Testimony of

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Regarding

"Negawatts: The Role of Efficiency Policies in Climate Legislation"

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Good morning Chairman Markey, Ranking Member Sensenbrenner and members of the Committee. I am Paul A. DeCotis, Deputy Secretary for Energy in the Administration of Governor David A. Paterson. On behalf of Governor Paterson, I welcome the opportunity to present this testimony to the Select Committee on Energy Independence and Global Warming, and look forward to working with the Committee to ensure development of leading and effective climate change policy.

It is now widely accepted that energy efficiency is one of the lowest cost options available for reducing greenhouse gas emissions. This has been underscored in the recent Intergovernmental Panel on Climate Change report and a number of studies of greenhouse gas abatement options, including the December 2007 McKinsey report. Many states throughout the country now have had almost thirty years of experience administering energy efficiency programs – all with similar results – providing conclusive evidence of the low cost of energy efficiency relative to new power generation, and of the economic and environmental benefits associated with reducing electricity use through energy efficiency improvements. So the question is not should we be supporting and investing in energy efficiency; it is instead to determine how we can do this most effectively – with rapid penetration of existing commercially available technologies in the near-term and steady and continued development of better, more adaptable, and cheaper technologies over the longer-term.

We must also keep in mind that many in the science community are calling for an 80% reduction of greenhouse gas emissions by 2050 and that even the most aggressive energy efficiency programs will not, by themselves, get us to this endpoint in the U.S. – and certainly not globally. We need both an energy efficiency and a carbon reduction policy. A portfolio of low-carbon options on the demand side and the supply side will most definitely be necessary, as well policies that address sectors beyond electricity.

New York State's Actions to Address Global Climate Change

New York has a long-standing history of supporting energy efficiency that dates back nearly four decades. As a leader in energy efficiency, many states adopted New York prototype programs years ago.

New York is very dependent on fossil fuels to heat its homes and power its businesses. Oil use in buildings and industry in New York averaged 3.2 billion gallons annually over the last three years, more than any other state in the nation. As fossil fuel prices increase worldwide, so does the price of energy commodities, including heating oil, gasoline, and electricity. This situation is further exacerbated by the fact that the State does not have significant indigenous fossil fuel resources. This fact, coupled with concerns over climate change, makes energy efficiency an essential component of New York's economic and energy policies. Investing in energy efficiency also helps to stem the flow of energy dollars out of the state, creating economic opportunities within the State and improving its environment.

Through the years, New York has implemented several different policies to realize the benefits of using electricity with optimum efficiency, putting in place a series of programs, variously termed energy conservation, energy efficiency, or demand side management.

New York's energy efficiency efforts began in the late 1970s with federal funding provided to the states through the Energy Policy and Conservation Act of 1975 and the State Energy Conservation Program (SECP), administered by U.S. DOE. These programs primarily targeted federal buildings, major industries, and institutions such as schools and hospitals. While the funding was small relative to need, New York was able to develop a diverse portfolio of programs serving the residential, business, and government sectors. These programs took another step forward in the 1980s as result of receiving significant funding from a legal settlement against Exxon and other oil companies for charging excessive prices for their crude oil in the late 1970s. By 1989, New York State received over $335 million, including interest, from this funding source.

New York's energy efficiency efforts directed at the electric utility sector began in earnest in 1984, largely driven by concerns about the construction delays and escalating costs that were plaguing new plant construction. At the time, demand-side management (DSM) programs were viewed by New York's Public Service Commission (PSC) as potential alternatives to continued investment in new central station power generation projects. As a result, investor-owned utilities were required by the PSC to develop pilot-scale DSM programs that included energy efficiency and load management. The programs were initially funded at approximately $25 million annually, representing approximately one-quarter of one percent of gross annual utility revenue.

Following an assessment of the pilot programs in 1987, the PSC concluded that DSM programs were a viable and economic alternative to new energy supply resources and that DSM should be considered on equal footing with supply resources in integrated resource planning. At a minimum, it was recognized that DSM could delay the need for peaking capacity, even if the need for new base load power supplies could not be totally eliminated. The job creation and environmental benefits associated with reducing electricity use were also identified and

quantified as further justification for investment in DSM. Utilities were directed to assess DSM potential, identify cost-effective programs, establish DSM goals, and develop long-range DSM plans, including incentive and information and education programs.

By the late 1980s, utilities in New York were reporting significant peak demand and electric energy reductions. By 1993, DSM spending by investor-owned utilities reached $280 million (equivalent to about $400 million in 2007 dollars) a dramatic increase from the initial $25 million spent in 1984. Additional DSM spending by the State's energy authorities raised the State's annual investment in energy efficiency resources in 1993 to about $330 million (about $470 million in 2007 dollars).

In 1996, New York began the process of restructuring its electricity industry. A key element of this effort was that investor-owned utilities were required to sell generation assets to independent power producers. As a result, New York's traditional vertically integrated utilities were transformed into transmission and distribution companies. With the transition to wholesale market competition, the responsibilities for administering energy efficiency and load management programs were transferred from utilities to the New York State Energy Research and Development Authority (NYSERDA). The utilities' role, following divestiture of their generation assets, is to collect program funds from ratepayers through a System Benefits Charge (SBC).

The funds are provided to NYSERDA, under the oversight of the Public Service Commission, to administer energy efficiency, load management, environmental protection, and research and development programs. NYSERDA has been administering statewide SBC programs in cooperation with the New York Power Authority (NYPA) and the Long Island Power Authority (LIPA) since 1998.

Under the System Benefits Charge-funded **New York Energy $mart**[sm] program alone – one of several programs – the level of annual energy bill savings has grown to $480 million. The program is saving approximately 3,100 GWh of electricity annually. The level of annual greenhouse gas reduction has grown to nearly 2 million tons, which is equivalent to removing approximately 400,000 cars from New York roadways. And for every dollar New Yorkers invest through this program, $2 in energy costs are avoided.

Last year, New York embarked on its 15 by 15initiative. The goal of the initiative is to reduce statewide electricity use by 15 percent from forecasted levels for the year 2015 primarily through the use of new energy efficiency. The initiative would also curb greenhouse gas emissions produced from electricity generation. 15 by 15 represents a dramatic acceleration of New York's energy efficiency commitment. In 2009, the State's energy authorities alone have budgeted close to $500 million for energy efficiency. The investor-owned utilities, and new funding from the 15 by 15 initiative could easily add an additional $400 million, bringing total annual funding close to $1 billion.

Energy Efficiency Portfolio Standard Proceeding (15 X 15)

New York's Public Service Commission instituted the Energy Efficiency Portfolio Standard proceeding in May 2007 in recognition of the need to respond to the State's energy needs with economic efficiency and increased awareness of the environmental and climate costs of burning fossil fuels for energy, and of the price of dependence upon imported energy sources.

In the proceeding, the Public Service Commission affirmed that realizing the State's energy efficiency potential and reducing New York's electricity usage 15 percent from expected levels by 2015 are in the public interest. Having now embarked on a policy to achieve that goal, we expect that New York's energy efficiency programs will become among the most aggressive in the Nation. The issues that are being addressed in the Energy Efficiency Portfolio Standard proceeding include:

- Cost-effective approaches to achieving long-term efficiency to be administered by utilities, state agencies and authorities, third party administrators and market participants;
- Consistent statewide outreach and education efforts on efficiency programs and measures;
- Examining enhanced energy building codes and appliance standards;
- Providing programs for all customer sectors including low-income, other residential and business customers of all types; and
- Enhancing and improving the energy efficiency workforce to deliver services in all parts of the state.

From a broader, long-term perspective, we must realize that our efforts toward the 15 by 15 initiative should not be a sprint that ends in 2015, but rather the first leg of a marathon moving us toward the levels of emission reductions that we will need by 2050.

The state has also taken on a lead by example approach. Through Executive Order 111 and the state's Clean Energy Collaborative, state agencies and authorities are implementing efficiency and other low-carbon emissions measures within state government.

Governor Paterson's Renewable Energy Task Force[1] recognized energy efficiency as the first renewable energy fuel. As such, among its recently issued recommendations for increasing New York's renewable energy resources, the task force called for further efficiency measures.

All of these recent energy efficiency policies in New York State have been framed, justified and developed with full recognition that energy efficiency is one of the lowest cost options to reducing greenhouse gas emissions. More specifically, non-electric energy efficiency measures are even included as "carbon offsets" in the proposed Regional Greenhouse Gas Initiative (RGGI) regulations.

[1] The first report of the Renewable Energy Task Force, "Clean, Secure Energy and Economic Growth: A Commitment to Renewable Energy and Enhanced Energy Independence" is available at http://www.state.ny.us/governor/press/lt_RETF_Report.pdf.

Relationship between Energy Efficiency Policies and a Cap-and-Trade Program

Energy efficiency policies are not a substitute for cap-and-trade programs to control greenhouse gas emissions. That is why New York is pursuing *both* a cap-and-trade policy through the Regional Greenhouse Gas Initiative (RGGI) and aggressive energy efficiency policies. To attempt to address the needed level of greenhouse gas reduction, we will need the full force of both a market price signal for carbon dioxide reduction, which comes with a cap and trade program, as well as policies and incentives for energy efficiency to overcome market barriers. Energy efficiency initiatives are the perfect complement to carbon cap and trade programs, as they reduce the cost of complying with the cap.

Furthermore, we need to realize that in order to address climate change in the United States, and globally, in a politically, socially, and economically acceptable manner, we will need to mobilize the *full capacity for innovation* in the country: innovation in policy, innovation in technology, and innovation in finance. There is no silver bullet. While stabilization of greenhouse gas emissions could be within our grasp with existing technology, new science and new engineering will be needed to reduce costs and address the tremendous challenges associated with the transformation of our energy system that is being called for by climate change experts. In fact, this was a resounding theme at the recent National Academy of Sciences Summit on "America's Energy Future." As a member of the Board on Energy and Environmental Systems of the National Academies, and a member of the energy efficiency panel supporting the America's Energy Futures study, I know there is a preponderance of evidence to conclusively support the role of innovation, technology, and energy efficiency in reducing energy use, supporting economic development, and improving our environment.

New York's Use of Proceeds of Allowance Auctions under the Regional Greenhouse Gas Initiative

New York will not invest all of the proceeds of the RGGI allowance auctions in efficiency measures. Rather, New York's proposed regulations state that RGGI proceeds will be used to "promote and implement programs for energy efficiency, renewables, and innovative carbon emission abatement technologies with significant carbon reduction potential." While we expect investments in energy efficiency technologies and measures will play very prominently into the RGGI programs, other technologies and options such as renewable energy and carbon abatement technologies will also be considered.

With regard to efficiency investments, a portion of RGGI proceeds would allow for an all-fuels approach. While the System Benefits Charge is very effective at targeting electric savings, the need for "energy efficiency" must extend beyond the electric and natural gas utility sector. Current programming based on ratepayer received dollars is appropriately targeted to electric and natural gas efficiency. However, that has created gaps in worthwhile program activities such as oil efficiency – which is critical in New York given the high percentage of homes using heating oil – and transportation fuel efficiency. RGGI proceeds could potentially help us address these other fuel sectors, which would further reduce greenhouse gas emissions.

Efficiency Measures and Cost Savings to Consumers

Program planning for use of these proceeds will commence upon finalization of the RGGI regulations; which will happen within months. We will evaluate the full range of energy efficiency options, *looking at all fuels and all sectors.* We are currently doing a study to estimate the costs of different greenhouse gas emission reduction options in New York State, and will use this study to help guide our future investment decisions. In making these program decisions, we must consider both measures that can be implemented cost effectively in the near term as well as investments that can be made to reduce long-term costs and increase options for greenhouse gas reductions.

Recommendations regarding the Inclusion of Complementary Efficiency Policies in Federal Cap-and-Trade Legislation for Greenhouse Gases

To succeed in achieving significant GHG reductions by mid-century we need to enact a Federal climate action plan to ensure effective collaboration among all levels of government and to signal to energy producers, suppliers, and users, that we are serious about this commitment. The program should allow for states to be centers of innovation for greenhouse gas reduction strategies, and should respect states rights to pursue more innovative and aggressive cap and trade programs. States have the experience, regulatory infrastructure, and the programs in place to help ensure that national goals can be met, especially in the early years.

Federal legislation should provide for a greater allowance allocation to states than what is currently proposed in S. 2191. States are better able to use the proceeds of an allowance auction to promote the goals of the legislation. States have more experience than the federal government in implementing energy efficiency and promoting the development of renewable energy. An alternative to providing states the authority to auction allowances and use the proceeds to promote the goals of the program is to provide states with a portion of the proceeds from a federal auction.

Creating an aggressive energy efficiency program is of critical importance for any future state energy policy. We must meet the challenges ahead by being bold and innovative. This includes promoting renewable energy and environmental sustainability.

Although there will be costs associated with implementing the system benefits charge and energy efficiency portfolio standard programs in New York State, the financial benefits returned will outweigh the costs incurred.

Energy efficiency absolutely plays an important and complementary role in climate policy. If we are to effectively meet our carbon goals, we must link our clean air efforts with efficiency measures. Beyond benefits to addressing climate change, we also spur domestic economic growth associated with whole new energy efficiency businesses, industries and green collar jobs, for example, and take a significant step in our transition to a clean energy economy.

Thank you for the opportunity to testify before the Committee. I am happy to answer any questions the Members may have.