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4 STRATEGIC PETROLEUM RESERVE DISCUSSION DRAFT AND TITLE IV

5 ENERGY EFFICIENCY

6 THURSDAY, APRIL 30, 2015

7 House of Representatives,

8 Subcommittee on Energy and Power

9 Committee on Energy and Commerce

10 Washington, D.C.

11 The Subcommittee met, pursuant to call, at 10:16 a.m.,
12 in Room 2322 of the Rayburn House Office Building, Hon. Ed
13 Whitfield [Chairman of the Subcommittee] presiding.

14 Members present: Representatives Whitfield, Olson,
15 Barton, Shimkus, Latta, Harper, McKinley, Kinzinger, Johnson,
16 Long, Ellmers, Flores, Mullin, Hudson, Rush, McNerney, Tonko,
17 Engel, Green, Doyle, Sarbanes, Loeb sack, and Pallone (ex

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18 officio).

19 Staff present: Nick Abraham, Legislative Associate,
20 Energy and Power; Charlotte Baker, Deputy Communications
21 Director; Will Batson, Legislative Clerk; Allison Busbee,
22 Policy Coordinator, Energy and Power; Patrick Currier,
23 Counsel, Energy and Power; Tom Hassenboehler, Chief Counsel,
24 Energy and Power; Brandon Mooney, Professional Staff Member,
25 Energy and Power; Caitlin Haberman, Democratic Professional
26 Staff Member; Rick Kessler, Democratic Senior Advisor and
27 Staff Director, Energy and Environment; and John Marshall,
28 Democratic Policy Coordinator.

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29 Mr. {Whitfield.} Today the Committee is going to
30 continue its work on the discussion draft of our energy bill
31 that we have been working on with the Democrats. We began
32 the dialogue last week with a hearing on the energy work
33 force title to the bill, and today we are going to be
34 focusing on the Strategic Petroleum Reserve and the energy
35 efficiency part of the legislation.

36 The current debate over the SPRO is a familiar one to
37 those who have witnessed how America's dramatically changing
38 energy landscape has rendered many existing policies out of
39 date. The Strategic Petroleum Reserve was created under the
40 Energy Policy and Conservation Act of 1975, and has since
41 served as an insurance policy in the form of an emergency
42 stockpile of oil. However, much has changed over the last 40
43 years, and there is bipartisan agreement that we are overdue
44 to update the SPRO to reflect the needs of 2015 and beyond.

45 One of the problems that we are having, of course,
46 relates to infrastructure issues associated with the SPR.
47 Specifically, the oil boom is underway near the SPR's
48 location in Louisiana and Texas, and is already stretching
49 the local infrastructure to its limits. This raises

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50 questions whether there is sufficient infrastructure
51 available to successfully draw down the SPRO in the case of
52 an emergency. DOE and others have found that the 40 year old
53 stockpile is in a poor state of repair, raising doubts about
54 whether it is ready to be utilized in a timely and efficient
55 manner. There are also questions about the legal trigger
56 tapping the SPR, and whether it constrains the President from
57 anticipating problems justifying a release. So we are going
58 to be looking at lot at the SPR, and we appreciate our
59 witness here today, who will address that issue.

60 The bill also will contain a number of energy efficiency
61 provisions. Many of them certainly deal with the way the
62 Federal Government, by far the nation's largest energy user,
63 can do more for less. This includes provisions that would
64 certainly emphasize the importance of energy savings
65 performance contract for Federal facilities. There are also
66 requirements for DOE to look into potential energy savings
67 from Federal data centers, and through the use of thermal
68 insulation, as well as other ideas that may help reduce
69 Federal energy expenditures.

70 So we have two panels of witnesses this morning. On the
71 second panel I think we have five or six witnesses. The

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72 first we have our guest from the Federal Government, who I
73 will introduce in just a minute, but with that, I will yield
74 back the balance of my time.

75 [The prepared statement of Mr. Whitfield follows:]

76 ***** COMMITTEE INSERT *****

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77 Mr. {Whitfield.} And--Mr. McNerney, are you going to be
78 making a statement for your side, or is Mr. Rush going to--

79 Mr. {McNerney.} Thank you, Mr. Chairman. No, I don't
80 have a prepared statement at this point.

81 Mr. {Whitfield.} Sorry?

82 Mr. {McNerney.} I don't have a prepared statement--

83 Mr. {Whitfield.} Okay. All right. Is there anyone
84 else on our side that would like to make a statement this
85 morning? Okay. I will tell you what we will, do, when Mr.
86 Rush gets here, we will give him an opportunity to make an
87 opening statement. But, at this time, I would like to
88 introduce our only witness on the first panel, and that is
89 Christopher Smith, who is the Assistant Secretary for Fossil
90 Energy at the Department of Energy.

91 Mr. Smith, thank you very much for being with us again,
92 and I would like to recognize you for 5 minutes for your
93 opening statement. So be sure the microphone is on, and, as
94 you know, the lights--red light will come on when your 5
95 minutes is up, so thank you very much.

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96 ^STATEMENT OF CHRISTOPHER A. SMITH, ASSISTANT SECRETARY FOR
97 FOSSIL ENERGY, DEPARTMENT OF ENERGY

98 } Mr. {Smith.} Well, thank you very much, Mr. Chairman,
99 for giving me the opportunity to appear before this
100 Committee. Chairman Whitfield, Ranking Member Rush, and
101 members of the Committee, it is my pleasure to appear before
102 you today to discuss the Strategic Petroleum Reserve. The
103 Strategic Petroleum Reserve provides strategic and economic
104 security against foreign and domestic disruptions in the oil
105 supply by an emergency stockpile of crude oil. It also
106 fulfills United States obligations under the International
107 Energy Program, which avails the United States of
108 International Energy Agency assistance through its
109 Coordinated Energy Emergency Response Plan.

110 As you know, earlier this month the Department announced
111 the award of contracts for the purchase of crude oil sold
112 during last year's sale. Under terms of these contracts,
113 which were funded by the \$239 million in receipts from the
114 test sale, BP Products North America and Noble Americas will
115 deliver more than two million barrels to the reserve's Bryan

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116 Mound site in Freeport, Texas. Deliveries are expected to be
117 completed by July 31.

118 I would like to elaborate on the 2014 test sale, because
119 it did a couple of important things. First, it resulted in
120 the delivery of nearly five million barrels of crude oil over
121 a 47 day period, and brought in more than \$460 million in
122 receipts. A portion of those receipts was used to fund the
123 Northeast Gasoline Supply Reserve, which was established as a
124 result of Superstorm Sandy in 2012. This reserve consists of
125 one million barrels of government owned gasoline stored in
126 three locations in the Northeast. At the same time, the test
127 sale evaluated drawdown and sales procedures, and validated
128 the operational capability to draw down the Strategic
129 Petroleum Reserve.

130 I would like to talk about that drawdown capability for
131 a moment. The Strategic Petroleum Reserve is a network of 60
132 operational caverns at four sites in Louisiana and Texas,
133 with a total design capacity of 713 million barrels of crude
134 oil, and currently holding 691 million barrels available for
135 release in the event of a supply disruption. The
136 infrastructure and equipment to support drawdown, including
137 storage caverns and well bores, is both large and complex.

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138 This aging infrastructure, which has performed capably to
139 meet every emergency release throughout the SPR's history,
140 requires progressive--requires progressively more maintenance
141 every year, and is in need of modernization.

142 With regard to modernization, the Department has
143 initiated work on a comprehensive long term strategic review
144 of the Strategic Petroleum Reserve in response to changing
145 market and energy security dynamics. This review will be
146 guided by the recommendations contained in reports conducted
147 by the GAO and the Department's Inspector General. It will
148 also be informed by the recommendations from the
149 Administration's recently released quadrennial energy review.

150 The QER underscores the Administration's support for an
151 effective Strategic Petroleum Reserve modernization program
152 that would address infrastructure issues, and reflect current
153 market and energy security concerns. Specific
154 recommendations include investing as much as \$2 million to
155 increase the incremental distribution capacity of the
156 Strategic Petroleum Reserve, and implementing a life
157 extension program for key Strategic Petroleum Reserve
158 components, including surface infrastructure and additional
159 Bryon drive caverns. The QER also recommends that Congress

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160 update the Strategic Petroleum Reserve's release authorities
161 in the Energy Policy and Conservation Act to expressly
162 include disruptions in the global oil market as release
163 triggers to revise release requirements. Finally, the QER
164 recommends the integration of the President's authorities to
165 release products from the refined petroleum product reserve
166 into a single unified authority. These release authorities
167 should be tailored to the purpose of a product reserve, which
168 may differ in some respects from the purposes of a crude oil
169 reserve.

170 With that, Mr. Chairman, I would be happy to answer any
171 question that the Subcommittee may have.

172 [The prepared statement of Mr. Smith follows:]

173 ***** INSERT A *****

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174 Mr. {Whitfield.} Mr. Smith, thank you very much, and at
175 this time I would like to recognize Mr. Rush for his opening
176 statement.

177 Mr. {Rush.} I want to thank you, Mr. Chairman, and, Mr.
178 Chairman, I want to welcome our esteemed witness. Thank you
179 for holding this hearing today on two very important, but yet
180 completely unrelated issues, the SPRO and the energy
181 efficiency standards.

182 Mr. Chairman, I agree with the underlying assumption
183 that it is time to engage in a comprehensive review of the
184 SPR, which was originally authorized under the Energy Policy
185 and Conservation Act of 1975 in order to reduce the domestic
186 impact of a disruption in supplies of petroleum products due
187 to unforeseen or unavoidable circumstances. And I commend
188 Secretary--for initiating the process to conduct a
189 comprehensive review of the SPR, following both in July 2014
190 DOE Office of Inspector General report, and the GAO office
191 study issued in September of last year, recommending that the
192 Department do so.

193 Mr. Chairman, circumstances have changed significantly
194 since the SPRO was established back in the 1970s, so it makes

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195 sense to examine future SPRO requirements regarding size,
196 composition, and geographic location to make sure the--that
197 the country is better suited to deal with any potential and
198 future disruptions. Additionally, what little funding comes
199 from--I think it also behooves us to consider the resources
200 necessary to operate the SPR, and to ensure its long term
201 sustainability in order to preserve the infrastructure and
202 the maintenance of these sites.

203 Mr. Chairman, as for the other panel, regarding a
204 completely different topic, I must say that I hope that we
205 will hold an additional hearing on DOE energy efficiency
206 standards, where members will have an opportunity to hear
207 from the agency in a direct manner. While engaging industry
208 and other stakeholders as we will do today should be a part
209 of the process, that should not preclude having agency
210 officials come before this Committee to inform members on the
211 reasoning, and the justification, behind promulgating the
212 very standards that are under discussion.

213 Mr. Chairman, many of the energy efficiency measures
214 contained in the draft bill are non-controversial, and are
215 bipartisan in nature, such as Section 4114, which modifies
216 the definition of renewables to include thermal energy under

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217 the Federal renewable energy purchase requirements
218 established in Section 203 of EPAC 2005. This language
219 represents an example of DOE, industry, and energy efficiency
220 advocates all working together to come up with a legislative
221 fix that all sides have agreed to.

222 However, there are other provisions, similar provisions,
223 as a matter of fact, of this bill that are not bipartisan,
224 and do not reflect agreement on the part of the various
225 stakeholders. For instance, Section 4115, which would repeal
226 a key portion of Section 433 of the Energy Independence and
227 Security Act, the provision that requires Federal buildings
228 to be designed to result in decreased consumption of fossil
229 fuels by 2013, is one section, among others, that we will
230 definitely have to examine further and continue to work on
231 before we reach bipartisan consensus.

232 Mr. Chairman, as this is only a discussion draft, and
233 will undergo significant changes, I am satisfied with
234 engaging today's expert witnesses so that we may be better
235 informed on how to improve this draft as we move forward
236 through the legislative process. But, Mr. Chairman, we need
237 to have additional hearings and additional work. I know that
238 you will agree with me, Mr. Chairman. With that, I yield

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239 back the balance of my time.

240 [The prepared statement of Mr. Rush follows:]

241 ***** COMMITTEE INSERT *****

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242 Mr. {Whitfield.} Gentleman yields back the balance of
243 his time, and at this point, Mr. Smith, we once again thank
244 you for your statement, and I will recognize myself for 5
245 minutes for questions.

246 Back in 2014, GAO issued a report entitled ``The
247 Changing Crude Oil Markets'', allowing exports has price and
248 other implications, and the size of the strategic reserve
249 should be re-examined. In the letter that you had sent to
250 us, you indicated that DOE has initiated the process for
251 conducting a comprehensive re-examination of the appropriate
252 size of the SPRO in lights of current and future market
253 conditions. I was just curious, what is the status of that
254 review, and do you have a timetable of when you all might
255 complete that?

256 Mr. {Smith.} Well, thank you very much, Mr. Chairman,
257 for the question. So indeed we think it is very important to
258 undertake a comprehensive strategic review, which I believe
259 is the position of the Committee, and I think that is
260 something that we have got--on. We have already started that
261 process. As we know, and as was noted in your statement,
262 there are many factors that have changed since the Strategic

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263 Petroleum Reserve was initially created in the '70s. So our
264 comprehensive review is looking at a very wide range of
265 issues. Looking at modernization, looking at distribution
266 capability, looking at issues that are driven by the
267 appropriate size of the reserve.

268 So we are already started on that process, we are
269 working on that, and we believe that the total review will
270 take something--will take several months to complete, towards
271 a year for the culmination of that report.

272 Mr. {Whitfield.} Are you personally concerned--I talked
273 a little bit about the infrastructure issue, and because of
274 the shale boom, and the capacity limitations that we have,
275 are you concerned at all about the infrastructure aspect of
276 this?

277 Mr. {Smith.} Well, I am, Mr. Chairman. You know, one
278 note, I imagine that our team who is managing this process
279 would bristle at the characterization of the SPRO being in a
280 poor state of repair. I think we have got a tremendous team
281 that is, you know, doing all the things that they need to do
282 to make sure that the SPRO is ready. And, indeed, every time
283 we have had a test sale, or we have had to use the SPR, that
284 team has performed admirably.

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285 That said, it is an aging asset. We have well bores
286 that have been placed--in place for decades. And as you
287 drill, you know, into these salt structures, they move over
288 time, and it causes issues. So not only are we concerned
289 about ensuring that we are funding this in a way that keeps--
290 allows it to keep up with deferred maintenance, but also many
291 infrastructure issues, such as the direction of the
292 pipelines, the inflow of crude, the types of crude that are
293 coming into the refineries in the Gulf of Mexico has changed,
294 and we think it is important for us to consider all these
295 things. So we think these, you know, we agree with the
296 Committee's conclusion that these are critical things to
297 study and analyze.

298 Mr. {Whitfield.} I think you had indicated there is
299 something like 691 million barrels of oil, crude oil, in
300 storage.

301 Mr. {Smith.} Right.

302 Mr. {Whitfield.} Is most of that heavy sour crude, or
303 is there light sweet as well?

304 Mr. {Smith.} So the--there is, you know, we have got a
305 total of 691 million barrels of crude in storage right now.
306 That is split between sweet and sour, so we have got

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307 approximately 260 million barrels of sweet. We have got
308 about 430 million barrels of sour, so we have got a split
309 between--

310 Mr. {Whitfield.} Yeah.

311 Mr. {Smith.} --sweet and sour.

312 Mr. {Whitfield.} And do you happen to know the number
313 of gallons of crude that are in public storage in our country
314 today?

315 Mr. {Smith.} I don't have that number off the top of my
316 head, Mr. Chairman.

317 Mr. {Whitfield.} My--I was told that it was in the
318 neighborhood of 500 million barrels. Does--do you have any--
319 does that sound right to you, or have you heard about--

320 Mr. {Smith.} That might be a reasonable number, Mr.
321 Chairman. I just--don't know what the figure is off the top
322 of my head.

323 Mr. {Whitfield.} Okay. Well, thank you very much.
324 And, Mr. Rush, you are recognized for 5 minutes.

325 Mr. {Rush.} I want to thank you, Mr. Chairman.
326 Secretary Smith, in your testimony you stated that the SPRO
327 is a network of 60 operational--at four storage sites in
328 Louisiana and Texas, with a designed capacity of 713.5

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329 million barrels, and 115 operational well bores. I would
330 imagine that these facilities see a lot of wear and tear over
331 the years, and require quite a bit of upkeep and maintenance.
332 What are--what is the state of these facilities, and how are
333 they maintained? Is there a funding stream dedicated to the
334 upkeep and maintenance of these facilities? And what can we,
335 as members of Congress, do to assist you in maintaining these
336 facilities?

337 Mr. {Smith.} Well, thank you very much, Ranking Member
338 Rush, for that question. So we do have--we request
339 appropriation every year that we use to maintain the SPR, and
340 ensure that the Strategic Petroleum Reserve is ready for a
341 drawdown. In our budget request that we have recently--the
342 President recently released, we did ask for a total of \$257
343 million for the Strategic Petroleum Reserve, which was an
344 increase over budget requests in previous years. The, you
345 know, of note, the--I guess the marks we are seeing right now
346 would result in a \$45 million decrease in the amount that we
347 requested, which does impact our ability to tackle some of
348 the deferred maintenance that we think is important.

349 As I briefly noted, you know, some of these well bores
350 are, you know, 20, 30 years old. As you are drilling through

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351 the cap rock, and into these--caverns, you do have movement
352 over time that compromises the well bores. There are lots of
353 above ground issues that you have to deal with to ensure that
354 all of your pumps, you compressors, your valves, corrosion
355 issues are taken care of. So it is our intent to ensure that
356 we are, you know, chipping into some of this deferred
357 maintenance backlog, and, indeed, that was reflected in the
358 request that we made in this round of--in this budget
359 submission and the Congressional justification that we
360 submitted.

361 So we do have a plan to ensure that we are ready to
362 execute. Historically we have always been able to accomplish
363 the mission, and I think that is a testament to the folks
364 that we have working down in Louisiana and Texas, on these
365 sites. But there is work that has to be done on an ongoing
366 basis, and we think that funding that at appropriate levels
367 is very important.

368 Mr. {Rush.} What were some of the most important
369 lessons that we learned from the operational test sale, in
370 terms of evaluating the drawdown and sales procedures, as
371 well as analyzing potential commercial infrastructure
372 investments?

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373 Mr. {Smith.} So we learned a number of things. First
374 of all, there was--it was a \$5 million test sale. We were
375 successful in getting all five million barrels pushed to
376 market. We did learn some things about some shortcomings.
377 We noticed some issues with the--distribution group--or
378 pipeline system that probably needs to be addressed. We also
379 specifically identified a metering skid at one of the sites
380 that, if--anything sold has to go through a single metering
381 skid, so if you have two opportunities to move crude out of
382 that site, you would have to do it sequentially, you know,
383 one after the other.

384 That is a significant bottleneck, and something that we
385 could address, and--just by putting in a new metering skid,
386 would be able to significantly increase the capacity of that
387 site. And these were things that we noted in our
388 Congressional justification for the 2016 budget that we
389 recently submitted.

390 Mr. {Rush.} Now, the reduction in the 2016 budget,
391 would that be, you know, can you project the ramifications of
392 that? Is that going to significantly affect, or drastically
393 affect, your ability to achieve your mission?

394 Mr. {Smith.} Well, we think that these things are

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395 important. One of the reasons why we did the test sale was
396 to identify areas of improvement, bottlenecks, things that we
397 had to do to improve the distribution capabilities of the
398 Strategic Petroleum Reserve. It is a valuable asset, but you
399 do have to maintain it, you do have to manage it, so we think
400 that it is critically important to not only take care of the
401 deferred maintenance that we are concerned about, but also to
402 make specific upgrades, such as the additional metering skid,
403 that would increase our ability to serve more than one
404 offtake at a time. And that would, as a result, increase the
405 Strategic Petroleum Reserve's ability to push crude into the
406 market in the case of an emergency.

407 Mr. {Rush.} Thank you, Mr. Chairman.

408 Mr. {Whitfield.} Gentleman's time has expired. Mr.
409 Pallone, did you want to make an opening statement?

410 Mr. {Pallone.} Sure. Sorry that I was late, I was at
411 the other hearing, on 21st century cures. I will try to cut
412 back on it, but I did want to yield a minute to Mr. Welch,
413 so, Mr. Chairman, I just want to say that I think I have made
414 it clear that I am interested in working with you and
415 Chairman Upton on energy legislation, but I am concerned
416 about the format of today's hearing. I can't recall a time

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417 when this Subcommittee has crammed two completely unrelated
418 topics into one hearing, and it is--I think it does a
419 disservice to members, and to the subject matter, because
420 both of these subjects are important, and really warrant not
421 only separate legislative hearings, but also they should be
422 preceded by more oversight.

423 With regard to the specific proposals before us, I
424 recognize they do not represent anything more than discussion
425 drafts of potential legislative language that could go into
426 an energy bill. However, as this efficiency title is
427 currently constituted, I would not be in a position to
428 support it, or to recommend that others support it. In
429 particular, I am opposed to language in the discussion draft
430 that repeals Section 433 of the Energy Independence and
431 Security Act signed into law by President George Bush.
432 Section 433 established groundbreaking energy efficiency
433 performance standards for the design of new Federal
434 buildings, and those Federal buildings undergoing major
435 renovation, rightly ensuring that new Federal buildings be
436 designed to result in decreased consumption of fossil fuels.
437 This second--the draft would prohibit from promulgating a
438 final rule updating efficiency standards for gas furnaces

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439 until an advisory group completes an analysis and
440 determination.

441 And I certainly understand that there are concerns out
442 there, but stakeholders have been working towards a
443 resolution mutually agreeable to all parties. Now, however,
444 some stakeholders apparently decided to try to do an end run
445 by proposing this language, halting DOE's efficiency efforts
446 from moving forward, and the draft sets up an opponent
447 dominated advisory panel, and gives more weight to the anti-
448 efficiency factors being examined in the analysis. In my
449 opinion, this greatly sets back any progress made towards
450 good faith efforts to sincerely resolve concerns with the
451 DOE's proposal.

452 The building code efficiency provisions in the draft is
453 another area of great concern to me. As currently outlined,
454 changes to DOE standards authority in this area would do
455 great harm to what has been a very successful and impactful
456 program. That said, I do want to make clear I do believe
457 there is a sincere effort on both sides to try to find common
458 ground, and I remain optimistic that we can develop a
459 bipartisan energy package. We are early in our process, and
460 there are many ideas from both sides of the aisle that have

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461 not yet been considered. In raising these issues up front, I
462 hope that we can have a more concerted bipartisan
463 collaboration moving forward.

464 Mr. Chairman, last week the Obama Administration
465 released its first installment of the quadrennial energy
466 review. I know it was mentioned at a previous hearing by Mr.
467 Doyle, and this is a great government-wide effort to look at
468 key aspects of the nation's energy infrastructure that
469 contains many useful insights, including some recommendations
470 that would require legislation. We need to review that
471 report carefully, because I think it provides us with an
472 opportunity for our committee to work closely with the
473 administration to put together meaningful energy legislation
474 that addresses the four areas of your architect of abundance
475 framework, and that the President, I think, ultimately would
476 sign.

477 So let me thank you again for holding this hearing, for
478 your hard work in bringing these provisions forward, and for
479 your willingness to work with us to make this into a product
480 that we might all be able to support. And I would like to
481 yield the remainder of my time to Mr. Welch.

482 [The prepared statement of Mr. Pallone follows:]

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483 ***** COMMITTEE INSERT *****

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484 Mr. {Welch.} Thank you very much, Mr. Pallone. Thank
485 you, Mr. Pallone and Mr. Rush, for your leadership on energy
486 efficiency, and I really am grateful to our chairman, Mr.
487 Whitfield, and Chairman Upton, for their focus on this.

488 Energy efficiency is such an area where we can work
489 together and make real progress. It saves money, creates
490 jobs, it is better for the environment. We have made
491 progress, Mr. McKinley and I, in other sponsored legislation
492 that President Obama is going to sign into law this
493 afternoon, and it is only a beginning.

494 What we know is that energy efficiency is literally the
495 lowest cost electricity resource for utilities, and from 2008
496 to 2012 new efficiency improvements from utility programs and
497 appliance standards have avoided the need for more than 275
498 power plants. So we have got an opportunity to focus on the
499 common ground where, whatever the fuel source, less is more.
500 It can be nuclear, it can be coal, it can be solar, if we
501 find efficiency, we are going to put people to work
502 retrofitting our homes and our commercial buildings. We are
503 going to save on fuel bills, and we are going to do a
504 significant improvement of the economy. So I am grateful to

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505 the bipartisan approach we have got, and there is work to be
506 done, and I am glad this committee is going to do it. Thank
507 you, Mr. Pallone, and I yield back.

508 [The prepared statement of Mr. Welch follows:]

509 ***** COMMITTEE INSERT *****

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510 Mr. {Whitfield.} Gentleman yields back. At this time
511 recognize the gentleman from Texas, Mr. Barton, for 5
512 minutes.

513 Mr. {Barton.} Am I asking questions or giving a
514 statement?

515 Mr. {Whitfield.} Questions.

516 Mr. {Barton.} Questions. Okay, I didn't know. I just
517 got here. I have got two hearings going on, and I am still
518 asleep because Mr. Doyle's baseball team is so good that we
519 are getting up now before dark to start practicing to try to
520 be competitive with them.

521 Mr. {Doyle.} Got to get up earlier than that.

522 Mr. {Barton.} Yeah. Well, that is probably true. But
523 arrogance sometimes leads to its own downfall, so--anyway.
524 Mr. Smith, we are--Honorable Smith, we are glad to have you
525 here today.

526 I think you know that I have introduced a bill that
527 would repeal the current ban on crude oil exports. It also
528 has a section that requires the Department of Energy to
529 conduct a study, and to send the results of that study to
530 this Committee, and the Senate Energy Committee, within 120

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531 days about the status of the SPR, what we should do with it.

532 Do you know if the Department of Energy supports that part of
533 the repeal bill?

534 Mr. {Smith.} So, just to understand the question,
535 Congressman, do we report--support the issues on export, or
536 just support the--doing the study on the--

537 Mr. {Barton.} The study. The study on the--there is--I
538 can make it a two part question.

539 Mr. {Smith.} Okay.

540 Mr. {Barton.} Unless you just want to say yes, yes,
541 which I will yield back to the Chairman.

542 Mr. {Smith.} I want to make sure I understand the
543 question.

544 Mr. {Barton.} Yeah. No, we--I have had some
545 discussions off camera with the Secretary of Energy about
546 repealing the crude oil export ban. My question to you,
547 since this hearing is on energy efficiency, and what to do
548 with the Strategic Petroleum Reserve, is whether the
549 Department supports that part of the bill on crude oil--
550 repealing the ban on crude oil exports that requires a study
551 of the Strategic Petroleum Reserve, and that that study be
552 reported to the Congress within 120 days?

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553 Mr. {Smith.} Yeah. Well, thank you for the question,
554 Congressman, and the clarification. So we certainly do
555 support the idea of doing a comprehensive review of the
556 Strategic Petroleum Reserve. In fact, that is a process that
557 we already have underway. We, of course, will, you know,
558 comply with the law as written. I would say that a
559 comprehensive study that looks at infrastructure issues, that
560 looks at subsurface issues, that look at geologic issues,
561 that looks at market issues, all the things that would help
562 us come to some conclusions over the appropriate size and the
563 scope of work that it needs to do to modernize the Strategic
564 Petroleum Reserve. It would be difficult to do that in 120
565 days. That is--

566 Mr. {Barton.} Do you have a timeframe that you would
567 prefer? We wanted to get it back fairly quickly, but, you
568 know, since our bill hasn't had a legislative hearing yet, we
569 are very flexible.

570 Mr. {Smith.} Right.

571 Mr. {Barton.} Would 180 days be better? Would you like
572 a year? What is the magic number?

573 Mr. {Smith.} Well, you know, 180 days would be better
574 than 120 days. I think the estimate that we would made for

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575 doing a piece of work of that magnitude was several months,
576 so it would be considerably longer than the current 120 days
577 that you have proposed. But that said, you know, we have got
578 a great team, and we will, you know, we will accomplish what
579 is--what we can in the time that we are given. But in order
580 to address what we think are, you know, fundamentally, you
581 know, comprehensively different--a different set of
582 conditions than we had when the Strategic Petroleum Reserve
583 was initially put in place--back in the '70s, but that is
584 actually a big piece of work--

585 Mr. {Barton.} Right.

586 Mr. {Smith.} --and we would like to make sure that we
587 have got the--time to get that right.

588 Mr. {Barton.} When we put the SPRO in place, we were
589 importing lots and lots of oil, and oil production in the
590 United States was going down. Today we are increasing our
591 production, oil imports are going down, refined product
592 exports are going up. Would it be--current law precludes the
593 President from using the Strategic Petroleum Reserve, except
594 in times of national emergency. He has some discretion in
595 declaring that emergency, and Congress has had issues with
596 past Presidents when they have declared it.

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597 What is your opinion of giving the President, or the
598 Secretary of Energy, the discretion to perhaps actually make-
599 -I won't say routine sales of crude oil, but make it easier
600 to sell crude oil in the world market when there is not a
601 national emergency, given the fact our oil production is
602 increasing like it is, and we have the potential--I am not
603 saying we will ever do it, but we have the potential to be
604 totally energy independent, and not import any crude oil at
605 all?

606 Mr. {Smith.} Right. Well, thank you for that question,
607 Congressman. So the authorities to export crude to other
608 countries would fall under the purview of the Department of
609 Commerce, and of the Office of the President, so I won't--I
610 will demur for--from answering, you know, on their behalf.
611 What I can say is that we think it is extremely positive that
612 we are, for the first time in decades, producing more oil
613 domestically than we have to import from other countries.
614 That has been a--I think a tremendous improvement, in terms
615 of our energy security and economic development.

616 I would note that we are still importing--

617 Mr. {Barton.} Right.

618 Mr. {Smith.} --7.6 million barrels per day, so we still

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619 are importing significant quantities of oil here in the
620 present time. But in terms of the authorities to export, I
621 mean, that would be a question for Congress. I mean, we
622 follow the statute, in that there are exceptions and waivers
623 that have to be handled by Department of Commerce, and by the
624 Office of the President.

625 Mr. {Barton.} My time has expired, but it is refreshing
626 to know that at least the Department of Energy wants to do
627 what the Congress tells it to do.

628 Mr. {Whitfield.} Yeah, that is--we are excited to hear
629 about that.

630 Mr. {Barton.} I am honored to hear that. With that, I
631 yield back.

632 Mr. {Whitfield.} Where would Mr. Pallone--Chair at this
633 time will recognize the gentleman from New York, Mr. Tonko,
634 for 5 minutes.

635 Mr. {Tonko.} Thank you, Mr. Chair. Assistant Secretary
636 Smith, in your testimony you indicated that DOE has started a
637 review of the SPR, and you mentioned a few of the issues that
638 DOE will examine, including the size, the composition, and
639 the geographic location of the reserve. It sounds as if the
640 reserve assumes it would largely keep the present overall

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641 structure in place, with perhaps some modifications. And
642 maybe that is what we should do, but is the Department also
643 going to re-evaluate whether maintaining a Strategic
644 Petroleum Reserve is the best way to promote energy security?

645 And might I just say, I don't doubt the need for
646 emergency planning, and specific authorities for action in
647 case of an emergency, given the importance of this resource
648 to our economy, but with the changes in our oil markets, and
649 private investment in infrastructure for oil and gas, and the
650 changes in demand for different refined products, I am
651 wondering whether the SPR, which we conceived in the midst of
652 a very different environment, is still the proper overall
653 structure. So can you address whether or not we are going to
654 re-evaluate, whether we maintain that SPR?

655 Mr. {Smith.} Well, thank you, Congressman, for that
656 question. So, if you look at global oil prices right now,
657 you see markets are currently--they are very well supplied,
658 and--as was noted by Congressman Barton from Texas, we are
659 producing more oil domestically than we have in the past. We
660 are producing more barrels domestically than we import from
661 other countries, so the--some of those situations have
662 changed.

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663 However, we do believe that the Strategic Petroleum
664 Reserve does still provide a critical element of energy
665 security for our nation. It is the largest energy stockpile
666 in the world. It is, I think, an important tool that we have
667 to handle not only disruption of physical barrels, but also
668 the impacts that price increases might have on the U.S.
669 economy.

670 So in our study we will look at the size of the SPR. I
671 think that is important to consider, what the appropriate
672 size of the Strategic Petroleum Reserve would be. And we
673 will look at infrastructure issues, we will look at, you
674 know, fundamentally how the Strategic Petroleum Reserve
675 operates. But I would say that it is, you know, it is
676 certainly our conclusion, and, you know, my personal
677 conclusion, as the official who oversees the site, that this
678 is an important resource for national security, and we think
679 that its mission--its core mission remains vital.

680 Mr. {Tonko.} And in terms of its structure, you believe
681 it is the best--it will best serve us in the event of an
682 emergency?

683 Mr. {Smith.} Well, Congressman, that is something that
684 we will evaluate in the study. I mean, there are structural

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685 issues that we can tackle, in terms of what infrastructure
686 needs to be in place. We have made changes, in terms of, for
687 example, setting up the gasoline--Northeast Gasoline Reserve
688 last year as a response to weaknesses that we saw in the
689 aftermath of Superstorm Sandy in 2012. So there are steps
690 that we are taking to say, well, you know, we understand what
691 the statute says, we understand what--says, and we understand
692 the design of the Strategic Petroleum Reserve.

693 We are making steps as we go forward to ensure that we
694 are using authorities that we have to ensure that the reserve
695 remains relevant, and we will try to think broadly, in terms
696 of doing a strategic review, so that we consider what other
697 changes might be appropriate.

698 Mr. {Tonko.} Thank you for that. And you also
699 recommend that Congress update the definition of a severe
700 energy supply interruption, to include criteria focused on
701 disruptions in the global oil market, whether those
702 disruptions result in a problem with U.S. oil imports or not.
703 Would you elaborate on that thinking, please?

704 Mr. {Smith.} Well, this is--it is tied to a--I guess an
705 observation has already been made. The Strategic Petroleum
706 Reserve was created back in the '70s in a very different

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707 environment than the environment we have now. We operate
708 under EPCA, and over the years, you know, over the decades
709 since the early '70s, the legislation--the statute that we
710 have now is a patchwork of changes, and addendums, and
711 amendments that have been put in place over the years. So
712 there are some ambiguities about authorities. There are some
713 issues of regional resources perhaps being deployed in a way
714 that is more appropriate for a national resource.

715 And so it is our view that, as we look at the language
716 that authorizes us to use the reserve, given that that has
717 been changed piecemeal, bit by bit, over decades, starting
718 from a point which is very structurally different than the
719 global markets right now, we do think it would be judicious
720 and appropriate to take a look at the--all of the language
721 that gives authorization, and streamline that, and make it
722 suitable for today's markets.

723 Mr. {Tonko.} Thank you very much, and with that, I will
724 yield back, Mr. Chair.

725 Mr. {Rush.} Mr. Chair?

726 Mr. {Whitfield.} Sorry, Mr. Rush?

727 Mr. {Rush.} Mr. Chairman, I just wanted to--the
728 Committee, and all the--there is a gentleman in the room, on

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729 the left side there, who--white hair, very handsome
730 gentleman, that is former member Dave McCurdy from Oklahoma.
731 He is the president of the American Gas Association, and I
732 just didn't want him to sit in this room without us giving
733 him his due. He was a fine gentleman, and true friend, and
734 just an outstanding member of Congress. So he is there. The
735 handsome guy with the white hair.

736 Mr. {Whitfield.} And we know he was an outstanding
737 baseball player as well for the--

738 Mr. {Rush.} I don't know why--is there a provision that
739 he can join your side and be on your team?

740 Mr. {Whitfield.} Yeah, absolutely.

741 Mr. {Rush.} Because you are going to need him. And--

742 Mr. {Whitfield.} He looks like he is getting younger,
743 to me, every single day. No, we are glad you are here.
744 Thank you so much, and thank you for reminding us of that.

745 At this time I would like to recognize the gentleman
746 from Texas, Mr. Olson, for 5 minutes.

747 Mr. {Olson.} I thank the Chair. And good morning, and
748 welcome, Mr. Smith. I know you are a fellow Texan, grew up
749 in Fort Worth. You served our country, West Point graduate,
750 in the Army. Thank you for your service. I promise I won't

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751 talk about the state of affairs between your Army and my
752 Navy, and that big football game that happens every year, but
753 I do want to talk about the state of affairs of the SPR.

754 It is a big part of my home life. The Bryan Mound is
755 about 20 miles down the road from my home, and the big hill
756 is about an hour east in Winnie. In your QER, DOE talks
757 about some big changes for the SPR. You want billions of
758 dollars more spending to fix the system. And, as has been
759 mentioned, our world has been turned upside down these past
760 years with this energy production. We have plenty of crude
761 here in parts of the country where we usually have to export--
762 --anticipate a shortage. I would like to delve into some of
763 those issues, but I first have a question on the specific
764 type of crude in the SPR.

765 These days we are barely exporting light crude. Much of
766 the crude we do import--I am sorry, importing light crude.
767 Much of the crude we do import is heavier. It seems that
768 this crude most--is most at threat of a supply disruption.
769 And with the huge amount of oil we have here at home, are you
770 happy with the current balance of light versus heavier crudes
771 in the SPR, as you mentioned, I think, the balance is between
772 260 billion barrels of light crude, sweet crude, and then 430

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773 barrels of sour, heavier crude. Are you happy with that
774 balance, and how would you adjust it if you are not happy
775 with it?

776 Mr. {Smith.} Well, thank you for the question,
777 Congressman. So, indeed, our balance between sweet and sour
778 is 260 for sweet barrels, and then 430 for sour. As we go
779 through our process of looking at our long term strategic
780 review, I think that is something that we will be
781 considering, along with infrastructure. There are issues of
782 cavern storage, and how we blend different types of crudes,
783 and what caverns we would place them into. So, as you note,
784 the mix of crude that refiners are using in the Gulf of
785 Mexico has changed over the years.

786 You know, late '90s, early 2000s, refiners put lots of
787 money into upgrading refineries to run heavier crudes. Now
788 we are seeing that there is a lot more, you know, there are a
789 lot--there are more light crudes that are being--becoming
790 available here as the Bachman in South Texas comes online.
791 These are all things, I think, that we have to consider. I
792 wouldn't categorically state that right now we think we have
793 the right balance. In fact, the very reason why this
794 Committee is encouraging us to do the study, and--that we

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795 have already embarked on that path is that we think that we
796 need to address these issues. We think they are very
797 important.

798 Mr. {Olson.} Thank you. This is not news, but our
799 crude supplies, and even the direction of some pipelines,
800 have changed in recent years. For farm products, we are a
801 major global supplier now, and at the same time some allies
802 remain very reliant on imports. In some scenarios, an SPRO
803 release might not be as effective as it was in the past. My
804 question is this, with this new market reality, should we be
805 focused on the SPRO here at home, and making sure our allies
806 upgrade their reserves overseas? Allies like South Korea,
807 where you served during the Army. Anything we should do with
808 our allies to make sure they have their own SPRs?

809 Mr. {Smith.} Well, thank you, Mr. Chairman--sorry,
810 Congressman.

811 Mr. {Olson.} I will take the promotion.

812 Mr. {Smith.} Okay. Apologies to the Chairman. So I--
813 just 2 weeks ago--so we work very closely with the IEA, the
814 International Energy Agency, that helps us align petroleum
815 reserves throughout the world. I will make a couple of notes
816 on that. Just 2 weeks ago I was in Szechuan Province,

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817 Chengdu, China at an IEA event, and then a few days later I
818 was in New Delhi, India at a separate IEA event. We have
819 also spent time in China looking at, you know, creating a
820 stronger communication between ourselves and the officials in
821 China who manage their reserves. So we have a very strong
822 understanding that, you know, we can't do this by ourselves.
823 We wouldn't endeavor to do it by ourselves. I think it is
824 much--a more powerful--it is a more powerful tool when we are
825 part of the potential to use the Strategic Petroleum Reserve
826 as part of a collective action.

827 So indeed we are--we are taking steps along those lines.
828 We think these are important steps to take. And, in fact, we
829 have, just last year, signed a historic agreement with China
830 to create a greater sense of transparency between ourselves
831 and China so that we understand, you know, issues there, with
832 regard to their energy stockpile. We think these are
833 important steps, and they are ones that we are--we continue
834 to push on.

835 Mr. {Olson.} Thank you. Out of time.

836 Mr. {Whitfield.} Chair recognizes at this time Mr.
837 Doyle of Pennsylvania for 5 minutes.

838 Mr. {Doyle.} Thank you, Mr. Chairman. Mr. Smith, thank

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839 you for testifying before our Committee today. We all know
840 how much the landscape has changed since the--1975, when we
841 first passed the legislation to create the SPR. And I was
842 glad that you mentioned the recently released QER in your
843 testimony. It suggests that energy security should be more
844 broadly defined than just oil security. What other sources
845 do you think should be included, and how should we protect
846 them?

847 Mr. {Smith.} So, to make sure I understand the
848 question, Congressman, so--it is--the, you know, I have
849 spoken to recommendations in the QER that had to deal with
850 the Strategic Petroleum Reserve, and you are thinking how do
851 we think about energy security more broadly?

852 Mr. {Doyle.} Yeah. The report suggested that we
853 shouldn't think of it as just oil security, but we should
854 think of it more broadly. So is it suggesting, you know,
855 security measures, or how we view other sources, natural gas,
856 or whatever?

857 Mr. {Smith.} Well, with regard to the petroleum
858 reserve, the, you know, the scope of the study that we have
859 discussed here would be specific to, you know, the petroleum
860 reserve, including, you know, crude and products--refined

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861 products. So the scope of that discussion wouldn't change.
862 What I will say is that we do work very closely across
863 offices within Department of Energy. So there are four
864 applied offices within DOE. I run the Office of Fossil
865 Energy, which includes oil, natural gas, clean coal, carbon
866 capture and sequestration, the Strategic Petroleum Reserve.
867 There is a separate office that looks at energy efficiency
868 and renewable energy.

869 Mr. {Doyle.} All right.

870 Mr. {Smith.} A separate office that looks at--Office of
871 Electricity, and a separate office that looks at nuclear
872 energy. So we all--we do work very closely. In fact, one of
873 the things that Secretary Moniz has integrated since he has
874 come to the Department are cross cutting teams to ensure
875 that, in our budgeting process, we are very explicitly
876 creating teams that break down those silos. So when we are
877 thinking about energy security, and we are thinking about job
878 creations, when we are thinking about all the important
879 things about energy reliability, and reducing greenhouse gas
880 emissions, that we are breaking down those silos, and we are
881 thinking across borders. So that is something that is
882 already in place, and we think is being expressed in the way

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883 that we are putting together our budgets and executing our
884 programs.

885 Mr. {Doyle.} Thank you. In your testimony you also
886 highlighted the QERs recommendation to consolidate the
887 authority for the Northeast Home Heating Fuel Reserve and the
888 Northeast Gasoline Supply Reserve into a single unified
889 authority. And, additionally, you suggested that these
890 release authorities should be aligned and tailored to the
891 purposes of a product reserve, rather than that of a crude
892 oil reserve. Can you expand upon why you think this
893 consolidation is beneficial, and how the release authority
894 would be different for a product reserve, rather than a crude
895 oil reserve?

896 Mr. {Smith.} Well, thank you, Congressman, for that
897 question. So Part B, Title 1 of EPCA dictates the steps we
898 would have to take in order for--relief from the natural--
899 from the Northeast Gasoline Reserve, which is part of the
900 Strategic Petroleum Reserve. That language is very much
901 geared towards a national shortage, and very much geared
902 towards crude oil. It is not geared towards a regional
903 event, the type of event that we saw in the aftermath of
904 Superstorm Sandy, and it is not geared towards the needs of

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905 communities who are suffering shortfalls or shortages in a
906 supply of products. So we think it would be appropriate to
907 amend that so that the triggers for releasing the gasoline
908 reserve would be appropriate for the types of emergencies you
909 might see there, so that, you know, we bought this insurance
910 policy against shortages. We want to make sure that we are
911 able to deploy that insurance policy in ways that are
912 appropriate for the types of emergencies that it is meant to
913 cover.

914 With the NEHHOR, the Northeast Home Heating Oil Reserve,
915 there are a couple triggers that might trigger these with
916 NEHHOR. One is that a differential in the current price,
917 that it had to exceed a moving average by 60 percent. We
918 think that is a, you know, tremendously difficult bar to
919 make. And, in fact, once you have gotten to that point, you
920 have probably gone beyond the point which the reserve would
921 be useful. There is also language that says a regional
922 supply shortage of significant scope and duration would
923 trigger the ability to use NEHHOR, which we think is probably
924 a bit more appropriate.

925 But between the NEHHOR, the Northeast Home Heating Oil
926 Reserve, the crude reserve national resource in the Gulf of

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927 Mexico, the SPR, and the Northeast Gasoline Reserve, and any,
928 you know, future thing that we might have for products, we do
929 think that we need to go back and, you know, again, as we
930 mentioned, this patchwork of legislation that has been
931 created over the year--years, we think it would be
932 appropriate to look at all of that, and make sure that it is
933 streamlined for the--markets of today, as opposed to the
934 markets of yesterday.

935 Mr. {Doyle.} Great. Thank you very much. I yield
936 back.

937 Mr. {Whitfield.} At this time the Chair recognizes the
938 gentleman from Ohio, Mr. Latta, for 5 minutes.

939 Mr. {Latta.} Well, I thank the Chairman, and I thank
940 you for having this hearing today, and I appreciate our
941 witness and his testimony this morning. And if I could just
942 kind of go back to a question that the Chairman asked
943 initially, and then I think you--part of the answer was
944 dealing with the--on the infrastructure side. Did I
945 understand you said something about the direction of the
946 pipeline? Did I--is that--did I understand you to say that?

947 Mr. {Smith.} Yes, Congressman. So, as we have created
948 a lot more crude--I mean--so we mentioned that, you know, we

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949 are producing more crude domestically than we import, and
950 that is for the first time in many years. We have a lot more
951 crude that is coming from North Dakota, so it is going from
952 north down south. We have a lot more crude that is being
953 produced in South Texas, out of the Eagle Ford Shale. And so
954 previously you had pipeline networks that--you had the
955 Strategic Petroleum Reserve in the Gulf of Mexico, and you
956 could push, you know, oil from, you know, from the SPRO in
957 the Gulf of Mexico up to the rest of the country. Now you
958 are seeing some of those pipelines have reversed because they
959 are bringing crude, you know, from new sources of production,
960 in North Dakota and in Texas, and it has come into the Gulf
961 of Mexico.

962 And so that complicates the original construct of the
963 SPR, which was to have this centrally located large stockpile
964 of hundreds of millions of barrels that you could simply,
965 through pipelines, push out to the rest of the country.
966 Given that some of those pipelines were reversed, it has to--
967 it makes us re-think some of those things, and also makes the
968 waterborne transport of crude a lot more important than it
969 probably was back in the '70s.

970 Mr. {Latta.} Now, when you look at your strategic

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971 overall plan that you are looking at into the future, you
972 know, is that something that you are really going to
973 emphasize, then, on the direction?

974 Mr. {Smith.} Indeed, Congressman. I mean, when we
975 think about what infrastructure you need, what marine
976 transport you need, what pipeline systems you might be
977 employing, what should be the balance of crude, what should
978 be the size of the Strategic Petroleum Reserve, what types of
979 crude the refiners are using, those are all factors that we
980 will be considering when we undergo this comprehensive
981 review. And it will help us crystallize these issues, and
982 make very specific recommendations about investments that we
983 need to make to make sure that we have got the reserve that
984 is suitable for the markets of today, as opposed to the
985 markets of the early '70s.

986 Mr. {Latta.} Thank you, because--and also you had
987 mentioned earlier, in your response, that we have about 7.6
988 million barrels of oil that we are importing every day today,
989 and also we have all--we all know it has been alluded to this
990 morning that--what has happened with our shale development in
991 this country, and really what we have been able to do in this
992 country to help ourselves. But in light of all that, just--

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993 if something would happen on an--if there would be an
994 international supply disruption at this time, are we prepared
995 to meet that with the current setup of what we are with the
996 SPR?

997 Mr. {Smith.} Well--so--thanks for the question,
998 Congressman. So in--we have noted many of the shortcomings,
999 you know, the market has changed, some of the pipelines go in
1000 different directions, but, you know, one thing I can say is
1001 that, not only through the test sale, but, you know, through
1002 the release that we had for the disruption that came from the
1003 unrest in Libya, that the team of professionals we have
1004 running the Strategic Petroleum Reserve down in the Gulf of
1005 Mexico, and Texas, and Louisiana, have been--have always been
1006 successful at pushing oil into markets, and to--in doing the
1007 things that the SPRO was meant to do.

1008 Now, that is not to say that, going forward, we don't
1009 have some concerns. We do think that there is some
1010 modernization that needs to occur. We do have some deferred
1011 maintenance that we are concerned about, and we want to make
1012 sure that that mission readiness continues. But we are, you
1013 know, we are focused on remaining ready. You know, we
1014 utilize the resources that we have in our disposal. But

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1015 going forward, we do have some serious concerns, which is the
1016 reason why we have asked for some increase in budgets in this
1017 Congressional justification for the 2016 budget, and that the
1018 study that we are going to be undertaking will be looking at
1019 issues of modernization. We think those are important
1020 points.

1021 Mr. {Latta.} Thank you. Mr. Chairman, I yield back the
1022 balance of my time.

1023 Mr. {Whitfield.} At this time the Chair recognizes the
1024 gentleman from California, Mr. McNerney, for 5 minutes.

1025 Mr. {McNerney.} Thank you, Mr. Chairman, and thank you,
1026 Assistant Secretary, for testifying this morning, and for
1027 your work in this area, and for all the constant field work
1028 that you do. Now, one thing you mentioned in your opening
1029 remark was the aging down--drawdown infrastructure by saying
1030 that it needs more maintenance--what specifically would be
1031 the best actions to take, how much would they cost, and could
1032 that be paid for by drawdown profits?

1033 Mr. {Smith.} So I will talk a bit about the first part
1034 of the question, which is, you know, what we think needs to
1035 be done, and then I will try to address the second part of
1036 your question. So there is--in terms of deferred

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1037 maintenance, I think there, you know, every year we get an
1038 appropriate, we take that appropriate, we do what we need to
1039 do to--in order to remain mission ready. And, you know,
1040 mission readiness is--I mean, this is an energy security
1041 asset, and so the team in the Gulf of Mexico is focused on
1042 mission readiness.

1043 So what would we be--what we need to do in the immediate
1044 term, for the budget that we are requesting for 2016, there
1045 are issues with valves, there are issues with compressors,
1046 there are issues with pumps. There are some well bore work-
1047 overs that need to be accomplished. We have included funding
1048 in our request for the metering--transfer metering skid at
1049 Big Hill, which would allow them to push oil in two different
1050 directions to two different buyers at the same time, as
1051 opposed to the one bottleneck that they have currently, where
1052 they can only move oil to one buyer. We think in the
1053 immediate term that these are important things to undertake,
1054 in terms of ensuring that we are taking care of that deferred
1055 maintenance, and we are ready--that we continue to be ready.

1056 Going forward, we have a modernization effort that is
1057 referred to in the quadrennial energy review. That would
1058 have to do deal with further surface infrastructure for life

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1059 extension. So, you know, again, this was an asset that was
1060 put in place decades ago. If you are going to move decades
1061 into the future, there are lots of things you have to do to
1062 make sure that equipment that is getting to its sell by date
1063 is getting renovated, it is getting fixed, it is getting
1064 replaced, in some cases.

1065 So that would be surface infrastructure, everything we
1066 need to move oil around the surface, and that is the pumps,
1067 and valves, and all that equipment to move oil around. It
1068 would include Bryon disposal caverns, so you--we use Bryon to
1069 push oil and out of the caverns, and so there would probably
1070 be some new Bryon drive caverns that we would have to work
1071 on. And then disposal wells as well. So, Bryon has to be
1072 disposed of when it is utilized, and so those are things that
1073 would be included in the life extension.

1074 Beyond that, there are some other issues to deal with,
1075 marine capacity, marine distribution. That is also
1076 envisioned in the quadrennial energy review, and will be
1077 considered in the strategic study that will be undertaken.

1078 Mr. {McNerney.} Okay. Well, last year it said you
1079 grossed 600--\$468 million by your test sale. What was the
1080 average price per barrel in that sale?

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1081 Mr. {Smith.} Congressman, I don't know that number off
1082 the top of my head. I would be happy to respond for the
1083 record. It was--but it was consistent with whatever the
1084 market price was at the time. It was higher than it is
1085 today.

1086 Mr. {McNerney.} Higher than today, but is it higher
1087 than it was when the oil was purchased and put into the
1088 reserve?

1089 Mr. {Smith.} Well, the oil is purchased over time,
1090 right, so the--

1091 Mr. {McNerney.} Right.

1092 Mr. {Smith.} --comparison that I can make is that when
1093 we sold the oil back in--when we did the test sale we sold
1094 five million barrels. Receipts from that sale were, you
1095 know, somewhere in the order of magnitude of \$500 million.
1096 We took part of those funds and used them to create the
1097 Northeast Gasoline Reserve, which is a million barrels of
1098 gasoline that we have in three sites in the northeast. That
1099 was the reserve that we created to respond to Superstorm
1100 Sandy. We had enough left over after that to replace almost
1101 all of the oil that we had sold in the first place.

1102 So we sold at a much higher level than we bought back,

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1103 which means we sold the oil, we went and created a new
1104 reserve, including all the storage, and paying for the
1105 maintenance and operation going--on a go forward basis, and
1106 still had enough left to buy back all the oil that we sold in
1107 the first place. So it was good timing, and good execution
1108 on--

1109 Mr. {McNerney.} Okay. Well, that sort of answers the
1110 second part of my first question that you didn't answer the
1111 first time through. Okay. So, with that, I will yield back,
1112 Mr. Chairman.

1113 Mr. {Whitfield.} Gentleman yields back. At this time
1114 recognize the gentleman from West Virginia, Mr. McKinley, for
1115 5 minutes.

1116 Mr. {McKinley.} Thank you. Let me get the first
1117 question out of the way as quickly--I want to hear from you
1118 whether or not you support what Secretary Moniz came and
1119 testified to us back in January, I believe it was, that the
1120 operation of the Nettle facilities at Morgantown and
1121 Pittsburgh will remain as is into the future. In fact, we
1122 talked about a 10 year time period. Do you agree with that?

1123 Mr. {Smith.} Yes.

1124 Mr. {McKinley.} Okay. So I don't need to go to part

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1125 two question on that. So the other issue is, building back
1126 off the question having to do with the gasoline storage in
1127 the northeast, I am just curious about that, because I know
1128 the crude can be stored for some period of time, but there is
1129 a shelf life for gasoline. Can you share with us a little
1130 bit about how often you are turning that over? Because that
1131 gasoline can't stay there forever.

1132 Mr. {Smith.} Right. Well--thank you, Congressman, for
1133 that question. So we didn't go and construct new tankage.
1134 We rented tankage that is in place, and so these are in
1135 existing commercial facilities, so part of our maintenance
1136 that we are paying for all the time includes the--an ongoing
1137 turnover over that product, so--

1138 Mr. {McKinley.} So it is being refreshed, is what you
1139 are saying?

1140 Mr. {Smith.} Yes, Congressman.

1141 Mr. {McKinley.} Okay, that is fine, so we don't have
1142 that issue. Because I know there are serious problems with
1143 gasoline over a period of time if it is not turned over. So
1144 let me go to the next question, that has to do with this
1145 storage of the crude in the salt minutes, primarily down, I
1146 guess, in the Gulf region, is that where--having faced a lot

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1147 of the pushback, and understandable, the pushback of the
1148 Bryon discharge from the operation, and the Marcellus and the
1149 Utica operation that the environmentalists--and
1150 understandably. I would share the concern, what are we doing
1151 with this Bryon reserve that is coming back up again?

1152 So I am curious, since you have produced somewhere in
1153 the neighborhood of close to 700 million barrels of Bryon,
1154 what would you do with it?

1155 Mr. {Smith.} So--thank you for that question. So we
1156 have got, you know, a very experienced team of environmental
1157 professionals that are part of the Strategic Petroleum
1158 Reserve that ensure that we are complying with all state, and
1159 local, and Federal regulations in terms of disposal of Bryon.
1160 We do have Bryon drive caverns in place that we use to manage
1161 the Bryon. We need the Bryon to push the oil out of the
1162 caverns.

1163 Mr. {McKinley.} So when it comes back up, where--you
1164 are putting it someplace--I--that is what I am--I want to--
1165 mechanically, I want to be able to be clear, not talk in
1166 30,000 feet. When it comes back out, where does it go?

1167 Mr. {Smith.} I--it probably would be good to answer
1168 that question for the record, Congressman, because I want to

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1169 make sure that we get all the details correct. But what I
1170 can say is that that is an operation that we have got decades
1171 of experience managing, that we are managing consistent with
1172 all the state and local regulations.

1173 Mr. {McKinley.} How do you deal with--there is--
1174 apparently there are some issues with the--in the salt mines
1175 with structural integrity that is breaking down, in some
1176 cases, and obviously, as you know, crude is not typically
1177 found in a salt environment, so you are going to have some
1178 interaction between the chemical composition of a crude oil
1179 and the salt in the walls of the container. What is the--how
1180 does this work in the breakdown? What are we doing to assure
1181 us that we have long term stability in our storage with our
1182 reserves?

1183 Mr. {Smith.} Well, we do have an extensive testing
1184 program that is looking at sampling from, you know, a
1185 statistical sample of the caverns on an ongoing basis, so we
1186 have a very granular and fine understanding of the quality
1187 and the state of the crude that we have in all of the
1188 caverns. Generally the reason why you store crude in the
1189 salt caverns is the salt is not soluble in crude, whereas it
1190 is soluble in water, right? So you use the water to actually

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1191 create the space in the cavern, and then you fill that with
1192 crude, so you have got these very--essentially these
1193 enormously large pressure vessels that are full of crude, but
1194 the salt itself is not soluble in crude, which is what makes
1195 it very appropriate for storage.

1196 Mr. {McKinley.} So you are indicating there is no
1197 chemical interaction between the two?

1198 Mr. {Smith.} What I am saying is--

1199 Mr. {McKinley.} Careful with that.

1200 Mr. {Smith.} I am saying that the crude--that salt is
1201 generally not soluble in crude, and that we have an extensive
1202 testing program so that we have a very fine understanding of
1203 the state of the crude, sweet and sour, all the various
1204 caverns, 60 caverns throughout four different sites, so that,
1205 on an ongoing basis, we always understand exactly what crude
1206 we have in the caverns, we know what refineries they are
1207 suitable for, and that we are consistent with all the
1208 standards for delivering those refineries, both--

1209 Mr. {McKinley.} Okay. In the timeframe that I have
1210 left on--is that apparently, as I said earlier, we are
1211 finding some developing structural integrity problems--can
1212 you give us a sense of how many of those--if we are storing

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1213 close to 700 million barrels in crude, how much of that is in
1214 areas that are questionable?

1215 Mr. {Smith.} Well, what I can say is that every cavern
1216 that we have crude in right now is certified. It is
1217 understood it is safe, all right? We have had to
1218 decommission a couple caverns over the last few years. Our
1219 biggest challenge is that you are drilling through cap rock
1220 into these salt structures, and that over time they do move,
1221 so they pinch the well bores, they compress the well bores,
1222 they deform the well bores. And so, on an ongoing basis, we
1223 have got a program of remediation where we are having to
1224 inspect the well bores on an ongoing basis. And part of the
1225 funds that we had requested for this budget period,
1226 increasing funding from last year to this year, was to ensure
1227 that we are able to do the appropriate number of work-overs.

1228 One final thing I will say is that if there is an issue
1229 of safety in any cavern, it means we don't operate that
1230 cavern. So we don't operate any cavern that is going to
1231 create an environmental issue. We don't operate any cavern
1232 that is going to be a--create a safety issue. We
1233 decommission those caverns if they create a--

1234 Mr. {McKinley.} Okay. If you can get back to me on--my

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1235 time--I am over on time. If you could get back to me on
1236 those two answers that left--one was percent, and the other
1237 question.

1238 Mr. {Smith.} All right. I would be happy to.

1239 Mr. {McKinley.} Thank you very much.

1240 Mr. {Whitfield.} At this time the Chair recognizes the
1241 gentleman from Vermont, Mr. Welch, for 5 minutes.

1242 Mr. {Welch.} Thank you very much, Mr. Chairman. Mr.
1243 Smith, thank you. The Strategic Petroleum Reserve has been
1244 with us for a while, and can perform a number of very useful
1245 functions, including taking some of the pressure off the
1246 spike in gas prices when consumers are getting hammered. In
1247 fact, we passed a law, that I was one of the co-sponsors of,
1248 to suspend shipments, this is back in '08, suspend shipments
1249 to the SPRO because gas was 3.73 a gallon. And, in fact, the
1250 evidence indicated that it was about--adding about a quarter
1251 at--of a cost--a quarter a gallon at the price of the pump.
1252 Obviously, we are in a different situation now, and as we
1253 have re-filled it, we are paying less than we were paying
1254 then. What has been the experience of SPRO with respect to
1255 how it can have an impact on the price that consumers pay at
1256 the pump? I know that is not its primary objective, but it

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1257 is an incidental effect.

1258 Mr. {Smith.} Well, thank you, Congressman, for that
1259 question. So I guess--two separate issues. So we are--the--
1260 one of the things that the Strategic Petroleum Reserve, just
1261 its existence, but also its utilization in a crisis, can do
1262 is have an impact not only on ensuring that we have
1263 appropriate supply in a disruption, but also on global oil
1264 markets. I will notice--note that global oil markets and
1265 global crude markets are different. You do have, you know,
1266 you do have an internationally fundable global crude market,
1267 and an internationally fundable global product market. We
1268 import and export product. In fact, we are a net exporter of
1269 product--of refined products.

1270 So the--if the question is do--when we are filling the
1271 caverns, do we have an impact on prices, we just bought five
1272 million barrels, you know, to replace the barrels from the
1273 test sale. We kept an eye on that as we made that
1274 announcement, and we didn't see an appreciable impact on
1275 prices. We are concerned on--about impacts on consumers, so
1276 that is something that we keep an eye on.

1277 Mr. {Welch.} One other question. The quadrennial
1278 energy review mentions that Congress should update the SPRO

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1279 release authorities to allow it to be used more effectively
1280 to prevent economic harm in emergencies. Do you recommend
1281 any specific legislative steps that are needed in order to
1282 accomplish that?

1283 Mr. {Smith.} Thank you for that question, Congressman.
1284 So, indeed, you know, one of the disconnects we had--well,
1285 first of all, to reiterate a point that I had an opportunity
1286 to make earlier, the, you know, we operate primarily under
1287 EPCA, which is, you know, right now, after decades, is a
1288 patchwork of amendments, and addendums, and changes. So we
1289 do see a disconnect between the market of today and the
1290 market that was perhaps foreseen back in the early '70s. So
1291 changes in the legislation and authorities, it would allow us
1292 to be more proactive--petroleum reserve would be welcome.
1293 Changes that would centralize some of the authorities so
1294 that, you know, right now we have got different authorities
1295 for regional product reserves, and the main--the Strategic
1296 Petroleum Reserve.

1297 And, importantly, they are in some cases what is--for
1298 example, the Northeast Gasoline Reserve is managed under
1299 Title B, Section 1, and that is a national standard, so you
1300 have a regional reserve for products that would be released

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1301 based on a standard that is set for a national reserve that
1302 has crude in it. And so we think that addressing all those
1303 issues would be positive to make sure that that is its
1304 effect.

1305 Mr. {Welch.} Well, we would welcome your specific
1306 recommendations on how best to do that.

1307 Mr. {Smith.} I really look forward to the opportunity
1308 to work with the Committee on that.

1309 Mr. {Welch.} All right. Thank you. I yield back.

1310 Mr. {Whitfield.} Chair recognizes the gentleman from
1311 Ohio, Mr. Johnson, for 5 minutes.

1312 Mr. {Johnson.} Thank you, Mr. Chairman, and Assistant
1313 Secretary Smith. Thank you so much for being here with us
1314 today. A couple of quick questions on a little bit of a
1315 different subject, then I will get back to some questions
1316 about the QER. Are you confident that your department is
1317 treating applications by Canadian LNG companies consistently
1318 with NAFTA obligations?

1319 Mr. {Smith.} Thank you very much for that question,
1320 Congressman. So we currently have two applicants for--two
1321 Canadian applicants before the Department for authorization
1322 to export liquefied natural gas. You know, to be clear, what

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1323 we authorize is--we give the applicant the authorization--or
1324 we rule on their application to export the molecule. Other
1325 entities look at the--look at environmental issues, including
1326 the FERC. So we have got two applications that are before us
1327 right now. So the commitment that we have made is that we
1328 are going to treat applicants in Canada, applicants in
1329 Mexico, and applicants in the United States in a way that is
1330 open, it is transparent, it is fair, it is consistent.

1331 So there is--under the Natural Gas Act, Section 3 of the
1332 Natural Gas Act, we are compelled to do a--make a public
1333 interest determination for any natural gas that is exported
1334 from the United States. It is our reading of that statute
1335 that that applies to natural gas that might be exported via
1336 Canada, via Mexico, or via the United States. So whether you
1337 are a mile north or a mile south of that border, we have to
1338 do that public interest determination.

1339 Mr. {Johnson.} I understand that, but it--I guess I am
1340 a little confused, because it is my understanding that that
1341 is not being applied in the case of Mexico, but it is being
1342 applied in Canada. And are you concerned that Canada could,
1343 in fact, exercise jurisdiction over the export of LNG derived
1344 from Canadian natural gas for U.S. projects, such as Jordan

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1345 Cove and Oregon LNG? And the reason that I ask this question
1346 is because they are experiencing the same slow rolling, slow
1347 moving process for liquid natural gas export permits that
1348 American companies are.

1349 Mr. {Smith.} Right.

1350 Mr. {Johnson.} And it is going to come to a head at
1351 some point.

1352 Mr. {Smith.} Well, I won't speculate on what the
1353 Canadian government is going to do. I think Canadian
1354 government is going to do what is appropriate for the
1355 citizens of Canada, just as we are doing what is appropriate
1356 for the--

1357 Mr. {Johnson.} Yeah, but it could have dire
1358 implications for here at home, because a lot of the gas that
1359 we have here at home, in the Marcellus and other places, are
1360 destined to go to places like Canada. And so it has--it does
1361 have economic implications here at home.

1362 Mr. {Smith.} Well, indeed, Congressman, and as we make
1363 these--well, first, I, you know, I wouldn't concur with the
1364 characterization of this process, slow rolling. I mean, we
1365 have already--

1366 Mr. {Johnson.} We can debate that, because, I mean,

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1367 they have been sitting there for years, you know, and there
1368 is--there were--there are 38, only five of them had been
1369 addressed. We were assured by Secretary Moniz that it was
1370 going to be--that these were going to be looked at more
1371 quickly, and we are not seeing LNG export permits being
1372 granted.

1373 Mr. {Smith.} Well, indeed, Congressman, we are. We
1374 have authorized 5.7 billion cubic feet of natural gas--

1375 Mr. {Johnson.} How many permits have you authorized?

1376 Mr. {Smith.} For four different--

1377 Mr. {Johnson.} Four out of 38. That is--in--Mr. Smith,
1378 in my view, that is slow rolling, when America's economy is
1379 dependent upon the jobs, and the energy independence that
1380 this brings.

1381 Mr. {Smith.} Well, Congressman, right now there are
1382 zero applicants sitting in front of us for a decision right
1383 now. There is an important process that these companies have
1384 to go through that--

1385 Mr. {Johnson.} Well, you know why that is, right? I
1386 mean, you know why that is? They are not going to put the
1387 hundreds of millions of dollars into doing the environmental
1388 assessments and the FERC process when they know these permits

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1389 are going to sit in the Department of Energy for extenuating
1390 periods of time. They have got to have some idea that they
1391 are going to get a return on their investment. But--

1392 Mr. {Smith.} In fact, they are spending the millions of
1393 dollars to go through those process, because they are going
1394 through that FERC process. So we work very closely with
1395 FERC. As those applicants have finished that process, then
1396 they come to Department of Energy. The last application that
1397 we got that came out of FERC, we turned that around in 1 day.

1398 So as the companies--or the companies will make the
1399 decision to either spend the money on the environmental work
1400 or not, and that is up to the companies. I mean, the market
1401 will decide that. As the companies make those investments,
1402 as they are, as they get financing, as they are, as they sell
1403 the gas, they will then come to the Department. Once that
1404 work is done, it puts us in a situation where we can make
1405 that--

1406 Mr. {Johnson.} Then--my time is expired almost. Point
1407 of clarification, then. Are you telling me that the 30--
1408 roughly 33 permitting applications that are sitting in the
1409 Department of Energy, that there is--that none of that has
1410 gone through the FERC process, and that none of that is

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1411 waiting on the Department of Energy for action?

1412 Mr. {Smith.} Those applicants that have gone through
1413 FERC, that have completed the re-hearing process, have come
1414 to us, and we have made decisions on those applicants.

1415 Mr. {Johnson.} So you are saying that none of those
1416 other 33 are waiting on the Department of Energy?

1417 Mr. {Smith.} The rest of those 33 are doing all the
1418 other work that they have to do to complete these decadal
1419 multi-billion dollar projects. They are big projects, and
1420 they do take some time, but we are moving expeditiously on
1421 this. We are getting these applications out as we are ready
1422 to make the decisions because they have done the work. They
1423 come to us, and we write the orders.

1424 Mr. {Johnson.} Sorry for exceeding my time, Mr.
1425 Chairman. I yield back.

1426 Mr. {Whitfield.} At this time the Chair recognizes the
1427 gentleman from New York, Mr. Engel, for 5 minutes.

1428 Mr. {Engel.} Thank you very much, Mr. Chairman.
1429 Welcome, Mr. Secretary. New York and the northeast region of
1430 the U.S. are particularly vulnerable to gasoline disruptions
1431 as a result of hurricanes and other natural events, and
1432 Hurricane Sandy, or Superstorm Sandy, in 2012 was a good

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1433 example of that. It caused widespread issues related to the
1434 availability of gasoline.

1435 In response, to help build a more secure and resilient
1436 energy infrastructure, the Energy Department did establish
1437 the first Federal regional refined petroleum product reserve,
1438 containing gasoline. The reserve, I am told, currently holds
1439 one million barrels of gasoline to help strengthen regional
1440 fuel resiliency in the northeast. So let me ask you if you
1441 could please talk about efforts related to the setup and
1442 operation of the northeast reserve. Did you have to overcome
1443 any unforeseen challenges, and are there any issues that have
1444 yet to be resolved?

1445 Mr. {Smith.} Thank you, Congressman, very much for that
1446 question. So, as you pointed out, the establishment of the
1447 Northeast Gasoline Reserve was an important step that we took
1448 after some of the disruptions that we noted in Superstorm
1449 Sandy. So, as a result of that, we created a reserve in the
1450 northeast that would have gasoline in place. That includes
1451 700,000 barrels that are stored in the New York Harbor area,
1452 and that is in two separate facilities. We have 200,000
1453 barrels that are in a terminal in Massachusetts, and then
1454 100,000 barrels that are stored at terminals in South

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1455 Portland--south of Portland, Maine.

1456 So those three different geographic locations make up
1457 the Northeast Petroleum Reserve. The funding that we used
1458 for purchasing the gasoline, we also used to procure storage
1459 capacity, and maintenance, and ongoing expenses for the
1460 reserve. So that--those are--the resources are in place. We
1461 have put in place all of the IT, and the procedural systems
1462 that we would need to have in place in order to actually move
1463 those barrels out into the market in the case of a
1464 disruption.

1465 We worked very closely with potential buyers of gasoline
1466 out of those reserves to ensure that we are, on an ongoing
1467 basis, exercising the capabilities to make sure that not only
1468 have we purchased this insurance policy, but we are ready to
1469 use it, and to deploy it in case of a future emergency. That
1470 is--so that is the steps that we have taken to date.

1471 Mr. {Engel.} So--it is also my understanding that the
1472 DOE operates a network of pipelines as part of the Strategic
1473 Petroleum Reserve, including the Northeast Reserve, so I
1474 would like to know a bit more about that. Can you--do you
1475 have available information on how many miles of pipelines
1476 does DOE operate as part of the SPRO?

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1477 Mr. {Smith.} I don't have that number off the top of my
1478 head, Congressman, but I would be happy to take that question
1479 for--

1480 Mr. {Engel.} And get back to me? How is that system
1481 managed? Can you help me understand a little more about--

1482 Mr. {Smith.} Al right.

1483 Mr. {Engel.} --management of that system?

1484 Mr. {Smith.} So the Strategic Petroleum Reserves--our
1485 Deputy Assistant Secretary, Mr. Bob Corbin, is based here in
1486 Washington, D.C. He works very closely with me. We have the
1487 management office down in the Gulf of Mexico that has a
1488 center in New Orleans that oversees those operations. And
1489 so, between that operational center in New Orleans, and our
1490 center here in Washington, D.C., we oversee all the
1491 activities of the Strategic Petroleum Reserve, including the
1492 Northeast Home Heating Oil Reserve, and the newly created
1493 Northeast Gasoline Reserve, is all managed by the SPRO.

1494 Mr. {Engel.} Is the safety of the pipeline network
1495 subject to oversight by DOT's Office of Pipeline Safety?

1496 Mr. {Smith.} So the--I mean, one clarification I will
1497 make, because there is not an extensive pipeline network that
1498 is actually owned and maintained by the SPRO. Again, I

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1499 would--I will be happy to give some details of that question
1500 for the record, to ensure that we are being clear on that.
1501 But we certainly are complying with all state and Federal
1502 regulations for all assets that we manage.

1503 Mr. {Engel.} But help me to understand who is
1504 responsible for regulating those pipes.

1505 Mr. {Smith.} Well--so if the strategic petroleum has a
1506 release that goes into an existing commercial pipeline
1507 network, then that pipeline would be operated and regulated
1508 by whatever the appropriate Federal and State statutes
1509 oversee that infrastructure. Just like if we put crude into
1510 a barge, and we sell it to someone who is going to take that
1511 water-borne to another location, then there would be a, you
1512 know, a Federal, and State, and local regulations for those
1513 transportation assets, even if we don't own them.

1514 Mr. {Engel.} Okay. Thank you. Thank you, Mr.
1515 Chairman.

1516 Mr. {Whitfield.} At this time we will recognize the
1517 gentleman from Texas, Mr. Flores, for 5 minutes.

1518 Mr. {Flores.} Thank you, Mr. Chairman. Mr. Smith,
1519 thank you for your testimony today. Going to the QER for a
1520 minute, the QER recommends that Congress authorize an

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1521 additional 1-1/2 to \$2 billion to increase the incremental
1522 distribution capacity of the SPR. That request hasn't
1523 appeared in front of Congress. Can you tell me why?

1524 Mr. {Smith.} Well, thanks for the question,
1525 Congressman. So in the--in our 206 budget request, you know,
1526 we did have some funds for maintenance issues within the
1527 Strategic Petroleum Reserve. It did not include these
1528 recommendations from the QER. And, indeed, as you note, the
1529 QER was just released, right? So, you know, we look forward
1530 to working with Congress to refine further details on that,
1531 but the QER literally is hot off the presses as of last
1532 Tuesday.

1533 Mr. {Flores.} Okay. Thank you. And the QER also says
1534 that the DOE will analyze the need for additional or expanded
1535 regional product reserves, in particularly like the one you
1536 talked about in the northeast. These will be in the
1537 southeast and on the west coast. Will the DOE formally
1538 request funding from Congress in advance in an annual budget
1539 submission?

1540 Mr. {Smith.} Thank you, Congressman. So we are, you
1541 know, we are undergoing these studies now, in real time, so,
1542 you know, I will demur from making any specific predictions

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1543 about when we would make a recommendation, or even what the
1544 review will state. So the whole purpose of going through
1545 this comprehensive review, looking at everything from
1546 subsurface issues, to market issues, to infrastructure, to
1547 need for regional reserves will help us flesh out what needs
1548 to happen. And, indeed, future efforts certainly would have
1549 to be--have funds appropriated, and we will be working with
1550 Congress, based on the results of the study.

1551 Mr. {Flores.} Okay. So we can assume that if the study--
1552 --that--the DOE study indicates that you should have these
1553 regional product reserves, then you will formally ask
1554 Congress for the appropriation?

1555 Mr. {Smith.} So, Congressman, certainly, if we do
1556 determine that there is new work that needs to be done that
1557 requires appropriation that would require us to work with
1558 Congress, yes.

1559 Mr. {Flores.} Okay. Good. Will you provide to the
1560 Committee for the record the September 2011 DOE study that is
1561 entitled ``Refined Petroleum Product Reserve, Assessment of
1562 Energy Security Needs, Cost and Benefits'' that is referenced
1563 on Page 2-34 of the QER?

1564 Mr. {Smith.} We can provide that.

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1565 Mr. {Flores.} Okay. Thank you. Mr. Chairman, that is
1566 all I have. I yield back.

1567 Mr. {Whitfield.} Gentleman yields back. At this time I
1568 would recognize the gentleman from Texas, Mr. Green, for 5
1569 minutes.

1570 Mr. {Green.} Thank you, Mr. Chairman, and, again, good
1571 to see you again, Assistant Secretary Smith. First of all, I
1572 would like to talk to you about LNG permitting exporting,
1573 but--because--and thank you for coming last Congress to our
1574 natural gas caucus to talk with us. Of course, expansion of
1575 exporting of natural gas is important to our producers in our
1576 area, but also to our friends and allies around the world.
1577 But today we are talking about the Strategic Petroleum
1578 Reserve, and--which is also important.

1579 In March 2014 Department of Energy conducted a test sale
1580 from the SPR to demonstrate drawdown and distribution
1581 capacity. In November the DOE reported that pipeline
1582 capacity is limited, and drawdown of significant scope may
1583 post a challenge. The same issues were addressed in the
1584 quadrennial energy review, and the budget that was submitted
1585 was for \$51 million for operations and flexibility, and the
1586 QER recommends 1.5 to two billion increase in distribution

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1587 capacity. Obviously 51 million is relatively low, compared
1588 to the two billion, and I am going to see how we can get you
1589 some of those funds. Does the DOE anticipate using funds
1590 from the--from additional test sales to fund requirements
1591 laid out in the QER? Do you have that ability?

1592 Mr. {Smith.} Yeah. Well, thank you for the question,
1593 Congressman. So we certainly don't have any--first of all,
1594 we don't have plans for a future test sale. The last test
1595 sale we felt was very important in order to exercise the
1596 operational and procedural capabilities of the SPRO, and so
1597 that is why we undertook that sale. We don't have plans for
1598 a future sale.

1599 Mr. {Green.} Okay. But does the Department have the
1600 ability, if you have a sale, to utilize that funding for your
1601 budgetary needs?

1602 Mr. {Smith.} There is--

1603 Mr. {Green.} It may not be appropriated by the
1604 appropriations.

1605 Mr. {Smith.} So under statute we have got a fairly
1606 limited number of things that we could use those funds for.
1607 We could use them to buy other petroleum products. We could
1608 use it for storage or transit of petroleum. So there are

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1609 some--but under statute, there are some limits to--

1610 Mr. {Green.} Okay.

1611 Mr. {Smith.} --what we could use those funds for. But,
1612 again, to reiterate, the test sale was driven by the need to
1613 exercise the operational capabilities of the--

1614 Mr. {Green.} Well, and I am glad you do it, because you
1615 have--what you found out, that there were some issues that
1616 needed to be dealt with. The--during an emergency, what
1617 actions or authorities are available to alleviate those
1618 issues you found out?

1619 Mr. {Smith.} So some of the issues that we found out--
1620 or--were drivers for the 2016 Congressional justification for
1621 the budget that the President issued for the 2016 budget,
1622 including the additional metering skid at that Big Hill. So
1623 in terms of major kind of infrastructure issues, I mean, that
1624 was probably one of the main things that we were already kind
1625 of moving to address, but, obviously, we need funding to do
1626 that.

1627 Mr. {Green.} Okay. Does the DOE support additional
1628 pipeline construction and tank storage to deal with the
1629 constraints that you found?

1630 Mr. {Smith.} Congressman, I think that the specific

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1631 answer to, you know, what we would recommend to do next, with
1632 regards to infrastructure, will be driven by the strategic
1633 review. We do know that, you know, as we noted, we have got
1634 aging infrastructure, and so the life extension program that
1635 we have thought through would include, you know, some surface
1636 infrastructure thing, including tankage, including pipelines
1637 to move things around the SPRO, including pumps and
1638 compressors, Bryon drive caverns, Bryon disposal wells. So
1639 those would all be things that we would have to put in place
1640 as part of the life extension.

1641 So we have got a rough outline of what we think that
1642 would look like, and you have seen some rough numbers in the
1643 QER. I think there was an estimate of between 700 and \$900
1644 million for that piece of work. The details of what that
1645 would look like are--that is what we are going to be driving
1646 towards in this review that we are undertaking.

1647 Mr. {Green.} Okay. I know a significant part of the
1648 SPRO is actually just east of Houston, between Houston and
1649 Beaumont.

1650 Mr. {Smith.} Indeed.

1651 Mr. {Green.} Was that where the test was done, or was
1652 it other locations that we have the reserve?

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1653 Mr. {Smith.} The test sale was out of Big Hill, and
1654 Bryon Mound was where the crude came from, those--for that
1655 sale.

1656 Mr. {Green.} Okay. Because I always joke that if we
1657 have infrastructure problems in Texas with oil and gas, then
1658 the rest of the country really must be in bad shape, because
1659 we have a lot, and we still need to build more. Mr.
1660 Chairman, I am out of time, and I appreciate the time. Thank
1661 you.

1662 Mr. {Whitfield.} Thank you. I am sorry to say, Mr.
1663 Smith, there are no more questions for you today. But we do
1664 appreciate your being with us, and talking about this
1665 important issue. And I just wanted to also bring to your
1666 attention that Mr. Rush and I, and Mr. Pallone, and Mr. Upton
1667 had sent a letter to Secretary Moniz sometime in March, just
1668 asking some preliminary--about four or five questions about
1669 the SPR review process that you are undertaking now. And if
1670 you see him in the hall, or at the coffee table, would you
1671 ask him if he could give us a reply? We would appreciate it.

1672 Mr. {Smith.} I will do that, Mr. Chairman.

1673 Mr. {Whitfield.} Thank you very much, and thanks again
1674 for being with us. We look forward to working with you on

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1675 this issue. And at this time I would like to call up the
1676 second panel of witnesses. And we will have you all come up,
1677 and then I am--what I am going to do is just introduce each
1678 one of you before your 5 minute opening statement. So you
1679 all just have a seat, and then we will get started.

1680 In the second part of this hearing, we are going to be
1681 focused on the energy efficiency aspect, and I want to thank
1682 each and every one of you for joining us this morning, and
1683 thank you also for your patience. And, as I said, I am going
1684 to introduce you individually, and then you will make your
1685 opening statement.

1686 So our first witness this morning is Mr. Christopher
1687 Peel, who is the corporate Senior Vice President and Chief
1688 Operating Officer for Rheem Manufacturing Company, on behalf
1689 of the Air-Conditioning, Heating, and Refrigeration
1690 Institute. So, Mr. Peel, thank you. You are recognized for
1691 5 minutes. Just be sure to turn your microphone on, and get
1692 it up close enough, because somehow it is difficult to hear
1693 in this room. So, thank you.

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1694 ^STATEMENTS OF CHRISTOPHER PEEL, CORPORATE SENIOR VICE
1695 PRESIDENT AND CHIEF OPERATING OFFICER, RHEEM MANUFACTURING
1696 COMPANY (ON BEHALF OF THE AIR-CONDITIONING, HEATING, AND
1697 REFRIGERATION INSTITUTE); KATERI CALLAHAN, PRESIDENT,
1698 ALLIANCE TO SAVE ENERGY; JOHN W. SOMERHALDER II, CHAIRMAN,
1699 PRESIDENT, AND CEO, AGL RESOURCES (ON BEHALF OF THE AMERICAN
1700 GAS ASSOCIATION; FRANK THOMPSON, PRESIDENT, SWEETWATER
1701 BUILDERS, INC. (ON BEHALF OF THE NATIONAL ASSOCIATION OF HOME
1702 BUILDERS); ELIZABETH NOLL, ENERGY EFFICIENCY ADVOCATE,
1703 NATURAL RESOURCES DEFENSE COUNCIL; RONA NEWMARK, VICE
1704 PRESIDENT, INTELLIGENT EFFICIENCY STRATEGY, EMC CORP. (ON
1705 BEHALF OF THE INFORMATION TECHNOLOGY INDUSTRY COUNCIL); AND
1706 MARK WAGNER, VICE PRESIDENT, U.S. GOVERNMENT RELATIONS,
1707 JOHNSON CONTROLS, INC. (ON BEHALF OF THE FEDERAL PERFORMANCE
1708 CONTRACTING COALITION).

|

1709 ^STATEMENT OF CHRISTOPHER PEEL

1710 } Mr. {Peel.} Thank you, Chairman. Chairman Whitfield,
1711 Ranking Member Rush, and members of this Subcommittee, I
1712 appreciate the opportunity to be here with you to talk about

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1713 some energy policy issues that are important to manufacturers
1714 and our customers. I would like to begin by thanking you for
1715 your work on the recent passage of S-535, which included
1716 language providing regulatory relief for grid enabled water
1717 heaters that are positive for the environment and our
1718 customers in rural America. I would also thank--like to
1719 thank you for inviting me to testify this morning.

1720 My name is Chris Peel. I am the Chief Operating Officer
1721 for Rheem Manufacturing Company. Rheem was founded in the
1722 1920s, is headquartered in Atlanta, and is a global industry
1723 leader, with seven U.S. based factories and distribution
1724 centers. Rheem designs and manufactures furnaces, air
1725 conditioners, water heaters, and refrigeration equipment. We
1726 have a proud history of developing innovative high efficiency
1727 products which reduce energy consumption, and help customers
1728 save on their utility costs. I am here on behalf of AHRI, a
1729 trade association that represents 315 manufacturers of HVAC,
1730 refrigeration, and water heating equipment. AHRI's members
1731 employ over 100,000 people in the U.S.

1732 I am here today because we care about serving our
1733 customers, enhancing safety and reliability, supporting our
1734 employees, and improving the environment. With these

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1735 priorities in mind, I ask the Subcommittee to address three
1736 issues that are vitally important, transparency in
1737 stakeholder engagement in the rulemaking process, the
1738 expected impact of the DOE's proposed efficiency standards
1739 for residential furnaces, and the value provided by voluntary
1740 independent verification programs.

1741 The DOE is planning to issue 23 new regulations
1742 affecting our industry between now and 2018. This ambitious
1743 schedule has caused a reduction in the constructive
1744 interaction between stakeholders and DOE, resulting in
1745 oversights involving economic assumptions and technical
1746 issues. Rather than working together to achieve what are
1747 very common objectives, we find ourselves in a situation
1748 where we need to ask for Congressional intervention.

1749 In my view, new efficiency standards achieve the
1750 greatest public benefit when industry, interested NGOs, and
1751 government officials work together to create consensus drive
1752 standards. We also believe this is the goal envisioned by
1753 DOE's own process rule, which involves early input from
1754 stakeholders as a means to achieve successful regulations
1755 through the appropriate analysis and utilization of real
1756 world inputs. The outcomes will be better balanced, and

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1757 achieve the intended benefits for the economy and the
1758 environment.

1759 A recently proposed residential gas furnace standard is
1760 an example of a rule created with insufficient input from
1761 industry. DOE is poised to finalize a new energy efficiency
1762 standard for residential furnaces that would raise the
1763 national minimum efficiency from 80 to 92 percent. To
1764 achieve the higher efficiencies of a 92 percent furnace, both
1765 the product and the installation become significantly more
1766 complex and costly for the consumer.

1767 DOE estimates that replacing an existing 80 percent
1768 furnace with a 92 percent furnace will cost the majority of
1769 consumers an average of \$660 more. This could rise to
1770 \$2,200, depending on the installation. Out of the more than
1771 20 million 80 percent furnaces currently installed, the
1772 majority are in the South, where the customer payback will
1773 seldom be realized. Therefore, we recommend consideration of
1774 legislative efforts that would give time and space to
1775 finalize this rule until all stakeholders are able to work
1776 together to ensure the proposed regulations will achieve our
1777 efficiency objectives without needlessly penalizing families
1778 and small businesses.

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1779 I also wish to thank Representatives Latta, Cooper, and
1780 Blackburn, who have introduced H.R. 1785, the Volunteer
1781 Verification Program Act, which will assure consumers that
1782 the HVAC and water heating products they installed in their
1783 homes truly meet the applicable Federal efficiency levels,
1784 while conserving taxpayer resources, and providing certainty
1785 for manufacturers. This is the proverbial win-win-win
1786 scenario, and I thank you, and the staff, for including this
1787 measure in the draft bill.

1788 Under H.R. 1785, DOE and stakeholders would work
1789 collaboratively on negotiated rulemaking to establish
1790 criteria under which the Federal Government would certify
1791 independent programs and rely on such VIVPs to verify
1792 efficiency ratings. DOE would, of, course, retain its
1793 enforcement authority to periodically inspect and test
1794 products to ensure compliance. As DOE budgets and priorities
1795 can fluctuate year to year, we believe that industry and our
1796 customers are best served by VIVPs. Our industry spends
1797 millions of dollars, and thousands of employee hours, every
1798 year to certify and verify that our efficiency ratings are
1799 accurate. VIVPs, such as AHRI's program, has, for 50 years,
1800 successfully held manufacturers accountable to the high

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1801 standards that our customers deserve and expect.

1802 Finally, Chairman Whitfield, Ranking Member Rush, and

1803 members of the Subcommittee, I appreciate the chance to

1804 appear this morning, and I look forward to answering any

1805 questions you might have, and to working together with you

1806 and your staff on these priorities.

1807 [The prepared statement of Mr. Peel follows:]

1808 ***** INSERT B *****

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1809 Mr. {Whitfield.} Thank you, Mr. Peel. And our next
1810 witness is Ms. Kateri Callahan, who is the President of the
1811 Alliance to Save Energy, and you are recognized for 5
1812 minutes.

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1813 ^STATEMENT OF KATERI CALLAHAN

1814 } Ms. {Callahan.} Thank you, Mr. Chairman, and Ranking
1815 Member, and members of the Subcommittee. I really appreciate
1816 the opportunity to testify today. The Alliance to Save
1817 Energy is a bipartisan, non-profit coalition of about 140
1818 businesses and organizations that span the entire economy.
1819 Our sole mission is to advance energy efficiency, and we do
1820 this to drive economic growth, to preserve the environment,
1821 and to enhance our national security. We have a proud 38
1822 year history of bipartisan leadership from House and Senate
1823 lawmakers who serve as honorary members of our board, and I
1824 am delighted that, of the 16 Congressional leaders, we have
1825 five who are members of this Committee, Congressman McKinley,
1826 Congressman Welch, Congressman Tonko, Congressman Burgess,
1827 and Congressman Kinzinger. These forward-thinking leaders
1828 demonstrate clearly that energy efficiency is truly the sweet
1829 spot in our debate--our national debate over energy policy.
1830 Since the founding of the alliance, our country has made
1831 huge strides in driving energy efficiency into our economy,
1832 and a lot of this progress can be traced directly to the work

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1833 of Congress over the past 4 decades. Since Congress began
1834 lawmaking on efficiency, we have actually doubled our
1835 country's energy productivity. That means that we are
1836 getting twice as much gross domestic product from each unit
1837 of energy that we consume, as we did in the 1970s. And this
1838 translates into huge savings. ACEEE is announcing today that
1839 Americans, just last year, will save \$800 billion on their
1840 collective energy bill. The policies now on the books are
1841 going to continue to deliver gains. The EEIA estimates and
1842 forecasts that our energy productivity will increase 50
1843 percent or more just on a business as usual case. But we
1844 believe that we can, and must, do better if we are going to
1845 remain globally competitive. And since we still waste about
1846 half of the energy that we consume, there is ample room for
1847 improvement.

1848 The Alliance has a goal to again double our energy
1849 productivity by--in this nation by 2030, and if we do this,
1850 we see that American families could see their utility bills
1851 fall by over \$1,000 a year, and we could create 1.3 million
1852 new jobs. But we can only deliver these benefits to
1853 Americans if Congress provides a policy infrastructure to
1854 support aggressive energy efficiency implementation.

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1855 We are very encouraged by action in the 114th Congress
1856 today. We were thrilled that the first energy bill that went
1857 to the President, and will be signed today, is S-535, and we
1858 thank the Chairman and the members of the Committee who
1859 worked so hard to move this bipartisan bill through the full
1860 House. We view S-535 as a strong indicator that the
1861 comprehensive energy legislation you are creating will
1862 include meaningful efficiency policies. And the draft title
1863 already does contain some of these policies, but, like the
1864 Ranking Member, we are deeply concerned that some of the
1865 provisions will actually impede or roll back progress that we
1866 are making.

1867 So first let me run through quickly those provisions
1868 that we support. We support all the provisions in Chapter 1
1869 which deal with improving Federal energy efficiency, with the
1870 exception of the repeal of the fossil fuel consumption
1871 requirements. We could support this repeal if it were
1872 coupled with strong efficiency goals, as it is in other
1873 legislation pending before the Congress. We also support the
1874 provisions in Chapter 2 that safeguard the integrity of the
1875 Energy Star program, and require energy guide labels to
1876 include information on the smart grid capability of products.

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1877 We support all the provisions included in Chapter 4, as these
1878 enable energy and water efficiency measures in Federal
1879 buildings. And finally, we support Chapter 5, which enable
1880 schools to make efficiency upgrades.

1881 As much as we support these provisions, we have very,
1882 very strong objections to the provisions included in Chapter
1883 3. Building energy codes are a critical policy tool for
1884 advancing energy efficiency in the largest consuming sector
1885 of our economy, and they have been very effective. As a
1886 result of a 38 percent improvement in the codes that we have
1887 seen in recent years, we have seen a reduction of \$44 billion
1888 annually in the energy bills of American families.

1889 The Department of Energy has played a key and critical
1890 role in delivering improvements in the building energy codes,
1891 and we believe that it is imperative that the Department
1892 continue to engage in every step of the code making process,
1893 from development, to adoption, to implementation. The
1894 Alliance, therefore, urges the Committee to strike the
1895 current provisions in Chapter 3 and to replace them with the
1896 building energy code provisions that are contained in the
1897 newly reintroduced McKinley-Welch Energy Savings and
1898 Competitiveness Act. These provisions actually strengthen

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1899 model building codes to make new homes and commercial
1900 buildings more energy efficient, and they also work with the
1901 states and the private sector to improve the transparency of
1902 the code writing process.

1903 The McKinley-Welch bill was carefully developed to
1904 address concerns of both advocates, builders, and code making
1905 bodies. In addition, their bill deals with the up-front cost
1906 of efficiency by ensuring that the upgrades are valued in the
1907 appraisal and the mortgage underwriting process. The
1908 provision, known as the Save Act, enjoys the support not only
1909 of advocates like me, but also of the National Association of
1910 Realtors, the Chamber of Commerce, and many, many others. So
1911 as the Committee continues its work, we urge members to
1912 review the many bipartisan energy efficiency bills that are
1913 emerging, or being reintroduced, and in particular we ask the
1914 Committee to consider not just the building energy provisions
1915 in the McKinley-Welch bill, but all of the provisions in that
1916 bill which have broad-based bipartisan support.

1917 So I commend the Chair and the Committee for seeking to
1918 include energy efficiency as a pillar of national energy
1919 policy, and we are hopeful that, as the Committee continues
1920 its work, the energy efficiency title will be much more--made

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1921 much more robust so we can achieve that goal, and we can
1922 offer, as the Alliance to Save Energy, our full throated
1923 support. Thank you.

1924 [The prepared statement of Ms. Callahan follows:]

1925 ***** INSERT C *****

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|

1926 Mr. {Whitfield.} Well, thank you, Ms. Callahan. I was
1927 wondering why Congressman McKinley was asking us to pay
1928 particular attention to your testimony, but when you refer to
1929 him as a forward-thinking leader, I mean, I understand.

1930 Our next witness is Mr. John Somerhalder, who is the
1931 Chairman and President--President and CEO of AGL Resources,
1932 and he is testifying on behalf of the American Gas
1933 Association. So you are recognized for 5 minutes.

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|

1934 ^STATEMENT OF JOHN W. SOMERHALDER II

1935 } Mr. {Somerhalder.} Thank you. Good morning, Chairman
1936 Whitfield, Ranking Member Rush, and members of the Committee.
1937 Again, I am John Somerhalder, both the past Chairman of AGA,
1938 and Chairman, President, and CEO of AGL Resources. I am
1939 proud that my company serves many of the states represented
1940 on this Committee, including New Jersey, Illinois, Virginia,
1941 Texas, Florida, California, and Maryland. We support the
1942 Committee's discussion draft because it will remove
1943 inappropriate barriers to the use of clean, energy efficient,
1944 cost-effective natural gas.

1945 Gas utilities have shared your focus around greater
1946 energy efficiency for a long time. 68 million residential
1947 gas consumers today use the same amount of gas that 38
1948 million customers used in 1970. Every year gas utilities
1949 spend about \$1.5 billion on energy efficiency, and help
1950 customers save 136 trillion BTUs of energy, and reduce about
1951 7.1 million metric tons of carbon dioxide. We are proud of
1952 what we do as a company as well. Since 2011, our AGL
1953 utilities have invested 108--\$188 million in energy

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1954 efficiency programs. We have helped 45,000 customers
1955 purchase high efficiency furnaces. We have helped save
1956 enough energy to--and natural gas to heat 80,000 homes for a
1957 year, and we have delivered the highest 1 year energy savings
1958 by a gas only utility in the U.S. history just last year.

1959 We support your efforts to find a common sense standard
1960 for residential furnaces. Under DOE's own analysis, only a
1961 third of homeowners will be better off under its proposed
1962 rule, and about a third of low income customers will be worse
1963 off. We think DOE's assumptions are also too rosy. They
1964 don't fully reflect the cost to consumers. Our data shows
1965 that an average customer would be forced to pay an additional
1966 \$350 in the unit cost for the furnace, and an additional
1967 1,500 up to \$2,200 for the installation of that unit. The
1968 Gas Technology Institute predicts that the proposed rule
1969 would impose an additional \$44.9 million in energy costs, and
1970 produce an additional 348,000 tons of CO2 per year. We
1971 cannot support an efficiency standard that imposes higher
1972 costs, requires more energy, and provides more emissions.

1973 Section 4124 of the discussion draft would require DOE
1974 to stop its rulemaking and start a negotiated rulemaking
1975 involving a broader group of stakeholders. As discussed--

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1976 have discussions between AGA and other stakeholders have
1977 shown over the past several months, there are alternatives
1978 that would meet our shared goals for energy savings and
1979 consumer benefits. The negotiated rulemaking process
1980 included in the discussion draft will help us reach that
1981 consensus.

1982 As you know, Section 4115 would repeal Section 430 of
1983 the Energy Independence and Security Act of 2007, a provision
1984 that bans all fossil fuel generated energy use in new and
1985 renovated Federal buildings by the year 2030. The fossil
1986 fuel ban was passed when the government thought U.S. supplies
1987 were dwindling. It had good intentions, but DOE's own
1988 analysis shows the cost to taxpayers would jump from \$30
1989 million today to over 500 million in 2019, and over \$1.1
1990 billion in 2030, almost a 4,000 percent increase from today's
1991 cost. It simply is not practical.

1992 We also support a provision sponsored by Representatives
1993 Blackburn and Schrader, H.R. 1273. Model building energy
1994 codes are developed by private organizations. States and
1995 local governments choose to either adopt the new standards,
1996 or to maintain their current standards. DOE has too often
1997 taken on an inappropriate advocacy role in co-development.

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1998 The provisions would introduce greater transparency in the
1999 Department of Energy's technical support of co-development,
2000 specifically prohibiting DOE funding or personnel from
2001 involvement in any advocacy related to code adoption.

2002 Finally, Section 4142 clarifies that the term of a
2003 utility energy service contract can extend beyond 10 years,
2004 but not exceed 25 years, correcting a Department of Defense
2005 interpretation. A 10 year term severely limits a utility's
2006 ability to help the DOD reach its energy security, energy
2007 efficiency, and renewable energy goals. At AGL Resources, we
2008 understand the importance of these types of projects. Since
2009 2003 we have worked on 10 projects, totaling roughly \$31
2010 million, in Georgia, Virginia, and Florida to provide these
2011 vital energy efficiency programs.

2012 Mr. Chairman, thank you for the opportunity to testify
2013 today. I look forward to questions from the Committee.

2014 [The prepared statement of Mr. Somerhalder follows:]

2015 ***** INSERT D *****

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|

2016 Mr. {Whitfield.} Thank you very much. And our next
2017 witness is Mr. Frank Thompson, who is President of Sweetwater
2018 Builders on--and he is testifying on behalf of the National
2019 Association of Home Builders. And you are recognized for 5
2020 minutes.

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|

2021 ^STATEMENT OF FRANK THOMPSON

2022 } Mr. {Thompson.} Chairman Whitfield, Ranking Member
2023 Rush, members of the Committee, I am pleased to appear before
2024 you today on behalf of the 140,000 members of the National
2025 Association of Home builders, and to testify in support of
2026 the Strategic Petroleum Reserve discussion draft, and Title 4
2027 on energy efficiency. My name is Frank Thompson. I am a
2028 home builder from Western Pennsylvania.

2029 As a longtime leader in the drive to make new and
2030 existing homes more energy efficient, while prioritizing
2031 housing affordability, NAHB, is uniquely positioned to
2032 analyze the impact of this legislation on home building,
2033 remodeling, and rental housing industries. NAHB supports
2034 this discussion draft. Of importance to NAHB, this draft
2035 includes provisions from H.R. 1273, introduced by
2036 Representatives Blackburn and Schrader, that use model
2037 building energy codes to encourage meaningful energy savings
2038 for residential construction that are achievable and cost-
2039 effective.

2040 As a single family home builder in Western Pennsylvania,

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2041 I deal with energy codes, the baseline energy efficiency
2042 requirements for buildings every day, and I understand how
2043 different energy efficient features impact the performance of
2044 a home. I also participate in the development of these codes
2045 because they so intimately affect the way I build. The
2046 earlier versions of these codes focused on consumers, helping
2047 them reduce their utility bills with affordable improvements
2048 to their home. Over the last few years, however, I have seen
2049 negative trends.

2050 First, while it does not write or publish the codes, the
2051 Department of Energy participates in the development of the
2052 codes by providing technical assistance, needed building
2053 science research, energy modeling, and analysis that only DOE
2054 can provide. But NAHB has concerns that technical assistance
2055 has been broadly interpreted to allow representatives from
2056 DOE to advocate for or against certain technologies, picking
2057 winners and losers, and seeking aggressive and costly
2058 requirements.

2059 Another unfortunate trend in energy codes is the failure
2060 to consider the true economic costs when seeking further
2061 energy reductions. We know how valuable the energy savings
2062 are to the consumer, but even with these savings there is a

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2063 significant upfront investment. The 2012 version of the
2064 residential code had such significant cost increases that it
2065 would take the average family 13.3 years to recoup those
2066 costs through utility savings. Some parts of the country,
2067 including the entire State of Kentucky, and parts of
2068 Illinois, saw payback periods in excess of 16 or 17 years.
2069 Meeting an energy code is a requirement for every single
2070 home, including low cost housing--or, excuse me, low income
2071 housing. Increasing housing costs for all homebuyers will
2072 have the unintended consequence of reducing housing
2073 affordability. For every \$1,000 increase in the price of a
2074 home, 246,000 households will be priced out of a mortgage.

2075 This proposed legislation will drastically improve the
2076 manner by which model building energy codes are developed by
2077 establishing guidelines for DOE that increase transparency,
2078 and ensure an open and fair process. This legislation will
2079 also require any code supported by DOE to be cost effective,
2080 allowing homeowners to recoup any investment in 10 years or
2081 less. NAHB strongly supports the discussion draft, and urges
2082 the Committee to swiftly pass this as legislation.

2083 NAHB would also like to weigh in on Section 4124 of this
2084 draft, which addresses a flawed DOE rule on non-weatherized

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2085 gas furnaces included in any final legislation. This
2086 provision would require DOE to convene a representative
2087 advisory group of interested stakeholders to help analyze the
2088 impacts of the proposed rule, and determine whether it is
2089 technically feasible, and economically justified, and if not,
2090 participate in a negotiated rulemaking.

2091 I thank you for this opportunity, and welcome your
2092 comments.

2093 [The prepared statement of Mr. Thompson follows:]

2094 ***** INSERT E *****

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|

2095 Mr. {Whitfield.} Thank you, Mr. Thompson. And at this
2096 time our next witness is Elizabeth Noll, who is an energy
2097 efficiency advocate for the Natural Resources Defense
2098 Council, and you are recognized for 5 minutes.

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|

2099 ^STATEMENT OF ELIZABETH NOLL

2100 } Ms. {Noll.} Thank you, Mr. Chairman. Mr. Chairman,
2101 members of the Subcommittee, thank you for the opportunity to
2102 participate in today's hearing. My name is Elizabeth Noll.
2103 I am an energy efficiency advocate at the Natural Resources
2104 Defense Council, here to share our views on national policies
2105 and programs that lead to increased investments in energy
2106 efficiency.

2107 What would you say if I told you today we can save
2108 Americans money, promote job growth, cut pollution, with a
2109 solution that is affordable, easy to implement, proven
2110 effective, and what your constituents want? That solution is
2111 energy efficiency. And states across the country are seeing
2112 job growth, broad public support for energy efficiency. Take
2113 Illinois, 2/3 of clean energy jobs--clean energy workers are
2114 employed in energy efficiency, and a recent poll showed 70
2115 percent of likely voters strongly support increased energy
2116 efficiency to meet the state's energy needs.

2117 In state after state, support for using efficiency to
2118 meet future energy needs is the same or higher.

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2119 Pennsylvania, 97 percent, Virginia, 95 percent, Ohio, 94
2120 percent, and Michigan, 92 percent. Meanwhile, Federal
2121 programs, like the Department of Energy's Appliance
2122 Efficiency Standards Program, first authorized by Congress in
2123 1987, will save American 1.8 trillion on their utility bills
2124 through 2030, and just last year those standards avoided more
2125 pollution as comes from nearly 500 million cars.

2126 Let me take a moment now to thank the Committee for
2127 their leadership in helping pass the Energy Efficiency
2128 Improvement Act of 2015 just last week. It shows once again
2129 that efficiency has bipartisan support. And let us not
2130 forget that Ronald Reagan signed the first efficiency standard
2131 legislation almost 30 years ago. The bill now on the
2132 President's desk was a good start, but we must go further.
2133 Every American home, building, and appliance that we make
2134 more efficient saves money, cuts pollution, and moves our
2135 nation closer to a more sustainable and prosperous future.

2136 Some of the provisions before you today will bring
2137 energy savings to your constituents, and others will increase
2138 the Federal Government's leadership, leading to innovation in
2139 the private sector as well. However, I would like to
2140 highlight three troubling provisions that we would strongly

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2141 oppose, which are further detailed in my written testimony.

2142 First, Section 4124 would block the Department of Energy
2143 from finalizing a much needed update to the efficiency
2144 standards for non-weatherized gas furnaces. If Congress
2145 blocks the standard, it will only hurt your constituents,
2146 especially moderate and low income families struggling to pay
2147 their energy bills. As proposed in March, these standards
2148 would save the average consumer \$600 over the life of the
2149 furnace. Renters, who are often low income customers,
2150 especially benefit from minimum standards. Without an
2151 improved standard, property owners are likely to continue to
2152 buy cheaper, less efficient models, which means higher bills
2153 for those tenants. Congress needs to strengthen existing
2154 programs and policies, not delay or weaken them.

2155 Next, Section 4115 is counterproductive to cutting
2156 pollution in Federal buildings. Phasing out fossil fuels has
2157 enormous potential to reduce pollution, and that is a place
2158 where the Federal Government can show leadership, and
2159 leverage the enormous benefit of efficiency to reduce the \$6
2160 billion it spends on its own buildings. And finally, Section
2161 4131 would hamstring the process for adopting model building
2162 energy codes that deliver valuable savings for homeowners and

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2163 renters in your districts, and across the nation. Smart
2164 Federal policies are essential to achieving the energy
2165 efficiency progress that consumers want, and America needs.
2166 And we want--and we know manufacturers will continue to
2167 innovate and rise to meet these efficiency standards, while
2168 delivering the same or better performance and options, as
2169 they have done.

2170 In closing, Congress should reject any proposal to
2171 delay, weaken, or repeal the clean energy programs that have
2172 proven effective, and instead continue passing meaningful
2173 energy policies that Americans want. Thank you.

2174 [The prepared statement of Ms. Noll follows:]

2175 ***** INSERT F *****

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2176 Mr. {Whitfield.} Thank you. And our next witness is
2177 Ms. Rona Newmark, who is Vice President, Intelligent
2178 Efficiency Strategy at EMC Corporation, and she is testifying
2179 on behalf of the Information Technology Industry Council.
2180 And you are recognized for 5 minutes, Ms.--

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|

2181 ^STATEMENT OF RONA NEWMARK

2182 } Ms. {Newmark.} Chairman Whitfield, Ranking Member Rush,
2183 and members of the Committee, thank you for inviting the
2184 Information Technology Industry Council, also known as ITI,
2185 to testify today on the important issue of energy efficiency
2186 legislation, and specifically the Energy Efficient Government
2187 Technology Act. I am EMC's Corporation--EMC Corporation's
2188 Vice President of Intelligent Energy Efficiency Strategy.
2189 EMC is a leading IT company providing products and services
2190 to enable customers to move to cloud computing, and to gain
2191 value through analysis of big data, all within trusted
2192 computing environments. The company is headquartered in
2193 Massachusetts, and supports a broad range of customers.

2194 At EMC I am charged with reviewing EMC's products and
2195 strategies in the areas of energy efficiency and energy
2196 efficiency standards. I also help lead efforts within the
2197 company, and the industry, to view efficiency at a system
2198 level to provide the best net energy savings to accomplish
2199 particular results.

2200 As you know, ITI is the global voice of the technology

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2201 sector. The 60 companies in ITI are leaders and innovators
2202 in information and communications technology, including
2203 hardware, software, and services. These companies, including
2204 my own, are committed to innovation, to developing the energy
2205 efficient solutions demanded by our customers, and to helping
2206 drive sustainable economic growth, and energy independence
2207 across our nation's economy. ITI has had a fruitful history
2208 of working with the Committee on energy efficiency and
2209 productivity. Enactment of the bipartisan Energy Efficient
2210 Government Technology Act, Sections 4111 and 4112 of the
2211 discussion draft would be another important milestone in this
2212 regard. EGTA is not a regulatory approach. Rather, ITI
2213 believes the Federal Government can be a useful partner and
2214 leader in leveraging information and communications
2215 technology for increased energy efficiency and productivity,
2216 giving taxpayers improved ROI.

2217 Data centers and the Internet of things will be
2218 essential to future U.S. sustainable growth. We are only
2219 beginning to learn what opportunities lie ahead for smarter
2220 buildings, smarter manufacturing, and smarter transportation
2221 systems, not to mention the smarter fill in the blank we have
2222 yet to invent. EGTA recognizes this, and emphasizes the

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2223 right role for the Federal Government in encouraging further
2224 progress and innovation. ITI thanks Representatives Eshoo,
2225 Kinzinger, Welch, McKinley, and Tonko for introducing EGTA
2226 again this year. We also thank the Committee for EGTA's
2227 inclusion within the discussion draft as Sections 4111 and
2228 4112, and we strongly urge EGTA's adoption this year.

2229 Thank you. I look forward to answering your questions.

2230 [The prepared statement of Ms. Newmark follows:]

2231 ***** INSERT G *****

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|

2232 Mr. {Whitfield.} Ms. Newmark, thank you. And our next
2233 witness is Mr. Mark Wagner, who is Vice President and U.S.
2234 Government Relations for Johnson Controls, and he is going to
2235 be testifying on behalf of the Federal Performance
2236 Contracting Coalition. And you are recognized for 5 minutes.

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|

2237 ^STATEMENT OF MARK WAGNER

2238 } Mr. {Wagner.} Thank you, Mr. Chairman, Mr. Rush, and
2239 members of the Committee. I am Mark Wagner of Johnson
2240 Controls, and representing 10 energy service companies that
2241 form the Federal Performance Contracting Coalition. We work
2242 to help the Federal Government reduce energy consumption
2243 through energy saving performance contracts, or ESPCs. I
2244 would like to briefly discuss the benefits of ESPC, and
2245 outline our coalition's support for pending legislation that
2246 would improve the program.

2247 ESPCs are a tremendous tool for the Federal Government
2248 because agencies can get energy efficient equipment, such as
2249 new lighting, building controls, HVAC equipment, chillers,
2250 boilers, renewable energy assets, at no upfront cost to the
2251 government. The energy service companies leverage private
2252 sector capital to make the investment. We design and install
2253 the equipment, and put in place a plan to measure and verify
2254 the savings.

2255 Three important parts of this deal. As you can see from
2256 the slide, first the agency gets a facility upgrade, with new

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2257 building equipment, and they lower their energy consumption.

2258 Second, the agency pays off the investment with the savings

2259 on its utility bill, but never pays more than it was already

2260 paying for its utilities. Thirdly, then it realizes all the

2261 savings after the investment is paid off. Most importantly,

2262 these savings are guaranteed by the energy service company.

2263 Let me give you an example of an ESPC project that

2264 Johnson Controls is doing at Fort Bliss in Texas. We have

2265 installed building controls at 120 buildings, put in energy

2266 efficient lighting, electric motors, chillers, building

2267 insulation, and a 4.7 megawatt photovoltaic array with 5,500

2268 solar panels. It is a \$100 million investment of private

2269 sector capital which will save the installation \$150 million.

2270 We are also working with the base on technology for a micro-

2271 grid to improve energy security in the event of an adverse

2272 occurrence on the grid. This is just one example of the many

2273 ESPCs that provide multiple benefits to the Federal

2274 Government, and to taxpayers. ESPCs are a well-established

2275 program. According to the Department of Energy,

2276 approximately 600 performance contracts, worth \$5.3 billion

2277 of investment, have been awarded to 25 agencies in 49 states,

2278 with a net savings of \$3 billion to the Federal Government.

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2279 Let me now talk about several legislative provisions
2280 designed to improve the ESPC program. We have been very
2281 supportive of the energy savings through Public-Private
2282 Partnership Act of 2015 that was introduced by
2283 Representatives Kinzinger and Welch, thank you very much.
2284 This legislation will ensure that the Federal agencies are
2285 utilizing, to the fullest extent possible, all cost effective
2286 measures for energy conservation measures. It streamlines
2287 the ESPC statute, providing consistency and clarification,
2288 and it promotes transparency and accountability across the
2289 government. This is now Section 4141 of your bill.

2290 Specifically, it would require reporting on the progress
2291 of ESPCs. It would encourage agencies to act on their
2292 required audits. It would clarify that agencies cannot
2293 arbitrarily limit the terms and use of energy related
2294 operation and maintenance savings. It would make the
2295 definition of Federal buildings consistent with provisions in
2296 the law, and it would clarify other important provisions for
2297 ESPC, such as the sale, transfer of energy incentives,
2298 rebates, or credits, as well as the type of projects for
2299 which ESPC can be used. These are all important details to
2300 update and clarify the existing statute, which will make

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2301 ESPCs an even more powerful tool for the Federal Government.

2302 In addition, we support clarifying the use of ESPC for
2303 energy--for efficiency gains in data centers, which are
2304 extremely energy intensive. We are supportive of the repeal
2305 of the Federal building fossil fuel reduction, as long as it
2306 is packaged together with extended energy efficiency goals
2307 for the government, which currently expire at the end of this
2308 year. We are supportive of long term utility energy service
2309 contracts, as long as they include measurement and
2310 verification of energy savings, as well as guarantee or
2311 assurance of savings.

2312 Other important provisions that we hope the Committee
2313 will consider, in--Section 432, changing may to shall
2314 showing--would encourage--would ensure that the government
2315 would act on cost-effective savings, extending energy
2316 efficiency goals for the Federal Government, which expire at
2317 the end of this year, as I mentioned, ensure that agencies
2318 set ESPC goals on an annual basis, and report on their
2319 progress, and add alternatively fueled vehicles in their
2320 infrastructures measures allowed under ESPCs.

2321 Finally, many of you are aware that the Congressional
2322 Budget Office scores any attempt to update the ESPC statute.

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2323 Members of this--members of the Energy and Commerce Committee
2324 have tried to resolve the situation, and we are appreciative
2325 of that. The Senate budget contains a fix to the scoring
2326 problem for the Senate--in Senate legislation. We encourage
2327 the House to continue to pursue annualized scoring for ESPC
2328 to fix the CBO scoring problem.

2329 Thank you for your support of ESPC, and the opportunity
2330 to testify today.

2331 [The prepared statement of Mr. Wagner follows:]

2332 ***** INSERT H *****

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|

2333 Mr. {Whitfield.} Thank you, Mr. Wagner. Thank all of
2334 you for your testimony, we appreciate it very much. And I
2335 will recognize myself for 5 minutes of questions.

2336 As you know, we have this draft legislation, and we hear
2337 a lot in Congress today around the country about lack of
2338 bipartisanship. In this bill, there are 14 titles in the
2339 energy title of this bill--or 14 sections, and on 12 of those
2340 sections we do have Democratic support. So the three areas
2341 that there is not agreement on relates to the furnaces,
2342 relates to the fossil fuel, and relates to the building
2343 codes. Now, if you have bipartisanship for 12 out of 14
2344 titles, that is pretty good, I would say. So I want to
2345 address those three areas that there is some disagreement on,
2346 and I want to tell you why we put those in there.

2347 I think Mr. Thompson, Mr. Somerhalder, and Mr. Peel all
2348 touched on it, but first we will focus a little bit on Mr.
2349 Thompson's remarks. DOE, obviously, has been a leader in
2350 recommending and promoting efficiency, and originally they
2351 were really good at providing technical assistance. But many
2352 people around the country, I don't care where you live, or
2353 where--what part of the country you live in, are saying, you

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2354 know, they were becoming more of an advocate. They are
2355 getting closer to dictating and saying what will and will not
2356 be done.

2357 And one example of that was the--recently they came out
2358 with the standards on the hot water heaters that were being
2359 used in demand response programs by rural electric
2360 cooperatives around the country. And the cost was--would
2361 double under those standards, so Congress came together and
2362 delayed the implementation until some further refinements
2363 could take place. That passed the House, passed the Senate,
2364 sent to the President. Now we are hearing the same thing
2365 about furnaces. And we all know that efficiency--I mean, we
2366 all know this, that, you can promote good jobs because you
2367 promote industries to manufacture new products that are
2368 better, you save energy costs, you help improve the
2369 environment.

2370 But if you also are significantly increasing the upfront
2371 cost, the furnaces--I hear you are talking about \$600, but
2372 then installing it is even more. So, you know, we are just
2373 trying to buy a little balance here. I don't think DOE, as
2374 much as they have expertise, they don't have all of the
2375 answers, and so that is why we are having these hearings. And

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2376 manufacturers--I mean, it really creates--and you, Mr. Peel,
2377 in your testimony you were asking--you were saying we need
2378 Congressional intervention here. And I think you
2379 specifically talked about 23 new regulations coming by EPA in
2380 appliance sector. Would you elaborate on that a little bit,
2381 about what it does mean to you and your employees?

2382 Mr. {Peel.} Well, first of all, we have had some
2383 positive experiences along the way with DOE when we go
2384 through a process that involves stakeholder input along the
2385 way, and we have got recent examples of that as well. We
2386 also appreciate that the DOE is under pretty intense pressure
2387 to complete a bunch of regulations in a compressed timeframe.
2388 The unfortunate consequence for manufacturers is we have to
2389 react to those. One makes the rules, the other has to
2390 implement the rules.

2391 So the important thing for us is to be at the table, and
2392 make sure that that information, if there are challenges, for
2393 example, on gas furnaces, that those get brought to bear in
2394 the discussions, and that we end up with what is the best
2395 overall solution--

2396 Mr. {Whitfield.} Right.

2397 Mr. {Peel.} --for the industry, for consumers, and they

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2398 make sense economically.

2399 Mr. {Whitfield.} And you think that this draft, with
2400 the advisory council, basically does provide that additional
2401 protection--

2402 Mr. {Peel.} I do.

2403 Mr. {Smith.} --and input? Which should benefit
2404 everyone in America that certainly has to buy an appliance.

2405 Mr. Thompson, the building codes, would you elaborate
2406 just a little bit on why this building code issue is so
2407 important?

2408 Mr. {Thompson.} I think there are several important
2409 factors, and it starts with creating model building codes
2410 that are affordable and adoptable by states. And we are
2411 seeing continued growing resistance by states to adopt
2412 building codes. If we look at a map, and I think that was
2413 included in my written testimony there, we see about 1/3 of
2414 the states that have adopted the 2012 or 2015 IECC, about 1/3
2415 on 2009--2006 and earlier, or they don't have a state energy
2416 code.

2417 Much of the discussion is about the cost increases that
2418 come along with adopting those codes, and so we do need to
2419 strike a balance that represents the significant impact that

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2420 these codes have on housing affordability, the 10 year
2421 requirement that would be included in the bill, with also the
2422 3, 5, and 7 year analysis would go a long way to providing
2423 transparency in the process as to what the real simple
2424 payback cost is going to be to people. Get states to have
2425 codes presented before them that they can adopt, and then we
2426 can also talk about the compliance component, which DOE is in
2427 the midst of a pilot program currently that will start to
2428 help us better understand just what true rates of compliance
2429 we have, and that perhaps there is a significant amount of
2430 energy to be saved by increasing those compliance rates, and
2431 focus on that.

2432 Mr. {Whitfield.} And you all do support the building
2433 code section that is in this draft?

2434 Mr. {Thompson.} Absolutely.

2435 Mr. {Whitfield.} Okay. And I know my time is expired,
2436 but one other thing I just want to mention. We have many
2437 members of Congress that are really focused on energy
2438 efficiency. Peter Welch has been one of those. David
2439 McKinley has been one of those. And we do want to come up
2440 with a good product here, but we want some balance as well.

2441 At this time I recognize the gentleman from Illinois for

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2442 5 minutes.

2443 Mr. {Rush.} I want to thank you, Mr. Chairman. Mr.
2444 Chairman, one of the more contentious issues before us today
2445 that has been included in this discussion draft, as you well
2446 know, is Section 4124, which would prohibit the Department of
2447 Energy from promulgating a final rule amending efficiency
2448 standards for non-weatherized gas furnaces and mobile home
2449 furnaces. Mr. Chairman, my office has held several meetings
2450 with stakeholders on both sides of this issue, and I think it
2451 would be most beneficial for members to hear directly from
2452 DOE on these issues, and other issues, before we settle on
2453 language in any final draft.

2454 Today, however, we have some of the interested
2455 stakeholders that have been taking part in discussions with
2456 DOE to try and build consensus and come up with language that
2457 all sides could agree with, as was done in previous cases,
2458 including most recently the water heaters provision that
2459 Congress passed just last week with bipartisan support. As I
2460 understand it, Mr. Chairman, the language in today's
2461 discussion draft has not been agreed to by the very
2462 stakeholders, and the conversation is continuing.

2463 My view is that there would be a much better chance of

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2464 getting bipartisan support for Section 4124--4121 if the
2465 interested parties would follow the example set by the Water
2466 Heaters Coalition and come up with language that DOE,
2467 industry, energy efficiency advocates, and consumer groups
2468 could all support.

2469 With that, Mr. Chairman, I have a couple of questions
2470 that I want to ask both Mr. Somerhalder and Ms. Noll. To the
2471 both of you, we have received conflicting testimony from the
2472 two of you regarding the impact that this rule would have on
2473 low income consumers. Mr. Somerhalder, can you give us your
2474 perspective on this issue, and then I would like to hear from
2475 Ms. Noll for your perspective as well.

2476 Mr. {Somerhalder.} Yes. Ranking Member Rush, what we
2477 see from our customers, and--low income customers is the
2478 decision to repair, replace their furnaces, when they make
2479 those decisions, if they have limitations in their ability to
2480 use an 80 percent versus a 92 percent furnace, because of
2481 venting requirements, and other requirements that are unique
2482 to the higher efficiency furnaces, they have to make a tough
2483 decision about what to do. That can be everything from not
2484 replace, to use electric resistance heaters, or some other
2485 form of heating.

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2486 So what we see is that, because of the limitations,
2487 there can be a decision to go with a product that is more
2488 costly, if they do replace this. I mean, you heard the
2489 numbers of \$350 more for the unit itself, up to around \$2,000
2490 to install that won't pay off because of the use of energy,
2491 and how quickly that would pay off. And the end result is
2492 they either would need to make a decision to replace a unit,
2493 and then incur higher costs, or they make it--may make a
2494 decision to switch to another form of energy that is less
2495 cost effective, and could produce more emissions. So we do
2496 see that impacting the low income--

2497 Mr. {Rush.} Ms. Noll, would you respond, please?

2498 Ms. {Noll.} Yes. Thank you, Mr. Rush. First I would
2499 like to begin by saying that all Americans benefit from
2500 standards, particularly the low income, who oftentimes are
2501 renters, and pay their--the higher portion of their energy
2502 bill, and the property owner is the one that is choosing the
2503 furnace, or the water heater, whatever appliance is going
2504 into that home.

2505 I would also like to say that this is a proposal right
2506 now. It has tremendous benefit in energy savings, in
2507 consumer savings, and environmental benefit, and that we

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2508 recognize a small percentage of installations that would face
2509 challenges, and incur a higher cost. But we have also seen
2510 that, just in this last year, new technologies and solutions
2511 have entered into the market, and helped overcome these
2512 challenges. And as we see those increasingly deployed, we
2513 think that that has a great opportunity to help provide
2514 solutions to these customers that are going to be facing
2515 these challenges.

2516 So we think, you know, the Department needs to move
2517 forward with their open and transparent process, and get
2518 input from stakeholders on this rule, and find ways of making
2519 it even better. And I think that, from our perspective, this
2520 is not an either/or situation, this is an and/also. We also
2521 support the great utility programs, and the state programs,
2522 and bolstering those programs to help these vulnerable
2523 populations get into the high efficiency furnaces, have
2524 improved weatherization that is going to have benefits to
2525 them, and improved comfort, and improved indoor air quality.

2526 And we commend the gas utilities, like AGL Resources and
2527 others, that have--that serve their customers well through
2528 these utility programs. And those are the kind of things
2529 that complement the minimum standards, and ensure that all

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2530 Americans have at least a minimum level of cost-effective
2531 efficiency that will serve them, and they can count on.
2532 Thank you.

2533 Mr. {Rush.} Mr. Chairman, I yield back.

2534 Mr. {Olson.} As fate would have it, I have the gavel at
2535 the time I am speaking, so I give myself 5 minutes for a
2536 couple of questions.

2537 My first one is for you, Mr. Somerholder. One provision
2538 of the discussion draft would scrap Section 433 of the Energy
2539 Independence and Security Act. It would allow Federal
2540 buildings to use fuels like natural gas until 2030, something
2541 currently being phased out. In essence, current law bans one
2542 of our most efficient and affordable resources of energy
2543 right now. Can you talk about some benefits that we would
2544 lose if natural gas is phased out from Federal buildings, and
2545 do you believe that tackling Section 433 is important?

2546 Mr. {Somerhalder.} We believe the provision to reduce
2547 433 is very important, because natural gas is American, it is
2548 affordable, as you pointed out, and it is very efficient.
2549 Heating a building, as an example, with a high efficiency
2550 furnace, or an 80 percent efficiency furnace, is a very
2551 efficient way to heat that building, with very affordable

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2552 natural gas, American natural gas. So the ability to use
2553 natural gas, not limit that option, does provide customer
2554 benefit, savings in those buildings, savings for taxpayers.
2555 So we very much support a way to continue to use clean
2556 American natural gas in Federal buildings.

2557 Mr. {Olson.} Thank you. Next question is for you, Mr.
2558 Thompson. As you know, the draft bill touches on the issue
2559 of DOE's involvement in model building codes. The draft
2560 talks about transparency and about public comment. I am
2561 interested in your thoughts about--on how we reach consensus
2562 there. What caught my attention, though, was the issue of
2563 payback periods and cost effectiveness. Before the private
2564 sector even thinks about making an investment, pardon me,
2565 they have to know when, and if, they would get into the
2566 black. I have heard some complain that this isn't always
2567 true with energy savings. I would like to talk to you about
2568 the cost and benefits.

2569 Again, Mr. Thompson, today's draft bill says that when
2570 DOE supports a change to the model building code, that change
2571 must pay itself back in under 10 years. Do you think that is
2572 important, and is that realistic?

2573 Mr. {Thompson.} Thank you for that very thoughtful

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2574 question. I think it is absolutely important, and if we
2575 intend to move families from less energy efficient homes to
2576 more energy efficient homes, we need to do it in a way that
2577 is affordable to them. And in a number of polls that have
2578 been conducted, and one in particular by the National
2579 Association of Home Builders, it really tried to identify, by
2580 demographic groups, how long they were willing to wait for a
2581 payback of that investment. All of them fell short of the 10
2582 year requirement. So it is a bit of a stretch, from a home
2583 buyer perspective, to be willing to wait that long to get a
2584 simple payback on their investment there.

2585 If we are going to continue to drive people to more
2586 energy efficient homes, let us remember we need
2587 affordability. And this is in a marketplace that is
2588 currently very limited by financial limitations on
2589 qualifications to buyers, and limitations on appraisals, and
2590 how they recognize the values of energy efficient
2591 improvements to that home.

2592 Mr. {Olson.} Thank you. Mr. Peel, to follow up on
2593 that, do you think the government has done a good job of
2594 considering whether energy efficiency standards are cost
2595 effective? If not, what can improve that process?

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2596 Mr. {Peel.} I think the results are mixed. I think we
2597 have seen some good analysis, and we would agree--and those
2598 have made it through the process through a collaborative
2599 effort, and many of them signed into law. We also see, with
2600 the furnace rule that is on the table today, some differences
2601 in views around what the actual costs would be, and what the
2602 payback periods would be. Again, all we are asking for here
2603 is a seat at the table so we can openly discuss those issues,
2604 make sure everyone is aware, and build the consensus that we
2605 think we can get on this.

2606 Mr. {Olson.} So the--is a seat at the table, not some
2607 law or parts of the bill, but just to actually have some
2608 voice in this process? That is what you would be happy with?

2609 Mr. {Peel.} Yes. Yes, Congressman.

2610 Mr. {Olson.} And my final question again is for you,
2611 Mr. Somerhalder. There seems to be a great deal of concern
2612 about DOE's gas furnace rule. A number of groups say it is
2613 too expensive and hard to meet, and this is an issue we
2614 touched in today's discussion draft. Are there some ways we
2615 can avoid conflicts like this in the future?

2616 Mr. {Somerhalder.} We agree that there are benefits to
2617 reach consensus on this, because we all do want higher energy

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2618 efficiency as we move forward. We need to do that in a way
2619 that is not only affordable, but we need to do that in a way
2620 certain customers really can't even convert because they
2621 don't have access to side walls for the venting requirements.
2622 And products are becoming available, but there are still
2623 limitations to how those products can be used. So we
2624 absolutely need to work together to come to consensus so that
2625 all the customers can find a way to continue to lower their
2626 costs, and to help improve the environment. So we very much
2627 support a consensus process. As Mr. Peel has pointed out, we
2628 have had good success with that in the past. There are
2629 certain pieces of information that need to be considered now,
2630 and we will be able to find a way, we believe, to reach
2631 consensus.

2632 Mr. {Olson.} Well, thank you. My time has expired. We
2633 now recognize Mr. Tonko from New York for 5 minutes.

2634 Mr. {Tonko.} Thank you, Mr. Chair. I am often stating
2635 that energy efficiency should be recognized as our fuel of
2636 choice, so I was very pleased when I heard that the Committee
2637 would be legislating in this area. But this draft, I have to
2638 state, is a real disappointment. There are a few worthy
2639 provisions, but there are many others that undermine advances

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2640 that we should be taking in efficiency.

2641 The provision on DOE's pending gas furnace rule in the
2642 discussion draft is of great concern to me. About 40 percent
2643 of the energy delivered to the residences is used for space
2644 heating, and natural gas and propane furnaces account for
2645 nearly 1/2 of that. It may be higher now, since prices may
2646 have enticed some to switch heating fuels. Either way, that
2647 is a lot of energy, and gas prices may be low now, but
2648 experience tells us that is likely to change.

2649 So DOE's new rule on gas furnaces would save consumers a
2650 great deal of money on their annual outlays for fuel costs,
2651 and the furnaces that deliver these savings are already on
2652 the market, and make up a significant part of the current
2653 furnace market. The comment period is still open, and this
2654 rule appears to be well justified, very well justified. I am
2655 not persuaded there is any reason to delay these standards.

2656 So, Mr. Peel, you state that DOE's rule is based on, and
2657 I quote, ``errors involving economic assumptions and
2658 technical issues''. But later in your testimony you cite
2659 DOE's analysis in support of your position that this rule
2660 should be delayed. Do you have information other than DOE's
2661 analysis that supports your position that ``the additional

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2662 cost of installation cannot be economically justified''?

2663 Mr. {Peel.} I do have access to information. I don't
2664 have it here today. I used DOE's numbers as a conservative
2665 estimate. They are consensus numbers from--DOE would agree
2666 to those numbers. There are concerns beyond just the
2667 payback. The install--the installation complexity is a big
2668 issue as well. These are all issues that we would bring to
2669 the table in a consensus building session.

2670 So, once again, to reiterate, we are not opposed to
2671 energy efficiency increases for weatherized gas furnaces. It
2672 is--we want to make sure that the realities of the market are
2673 understood when we set these standards. So, for example,
2674 most appliances have a range of efficiencies that you can
2675 progress through, a continuum. Gas furnaces actually change
2676 technology between 80 and 90 percent, and so it is actually a
2677 different installation. It is not like installing a more
2678 efficient air conditioner, which is very similar to
2679 installing a less efficient air conditioner.

2680 So those are the kind of things that we want to be
2681 communicating with the DOE and other stakeholders to make
2682 sure that it is understood so we can really understand what
2683 the payback numbers are. And my feeling is that, with the

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2684 data we have, with the data DOE has, and other data that we
2685 have heard today, somewhere in there lies the answer. And--

2686 Mr. {Tonko.} Okay.

2687 Mr. {Peel.} --getting together to communicate it is the
2688 key.

2689 Mr. {Tonko.} Well, I would appreciate you sharing any
2690 of that information with the Committee. These are durable
2691 goods. They last a long time, and I think we should
2692 implement standards that save energy at this level as early
2693 as possible. And given these furnaces, as I stated, are
2694 already in the market, there are clearly possible savings
2695 there.

2696 To Ms. Noll and Ms. Callahan, there seems to be some
2697 disagreement about the provision of this bill on building
2698 standards. Again, residences and commercial buildings stand
2699 for a long time. Is the provision on building codes
2700 consistent with having DOE do all it can to support the
2701 adoption of progressive building codes for energy efficiency?

2702 Ms. {Callahan.} You want me to go first?

2703 Mr. {Tonko.} Sure--

2704 Ms. {Callahan.} Thank you--

2705 Mr. {Tonko.} --please.

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2706 Ms. {Callahan.} --Congressman, I appreciate that
2707 question. Let me say, as I said in my testimony, that we
2708 believe that the building code provisions that are in the
2709 bill currently should be struck. And I have an easy answer
2710 for the Ranking Member of where you find bipartisan agreement
2711 on building energy codes that will provide more transparency,
2712 and will ensure that DOE plays an appropriate, and a strong
2713 role in delivering its model energy codes, and that is the
2714 bill by Mr. McKinley and Mr. Welch. We have negotiated those
2715 provisions over a number of years to address the concerns of
2716 the stakeholders, and the concerns of builders, and the
2717 concerns of all the folks that are involved in this process.
2718 So we think that is where you can get broad bipartisan
2719 support.

2720 I want to address a couple of points, I think, where
2721 there is perhaps some obfuscation in the testimony that you
2722 have heard. Model energy codes are not set by DOE. They are
2723 set by independent code making bodies. These are people from
2724 all across the United States, city officials, builders like
2725 Mr. Somerhalder--or Mr. Thompson, excuse me, code officials,
2726 elected officials. They come together, and they establish
2727 the code. Once that code is established, DOE certifies it,

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2728 if it saves energy, and then the states adopt it, and the
2729 localities implement and enforce the codes. So I think that
2730 that, you know, that process, DOE has played an incredible--
2731 important role, but they cannot control the process. It is
2732 handled in other places.

2733 I also want to state that 39 states right now already
2734 the--either the 2009, the 2012, or the 2015 code in place.
2735 This is working. And with respect to the longtime--the
2736 simple payback, I think one thing that is very important to
2737 note, NAHB's own surveys show that nine out of 10 Americans
2738 will pay two to three percent more so--for energy efficiency
2739 home--energy efficient homes. That translates on a \$100,000
2740 home to \$2,000.

2741 Most people mortgage their homes, and so when they add
2742 in the efficiency upgrade to that mortgage, it is 30 years to
2743 pay it off. And the savings that they get on their energy
2744 bill day one, when they move in, are greater than that
2745 additional cost. So I think that this, you know, this is--
2746 the codes are there, the codes need to keep going. Thank
2747 you.

2748 Mr. {Whitfield.} Gentleman's time has expired.

2749 Mr. {Tonko.} We wanted to hear from Ms. Noll, though.

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2750 It was addressed to both.

2751 Mr. {Whitfield.} All right, go ahead.

2752 Mr. {Tonko.} If we could, please?

2753 Ms. {Noll.} I will be very brief. I would just say
2754 that we achieve better model codes when the Department of
2755 Energy is able to contribute their expertise, and these model
2756 codes do increase the efficiency that can save Americans an
2757 enormous amount of money in the homes of--in our nation.

2758 Mr. {Tonko.} I thank you for that, and Mr. Chair, as I
2759 yield back, I suggest that we have got a ways to go before we
2760 live up to the title of our bill. And with that I yield
2761 back.

2762 Mr. {Whitfield.} At this time I recognize the gentleman
2763 from Ohio, Mr. Latta, for 5--

2764 Mr. {Latta.} Well, thank you very much, Mr. Chairman,
2765 and, again, I appreciate the panel for being here today, and
2766 I also appreciate the Chairman for including two of my bills
2767 in this efficiency discussion draft, the Energy Star Program
2768 Integrity Act and the Voluntary Verification Program Act.
2769 Both of these bill--pieces of legislation will help
2770 manufacturers and consumers, while strengthening the Energy
2771 Star program. I would also like to ask the Chairman for

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2772 unanimous consent to enter into the record two letters in
2773 support of the Energy Star program--the Energy Star Program
2774 Integrity Act, one from the U.S. Chamber of Commerce, and the
2775 other from the Retail Industry Leaders Association.

2776 Mr. {Whitfield.} Without objection.

2777 [The information follows:]

2778 ***** COMMITTEE INSERT *****

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|

2779 Mr. {Latta.} Thank you, Mr. Chairman. I appreciate
2780 that.

2781 Mr. Peel, if I could ask, why does the AV--IVP give you
2782 more predictability than a DOE run program?

2783 Mr. {Peel.} There are really three reasons why the IVP
2784 helps us. The first is that the predictability you mentioned
2785 is all about consistent funding. We know, as an industry, we
2786 are going to fund the program year over year. It is not
2787 subject to budget cuts, or other DOE priorities, so we can
2788 count on resources being available to test our equipment to
2789 make sure that it complies with energy efficiency
2790 regulations.

2791 It is also cost effective. There is no taxpayer burden
2792 for this, and it has been proven effective. We have been
2793 doing it for 50 years, and we get better and better and
2794 better at it. It would be very difficult to duplicate. And
2795 what makes it work so well is that competition is the driver,
2796 is what keeps it--keeps the integrity of the program. Each
2797 manufacturer competes with each other, but it is a common
2798 system that allows us to verify that everyone plays on a
2799 level playing field, and abides by the rules.

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2800 Mr. {Latta.} Thank you. And, Ms. Callahan, if I could
2801 ask that--why do you believe the Energy Star Integrity Act,
2802 which the gentleman from Vermont and I introduced, is
2803 important?

2804 Ms. {Callahan.} Well, the Energy Star program itself
2805 is very, very important. It has proven very effective in
2806 saving consumers money, and in drawing in investment from
2807 manufacturers, bringing new technologies forward. We are
2808 concerned that if there is a continuation of class action
2809 suits that are not necessary, in our opinion, that that will
2810 cool the sort of fervor of manufacturers for participating in
2811 this very important program. And the savings that have been
2812 coming through it since inception in the '90s are very, very
2813 significant, and we have got great consumer products now with
2814 the Energy Star label, and we don't want to see that program
2815 diminish in any way.

2816 Mr. {Latta.} I just want to follow up, I want to make
2817 sure I heard that correctly, that without the Energy Star
2818 Integrity Act, that--you believe that the manufacturers would
2819 stop participating?

2820 Ms. {Callahan.} I don't know that--whether they would
2821 stop or not, but I think certainly it is--it would be an

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2822 impediment to them to continue because of the extra cost, and
2823 the risk involved. So I wouldn't say that it would stop all
2824 manufacturers, but I certainly think that it would cool their
2825 attraction to the program, and cause some concern.

2826 Mr. {Latta.} And let me just follow up briefly, then,
2827 also, do you think that the Act would prohibit all lawsuits
2828 against non-compliant Energy Star products?

2829 Ms. {Callahan.} Absolutely not. I mean, it is very
2830 narrowly crafted so that if a product has been certified, and
2831 then found not to be in compliance, and there are corrective
2832 measures put forward by EPA, and those corrective measures
2833 are taken, that is where the protection comes. But if
2834 somebody is not in compliance, if somebody is not following
2835 the EPA guidelines, and refusing to cooperate, and come under
2836 the framework of EPA, they could still be sued.

2837 Mr. {Latta.} Thank you very much, Mr. Chairman. I will
2838 yield back.

2839 Mr. {Whitfield.} Gentleman yields back. The reason we
2840 were having a discussion up here, we have a vote on the House
2841 floor. It is just one, so we are going to keep this process
2842 going, but some people have gone to vote, and they will come
2843 back.

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2844 At this time I will recognize the gentleman from
2845 Pennsylvania, Mr. Doyle, for 5 minutes.

2846 Mr. {Doyle.} Thank you, Mr. Chairman, and welcome to
2847 all the panelists. I think it is very helpful to hear from a
2848 range of industries and stakeholders on these issues. This
2849 is a draft document, and I do think we have some work to do
2850 on it, but the goal here is to see how we can use technology
2851 to save energy, but it has to be affordable too, and I think
2852 that is a key ingredient. I want to especially thank--say
2853 hello to Frank Thompson, a gentleman that I have known I
2854 think my entire 21 years in Congress, and have worked with in
2855 the Pittsburgh area for a long time, so, Frank, it is good to
2856 see you.

2857 Let me just first ask quickly, Mr. Somerhalder, in your
2858 testimony you talked about how Section 433 of the Energy
2859 Independence and Security Act of 2007, the fossil fuel ban,
2860 is deeply flawed, and this current discussion draft
2861 eliminates the ban. But as Mr. Wagner mentioned, Senator
2862 Hogan and Manchin have a bill that would repeal this
2863 requirement, but also strengthen several existing Federal
2864 energy efficiency provisions to ensure large energy savings
2865 in the coming years. I am just curious, is the Hogan-Manchin

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2866 bill something that you could support, or is there a way to
2867 make sure we use this as an opportunity to focus on more
2868 efficiency?

2869 Mr. {Somerhalder.} Yes. Our major priority is clearly
2870 to make natural gas available to these buildings because of
2871 the attributes I talked about. But we have been involved in
2872 the energy standards, and, in a consensus process, looking at
2873 what you talked about, those standards that could be put in
2874 place. So replacing it with a set of standards that we have
2875 been involved in, we can support that as a way to move
2876 forward, and make sure natural gas is used in those buildings
2877 as well.

2878 Mr. {Doyle.} Good.

2879 Mr. {Somerhalder.} And that is a good example of where
2880 consensus can reach compromise.

2881 Mr. {Doyle.} Right. That is great. And that is--

2882 Mr. {Whitfield.} So is he saying that they do support
2883 the Senate bill?

2884 Mr. {Somerhalder.} We--yes. We have already officially
2885 made comments that we can support that, because we were
2886 involved in a part of that process, and involved in those
2887 standards.

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2888 Mr. {Doyle.} Good. That is something that is good to
2889 know as we work on the discussion.

2890 Frank, let me ask you--I mean, you know the district I
2891 represent. I don't have a lot of new homes being built. We
2892 know the new homes are pretty energy efficient, but a lot of
2893 the older homes that are built before the '90s aren't so
2894 energy efficient, and the homes in my neck of the woods, in
2895 the Mon Valley, and parts of the city of Pittsburgh, were
2896 built in the 1920s and 1930s, and I have a lot of row houses
2897 in my district. And I have a lot of senior citizens in my
2898 district that aren't going to be re-mortgaging their houses,
2899 or doing anything like that. When their furnace goes, they
2900 have got to pay.

2901 And so we want to have a system--I--and I just want to
2902 express this, I am all for energy efficiency. I have been a
2903 big proponent of it my entire time in Congress, but I also
2904 worry about a little bit about some of the older residents
2905 that I represent in the Allegheny counties that--probably
2906 second only to Dade County, Florida in the number of senior
2907 citizens that live in these older homes that, if they were
2908 told that they had to replace the furnace, and then do some
2909 structural changes to these older homes, I just worry what

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2910 that does to them, cost-wise.

2911 And I just want to know what are, you know, we have had
2912 a lot of successes in--with new housing, and making them more
2913 energy efficient. What do you think about--are some of the
2914 major successes that we have in making older homes more
2915 efficient, aside from, you know, we have tax credits in the
2916 Tenant Star Program, but what other ways do you think we can
2917 encourage energy efficiency in these older homes? And maybe
2918 you could just speak a little bit to these urban areas like
2919 mine, that have houses, you know, that are stacked together
2920 in rows, and how that works if you have to change venting
2921 systems and that?

2922 Mr. {Thompson.} Well, I think there were three
2923 questions there, so let me start with the furnace provisions
2924 there. And I think some of the flaws in what DOE has
2925 presented, and why we need to get this advisory group
2926 together, and get the stakeholders at the table, and improve
2927 on what they have proposed are the exact circumstances you
2928 described there, and the consequences there of trying to
2929 bring that new technology, that condensing furnace, into one-
2930 -to a structure that wasn't built that way. And it could be
2931 thousands of dollars that they aren't going to go out and

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2932 take a mortgage. They are going to have to come out of
2933 pocket for it, so we need to find some alternatives that are
2934 going to address those situations there.

2935 In terms of how we best address continuing to improve
2936 energy efficiency in older homes, I think we need to continue
2937 a lot of the programs, the tax incentives, that have been in
2938 place. They work. We need to make sure that they are going
2939 to continue to be there, because the reality is that the
2940 greatest energy users, the gas guzzlers, so to speak, amongst
2941 houses are those older homes.

2942 Mr. {Doyle.} Right.

2943 Mr. {Thompson.} And it is very costly to come in and
2944 retrofit them. So let us keep some programs out there that
2945 are going to help temper those costs.

2946 Mr. {Doyle.} Great. Thanks, Frank. I see my time is
2947 up, Mr. Chairman. Thank you very much.

2948 Mr. {Thompson.} Thank you.

2949 Mr. {Olson.} The Chair recognizes Mr. McKinley from
2950 West Virginia for 5 minutes.

2951 Mr. {McKinley.} Thank you, Mr. Chairman, and given the
2952 timeframe, I am not going to be able to get to all my
2953 questions that I had, but let us just see if we could focus

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2954 on--the first is--when I came to Congress 4 years ago, that
2955 was--the thing I left was an engineering practice that was--
2956 dealt deeply into energy efficiency. So we have some working
2957 knowledge that we are bringing to the table, and what we have
2958 done the first few years was nibble around the edges of
2959 energy efficiency as we try to educate the public, and the
2960 other members, about what we have to do.

2961 And one of the most important things that I think we are
2962 about--Tonko and I are embarking on is now we are going to
2963 try to dive deeply into the issue of turbines, and look at
2964 that. When we are talking about single turbines at 35
2965 percent, and combined capacities of maybe 60 at best, more
2966 likely at 45 or 50 percent. So we are looking at what we can
2967 do with that.

2968 We know that this bill that we have, that we are putting
2969 forth, is going to provide some form of demonstration project
2970 that we can look at the steam injection, raising lit
2971 temperatures. We can increase pressure ratios. We know all
2972 these things are going to improve so that--for--we are going
2973 to use a--it is probably the most efficient bill that we
2974 could pass on efficiency, is looking at how we create
2975 electricity.

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2976 So are we--is it too early? So I am going to ask that
2977 to you, Mr. Somerhalder. Coming from the Gas Association, do
2978 you think this Congress is ready to take on such a huge
2979 subject as to reduce and improve the efficiency of our
2980 turbines and our electric generation? Because we know that
2981 China and Japan are very actively out there, participating in
2982 a robust fashion, and we are going to wind up playing second
2983 fiddle.

2984 Mr. {Somerhalder.} Exactly, and, as an association, and
2985 as a company--I mean, we supply today combined cycle turbines
2986 at central stations that have efficiencies of around 60
2987 percent. They have been engineered that well, so we know it
2988 is capable--the industry of capable of finding a way to
2989 continue to improve efficiencies. And we have seen the
2990 benefit of distributed generation, from micro-turbines, to
2991 combined heat and power, to fuel cells. And so we do believe
2992 that we need to put in place research and incentives to
2993 continue to make progress on that, because that--those are
2994 additional ways to make sure that we are the most efficient
2995 and the most cost effective for the consumers in the long
2996 run.

2997 So that, in addition to using very efficient furnaces,

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2998 whether they are 80 percent or 92, for heating, all that
2999 together can produce a very good result. So we support
3000 additional effort in the--in those areas.

3001 Mr. {McKinley.} Well, we are going to make an all-out
3002 effort to see if we can't get--if nothing else, just to get
3003 the dialogue going to educate the American public as well as--
3004 --what the problems are, because just imagine, what other
3005 entity would be--find acceptable at 60 percent efficiency?
3006 If we let the Post Office off at 40 percent of their
3007 deliveries weren't appropriate--so, having said that, let me
3008 go back to Mr. Thompson on homes.

3009 A component of my practice had been designing and
3010 building homes, and I knew that one of the issues we were
3011 facing there was indoor air quality. And, again, it is a
3012 process of education. I don't think Congress and the
3013 American public understand a lot of these issues that we are
3014 dealing with on Clean Air Act really have a genesis back in
3015 their home. Because we know that we spend 90 percent of our
3016 time indoors, and 60 percent of our time in our homes. And--
3017 but yet we are not addressing some of those problems. So I
3018 am curious, you, as a home builder, and the Home Builders'--
3019 what are you doing, from an association, to address these

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3020 issues of indoor air quality?

3021 Mr. {Thompson.} As the building codes have continued to
3022 tighten up, the air changes per hour in a house, and we saw
3023 that in the 2012, and reinforced in the 2015 codes of
3024 reducing those air changes per hour. That potential is
3025 increased. It has got to be resolved through mechanical
3026 ventilation, which is a requirement in the building code, if
3027 you are less than five air changes an hour.

3028 Interestingly enough, a number of the states that
3029 adopted the 2012 IECC chose to move that number that was in
3030 the IECC from three air changes an hour back up to five or
3031 over. I believe only one of those states kept it at that
3032 because it is a danger level there, and we are getting into a
3033 lot of uncharted territory that we need more building science
3034 to best understand how we can maintain air quality, minimize
3035 mold, and continue--

3036 Mr. {McKinley.} Right.

3037 Mr. {Thompson.} --to have energy efficiency.

3038 Mr. {McKinley.} And in the time I have, my concern is
3039 that what we are seeing is sox and nox gases have been
3040 decreasing, and CO2 emissions have--but yet we are seeing
3041 more asthma attacks, and as a result--it is not because of

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3042 the coal fired power plants. We believe there is science--
3043 justify, from the American Lung Association and others, that
3044 a lot of this is having to do with our indoor air quality.

3045 Mr. {Thompson.} Yes, sir.

3046 Mr. {McKinley.} So the asthma increase is not because
3047 of coal and gas fired power plants.

3048 Mr. {Thompson.} Yes, sir.

3049 Mr. {McKinley.} Thank you very much for you time, and I
3050 apologize for--

3051 Mr. {Olson.} Thank you. And I apologize, the vote has
3052 popped up--so we will have a brief recess. The--members come
3053 back who might have some questions, so please stand by for
3054 maybe 5 minutes or so. I apologize so much for this, but we
3055 stand in recess.

3056 [Whereupon, at 1:07 p.m., the Subcommittee recessed, to
3057 reconvene at 1:11 p.m. the same day.]

3058 Mr. {Olson.} Order. So please bear with us, patience.

3059 Mr. {McNerney.} Mr. Olson, I move the bill. There have
3060 been a few changes around here.

3061 Mr. {Olson.} Well, I was called Chairman the previous
3062 panel, so good changes. Don't tell Mr. Rush. And the Chair
3063 recognizes the gentleman from Vermont for 5 minutes, Mr.

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3064 Welch.

3065 Mr. {Welch.} Thank you very much. It is really
3066 tremendous to be here, and to be with people that a lot of us
3067 but me very much have been working with on this question of
3068 energy efficiency. It is also very reassuring to me to see
3069 how, in my view, Congress has really come a long way. You
3070 know, we have been locked down in this important debate about
3071 climate change, and tough challenges about our energy policy
3072 that have a lot of very valid issues to them, but they
3073 shouldn't get in the way of us making progress in this space
3074 of energy efficiency that is so vital.

3075 Because even if we are going to achieve climate change
3076 goals, 40 percent of those, and this was under the Waxman-
3077 Markey bill, were going to be achieved through energy
3078 efficiency. And that common ground that we have, Mr. Olson,
3079 you know, of saving money, I am kind of cheap in Vermont, you
3080 know, motivates me, but it also creates jobs. Lot of folks
3081 out there doing work of--to put good people to work building
3082 homes, doing retrofits. That all matters. So I am delighted
3083 about that.

3084 I am also delighted about all the energy efficiency
3085 bills that are going to be part of this, that I and your

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3086 colleagues--our colleagues have had a part in. Mr.
3087 Cartwright, who is not on our committee, but his Streamlining
3088 Efficiency for Schools Act has been great. Mr. Kinzinger
3089 just came in, and--working with him on energy savings through
3090 public/private partnership, and the Utility Energy Service
3091 Contract Improvement Act. Mr. Latta, who was speaking a
3092 little bit earlier, and I have been working on a number of
3093 bills. So there is a lot of momentum.

3094 And I was just talking to one of the people here, who
3095 was telling me that he just came from the Senate, and there
3096 is a lot of discussion over there. It is hard to believe,
3097 but they are actually acknowledging the work that we are
3098 doing over here in the House. So they are pretty slow over
3099 there, but they are kind of catching up, so we are happy
3100 about that. And we have got a lot to do.

3101 And this afternoon, as I mentioned, Mr. McKinley and I,
3102 we are going to be at the White House for a bill signing.
3103 Now, from my perspective, we probably should do more, but I
3104 think we are really making real progress, and it is
3105 bipartisan. And, by the way, it feels a lot better to be
3106 getting something done instead of just fighting all the time,
3107 you know what I mean? Okay. So let us keep it up.

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3108 But on that topic, there are a couple of issues that are
3109 tough. Mr. Whitfield had mentioned this before. You know,
3110 there were a number of areas, 12 areas, where there is
3111 bipartisan agreement, a few where there aren't. My hope is
3112 we can work those out. Building codes is one. You know,
3113 building codes, I think, can be very helpful. They have got
3114 to be reasonable. So how you address that should be with a
3115 focus on what is practical. But I don't think we just say no
3116 building codes. I think there have got to be some standards
3117 that make sense, but they have to fit what is realistic in
3118 the real world. And that is a judgment call. It is not a
3119 right or wrong kind of situation, so let us see that as a
3120 tool, but pledge to work in a practical way, dealing with
3121 people who are in the field, dealing with some of our
3122 regulators who have the interest of energy efficiency.

3123 And also there is a question here about repealing
3124 Section 433 of the Energy Independence and Security Act.
3125 That was designed to move our government buildings away from
3126 fossil fuel usage. It does have some implementation
3127 challenges. Let us work to figure out how we can square that
3128 circle, not have that be something we just don't resolve, and
3129 I think we can do it. But I do have a couple of questions

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3130 for Mr. Somerhalder, who is here doing--who is out in the
3131 field. And I want to know about this rule with the DOE, and
3132 I assume you have expressed your concerns to the DOE, and I
3133 am wondering what their response has been.

3134 Mr. {Somerhalder.} Yes. We have a part of expressing
3135 concerns and comments. To this point, even though we have
3136 expressed those concerns, we still need more understanding of
3137 some of the data, and some of the technical information, and
3138 some of the models that had been used to come up with these
3139 cost estimates.

3140 Mr. {Welch.} Okay. I only have a little more time, so
3141 let me just follow up on that. If we pass the time out on
3142 the FERS rule, are the gas utilities committed to increasing
3143 the efficiency of the units, and will they work quickly to
3144 get that rule finalized within a year?

3145 Mr. {Somerhalder.} Yes. We have spent the last several
3146 months as well in very detailed discussions on how to do
3147 this. The units are very efficient, either the 80 percent or
3148 the 92 plus percent. It is really some of the retrofit
3149 venting issues that have to be resolved to see where they can
3150 cost-effectively be applied. And so--

3151 Mr. {Welch.} Okay.

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3152 Mr. {Somerhalder.} --a lot of those issues, we are
3153 committed to work with DOE and the other stakeholders to
3154 reach consensus.

3155 Mr. {Welch.} Okay. I appreciate that. Thank you very
3156 much. I yield back.

3157 Mr. {Olson.} Gentleman's time has expired. The Chair
3158 recognizes the gentleman from Illinois, Mr. Kinzinger, for 5
3159 minutes.

3160 Mr. {Kinzinger.} Well, thank you, Mr. Chairman, and, to
3161 Congressman Welch, it is great working with you on all this,
3162 and you have been a leader not just in this Congress, but
3163 Congresses prior, and it is an honor to join you in a lot of
3164 this, and so I just want to personally congratulate you, and--
3165 --on all this hard work, and I want to thank the Chairman for
3166 holding the hearing today. I want to thank all of you for
3167 being here. And--I know it is a time commitment, a travel
3168 commitment. And, again, as Peter said, this is a real
3169 opportunity to show that Washington, D.C. works sometimes.
3170 And, you know, we get all the news for when we fight, and
3171 when we go back and forth, but there are a lot of things
3172 where people get to work together.

3173 And this is such an open process, and I want to thank

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3174 the Chairman for bringing forward the draft. And, you know,
3175 I understand that some members have taken issue with certain
3176 provisions in the draft, but, given the bipartisan nature of
3177 the vast majority of the text, it is my hope that we are
3178 going to be able to work with each other to produce a final
3179 product that most, if not all, of this Committee can support.

3180 I would also like to thank a number of members from
3181 across the aisle for working with me on getting some really
3182 good efficiency related provisions into this draft. I
3183 mentioned Peter Welch. I also want to specifically mention
3184 Congresswoman Eshoo's work on the Energy Efficient Government
3185 Technology Act to update Federal data center efficiencies,
3186 and Congressman McNerney for his help in drafting and
3187 introducing the Thermal Insulation Efficiency Improvement
3188 Act. I would also like to add quickly that insulation is, in
3189 many cases, the unsung hero in improving the energy
3190 efficiency of our homes and buildings.

3191 Just a few questions, and then I will yield back my
3192 time. Mr. Wagner, you mentioned in your testimony the
3193 scoring of ESPCs and UESCs has caused consternation in the
3194 industry for quite some time. Lately there has been some
3195 work by the House and Senate budget conferees to fix the

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3196 issues, although we haven't quite made it to that point yet.
3197 Given the inclusion of ESPC and UESC language in the
3198 discussion draft, would you mind explaining in a little
3199 further detail what saving--savings guarantees ESPCs and
3200 UESCs offer the Federal Government, and also the potential
3201 impact a scoring change will have, saving the Federal
3202 Government the badly needed funding?

3203 Mr. {Wagner.} Well, thanks for that question,
3204 Congressman, and, first of all, let me thank you, and
3205 Congressman Welch, for your leadership, particularly on the
3206 performance contracting coalition. Your bipartisan
3207 leadership is really appreciated.

3208 You know, the scoring problem has really been vexing us
3209 for over a decade, and it seems to have only gotten worse.
3210 In a nutshell, we basically have the problem where CBO looks-
3211 -doesn't--cannot reconcile the savings on the discretionary
3212 side of the ledger with the contract--the ESPC contract,
3213 which is a mandatory spending upon--in their mind. They
3214 don't give the offset, if you will, for the savings, even
3215 though the savings are guaranteed by the contractor. And
3216 that has just been problematic under the scoring rules.

3217 So the Senate legislation will fix that, and I know the

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3218 House has been looking at that, and we appreciate everyone on
3219 this Committee who has been diving into try to solve this
3220 problem. So what happens is, when you have a number of the
3221 provisions that we have in the discussion draft here, they
3222 actually hold--CBO will score them, because they assume that
3223 ESPC will be used to implement those provisions, and
3224 therefore a score. And it is sometimes not just the ESPC
3225 legislation per se, it might be other things, like trying to
3226 set a--extend a Federal goal for energy reduction overall.
3227 So this has really hampered your ability in the past to try
3228 to pass legislation in this Committee.

3229 So if we can crack that nut on the scoring problem, and
3230 fix it, then you will have a pathway to clearly be able to
3231 amend the statute to--as I said in my testimony earlier, to
3232 update it, to make those clarifications, and maybe even
3233 expand the scope of what we can do under ESPC.

3234 Mr. {Kinzinger.} Yeah, hopefully we can get there. And
3235 do you believe that the FPC member companies have the ability
3236 to meet the \$4 billion directive issued by the President,
3237 and, you know, also, on top of that, what else can we be
3238 doing to get the Federal Government to be--

3239 Mr. {Wagner.} Absolutely we can meet that goal, and

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3240 even do more, and I think agencies are trying hard to do
3241 that, and I know the Administration is committed. And, with
3242 your help and leadership, to continue to prod agencies to do
3243 that. But I will say that some of these legislative
3244 provisions will help because it will unlock some of the
3245 things that agencies are trying to do, and clarify some of
3246 the things that have been causing them confusion. So that is
3247 why the legislation here that you are working on is very
3248 important.

3249 Mr. {Kinzinger.} Ms. Newmark, I am not going to ask you
3250 a question because I am running out of time, but I do want to
3251 point out that you touch on the use of intelligent
3252 efficiency, and I gather you believe that the Federal
3253 Government could play a larger role in the use of intelligent
3254 efficiency, and more specifically in data centers. I guess
3255 maybe in 10 seconds do you want to elaborate on that?

3256 Ms. {Newmark.} Sure. I think the point I was trying to
3257 make is that the whole is often greater than the sum of the
3258 parts. A one percent, or half a percent improvement in
3259 efficiency in every piece of equipment still only gives you a
3260 half a percent improvement. If we can look at how those
3261 systems work together and get a 10 percent improvement, we

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3262 all win. And in this case we use less energy, and spend less
3263 money.

3264 Mr. {Kinzinger.} Great. And I wish I could have given
3265 you more time, but thank you all for being here, and I will
3266 yield back, Mr. Chairman.

3267 Mr. {Olson.} Gentleman's time has expired. The Chair
3268 recognizes the lady from California, Ms. Eshoo, for 5
3269 minutes.

3270 Ms. {Eshoo.} Thank you very much, Mr. Chairman. I
3271 appreciate the Subcommittee holding this important hearing,
3272 and I want to thank you, and Mr. Whitfield, and the minority
3273 for extending the legislative courtesy to me to come here and
3274 join you today, since I am not a member of the Subcommittee,
3275 but a member of the full Committee. So thank you to all the
3276 witnesses. We always depend on really highly informed
3277 witnesses to enhance our work, so I appreciate this--the
3278 inclusion of my bill, the Energy Efficient Government
3279 Technology Act, in the discussion draft of the Subcommittee.
3280 I appreciate it very much. I have been at this for a while,
3281 as some of you know.

3282 Sections 4111 and 4112 of the discussion draft are
3283 nearly identical to the provisions of the legislation that I

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3284 just mentioned, and it is wonderful to introduce--and he is
3285 leaving, Mr. Kinzinger. Maybe he can hear me. Introduced
3286 with him, and I am grateful to him for his leadership, and
3287 there are three other members of this Subcommittee that are
3288 also co-sponsors of the legislation. It is really a non-
3289 controversial bill. I know everyone would like to say that
3290 about their legislation, but I think the test was on the
3291 floor in the last Congress, when 375 members in the House of
3292 Representatives voted for the legislation last year, so I
3293 think the proof is in the pudding.

3294 I think it is important to appreciate, as Ms. Newmark
3295 just said so succinctly, that, you know, some of the facts
3296 that surround this issue. Today the world generates more
3297 data in 12 hours than was generated in all of human history
3298 prior to 2003. That--I mean, that is really something to
3299 digest, isn't it? And we should all have enormous pride in
3300 that, because we really are the mothers and fathers of the
3301 generation of that data, in terms of the technology. And, of
3302 course, I always have to brag and crow about my
3303 Congressional--my Silicon Valley Congressional district. So
3304 these billions of gigabits of data have to be stored and
3305 processed at data centers, which are really the backbone of

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3306 the 21st century economy, and they can, and should be, highly
3307 efficient.

3308 The Federal Government is our nation's largest land
3309 owner, employer, and energy user, and the Federal Government,
3310 I think, should lead by example by improving energy
3311 efficiency of its IT infrastructure and data centers, and we
3312 have them across the entire enterprise. We have lots of it.
3313 We have lots of it. So the legislation would require the
3314 agencies to develop plans to implement best practices,
3315 purchase more energy efficient information and communications
3316 technologies, and submit to periodic evaluation, which I
3317 think is really important--we don't always do that in the
3318 government--of their data centers for energy efficiency. So
3319 Congress can track, and the American people can track the
3320 progress that we are making.

3321 And the bill also requires the agencies to formulate
3322 specific performance goals, which I think is really important
3323 as well, and a means to calculate the overall cost savings
3324 from the improvements. So I think that if we get this in
3325 place, we have the opportunity, by reducing the government's
3326 data center energy bill anywhere from 20 to 40 percent. I
3327 really don't know who could ever be against this, honestly.

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3328 It is just--it is like walking past a \$1,000 bill on the
3329 sidewalk and not picking it up. So I think that--and it has
3330 been estimated that we could save \$5 billion, that is with a
3331 B, in energy costs through 2020, which is not too far away
3332 from us right now.

3333 So I appreciate the support that has, you know, all of
3334 the support, not only groups and organizations, you know,
3335 advocates, industry groups, the American Council for an
3336 Energy Efficient Economy, the Alliance to Save Energy, the
3337 Information Technology Industry Council, people that I work
3338 with all the time, U.S. Green Building Council, which is
3339 really very important as well, all of them, as well as the
3340 sponsors. And I think that we have a real opportunity to do
3341 something that I think everyone across our country would say,
3342 you know what, Congress, bravo. It makes sense, and it is
3343 going to save taxpayer money, and, for a change, the Federal
3344 Government, as an entity, will be instructive to the rest of
3345 the country, and--because we adopted a very smart policy. So
3346 I thank all of you.

3347 Ms. Newark, thank you for what you said in your written
3348 testimony, and--pointing out that we began this effort in
3349 2006, but, you know, sometimes it just takes--the gestation

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3350 period is longer. So I am willing to wait for that. I thank
3351 all of you. And, again, Mr. Chairman, thank you for your
3352 legislative courtesy, I appreciate it very much, and kudos to
3353 Mr. Kinzinger. I will make sure I find him on the floor and
3354 thank him. And Mr. Whitfield, thank you, my friend. I
3355 appreciate it. I yield back.

3356 Mr. {Olson.} [Presiding] Thank you. No more speakers--
3357 ask unanimous consent that the following statements and
3358 letters be submitted for the record, number one, American
3359 Public Gas Association letter, number two, the Business
3360 Council for Sustainable Energy Letter, number three,
3361 Geothermal Exchange Organization Letter, number four,
3362 Consumer Federation of America, and the National Consumer Law
3363 Center, number five, NiSource, number six, ASHRAE, number
3364 seven, Alliance to Save Energy, and American Council for an
3365 Energy Efficient Economy, number eight, U.S. Chamber of
3366 Commerce, number nine, Leading Builders of America, number
3367 10, Retail Industry Leaders Association, number 11, Alliance
3368 for Individual Efficiencies, number 12, a Center for Progress
3369 report entitled, ``Buildings of Tomorrow are Here Today'',
3370 and finally, number 13, a letter from nearly 500
3371 architectural firms in support of--Section 433. I would like

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3372 to put that in the record without objection. Without

3373 objection, so ordered.

3374 [The information follows:]

3375 ***** COMMITTEE INSERT *****

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|

3376 Mr. {Olson.} And thank you so much to all the
3377 witnesses. On behalf of Chairman Whitfield, who is from
3378 Kentucky, watched the Kentucky Derby this weekend, the
3379 biggest event there in Kentucky, and without objection, we
3380 are adjourned.

3381 [Whereupon, at 1:29 p.m., the Subcommittee was
3382 adjourned.]