

## **Energy Efficiency and Economic Recovery Initiative**

December 19, 2008

To put Americans back to work, lower their energy bills and cut greenhouse gas emissions, we encourage President-elect Obama and Congress to launch the Energy Efficiency and Economic Recovery Initiative described below. The Initiative has a national goal of retrofitting 2 million buildings over the next two years to substantially reduce their energy use. America's building sector is in crisis. Now is the ideal time to jump-start a green jobs market, using the skilled and underemployed construction sector work force that is ready and waiting, and to stimulate a large secondary market in product and equipment sales. The Initiative will build the policy framework needed to achieve these goals.

### **Recommendations for Economic Recovery Bill**

- *State Energy Efficiency Grants Program.* We encourage Congress to provide \$13 billion in the economic recovery bill to states to promote energy efficiency. States would provide funding under the grants program to entities such as utilities, cooperatives, energy service companies and school districts. The first half of the funding would be allocated without conditions. The second half of the funding would be contingent upon a state initiating proceedings to adopt and implement 1) certain utility regulatory reforms to incent utilities to deliver large-scale energy efficiency programs, and 2) more stringent energy building code requirements. The utility regulatory reforms would promote and incent improvements in energy efficiency by both utilities and their customers by ensuring that utilities 1) obtain cost recovery for prudent investment, 2) have an earnings opportunity tied to verified success in delivering cost-effective energy savings, and 3) be kept whole for authorized fixed costs as electricity sales volumes decline (relative to what they otherwise would have been without these efficiency measures). The utility reforms would be similar to Idaho's approach to utility energy efficiency issues (see the Idaho Public Utility Commission's approval of Idaho Power's proposals in March 2007). The more stringent building codes requirements would be the 2009 IECC (for residential buildings) and the ASHRAE Standard 90.1-2007 (for commercial buildings), or other codes with equal or greater energy savings. The funding under the State Energy Efficiency Grants Program would be available until expended. The states that complete the adoption and implementation of the utility reforms and more stringent energy building codes would be eligible for the \$5 billion of Energy Efficiency Challenge Grants described below. The programs supported by the State Energy Efficiency Grants Program would be:

- *Home Energy Efficiency Retrofits.* \$3 billion for a home retrofit program with the goal of retrofitting 1.5 million homes within two years. The program would be structured in tiers with increasing rebates for 10%, 20% and 30% improvements in efficiency. The program would utilize effective existing retrofit programs to the greatest extent practicable.
- *Retrofits of Public Buildings.* \$3 billion for energy audits, advanced metering and the co-funding of comprehensive energy efficiency retrofits for state and local government buildings and facilities, including buildings and facilities of state government agencies, public universities, municipalities, counties and vocational districts.
- *Commercial Building Efficiency Retrofits.* \$3 billion for a program that would provide an incentive to commercial building owners for efficiency improvements based on demonstrated energy savings of no less than 20% with incentives calibrated to encourage 30% savings or greater.
- *Efficiency Programs Matching Fund.* \$3.5 billion for a federal match of state approved energy efficiency programs that are monitored and verified to ensure that energy efficiency measures are being implemented and are saving energy on a cost-effective basis.
- *Energy Efficiency Challenge Grants.* We encourage Congress to provide \$5 billion to states for energy efficiency and renewable energy initiatives that would be made available to states that complete the adoption and implementation of the utility regulatory reforms and more stringent building energy codes described above. The funding should be allocated according to performance-based criteria.
- *Energy Efficiency and Conservation Block Grants Program.* We encourage Congress to provide \$6 billion to local governments for the Energy Efficiency and Conservation Block Grant Program authorized by the Energy Independence and Security Act of 2007 (EISA). The program provides funding for energy efficiency and conservation projects that reduce total energy use, decrease fossil fuel emissions created as a result of activities within the jurisdiction of the entity receiving the grant and improve energy efficiency in the transportation, building, and other appropriate sectors.
  - The first tranche of funding, \$2 billion, would be available to states without conditions.
  - The additional \$4 billion should be based on states having adopted plans for enforcement of building energy codes and for reduction of vehicle miles traveled. Some of the funding in the second tranche would go toward implementation of these plans.
- *Staff Capacity & Consultants.* We encourage Congress to provide \$500 million for 1) training programs (i.e. building code enforcement), 2) staff and consultant capacity to implement the utility regulatory reforms and more stringent building code requirements described above, and 3) developing the data and methodologies necessary to establish the performance-based criteria for the Energy Efficiency Challenge Grants.
- *Administration, Technical Support and Improvement of Program Effectiveness.* We encourage the Department of Energy (DOE), in consultation with the Environmental Protection Agency (EPA), to establish guidance for states and

local governments to ensure the effectiveness of the State Energy Efficiency Grants Program and the Energy Efficiency and Conservation Block Grants Program. We encourage Congress to provide \$500 million to DOE and EPA to support the two grant programs and to improve the effectiveness of existing energy efficiency programs. Some of the funds provided to DOE should be used for the Building Energy Codes program and for the Public Information Initiative. At least \$150 million of the funds should go to EPA for expansion of the Energy Star program and other support programs.

- *Weatherization Assistance Program (WAP).* We encourage Congress to provide in the economic recovery bill 1) \$500 million in additional Fiscal Year (FY) '09 funding to WAP (bringing total FY '09 funding to ~\$1 billion), which will create jobs in the construction industry and help low-income households meet the rising cost of energy, and 2) a total of \$1.4 billion to WAP in FY '10.
- *Green Schools.* We encourage Congress to provide \$3 billion to the Department of Education for grant funding for the repair, renovation, and modernization of public schools, requiring that grantees use a percentage of funds received for improvements that make use of specified energy efficiency and green building standards.
- *Extending and enhancing existing residential and commercial federal tax incentives for energy efficiency programs.* We recommend that Congress 1) address effects of the credit availability crisis on the energy efficiency industries by making the energy efficiency tax incentives and provisions governing accelerated depreciation fully refundable for twelve months, 2) extend through 2011 the tax credit for efficient new homes and expand the credit to provide a \$4,000 credit for achieving 50% savings for the whole home (current credit is just for space conditioning and envelope), 3) extend through 2011 the provisions of the "Nonbusiness Energy Property" tax credit that apply to high efficiency heating and cooling equipment, and 4) increase the current Energy Efficient Commercial Building Deduction from the current \$1.80 per square foot to at least \$3 per square foot.
- *Funding Workforce Training Programs.* A comprehensive program of education, skill development and worker placement is needed to help governments, businesses, efficiency providers and unions ensure that a highly skilled work force is available to implement wide-scale energy efficiency measures. We encourage Congress to provide \$500 million in the economic recovery bill for the Green Jobs Act. The provision is a workforce training program that was authorized in the Energy Independence and Security Act of 2007 (EISA) at \$125 million. We recommend that an additional \$375 million be added to the program for a total of \$500 million, to be used until expended. Funding could be used for programs that train displaced or unemployed workers to be home efficiency auditors and building energy codes inspectors.
- *Industrial Assessment Centers:* We encourage Congress to provide \$50 million, to be administered through DOE until expended, for the Industrial Assessment Centers. These centers, housed in the engineering departments of major American universities, provide free energy audits and recommendations to industrial facilities while training students to perform these skills.

- *Promoting Smart Grid Investments.* We encourage Congress to provide \$1 billion in the economic recovery bill for DOE to provide matching funds for qualifying smart grid investments under Section 1306 of EISA and to provide full funding for smart grid demonstration projects under Section 1304 (b)(3) of EISA.
- *Reducing energy consumption in federal buildings through efficiency upgrades, energy audits, metering and building improvements.* We encourage Congress to provide \$1.2 billion in the economic recovery bill for federal agencies for energy efficiency improvements and installation of clean distributed energy in federal buildings, including military installations. Federal agencies need funds for comprehensive energy efficiency improvements, and we encourage them to use those funds to leverage additional improvements via private sector options. We recommend that funds be provided on a first-come, first-served basis and be available for 18 months and that administration be at the Federal Energy Management Program (FEMP) of the DOE.

### **Additional Recommendations**

We also support measures intended for administrative action or separate legislation that complements and extends the energy savings and other benefits created by our recommendations for the economic recovery bill. These measures include:

- *Strengthening national model building energy codes.* We encourage Congress to establish targets in legislation next year for the residential and commercial model energy building codes to increase their energy efficiency savings at least 30% by 2010 and 50% by 2020. If the targets are not achieved, then we recommend that DOE be required to issue amended model code provisions achieving these savings. We recommend that states be directed to adopt and enforce the updated codes. We encourage Congress to provide DOE sufficient resources to provide technical assistance and funding for the adoption, implementation and compliance of the codes. Additionally, we encourage Congress to direct DOE to assist code-setting organizations in publishing a voluntary building code that is more stringent than the model energy building codes -- or “stretch code” -- so that states that want to use a more aggressive code than the model codes will have a technically robust code to use. Code development requires significant resources and technical capacity that many states do not have.
- *Enhancing energy efficiency standards.* We recommend that Congress overhaul in legislation next year federal law provisions on appliance and equipment efficiency standards by clarifying DOE’s authority to set multiple performance standards for a product and by adding additional technologies to the standard-setting process. DOE has previously argued that federal law does not allow it to impose standards that apply multiple metrics or multiple design requirements to regulated products. We recommend that Congress clarify that federal law does indeed give DOE such authority.
- *High-level administration focus on eliminating backlog of \$2.2 billion in ESPC projects.* We recommend that the new administration take immediate administrative steps to direct FEMP to clear the “backlog” of \$2.2 billion in major

efficiency projects that can be implemented using energy service performance contracts (ESPCs). We recommend that the administration consider providing a 25% match in Treasury funds if projects are implemented within 24 months of the effective date of the economic recovery bill.