STATEMENT OF
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
APRIL 22, 2009

Mr. Chairman and Members of the Committee, thank you for this opportunity to testify before you on S. 548, which seeks to amend the Public Utilities Regulatory Policy Act of 1978 to establish a Federal energy efficiency resource standard for retail electricity and natural gas distributors, and for other purposes.

President Obama is committed to a comprehensive energy plan that creates jobs, reduces our greenhouse gas emissions, and increases our energy security. An important part of that plan is to deploy the cheapest, cleanest, fastest energy source – energy efficiency.

We are already putting Americans to work making homes and buildings more energy efficient through the significant investments of the American Recovery and Reinvestment Act, which will grow our economy while cutting energy bills for American families.

But we need to do more.

We also need to continue to develop more energy efficient technologies and find new ways of accelerating their adoption, to take the investments that leading States and electric and gas utilities are also making on energy efficiency, and to make all of these steps permanently part of the way we live and do business.

Over the last several decades, the experiences of leading electric and gas utilities, third party program administrators, and state agencies administering energy efficiency show that it can be a reliable way to deliver energy services to electric and gas ratepayer. Electric and gas utilities increasingly address energy efficiency in their resource planning and investment decisions. For example, a DOE-funded 2008 analysis by the Lawrence Berkeley National Laboratory for the Western Interstate Energy Board found that 16 utilities in the western United States (representing 65 percent of the load in the 12 western states) are planning on meeting 31 percent of their projected customer load growth by improvements in energy efficiency; savings from individual utilities' proposed efficiency activities ranged from 12 percent to over 70 percent of load growth after ten years.

As a strategy for delivering energy services by electric and gas utilities, energy efficiency offers the advantages of low cost (typical cost of an energy efficiency portfolio

is 3 cents/kwh for saved energy); zero emissions including carbon; no siting and permitting challenges endemic for generation, transmission, or pipelines; and quick, incremental implementation. However, measuring the effectiveness of energy efficiency improvements has its challenges, such as in the selection of the baselines from which reductions are taken.

S. 548 appears to build on state experience in establishing efficiency goals for utilities and other measures to accelerate energy efficiency. It would set national requirements for energy savings between 2012 and 2020 for retail distributors of both electricity and natural gas. These utilities would thus be required to use cost-effective energy efficiency in their resource procurement and planning decisions.

Retail electric and natural gas distribution utilities, limited to those that exceed a certain level of retail sales, would need to achieve a total of 15 percent cumulative electricity savings and 10 percent cumulative natural gas savings by 2020. The savings requirements begin in 2012 and then increase as efficiency investments accumulate over the next decade. In addition to counting the contribution of utility energy efficiency programs to the achievement of these requirements, there are also flexibility provisions that would count the gains from more stringent building codes and equipment standards, as well as combined heat and power. Electric utility efficiency savings in their distribution networks are included. Further, non-utility efficiency providers, including states that instead administer efficiency programs using utility ratepayer funds, can participate through bilateral contracts.

Cumulative rather than annual reduction targets are used, presumably since efficiency measures installed in early years continue to save energy during the compliance period. A cumulative savings approach also encourages utilities to install energy efficiency measures with long economic lifetimes as they will continue to contribute to the savings requirements for many years.

S. 548 includes provisions for the Department to set implementing regulations, accept and review compliance reports, establish evaluation, measurement and verification (EM&V) protocols, and periodically revisit the standards if needed, among others. Alternative compliance payments and penalties for non-compliance are included.

The Administration has not completed its analysis of S. 548 and thus the Administration does not have a position on it at this time.

The Department has some technical comments to make on the bill, particularly on its role in implementing S. 548, if enacted. These include:

First, reliably delivering energy efficiency is not without its challenges, just as any energy resource has its specific challenges. Experience with efficiency programs at the state level indicates that good evaluation measurement and verification (EM&V) protocols are required to assure that savings from energy efficiency measures and programs are verified, and are actually achieved and maintained. EM&V is particularly

important when energy efficiency is relied upon by electric and gas utilities as a resource (that is deferring or avoiding supply-side resources), which can affect system reliability.

The bill requires the Department to set a national EM&V protocol within one year. Such a timeframe for the Department appears ambitious, especially given the extensive public review such a protocol will require. However, the Department and its national labs do have considerable expertise on the subject, including the provision of assistance to states on design of their own EM&V protocols. Currently the Department, with its partner agency the U.S. Environmental Protection Agency (EPA), is supporting a group of state and utility members of their National Action Plan for Energy Efficiency to identify current practices and emerging issues in EM&V that would need to be addressed as part of voluntary national or regional EM&V protocol.

Second, S. 548 requires the Department to administer the national EERS. The Department notes that while the proposal would likely impose sizable demands on the Department initially, this workload may decline over time since it is quite possible that many states, particularly those with existing efficiency requirements, will chose to ask the Department for permission to administer the Federal standard for their state.

Finally, the lack of any provisions to recognize the savings already achieved by "early action" states and utilities may warrant further analysis and consideration.

This concludes my statement, Mr. Chairman. I look forward to answering any questions you and your colleagues may have.