are even higher.

If Congress and the new Administration are serious about addressing energy efficiency and renewable energy, the state energy network will be crucial to achieving any of these goals quickly, if at all. This network is robust and the energy offices generally serve as the program implementers as well as energy policy advisors to the Governors. A comprehensive energy effort must be coordinated, both at the federal and state levels. There is no other existing vehicle that can do the coordination. This funding allows the states to improve the energy efficiency of homes, schools, hospitals, small businesses, local governments, and the agricultural sector and to help the poor, elderly and disabled. Funds are utilized to promote ENERGY STAR products and work with energy service companies, utilities, local governments and others on all types of energy projects. Aggressive implementation of alternative fuels programs, as well as hybrid and plug-in hybrid vehicle initiatives, is also part of this effort. States promote the use of energy service performance contracts and implement these projects, which reduces energy costs for all types of public and private facilities, while keeping capital costs

lower. States utilize these funds to support new and innovative "Green Jobs", including training programs, workshops, etc. States utilize these funds to implement more aggressive building energy codes and conduct training for code officials, builders, local building inspectors, architects and contractors. States facilitate all types of energy financing programs for projects. States also utilize these funds to conduct energy emergency preparedness and to respond to energy emergencies.

The FY'07 Energy and Water Development Appropriations Bill provided $50 million for this program. The FY'08 Appropriations were $44 million, including $10 million for competitive programs ($4 million of these funds were siphoned off to other uses determined by the Department of Energy). The FY'09 Appropriations Bills would have provided $50 million, though the House bill would have provided one-half of these funds for a "competitive" program between the states and the Senate version would have provided $50 million for base funding -- an approach we supported.

We recommend $125 million for the stimulus package for SEP and an additional $125 million for the FY'09 Energy and Water Development Appropriations Bill. If the energy portion of the stimulus package is going to succeed, Congress and the Administration will require a coordinating function at the state level as well as the federal level. Making this program "competitive" between the states fails to support the laboratories of innovation and the collaborative model of best practices. After all, many of the nation's most successful energy programs, including the precursor to the Federal Energy Management Program, the Renewable Portfolio Standard, the Renewable Fuel Standards, and performance contracting programs, were created through state innovations and would never have occurred in response to a DOE-issued "Request for Proposals."

b) Weatherization Assistance Program

The President-elect stated that he wanted to weatherize one million homes per year for ten years. The FY'09 Continuing Resolution ("CR") provided for $477 million for the DOE Weatherization Program, up from $227 million in FY'08. The stimulus package should provide at least $1 billion for Weatherization, in addition to the FY'09 CR. The FY'10 appropriations should be $1.4 billion, and the ramp-up should continue beyond that. While the ramp-up will be a challenge, especially in the training area, it can be achieved. To ensure success, we strongly urge that tens of millions of dollars from these funds be allocated to worker training to get the community action agencies, local contractors and local agencies qualified to perform high quality energy efficiency retrofits.

c) Energy Efficient Building Code Program

EPACT 2005 authorized an expanded program to promote energy efficient building codes, training and technical assistance. The states are working to upgrade energy efficient building codes, but more is needed. A massive new effort at training local building inspectors, code officials, contractors, builders, utility personnel and architects is needed to get these upgrades accomplished. We have worked with

congressional staff to create a national model standard with minimum energy efficiency levels. We were greatly disappointed that the International Code Council ("ICC") process led to energy efficiency gains of less than twenty percent at the ICC meeting in September, when the higher codes were examined. This is insufficient and far too slow. Those who have opposed increased building energy efficiency codes have generally argued that it is never a good time to increase codes. This is a mistake. Congress should take two steps: a) increase funds from the pitiful $3.9 million presently provided for energy efficient building codes to $100 million for this effort; and b) move forward on legislation to upgrade the energy efficient building codes on a national level. This will require a commitment, not only this year, but for a number of years.

d) EPA ENERGY STAR Program

The EPA ENERGY STAR Program, within the Climate Protection Division of the Office of Air and Radiation, is an exemplary program. The FY'08 funding contained in the Interior and Environment Appropriations Bill should be doubled to $100 million in the stimulus package, and should increase in base FY'09 funding and thereafter. The program works with states, utilities and others to promote energy efficiency, saving billions and reducing both electricity demand and natural gas demand. This effort is absolutely a joint activity with the states and it needs to expand.

A specific set of ENERGY STAR program expansion measures (totaling $50 million) should be instituted as part of the stimulus package:

1) **Energy efficient existing homes** (+$12.5 million), including Home Performance with ENERGY STAR (which is a joint activity between the states, EPA and DOE). This promotes whole-home retrofits. We are working with contractors, utilities and others to bring the transaction costs down. We have instituted a pilot program in the Mid-Atlantic States. Additional training should be started promoting quality installation of heating and cooling equipment. For example, air conditioning units are frequently oversized and improperly installed, leading to more peak demand and inefficiencies.

2) **Expanded energy performance ratings** systems for the nation's buildings (+$7.5 million), should be instituted. Ten percent of U.S. building space has already utilized the EPA metrics (energy use/square foot). This performance rating could apply to 60 percent of U.S. commercial building space. Additional funding would allow the program to be expanded to the vast majority of the nation's buildings and would allow EPA to partner with states, local governments, builders and others.

3) **Expanded small business programs** would allow greater technical assistance to this sector (+$10 million), including small and medium-sized manufacturers and others. Again, the focus would be the proper installation of high efficiency services and products.

4) **Expanded outreach** (+$10 million) to states, utilities, local governments, elementary and secondary schools and other energy efficiency program sponsors in the implementation of energy efficiency programs. The ENERGY STAR "platform" can assist these emerging program sponsors in developing programs quickly, based on existing best practices for overall greater effectiveness.

5) **Expanded outreach to state and local governments** (+$10 million) could help these entities serve as a "force multiplier" in achieving stated goals and monitoring and verifying energy savings. This includes technical assistance, sharing of best practices and programs, alternative financing approaches and matching funds for innovative state programs. This could also serve as a vehicle for identifying efficiency measures in water and wastewater treatment facilities, though the direct funding for the infrastructure improvements could be provided through other elements of the stimulus package.

6) **Exploring new technologies and practices** (+$5 million) could help EPA and DOE work together in their efforts to partner with the states, and local governments and would also help establish the "feedback loop" with the federal agencies to ensure that federal laboratory and other spending is sufficiently connected to the real world and programs that might be used by the population.

e) Green Jobs

In addition to the additional training requirements noted in the Weatherization section and the building codes section, of this testimony EISA authorized a new "Green Jobs" program. While it is authorized at $125 million, the funding should be $250 million in the stimulus package, and it should be increased over time.

To successfully address the nation's energy challenges, a wide range of new workers will be needed, including insulation installers, air sealers, HVAC professionals, plumbers, renewable energy installers, energy auditors, etc. The unions have established extensive apprenticeship training efforts, which should be supported. Training is also needed for local code officials, contractors, building inspectors, and architects. In the industrial area, an expansion of the Industrial Assessment Centers should be an important priority, along with expanded coordination with the state energy and economic development officials. Community colleges, technical colleges, manufacturing extension services, cooperative extension activities (through USDA and state agricultural agencies), are also key elements of a training regime. This will require not only stimulus funds, but also persistent funding over a period of years. Recent initiatives in Arizona, Maryland, Massachusetts and New York could be excellent models for other state and federal initiatives.

In addition, we recommend a new assistant secretary for "Green Jobs" or workforce development be established. This could be at DOE or DOL, or both. The key will be coordination.

f) "REAP" Program

While technically not jurisdictional to this Committee, we strongly urge Congress and the Administration to expand the renewable energy and energy efficiency program for farmers, ranchers and rural small businesses, which was authorized in the Energy Title of the 2002 Farm Bill, and reauthorized and expanded in the Energy Title of the 2008 Farm Bill. This program has been successful thus far, but could be a more important lynch pin of federal energy and agricultural policy. This program should be funded at a level of $250 million in the stimulus package and an additional $250 million in FY'09. There is an existing competitive program operated by USDA, with cooperation from the state agricultural agencies, the state energy agencies and the agricultural extension agents. Recent proposed changes by the present Administration is pushing more funds towards loans and less to grants. This is a mistake; especially in a faltering economy. The focus should be on grants, with reduced match requirements, as well as technical assistance programs. In addition to the stimulus package, we would recommend base program funding in FY'09 of $250 million, with increasing amounts in the future.

g) Low-Income Home Energy Assistance Program (LIHEAP)

In the FY'09 CR, Congress doubled the LIHEAP program to $5.1 billion. The funding is still inadequate to the task. Energy prices have dramatically increased in the past five years and low-income, elderly and disabled consumers are paying up to 20-30% of their net income for energy costs. This includes not only natural gas and electricity, but also heating oil and propane, which have experienced extreme price volatility. The state level energy organizations support a funding level of $7.6 billion, which would serve between one-third and one-half of the eligible population. As you know, even at these higher funding levels, LIHEAP funds provide only a share of energy costs. Recent surveys by the National Energy Assistance Directors Association ("NEADA") have shown that shut-offs of utility service have increased substantially in 2008. Recent oil price decreases have not saved poor consumers from these price increases. Again, a consistently higher funding level for LIHEAP is critical to serving the poor. The energy efficiency building retrofit program discussed elsewhere in this testimony would not duplicate either LIHEAP or Weatherization.

4) Boost the Energy Tax Incentives

One of the simplest steps Congress could take to promote long term job creation and new energy investments is to increase the energy tax incentives. Recent congressional action to extend a number of the energy efficiency and renewable energy tax provisions for a period ranging from one year to eight years was a positive step. We recommend that these provisions uniformly be extended to the eight years established for

the solar investment tax credit to provide stability to this industry. This includes the PTC, ITC, CREBS, energy efficiency tax credit for new and existing homes, and the commercial buildings energy efficiency deduction (which should be expanded from $1.80/square foot to $3/square foot, in accordance with the proposal from the American Institute of Architects)

Several additional tax changes could also make a significant impact. First, in light of the credit crunch and the desire to deploy these technologies, a refundable tax credit should be instituted. These credits also should be transferable. In addition, state tax benefits should not be offset against the federal tax benefits for energy efficiency and renewable energy.

Second, to boost job creation in homeowner building retrofits, the energy efficiency tax credits should be increased from 10% of materials (up to $500 per home) to 50% for materials *and* labor (up to $2500 per home). Contractors would promote such an incentive directly, ensuring a real world impact without government implementation or delay.

Finally, the new tax credit for plug-in hybrid and electric vehicles should also be extended.

B) ADMINISTRATIVE CHANGES

1) White House Energy Council

We support creation of a White House National Energy Council. Coordination of DOE, EPA, USDA, DOI and other agencies should be a high priority of this new position. In the 1990s, through 2001, the state energy agencies, the state utility commissions, the state air program administrators and the state environmental commissioners (with support from the federal government) met to coordinate policies, programs and initiatives. The state agencies have begun meeting again to reinvigorate this effort. The support of the new White House National Energy Council and the Council on Environmental Quality would be critical to this effort.

2) Energy Efficiency and Renewable Energy Office

Sadly, over the past few years, the Department of Energy has become largely irrelevant to the real energy challenges facing the nation. First, the procurement process for the Department of Energy's Energy Efficiency and Renewable Energy Office is not working. It has gotten slower and has become more distant from the states, local governments and other governmental and private initiatives.

Second, with the elimination of DOE's regional offices a few years ago, the substantive connection between the federal government and the states has been washed away. The state energy offices pledge support to new regional efforts and we have numerous suggestions on DOE reorganization.

Third, the "stovepipes" remain at DOE, where the technologies are not meshing. A bright spot has been the industrial energy efficiency program, with increased levels of cooperation between the federal government and the states. We are hopeful that with the recent new management in the state and local program office, and a new commitment from the incoming Administration, successful joint programs could be instituted.

We also recommend the creation of Senior Deployment Coordinators in each of the end-use offices at the Energy Efficiency and Renewable Energy Division. These individuals would help work with states, local governments, and the private sector to help get the work of the national laboratories and these offices into the marketplace. There is a fundamental lack of understanding at DOE about the connection between R&D and deployment. The deployment function is not seen as important and there is no institutionalized feedback mechanism between the states and DOE on what works and what does not work. R&D cannot be done in a vacuum. New efforts at commercialization have been a useful start.

We would also recommend expansion of the Technical Assistance Program ("TAP") coordinated by the National Renewable Energy Laboratory ("NREL"), which utilizes federal laboratory expertise and other DOE contractor resources to assist the states in implementing innovative policies, based upon best practices.

The Federal Energy Management Program ("FEMP") now has strong leadership. However, there is approximately $1.3 billion in Energy Service Performance contracting projects in the pipeline. Leadership from the White House is needed to order agencies, including DOD, to expedite these projects. A separate proposal being considered by the President-elect and Congress to add significant funding to FEMP projects would also expedite federal energy efficiency measures.

3) Office of Electricity and Energy Reliability

This office does an excellent job with very limited resources -- but they need more resources. First, NASEO supports expanded efforts to make the transmission and distribution grid more robust and reliable and creating a "Smart Grid". Second, DOE must do more to help prepare the country for energy emergencies. Many in Washington, D.C. do not appreciate that DOE has significant responsibilities for energy emergency preparedness and response, and that these efforts are often done in conjunction with state governments. Funding has been cut for energy emergency preparedness and it has significantly impaired our nation's ability to respond to energy emergencies. For example, the National Infrastructure Protection Plan ("NIPP") needs to be upgraded and more regional energy emergency exercises need to be conducted. Finally, increased funding for the basic OE function should be provided, as should increased funding for the energy emergency function. Enhanced coordination with FERC, the state energy agencies, and the state utility commissions should be encouraged. Recent efforts to create Clean Renewable Energy Zones should be expanded.

4) Energy Information Administration

The Energy Information Administration ("EIA") needs more resources to do its job more effectively. While not necessarily part of a stimulus package, there are a number of items that are falling behind. Section 805 of EISA required EIA to develop a plan and identify additional measures. Just as the state programs have been cut, so has EIA. This agency has not had enough funds to make investments required to ensure its surveys accurately track rapidly changing markets. EIA data is relied upon and, of course, inaccurate data can distort energy-related decisions. For example, EIA's natural gas storage report, released in November 2005, erroneously showed a substantially larger than expected withdrawal. As a result, December futures on the NYMEX immediately jumped sixty cents, costing consumers an additional (and unnecessary) $100 million - $1 billion. FERC's Office of Market Oversight concluded that this incident illustrates the need to make more supply and demand information available to the public. EIA's $97.8 million budget in FY'08 will not allow the agency to update needed data sets, provide critical data on carbon emissions to help the country address climate change, provide more state-level data information (and in a more timely manner), provide more data on ethanol and biodiesel use and penetration, update data on demand response, expand the heating oil, propane and natural gas program operated in coordination with the states and provide more accurate data on state-level programs (especially using comparable data from different states), etc.

5) Office of Policy

DOE's Office of Policy had previously been involved in more discussions among offices at DOE and with the states and other interested parties. This function has been substantially diminished in the past few years. We strongly urge DOE to aggressively enhance the involvement of this office in developing energy policy, working with the states and with the proposed White House National Energy Council.

C) ENERGY LEGISLATION

Beyond some of the stimulus measures and administrative changes discussed above, Congress and the new Administration will be considering important new policies including, but not limited to, a Renewable Portfolio Standard and an Energy Efficiency Resource Standard, expansion of authority to set multiple performance standards for appliances, building labeling models, energy efficient mortgages, expanded grants and programs for multi-family and manufactured housing, etc. One program that has not been widely discussed, but should be, is a national effort to provide rebates to the owners of the 2 million pre-1976 manufactured housing units in the country. These are terrible energy wasters for people who are generally very poor. This rebate program could be modeled after examples in Maine and New Hampshire and would encourage people to upgrade to ENERGY STAR homes.

CONCLUSION

Clean energy investments, such as incentives for attic insulation or solar panels, offer the ability to stimulate the economy and create green collar jobs, while at the same time reducing household energy bills, advancing the nation's energy security, and addressing our climate and environmental challenges. The states are uniquely positioned to jump start real world energy projects in weeks, not seasons. We urge Congress to leverage the federal government's resources with state's ability to innovate and quickly implement energy projects on the ground. We also hope to have the opportunity to work with DOE, EPA, USDA, DOI and the possible White House Energy Council, in addressing a set of coordinated policy measures.