

A Hearing in the Finance Subcommittee on Energy

Energy Efficiency: Can Tax Incentives Reduce Consumption?

Opening Statement of Senator Jeff Bingaman (D-NM), Subcommittee Chairman

Good afternoon.

In today's hearing in the Finance Subcommittee on Energy, Natural Resources, and Infrastructure, we look forward to today's testimony on energy efficiency. One of the most important and achievable goals of our energy policy today is to improve the efficiency and productivity of our energy use. This involves a close examination of our energy use in industry and at home – the way we heat and cool our buildings and the appliances and lighting we use inside them; the technologies we employ to maximize the benefit of the energy we use in industry; and the systems that can increase our ability to monitor and adjust our demand for power throughout the system.

The amount of total energy used to operate residential and commercial buildings was approximately 40 percent of US energy consumption in 2005. Over the last 20 to 30 years building and appliance efficiency has improved significantly; for example, a home built today consumes 12 percent less energy for heating and cooling than a comparable home twenty years ago and a refrigerator sold today uses about a quarter of the energy that was consumed by the average 1970's refrigerator.

This improvement, while meaningful, represents only a fraction of what could be accomplished in terms of energy efficiency. A recent report from the McKinsey Global Institute indicates that US energy demand growth through 2030 could be **FULLY MET** through cost-effective energy efficiency improvements. And global implementation of *currently available* technologies could reduce worldwide energy consumption by 50% over the next 15 years.

This is significant. And necessary in order to progress toward our goals of energy security and environmental preservation.

If such technology is already commercialized, and valuable, and important, but underutilized, how do we increase its implementation? The answer, I believe, is to change behavior, to make the responsible use of energy second nature.

We often use tax incentives to encourage certain behaviors, and energy efficiency is one area where we employ such strategies. In our tax code, we have several incentives aimed at encouraging builders and home owners to purchase energy efficient materials and adopt energy saving behaviors. These include:

- **Energy efficient home credit (Section 45L)**

For contractors who build energy efficient homes (expires 12/31/08)

- **Energy efficient appliance credit (Section 45M)**

For manufacturers of energy efficient appliances (the credit is available for appliance manufactured in 2007)

- **Commercial Builder efficiency credits (Section 179D)**

For commercial builders who incorporate energy saving technologies into their commercial buildings (expires 12/31/08)

- **Nonbusiness Energy property credit (Section 25C)**

For individuals who purchase exterior doors, windows, insulation, heat pumps, furnaces, central air conditioners, water heaters, as well as qualified manufactured housing (expires 12/31/07)

- **Residential energy efficient property credit (Section 25D)**

For individuals who purchase solar water heaters, solar electricity equipment (PV), and fuel cell property (expires 12/31/08)

We have asked witnesses to testify about the effect of these tax incentives on the demand for energy efficient technologies, and we hope to learn which incentives are working and what might increase their effectiveness.

We also have invited witnesses to testify about proven new technologies that greatly increase the efficiency of our energy use for which there are no tax incentives—and we hope to learn something about how the markets for those technologies operate without incentives.

And as always, we are interested in hearing testimony on new strategies that might be effective in helping us achieve our energy policy goals with respect to energy usage at home and at work.