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**Remarks of Reid Detchon
Executive Director, Energy Future Coalition**

**Alliance to Save Energy
Great Energy Efficiency Day
February 14, 2007**

I appreciate the invitation to participate in the Alliance to Save Energy's *Great Energy Efficiency Day* and the opportunity to speak with you about a subject that is so important to meeting our future energy and environmental needs.

We have been talking about the importance of energy efficiency for more than 30 years, and for 30 years it has been the "low-hanging fruit," but I am convinced we have just scratched the surface, in terms of actually realizing the benefits of greater efficiency. After 30 years, a lot of the fruit is still hanging there. That tells me we need to think about efficiency in different ways.

The recent McKinsey report, in fact, merged the concepts of efficiency and demand management under the term "energy productivity" – and perhaps that phrase does better capture the promise of stretching our energy supplies, reducing our energy costs, and stimulating economic growth, job creation, rising living standards, a healthy environment, a more stable climate, national security and improved international relations.

What has changed in the last 30 years is the context of the discussion. Earlier this month the Intergovernmental Panel on Climate Change released the first part of its Fourth Assessment Report on climate change. The findings of the IPCC, the consensus estimate of the world's scientists, couldn't be any clearer: human activities are altering the atmosphere, and the planet is warming. Unless we act now, with great urgency, costly and disruptive impacts all over the world are inevitable. We have no choice but to act. We need to change the way we produce, use, and conserve energy. It is just this simple: We must use less energy and release less carbon dioxide by being smarter about how we use energy, and that means energy efficiency.

On this count, I must take issue with our good friend Jim Rogers of Duke Energy. Jim has often said that energy efficiency should be viewed as our “fifth fuel” – to complement coal, nuclear, natural gas, and renewable energy. Energy efficiency should be viewed as our “first fuel.” Maximizing energy efficiency and conservation should be the “fuel” of first choice.

Enhanced energy efficiency is increasingly a core objective of the United Nations Foundation and our domestic energy initiative, the Energy Future Coalition. At the UN Foundation we are working on a major international effort involving the G8+5 countries, focused on developing aggressive energy efficiency action plans for immediate implementation. We have convened an international expert group to recommend energy efficiency policy options for enactment by national governments in an internationally coordinated manner. The expert group is developing options to accelerate deployment of existing technologies and alter incentives to make energy efficiency a bigger consideration in consumer and business decisions. The recommendations will call for development of national energy efficiency action plans and periodic summits for announcing commitments, evaluating progress, and engaging the private sector. We believe that the recommendations will be of interest to the G8 and the +5 governments as they consider how to accelerate progress in expanding and implementing the energy efficiency objectives outlined in the Gleneagles and St. Petersburg summit declarations.

The Energy Future Coalition is a broad-based, nonpartisan alliance that seeks to bridge the differences among business, labor, and environmental groups and identify energy policy options with broad political support. Energy efficiency has always had that kind of support with the public, but to be frank, it fell out of favor with policy makers for the last 10 or more years. Deregulation offered the promise of market-driven efficiency.

Unfortunately, barriers remain. The relationship between most electric utilities and their customers creates a disincentive for the utility to invest in energy efficiency. In order for energy efficiency to become the “first fuel,” that electric utility/customer relationship must be redefined so that energy efficiency investments become a utility’s highest profit opportunity. The Energy Future Coalition is convinced that changing this public policy and regulatory barrier is possible and would be broadly supported.

Let me explain. Many consumers are struggling with the reality of steep rate increases for electricity. In most states, public officials appear unable to devise a plan to control consumer electricity costs, fairly compensate electric utilities, and guarantee an adequate supply of power to meet a growing energy demand. Perhaps the fundamental fault doesn’t lie with the energy consumers, or the utilities, or even with the public officials. The real problem is inherent in the basic economic model for providing electricity, and in the faulty relationship between electric utilities and their customers. I would contend that the time has come to rethink that model and that relationship, to rethink the role of a public utility in our society.

Today, America finds itself at an energy and environmental crossroads. We face a growing demand for energy to power our homes and businesses, to meet our recreation and mobility needs, to protect and create American jobs, and to enhance our quality of life. At the same time we are confronted with escalating energy costs, uncertain supply of many energy

resources, threats to our environment and climate from energy use, and growing national security concerns related to access to vital energy supplies. The strategic energy decisions America makes in the next 10 years will be critical in determining whether we will be able to achieve an affordable, reliable, and sustainable energy future.

Increased efficiency in energy use, particularly electricity, must be the cornerstone of our energy policy. A variety of effective energy efficiency actions are available, ranging from strengthening building codes and appliance standards, to promoting user-friendly energy management technologies that allow consumers to minimize their energy use and maximize their cost savings. The estimated energy savings from these approaches vary significantly, generally from 10 to 50 percent; peer-reviewed studies have indicated a median estimated electricity savings potential of 24 percent. Now, 10 to 50 percent – that’s a pretty big range. How do we get to the high end... and go beyond light bulbs to structural change in the way people use energy? We are pursuing an “inside-out” strategy to encourage utilities to become partners with their customers toward a shared objective – reducing their energy consumption and their bills.

Historically, electric utilities have been compensated for building power generation and transmission infrastructure and for selling electricity. There is nothing in such a compensation structure and the resulting relationship with the consumer that promotes energy efficiency. The more power generation the utility builds and the more electricity it sells...the more money it makes. Indeed, successful energy efficiency programs can dramatically reduce a utility’s profit. Rather than reducing demand, the historic electric utility regulatory and ratemaking regime is structured to increase energy demand.

There should be a decoupling of the historic relationship between utility compensation and energy sales. A more sustainable and cost-effective model would be to compensate the utility to substantially increase energy efficiency and thereby reduce demand. The result would be a new economic model that meets the goals of reducing consumer electricity costs, fairly rewarding electric utilities, and ensuring adequate energy resources in the future by saving energy today. That would be a win for everyone. We were pleased to see that the recent National Action Plan for Energy Efficiency recommended that states “modify policies to align utility incentives with the delivery of cost-effective energy efficiency and modify ratemaking practices to promote energy efficiency investments.”

Our objective at the Energy Future Coalition is to build the bridges between utilities, state regulatory officials, energy consumers and other stakeholders that will be needed to create a new regulatory framework for energy efficiency. Policies should be adopted in all states to prioritize energy efficiency initiatives that reduce demand. Rate designs should be encouraged that promote energy efficiency, such as on-bill financing of energy efficiency investments, programs that provide new energy management technologies (e.g., smart meters), and a rising rate structure to discourage high levels of electricity use. Utilities should see energy efficiency as their best investment, not a threat to their bottom line.

Utilities are better positioned than anyone else to overcome consumer resistance to energy efficiency investments. In most communities, utilities have a relationship of trust with their

customers, and they should be empowered to be full-service providers of both energy and energy savings to break down those barriers. The barriers include the costs of installation, a lack of information about energy efficiency programs and technology opportunities, and just the sheer aggravation of home improvement. With regulatory permission and the right kind of incentives, utilities could break through those barriers and provide the information, the financing, and the improvements that consumers need.

It is that kind of thinking that we need to break out of the energy efficiency “niche” – to go from the easy 10 percent improvements to the harder but more important 40 and 50 percent gains. Take the classic new-home conundrum, for example, where builders skimp on efficiency to keep the home price low. Why shouldn’t utilities be compensated for co-investing with home builders on high-efficiency homes? Or for paying the cost of solar panel installations on new homes? It is hard for a homeowner to justify a 15- or 20-year payback, but not hard at all for a utility.

Or how about appliances? EnergyStar is a great program, but it doesn’t get rid of the energy-wasting beer cooler in the basement. California utilities found the most direct solution – they bought new refrigerators for poor people, as long as they could take away the old one and destroy it.

Toward that end, we need to rethink the basic concept of utility companies. The dictionary definition of a utility is “a company that provides a public service.” That means not just service to individual members of the public, but to the public as a whole, to society. The defenders of deregulation would say that puts me in favor of re-regulation – but we can’t let ourselves be intimidated by terms that put us in a box, like the “death tax.” We should be in favor of consumer benefits and sound energy policy.

California has shown the way on energy efficiency for a long time. It hasn’t been a smooth path, but on efficiency incentives, smart meters, strong building codes, and decoupling rates from profits, California has been a leader. It’s time for the rest of the States to learn from their example and do even better.

This is a big topic, more important today than it has ever been. We at the United Nations Foundation are trying to raise it up on the international stage and get national governments to give it the serious, focused, determined attention that it deserves. At the Energy Future Coalition we are looking for ways to flip state regulatory structures to make energy efficiency the “first fuel.”

It is imperative that the world begin a transition to a new energy economy. That is a huge challenge, but with the challenge will come tremendous opportunities – opportunities to improve our safety and security, to reduce poverty and increase economic prosperity, to protect our environment and our planet. Energy efficiency must be and will be a cornerstone of that energy future – but only if we begin to think and act more boldly.

Thank you again.

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