

Testimony of David Gardiner
Senior Advisor, Energy Future Coalition

House Committee on Energy and Commerce
April 24, 2009

Mr. Chairman, thank you for inviting me to testify and for the forward-thinking leadership of this committee. My name is David Gardiner, and I am a Senior Advisor to the Energy Future Coalition, a non-partisan public policy group, that works to bring together business, labor, consumer and environmental groups around clean energy policy objectives.

Quickly bringing energy efficiency resources to scale nationwide is a primary focus of the Coalition. Energy efficiency is the cheapest and cleanest strategy to meet our energy demand. It is an energy resource that can be deployed today and make a difference right away. It has the potential to supply a significant portion of our energy needs. A recent study by the McKinsey Global Institute found that we could cap our energy demand and greenhouse gas emissions at 2005 levels simply by investing in cost-effective energy efficiency. A national investment in energy efficiency will cut consumer and business utility bills, put people to work in high quality jobs that cannot be outsourced and help establish the United States as a global leader in energy technology innovation. Strong energy efficiency policies will also help utilities and businesses reduce the cost of meeting greenhouse gas emission caps.

An Energy Efficiency Resource Standard, or EERS, is a great way to spur investment in energy efficiency. An EERS requires utilities to deliver more energy efficiency by setting a target for energy use reductions by a certain date. It is a powerful but flexible policy tool to ensure that needed investments in energy efficiency are made while allowing states to choose a strategy that works best for their specific circumstances. The discussion draft advanced by Representatives Waxman and Markey clearly recognizes the efficiency opportunity and their proposal to establish an EERS to reduce electricity usage by at least 15% and natural gas usage by at least 10% by 2020 is a strong start. By 2020, this national target would:

- Create **220,000 net new jobs**;
- Save consumers **\$170 billion in energy bills**, net of program costs;
- Reduce peak energy needs by the equivalent of **390 power plants**; and,
- Avoid the equivalent of **48 million automobiles** worth of greenhouse gas emissions.

Setting and meeting a strong target for energy efficiency would be an economic boon for states. For example, a national EERS would:

- Create over 5,000 jobs and save consumers \$2.8 billion in Ohio
- Create over 4,000 jobs and save consumers \$2.3 billion in Michigan
- Create nearly 9,000 jobs and save consumers \$6.3 billion in Georgia.
- Create over 22,000 jobs and save consumers \$14.6 billion in Texas

This is a proven strategy. Nineteen states have already adopted an EERS, and utilities in those states are demonstrating that they can change consumer investment behavior with rebates for efficient investments at a cost of 3-4 cents per kWh – one-third to one-half the cost of power

from new plants. An EERS allows states flexibility to determine the business model that works best to achieve the energy savings. Typically, utilities offer rebates and financial incentives for energy efficiency home improvements, use of energy-efficient lighting and appliances, combined heating/cooling systems and other measures for homes, offices, industrial facilities and institutions.

EERS make significant progress in overcoming the classic obstacles to energy efficiency. The top barrier are the utility regulations that, in most states, only allow utilities to make money by investing in costly new power plants and make it so that utilities lose money by investing in energy efficiency. Other barriers include a lack of program awareness, the “tenant/landlord” problem of split incentives, marginally higher upfront costs of efficient products masking the greater long term benefits. An Energy Efficiency Resource Standard will lead utilities to overcome these barriers and to profitably offer rebates and information to their consumers and to other decision makers (e.g., homebuilders and landlords) to change investment decisions.

The EERS proposed in the Waxman-Markey discussion draft is a flexible strategy that gives appropriate credit to progressive utilities that have pursued a lot of efficiency. Such early actors will already have a lot of efficiency to count towards the EERS. Under the legislation, utilities get credit for savings from codes and standards (including federal standards) and from programs and combined heat and power installations where they “played a significant role in achieving the savings.” In other words, if the utility, the state, and a retailer all play a significant role, the utility gets credit, without having to figure out the size of their role relative to the role of others. According to ACEEE, the average utility will have met 33% of the electricity standard and 16% of the gas standard through codes and standards. The average utility will have even more existing efficiency for the EERS. Further, analysis by economic consultancy Synapse indicates that long-standing efficiency programs have consistently reduced their cost to deliver energy efficiency over time. This was true even as standards increased.

Because of the benefits of an EERS, we have attracted a lot of support, particularly from the business community. Businesses know that efficiency is the cheapest strategy. The Energy Future Coalition has partnered with leading efficiency and environmental groups and 75 leading businesses, industry associations, and faith organizations to form the Campaign for an Energy-Efficient America to advocate for a national energy efficiency resource standard (EERS) to help the nation maximize energy efficiency.

As good as a stand-alone EERS would be for our economy, environment, and consumers, it is even better when paired with complimentary policies as has been done in the “Discussion Draft” from Representatives Waxman and Markey. We support combining a separate EERS with a renewable energy standard and a greenhouse gas standard.

An EERS and RES are good policies alone but when implemented in tandem with a greenhouse gas cap, they help achieve the lowest cost path to meeting our climate goals. An analysis by The American Council for an Energy Efficient Economy shows that electricity prices under cap-and-trade legislation will be **15 percent less** if an EERS and RES are also in place. The report says: “Energy efficiency reduces the cost of cap-and-trade because less new energy facilities are needed and also because a smaller portion of existing facilities need to be upgraded to help meet

emissions ceilings. A cap-and-trade program that maximizes the role of end-use energy efficiency in buildings, industry, and transportation systems, will, therefore, achieve carbon reductions at a lower cost than a program that simply focuses on generators through a carbon cap and carbon price.”

How does the “Three Pillars” approach work? An EERS and an RES are both good standalone policies that can drive national investment in and create markets for renewables and efficiency. In tandem, their benefits are magnified because they help reduce the cost to consumers of cutting emissions. The 13 states that have adopted a “Three Pillar” approach are showing first-hand that they can reduce market barriers and stimulate new clean energy markets. While these state efforts are an excellent start, national EERS and RES policies are needed to fully overcome the nation-wide barriers to efficiency and renewables and to bring the benefits of efficiency and renewables to the entire country, including states without such policies now, as well as nearby states who will share in region-wide benefits that such policies bring.

Some have suggested that we merge the EERS and RES into a single standard. That is an unwise path. It would be worse for consumers than two separate standards. The House Bill 969, passed by the House in August 2007, set the renewable standard at 15% and allowed efficiency to meet 25% of the total. It would reduce consumer savings by **\$70 billion less than the current EERS proposal alone.**¹ From a utility perspective, energy efficiency and renewable energy are very different animals. Having separate standards simplifies their planning process by giving them clear and distinct targets for each.

Some have suggested that a cap on greenhouse gas emissions can do all the work of reducing emissions. This is an expensive approach that is not good for consumers. While a cap sends important price signals, price signals are not optimally effective at driving energy efficiency and renewables, which are the options for reducing emissions that are fastest and lowest-cost for consumers. The way the regulatory business model works now, the utilities have more incentive to take the costliest measures to reduce the pollution from their power plants and other assets first and to invest in cheap efficiency last. Assuming that a totally free market approach – that is, waiting for a price on carbon to drive strategy – ignores that the electric industry is not a free market now. Indeed, it is the outdated utility rules in most states that prevents the right market choice, efficiency, from being the first choice.

The Waxman-Markey discussion draft will send the right policy signal. There are a few minor improvements that could be made to enhance the legislation. Under the current draft, the governor of any state may choose to meet one-fifth of the RES requirement with efficiency, if that state is in compliance with the EERS requirements. This section should be clarified so that only efficiency that is not used to meet the EERS is used to meet the RES.

Mr. Chairman, you and your colleagues are well on your way to writing legislation that will create an energy policy that provides real economic and environmental benefits.

Thank you for inviting me to participate in this hearing.

¹ <http://www.renewableenergyworld.com/rea/news/article/2007/08/last-chance-rps-vote-looming-in-house-49528>