OVERSIGHT OF DEPARTMENT OF ENERGY RECOVERY ACT SPENDING

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON ENERGY AND COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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[1] Mr. Chalk and Ms. Triay did not present opening statements.

OVERSIGHT OF DEPARTMENT OF ENERGY RECOVERY ACT SPENDING

THURSDAY, MARCH 17, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 1:30 p.m., in room 2322, Rayburn House Office Building, Hon. Cliff Stearns (chairman of the subcommittee) presiding.

Present: Representatives Stearns, Sullivan, Murphy, Burgess, Bilbray, Gardner, Upton (Ex Officio), DeGette, Green, Christensen, and Waxman.

Staff Present: Todd Harrison, Chief Counsel; Alan Slobodin, Deputy Chief Counsel; Karen Christian, Counsel; John Stone, Associate Counsel; Peter Spencer, Professional Staff Member; Jim Barnette, General Counsel; Alex Yergin, Hearing Clerk; Kristin Amerling, Minority Chief Counsel and Oversight Staff Director; Tiffany Benjamin, Minority Investigative Counsel; Anne Tindall, Minority Counsel; Ali Neubauer, Minority Investigator; and Lindsay Vidal, Minority Press Secretary.

Mr. STEARNS. Good afternoon. The subcommittee will come to order on Oversight and Investigations. I will start with my opening statement.

OPENING STATEMENT OF HON. CLIFF STEARNS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Ladies and gentlemen, we are convening this hearing of the Subcommittee on Oversight and Investigations to gather information concerning the Department of Energy's stimulus spending. This is the first oversight hearing focusing on DOE's role in the stimulus program since the American Recovery and Reinvestment Act of 2009 was signed into law by President Obama just over 2 years ago.

We will hear today from the Department of Energy, and from the DOE Inspector General and the U.S. Government Accountability Office, the two chief overseers of the Department's spending, which have produced 50 reports on DOE stimulus between them. This happens to be the first time both the IG and the GAO have testified together on DOE's stimulus spending as well.

In 2009, DOE was appropriated about $36 billion under the Recovery Act to increase taxpayer spending on energy efficiency, environmental cleanup, loan guarantees and various energy-related research, development and deployment projects and activities. The appropriation was in addition to the DOE's annual funding of about $28 billion and represented an unprecedented expansion of taxpayer spending by the Department of Energy.

This unprecedented spending was accompanied by promises that the program would stimulate economic growth, create jobs, clean the environment, and transform our energy infrastructure. I, along with all of my Republican colleagues, were strongly against the Act's massive government spending. This was not the way to stimulate the economy and create jobs.

So the question is, how are things going?

Let's review some of the information to date:

The agency hit its own targets generally for allocating funds, but today, over 2 years later, only about $12 billion of the $36 billion allocated has actually been spent. The whole point of the Democrats' stimulus bill was to spend billions of dollars in the hope that such spending would stimulate the economy and, of course, create jobs. It doesn't appear that this massive increase in spending has done either—most of the money still hasn't been spent and unemployment still stands at almost 9 percent.

While the Department had existing weatherization and energy efficiency programs, there was nothing "shovel ready" about expanding this on the scale that was dreamed up by the administration. As the GAO has documented, efforts to safeguard taxpayers' funds, clear up wage requirements and State and local infrastructure issues slowed the promised $12 billion in spending considerably. Only recently, nearly 3 years after the financial crisis, has DOE even reached the halfway point of 580,000 homes it promises to eventually weatherize under this program.

In addition, questions of cost effectiveness and performance remain. For example, with regard to the weatherization program, the GAO informed staff of one case in which contractors were hired to install new windows on every house on a Houston neighborhood street, without any clear measure of whether this was the most cost-effective way to help the homes save energy.

In an Illinois program, a DOE inspector general audit found 12 of 15 weatherized homes visited failed inspections because of substandard workmanship. Tennessee conducted its own State audit and found in 45 percent of 84 weatherized homes that "contractors had not performed weatherization measures, had not properly completed weatherization measures of any kind, or had performed work that was not allowable under the program."

So clearly there is a need for close oversight scrutiny of these projects.

The DOE stimulus funds awarded up to 10,000 jobs with the $6 billion allocated for environmental cleanup. But contractors are already finishing some of the work and announcing the end of some 2,000 of these jobs. It is good that the funds help keep some people working during the tough economic times. Yet when the spending ends, can the agency show that this work reduced environmental risk or future cleanup costs, or that these stimulus funds are doing any more than just creating short-term temporary jobs?

Is DOE even tracking how the cleanup spending achieves long-term environmental cleanup goals? GAO has reported that this past summer, the DOE's alleged future savings from the Recovery

Act's accelerated cleanup spending overestimated taxpayer savings by almost 80 percent.

So this committee's oversight responsibility requires that we hold the DOE accountable for measuring its Recovery Act spending in a way that we can evaluate whether or not it was cost effective in terms of policy goals and just good fiduciary sense.

[The prepared statement of Mr. Stearns follows:]

Opening Statement of the Honorable Cliff Stearns
Chairman, Subcommittee on Oversight and Investigations
Oversight of DOE Recovery Act Spending
March 17, 2011
718 words

We convene this hearing of the Subcommittee on Oversight and Investigations today to gather information concerning the Department of Energy's stimulus spending. This is the first oversight hearing focusing on DOE's role in the stimulus program since the American Recovery and Reinvestment Act of 2009 was signed into law by President Obama just over two years ago.

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In 2009, DOE was appropriated about $36 billion under the Recovery Act to increase taxpayer spending on energy efficiency, environmental clean-up, loan guarantees, and various energy-related research, development and deployment projects and activities. The appropriation was in addition to the DOE's annual funding of about $28 billion and represented an unprecedented expansion of taxpayer spending by DOE.

This unprecedented spending was accompanied by promises that the program would stimulate economic growth, create jobs, clean the environment, and transform our energy infrastructure. I, along with all of my Republican colleagues, was strongly against the Act's massive government spending. This was not the way to stimulate the economy and create jobs.

So how are things going? Let's review some of the information to date:

The agency hit its own targets generally for allocating funds, but today, over two years later, only about $12 billion of the $33 billion allocated has actually been spent. The whole point of the Democrat's stimulus bill was to spend billions of dollars in the hope that such spending would stimulate the economy and create jobs. It doesn't appear that this massive increase in spending has done either – most of the money still hasn't been spent and unemployment still stands at almost 9%.

While the Department had existing weatherization and energy efficiency programs, there was nothing "shovel ready" about expanding this on the scale dreamed up by the Administration. As the GAO has documented, efforts to safeguard taxpayer funds, clear up wage requirements and state and local infrastructure issues slowed the promised $12 billion in spending considerably. Only recently, nearly three years after the financial crisis, has DOE even reached the half-way point of the 580,000 homes it promises to eventually weatherize under the program.

In addition, questions of cost-effectiveness and performance remain. For example, with regard to the weatherization program:

- the GAO informed staff of one instance in which contractors were hired to install new windows on every house on a Houston neighborhood street – without any clear measure of whether this was the most cost-effective way to help the homes save energy.
- In an Illinois program, a DOE Inspector General audit found 12 of 15 weatherized homes visited failed inspections because of substandard workmanship.
- Tennessee conducted its own state audit and found in 45% of 84 weatherized homes that "contractors had not performed weatherization measures, had not properly completed weatherization measures, or had performed work that was not allowable under the program."

Clearly, there is need for close oversight scrutiny of these projects.

Furthermore, the DOE stimulus funded upwards of 10,000 jobs with the $6 billion allocated for environmental clean-up. But contractors are already finishing some of the work and announcing the end of some 2,000 jobs. It is good that the funds helped keep some people working during tough economic times. Yet when the spending ends, can the agency show that this work reduced environmental risks or future clean up costs? Or that these stimulus funds are doing any more than just creating short-term, temporary jobs? Is DOE even tracking how the clean-up spending achieves long term environmental clean-up goals? GAO reported this past summer that DOE's alleged future savings from the Recovery Act's accelerated clean up spending overestimated taxpayer savings by 80%.

This Committee's oversight responsibility requires that we hold the DOE accountable for measuring its Recovery Act spending in a way that we can evaluate whether or not it was cost-effective, in terms of policy goals and just good fiduciary sense.

With that, I welcome the witnesses, and yield to the gentle lady from Colorado for the purposes of an opening statement.

###

Mr. STEARNS. With that, I welcome the witnesses and yield to the distinguished lady from Colorado for the purposes of an opening statement.

OPENING STATEMENT OF HON. DIANA DEGETTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Ms. DEGETTE. Thank you so much, Mr. Chairman. I think it is important that this committee do oversight. And I am glad that we are looking at the agencies under our jurisdiction.

I don't think we are always going to agree on energy policy issues, but I do think we can do oversight in a productive bipartisan way. So I hope this hearing today on the DOE will look at ways to improve DOE programs that are promoting jobs and innovation and not simply just be an opportunity for people to rail against the Recovery Act.

In the face of one of the worst economic crisis this country has ever seen, the American Recovery and Reinvestment Act was an unprecedented effort to create and save jobs, increase overall economic activity, spur long-term growth and promote innovation. It also contained a number of DOE-specific provisions to support the transition to a clean energy economy.

The Recovery Act has already had a tremendous positive impact. It provided $288 million in tax cuts and benefits for millions of families and businesses. It increased funding for a number of programs, including extending unemployment benefits by $224 billion.

In the weatherization assistance program, for example, which enables low-income families to reduce permanently their energy bills by making their homes more energy efficient, we have weatherized 330,000 homes. What this does, as well as giving jobs to the people involved, it saves those families an average of almost $5,000 on their energy bills over the next decade.

Ultimately, Recovery Act funds will help pay to weatherize 600,000 homes, saving those families billions of dollars in utility bills. So again, it is just not the short term jobs that were created, but it is the actual weatherization that will save the families billions of dollars.

In Colorado, for example, the Recovery Act sponsored State energy program provided funds to schools and local businesses. These funds help the Calhan School, which is a rural public school northeast of Colorado Springs that was struggling with a worn out boiler and failing temperature controls. Recovery Act funds allowed the school to install a new, highly efficient heating and cooling system using a ground source system so students can focus on learning, not just keeping warm or cool.

Success stories like this can be seen across the country. In Virginia, James Madison University Center For Wind Energy received $800,000 from the State energy program to build a wind testing and training center geared towards students and companies who want to break into the wind industry. Tennessee used Recovery Act funds to build up its solar installation grant program allowing for rapid expansion in the solar installation industry, keeping people employed when they needed it the most. And Mr. Chairman, in your own State, Recovery Act funds helped install solar and wind power on existing billboards which ended up saving the State $232,000 in energy costs.

Mr. Chairman, I have got a letter from Philip Giudice, who is the Commissioner of the Massachusetts Department of Energy Resources and chair of the National Association of State Energy Officials, which talks about many of these accomplishments. And I would like to ask unanimous consent to enter it into the record at this time.

Mr. STEARNS. By unanimous consent.

[The information follows:]

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March 17, 2011

The Honorable Cliff Stearns
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Diana DeGette
Ranking Member
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
2322-A Rayburn House Office Building
Washington, D.C. 20515

RE: American Reinvestment and Recovery Act Spending - Energy

Dear Chairman Stearns and Ranking Member DeGette:

On behalf of the National Association of State Energy Officials (NASEO), we would like to help inform the Subcommittee about the impact of the energy related work of the states pursuant to the American Recovery and Reinvestment Act (ARRA), and in particular, the results of the activities under the State Energy Program (SEP). Recognizing the states' proximity to citizens and business and the value of SEP as compared to programs directed exclusively from Washington, D.C., Congress provided substantial amounts of ARRA funding. Despite the challenges presented in moving funding from the U.S. Department of Energy (DOE) to our states' citizens and businesses, the hard work of state and federal energy staff resulted in these funds having a significant and positive impact.

The short answer to the question about the value of energy-related ARRA funds being deployed by the states is that it has been a resounding success in terms of economic development, technology innovation, efficacy, and energy savings. The State and Territory Energy offices leveraged the $3.1 billion in SEP funding with $4.7 billion of private and state funds in a matter of months. NASEO worked to help DOE resolve evolving federal funding requirements (e.g., Davis-Bacon, NEPA, Historic Preservation, Buy American) and barriers over a nearly two-year period in order to allow states to put these funds to work (*See* Attachment A).

To date, of the $3.1 billion allocated to SEP, DOE has completed NEPA reviews of 93 percent of the funds and as a result State Energy Offices have been able to contractually obligate 89 percent of SEP funds with most remaining funds dedicated to projects that are under contract negotiation. <u>Further, State Energy Offices are on track to exceed DOE's SEP spending target of $1.5 billion by June 30, 2011.</u> <u>This spending surpasses</u>

the three-year plan the DOE required and states committed to delivering under the original request for proposals (or funding opportunity announcement).

State Energy Offices and SEP
The 56 State and Territory Energy Offices across the nation that NASEO represents are *governor designated* agencies focused on a balanced approach to energy policy and programs that includes developing all of our energy resources—fossil, renewable and efficiency. Their primary goal is to improve energy security and through energy-related programs and policies help to provide a foundation for the private sector to expand our economy with new technologies and investment. For over 30 years, the SEP resources appropriated by Congress have been the only funds from DOE's multi-billion dollar budget that are provided directly to the States. SEP allows states to set and target their own energy priorities while meeting shared national energy goals. The State Energy Offices have delivered significant results under SEP year after year as shown by a 2005 Oak Ridge National Laboratory Study. The study indicates that states' use of "regularly appropriated" SEP funds achieved the following in just *one year*:

- **Energy Audits** – 15,264 energy audits of residential, commercial, and industrial buildings
- **Retrofits** – 12,896 buildings were retrofitted to be more energy efficient
- **Traffic Signals and Controls** – 92,488 energy-efficient LED traffic lights were installed
- **Alternative Energy** – 6,434 alternative fuel vehicles were purchased or converted
- **Loans and Grants** – $30,403,388 of loans made; $12,345,608 of grants given
- **School Education** – 604,050 students taught about energy efficiency
- **Energy Emergency Planning** – 78 energy emergency plan elements were developed

It is also worth noting that the non-ARRA SEP leveraging of each dollar of funding is $10.71 according to the ORNL study, and not the $3.58 leverage indicated on DOE's website and inadvertently adopted in GAO's recent report on ARRA-funded programs.

States Use of ARRA Funds
As noted earlier, the State Energy Offices leveraged the $3.1 billion in ARRA SEP funds with $4.7 billion in private and non-federal funds. In aggregate, states allocated SEP funds as follows:

- $122 million – Transportation
- $137 million – Planning and Energy Reliability
- $217 million – Industrial
- $104 million – Energy Education
- $886 million – Electric Power and Renewables
- $1.6 billion – Buildings Efficiency

Within the above sectors, states have set up approximately $760 million in financing programs addressing buildings and industrial efficiency. Innovative revolving loan funds, loan loss reserve strategies, and other mechanisms are being employed that will provide lasting value for nearly every sector of the economy with an emphasis on private sector action. NASEO has created an online database of these financing programs, which can be accessed at http://www.naseo.org/resources/selfs/default.aspx.

During NASEO's recent national meeting, states from every region of the nation discussed the range of creative solutions being implemented under SEP utilizing these funds. There are many compelling examples, some highlighted below, and a number of successes are attached (*See* Attachment B).

Florida: The objective of the $10 million Solar Thermal revolving loan fund is to provide low-interest financing to deploy commercially available solar water heaters—lowering energy costs for building owners over the long term. A private bank will administer the funds.

Colorado: $19 million of Colorado's funding went to revolving loan funds, New Energy Economy Development Grants, renewable energy finance and a cooperative activity on technology commercialization with the National Renewable Energy Laboratory. Residential energy efficiency programs received almost $6 million and a variety of renewable energy activities received almost $10 million.

Massachusetts: The Lawrence Community Works project directs $550,000 to retrofit a masonry mill building to use as affordable housing. The State Energy Office is funding unique historic energy efficient windows that will save an estimated 34 megawatts per year and 26,000 therms per year of natural gas. Another great example from Massachusetts is the $10 million Enterprise Energy Management System that will measure real-time energy use and identify efficiency opportunities at over 400 buildings, resulting in energy savings from five to fifteen percent.

Other ARRA Programs Implemented by State and Local Governments
Other major ARRA energy programs implemented by states and local governments include:

- Energy Efficiency and Conservation Block Grant Program (EECBG) – $3.2 billion
- Weatherization Assistance Program (WAP) – $5.0 billion
- State Energy Efficient Appliance Rebate Program – $300 million

State and local governments led the way with significant progress in deploying the above energy-related ARRA funds. The EECBG funds have been provided to well over 2,000 cities, towns and tribes, many of which have not operated energy programs previously. We have been impressed with the types of projects that are being implemented. The states are also tasked to work with the smaller communities directly under this program. NASEO is working closely with the U.S. Conference of Mayors, National League of Cities, the International City Management Association, ICLEI and the National Association of Counties to share information and assist the local and state governments in utilizing these funds as effectively as possible.

The Weatherization Assistance Program has shown remarkable results and provided low-income citizens with lasting energy bill savings and more habitable living space. For example, New York State's Weatherization Program has dramatically exceeded its goal by weatherizing 15,000 low-income houses and apartments in 2010, with an ultimate goal of 45,000 units by March of 2012. Overall, the national Weatherization Assistance Program under ARRA has completed energy efficiency improvements—lowering energy bills—for hundreds of thousands of elderly and other low-income citizens across the country.

The State Energy Efficient Appliance Rebate Program, totaling $300 million, was rolled out in all 56 States and Territories in December 2010. The states worked with retailers to identify target time frames for program initiation (e.g., President's Day or Earth Day). The program was over-subscribed and had an immediate impact. According to DOE, the program is delivering $42 million in annual energy cost savings for participating consumers and resulted in over $1 billion in consumer purchases to date. The DOE Energy Savers web site has regularly updated information on that program.

Energy funding from these and other programs is being utilized in every state. Jobs are being created, household energy bills are being reduced, power sources are expanding, private sector investment is being encouraged and planning and response for energy supply disruptions (i.e., energy assurance) is improving. We are seeing a sustained wave of innovative energy programs delivered by state and local governments that are catalyzing private investment and helping government to increase the energy efficiency of its facilities—delivering lasting value to taxpayers.

Conclusion
SEP and the other state and local energy funding programs under ARRA have been a success. We all recognize that the state and federal personnel worked very hard and are more rapidly implementing the funding awards. Like their state counterparts, DOE staff spent countless hours of paid and unpaid time to get the job done and deliver results for the American people. We all recognize the economic pain of so many in the nation that remain unemployed or underemployed and the states continue to seek to optimize and leverage the opportunities made possible by this historic amount of funding.

We at NASEO appreciate the Subcommittee's work in reviewing and assessing DOE's and the States' progress in program implementation under ARRA. The results delivered by the states are impressive given the many challenges presented and point to the longstanding value of SEP. It is the states' focus on partnering with their local businesses and citizens to achieve the shared national energy goals of increased energy security, lower energy costs and expanded economic opportunity that sets their efforts apart from other national energy programs.

We look forward to the opportunity to brief the Subcommittee on these programs.

Best regards,

Philip Giudice

Philip Giudice
Chair, National Association of State Energy Officials
Energy Undersecretary, Massachusetts Office of Energy and Environmental Affairs

cc: The Honorable Fred Upton
The Honorable Henry A. Waxman
The Honorable Edward Markey
State Energy Office Directors

Attachment A: ARRA Reporting Mechanisms and Process Issues

Obligating Funds *Versus* Expending Funds
In the case of SEP, the federally designed financial and job reporting mechanisms under ARRA do not reflect the real activity on the ground. Specifically, the vast majority of the states utilize private sector companies to conduct the energy efficiency and other program activities. It has long been prudent state procurement practice to pay for services once they have been successfully completed and not before the work is done.

For example, an energy service company (ESCO) that has received a contract to undertake energy efficiency upgrades in a school building is generally not paid until the work is actually completed and/or significant milestones under the contract are satisfied. Nevertheless, the contract allows the ESCO to hire workers and move forward and the local economy is directly and positive impacted. However, the associated data on spending or "costing" (in federal parlance) does not occur until the work is completed. Thus, this data point is not only a lagging indicator of the real progress on the ground, it is an inaccurate indicator.

States' ability to enforce the terms of contracts is greatly enhanced if the state is holding the money, and not the contractor. This is no different than a homeowner wisely paying for most of a new roof only when the work is completed—not beforehand. So, while the "costing" figure may lag, the work is underway and jobs are being created. State Energy Offices will not shortchange taxpayers and waste federal or state dollars by changing these contract terms. The near absence of waste, fraud and abuse under SEP and positive public response to this program is witness to the states' prudent and practical approach of deploying funding.

Another important and flawed indicator is the reporting mechanism for job creation. The federal jobs reporting mechanism is widely acknowledged as being seriously flawed. It does not reflect the substantial leverage states are achieving with excellent program design, and grossly undercounts both direct and indirect job creation and retention by any measure. For example, when funds are used to buy capital equipment, such as HVAC units, only the job of delivering and installing the equipment may be counted. The labor used to create the HVAC system— manufacturing, testing, packaging, distribution—is excluded. The vast majority of the value and impact is unaccounted. There are many similar examples across the programs under ARRA. NASEO strongly recommends a more practical approach to jobs data that reflects the actual activity underway.

States Access to ARRA Funds – Process and Timeline
SEP and WAP have been funded since the 1970s and have a strong track record of success, prudent state management, proven auditing procedures and a history of transparency. ARRA funds were added to the annual base funding with an existing infrastructure. Congress was wise to build on existing programs and existing authorizations.

There is no doubt that the ramp-up of existing programs and the implementation of new programs has been a challenge, both at the federal and state levels. The federal government went through a growth period or ramp-up, adding and training new employees and creating new processes and requirements. State governments, while suffering through the worst cutbacks since the Great Depression, faced challenges as well, but we added energy jobs and have persevered to effectively and efficiently utilize the federal funds as discussed in my letter. The vast majority of the job creation under SEP has been in the private sector, actually implementing projects.

To gain a clear sense of the key milestones in the DOE and State processes, we have prepared the summary table below. While specific to SEP, the processes are similar for other programs.

- 2/17/2009: Passage of ARRA Provides $3.1 billion for SEP
- 3/23/2009: DOE directs states to do *three-year spending plan* due May 12, 2009
- 6/22/2009: DOE makes first SEP award to Iowa for 40% of funds
- 9/14/2009: DOE provides 50% of SEP funds to 47 of the 56 States/Territories
- 11/9/2009: DOE issues NEPA template for States use in DOE approval process
- 12/17/2009: DOE issues series of Buy American requirements for States
- 2/5/2010: DOE issues Historic Preservation agreement for DOE approval process
- 3/1/2010: SEP reporting requirements change from quarterly to monthly
- 1/1/2011: States contract 89% of funds for specific projects*
- 3/14/2011: States spend $1.05 billion, and are *on track to exceed the DOE SEP spending target of $1.50 billion* by June 30, 2011

* Most remaining funds are already allocated to projects and are under contract negotiation.

The greatest challenges to rapid utilization of the funds were in five areas: 1) general federal ramp-up issues; 2) the National Environmental Policy Act (NEPA); 3) Davis-Bacon; 4) Buy American; and 5) Historic Preservation. In each case, spending was delayed, but the laws are being complied with and the programs are being implemented. DOE's efforts to address these issues resulted in the issuance of multiple guidance documents (actually legally binding requirements) by the Department in November and December 2009. With these requirements in hand, states were then able to incorporate the federal requirements into contracts and rapidly move funds to grantees. As the process continues to evolve and new DOE requirements are provided, the states are quick to comply and execute the programs in compliance with the law and regulations. The numberous challenges above deserve further discussion:

Ramp-up issues: DOE was faced with quickly building the capacity to manage massive new responsibilities. In addition to huge paperwork increases, DOE also had to hire and train new personnel. The rapid expansion at DOE led to some inconsistent decisions where one DOE project officer approved a state program while the identical program was rejected by another DOE official.

NEPA: The National Environmental Policy Act (NEPA), which obviously pre-existed ARRA, posed a variety of challenges. First was simple logistics - there were simply not enough trained DOE personnel to evaluate these projects and programs. Second, NEPA forced states to look for projects that would have limited review times and a lengthy NEPA review process that could go beyond the closing date of ARRA. For example, NEPA reviews for solar activities in Tennessee severely slowed spending in that state. While NEPA provisions held up the funds initially, almost all of these issues have been resolved, and at present, ninety-nine percent of the EECBG projects and ninety-three percent of the SEP projects have received NEPA approval.

Davis-Bacon: ARRA applied the Davis-Bacon statute to state energy activities for the very first time, creating a series of issues. In the WAP program states had to wait for the establishment of the wage rate for WAP workers by the Department of Labor before issuing contracts for WAP work. This wage rate was not established until September 2009, seven months after ARRA was approved and after the survey was completed in late August. Contracts were issued within a couple of months and work ramped-up significantly.

In one Inspector General report (OAS-RA-10-04) regarding the WAP program, the IG suggested that the states could have initiated these programs without knowing the wage rates. Unfortunately, the DOE IG simply has a lack of knowledge about these programs. If the preliminary wage rate was too high, does the IG suggest that we should get the money back from the employees? In the case of Ohio, where they did move more aggressively, the Department of Labor essentially reprimanded the state for moving too quickly. For SEP, we were hopeful that the WAP wage rate would be applied to SEP. After a delay, the Department of Labor determination was that the WAP rate would not apply to SEP.

Buy American: For Buy American requirements, three product waivers were issued since the start of 2010 for LED street lighting, CFLs and certain types of electronic ballasts. These products are simply not made in the United States.

Without timely guidance—legal clarity of federal requirements—in both the Davis-Bacon and Buy American areas, the state and local governments were simply requiring through contracts that ARRA recipients ensure that the laws are complied with. We recognize the importance of these legal requirements; we are simply stating that they caused delays in obligating and spending down the monies.

Historic Preservation: ARRA has created an avalanche of new work for state historic preservation agencies. In one state alone, there are over a thousand ARRA grants and each one needed to be reviewed by a state historic preservation office: we have worked collaboratively to establish a screening process whereby grants at newly constructed buildings are approved quickly, whereas work performed at older buildings receive heightened scrutiny. Despite this workable arrangement, it sometimes causes frustrating delays. DOE, the National Conference of State Historic Preservation Officers and the Advisory Council on Historic Preservation concluded a model agreement that has helped to speed up program implementation.

The work completed thus far has been extraordinary. While there are, and there will be, examples of problems that have delayed the process, the results have been very positive. While there have been frustrations, the federal, state and local governments are working together—sharing successful approaches, examining ways to further streamline systems, and coordinating to extend the impact of the these funds far beyond the 3-year term.

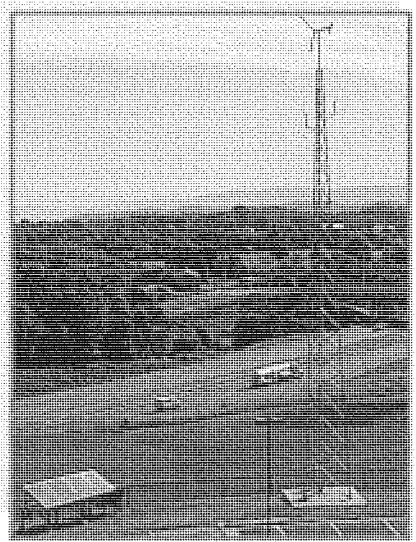
To step up to the challenge, NASEO hired seven former state energy officials to help coordinate the states on a regional basis to ensure that every time a problem was raised and a solution provided, we would not have to work through that problem again.

NASEO National Association of State Energy Officials

2011

U.S. State Energy Program

An activity report of U.S. State Energy Program success stories from the State and Territory energy offices.



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NASEO National Association of State Energy Officials

U.S. State Energy Program
Briefing Book

With special thanks to Jim Arwood,
NASEO Southwest Regional Coordinator, for
compiling this activity report.

Cover photo:
Virginia Department of Mines, Minerals and Energy

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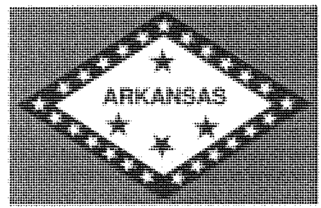

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State Success Story

Alternative Lighting in Pilot Poultry House Shows Promise

November, 2010

Jerry Hutton has been around chickens all of his life. His family built some of the first chicken houses in the Prairie Grove area of Northwest Arkansas and today Hutton maintains eight houses. Last year, the University of Arkansas (U of A) Division of Agriculture approached Hutton about participating in a pilot energy efficiency project. "I've worked with the university before and am always willing to help when I can because they're real advocates for the farmer," Hutton said. "When they asked me to do this, it was just a natural to say 'yes.'" Funded by a $1.5 million grant from Arkansas Economic Development Commission's Energy Office and the State Energy Program, U of A researchers are testing alternative lighting for poultry houses.

Four of Hutton's houses, which typically use incandescent light bulbs, were replaced with a mix of LED (light-emitting diode) and compact fluorescent lights. Each house is 500-feet long with solid sidewalls. Dimmable LED bulbs were placed approximately every 10 feet and compact fluorescents were installed in the center. Previously, Hutton had no way of knowing what portion of his overall operating costs was dedicated to electricity. With the assistance of Ozarks Electric Cooperative, he and the U of A will soon be able to identify the amount of power used in the four pilot houses and compare the expected cost savings with his other houses.

"LED is a new technology and it's similar to the introduction of the cell phone 15 years ago," Dr. Susan Watkins, an associate professor in the U of A's Poultry Science Department, explained. LEDs are actually semiconductor chips that directly convert electricity into light. LED bulbs that are the equivalent of a 25 to 35 watt incandescent bulb use about 0.7 watts. Unlike incandescent bulbs that have a filament that must be heated to produce light, LED bulbs don't have filaments that require heat, which is one of the reasons they are more efficient.

Prior to the pilot project with private producers, various energy efficient bulbs were, and continue to be, tested at the U of A Applied Broiler Research Farm. According to Tom Tabler, manager of the research farm, all of the lights — dimmable LEDs, compact fluorescents and cold cathode lamps — have proved to be more energy efficient than incandescent bulbs. The cost savings at the research farm have been, on average, $100 over a 45-day period, which is generally the amount of time commercial birds are raised before being slaughtered.

An added bonus of installing energy-efficient lighting appears to be a better product. Studies indicate that alternative lighting does not appear to adversely affect bird weight or production numbers and may, in fact, have a positive effect on bird behavior. According to Hutton, the chickens in the four houses in which alternative lighting was installed have been larger and healthier. "These are some of the best birds I've ever raised," he said.

Installing LEDs has a high up-front cost. Bulbs can range from $32 to $45 each compared with $0.50 for incandescent bulbs. However, the estimated LED life expectancy can range between 35,000 to 50,000 hours, compared to 6,000 hours for traditional bulbs. With a reduction in energy usage of up to 80 percent, poultry producers could recoup their initial investment within a short amount of time. Dr. Watkins said that LEDs will be a tougher sell to poultry farmers, but sees adoption of the technology getting less expensive as demand for the product increases.

"It all boils down to cost versus return, and if we can find ways of being neutral or make a little money and reduce energy needs at the same time, I think an awful lot of farmers will participate," Hutton said.

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State Success Story
California Awards $29.6 Million in Funds for Clean Jobs Training, Energy Upgrades
May 20, 2010

In three separate awards, the California Energy Commission approved $29.6 million to provide workforce development, create clean jobs and improve energy efficiency throughout California. Funding for the projects comes from the federal State Energy Program (SEP)

The three programs - *EnergySmart Jobs, Energy Technology Assistance Program (ETAP), and the Downtown Oakland Targeted Measure Project* - were awarded funding from the California's State Energy Program (SEP) for energy programs focused on existing commercial and residential building energy efficiency (and water efficiency) retrofits.

"These exciting programs are models for leveraging private funding with public funds to create partnerships that are designed to bring new jobs into the market, boosting our statewide economy," said Karen Douglas, California Energy Commission Chairman. "By upgrading commercial buildings to be more energy efficient, we're showing building owners, operators and occupants that energy efficiency can provide cost savings and other valuable non-energy paybacks while at the same time benefitting the state with lower greenhouse gas emissions. Improved building comfort and reduced maintenance costs will help convince customers to accept and demand new energy efficient innovations, helping to transform the market."

The combined programs anticipate creating or retaining more than 1,200 jobs plus creating a new clean energy workforce through aggressive training programs. Energy savings are estimated to exceed 117,000 megawatt hours of electricity (or enough to power 234,000 homes for one month) and more than 52,000 tons of CO_2 equivalents annually.

The Municipal and Commercial Retrofit Programs

The Energy Technology Assistance Program (ETAP), another statewide venture, was awarded $5.9 million to deploy cutting edge, energy-saving technologies in government buildings. The ETAP, administered by Energy Solutions, has a strong workforce development component creating more than 700 direct and indirect jobs, including training for professionals and apprentices in the lighting and heating, ventilation and air conditioning (HVAC) industries.

The statewide Energy Smart Jobs Program will use $18.8 million to provide energy efficiency options for the approximately 40,000 commercial buildings throughout California that have retail refrigeration equipment facilities such as grocery stores, convenience stores, specialty markets and restaurants.

The Energy Smart Job Program has initially partnered with 14 entities, including community colleges, technology firms, utilities and manufacturers to leverage almost $900,000 in private and public monies and more in-kind services. In a model partnership with the California Conservation Corps, 60 members will be trained and employed by the program administrator, PECI, to conduct refrigeration efficiency surveys and upload the data to a central database. Participating energy services companies will then provide additional information and make recommendations to business owners about appropriate energy saving equipment.

Working with local utilities, the program will leverage about half of the funding to "buy down" the cost of energy efficient refrigeration equipment with direct incentives. The program estimates funding 5,000 retrofit projects saving the commercial retailers approximately $40 million in energy costs over five years.

The ETAP is targeting 21 cities, counties and special districts in northern and southern California and are also leveraging $13.5 million in public and private funds. The program is anticipated to save 17.6 million kilowatt hours (kWh) a year, reduce summer peak electricity demand by 1,700 kWh and diminish CO2 emission by 10,000 tons. Some of the energy-saving technologies to be installed include a bi-level parking lot and parking garage lighting fixtures with occupancy sensors. These devices will turn lights off when not needed, and provide wireless lighting and HVAC controls.

The public and private partnership program - Downtown Oakland Targeted Measure Project - will use $4.8 million to install advanced energy efficient lighting in many of Oakland's commercial buildings. This unique program leverages $2.3 million in public and private funds from utility companies, the local community college district and local workforce development programs like the nationally recognized Oakland Green Job Corps.

The pilot program, administered by Quantum Energy Services & Technologies, Inc., will retrofit classrooms, offices, parking lots and parking garages with advanced lighting and HVAC technologies. These measures are expected to reduce the area's annual energy use by 8.4 gigawatt hours (GWh) and cut greenhouse gas emissions by an estimated 4,417 tons of CO2 annually. Partners PG&E's East Bay Energy Watch program and the Clean Energy Workforce Training Programs are teaming up with the Peralta Community College District to train facility operators, contractors and installers.

The City of Oakland Economic Development staff, the Building Owners and Managers Association, and the Oakland Chamber of Commerce have already lined up 4 million square feet of building space as part of this huge retrofit effort.

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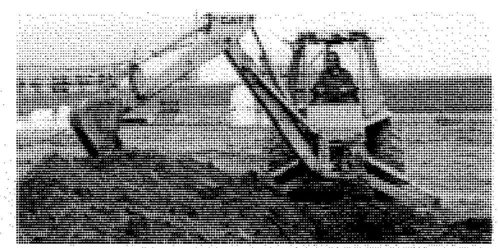
State Success Story
Colorado School Reaps Big Benefits from Energy Project
August 31, 2010

For more than a decade, students and teachers at Calhan School have been sweltering under the oppression of worn-out boilers and failing temperature controls in their rural school northeast of Colorado Springs.



"I've been teaching at Calhan since 1993, and I remember there were some hot afternoons where you could barely catch your breath," recalls Linda Miller, now district superintendent. "It was so hard to teach – and learn. We have a four-day week; classes go from 8 to 4; I would venture to guess not much learning took place after 2 p.m. on some of those days."

Those days are over come the fall of 2010, when a new highly efficient heating and cooling system using a ground-source system will transform the school's indoor environment – and save taxpayers tens of thousands of dollars a year in utility costs. The ground-source system uses the relatively constant temperature of the earth to maintain comfortable temperatures indoors using to 40 to 70 percent less energy than conventional systems.

"The school had ancient equipment, with failures and maintenance issues, indoor air quality problems due to a lack of ventilation, the need to add cooling because it's hot in Calhan, and they used propane as their main source of heating," explained Leslie Larocque, Business Development Manager for McKinstry, the contractor on the Calhan School project. "All those things combined made it an obvious choice to go to a ground-source heat pump system, so they could add cooling without adding energy costs," Larocque added.

Using the ground-source system eliminates the need for costly propane fuel to run the school's antiquated boilers. It also does away with the patchwork maintenance costs – tens of thousands of dollars a year - that were required to keep the boilers operating. Eliminating propane, adding efficient cooling technology and reducing maintenance costs could save the school as much as $80,000 a year, Larocque said.

Partnership Creates Economic Splash for Community

The project benefited from a partnership with various Colorado government agencies. The Governor's Energy Office provided a $305,000 New Energy Economic Development (NEED) grant – its largest NEED grant ever. The Department of Local Affairs contributed $400,000. The Colorado Department of Education put up nearly $1.6 million and the Calhan school district contributed $725,000 for the roughly $3 million project.

Not only does the new project promise to make life – and learning – far better for Calhan School's 600 students, teachers and administrators, it has created an exciting economic splash in this tight-knit town, as McKinstry turned to area companies for much of the work. Calhan graduates now working for local contractors are among those who have worked on installation of the new system, Miller said.

"You drive by our one and only hotel, and you see sub-contractors and their vans and trucks and how they're putting money into our economy," Miller said. "This is huge for the town of Calhan. It makes me very proud of this project."

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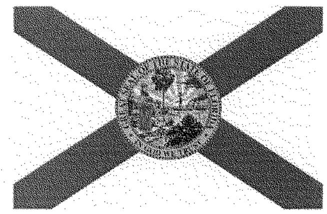
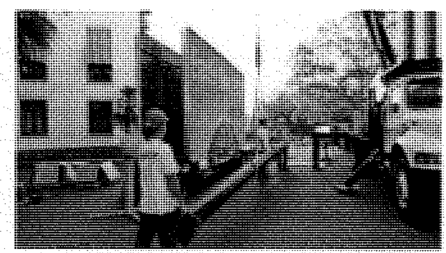


State Success Story
Florida Billboards Powered by Wind Turbines
September 13, 2010

A renewable energy demonstration project is underway in Florida. When completed, one megawatt of solar and wind will be installed on 1,531 existing billboards along stretches of I-10, I-110, I-75 and other major traffic corridors throughout the state.



In February, the Florida Energy and Climate Commission awarded a $2.5 million grant to Lamar Advertising. The grant monies were part of Florida's State Energy Program allocation and leveraged a $10 million investment by Lamar in an effort that combines renewable energy, energy efficiency and public education.

Project Creates Jobs throughout the US

Through the end of August roughly ten percent, or 150 billboards, had been retrofitted. "The first five months were devoted to organization, planning and logistics," said Greg Gauthier, manager of strategic projects for Lamar. "In August, we started installations in earnest, and we expect that our pace will allow us to complete the project by the end of 2011." Lamar has ten employees dedicated to the project at various levels, from mechanical to electrical.

"We have calculated that the business volume associated with this project supports over 60 jobs nationally," Gauthier says.

A portion of those jobs are at Southwest Windpower, a U.S. manufacturer of small wind turbines. Lamar is using the company's Skystream wind turbine to supply power for a number of its Florida billboards.

Andy Kruse, Southwest's Co-founder and Executive Vice President, said the collaboration with Lamar Advertising has had positive impact on employment at his company's factory and with its affiliates in Florida.

"The job impact comes from a new application meaning more jobs on the ground both at our factory and for field installers," Kruse says.

In addition to the renewable technologies and the associated job opportunities in those fields, each installation is being augmented by energy efficiency technologies which create additional jobs. Lamar is employing LED lighting in lieu of existing metal-halide lighting, and digital lighting controllers with online control capabilities in lieu of conventional timers or photocells.

Growing Florida's Green Economy

While the value of the project is being measured in energy savings, estimated at $232,000 a year, what isn't being measured is the impact of the project beyond the energy offset.

It is this combination of platform and technology along Florida highways that will result in the distribution of information intended to increase public awareness and acceptance of renewable energy. This clear message regarding renewable energy's effectiveness is being conveyed to millions of Florida residents and visitors every day and the public awareness component will continue over the 20-25 year lifespan of these systems.

"This project brings more awareness to the availability and utility of renewable energy, in the hope that both homeowners and business owners will consider it as an alternative to conventional grid power," Gauthier says. "The ultimate goal is to grow the green energy industry in Florida, and all the associated economic development that goes along with it."

SEP Creates New Business Strategy

Gauthier says that he had no way of knowing that Lamar would be impacted so deeply by the State Energy Program.

Over the past two years Lamar had experimented with several wind and solar options. Those options included storing the power generated by the renewable technologies to light the billboards at night. However, the SEP funded project uses the billboard infrastructure to feed a significant amount of renewable energy back into the grid during daytime peak consumption hours.

"We are now considering other similar programs, and are continuing our strategy of incorporating sustainability into our business wherever possible," Gauthier adds. "We think this will improve our long term competitiveness by lowering our electricity consumption and placing an emphasis on lean operations."

For Southwest Windpower, Kruse says the collaboration with Lamar Advertising has allowed his company to explore the use of its product in a new application.

GEORGIA

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State Success Story
SEP Funds Move Georgia Community toward Carbon Neutrality
September 14, 2010

Clark Gove, an energy efficient neighborhood located near downtown Covington, Georgia, is one of the few live/work environs in the Southeast. It is also in the process of becoming one of the first carbon neutral communities anywhere. To reach that end, homeowners and community leaders have embraced a phased-in approach of leveraging renewable energy to reach carbon neutrality over the next five years.

That timeline, however, was provided a big boost earlier this year when the community successfully partnered with Hannah Solar on a $250,000 grant application to the Georgia Environmental Finance Authority.

According to Pete Marte, CEO of Atlanta-based Hannah Solar, the grant provided for the installation of solar panels on five buildings in the community. These installations were completed over the summer and the buildings outfitted with solar included the Clark Grove homeowners association building, a University of Georgia design studio, an energy consultant's office, the Montessori School, and the Center for Community Preservation and Planning.

With nearly a 25 percent match provided by each participant, the total investment in the solar project came to more than $340,000. Moreover, in keeping with the founding-ideals of the community, the solar panels purchased for the project were produced in nearby Norcross, Georgia by Suniva, Inc.

Earlier this year, U.S. Department of Energy Secretary Steven Chu heralded Suniva as "an American success story." The comments came in a White House blog by Secretary Chu who was recounting his visit to the Georgia Institute of Technology, the genesis of Suniva's industry-leading technology.

As heralded as Suniva is, the Clark Grove solar project is a success story in its own right, and one with the potential to have a long-term impact that goes well beyond the SEP funding.

Clark Grove a Model for Sustainable Green Development

"Clark's Grove was built as a model community to demonstrate how compact, mixed-use, pedestrian-friendly communities could be great places to live while reducing dependency on the automobile and fossil fuel usage at every possible opportunity," said Randy Vinson, the City of Covington's Town Planner and an adjunct professor at the University of Georgia.

Vinson explains that the community's original master plan, developed in 2000 by Andres Duany, follows the principles of new urbanism and traditional neighborhood design.

"Covington is on the eastern edge of the metro Atlanta sprawl line and we were seeing a lot of growth pressure over the past two decades," he says. "A local charitable foundation, The Arnold Fund, financed the project (master plan) as a model to show other developers how to build a community -- not just a subdivision."

The goal was to also make the community a model for sustainable green development. Clark Grove is an EarthCraft Community, a program initiated in 2003 by Southface Energy Institute to develop broad sustainable development guidelines. Among these guidelines is the requirement that houses be built to EarthCraft Home standards, which means they are extremely energy efficient.

SEP Brings Solar Electricity to Georgia

Despite its focus on energy efficiency and environmental design, distributed solar generation wasn't part of Clark Grove's original plan.

"We had explored using solar and geo-thermal early on, however, the price-points we needed to maintain in Covington kept us using more conventional systems," Vinson says. "We knew what people were willing to spend on a home in our area and were trapped in those economies."

When the State announced its SEP grant program Vinson sent an email inquiry to the Clark Grove property owners to gauge their interest. A quick and positive response from all residents confirmed the community's desire to take the next logical step in its effort to demonstrate sustainable development.

"As it turned out there was a lot more interest than funding," he says. "We narrowed the participants down after a closer look at the (grant) requirements."

Hannah Solar ended up installing 175 photovoltaic panels in all, 35 on each building, which will produce a total of 43 kilowatts of electricity. Marte said the panels will replace about 15 to 20 percent of the traditional electricity usage by those buildings.

But those numbers could change slightly because property owners are just now seeing their first utility bills since the solar systems became fully operational. "Over the next few months we will be able to determine the actual return on investment," Vinson adds.

Market Transformation and Long-Term Effects

Vinson and Marte believe Clark Grove and Covington have an opportunity to become known as the "renewable energy capital of Georgia." And the first phase of this project has the potential to go a long way toward making that a reality as well as helping transform many other communities across Georgia, enabling them to see the value in solar and wind power.

"We hope that our project will bring a focused attention to what solar technologies can offer and will enable the industry to expand to every aspect of society," Vinson says. "We believe this is the future for not only our community, but for the rest of the world as well."

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State Success Story
Geothermal Heating and Cooling Systems Replace Outdated HVAC Systems
August 27, 2010

Four Rantoul, Illinois schools have used a $480,000 grant to install geothermal heating and cooling systems. The project will significantly reduce the district's energy usage and resulted in the hiring of approximately 145 local workers.

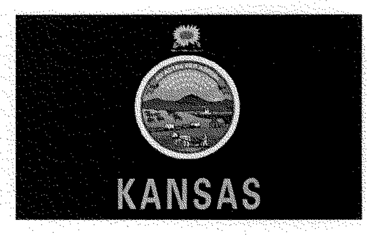
"Through the State's Energy Plan, we are investing in projects that will support Illinois' green industry and further our long-term energy goals," said Illinois Governor Pat Quinn. "I commend Rantoul City Schools for recognizing the value of conservation measures like this in protecting the environment, saving money and making a more comfortable learning environment for their students."

The grant was awarded to Rantoul City School District 137 through the Thermal Efficiency for Public Facilities program, a component of the State's Energy Plan, administered by the Illinois Department of Commerce and Economic Opportunity (DCEO) and funded through the State Energy Program (SEP).

The project will result in more than 118,000 therms of natural gas being saved, enough to heat approximately 125 homes for a year.

"Conservation is good for the environment and makes good business sense," said DCEO Director Warren Ribley. "This project is a great example of how organizations of all sizes can incorporate environmental stewardship into their business models while improving their bottom line."

KANSAS



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State Success Story
State Energy Program Trains Energy Auditors
August 20, 2010

The State of Kansas has made energy efficiency a focus of its programs. Key among these efforts is a program focused on training and certifying residential energy auditors.

"Energy auditors inspect homes to identify energy-saving measures that reduce energy costs, while increasing comfort and safety," said Ryan Freed, who manages the State Energy Programs at the State Energy Office, a division of the Kansas Corporation Commission.

"Following an inspection of the property, the energy auditor provides the homeowner with a list of recommended improvements, the cost of which is covered by the estimated savings," Freed said.

Number of Energy Auditors Multiply as a Result of Trainings

Currently, 60 energy auditors have received training and as a result are certified to work in another SEP funded program, Efficiency Kansas, which is a residential energy efficiency revolving loan program. Of the 60 certified energy auditors now working in the state, many of these are contractors that added energy auditing to the services they offer in their heating and cooling, insulation, and remodeling businesses after participating in training offered by the Energy Office.

While the number of auditors actively working in the state has increased significantly since the revolving loan program launched last November—from around 10 to 60—the Energy Office has identified the need for more auditors in Western Kansas. Earlier this summer two auditor trainings were held in Western Kansas to help fill that gap.

The week-long training programs are provided by one of three certified providers that have been approved by the Energy Office to offer trainings that qualify the auditor to work under the residential revolving loan program.

In addition to attending the training, to become certified an energy auditor must pass an exam, complete a field data collection test, and successfully submit two audits for desk review.

"Energy auditors are a crucial part of Efficiency Kansas' public-private partnership," said Freed. "The program was designed to channel SEP funds through private businesses into local communities. We hope these trainings will help get more auditors working in currently underserved areas."

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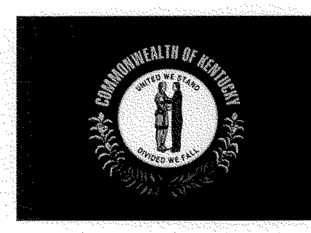

State Success Story
New School Energy Managers in Place Serving Kentucky School Districts
August 20, 2010

Growing from a pilot program in a few buildings in 2006, Kentucky's push to make its public schools more energy efficient – and return resulting savings to classroom instruction – now will impact more than 1,000 schools.

Thirty-five energy managers have been hired to create and implement energy-efficiency practices in 130 districts statewide. The jobs are funded in part with dollars from the State Energy Program. A partnership of the Kentucky Department of Energy Development and Independence and the Kentucky School Boards Association (KSBA) is putting the SEP funds to work for the School Energy Managers Project (SEMP).

"From the lessons in those pilots over the past four years, we know schools and districts can save thousands of dollars in avoided energy costs," said KSBA Executive Director Bill Scott. "The record in two of those pilots – Bullitt County and Kenton County – is hundreds of thousands of dollars in savings.

"And the potential to cut costs isn't limited to large districts. We're confident that all 130 participating school systems will realize lower utility expenditures as they put improved facility management practices in place," he said.

Energy managers are employed by a lead agency but work in all partnering districts. The 29 lead agencies (28 districts and the Green River Regional Education Cooperative in Bowling Green) will share $2.5 million in federal SEP grant funds during the next two years. The grant covers up to 77 percent of salary and benefits in the first year and approximately 50 percent in the second year. All 130 districts share the remaining costs, based on the number of schools per district.

Impacts Extend Beyond School Walls

Earlier this summer the new energy managers underwent intensive training in the requirements of the federal grant, best practices in developing local energy policies and establishing networks among the managers to share ideas.

Ron Willhite, SEMP director for the school boards association, said the training was heavy on educating the energy managers on resources they may call upon in their work.

"Expertise in facility energy practices exists from the National Energy Education Development Project, the Green and Healthy Schools initiative and the Kentucky Energy Efficiency Program for Schools at the University of Louisville," Willhite said. "These programs, plus the districts in the pilots, have people with the skills to help the new energy managers hit the ground running.

"We want the impact of this program to go beyond school walls," he said. "For example, schools in Kenton, Muhlenberg and Nelson counties and the educational co-op have energy curriculum coordinators. We want students and staff to take energy lessons home and help their families to make wise energy choices. We believe these cost savings can be realized all across the state."

LOUISIANA

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State Success Story
SEP Funds Have Louisiana Homeowners Seeing Green
August 24, 2010

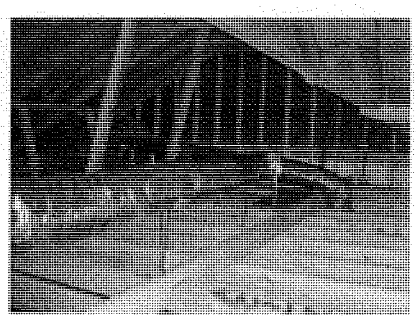
The Louisiana Department of Natural Resources (DNR) has a long track record of using rebates to promote energy savings to the Bayou State's homeowners. Building upon its past successes, the DNR recently rolled out an expanded version of its decade-old Home Energy Rebate Option (HERO) program.

The State Energy Program (SEP) funding provided to Louisiana allowed the DNR an opportunity to expand and enhance its successful HERO program. The program, which originally launched in 1999, provides homeowners rebates for making their homes more energy efficient.

"The HERO program has been a popular program within DNR for many years," said DNR Secretary Robert D. Harper, "but the focus has been on retrofits of existing homes."

In May the HERO Program was expanded using State Energy Program funding.

"The original HERO Program that was in place prior to SEP funding only applied to existing homes and awarded a maximum rebate of $2,000" said Buddy Justice, who is overseeing implementation of the expanded HERO program for the DNR. "The SEP funding allowed us to expand the program to include new homes and existing commercial properties as well as increase the rebate for existing homes to a maximum of $3,000."



More than $15 million in SEP funds have been allocated to the program to cover the cost of expanding both the rebate amount and the categories of property owners who can apply. The amount of the rebate is based solely on energy savings and will include a one to two cent SEP incentive to each rebate for every KWh saved over a 15 year period.

"The benefit of expanding this program, beyond increasing the number of Louisiana property owners who will enjoy savings in the short and long-term, is that it generates greater awareness in a wider range of people throughout the state of what opportunities exist to be more energy efficient," said Lt. Governor Scott Angelle.

Rebate Equals Lower Utility Costs

The DNR estimates that the HERO program will mean lower utility costs for years to come for property owners. Energy savings estimated at $900 per year per home will result based on the highest amount that an existing home would be eligible for under the rebate program.

For homeowners, the rebates can be as high as $3,000, depending on the level of energy savings obtained. Existing homes must show a minimum 30 percent reduction in energy usage, while new homes must meet certain federal guidelines to qualify.

For commercial buildings, the rebates can be as high as $5,000, depending on the level of energy savings achieved from the retrofit. The minimum energy reduction for commercial buildings to meet HERO standards is 10 percent.

Putting Louisiana to Work

As with the original HERO program, every home and commercial property requires an energy rating from a specially trained "home energy rater." The energy rater is selected by the homeowner from a list of qualified providers maintained by the DNR.

Since the program expanded the demand for energy raters has increased resulting in the need for more certified energy raters. In the first two months of the expanded program Louisiana increased the number of RESNET certified home energy raters from 30 to over 80 statewide.

Jennifer Waddick, a LEED specialist with The Energy Group in Baton Rouge, has been working on HERO projects since the program expanded. For the past five years The Energy Group has provided energy modeling and consulting for residential and commercial buildings.

Waddick says she has noticed a small uptick in business since the program expanded with most of the work coming from changing out HVAC equipment and adding insulation. "It is still not widely known," she adds.

But that is set to change with the launch of a major marketing campaign to promote the expanded program.

Since May the expanded program has processed 421 rebate applications from existing homeowners. The program has budgeted for 2,528 rebates. In addition to the existing homes, 49 new homes and five commercial properties also received rebates for energy improvements. The budget provides for 2,247 rebates to new homes and 1,264 rebates for existing commercial properties.

As the program ramps-up the demand for more home energy raters will increase and the DNR estimates more than 600 full-time jobs will result from the energy efficient improvements being implemented in homes and commercial buildings throughout the State.

Benefits to Homeowners Threefold

From May through August, more than $1 million in SEP funds were leveraged by homeowners who successfully completed energy retrofits in their homes and as a result received rebate checks by mail.

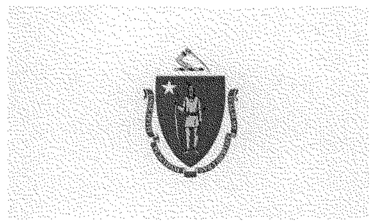
In addition to the rebate and lower utility costs, homeowners are benefitting from the expanded network of certified energy professionals working in Louisiana.

"The strength of this program is that property owners get the opportunity to work with professionals to better understand where best practices and best values are in energy efficiency," said Justice.

But the long-term benefits extend beyond the energy cost savings to the increased potential for home values.

"Our association intends to promote the HERO program at every chance we can" said Jon Luther, Executive Vice President of the Home Builder's Association of Greater New Orleans. "It's a total benefit to all, and in the long-term, we certainly see the value of homes increasing with the installation of new energy efficient products."

MASSACHUSETTS



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State Success Story
Massachusetts Solar Rebates a Down Payment on the Future
September 20, 2010

The Commonwealth's solar incentive program, launched earlier this year, is having the desired effect of stimulating Massachusetts' economy. In addition to putting people back to work it is also changing the state's energy future.

Administered through the Massachusetts Clean Energy Center (CEC), the solar rebate program is funded through the State Energy Program. Capitalized with $8 million, the program has leveraged $32 million in outside capital that has triggered the construction of eight megawatts of new solar photovoltaic capacity at 100 sites around the Commonwealth.

The CEC rebates were offered through two application rounds, one launched in January and the other in April. The popularity of the program was immediate as on both occasions the program oversubscribed within hours, providing rebates to public and private entities for new solar systems between 5 and 200kW.

Among the projects that received funding and have either already been completed or are currently under construction, are three solar projects at the Mass Audubon Society's wildlife sanctuaries in Belmont, Princeton and Edgartown.

"Showcasing solar supports Mass Audubon's mission to protect the Massachusetts environment for people and wildlife," said Laura Johnson, president of the 114 year-old conservation and wildlife organization.

Goal: Reduce Carbon Footprint

Since 2003, Mass Audubon has reduced its carbon footprint by 46 percent by increasing energy efficiency and adding solar to its sanctuaries. By the end of this year it will have 30 solar energy systems on buildings at 22 of its staffed sanctuaries representing a total of 173.5 kilowatts (kW) of solar power.

Looking for additional opportunities to implement green technologies at their sanctuaries and showcase them for the public and their 100,000 plus members, Mass Audubon applied for SEP funding.

Two of the Society's three SEP funded projects are in communities served by a municipal electrical system and thus were ineligible for the same state funding that made the other sanctuary solar projects possible.
According to Society officials, without the assistance of the federal SEP money these three projects would never have come about.

"Mass Audubon put this federal grant to work to expand the use of solar energy on buildings at our wildlife sanctuaries," Johnson says. "Using clean energy enables us to live lighter on the land, saves money on our energy costs, and educates our members and the public about green technologies."

Providing Electricity and Awareness

Mass Audubon used the SEP funding to install a 5.98 kW solar array at the Wachusett Meadow Wildlife Sanctuary in Princeton. A second array at the sanctuary, a 5.06 kW ground mounted system, is scheduled to start construction in late-September. Together, the two systems will produce an estimated 86 percent of sanctuary's electricity load.

Two additional Mass Audubon SEP funded solar projects are currently under construction. The Habitat Education Center and Wildlife Sanctuary in Belmont, eight miles west of Boston, received SEP funding for a 9.2 kW ground mounted array that will produce 31 percent of its electricity load. While the project at Felix Neck Wildlife Sanctuary in Edgartown is in the final design stages of what will be a 14.67 kW system providing 50 percent of the sanctuary's electricity.

In addition to reducing the electricity load and carbon footprint of these facilities, each project will be incorporated into Mass Audubon's educational programs and used to teach others about solar energy and sustainability.

SEP Projects Build on a Solid Foundation

Statewide, all the Mass Audubon staffed wildlife sanctuaries will now produce some or all of the electricity they consume through solar power. Four sanctuaries also produce domestic hot water from the sun, using solar thermal technology.

"One of the most important things we can do is reduce our footprint on this planet and help others to do so as well," said Christy Foote-Smith, Sanctuary Director, Mass Audubon's Drumlin Farm.

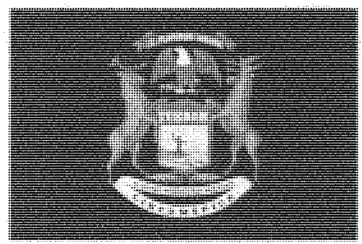
To that end, Drumlin Farm, in the center of the state, sports a 7.5 kW roof-mounted PV array and a 9.9 kW roof-mounted array will soon be installed on the sanctuary's sheep and goat barn.

But when it comes reducing its footprint, the Saltonstall Nature Center at Mass Audubon's Broadmoor Wildlife Sanctuary is the example that all others strive to match. The Nature Center gets 100 percent of its heating needs through solar energy and the center's solar electric system produces 100 percent of the sanctuary's electricity needs.

"At Mass Audubon we are determined to reduce the impact of climate change by putting our collective hands, minds and hearts to work to power our world," said Taber Allison, Vice President of Science, Policy and Climate Change for Mass Audubon.

These efforts, enhanced by SEP funding, are helping shape an alternative future for Massachusetts. It is a future exemplified by Mass Audubon's effort to be more energy efficient and increase its use of renewable energy production.

MICHIGAN



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State Success Story
Michigan Lessens Burden on Tax Payers with Public Building Energy Efficiency
January 24, 2011

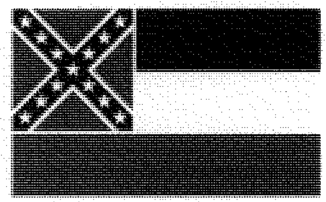
A 9.85 kilowatt solar panel array has been installed at the Michigan Department of Natural Resources and Environment (DNRE)'s Saginaw Bay District Office building as a result of a cooperative agreement between the Michigan Department of Energy, Labor and Economic Growth (DELEG) and DNRE. The 25,000 square foot building will generate approximately 60 percent of its electrical needs with the solar panel array and a previously installed wind turbine which was installed in the fall of 2009.

This project was funded through the State Energy Program (SEP) through the DELEG with the understanding that the DNRE will maintain the equipment and monitor system performance which will benefit future solar projects.

"The goals of the State Energy Program are to increase energy efficiency to reduce energy costs for consumers, businesses, and government and reduce reliance on imported energy," said DELEG Acting Director Andrew S. Levin. "By retrofitting state-owned buildings we are saving taxpayer dollars while reducing the impact of energy production and use on the environment."

These projects continue the momentum of state government leading by example in retrofitting their building stock. In addition, the projects will demonstrate building retrofit technologies that can be adopted and used by local units of government and others, and will collect energy savings data to help develop further energy savings strategies.

MISSISSIPPI



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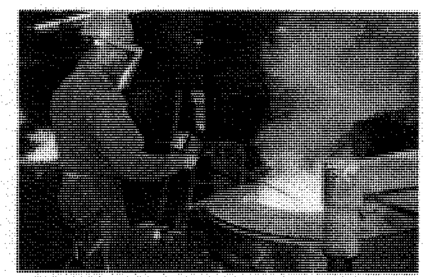
State Success Story
Mississippi Invests SEP Funds in State's Industries
August 27, 2010

Five years ago Hurricane Katrina slammed ashore along the Gulf Coast and its impacts were far reaching touching not only homes and families, but also industries and jobs. Last year when monies became available to help states re-invest in their economic infrastructure no state may have been more prepared than Mississippi. The Mississippi Development Authority (MDA) allocated $10 million of its State Energy Program funds to the Mississippi Job Protection through Energy Economic Development Program.

To date, Mississippi has completed two grant rounds and awards have been made to 55 companies. The size and nature of the projects vary among grantees which represent a cross-section of Mississippi's business community. These companies include small businesses, large manufacturers and minority and woman-owned firms from around the state. But while the applicants may differ, the results are the same: more efficient workplaces where the energy savings are being diverted back into operations, maintenance and the workforce to make these companies more competitive in the current market.

"As Mississippi strives to become more energy efficient and energy independent, we are seeking innovative ways to reduce energy consumption and spur economic growth," said Gray Swoope, MDA's executive director. "SEP funding through the Mississippi Job Protection through Energy Economic Development Program provides Mississippi companies with the support they need to be more energy efficient, thus reducing operating costs. This leads to stabilizing current employment levels and, ultimately, will create new jobs."



SEP Funds Save Jobs at Historic Laurel Manufacturer

One of the companies that received funding from the program is Laurel Machine and Foundry Co., located in Laurel, Mississippi. The company is the oldest industry in Laurel, established in 1904, and has been owned by the same family since 1911. What started out as a manufacturer and supplier of metal parts for the Lindsey eight-wheel wagon factory today has 150 employees and more than 800 customers in 33 states.

The $500,000 grant from MDA will help offset a majority of the $734,000 in energy upgrades that are currently underway at the company's facilities. These upgrades include replacing inefficient furnaces, power units and electronic controls that were originally purchased in 1979.

The Laurel project will be completed by the end of the year. Going forward the new energy efficient measures will save the company $85,000 a year in energy costs.

Laurel's Chief Financial Officer, Chuck Bridges, says he never envisioned when the SEP bill was winding its way through Congress that it would ever reach down and impact Laurel Machine. But he is glad it did.

"Without the award from MDA we would never have been able to implement these changes," Bridges says. "In the present economy, and due to tight credit and new banking regulations, we would not have been able to finance the replacement of this equipment through normal financial facilities."

He also points out that without the equipment upgrades, Laurel Machine would have been forced to close one of its facilities and lay-off approximately 32 employees. "It allowed us to continue to operate this facility and compete in the current market," he says.

The Laurel story is not unique to the Job Protection Program. The 55 companies receiving awards are expected to see a combined estimated annual energy savings of nearly $3.5 million. And, as is the case at Laurel Machine, these savings are reducing production costs, thereby allowing the companies to be more competitive and, in turn, to increase market share.

"We could possibly have to add additional employees to meet demand," Bridges adds.

NEBRASKA

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State Success Story
Solar Sprouts to Life on Nebraska Plains
September 13, 2010

Nebraska corn farmers have an expression 'knee-high by the fourth of July'. It is an expression used to describe a corn crop which is expected to turn out well. If plants reach knee-high by early July the prospects are good for a bumper crop.

The same could be said of a recently completed solar "plant" installation in Norfolk, Nebraska. The two-story high 44.1 kWh system which rose out of ground in early July to full completion in a matter of weeks may compare favorably to a good Nebraska corn crop.

"The installation went together fairly smoothly," says Brian Wilcox with Nebraska Public Power District (NPPD). "The system is working great."

SEP Provides Funding to Innovative Projects

The solar project at the NPPD's Norfolk Operations Center is one of the largest solar installations of its type in the state. Funded in part through the Nebraska State Energy Office with monies from the State Energy Program (SEP) the project utilizes a tracking system to increase the energy generation capacity of the solar unit.

According to Julie Hendricks of the Nebraska State Energy Office, the project is one of ten the office intends to fund through SEP grants for renewable energy projects.

"We issued a $5 million competitive grant for advanced renewable energy projects," Hendricks said. "We were looking for projects that were both innovative and commercially available."

The tracking system on the Norfolk project helped the project stand-out on both fronts. Not only was it innovative, it is commercially available within the State of Nebraska.

Manufactured in Columbus, Nebraska by Behlen Manufacturing, the tracking device uses a rail mounted one-axis system developed by a German company to "follow the sun" during the course of daily operations. The tracking system increases the arrays output and improves its ability to generate electricity at a lower cost per kilowatt hour. Compared to fixed installations, the system is estimated to generate up to 30 percent more energy.

Grant Provides New Opportunity for Nebraska Manufacturer

The German company that developed the tracking system, Suncarrier, recently partnered with Behlen Manufacturing to fabricate the support structure for the solar photovoltaic array as part of their entry into the US market. This partnership will retain jobs with the Nebraska manufacturer and has the potential to create new jobs as the solar market grows in the future.

The 75 year-old Behlen Manufacturing Co. was an ideal partner for Suncarrier. The company has grown over the years from founder Walter Behlen's garage, into a global manufacturer exporting products to more than 70 countries. Its main products are livestock and grain equipment; however, the new partnership is helping the company expand into manufacturing products for the renewable energy supply-chain and position it for future growth opportunities in that sector.

Growth is vitally important to a company that employees more than 1200 people at facilities in Oregon, Tennessee, Alabama and Indiana. And to demonstrate its commitment to this new product line, Behlen is planning a similar installation at its Columbus facility where the steel for the unit, as well as the wheels, motors, gears and chains were made.

Innovative Technology Taking Root in Norfolk

Although thousands of SunCarrier units exist in Europe and Asia the industry is in its infancy here in the states. The Norfolk unit is the first installation of the innovative tracking technology in North America.

The tracking technology turns on an east to west track axis to best capture the sun's rays regardless of the season. A programmable logic control system adjusts the array's position every ten minutes. During the night hours it very slowly rotates back to its starting position. To withstand high winds, which are common to the central plains, the system has a derailing device that prevents it from being lifted on its rail.

The NPPD Norfolk Operations Center system is also being monitored on an hourly basis for energy production and will be compared to the predicted energy output from the National Renewable Energy Laboratory Solar Advisor Model (SAM). Additional data will be collected for maintenance costs to calculate the total cost of energy on a per kilowatt-hour basis. The total installation cost was $413,685, of which the SEP funds paid $343,359 and the company contributed $70,326.

The amount of renewable energy produced by the project is estimated at 79,100 kWh per year, and will avoid over 50 metric tons of carbon emissions compared to NPPD system's average generating emissions.

NEW HAMPSHIRE

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State Success Story
New Hampshire Program Funds New Businesses
January 24, 2011

The New Hampshire Green Launching Pad – a new public-private partnership between the Governor's Office, the State Office of Energy and Planning, and the University of New Hampshire (UNH) – funds state businesses in the nascent clean tech sector. Funded by the State Energy Program (SEP), the Green Launching Pad is an investment in the future of New Hampshire business.

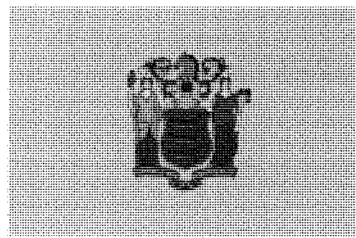
The success of the program's first round is best described by the turnout. The Board planned to distribute around $90,000 to each of three winning teams. Instead, the more than 70 teams that applied saw five teams each receive between $20,000 and $60,000 to further develop their products.

The Green Launching Pad funds a diverse portfolio of businesses, stimulating different sectors of the State's clean technology sector. Biomass power generation, CO_2 reduction technologies, innovative financing solutions, organic semiconductors and industrial energy efficiency were among the technologies selected in the first round.

In October of 2010, The Green Launching Pad organized five "Energetic Conversations" programs across the state to showcase green innovation and entrepreneurship statewide. The five recipient companies from the first round each preseuted at one "Conversation" in the state. Communication of the Launching Pad's success and potential are important to encourage more entrepreneurs to invest in New Hampshire.

The program is currently preparing to initiate a second round of funding. Whereas the first round had a maximum funding amount of $60,000, the second will increase the award amounts to $100,000. With increased rewards, larger and more innovative projects will be encouraged. Winners will be announced in April of 2011.

NEW JERSEY



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State Success Story
New Jersey Energy Projects Aim to reduce Costs and Pollution
September 22, 2010

In 2009, the New Jersey Board of Public Utilities awarded grant funds to seven energy projects ranging in size from a $63,000 boiler retrofit project at Rutgers University, to an $8.5 million landfill solar project with the New Jersey Meadowlands Commission. The projects, located throughout the state, are all at different stages in their development.

The projects were selected through a competitive application process for the state's "Innovation in Energy Efficiency and Renewable Energy - Public Entities" program. Projects funding comes from the State Energy Program (SEP).

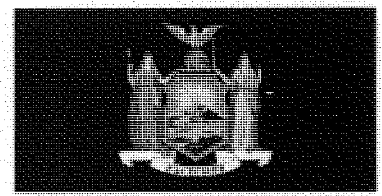
The grant program was designed to provide funding to state departments, agencies, authorities, colleges and universities that utilize innovative renewable or energy efficiency technologies or innovative applications for renewable energy applications and energy efficiency projects.

The New Jersey Institute of Technology (NJIT) is one of New Jersey's state universities taking advantage of SEP funds. NJIT is using a variety of technologies to reduce energy usage and for energy generation, including variable frequency drives for motors on heavy system equipment, variable speed drives on air circulating units, higher efficiency lighting, solar water heating and solar photovoltaics.

Upon final completion, the implemented measures will reduce building facilities management cost by approximately 75%, will reduce electric energy use by approximately 50% and will reduce the total building fossil energy use by approximately 40% through efficiency improvements and renewable energy generation.

NEW YORK

Energy Office Contact Information



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State Success Story

New York Green Jobs Training Center Goes Green

Two Projects – Two Opportunities to Teach and Learn

January, 24, 2010

The Wayne Finger Lakes (WFL) Board of Cooperative Educational Services (BOCES) covers more than 2,200 square miles across four New York counties. Each year the WFL BOCES provides career and technical education to 1,110 students, and adult and continuing education to 1,200 adults. It is within these capacities that the WFL BOCES extends 'green-collar' training to students and adults alike.

The WFL BOCES is in the process of teaming with the New York State Energy Research and Development Authority (NYSERDA) to install a 50kW Solar Electric System on the roof of an Early Childhood Education Building. With an annual production estimated at 55,640kWh, the system is expected to reduce electric consumption at the site by 43% and save approximately $9,361 in utility costs each year.

Funded by a $326,511 grant of from the State Energy Program (SEP) distributed in New York State by the NYSERDA, the WFL is moving forward with a project that otherwise would not have happened.

Beyond energy savings, the project will provide educational and environmental benefits to the community, which is extremely important to Mr. Logan and the administrative staff at the WFL.

"Education, Education, Education, said Crag Logan, Principal at Wayne Technical and Career Center. "Unlike private installations, the primary goal of these projects, from our perspective, is to help educate the public. The fact that they simultaneously provide an energy savings is secondary to the real goal of spreading the knowledge and supporting the growth of the industry."

Five solar thermal panels and 18 solar photovoltaic panels will comprise a new Solar Combined Heat and Power system (SCHP), which is the WFL BOCES' second SEP project made possible by an $119,121 grant from NYSERDA.

The design is optimized to offset nearly 70 percent of the January heating load at the WTCC Modular Construction Building, the building currently used for building assembly training, and will combine with a heat pump to boost radiant floor temperatures to meet 100 percent of the building thermal load. The solar electric component of the system will be sized to cover the operation of the solar and radiant system pumps and the heat pump.

The WFL BOCES expects that both projects will coincide with green job training curriculum. "Both projects are a 1-1 match with curriculum goals on the campus. The solar thermal project at the Wayne Technical and Career Center is the next installment of a long list of NYSERDA-sponsored projects that have been incorporated into the programs and curriculum. The Finger Lakes Technical Center's PV array will be the inaugural project to introduce renewable energy systems to the building trades curriculum on the campus," says Logan.

NORTH CAROLINA

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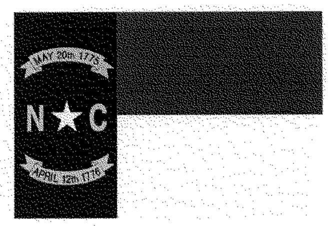

State Success Story
Residential Initiative to Boost Energy Savings 15 Percent with Energy Star Certifications
June 29, 2010

The North Carolina Energy Office recently launched a $3.7 million program to improve energy efficiency in new single-family homes and multi-family housing under construction. Two agencies were selected to work with the state to develop, implement and monitor a statewide residential energy efficiency program that will provide sustainable energy savings in new homes for both homeowners and renters, while improving the comfort and durability of the homes.

The Appalachian State University Energy Center in Boone and Systems Building Research Alliance, a nonprofit consortium of electric utilities and major manufactured and modular home building companies, have been designated by the Energy Office to lead the effort.

Plans are to improve energy efficiency in nearly 2,500 single-family homes and 480 multi-family units, along with 1,700 manufactured homes. The program, administrated by the North Carolina State Energy office and funded through the State Energy Program, will demonstrate to builders and homeowners that energy improvements make homes more attractive to buyers generate greater marketplace demand for energy-efficient homes and result in long-term energy savings.

Appalachian State University was awarded $2.6 million and is focusing on site-built single-family and multi-family home energy efficiency improvements. Systems Building Research Alliance received $1.1 million and is focused on manufactured homes built to federal standards, addressing energy efficiency improvements. The alliance is currently responsible to the federal Environmental Protection Agency for quality control oversight of Energy Star for both manufactured and modular homes.

The two agencies are responsible for managing the program, recruiting and training local builders and contractors, recruiting participants, monitoring construction and verifying energy savings along with economic benefits – including job creation and retention. Homes participating in the program must achieve a minimum of 15 percent in energy savings, including heating and cooling.

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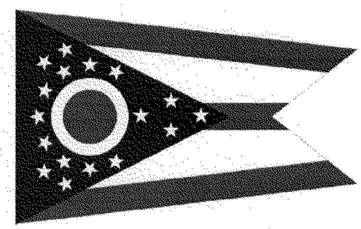


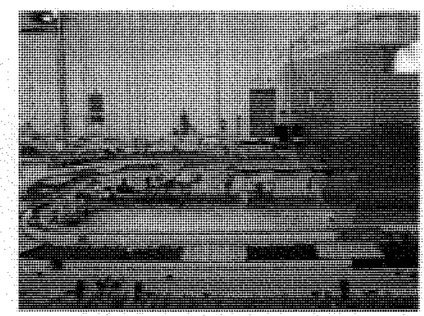
State Success Story

Ohio Bakery Helps Community Turn Back Hard Economic Times

August 27, 2010

New Horizon Bakery, a family-owned bakery in Norwalk, Ohio, is one of the town's larger manufacturers and employers. Being a major employer, New Horizon is an important ingredient to the resiliency of the small community – especially during hard times.

In February of 2009, Norwalk and surrounding Huron County's unemployment rate exceeded 18 percent, the highest rate in the state of Ohio. The company's importance to Norwalk was magnified even more when it began to discuss expansion for its hamburger bun and muffin operations that supplies major food corporations including McDonald's.



Despite the economic downturn, that expansion became a reality earlier this summer due largely to a grant from the Ohio Energy Resources Division, funded by the State Energy Program. As a result, the 160 employees at New Horizon will soon be joined by 25 new employees and the company will remain an important part of the Norwalk community for many years to come.

SEP Provides Opportunity to Grow

The company's growth started with a $1 million award from the State Energy Program's Targeting Industry Efficiency Grant. New Horizon used the SEP funds for the purchase of new energy efficient bake ovens that are now producing bread products for 1,330 fast food restaurants in seven states. The new ovens replaced 42 year-old equipment and have increased energy efficiency by 25 percent and increase production by approximately 20 percent

"This (grant) program was a game changer," said Ellen Heinz, Norwalk Economic Development Director. "New Horizons could have done this project at their Indiana facility, but they chose to reinvest in Ohio because of the enormous opportunity this grant program provided them."

Heinz said that over the past 18 months the Norwalk businesses and community stakeholders have worked hard to retain jobs and bring back those lost. New Horizon's expansion is a huge reward for their efforts.

"This grant award not only retained 160 jobs and helped this expansion become a reality, it also paved the way for their third expansion in 12 months," Heinz said. "This latest development will create 25 jobs, helping support 25 more families in a community that was hit hard by this economy."

Trina Bediako, Executive Vice-President of New Horizon, credits Heinz with playing a pivotal role in their expansion in Norwalk.

"Ellen provided instrumental guidance on what funds were available," Bediako says. "Once we found out about the (SEP funding) options, we went to work to put together our best presentation."

Energy Savings Pay Big Returns

New Horizon was one of 18 grantees that received a total of $11.8 million from the program administered by Ohio Energy Office. Grants were awarded to a variety of companies representing a wide-spectrum of industries including aerospace, agriculture, motor vehicle parts and food processing. The funds will help these industries adopt energy efficient technologies in their manufacturing processes.

While the new ovens have increased the company's production capacity, growing from 4,000 to 5,000 dozen buns per hour, they have not increased their production costs. For New Horizon, the new energy efficient technology means they will not only use less energy in their baking operation, but the waste heat will be used in the proofer -- a device that allows bread to rise -- and a tray wash system that will eliminate the use of an existing boiler in the bakery.

But New Horizon's Bediako puts it all into perspective, "Local and state-wide support have allowed us to grow," she says.

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State Success Story

Oklahoma SEP Funds Help School District Convert to CNG Buses

September 20, 2010

The Tulsa Public Schools (TPS), using $3.95 million of State Energy Program (SEP) funding and a combination of federal and state tax credits, is converting its entire fleet of 177 diesel-powered buses to compressed natural gas (CNG). The SEP funds were provided in the form of a grant through the Oklahoma Department of Commerce.

The TPS project is being undertaken in a partnership with NGV Fleet Partners of Guthrie, Oklahoma. The conversion process, which started earlier this year, is expected to wrap up around the first of the year. To date, 63 conversions have been completed. Once all buses are converted the school district expects to save between $750,000 and $1 million annually on fuel costs.

This is the second go around with compressed natural gas for TPS. In 1989 the district converted a number of buses to CNG, and in 1991 they purchased 47 dedicated CNG buses. The district also invested in a CNG fueling station infrastructure. But as diesel and gasoline prices collapsed during the 1990s the school district gradually replaced its fleet of CNG buses with diesel buses.

Fuel Costs Savings Provide Incentive to Go Green

Fuel costs are a big concern for school districts. Most school buses throughout the country run on diesel fuel. School districts set their fuel budgets in advance for the entire school year, and any rise in fuel costs has the potential for wreaking havoc on that budget. Higher costs translate to higher costs transporting students to and from school.

"At less than a dollar a gallon for CNG, compared to an average of about $2.30 for diesel, it makes good sense to convert fleets," says Ottway Burkhalter, director of transportation for Tulsa Public Schools. "The savings are substantial. During this past summer school session we ran 40 CNG buses and realized huge savings."

Burkhalter said the cost savings that are generated from this project are going back into upgrading the TPS's fueling infrastructure.

"Our compressor stations were put in during the 1990s and we are starting to replace them," he said. "The cost savings are being used to offset those costs."

While the cost savings are substantial they are not the only reason TPS is converting its bus fleet.

"Our objective is both cost savings and to use a clean energy source," Burkhalter said. "We want to save money, reduce our carbon footprint, and set a green example for other districts across the state. This allows us to do that."

Legislature Recognizes Importance of CNG

Oklahoma House Speaker Chris Benge praised the move by TPS to convert its fleet. "This is just one more sign that Oklahoma is becoming a national leader in alternative energy," said Benge, R-Tulsa. "In recent years we have placed much focus on making the transition to lower-cost, locally produced alternative fuels feasible for both citizens and businesses, and I am pleased that our local schools will realize savings as result of those efforts."

Last year, Benge, one of the state's biggest champions for alternative fuel vehicles, authored an extension and expansion of an existing CNG tax credit. He also authored the Oklahoma Energy Security Act. That legislation, which passed earlier this year, sets an alternative energy goal for the state as well as a goal of having one public CNG station located every 100 miles along the state's interstate system by the year 2015 and every 50 miles by 2025.

To help incent that goal, Oklahoma provides a 75 percent tax credit for the costs that are associated with entities investing in qualified clean-burning motor vehicle fueling stations.

"Energy security is one of the most important issues facing our nation right now," Benge said. "In Oklahoma, we made great progress by pushing a locally-available, plentiful and cheaper option in natural gas, which not only helps reduce our country's dependence on foreign oil, but creates jobs and wealth right here in America instead of shipping our money overseas."

Benge says it is his hope that other states will see the success Oklahoma had in expanding natural gas usage for transportation and will mimic the legislation in their own states.

The National Association of Pupil Transportation (NAPT) is also hoping that people take notice of what is happening in Oklahoma. The NAPT would like to duplicate the Tulsa program at other school districts throughout the country and has partnered with NGV Fleet to apply for SEP funding to test the program in other areas of the country.

OREGON

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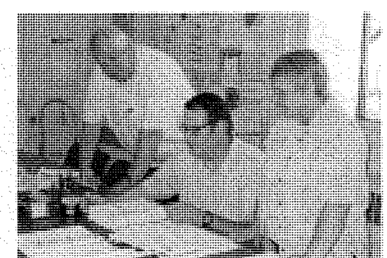
<u>State Success Story</u>
New School Lighting has Small Oregon Town Talking
August 20, 2010

"It's the talk of the town," Fossil School District 21J Superintendent Brad Sperry said of the new lights in the town's elementary and high school. "Before, kids could hide in the hallways because it was so dark that you literally couldn't see them. It was really a safety issue."

Because the high school gym serves as an unofficial "community center" for sport events, art festivals and recitals, the new gym lights received the most attention.

"We got comments like 'I need sunglasses!' and 'I don't need a flash anymore for my camera,'" said Sperry. "It created quite a buzz."

And it should. Fossil, located in a peaceful valley in North Central Oregon, is 72 miles from the nearest urban area. The town of 450 is a picture of the Old West. Cattle drives go right down the middle of Highway 19. No one blinks an eye at horseback riders on Main Street. Visitors can actually dig for their very own fossil in the middle of town. So, when the elementary and high school get new energy efficient lights to replace lights (many that were original fixtures), it is indeed, big news for the tiny town.



Wheeler High School, built in 1949, sits on a hillside above Fossil Elementary and Main Street. It serves 48 students in grades 7-12. Fossil Elementary, built in 1925, serves 43 students. The lighting projects were paid for primarily with State Energy Program funding awarded by the Oregon Department of Energy.

SEP Grant Program Provides Majority of Funds

The Wheeler High School gym lights were paid for with SEP funds in the first round of awards announced by the Oregon Department of Energy in the fall of 2009. The project consisted of replacing 32 400-Watt metal halide lamps with six-lamp T-8 high efficiency fixtures. The $15,710 project was paid for with $15,360 in SEP funds and $350 from Columbia Basin Cooperative electric utility.

The classroom and other lights at Wheeler High and all the elementary lights were replaced with new energy efficient lights in another round of lighting awards made in March 2010. This project came in approximately $2,600 under budget at $58,728 with all costs paid for with SEP funds.

Contractors installed the Wheeler High gym lights in December and the classroom lights in May. The work was done with little disruption. Contractors arranged to work during school hours in vacated classrooms when possible or after regular school hours.

The Wheeler High gym lights are expected to reduce lighting electrical use by 50 percent saving approximately $1,398 per year. The classroom lighting project is expected to save 61 percent of lighting electrical use or $1,554 per year.

"We are pleased to make this award to the Fossil School District," said Shell' Honeywell, manager of the Oregon Department of Energy grants team. "Not only will students and staff enjoy a learning environment with better lighting, but the funds will put local contractors to work."

SEP has Positive Impact on Local Contractor

The "local" contractor for the Fossil lighting projects was Hire Electric with headquarters in The Dalles. "This job had a definite impact on our business," said Dan McHale, president of the 22-employee family-owned business which has been in The Dalles since 1935. "Things have been really slow. Some of my electricians aren't working full 40-hour weeks and some are on unemployment. But I was able to keep two electricians busy for two weeks on the Fossil job."

In addition, McHale said the Fossil job had a "trickle-down effect." "It kept our material handler and supplier busy. All the way around, it helped," McHale said.

The two electricians stayed in Fossil for the job and ate at local restaurants which also helped the Fossil economy.

"It's gratifying to see energy projects have such an impact on these rural schools and businesses," said Paul Egbert, Lead SEP Project Manager. "They are very appreciative of the funds and the positive impact it has had for the kids."

New Lights Are Source of Pride

Cistie Shaffer, deputy clerk with the Fossil School District for 25 years and a Wheeler High School graduate, is well aware of the difference. "The old lights gave out a yellow light. Now they're white," she said. "Best of all, the annoying humming sound of the old lights is gone. Sometimes we wouldn't even turn on the old lights because the noise was so distracting."

Even the cafeteria cook commented that she can read her recipe from her prep area. She doesn't have to walk to an area beneath a light to read it.

Although the lighting projects were paid for, there is considerable work that comes with getting federal funds. Recipient funds must ensure that all federal regulations are followed. These include paying Davis-Bacon wages, getting approval from the State Historical Preservation Office, ensuring that all equipment is in compliance with the Buy American Act, interviewing all workers on the job, ensuring all official notices identifying the federally funded project are visible, and making sure that all reporting is done in a timely and accurate manner.

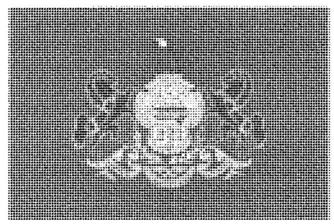
"Cistie did a wonderful job," said Egbert. "She had to keep on top of a lot of details, in addition to her regular work. I was impressed how a small school district with limited resources accomplished what it did."

Now that the lighting project is complete, Superintendent Sperry is considering his next project—painting the inside of Wheeler High this summer.

"It's also a no-cost project," said Sperry. "donated paint and labor."

Just like the towns of the Old West, Fossil residents pull together and show pride in their schools.

PENNSYLVANIA



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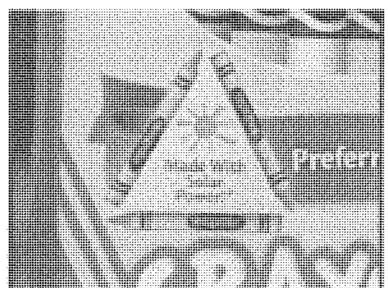
State Success Story
Pennsylvania Uses SEP Funds to Help Crayola Go Green
January, 2010



For more than a century, Crayola has made every color under the sun. Now, the sun is making those colors with the help of a 15-acre solar farm that began generating electricity earlier this summer at the company's headquarters in Easton, Pennsylvania.

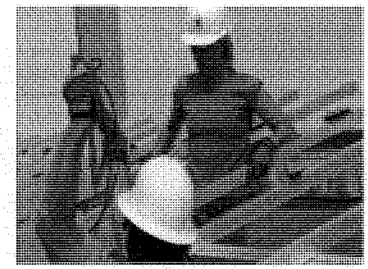
The Crayola plant was one of eight large-scale solar projects in the state that received funding from Pennsylvania's State Energy Program (SEP) funds administered by the Pennsylvania Office of Energy and Technology Deployment.

Crayola received $1.5 million in SEP funds to help offset the $15 million cost of the 1.9 megawatt (MW) solar installation. Nearly 26,000 thin-film photovoltaic panels, manufactured by First Solar at their Perrysburg, Ohio factory, were used in the project.

Pennsylvania's Green Energy Works! Solar program is one of four competitive grant opportunities using a combination of state, private and SEP funds to create green jobs, green energy and to stimulate economic development. Biogas, combined heat and power, and wind are the other three.

Crayola Green Team

According to Mike Perry, President and CEO of Crayola, the 15 acre solar farm's electricity will be fed to the company's nearby manufacturing plant.



"That power will produce a third of the crayons we make here in Easton, Pennsylvania," Perry said "A little over a billion crayons is what this power will be used to produce."

In addition to labeling on its boxes that identify the crayons were made by solar power, the company has also constructed an exhibit to help educate the more than 350,000 visitors a year that tour the plant to the benefits of solar energy.

"Kids all over the world can now say that there crayons were made with the power of the sun," Perry added. "And, it won't cost them anymore money to do it."

TENNESSEE

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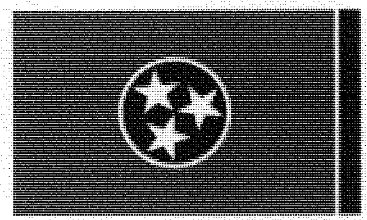


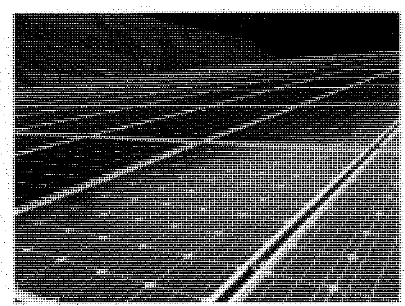
State Success Story
Tennessee Small Businesses See Solar as New Possibility
September 20, 2010

Two years ago, if you told Jan and Karl Heinrich, owners of H&H Design, that their rural, family-owned custom piping business in Gallatin, Tenn., would be part of the rapid expansion of installed solar capacity in the state, both would have responded skeptically.

"It just wasn't anything I had thought about until June of this year," Heinrich said.

This was before Heinrich learned that the State of Tennessee had established the Tennessee Solar Institute and launched the Solar Installation Grant program earlier this year. The program paid off for Heinrich – H&H Design received a $67,000 grant under the Solar Installation Grant Program to install a 34.56 kW solar PV system on its rooftop.

"I started seeing news stories about other solar projects being developed in the state and decided to look into the possibility of installing a system at our office," Heinrich said. "If it wasn't a positive investment, we wouldn't have done it, but the payoff and rate of return was a good fit for us personally. As a small business, anything that helps reduce our costs will help sustain our business long term, and this system will do just that. This system will save us thousands per year in energy costs."



H&H Design is one of the first recipients of the Solar Installation Grants awarded by the Tennessee Solar Institute. Since the launch of the program, 108 grants totaling just over $9 million have been awarded by the Institute. Once complete, these projects will bring an estimated 5.8 MW of additional installed nameplate solar capacity to the electrical grid in Tennessee. The $9 million of grant funds has leveraged approximately $24 million of additional private capital, bringing the aggregate investment of all projects to just over $33 million.

"The Solar Installation grants are an important tool in the expansion of Tennessee's renewable energy portfolio and one of the reasons Tennessee is considered a leader in the deployment of clean energy technology under Governor Bredesen," said Matt Kisber, commissioner, Tennessee Department of Economic and Community Development. "Tennessee companies, like H&H Design, understand using renewable energy makes them more competitive, and they should be applauded for their vision."

H&H's story is illustrative of the rapid expansion of the solar industry over the last three years in Tennessee. In 2008, less than 1 MW of solar was installed in Tennessee; today, there is about 2.5 MW. By June 1, 2011, it is projected that there will be 15 to 20 MW of solar capacity on Tennessee's electrical grid.

This rapid increase is due much in part to a push by the State of Tennessee to boost solar capacity through a series of programs, including Tennessee Governor Phil Bredesen's Volunteer State Solar Initiative.

The Volunteer State Solar Initiative, a comprehensive solar energy and economic development program focusing on job creation, education, renewable power production and technology commercialization was established in 2009 using funds received by the Department of Economic and Community Development through the State Energy Program. The Tennessee Solar Institute is a component of the Initiative and will focus on industry partnerships to improve the affordability and efficiency of solar products for consumers like Jan and Karl Heinrich.

The state-established Tennessee Solar Institute is a center of excellence between the University of Tennessee and Oak Ridge National Laboratory that brings together scientists, engineers and technical experts with business leaders and policymakers to help speed the deployment of solar photovoltaic technology. Its mission is to advance the understanding of solar innovation and to inspire new ideas that speed the deployment and implementation of solar-based technology in Tennessee.

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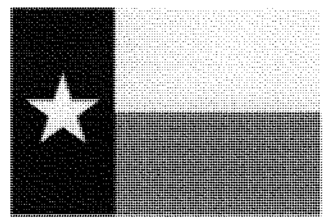

State Success Story
Texas Town Uses SEP Funding to Install and Synchronize Efficient Streetlights
November 3, 2010

Green is a versatile color. It can mean "go," it can mean money and it can mean energy efficiency. It's becoming all of those things for Beaumont, thanks to a traffic signal SEP grant.

In Texas, 15 cities and one county were awarded $7.8 million in State Energy Program funds through the State Energy Conservation Office in early 2010 to update their traffic signals. The goal of the Traffic Signal Program is to synchronize traffic signals through the installation, updating and/or maintenance of traffic synchronization technologies and/or the replacement of traffic signal lights with Light Emitting Diodes (LEDs).
Beaumont needed all of that.

A 2006 city-commissioned study by Midtown Engineers, LLC examined the effectiveness, function and maintenance of the southeast Texas city's traffic regulation system. Beaumont scored a 38 on a scale of 100, a failing grade by any measure. "That's not what any city would hope for," says Patrick Donart, Beaumont's director of engineering.

So the city's public works department started searching for funding to fix the problem and got some help from two storms – one literal and one economic.

Those included a $33 million hazard mitigation grant from the Federal Emergency Management Agency to Drainage District 6 in Jefferson County for drainage improvements after Hurricane Rita battered the region in 2005. Government grants provided the bulk of funding for a $62 million project to make structural and drainage improvements to Calder Avenue in Beaumont, including traffic signals.

Then came the recession and the State Energy Program, which awarded a $17 million transportation efficiency grant to Texas, including $7.8 million for the Traffic Signal Program. Beaumont got $2.06 million, which coupled with a match of nearly $500,000 provided the city almost $2.6 million to use toward improving traffic operations.

Not only could the roads be improved, but so could the regulation of the traffic upon them. City officials re-examined the 2006 study and identified 62 of the city's 168 traffic signals for improvements, including installation of fiber optic cables and more energy-efficient LED lights and linkage to an Advanced Traffic Management System (ATMS).

LED lights save energy because they use as little as 1/30th the power of incandescent bulbs and last longer. The ATMS will connect each light management cabinet to a mainframe computer, allowing officials to quickly and universally adjust light synchronization based on traffic conditions.

The ATMS will also have cameras at each intersection to allow officials to visually monitor traffic flow.

"If someone calls in and says they're stuck at a light that won't change, we can call it up and take a look," Donart says.

"It will enable us to have a smooth flow of traffic. We can time signals for drivers to get from point A to point B in an efficient manner. If there's construction, we are able to route around the delays."

The project is set for completion in March 2013. Donart says he doesn't have current estimates of energy and money savings, but notes that some of the bids have come in under projections and the project could be expanded.

"I'm almost certain we'll be able to do more than the initial budget and grand scheme called for," Donart says.

That's what you call catching all the green lights.

UTAH

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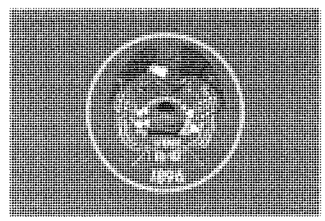

State Success Story

Utah State Energy Program Launches Solar for Schools Program

Program to showcase value of renewable energy solutions to students, overall community

November 8, 2010

The Utah State Energy Program recently announced the beginning of Solar for Schools, a statewide energy education initiative designed to help educate students throughout Utah on the benefits of renewable energy. The program is funded by a $3 million grant from the U.S. Department of Energy's State Energy Program (SEP).

Solar for Schools includes a comprehensive renewable energy education curriculum that will be implemented in elementary, middle and high schools throughout the state. The program also includes the installation of 73 solar photovoltaic (PV) arrays at schools, with at least one array in each of the state's 41 districts. The first installation was celebrated recently at a ceremony featuring all program participants at Salt Lake City School District's Hillside Middle School.

"Solar technology is one of the best sources of renewable energy in Utah and is at the forefront of the national energy mix. With Solar for Schools, the state will be able to produce clean energy while providing students with the opportunity to learn about these technologies," said Elise Brown, renewable energy coordinator, Utah State Energy Program. "The program is an investment in energy education, Utah communities and Utah kids."

Solar for Schools provides the scholastic resources for Utah students to learn about renewable energy technologies through interactive projects. The comprehensive renewable energy curriculum allows students the ability to track live data from the solar arrays, compare this data with other schools across the state, and ultimately gain a better understanding of how temperature and location influence energy output.

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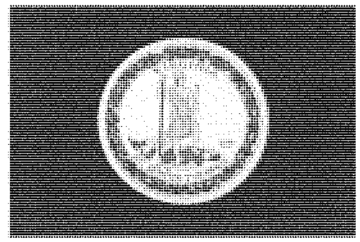
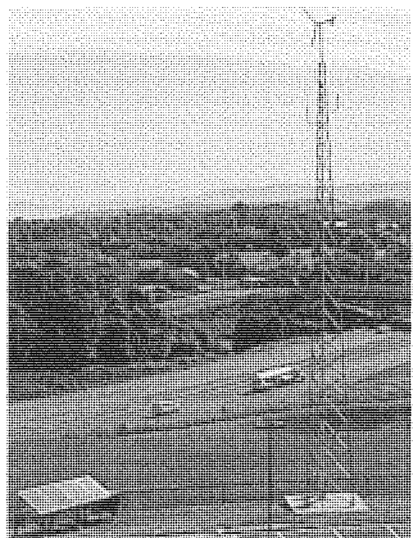


<u>State Success Story</u>
A New Small Wind Center for James Madison University
November 15, 2010



Virginia wants to green its workforce, and it's looking to James Madison University to help make it happen.

The Virginia Department of Mines, Minerals & Energy, with funding from the State Energy Program, awarded the university's Center for Wind Energy $800,000 to build a wind testing and training center, a new project geared towards both students and companies in the state that may want to break into the wind industry.

"We can reach out to potential industries that may be interested in this area," says Jonathan Miles, a professor in the department of integrated science and technology and director of the Center for Wind Energy. "And without this facility, it would be hard to provide the level of support that this will enable."

JMU has an existing 1 kW turbine that will be moved to a yet-to-be-determined location and be joined by a new 5 to 10 kW turbine, along with other wind and weather monitoring devices.

Growing a Wind Workforce

The wind training center will be a place for companies to send its workers to learn about small wind turbines, like how to install, operate and maintain the systems.

"One of the things that we expect to grow is the workforce," Miles says. "For instance, a company that does crane work may see an opportunity here. With this center, they could get people trained and certified."

"And we've identified a lot more companies than we expected that are interested to engage," he adds.

Miles expects JMU, which is a designated U.S. Department of Energy "Wind for Schools" university, to break ground in May or June 2011, with the project completed by the end of that summer.

Training existing workers is important to the state and the university as is engaging the upcoming workforce. The new center will be wrapped into the school's curriculum, Miles says, which has classes like "Role of Energy in Modern Society" and "Sustainable Energy Development."

"It's about expanding what we already offer," he says. "We have some classes that touch on wind energy, but we want to expose students to a greater number of aspects pertaining to wind. I envision an entire course on wind energy. Maybe even wind as a minor."

WASHINGTON

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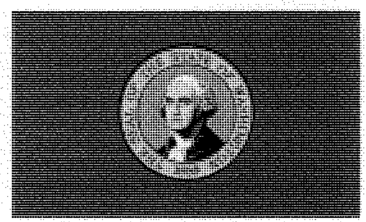
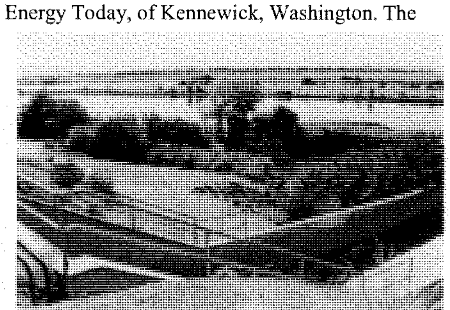


State Success Story
Water to Wire Hydro Project to Generate Clean Energy in Washington
August 18, 2010

The ten-foot wide concrete ditch that serves as diversion canal north of Pasco, Washington is about to get an energy makeover. By the end of 2010 the canal will be outfitted with a small turbine-generator that will create about 900 kilowatts of energy, enough to power several hundred homes.

"I went out there to view the canal and was amazed with the flow of water in it," said Cory Plantenberg, Energy Program Manager for the Washington Department of Commerce. "The water surges through the canal like the ocean."

Late last year the Washington Department of Commerce selected a local company's plan for the Pasco area canal for funding from the State Energy Program. A grant in the amount of $898,175 was awarded to the project developers, Green Energy Today, of Kennewick, Washington. The grant is but one of 36 grants funded through the Energy Efficiency and Renewable Energy Grant and Loan Program offered by the Commerce Department's State Energy Office.



Plantenberg said that the potential of this application is enormous as there are hundreds if not thousands of ditches and canals of this type throughout the west, and will create 14.4 temporary and 1.2 permanent jobs with many more at additional sites the company has projected.

Putting the Run-off to Work

Jerry Straalsund, Green Energy Today Chief Executive Officer, described the canal as perfect for a micro-hydro project. "It runs year-round and has a 140 foot drop over about a quarter-mile. The water traveling through there is moving at about 100 to 120 cubic feet per second."

The canal system, which Straalsund and his partners identified for this project five years ago, was constructed in the 1950s by the US Bureau of Reclamation.

"The groundwater in the local area is elevated after decades of irrigation operations, resulting in springs and other runoff that occur at various rates throughout the year," Straalsund said. "A major function of this canal is to intercept the excess water and divert it to avoid flooding and water damage to non-irrigation lands in the lower Columbia Basin area."

SEP Helps Project Clear Financial Hurdle

Obtaining an SEP grant was never a sure thing for the Green Energy Today team. "The day SEP funding was first announced I didn't think it would impact us," Straalsund recalls. "Then when the State of Washington put out their specific requirements for their grants I remember saying, 'Gosh, we fit into that."

Straalsund doesn't hesitate when admitting that the project wouldn't be ready to start construction if it wasn't for the State Energy Program.

"That is the only reason we are in a position to do this now," Straalsund says. "The cost of the project versus the risk made obtaining capital difficult. SEP made the difference."

Green Energy Today is in the process of finalizing the detailed design before ordering the generator from another Washington company called Canyon Hydro, located outside of Bellingham.

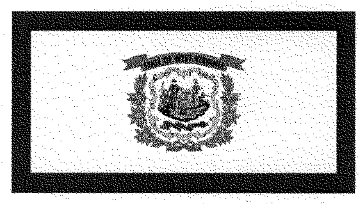
Canyon Hydro has been manufacturing small custom hydroelectric systems since 1976 and has been involved with Green Energy Today since the conceptual design phase of the project. The project also has to be approved by the US Bureau of Reclamation.

"We should start construction by October and could be generating electricity by the end of the year or shortly thereafter," Straalsund adds.

The power from the small hydro project will be sold as renewable energy. Green Energy Today has been negotiating with qualified utility companies interested in purchasing the electrical output and the associated green tags. Green Energy Today expects to sell the entire output of the project to a single entity at a price per kilowatt hour that should provide a breakeven for the project in less than seven years.

Once the project is constructed and on-line, it is expected to operate continuously for 40 years.

WEST VIRGINIA



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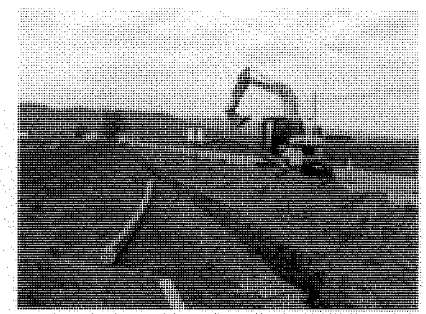
State Success Story

SEP Funding Helps West Virginia's Correctional Facilities Save Energy
August 31, 2010

Work began in April on a fuel-switching project at Huttonsville Correctional Center in Randolph County that will save money and make the facility a little greener.

The project, administered by the West Virginia Division of Energy and funded by the State Energy Program, will cost $2.1 million and is expected to be completed within 10 months. It will reduce annual operating costs for West Virginia's most expensive facility to heat by more than $400,000. This project, which will upgrade the existing natural gas distribution system in the area approximately eight miles to the correctional facility, also reduces its dependence on imported oil.



Huttonsville, the oldest and largest facility in the state, was built in the 1930s, said Ad Oji, contracts manager with the West Virginia Division of Corrections.

"When Huttonsville was built, it used a coal-fired furnace. Then they went to propane and heating oil and now they are moving to natural gas."

By switching from an oil heating system to natural gas, the facility will have a uniform heating source, he explained. Once the switch to natural gas is completed, the facility is estimated to realize an annual savings of $400,597 per year, with a five-year payback period.

"I would like to express my gratitude to Jeff Herholdt, Kelly Bragg and Marie Butler of the West Virginia Division of Energy for their assistance with this project," Oji said. "None of our achievements would have been possible without them."

Energy Upgrades Save Taxpayers' Dollars

In addition to the Huttonsville project, Mount Olive Correctional Complex in Fayette County and Pruntytown Correctional Center in Taylor County, also are undergoing an energy upgrade with SEP funds. These projects are in the audit stage to determine the energy savings opportunities, before the recommended new equipment is installed.

"The work consists of improvements to make the buildings energy efficient. We're looking at HVAC systems and lighting in those facilities," Oji said.

"These upgrades will make it a little less heavy on the carbon footprint. Some of the systems that are going to be replaced are old and not as environmentally friendly as what we will be able to do in 2010 with ENERGY STAR ratings."

With an improved heating system in place, "it is important to also ensure the windows are updated to realize the benefit of the fuel switch."

Denmar Correctional Center in Pocahontas County also is set to get new windows. Built in 1939, the facility originally served as a hospital for TB patients, Oji said. "It is heated by oil, and when it gets too hot, they don't have a thermostat or any way to regulate the temperature in the building."

Rapidly changing outdoor temperatures result in frequent opening and closing of windows, he explained, which wastes a lot of heat.

"We are hoping that we get additional funding to update that building so it will have central heating and cooling, but in the meantime, we are replacing the windows with more energy efficient models."

WISCONSIN

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State Success Story
Wisconsin Invests in Companies to Reduce Greenhouse Gases and Cut Energy Costs
December 16, 2010

Wisconsin recently announced $5 million in funding for Milwaukee Metropolitan Sewerage District (MMSD) in Milwaukee, Milwaukee County, and $3 million for Price Engineering Co., Inc. in Hartland, Waukesha County. The funding will allow both companies to invest in their operations. It comes from the State Energy Program (SEP), which is administered by the Wisconsin Office of Energy Independence.

"Investing in companies that make efforts to reduce greenhouse gases and cut energy costs is vital to the success of Wisconsin," Governor Jim Doyle said. "I am pleased that we could help Milwaukee Metropolitan Sewerage District and Price Engineering Co., Inc. address environmental challenges."

"This green energy project will bring tens of millions of dollars in savings to MMSD customers," Milwaukee Mayor Tom Barrett said. "I want to thank the State Energy Program for supporting this important landfill gas pipeline project."

"The SEP funds will allow us to purchase equipment for the gear-driven wind turbine remanufacturing facility," Price Engineering Co., Inc. President Tom Price said. "It will also allow us to develop funds for remote monitoring and diagnostics. This is a new and important market and we plan to be a leader in it."

Milwaukee Metropolitan Sewerage District is a regional government agency that provides water reclamation and flood management services for communities in the Greater Milwaukee Area. MMSD will purchase equipment and install new turbines at its facility that manufactures natural organic fertilizer from biosolids. The State Energy Program funds will be used to purchase the turbines that are capable of burning landfill gas. The landfill gas will be converted to electricity and used in the manufacturing process. Total project cost is $88 million.

Price Engineering Co., Inc. is establishing a wind-turbine service facility in Hartland. The company will provide maintenance services and repairs for wind-turbine gear-driven systems.

The SEP funds will allow it to purchase equipment for the gear-drive remanufacturing facility. The facility will include material handling, testing capabilities, and a gear-drive spares-management process to ensure replacement of worn gear boxes in turbines. This project creates 111 jobs and represents a total investment of $9 million.

The State Energy Program has helped several Milwaukee area companies develop jobs and investment. Among these are Weldall Manufacturing, Waukesha; TecStar Manufacturing, Germantown; Helios USA, Milwaukee; ZBB Energy Corporation, Menomonee Falls; and Idle Free Technologies, Watertown.

Ms. DeGette. Thank you. The letter says that "energy-related ARRA funds being deployed by the States have been a resounding success in terms of economic development, technology innovation, efficiency and energy savings."

It also notes that the National Weatherization Assistance Program under ARRA has completed energy efficiency improvements, lowering energy bills for hundreds of thousands of elderly and other low-income citizens across the country.

I'm disappointed that we didn't get to have our minority witness like Mr. Guidice here today because States have been heavily involved in administering Recovery Act funds through some of these initiatives. And they would have been able to provide us with a really important perspective on how the States are using this money.

Beyond the goal of promoting economic recovery, the Recovery Act was also designed to promote oversight, and it provides for an unprecedented level of oversight to identify and prevent waste. And so I'm hoping we can hear today how those efforts have gone, and if we need to improve them exactly how we can improve those efforts. With that, Mr. Chairman, I yield back.

[The prepared statement of Ms. DeGette follows:]

Statement of Rep. Diana DeGette
Ranking Member, Subcommittee on Oversight and Investigations
"Oversight of DOE Recovery Spending"
Subcommittee on Oversight and Investigations
March 17, 2011

Thank you, Chairman Stearns, for holding this important hearing. Conducting oversight of executive agencies is one of our key responsibilities, and it is appropriate for this Committee to examine how the Recovery Act initiatives are being implemented in agencies under our jurisdiction.

We do not always agree on energy policy issues, but I believe we can conduct oversight in a productive bipartisan manner. Toward that end, I hope this hearing on DOE oversight will serve to help gather information about ways to improve DOE programs that are promoting jobs and innovation, and not serve as simply an opportunity for members who voted against the Recovery Act to complain about it.

In the face of one of the worst economic crises this country has ever seen, the American Recovery and Reinvestment Act was an unprecedented effort to create and save jobs, increase overall economic activity, spur long-term growth, and promote innovation. It also contained a number of DOE-specific provisions to support a transition to a clean energy economy.

The Recovery Act has already had a tremendous positive impact. It has provided $288 million in tax cuts and benefits for millions of families and business. It increased federal funds for education, health care, and entitlement programs, such as extending unemployment benefits by $224 billion. It made $275 billion available for federal contracts, grants, and loans. And it has helped millions of families.

For example, the Weatherization Assistance Program, which enables low-income families to reduce permanently their energy bills by making their homes more energy efficient, has weatherized 330,000 homes – saving those families an average of almost $5,000 on their energy bills over the next decade. Ultimately, Recovery Act funds will help pay to weatherize 600,000 homes, saving these families billions of dollars in utility bills.

In my home state of Colorado, the Recovery Act-sponsored State Energy Program has provided funds to schools and local businesses. These funds helped the Calhan School, a rural public school northeast of Colorado Springs that was struggling with a worn-out boiler system and failing temperature controls. Recovery Act funds allowed the school to install a new highly efficient heating and cooling system using a ground-source system, so the students can focus on learning, not just keeping cool.

Success stories like this can be seen across the country. In Virginia, James Madison University's Center for Wind Energy received $800,000 from the state energy program to build a wind testing and training center, geared towards students and companies that want to break into the wind industry. Tennessee used Recovery Act funds to build up its solar installation grant program, allowing for rapid expansion in the solar installation industry, keeping people employed when they need it the most. In Florida, Recovery Act funds helped install solar and wind power on existing billboards, which ended up saving $232,000 in energy costs a year.

Mr. Chairman, at this time I would like to enter into the record a letter from Phillip Guidice, the Commissioner of the Massachusetts Department of Energy Resources and Chair of the National Association of State Energy Officials, discussing the many accomplishments that states and local communities have achieved because of DOE's Recovery Act programs.

The letter states that that "energy-related ARRA funds being deployed by the states... [have] been a resounding success in terms of economic development, technology innovation, efficacy, and energy savings." It also notes that "the national Weatherization Assistance Program under ARRA has completed energy efficiency improvements—lowering energy bills—for hundreds of thousands of elderly and other low-income citizens across the country." State energy officials clearly think very positively of DOE's Recovery Act programs.

I am disappointed that the majority did not agree to the minority's request to have as an additional witness Mr. Guidice. States have been heavily involved in administering Recovery Act funds provided through initiatives such as the State Energy Program and the Weatherization Assistance Program. Mr. Guidice would have been able to provide an important perspective on how DOE's Recovery Act programs are managed.

Beyond its goal of promoting economic recovery, the Recovery Act also was designed to promote oversight. The Act provides for an unprecedented level of oversight to identify and prevent waste, fraud, and abuse.

The Act provided nearly $200 million for agency inspector generals, including $15 million for the Department of Energy's Office of the Inspector General. The Act also instructed GAO to conduct bi-monthly audits of Recovery Act spending by states and localities. And the Administration created a website, www.Recovery.gov, to make relevant reporting data available on a website to ensure that American taxpayers can see how much is being accomplished under this landmark legislation. This transparency is key to ensuring that programs are running effectively.

GAO and the Department of Energy's Inspector General have taken the Act's oversight mandate seriously, and I commend them for their work. To date, the Inspector General has released 47 reports, audits, and inspections on Recovery Act related issues, and GAO has released 107 publications, including their required bi-monthly reports.

I look forward to today's hearing for an opportunity to explore DOE oversight issues relating to the Recovery Act. At a time when gas prices are tipping $4.00 a gallon, it is particularly important to make sure our programs to help the country create jobs, reduce our dependence on foreign oil, and foster the next generation of clean energy technologies are working effectively.

Mr. STEARNS. The gentlelady yields back.

I just want to indicate we share your interest in the hearing, the perspective of the different States who did receive DOE stimulus funds and were responsible for administering them, and perhaps in a later hearing, we will perhaps bring in your State, my State and others. So I appreciate your bringing that to my attention.

And we recognize the gentleman from Oklahoma, Mr. Sullivan, for 1 minute.

Mr. SULLIVAN. Thank you, Chairman Stearns and thank you for holding this important hearing today on oversight of the Department of Energy stimulus spending.

Democrats contended that the $787 billion stimulus was needed to jump-start the economy and add jobs. But as Republicans predicted, the stimulus has not worked. It has only added to our deficit, now at $14 trillion. And it has done little to help unemployment, which was 8.1 percent when the stimulus was signed in 2009 and rose to 10 percent at the end of that year, and now is at 8.9 percent.

DOE received approximately $35 billion for programs and activities through the stimulus making the agency, as some have said, the largest venture capital organization in the world. This sum was dwarfed by the Department's annual budget of about $27 billion.

This overnight infusion of a huge amount of taxpayer funds has caused a number of problems and concerns with wasteful spending. The risk of waste, fraud and abuse increases dramatically whenever there is pressure to spend large amounts of money quickly. Lack of controls and monitoring at the State level also increase the likelihood that stimulus dollars were wasted on the wrong projects.

I look forward to the hearing from our independent panel of witnesses, from the GAO and from the Department of Energy Inspector General's office. And I yield back the balance of my time.

Mr. STEARNS. I thank the gentleman. And the gentleman from California, Mr. Bilbray, is recognized for 1 minute.

Mr. BILBRAY. Thank you, Mr. Chairman. I appreciate your holding this hearing. You know, Mr. Chairman, we were allotted 1 day to mark up the bill that created this major funding and the old majority contended that the $787 billion was needed immediately for a jump-start. The fact is, at the time that we were confronting that, I think we were about 8 percent unemployment across the country. And the fact is that last I checked, I think there was only about 12 percent of this has been spent.

I think the DOE has received $35 billion in this program and for the stimulus, and the sum that they are looking at really is one that I think we have got to be conscious of what are we getting for this investment.

Mr. Chairman, we were at 8 percent, and we are, in California, we are now at 12 percent unemployment. I think that we have got to recognize that there is not necessarily a successful program when it comes to saving the economy or jobs. And I just have to say that a lot of people look to a lot of these strategies and conservation as being a way of maintaining good job development. I would just like to point out that California has led the fight on energy conservation and we are at 12 percent unemployment. It hasn't done us very well.

Mr. Chairman, I would just like to point out, again, that this town doesn't make mistakes just by trying new things or by making mistakes. The biggest problem in this town is that when it tries to do things and makes mistakes, it won't admit it and go back and correct it. And that has been our greatest flaw. And I would just like to ask again that those who do not learn from history are damned to repeat it.

Contrary to what people think, the great expense of the WPA project did not create a strong economy for the United States. In fact, it wasn't until we started producing products and exporting it out of this country that the American economy responded and that government funding for government jobs were not the stimulus that pulled this country into the greatest economic powerhouse it has become historically. It was investment by private sector for manufacturing, something that we ought to go back and visit and not try the failed policies that appear to have failed again. Yield back.

Mr. STEARNS. I thank the gentleman. At this point, I think on this side we have finished. And I recognize the gentleman from California, Mr. Waxman, ranking Member.

OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you very much, Mr. Chairman. Two years ago, President Obama took office in the middle of one of the most significant economic crises this country has faced. And after years of lax oversight, the financial industry had collapsed and the recession it caused resulted in a loss of over 8 million jobs. Within 60 days of his inauguration, the President signed into law the American Recovery and Reinvestment Act. This law was designed to create new jobs and save existing ones, spur economic growth and foster accountability in government spending.

Since then, the Act has saved millions of jobs and supported projects around the country that conserve energy, promote innovation and save taxpayers' dollars. Today, the subcommittee is examining implementation of the Recovery Act within the Department of Energy. This is an important subject for oversight and I commend the chairman for holding this hearing. We need to ensure that the rigorous oversight mechanisms set in place by the law are operating consistent with the law's design and that the Recovery Act is implemented effectively.

I'm concerned, however, about a pattern emerging from this committee. What we have seen in the past couple of months is a series of hearings in which my colleagues on the other side seem more focused on bluster than oversight. The committee has become proficient about leveling complaints about government programs that have no foundation in fact, and we never seem to find time to figure out how to make government work more effectively or how to save the taxpayers' money. And the committee has failed to move forward one single initiative to create jobs for the American people.

At this point in the last Congress, we had passed, and the President had signed into law, both the Recovery Act and legislation to expand the State Child Health Insurance program. We were just months away from passing even more legislation, such as the Cash for Clunkers bill that boosted the American auto industry. Each of these initiatives provided critical economic support for families hard hit by the recession.

What we have done so far in this Congress, this committee's top priority was a bill to restrict women's access to health insurance for abortion. Earlier this week we approved a bill to cut off EPA's authority to regulate greenhouse gas emissions that are contributing to climate change and threatening public health. Today we are voting on a bill on the House floor to defund National Public Radio. It won't save a cent of money. It is only punitive to punish NPR for not being FOX News.

And the House passed a budget that would put hundreds of thousands of Americans out to work—out of work. If it only put them out to work, that would be good.

Not one of these bills create jobs. In fact, with respect to DOE programs we are discussing at today's hearing, the Republican funding resolution H.R. 1 threatens over 40,000 construction and permanent jobs as well as billions of dollars in investments in major solar, wind, geothermal and biofuels projects.

My colleague from California a minute ago said the problem in this town is people never admit they were wrong. Well, I am waiting for a Republican to admit they were wrong about the American Recovery Act, because that bill saved jobs. No Republican voted for it. It saved jobs and has done a lot for our infrastructure. Can't they at least admit they were wrong? Republicans promised to govern by the cut-go rule but the impact of their legislation instead has followed the cut jobs principle. The major bills brought to the floor reduce employment and opportunity for growth.

This committee has jurisdiction over many areas where we could be legislating to spur the economy. I would like to see the committee resume its position as a leader in promoting economic growth and jobs. Today's hearing could be a first step in that process, and I hope it will be, Mr. Chairman. The DOE Inspector General and the GAO have been conducting rigorous oversight to review implementation of the DOE Recovery Act.

They are important witnesses, but we asked to invite a witness, a State official, who was implementing the legislation. We were told we couldn't have them. Ms. DeGette put into the record a statement from a State official who has many positive things to say about the program. That is in the committee record. But we were not allowed to have that witness testify today. That failure to include witnesses like this one makes me concerned that we are continuing down the same road we have been going down since this Congress began. We are not passing legislation that creates jobs and strengthens our economy.

Instead, we are simply engaging in partisan sniping over programs that my Republican colleagues do not like. Why they don't like them I don't know. But they don't like them, I guess because it was a Democratic Congress and a Democratic administration. But that is not a good enough reason for me. I hope we can do better, and the American people need us to do better. We need to be to do better on a bipartisan basis and not just use our time here for partisan sniping.

I'm glad I don't do things like that. I yield back my time.

[The prepared statement of Mr. Waxman follows:]

Statement of Henry A. Waxman
Hearing on Oversight of DOE Recovery Act Spending
Subcommittee on Oversight and Investigations
March 17, 2011

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Cash for Clunkers bill that boosted the American auto industry. Each of these initiatives provided critical economic support for families hard hit by the recession.

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The failure to include witnesses like this makes me concerned that we are continuing down the same road we have been going down since this Congress began. We are not passing legislation that creates jobs and strengthens our economy. Instead, we are simply engaging in partisan sniping over programs that my Republican colleagues do not like.

I hope we can do better -- and the American people need us to do better.

Mr. STEARNS. I thank my colleagues. Mr. Waxman represents certainly a different point of view, and I appreciate his opening statement. But I would point out that we did take her suggestion about having a witness from Massachusetts, and we talked about it and perhaps having a witness from Florida in another hearing. And I would say to my colleague from California that perhaps we will have another hearing on this oversight. And I agree and am pleased that you support this oversight on the stimulus package. And I, in all deference to you, I don't recollect any oversight hearing when the Democrats were in control on the stimulus package. So I'm very glad we can do it today.

And Mr. Green is recognized, from Texas, for 1 minute.

Mr. GREEN. Thank you, Mr. Chairman. I appreciate the 1 minute, and I appreciate our panel for being here.

My concern is that if we hadn't spent that money what would our unemployment be now? And I will give you a great example. In the Houston area, the Department of Energy provided $200 million for a smart metering program. Somebody had to make those meters and put those meters out there. Now I have to admit, I'm worried about hearing from my constituents because historically we have smart metering, we found out that their bills go up and nobody wants to hear that. But maybe the technology, but that will help people control their electricity and not only for their cost but also so we don't have to build more power plants. But $200 million, I think, was one of the biggest grants the Department of Energy gave to a local community.

And like I said, there are people working now to install those meters. And I wish it had lowered the unemployment rate, but maybe our recession we had was much deeper and longer than most of us expected. With that Mr. Chairman I appreciate the opportunity to give a 1 minute.

Mr. STEARNS. I thank my colleague. Does anybody else request speech? The gentlelady from the Virgin Islands.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. I want to speak to the success of the program in my district as I'm sure it has been successful in many others. Our Energy Star appliance rebate infused $834,000 into the local economy through direct subsidies to 2,114 residents and small businesses, a sun power loan program afforded 389 families to receive a solar water heater at no cost through a special program, the hybrid and electric vehicles rebate program was so successful that the rebates exceeded what they had planned, 81 rebates worth $259,200.

And in addition to the direct and indirect jobs, we trained about 40 people who been unemployed for a long time in solar water heater installation and repair. They are all going to work. And we are just really—this has been a great help to our economy both in reducing our electricity bills and in creating jobs and saving jobs. Thank you, Mr. Chairman.

Mr. STEARNS. I thank my colleague. Now we come to our witnesses. All of you are aware that the committee is holding an investigative hearing. And when doing so, has been the practice of taking testimony under oath.

Do you have any objection to testifying under oath?

The chair then advises you that under the rules of the House and the rules of the committee, you are entitled to be advised by counsel. Do you desire to be advised by counsel during your testimony today? If not, if you would please rise and raise your right hand, I will swear you in.

[Witnesses sworn.]

Mr. STEARNS. You are now under oath and subject to the penalties set forth in title 18 section 1001 of the United States Code. Before you give your 5-minute summary, let me introduce each of our five witnesses today. Mr. Frank Rusco will testify on behalf of the Government Accountability Office. He is a director on GAO's natural resources and environmental team. Welcome. Mr. Gregory H. Friedman, Inspector General at the Department of Energy, will also testify. He was confirmed by the Senate as Inspector General of DOE in 1998. He has been with the DOE's Inspector General's office since 1982.

Finally, testifying on behalf of DOE is Steve Isakowitz, DOE chief financial officer, and accompanying him will be several people that he might want to introduce.

And so I welcome each of you, and before your opening statement, if you wanted to introduce some of your staff that you have with you, that would be helpful.

We will start with you, Mr. Rusco, for your opening statement.

STATEMENTS OF FRANKLIN RUSCO, DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, GOVERNMENT ACCOUNTABILITY OFFICE; GREGORY FRIEDMAN, INSPECTOR GENERAL, DEPARTMENT OF ENERGY; AND STEVE ISAKOWITZ, CHIEF FINANCIAL OFFICER, DEPARTMENT OF ENERGY, ACCOMPANIED BY INES TRIAY, ASSISTANT SECRETARY FOR ENVIRONMENTAL MANAGEMENT, AND STEVE CHALK, CHIEF FINANCIAL OFFICER FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY

STATEMENT OF FRANKLIN RUSCO

Mr. RUSCO. Thank you, Mr. Chairman and members of the committee. I'm pleased to be here today to discuss GAO's oversight of DOE spending under the Recovery Act. The Recovery Act included almost $42 billion for the Department of Energy programs activities and borrowing authority.

This Recovery Act money was spread over many DOE offices and programs, but the bulk of the money was concentrated in DOE's Offices of Energy Efficiency and Renewable Energy, Environmental Management, Electricity Delivery and Energy Reliability, Loan Guarantees, Fossil Energy and Science.

My remarks today are focused on five programs that received approximately 56 percent of DOE's Recovery Act funding. The Office of Environmental Management has for years overseen the cleanup of DOE's contaminated nuclear weapons research, development and production facilities. This Office received almost $6 billion in Recovery Act funds, a substantial increase in funding levels to the office which has an annual budget of about $6 billion.

The Weatherization Assistance Program has been providing home weatherization help to low-income households for over 30 years. The program received $5 billion in Recovery Act funding, a large increase from an annual budget of about $225 million.

The Energy Efficiency and Conservation Block Grants program provides grants to States, territories, tribes, and localities to improve energy efficiency. This program was authorized in 2007, but the $3.2 billion it received in Recovery Act funding was the first funding ever for these block grants.

The State Energy Program has, since 1996, provided grants to States, the District of Columbia, and territories to promote national energy goals such as increasing energy efficiency. This program, which typically has an annual budget of under $50 million, received $3.1 billion in Recovery Act funds.

Finally, the Loan Guarantee Program was established in 2005 to provide Federally guaranteed loans to energy projects that are innovative and reduce greenhouse gas emissions. Until the Recovery Act, the Loan Guarantee Program had only been authorized to provide loans to companies who paid their own credit subsidy costs, an amount roughly equivalent to the expected loss to the government of the loan. In contrast, the Recovery Act provided $2.5 billion specifically to enable the program to pay the credit subsidy costs for the projects.

Because the government, instead of a borrower, pays the credit subsidy costs for loans made under the Recovery Act, this increases the amount of taxpayer money that is at risk considerably.

The extent to which Recovery Act funds provided to the five programs have been spent varies significantly. As of March 10, 2011, DOE reported that 67 percent of Recovery Act funds for environmental management projects had been spent, 50 percent of funding for the Weatherization Assistance Program had been spent, 34 percent for the State Energy Program, 28 percent for Energy Efficiency and Conservation Block Grants and 5 percent for the Loan Guarantee Program.

The number of full-time equivalent jobs reported by recipients also varies by program. For example, the recipients of Weatherization Assistance Program funding reported 15,400 full-time equivalence jobs for the fourth quarter of 2010. Environmental management recipients reported 9,400 FTEs in the fourth quarter, and the Loan Guarantee Program reported 784 FTEs.

In the course of our work, we found a variety of concerns. Overall, it has been difficult for DOE to build in effective measures for program goals, such as improving energy efficiency, energy saved, costs saved, cost effectiveness or reduced environmental risk. In addition, DOE and funding recipients have struggled to accurately measure jobs funded by the Recovery Act. The Loan Guarantee Program has had difficulty reconciling the inherent tension between funding innovative projects that reduce greenhouse gases, funding projects that have a high likelihood of paying back the loan, and, in the case of Recovery Act funds, creating jobs in a timely fashion.

GAO has made recommendations to DOE to improve the reporting and measurement of jobs funded by Recovery Act money, to improve oversight and monitoring of Recovery Act funds, and to improve the measurement and reporting of program outcomes. In most cases, DOE has generally agreed with our recommendations and has taken steps to implement them.

Thank you. This concludes my oral statement. I will be happy to answer any questions the committee may have.

[The prepared statement of Mr. Rusco follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, House of Representatives

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RECOVERY ACT

Status of Department of Energy's Obligations and Spending

Statement of Frank Rusco, Director
Natural Resources and Environment

GAO
Accountability * Integrity * Reliability

GAO-11-483T

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Highlights

[illegible]

Why GAO Did This Study

[illegible]

[illegible]

[illegible]

[illegible]

March 17, 2011

RECOVERY ACT

Status of Department of Energy's Obligations and Spending

What GAO Found

As of March 10, 2011, DOE reported that it had obligated $33.1 billion (94 percent) and spent $12.5 billion (36 percent) of the $35.2 billion it received under the Recovery Act for projects and activities. This is an increase from December 31, 2009, when DOE reported that it had obligated $23.2 billion and spent $1.8 billion.

Recovery Act Funding, Obligations, and Expenditures (Cumulative) Reported by DOE as of March 10, 2011

Recovery Act funding	Dollars in million	Percent of funding
	$35,210	100%
DOE obligated	$33,090	94%
DOE spent	$12,503	36%

Source: GAO analysis of DOE data.

DOE programs vary in the amount of Recovery Act funds they have obligated and spent and in the number of jobs funded through such spending, according to DOE and recipient reported data. Specifically:

- *Energy Efficiency and Conservation Block Grant Program.* DOE has obligated the full $3.2 billion of Recovery Act funding provided for the program and, as of March 2011, some grant recipients reported spending about $860 million. GAO expects to issue a report in April 2011 with information on the quality of jobs data reported by recipients.
- *Office of Environmental Management Cleanup Activities.* DOE has obligated virtually all of the $6 billion in Recovery Act funding for cleanup activities and, as of March 2011, had spent about two-thirds of the funds. Recovery Act-funded employment for DOE's cleanup activities peaked in the last quarter of 2010, when DOE reported that 10,977 full-time equivalents had been funded by the act.
- *Loan Guarantee Program.* As of March 2011, DOE has obligated about 17 percent of the nearly $2.5 billion provided for Loan Guarantee Program. For the last quarter of 2010, recipients reported 784 full-time equivalents had been funded from Loan Guarantee Program projects.
- *State Energy Program.* As of January 2011, grant recipients reported obligating over $2.7 billion of Recovery Act funding and spending over $900 million of the $3.1 billion appropriated to the State Energy Program.
- *Weatherization Assistance Program.* As of March 2011, DOE reported that half of the $5 billion of Recovery Act funding provided for the Weatherization Assistance Program had been spent. Recipients reported that about 15,391 full-time equivalents had been funded by the Recovery Act for the fourth quarter of 2010.

Chairman Stearns, Ranking Member DeGette, and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Energy's (DOE) spending on programs funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act).[1] The Recovery Act is intended to promote economic recovery, make investments, and minimize or avoid reductions in state and local government services. Enacted on February 17, 2009, the act was a response to the economic recession at a time when the jobless rate was approaching 8 percent. In early 2009, the Congressional Budget Office estimated that the Recovery Act's combined spending and tax provisions would cost approximately $787 billion. As of February 2011, it estimated that the Recovery Act would cost $34 billion more than originally estimated—or a total of $821 billion from 2009 through 2019. That total includes more than $41.7 billion for DOE efforts in areas such as energy efficiency and renewable energy, nuclear waste cleanup, and innovative energy technologies.

The Recovery Act specified several roles for GAO, including conducting ongoing reviews of selected states' and localities' use of funds made available under the act.[2] As part of those reviews, we examined several DOE programs administered by states and localities, specifically the State Energy Program and the Weatherization Assistance Program. We have also completed separate reviews on other DOE activities funded under the Recovery Act, including the department's environmental cleanup projects and its Loan Guarantee Program.[3] Further, we are conducting ongoing reviews of the Loan Guarantee Program as well as the Energy Efficiency

[1]Pub. L. No. 111-5, 123 Stat. 115 (Feb. 17, 2009).

[2]GAO, Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds, GAO-10-999 (Washington, D.C.: Sept. 20, 2010); GAO; GAO, Recovery Act: States' and Localities' Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability, GAO-10-604 (Washington, D.C.: May 26, 2010); and GAO, Recovery Act: Recipient Reported Jobs Data Provided Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention, GAO-10-223 (Washington, D.C.: Nov.19, 2009).

[3]GAO, Recovery Act: Most DOE Cleanup Projects Appear to Be Meeting Cost and Schedule Targets, but Assessing Impact of Spending Remains a Challenge, GAO-10-784 (Washington, D.C.: July 29, 2010); GAO, Department of Energy: Further Actions Are Needed to Improve DOE's Ability to Evaluate and Implement the Loan Guarantee Program, GAO-10-627 (Washington, D.C.: July 12, 2010); and GAO, Recovery Act: Factors Affecting the Department of Energy's Program Implementation, GAO-10-497T (Washington, D.C.: Mar. 4, 2010).

and Conservation Block Grant program, which was funded by the Recovery Act and has an expected reporting date in April 2011.

My statement today is based largely on these prior reviews, updated with data from DOE, and focuses on DOE's obligations and spending of its Recovery Act funds for these selected programs and the information reported on jobs funded as a result of these programs' Recovery Act spending.

For this statement, we reviewed and summarized information from our prior reports[4] and preliminary results from our ongoing review of the Energy Efficiency and Conservation Block Grant program. We developed these preliminary results from September 2010 to March 2011 by, among other things, reviewing relevant federal laws and regulations and DOE guidance as well as financial and project data from DOE databases, which we determined to be sufficiently reliable for our purposes; interviewing grant program officials, including about 30 in the field offices responsible for managing and monitoring grant awards; and reviewing responses from a set of 49 of 91 purposefully selected city and county recipients that are eligible to receive grant funding. We conducted all of our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to produce a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our statement today. Additional information on our scope and methodology is available in each issued product.

Background

The Recovery Act provided DOE with more than $41.7 billion, including $35.2 billion for projects and activities and $6.5 billion in borrowing authority.[5] Of the $35.2 billion for projects and activities, almost half—$16.7 billion—was provided to the Office of Energy Efficiency and Renewable Energy for projects intended to improve energy efficiency, help build the domestic renewable energy industry, and help restructure

[4]GAO-10-223, GAO-10-497T, GAO-10-604, GAO-10-627, GAO-10-784, and GAO-10-999

[5]DOE was initially appropriated $45.2 billion in the Recovery Act; however, $3.5 billion for the Loan Guarantee Program was transferred from DOE's Recovery Act appropriation. As a result, DOE's appropriations under the Recovery Act now total $41.7 billion, which includes $6.5 billion in borrowing authority.

the transportation industry to increase global competitiveness. This amount included about $5 billion for the Weatherization Assistance Program, about $3.2 billion for the Energy Efficiency and Conservation Block Grant program, and about $3.1 billion for the State Energy Program. The Recovery Act also provided about $6 billion to the Office of Environmental Management for environmental cleanup projects and about $2.5 billion to the Loan Guarantee Program Office to support loan guarantees for renewable energy and electric power transmission projects.

As of March 10, 2011, DOE reported that it had obligated $33.1 billion (94 percent) and spent $12.5 billion (36 percent) of the $35.2 billion it received under the Recovery Act for projects and activities (see table 1). By comparison, as of December 31, 2009, the department had obligated $23.2 billion (54 percent) and spent $1.8 billion (4 percent).

Table 1: Recovery Act Funding, Obligations, and Expenditures (Cumulative) Reported by DOE as of March 10, 2011

Dollars in millions

Program office	Funding	Obligations	Percentage obligated	Expenditures	Percentage expended
Advanced Research Projects Agency - Energy	$387	$387	100%	$80	21%
Departmental Administration	143	72	50	49	34
Energy Efficiency and Renewable Energy	16,666	16,665	100	6,181	37
Energy Information Administration	8	8	100	8	100
Environmental Management	5,989	5,989	100	4,008	67
Fossil Energy	3,379	3,379	100	180	5
Loan Guarantee Program Office	2,470	426	17	123	5
Office of Electricity Delivery and Energy Reliability	4,488	4,488	100	962	21
Office of Science	1,669	1,669	100	907	54
Western Area Power Administration	10	7	70	5	50
Total	**$35,210[a]**	**$33,090**	**94%**	**$12,503**	**36%**

Source: GAO analysis of DOE data.

Note: The numbers in this table are rounded to the nearest million.

[a]The Recovery Act also provided DOE with $6.5 billion in borrowing authority ($3.25 billion for the Bonneville Power Administration and $3.25 billion for the Western Area Power Administration), which is not included in this table. DOE was also appropriated $15 million in the Recovery Act for the Office of Inspector General, which is also not included in this table.

Nonfederal recipients of Recovery Act funds have reported on jobs funded by the Recovery Act, and this effort is a solid first step in moving toward more transparency and accountability for federal funds. Under the

Recovery Act, nonfederal recipients are to report for any quarter in which they receive Recovery Act funds directly from the federal government, and are to include in those reports information concerning the jobs created or retained by their Recovery Act projects and activities.[6] As reported by the Recovery Accountability and Transparency Board, job calculations are based on the number of hours worked in a quarter and funded under the Recovery Act—expressed in full-time equivalents (FTE). In November 2009, we reported on our review and analysis of recipient data from Recovery.gov, finding that there are reporting and quality issues with these data.[7] It is important to recognize that the FTEs in recipient reports alone do not reflect the total employment effects of the Recovery Act. These reports solely reflect direct employment arising from the expenditure of less than one-third of Recovery Act funds. Therefore, both the data reported by recipients and other macroeconomic data and methods are necessary to gauge the overall employment effects of the stimulus. The employment effects in any state will vary with labor market stress and fiscal condition.

DOE Recovery Act Spending and Jobs Funded Vary by Program

DOE programs vary in the amount of Recovery Act funds they have obligated and spent and in the number of jobs funded through such spending, according to DOE and recipient reported data.

Table 2 shows Recovery Act funding, obligations, and spending for the selected DOE programs.

[6]Reporting requirements apply to nonfederal recipients of funding, including entities such as state and local governments, educational institutions, nonprofits, and other private organizations. These requirements apply to recipients who receive funding through the Recovery Act's discretionary appropriations, not recipients receiving funds through entitlement programs, such as Medicaid, or tax programs. Certain other exceptions apply, such as for individuals. Pub. L. No. 111-5 (Recovery Act), div. A, § 1512, 123 Stat. at 287–288.

[7]GAO-10-223.

Table 2: Recovery Act Funding, Obligations, and Expenditures (Cumulative) Reported by Department of Energy for Select Programs and Projects as of March 10, 2011

Dollars in Millions

Program or Project	Funding	Obligations	Percentage obligated	Expenditures	Percentage expended
Energy Efficiency and Conservation Block Grants	$3,193	$3,193	100%	$903	28%
Environmental Management	5,989	5,989	100	4,007	67
Loan Guarantee Program Office	2,470	426	17	123	5
State Energy Program	3,085	3,085	100	1,059	34
Weatherization Assistance Program	4,975	4,975	100	2,481	50

Source: GAO analysis of DOE data

As of March 10, 2011, the percentage of Recovery Act funding spent on these selected programs ranged from a high of 67 percent for the Office of Environmental Management's cleanup activities to a low of 5 percent for the Loan Guarantee Program Office. I will now briefly describe the status of Recovery Act spending for each of these five programs.

Energy Efficiency and Conservation Block Grant Program

The Recovery Act provided about $3.2 billion for DOE's Energy Efficiency and Conservation Block Grant program (EECBG), funding the program for the first time since it was authorized, in the Energy Independence and Security Act (EISA) of 2007. The program—administered by the Office of Energy Efficiency and Renewable Energy—provides formula and competitive grants to states, territories, federally recognized Native American tribes, and local communities to develop, promote, and manage projects that improve energy efficiency and reduce energy use and fossil fuel emissions in local communities.

Of the $3.2 billion provided for the EECBG program under the Recovery Act, DOE awarded about $1.94 billion as formula grants to more than 2,000 local communities–including cities, counties, and tribal communities—and about $767 million as formula grants to the states, five territories, and the District of Columbia.[8] In addition to the approximately $2.7 billion in formula grants, DOE awarded about $453 million of the total EECBG funds through competitive grants to local communities.

[8]Funding is allocated to state recipients based on population and total energy consumption; to city and county recipients based on resident and commuter populations; and to Native American tribes based on population and climatic conditions.

The Recovery Act required that DOE obligate about $2.7 billion in formula funds by September 30, 2010. DOE has obligated all EECBG funds to recipients, and recipients are beginning to obligate and spend these funds. As of December 31, 2010, recipients reported obligating approximately $1.7 billion and spending more than $655 million, approximately 24 percent of the EECBG budget. As of March 10, 2011, recipients reported spending about $860 million. As we reported in September 2010, more than 60 percent of EECBG funds had been obligated for three purposes: energy-efficient retrofits, such as replacement of heating and cooling systems; financial incentive programs, such as rebate programs to pay for energy-efficiency retrofits not already covered by existing incentives; and improvements to buildings and facilities, such as the installation of geothermal systems.[9] Energy-efficiency improvements have varied and include projects such as occupancy sensor lighting, solar-powered trash compactors, and solar-powered parking meters.

In September 2010, we noted that some EECBG recipients were experiencing challenges in reporting job-related outcome metrics. For example, in one locality, officials said that they planned to estimate the number of jobs created because they did not have hourly contracts. In another locality, officials were not aware of how to calculate FTEs per Office of Management and Budget guidance. Recipients also expressed frustration with the process for reporting metrics and the volume of contact from various DOE offices about reporting requirements or changes in reporting requirements. DOE is beginning to take steps to consolidate the amount of guidance and requirements being provided to recipients. We expect to issue a report in April 2011 with greater detail about the implementation of the EECBG program, including information on the challenges that EECBG recipients have reported encountering in using grant funds and the quality of jobs data reported by recipients.

Environmental Cleanup Projects

The Recovery Act provided about $6 billion for DOE to expand and accelerate its efforts to clean up numerous contaminated sites across the country, where decades of nuclear weapons research, development, and production left a legacy of dangerously radioactive, chemical, and other

[9]GAO-10-999.

hazardous wastes.[10] This funding substantially boosted the Office of Environmental Management's annual appropriation for cleanup, which has generally been between $6 billion and $7 billion.

In all, DOE selected 93 projects at 17 DOE sites in 12 states for Recovery Act funding. DOE designated the bulk of this new funding—almost 80 percent—to speed cleanup activities at four large sites: the Hanford Site in Washington State, Idaho National Laboratory, the Oak Ridge Reservation in Tennessee, and the Savannah River Site in South Carolina. DOE generally chose to use Recovery Act funds for cleanup projects that could be started and finished quickly. The majority of the projects selected also had existing contracts, which allowed the department to update and validate new cost and schedule targets within a short time frame. DOE generally funded four types of projects: (1) decontaminating or demolishing facilities, (2) removing contamination from soil and groundwater, (3) packaging and disposing of transuranic[11] and other wastes, and (4) supporting the maintenance and treatment of liquid tank wastes.

As of March 2011, DOE had obligated virtually all of the $6 billion in Recovery Act funding for cleanup activities and had spent nearly $4 billion, or about two-thirds of the funds. Spending rates varied across sites, from 50 percent of obligated funds spent at the Oak Ridge Reservation to 96 percent at the Mound Site in Ohio, a former production site for explosives and other weapons components. DOE officials said that they plan to have 95 percent of the funds spent by the end of fiscal year 2011. As of March 10, 2011, 19 projects were complete. Officials told us

[10]DOE's Office of Environmental Management directs the cleanup of this contamination at sites across the DOE complex. The sites contain nuclear reactors; chemical processing buildings; and plants, laboratories, and maintenance facilities once used to manufacture thousands of nuclear warheads. Cleanup activities include treating and permanently disposing of millions of gallons of radioactive and chemical waste stored in large underground tanks; disposing of spent nuclear fuel; removing contaminated soil; treating contaminated groundwater; packaging and shipping solid wastes infused with synthetic radioactive elements like plutonium and americium for permanent disposal to a deep geologic repository; and eliminating excess facilities, which may include decontaminating, decommissioning, deactivating, and demolishing obsolete structures or a combination of these activities. DOE has estimated that the cost of this cleanup may approach $300 billion over the next several decades.

[11]Transuranic wastes are typically discarded rags, tools, equipment, soils, or other solid materials that have been contaminated by radioactive elements, such as plutonium or americium.

that some work may take until December 2012 to complete although they are taking steps to try to move up the completion date.

Recovery Act-funded employment for DOE's cleanup activities peaked in the last quarter of fiscal year 2010. DOE reported for the last quarter of fiscal year 2010 an estimated total of 10,977 FTEs funded by the Recovery Act.[12] The jobs were concentrated at the four sites that received the bulk of the Recovery Act funding. By the following quarter, DOE reported 9,362 FTEs as being funded by the Recovery Act. Furthermore, DOE officials said that workforce reductions have been approved and announced for three sites. The Hanford Site will lose 1,600 positions, all funded by the Recovery Act. The Idaho National Laboratory will lose 600 positions, of which 400 were funded by the Recovery Act, and the Savannah River Site will lose 1,400 positions, of which 800 were funded by the Recovery Act. As a consequence of these reductions, it is likely that the reported count of FTEs will continue to decline.

In July 2010, we reported that DOE has faced familiar challenges in both managing Recovery Act projects and measuring how Recovery Act funding has affected cleanup and other goals.[13] At that time, we reported that one-third of Recovery Act funded projects did not meet cost and schedule targets. DOE officials cited some of the same reasons that have plagued DOE in the past: technical, regulatory, safety, and contracting issues. DOE has taken steps aimed at strengthening project management and oversight for Recovery Act projects, such as increasing project reporting requirements and placing tighter controls on when funds are disbursed to sites. By October 2010, both cost and schedule performance had significantly improved.

Measuring the impact of Recovery Act funding has been a challenge for DOE. It has had particular difficulty providing an accurate assessment of the act's impact on jobs, environmental risk reduction, and the life-cycle costs of its cleanup program. First, it has used different methodologies to assess and report jobs created, which provided very different and potentially misleading pictures. Second, DOE had not yet developed a clear means of measuring how cleanup work funded by the act would affect environmental risk or reduce its footprint—the land and facilities requiring DOE cleanup. Third, it is unclear to what extent Recovery Act

[12]This information came directly from DOE and was not generated off of Recovery.gov.

[13]See GAO-10-784.

funding will reduce the costs of cleaning up the DOE complex over the long term. DOE's estimate of $4 billion in life-cycle cost savings resulting from Recovery Act funding was not calculated in accordance with federal guidance. Our analysis indicated that those savings could be 80 percent less than DOE estimated. Without clear and consistent measures, it will be difficult to say whether or how Recovery Act funding has affected DOE's cleanup goals.

In our July 2010 report, we recommended four actions for DOE to improve project management and reporting: (1) determine whether project management and oversight steps adopted for Recovery Act projects would benefit other cleanup projects, (2) clarify the methodology used to calculate jobs created, (3) develop clear and quantifiable measures for determining the impact of Recovery Act funding, and (4) ensure that cost savings are calculated according to federal guidance. DOE agreed with the recommendations and is taking steps to implement them. For example, some of the steps DOE implemented to improve management of Recovery Act projects are being implemented for work funded through annual appropriations. DOE also issued clarifying guidance to the sites on the methodology for reporting footprint reduction, although the extent to which this measures actual environmental risk reduction, if at all, is not clear.[14] Finally, according to DOE officials, the department is preparing a report describing the methodologies used for cost savings achieved to date through the Recovery Act and plans to submit a report to the Office of Management and Budget and Congress by September 30, 2011.

Loan Guarantee Program for Innovative Technologies

Title XVII of the Energy Policy Act of 2005 established DOE's Loan Guarantee Program (LGP) to guarantee loans for projects that (1) use new or significantly improved technologies as compared with commercial technologies already in use in the United States and (2) avoid, reduce, or sequester emissions of air pollutants or man-made greenhouse gases. In February 2009, the Recovery Act amended the LGP, authorizing DOE to also guarantee loans for some projects using commercial technologies. Projects supported by the Recovery Act must employ renewable energy systems, electric power transmission systems, or leading-edge biofuels that meet certain criteria; begin construction by the end of fiscal year 2011; and pay wages at or above market rates. The Recovery Act originally

[14]DOE officials define footprint reduction as the "physical completion of activities with petition for regulatory approval to follow."

provided nearly $6 billion to cover the credit subsidy costs for projects meeting those criteria.[15]

During the 2 years since providing Recovery Act funds to cover LGP credit subsidy costs, Congress twice transferred funds from the LGP to other programs, after we expressed concerns about DOE's administration of the program. In April and May 2009, as part of our mandate to annually review DOE's implementation of the LGP,[16] we provided information on the program's status to House and Senate appropriators. Among other things, we noted that DOE had received loan guarantee applications for at least 68 projects but had committed to guarantee a loan for only 1, even though a number of the applications—including 6 that DOE deemed eligible for Recovery Act funding—had been submitted in response to a solicitation issued in 2006. In August 2009, Congress authorized the transfer of $2 billion of the nearly $6 billion to expand the "Cash for Clunkers" program,[17] leaving about $4 billion in Recovery Act funds to pay credit subsidy costs for LGP projects. In July 2010, we reported that DOE had made an additional nine conditional commitments to issue loan guarantees but had issued only one loan guarantee.[18] We also reported that DOE lacked appropriate tools for assessing the progress of the program and had treated applicants inconsistently in the application review process, favoring some applicants and disadvantaging others. In July 2010, our report's findings were cited in the Senate report for the fiscal year 2011 Energy and Water Development appropriation,[19] which voiced continued concerns about DOE's ad hoc implementation of the program and slow progress in making loan guarantees. Shortly thereafter, Congress transferred an additional $1.5 billion in funds from the LGP to the Education Jobs Fund.[20]

[15]Recovery Act, div. A, Title IV, 123 Stat. at 140 (Feb. 17, 2009). Congress originally appropriated nearly $6 billion to pay the credit subsidy costs of projects supported under the Recovery Act, with the limitation that funding to pay the credit subsidy costs of leading-edge biofuel projects eligible under the act would not exceed $500 million.

[16]Pub. L. No. 110-5, § 20320(c), 121 Stat. 21 (Feb. 15, 2007).

[17]Pub. L. No. 111-47, 123 Stat. 1972 (Aug. 7, 2009).

[18]GAO-10-627.

[19]S. Rep. No. 111-228, at 53 (July 22, 2010).

[20]Pub. L. No. 111-226, § 308, 124 Stat. 2405 (Aug. 10, 2010).

According to our analysis of DOE data, as of March 10, 2011, DOE's LGP had obligated only about 17 percent of the remaining nearly $2.5 billion in Recovery Act funds. DOE stands to lose about $2 billion of the Recovery Act funds for LGP projects if it does not make final loan guarantees using those funds soon; the Recovery Act requires that borrowers begin construction of their projects by September 30, 2011.

One of the purposes of the Recovery Act is to create jobs, and DOE established job creation as an agency goal when making loan guarantees. However, it is not clear to what extent the LGP projects for which DOE has used Recovery Act funds are supporting that goal. In our July 2010 report, we stated that DOE had not established measures for evaluating agency progress in achieving that goal, as called for by principles of good governance. For the fourth quarter of 2010, recipients reported funding 784 FTEs from LGP projects. DOE officials estimate that 8 projects were under way by the end of 2010. As of March 2, 2011, according to agency estimates derived from loan guarantee applications, 10,531 construction and operations positions are expected to result from the 10 projects that have received loan guarantees, and an additional 2,331 positions are expected to result from the 4 additional projects to which DOE has conditionally committed.

State Energy Program

The $3.1 billion that the Recovery Act appropriated to the State Energy Program (SEP) was made available to 56 recipients, including all 50 states, the District of Columbia, and U.S. territories. The SEP provides funds through formula grants to achieve national energy goals such as increasing energy efficiency and decreasing energy costs. Created in 1996, the SEP has typically received less than $50 million per year. Thus, the Recovery Act provided a substantial increase in funding for this program. As of January 31, 2011, recipients reported obligating over $2.7 billion and spending over $900 million of their available funds.

As we reported in September 2010, recipients obligated their SEP funds for such items as buildings, including school and government improvements and revolving loan programs; electric power and renewable energy, including wind turbine deployment; and industry, including energy audits and water conservation.[21] We also noted that a lack of guidance and other obstacles, such as the lack of state energy management staff,

[21] GAO-10-999.

hampered states from obligating and spending funds. As of September 2010, DOE was beginning to monitor recipient spending, and recipient monitoring practices varied in scope and depth. DOE and recipients reported challenges in meeting Recovery Act outcome reporting requirements for a variety of reasons, including the need to coordinate among numerous state agencies to fulfill reporting requirements and difficulties with reporting information into DOE's primary reporting system.

Weatherization Assistance Program

The Recovery Act provided $5 billion for the Weatherization Assistance Program, which DOE is distributing to each of the states, the District of Columbia, five territories, and two Indian tribes. This program, administered by DOE's Office of Energy Efficiency and Renewable Energy, is intended to enable low-income families to reduce their utility bills by making long-term energy-efficiency improvements to their homes by, for example, installing insulation, sealing leaks, and modernizing heating and air conditioning equipment. The $5 billion in funding provided by the Recovery Act represents a significant increase for a program that has received about $225 million per year in recent years.

During 2009, DOE obligated about $4.73 billion of the $5 billion in Recovery Act weatherization funding to recipients, while retaining the remaining funds to cover the department's expenses. Initially, DOE provided each recipient with the first 10 percent of its allocated funds, which could be used for start-up activities, such as hiring and training staff, purchasing equipment, and performing energy audits of homes. Before a recipient could receive the next 40 percent of its funds, DOE required it to submit a plan for how it would use its Recovery Act weatherization funds. By the end of 2009, DOE had approved the weatherization plans of all 58 recipients and had provided all recipients with half of their funds.

To release the remaining half of allocated funds, DOE requires that recipients finish weatherizing 30 percent of the homes identified in their weatherization plans. In addition, recipients must fulfill the monitoring and inspection protocols established in their weatherization plans; monitor each local agency at least once each year to determine compliance with administrative, fiscal, and state policies and guidelines; ensure that local quality controls are in place; inspect at least 5 percent of completed units during the course of the year; and submit timely and accurate progress reports and monitoring reviews to DOE so that the department can confirm acceptable performance. As of February 2011, DOE reported that it had released the remaining half of funds to the 44 recipients that had met these requirements. According to DOE, the department is providing targeted communications and training to assist the remaining 14 recipients meet the requirements to gain access to their remaining funds. DOE has indicated that recipients are to spend their Recovery Act weatherization funds by March 31, 2012.

DOE officials told us that as of December 2010, about 330,304 homes had been weatherized nationwide, or about 56 percent of the approximately 590,000 homes currently planned for weatherization. All of the recipients submitted their quarterly data to FederalReporting.gov and, for the fourth quarter of 2010, reported approximately 15,391 FTEs had been funded by the Recovery Act under this program.[22]

In May 2010, we made eight recommendations for DOE to clarify its weatherization guidance and production targets.[23] DOE generally concurred with the recommendations and has addressed them to varying extents. We will continue to monitor DOE's progress in implementing these recommendations.

We have recently begun additional work on the Weatherization Assistance Program looking at the use of Recovery Act funds and the extent to which program recipients are meeting Recovery Act and program goals, such as job creation and energy and cost savings, as well as the status of DOE's response to our May 2010 recommendations. We expect to complete this work in fiscal year 2012.

Chairman Stearns, Ranking Member DeGette, and Members of the Subcommittee, this completes my prepared statement. As noted, we are continuing to monitor DOE's use of Recovery Act funds and implementation of programs. I would be happy to respond to any questions you may have at this time.

[22]In total, 92 DOE grant recipients reported to FederalReporting.gov in the sixth round of recipient reporting. In the fifth and sixth round, an additional 34 grantees that had not reported in the fourth round began reporting, in conjunction with DOE's new effort to expand access to weatherization training. On June 4, 2010, DOE announced that 34 projects in 27 states were selected to receive $29 million from Recovery Act funds to develop and expand weatherization training and technical assistance centers across the country.

[23]GAO-10-604.

Contact and Acknowledgments

For further information regarding this testimony, please contact me at (202) 512-3841. Catherine Bombico, Swati Deo, Janet Frisch, Maria Gaona, Kim Gianopoulos, Jonathan Kucskar, David Marroni, Kristen Massey, Cynthia Norris, Emily Owens, Benjamin Shouse, Karla Springer, Kiki Theodoropoulos, Ginny Vanderlinde, Jeremy Williams, and Arvin Wu made key contributions to this testimony.

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Mr. STEARNS. Thank you.

Mr. Friedman, your opening statement.

STATEMENT OF GREGORY FRIEDMAN

Mr. FRIEDMAN. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to testify today on the work of the Office of Inspector General concerning the Department of Energy's implementation of the American Recovery and Reinvestment Act of 2009.

I'm very pleased to be joined today by my colleague, my longtime colleague, Rick Hass, who is the Deputy Inspector General for Audits and Inspections.

In March 2009, I testified before the Subcommittee on Investigations and Oversight, Committee on Science and Technology on issues relating to the Recovery Act. In that hearing, I laid out the Office of Inspector General's strategy for ensuring that the Recovery Act funds were used effectively and efficiently. Many of the findings I will discuss today parallel issues raised in my 2009 testimony.

As you have heard, and as you know, the Department received a little over $35 billion under the Recovery Act for various science, energy and environmental programs and initiatives. As of March 4, according to the Department's own records, it had obligated just over $33 billion or approximately 93 percent of these funds. However, of this amount, $12.3 billion had actually been spent. These funds were used to provide financial assistance awards to a variety of recipients and to accelerate the work of certain existing facilities management contractors.

The Recovery Act called for intensive Inspector General oversight. Consequently my office has pursued a strategy designed to prevent, hopefully, and to detect inefficient, ineffective and abuse of Recovery Act expenditures. Since passage of the Act, we have issued 47 audit, inspection, and investigative reports covering activities that received about $26 billion in Recovery Act funding. These efforts identified weaknesses in the management and administration of contracts and financial assistance awards.

In the case of the Department's $5 billion weatherization program, our work also revealed the need to resolve health and safety issues some of which could have been dangerous to low-income recipients of services.

Further, we initiated over 80 Recovery Act-related criminal investigations. These investigations were predicated on alleged schemes such as fraudulent claims for rebates and mischarging for services. To date, they have resulted in two criminal prosecutions and over $1 million in recoveries.

In addition, 20 percent of the remaining Recovery Act cases have thus far been accepted for prosecutorial action. And we provided 258 fraud awareness briefings for nearly 15,000 Federal contractor, State and other officials. These briefings alerted responsible officials to possible fraud schemes, and in so doing, we hope serve to prevent abusive Recovery Act expenditures.

Department officials have told us that these efforts have helped improve the management of Recovery Act programs. My full testimony provides additional details regarding our work including a listing of the relevant Inspector General reports.

As you are no doubt aware, the Department of Energy was one of the largest recipients of Recovery Act funding in the Federal Government. This additional funding allowed the Department to expand longstanding programs such as the residential weatherization program and create new initiatives, including the energy efficiency and community block grant programs.

The goals of the Recovery Act were to be accomplished expeditiously so as to stimulate the economy and create jobs, all in an atmosphere of transparency and accountability. The Department, in our view, responded with a robust, good faith effort to implement and execute the various aspects of the Recovery Act. Through our work, we have identified a number of overarching issues and lessons learned that should be considered if similar programs are proposed.

First, the demanding nature of the Recovery Act's implementation placed an enormous strain on the Department's then-existing infrastructure. Secondly, dealing with a diverse and complex set of departmental stakeholders complicated Recovery Act startup and administration. Third, although shovel-ready projects were the symbolic goal of the Recovery Act, reflecting the desire to expeditiously create jobs, in most cases, execution was more challenging and time consuming than had been anticipated.

Fourth, infrastructure at the State and local levels was overwhelmed. Ironically, in several States, those charged with implementing the act's provisions had been furloughed due to economic conditions in those very States.

Fifth, the pace of actual expenditures was significantly slowed because of the time needed to understand and address specific requirements of the Recovery Act.

And finally, in the initial phase, recipients of the Recovery Act funding expressed their frustration with what they described as overly complex, complicated and burdensome reporting requirements.

In summary, massive funding, high expectations and inadequate infrastructure resulted at times—and I stress at times—in less than optimal performance. Large portions of the funds allocated through the Recovery Act have yet to have been spent. Accordingly, we continue to focus our attention on the Recovery Act programs, including currently an evaluation of contingency plans to address transitioning to a post Recovery Act funding posture. And our investigative efforts continue.

Mr. Chairman, this concludes my formal statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

[The prepared statement of Mr. Friedman follows:]

Statement of

Gregory H. Friedman
Inspector General

Before the Subcommittee on Oversight and Investigations
Committee on Energy and Commerce

Summary

The Department of Energy received $35.2 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act). As of March 4, 2011, according to the Department, it had obligated just over $33 billion, or approximately 93 percent of its Recovery Act funds. However, of this amount, only $12.3 billion had been spent. The Office of Inspector General has pursued a strategy designed to prevent and detect inefficient, ineffective and abusive Recovery Act expenditures. Since passage of the Act, we have:

- Issued 47 reports covering activities that identified a number of significant weaknesses in the management of contracts and financial assistance awards;
- Initiated over 80 Recovery Act-related criminal investigations that have resulted in two criminal prosecutions and over $1 million in recoveries; and,
- Provided 258 Fraud Awareness Briefings for nearly 15,000 officials.

We had a number of overarching observations that should be considered if similar programs are proposed:

- Recovery Act implementation placed an enormous strain on the Department;
- A diverse and complex set of stakeholders complicated start-up and administration;
- Implementation was much more complex and time-consuming than anticipated;
- Infrastructure at the Federal, state and local level was overwhelmed;
- The pace of actual expenditures was significantly slowed because of the time needed to understand and address specific requirements of the Recovery Act; and,
- In the initial phase, recipients of Recovery Act funds expressed their concern with what they described as overly complex, complicated and burdensome reporting requirements.

Statement of Gregory H. Friedman

Inspector General

U.S. Department of Energy

Before the

Subcommittee on Oversight and Investigations

Committee on Energy and Commerce

U.S. House of Representatives

FOR RELEASE ON DELIVERY
1:30 PM
March 17, 2011

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify today on the work of the Office of Inspector General (OIG) concerning the Department of Energy's (Department) implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act). The intent of the Recovery Act was to quickly stimulate the economy and create jobs while fostering an unprecedented level of accountability and transparency. The Recovery Act also provided the Department with a platform to transform its mission, particularly in the areas of scientific discovery, alternative energy sources and technological innovation.

The Department received $35.2 billion under the Recovery Act for various science, energy and environmental programs and initiatives. As of March 4, 2011, according to the Department, it had obligated just over $33 billion, or approximately 93 percent of its Recovery Act funds. However, of this amount, only $12.3 billion had been spent. These funds were used to: (1) provide financial assistance awards, and (2) accelerate the work of the Department's existing facilities management contractors. The obligations and spending, broken down by programmatic area, include:

Recovery Act Funding ($ million)

Program Office	**Authorized**	**Awarded**	**Spent**
Energy Efficiency and Renewable Energy	$16,666	$16,665	$6,121
Environmental Management	5,989	5.988	3,983
Electricity Delivery and Energy Reliability	4,488	4,487	932
Fossil Energy	3,379	3,379	178
Loan Guarantee Programs	2,470	424	123
Science	1,669	1,669	905
Advanced Research Projects Agency –Energy	387	387	78
Departmental Administration	144	71	46
Western Area Power Administration	10	7	5
Energy Information Administration	8	8	7
Total	**$35,210**	**$33,085**	**$12,378**

Office of Inspector General Oversight Strategy

Consistent with the objectives of the Recovery Act, my office has pursued a strategy designed to provide the Department with the most effective oversight possible. To achieve this goal, we implemented a multi-phased approach to evaluate Recovery Act activities, focusing on efforts to prevent inefficient, ineffective and abusive Recovery Act expenditures. This effort required a major commitment of OIG audit, inspection and investigative resources. In this pursuit, since passage of the Recovery Act, the OIG has:

- Issued 47 audit, inspection, investigative reports covering program activities that received about $26 billion in Recovery Act funding (Attached to this testimony is a complete listing of the OIG's Recovery Act reports);
- Initiated over 80 Recovery Act-related criminal investigations; and,
- Conducted 258 Fraud Awareness Briefings for nearly 15,000 Federal, contractor, state and other officials.

Our work resulted in improvements in the management of Recovery Act-supported programs, including the development and application of safeguards designed to ensure transparency and accountability.

Preventative Efforts

Within weeks of enactment, the OIG launched efforts to assist the Department with its implementation of the Recovery Act. Our work in this area involved:

- Early assessments designed to help Departmental officials move quickly to address and correct problems with control structures and execution by grantees and others. In particular:

1. We communicated lessons learned during prior audits of contracts and grants in a report to the Department. Specifically, we identified challenges that the Department encountered in administering grants and contracts, and identified opportunities to avoid similar problems. We pointed out, for example, that officials had not always adequately focused on evaluating the financial and business viability of projects funded through financial assistance awards. We suggested that the Department develop safeguards to ensure that financial and business risks were adequately assessed and monitored throughout the life-cycle of projects.
2. We also reviewed the Department's risk identification process and the efficacy of planned mitigation strategies. As a result of this effort, we recommended that the Department improve a number of financial and management safeguards. Many of our recommendations were made on a real-time basis during the course of the audit and, to its credit, were immediately incorporated in the Department's approach.

- We provided over 250 Fraud Awareness Briefings to nearly 15,000 Recovery Act Federal, state and local oversight personnel as well as private sector recipients. During these briefings, participants were: (1) informed of common fraud schemes; (2) advised on specific vulnerabilities within the programs, contracts, and grants; and, (3) provided information on the best avenues to report concerns regarding potential fraud. All of these actions were designed to prevent and detect fraud. In this regard, we have seen a direct nexus between the Fraud Awareness Briefings and the reporting of fraud allegations.

Audit and Inspection Oversight

We concentrated on high-risk areas as we evaluated Recovery Act efforts. This enabled us to identify a number of needed improvements in functions and programs directly impacted by the Recovery Act. For example:

- The OIG assessed the adequacy of the Department's acquisition workforce staffing levels. We concluded that the size and skill mix of the staff, then in place, was not adequate to meet the increased demands of the Recovery Act.
- Our audit staff evaluated the Department's performance management, accounting and reporting, and data quality assurance systems. We found that Department had not tested to ensure that systems were capable of handling Recovery Act volume increases and that important cyber security requirements had not been incorporated in grants transaction and reporting systems.
- We evaluated aspects of the Department's program to weatherize homes of low-income families, a $5 billion Recovery Act initiative. Our evaluation identified significant problems with workmanship quality, cost controls, and performance monitoring of grantees and contractors. Illustrative of these problems, in one State, 12 of the 15 weatherized homes we visited failed inspections because of substandard workmanship. This included health and safety issues. We also found that one funding recipient in that State had not always ensured that home improvement material costs were reasonable. In fact, Recovery Act funds were used to purchase common items such as smoke alarms, thermostats, and fire extinguishers at costs exceeding retail by as much as 200 percent. To date, we have issued 8 reports on the Weatherization Program covering 5 states and we have ongoing work in 10 jurisdictions.

- Our reviews found significant delays in the pace at which Recovery Act funds had been expended by grant and other financial assistance recipients. For example, in our reviews of the State Energy Program and Energy Efficiency and Conservation Block Grants, programs that were allocated over $6.2 billion, we determined that these efforts had not achieved their intended stimulative effect because funds, although deployed, were not actually being spent. Our evaluation established that the slow expenditure rates were attributable, in large part, to the fact that these programs were much more complex than originally anticipated. Most importantly, we found that implementation challenges resulting from mandatory requirements established under the Recovery Act, such as the Davis-Bacon Act of 1931, a Recovery Act specific Buy America provision, the National Environment Policy Act and the National Historic Preservation Act of 1966, led to a number of significant delays. At the time of our initial examinations, over a year after the Recovery Act had been enacted, actual expenditures amounted to only a small percentage of available funds. Even today, 2 years since enactment, the Department reports that only about 33 percent of all Recovery Act funds had been spent by state and local governments to improve energy efficient and conservations within their communities. We have to date issued five reports on State Energy Formula Grants covering four states and have ongoing work in another six states. We are currently working in three states at the grant recipient level on the Energy Efficiency and Conservation Block Grants Program.
- In a recent report, our review of the Loan Guarantee Program found that the Department had not devoted sufficient attention to ensuring that the resolution and mitigation strategies for identified loan risks were adequately documented. This program, designed to encourage the development of innovative technologies to help address the Nation's

energy challenges, is on a path to provide as much as $71 billion in loan guarantees. The Program received $2.4 billion in Recovery Act funds to support loan guarantee efforts. We recommended a number of improvements designed to provide transparency and accountability by properly recording and archiving all material information developed during the due diligence process in a centralized, readily accessible system of records.

- We reviewed the approximately $7.6 billion in Recovery Act funds provided to the Department's established facilities management contractors, funds largely designated for environmental remediation and scientific activities. Our reviews found that, for the most part, contractors included in our reviews had complied with key Recovery Act requirements. However, we have found improvements are possible. For example, one audit concluded that in expending Recovery Act funds the Department adopted an approach to waste processing at the Department's Hanford Facility in Washington State that would have cost about $25 million more than necessary. Although it disagreed with our cost estimates, management agreed with our recommendation to fully analyze the cost implications of processing the waste stream we reviewed at Hanford. To date, we have issued 12 reports on Office of Environmental Management and Office of Science projects funded by the Recovery Act. We also have seven reviews in the Science and Environmental areas in progress.

Investigative Matters

We currently have 64 open investigations associated with the Recovery Act, nearly 25 percent of our current case load. Schemes under investigation include the submission of false information in applications for funding, fraudulent claims for rebates, claims for unallowable or unauthorized expenses, the directing of contracts and grants to friends and family, weatherization fraud to include mischarging, and other attempts to fraudulently obtain Recovery Act funds. To date, our Recovery Act-related investigations have resulted in over $1 million in monetary recoveries and two criminal prosecutions. Further, nearly 20 percent of our other ongoing Recovery Act investigations have been accepted for either criminal or civil prosecutive action. And, Recovery Act funds, in large measure, are just being spent. Thus, we expect that our efforts in this area will continue for some time.

Recovery Act Implementation and Performance Observations

In terms of Recovery Act funding, the Department was one of the largest recipients in the Federal Government. To put this in perspective, the $35 billion in Recovery Act funding the Department received exceeded its annual budget of about $28 billion. As structured, the Recovery Act was designed both to expand and supplement long-standing programs with which the Department and other stakeholders had a great deal of experience, such as the Weatherization Program, which had been in effect since the late 1970's. In addition, Recovery Act funds were used to create what were essentially new Departmental efforts, including the Energy Efficiency and Conservation Block Grant Program. This was to be accomplished expeditiously so as to stimulate the economy and create new jobs, all in an atmosphere of transparency and accountability.

Even under ideal circumstances, these were challenging goals. We noted during our work that there was what we considered to be an intense, good faith effort to implement and execute the various aspects of the Department's Recovery Act responsibilities in accordance with the Act's guidelines. These efforts notwithstanding, we had a number of overarching observations which we believe should be considered if similar programs are proposed:

1. The pressure of achieving expeditious program implementation and execution, and doing so with great emphasis on transparency and accountability, placed an enormous strain on the Department's personnel and infrastructure.
2. The challenges associated with the Department's program implementation and execution efforts were complicated by the nature of the bureaucracy in which it operates, specifically the diverse, complex and often asymmetrical set of stakeholders which play an integral role in this process. This includes literally thousands of state and local jurisdictions, community action organizations in every state and territory, universities and colleges, contractors and other private sector entities.
3. The concept of "shovel ready" projects became a Recovery Act symbol of expeditiously stimulating the economy and creating jobs. Yet, the Department programs which benefitted from the huge influx of Recovery Act funds, as it turned out, required extensive advance planning, organizational enhancements, additional staffing and staff training. This we found was true at the Federal, state and local levels.
4. The Federal, state and local government infrastructures were, simply put, overwhelmed. In several states, the very personnel who were charged with implementing the Recovery Act's provisions had been furloughed due to the economic situations. Ironically, this delayed timely allocation and expenditures of funds intended to boost the U.S. economy.
5. The pace of actual expenditures was significantly slowed because of the time needed to understand and address specific requirements of the Recovery Act.
6. At the initiation of the Recovery Act, fund recipients expressed their concern with what they described as overly complex, complicated and burdensome reporting requirements.

In summary, a combination of massive funding, high expectations and inadequate infrastructure resulted, at times, in less than optimal performance.

Noteworthy Accomplishments

We found a number of success stories which, in our judgment, reflected well on the Department's Recovery Act efforts. For example:

- The Department's management and operating contractors, for the most part, complied with Recovery Act requirements relating to transparency and accountability;
- The Department increased its workforce and redirected personnel to improve its monitoring of financial assistance agreements; and,
- Finally, the Department improved information technology systems for tracking financial information and project performance.

Path Forward

Large portions of the funds allocated to the Recovery Act have yet to be spent. Accordingly, we have ongoing and planned audits and inspections of Recovery Act funds in a number of high-risk areas such as Advanced Research Projects Agency-Energy, Electricity Delivery and Energy Reliability, and Renewable Energy Programs. Additionally, our investigative efforts continue.

We are also in the process of evaluating contingency plans to address problems with transitioning to a post-Recovery Act funding posture. Of the most immediate concern is how the Department plans to deal with a significant downsizing of the contractor workforce.

Mr. Chairman, this concludes my statement and I would be pleased to answer any questions that the Subcommittee may have.

Attachment

Department of Energy Office of Inspector General
Recovery Act Reports

	Title	Report Number	Date Issued
1.	Recovery Act Funded Projects at the SLAC National Accelerator Laboratory	OAS-RA-L-11-05	2011-03-08
2.	The Department of Energy's Loan Guarantee Program for Clean Energy Technologies	IG-0849	2011-03-03
3.	The Department's Infrastructure Modernization Projects under the American Recovery and Reinvestment Act of 2009	OAS-RA-L-11-04	2011-03-02
4.	Management of the Tank Farm Recovery Act Infrastructure Upgrades Project	OAS-RA-L-11-03	2011-02-09
5.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the Capital Area Community Action Agency – Agreed-Upon Procedures	OAS-RA-11-04	2011-02-01
6.	Audit of Environmental Cleanup Projects Funded by the Recovery Act at the Y-12 National Security Complex	OAS-RA-L-11-02	2010-12-20
7.	Management Alert on the State Energy Efficient Appliance Rebate Program	INV-RA-11-01	2010-12-03
8.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix – Agreed-Upon Procedures	OAS-RA-11-03	2010-11-30
9.	Management of the Plutonium Finishing Plant Closure Project	OAS-RA-L-11-01	2010-11-10
10.	Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-11-02	2010-11-02
11.	The State of Illinois Weatherization Assistance Program	OAS-RA-11-01	2010-10-14
12.	Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Michigan State Energy Program	OAS-RA-10-18	2010-09-29
13.	Review of Allegations Regarding Hiring and Contracting in the Office of Energy Efficiency and Renewable Energy	OAS-SR-10-04	2010-09-22
14.	Status Report: The Department of Energy's State Energy Program Formula Grants Awarded under the American Recovery and Reinvestment Act	OAS-RA-10-17	2010-09-21

Attachment

Department of Energy Office of Inspector General
Recovery Act Reports

15.	The Department of Energy's American Recovery and Reinvestment Act - Georgia State Energy Program	OAS-RA-L-10-06	2010-09-15
16.	Office of Science's Energy Frontier Research Centers	OAS-RA-L-10-09	2010-08-27
17.	Decommissioning and Demolition Activities at Office of Science Sites	OAS-RA-L-10-05	2010-08-12
18.	The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the Recovery and Reinvestment Act: A Status Report	OAS-RA-10-16	2010-08-11
19.	Review of the Department's of Energy's Plan for Obligating Remaining Recovery Act Contract and Grant Funding	OAS-RA-10-15	2010-08-04
20.	Management Controls over the Development and Implementation of the Office of Energy Efficiency and Renewable Energy's Performance and Accountability for Grants in Energy System"	OAS-RA-10-14	2010-07-22
21.	The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds Under the American Recovery and Reinvestment Act	OAS-RA-10-13	2010-06-11
22.	The Department of Energy's American Recovery and Reinvestment Act- Florida State Energy Program	OAS-RA-10-12	2010-06-07
23.	Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-10-11	2010-05-26
24.	Waste Processing and Recovery Act Acceleration Efforts for Contact-Handled Transuranic Waste at the Hanford Site	OAS-RA-10-10	2010-05-25
25.	Management Controls over the Department of Energy's American Recovery and Reinvestment Aet- Louisiana State Energy Program	OAS-RA-10-09	2010-05-03
26.	Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act	OAS-RA-L-10-04	2010-04-27

Attachment

Department of Energy Office of Inspector General
Recovery Act Reports

27.	The Department of Energy's Program to Assist Federal Buyers in the Purchasing of Energy Efficient Products	OAS-RA-10-08	2010-04-27
28.	Moab Mill Tailings Cleanup Project	OAS-RA-L-10-03	2010-04-23
29.	Fermi National Accelerator Laboratory's NOvA Project	OAS-RA-L-10-02	2010-04-16
30.	Management Alert on Environmental Management's Select Strategy for Disposition of Savannah River Site Depleted Uranium Oxides	OAS-RA-10-07	2010-04-09
31.	The Department of Energy's Management of the NSLS-II Project	OAS-RA-L-10-01	2010-04-06
32.	Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy's Funding Recipients	OAS-RA-10-06	2010-04-01
33.	Management Controls over the Department's WinSAGA System for Energy Grants Management Under the Recovery Act	OAS-RA-10-05	2010-03-25
34.	Progress in Implementing the Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act	OAS-RA-10-04	2010-02-19
35.	Review of Allegations Involving Potential Misconduct by a Senior Office of Environmental Management Official	S09IS024	2009-12-29
36.	Management Challenges at the Department of Energy	IG-0832	2009-12-11
37.	Selected Department of Energy Program Efforts to Implement the American Recovery and Reinvestment Act	OAS-RA-10-03	2009-12-07
38.	Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois	OAS-RA-10-02	2009-12-03
39.	The Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009	OAS-RA-10-01	2009-10-21
40.	The Department's Management of the ENERGY STAR Program	IG-0827	2009-10-14
41.	The Department of Energy's Management of Contractor Fines, Penalties and Legal Costs	IG-0825	2009-09-30

Attachment

Department of Energy Office of Inspector General
Recovery Act Reports

42.	Bonneville Power Administration's Acquisition of Transmission-Related Materials and Equipment	IG-0824	2009-09-29
43.	Management of Energy Savings Performance Contract Delivery Orders at the Department of Energy	IG-0822	2009-09-10
44.	Department of Energy's Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act	OAS-RA-09-04	2009-09-04
45.	Department of Energy Efforts to Manage Information Technology Resources in an Energy-Efficient and Environmentally Responsible Manner	OAS-RA-09-03	2009-05-27
46.	The Department of Energy's Acquisition Workforce and its Impact on Implementation of the American Recovery and Reinvestment Act of 2009	IG-RA-09-02	2009-03-30
47.	The American Recovery and Reinvestment Act at the Department of Energy	OAS-RA-09-01	2009-03-20

Mr. STEARNS. I thank the gentleman.

Our next witness is Mr. Steve Isakowitz, and if you don't mind just introducing the people that are with you.

STATEMENT OF STEVE ISAKOWITZ

Mr. ISAKOWITZ. Chairman Stearns, Ranking Member DeGette and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the Department of Energy's monitoring and oversight efforts to ensure the effective implementation of the American Recovery and Reinvestment Act.

The Department has received $35.2 billion in appropriations and $6.5 billion in power market administration borrowing authority. These funds have gone to over 4,500 recipients who are developing an estimated 15,000 clean energy projects across the Nation. As of March 13, 2011, over $12.5 billion of the Department's Recovery Act appropriations had been executed on projects around the country.

Let me give several examples of how the Recovery Act is playing a pivotal role in stimulating economic growth, creating jobs in long-term competitive sectors, reducing energy costs for Americans and supporting critical environmental cleanup goals. First, advance vehicle industry is beginning to take root in America. As a result of the Recovery Act, we will have the capacity to produce enough batteries for about 500,000 plug-in hybrid electric vehicles a year at 2015.

Second, the Department of Energy's weatherization program has made it possible for more than 330,000 families nationwide to reduce their energy use and cut their utility bills. We are on track to weatherize nearly 600,000.

Third, as a result of the Recovery Act investments in clean energy, U.S. renewable energy generation is set to double by 2012.

Finally, for DOE's Office of Environmental Management, we estimate that by the end of 2011, the acceleration of cleanup of contaminated areas will reduce the Department's cleanup footprint by 40 percent, potentially freeing up land for local communities' reuse.

Most at DOE's recovery-funded programs were new initiatives or significant increases to existing programs, presenting the challenge of quickly ramping up activities while ensuring that all taxpayer funds are well spent. Indeed, our mantra within the Department is to spend fast, spend well. We have initiated numerous efforts to identify and mitigate risks associated with implementation of these projects. Many of these efforts have become government wide best practices. We are working to extend to our base-funded activities.

Before any Recovery Act awards were issued, the Department created over 140 individual project plans comprised of project descriptions, monthly obligation and payment plans, milestones and performance targets. We also ensure the development of detailed risk plans for nearly every project which are updated as necessary to assist with the identification and mitigation of program execution risks.

The risk plans incorporated lessons learned from the IG and GAO reports including those focusing on similar programs at other agencies. And in order to ensure transparency and accountability of our funds and provide real-time financial execution, information to the Department's management, we developed a Web-based tool called I Portal to provide immediate access to financial and programmatic execution for our projects. Most of this information is made available to the public through DOE's Web site at recovery.gov.

As part of our comprehensive risk management efforts, we have also worked hard to identify those——

Mr. STEARNS. I just wonder, is your mic turned on? It is? Maybe just bring it a little closer to you. Thanks.

Mr. ISAKOWITZ. As part of our comprehensive risk management effort, we have also worked hard to identify those recipients that might require heightened monitoring and oversight. We currently have risk scores for over 4,000 individual Recovery Act recipients, and over 12,000 sub recipients which we will use to prioritize oversight and monitoring efforts.

Our risk scoring methodology was recognized by staff on the Recovery Accountability and Transparency Board which is made up of agency IGs as a best practice. In addition, the Department established special monitoring and oversight procedures with the largest energy efficiencies and renewable energy programs.

To date, the Department has conducted over 700 monitoring visits for these programs.

Audits and inspections conducted by the DOE, IG and GAO are an integral part of the Department's monitoring and oversight efforts. And we are committed to working with the IG and GAO to facilitate their work and address any issues they identify.

For example, we have given IG and GAO staff direct access to all contents in our I portal and provided training on using the system. To date, the Inspector General has issued 47 reports related to the Recovery Act implementation. For 16, the Inspector General did not identify any issue significant enough to warrant recommendations for management action.

For the other reports, the IG issued 111 separate recommendations, and the Department has already resolved 50 percent of these. Costs questioned by the Inspector General represent only 0.03 percent of the Department's Recovery Act spending authority. The GAO has issued 10 reports, three of which contain recommendations for management action which we are actively addressing.

Mr. Chairman, I would like to thank you again for inviting me to testify about the Department's efforts under the Recovery Act. The Department was charged to ensure that the money is spent quickly and spent well. We take this responsibility seriously. I look forward to responding to your questions and I would like to introduce two of my colleagues who help me in doing so. Inez Triay is Assistant Secretary for Environmental Management, and Steve Chalk, the Chief Operating Officer for the Office of Energy Efficiency and Renewable Energy. Thank you.

[The prepared statement of Mr. Isakowitz follows:]

Statement of
Steve Isakowitz
Chief Financial Officer
U.S. Department of Energy

Before the

Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives

March 17, 2011

Chairman Stearns, Ranking Member DeGette, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the Department of Energy's monitoring and oversight efforts to ensure the effective implementation of the American Recovery and Reinvestment Act (Recovery Act).

Recovery Act Impact

Recovery Act funding came in three pieces: roughly a third in tax cuts directly to the American people, another third in emergency relief for hard-hit families, businesses, and state governments, and a third in investments in infrastructure and technology, creating platforms for economic growth. To date, more than 75,000 Recovery Act projects have started across the country.

The Department of Energy's Recovery Act program focuses on the third leg, accelerating innovation to lay the foundation for long term economic growth. The Department has received $35.2 billion in appropriations and $6.5 billion in power marketing administration borrowing authority. These funds have gone to over 4,500 recipients who are developing an estimated 15,000 clean energy projects across the nation.

Many countries are moving aggressively to develop and deploy the clean energy technologies that the world will demand in the coming years and decades. As the President said in his State of the Union address, this is our generation's "Sputnik moment." As Secretary Chu has stated, we must rev up the great American innovation machine to win the clean energy race and secure our future prosperity. Department of Energy Recovery Act projects are helping us meet this Sputnik moment by building a clean energy economy, accelerating energy innovation, and reducing our dependence on oil.

Moreover, the Recovery Act is putting Americans across the country to work making our homes and businesses more energy efficient, increasing the use of clean and renewable electricity, cutting our dependence on oil, and modernizing the electric grid. During the most recent quarterly reporting period, recipients told us that they were supporting more than 43,000 jobs. In addition, clean energy manufacturing tax credits are creating thousands of additional jobs. As DOE's critical Recovery Act programs continue throughout 2011, we expect to continue to support tens of thousands of jobs.

Let me give several examples of how the Recovery Act is playing a pivotal role in stimulating economic growth, creating jobs in long-term competitive sectors, reducing energy costs for Americans, and supporting critical environmental cleanup goals:

First, an advanced vehicle industry is beginning to take root in America. Over seventy awardees in over 30 states have received Recovery Act grants to help build the American advanced battery and electric vehicle manufacturing industry from the ground up. Nearly $2 billion in Recovery Act funds will support the opening of 30 battery and electric drive component factories across the country. All of the recipients of these Recovery Act funds matched the government investment at least dollar for dollar. Before the Recovery Act, the U.S. produced almost no advanced vehicle batteries. As a result of the Recovery Act, we will have the capacity to produce enough batteries for 500,000 plug-in hybrid electric vehicles a year by 2015.

Second, the Department of Energy's Weatherization Program has made it possible for more than 330,000 families nationwide to reduce their energy use and cut their utility bills. We're on track to weatherize nearly 600,000 homes with Recovery Act funds. In addition to reducing utility costs for American households, the Recovery Act Weatherization Programs supported more than 15,000 jobs retrofitting homes as of December 2010.

Third, as a result of the Recovery Act investment in clean energy, U.S. renewable energy generation is set to double by 2012 (from a 2008 baseline). Through a joint DOE-Treasury Department program, over 7,000 private companies nationwide have received tax cuts or cash assistance for clean energy manufacturing and production.

Finally, DOE's Office of Environmental Management (EM) is responsible for the risk reduction and cleanup of the environmental legacy of the nation's nuclear weapons and energy research programs. DOE received $6 billion in Recovery Act funding with the specific goal of creating jobs to accelerate the cleanup of the environmental legacy across the DOE complex. With Recovery Act funding, we estimate that by the end of 2011, the acceleration of facility deactivation and decommissioning and cleanup of contaminated areas will reduce the Department's cleanup footprint by 40 percent—shrinking from approximately 900 square miles to about 540 square miles and potentially freeing up land for local communities to re-use. The Department is well on its way to meeting this goal, having already reduced the complex wide footprint by over 30 percent.

These are just a few examples of how the Department of Energy's Recovery Act investments are both driving economic growth and supporting critical Departmental goals now and laying the foundation for our Nation's long term prosperity through a clean energy economy.

Implementation, Monitoring, and Oversight

Most of DOE's Recovery funded programs were new initiatives or significant increases to existing programs designed to reinvest in America's future and provide for long-term benefits to the American economy. We have been steadily ramping up our activities, while ensuring that all taxpayer funds are well-spent. By September 2010, the Department obligated all of the appropriations that expired in FY 2010, almost entirely through contracts and financial assistance. As of March 13, 2011, over $12.5 billion of the Department's Recovery Act appropriations had been executed on projects around the country. Over the past year, the Department has averaged over $800 million per month in payments. DOE is now effectively operating at its planned "run rate" and accomplishing its stated performance objectives.

The Department has initiated numerous efforts to ensure that taxpayers' dollars are protected. Many of these efforts have become government-wide best practices that we are working to extend to our base-funded activities.

One positive result from the Recovery Act has been improved Departmental capacity to make sound decisions efficiently, keeping program and functional leaders aligned towards meeting common priorities and resolving issues in real time. DOE also focused on customer service. DOE set up call centers to help individuals applying for funds and recipients that may have questions around Federal reporting requirements and other Recovery Act questions. Thus far, the call center has had over 44,000 interactions with the public.

Even before the Recovery Act was passed, the Department had taken steps to help us with the management and oversight of this program. We created an Agency-wide plan specifying the anticipated goals of Recovery Act funding. From there, we developed Program level plans which specified in greater detail the projected results and when those results would be achieved. Finally, the Department created over 140 individual project plans comprised of project descriptions, monthly obligation and payment plans, operational milestones, and performance targets. Internally, DOE uses these plans to measure our own performance, and if a project was off-plan, the Department took actions to get the project back on track.

In order to ensure transparency and accountability of DOE's significant Recovery Act funds and provide real-time financial execution information to the Department's management, we developed iPortal, an online financial interface and database, to provide users with a standard set of financial numbers for departmental and public review. It serves as a centralized repository of ARRA financial reports, impact metrics, and reporting guidance and consolidates data from multiple sources, including the Department's accounting system, its procurement system, and FederalReporting.gov. iPortal provides the Department with immediate access to key information on obligations, payments, jobs, impact metrics, and milestones, allowing the Department's management to identify and address problem areas early. Most of this information is made available to the public through DOE's website and Recovery.gov.

In establishing the Recovery Act procedures, the Department, with the help of the Inspector General, anticipated the need for heightened oversight. The Inspector General conducted a number of preventative audits up front, documenting any issues they had identified over the last decade in any program receiving funds under the Recovery Act. This review supported our development of comprehensive risk management plans for each program. Before any Recovery Act awards were issued, the Department required the submission of detailed risk plans for every Recovery Project—over 140 in total. We also analyzed all relevant IG and GAO reports, including those focusing on similar programs at other agencies and incorporated the lessons learned from the IGs of other agencies (including HUD and HHS) into these risk plans. The risk plans are living documents, and Departmental officials update the plans as necessary for key projects to ensure that execution risks are identified and mitigated.

As part of our comprehensive risk management efforts for Recovery Act programs, we worked with the Recovery Accountability and Transparency Board—which is made up of Agency IGs—to develop ways of identifying recipients that may require closer monitoring and oversight. We're using their past audit history and 47 other data series, such as the recipient's payment history to its vendors, to identify which recipients are at the greatest risk of misspending Recovery Act funds. Our risk scoring methodology was recognized by staff on the Board as a best practice. We currently have risk scores for over 4,000 individual Recovery Act recipients and over 12,000 sub-recipients, which we use to prioritize oversight and monitoring efforts. As part of this effort, we are also receiving real-time alerts on potentially problematic developments related to our recipients, which we share with the Inspector General, as appropriate.

The Department has undertaken major initiatives to ensure adequate post-award audit coverage of all major recipients of DOE grants and cooperative agreements. We've put new processes in place to better leverage the government-wide audit requirement for non-profit recipients and state and local governments, as defined by the Office of Management and Budget Circular A-133. For for-profit recipients, we recently provided detailed guidance for the recipients' audit firms outlining the issues they should review when conducting required annual audits; this guidance implements a pre-existing DOE audit requirement. The Department has also established centralized processes to track and ensure the resolution of these audit findings.

In addition to these operational and risk management efforts, the Department established special monitoring and oversight procedures for its largest Recovery Act programs: the Weatherization Assistance Program, the State Energy Program, the Energy Efficiency and Conservation Block Grant Program, and Research, Development, Demonstration and Deployment (RDD&D) activities. Each of these programs developed a robust plan to monitor direct grant recipients and verify that those recipients are monitoring their sub-recipients and vendors. These plans include detailed manuals, checklists, and procedures for prioritizing monitoring efforts based on recipient risk. The Weatherization monitoring plan includes a direct, third-party quality assurance check of up to 10 percent of homes weatherized. To date, the Department has conducted over 700 monitoring visits for the Weatherization Assistance Program, the Energy Efficiency and Conservation Block Grant Program, and State Energy Program. Additionally, the Department is conducting formal Independent Project Reviews on a sample of Research, Development, Demonstration and Deployment projects to verify and validate recipient performance and evaluate project management oversight.

Inspector General and Government Accountability Office Oversight and Monitoring

Audits and inspections conducted by the DOE Office of Inspector General and the Government Accountability Office are an integral part of the Department's monitoring and oversight efforts, and we are committed to working with the Inspector General and GAO to facilitate their work and address any substantive issues that they identify. For example, we have given IG and GAO staff direct access to all content on our iPortal system and provided training on using the system.

To date, the Inspector General has issued 47 reports related to our Recovery Act implementation. For 16 of these reports, the Inspector General did not identify any issues significant enough to warrant recommendations for management action. For the other reports, the Inspector General issued 111 separate recommendations, and the Department has already resolved approximately 50 percent of these. Costs questioned by the Inspector General represent only 0.03 percent of the Department's Recovery Act spending authority. We are actively working to address the remaining 50 percent of recommendations that have not yet been resolved.

The Government Accountability Office has issued 10 reports relating to the Department's Recovery Act implementation, only 3 of which contained recommendations for management action. The Department is working actively to address the issues identified in these reports.

Thanks to the recommendations in these reports, we have begun implementing more comprehensive programmatic and financial internal controls; improving the quality of oversight and guidance to grantees; increasing communication with state personnel; and ensuring meticulous record-keeping. We will continue to work to improve and fine tune the implementation of our programs in order to maximize effectiveness and minimize inefficiencies.

Mr. Chairman, I would like to thank you again for inviting me to testify about the Department's efforts under the Recovery Act to create jobs while investing in the future. The Department was charged to ensure that the money was spent quickly, but also that it was spent prudently, and that waste, fraud, and abuse were addressed promptly and decisively. I hope I have conveyed the Department's seriousness in facing that responsibility.

I look forward to responding to your questions, and I would like to introduce two of my colleagues who will help me in doing so: Ines Triay is the Assistant Secretary of Energy for Environmental Management, and Steven Chalk is the Chief Operating Officer for the Office of Energy Efficiency and Renewable Energy.

Mr. STEARNS. I thank Mr. Isakowitz.

You seem to be very high on the program and indicate that you have tried to implement most of the GAO Inspector General's recommendation. Is that what you are saying?

Mr. ISAKOWITZ. Yes, we have moved as expeditiously as we can.

Mr. STEARNS. I think when you look at the program, here we are 2 years after the program was signed, the stimulus package was signed, and if I would, pertaining to the weatherization program, it is still only about halfway to meeting its target, and I think Mr. Rusco and Mr. Friedman, isn't it fair to say that the States and the Department of Energy were not prepared to implement this plan in a way that satisfied what most of us thought the stimulus bill would do, provide immediate injection into the economy and jobs for the unemployed? Mr. Rusco?

Mr. RUSCO. Well, there were a number of issues early on that slowed the implementation of this program, and among them were the Davis-Bacon requirements that required the Department of Labor——

Mr. STEARNS. So the Davis-Bacon Act slowed down the actual implementation of the plan, particularly with weatherization, is that correct?

Mr. RUSCO. Yes, it did. It required the Department of Labor to establish rates for weatherization workers in localities. And they eventually did that in September of 2009.

Mr. STEARNS. Mr. Friedman.

Mr. FRIEDMAN. I would agree with that, Mr. Chairman. If you would allow me a moment of personal privilege if you don't mind.

Mr. STEARNS. Sure.

Mr. FRIEDMAN. Mr. Isakowitz is a good friend of mine, but I just want to point out for the record that it took the IG to show him how to turn on his microphone.

Mr. STEARNS. OK, that is good. That is good.

Mr. BILBRAY. We are glad to see the Energy Department knew how to flip a switch.

Mr. ISAKOWITZ. Saving energy.

Mr. STEARNS. I have here cases, particularly in Tennessee, dealing with weatherization which show some gross mismanagement where they came in to put insulation in, and all they did was put the bag of insulation. I will be glad to show this to you. Actually, they were supposed to weatherize a home through the windows and through the attic, and all they did was paint the house and I have numerous examples here.

So I think the question is for you, Mr. Isakowitz. What measures did you take to ensure the quality of the weatherization was not sacrificed for deadlines? And actually, did you have some kind of measuring techniques, because I would be glad to show you these egregious examples where the work was not done.

In fact, "during our preliminary analysis of the 444 homes reviewed, we found deficiencies with 233" of these, 52 percent, and the work was not even performed in about 45 percent of these homes, and I will be glad to give you this information.

So I guess the question we have here is what kind of measuring techniques did you have? I think the GAO, Mr. Rusco, indicated earlier that—he mentioned in his opening statement they did not use new good measuring techniques for the jobs that were implemented.

Mr. ISAKOWITZ. I'm going to turn to Mr. Chalk to answer the specifics to your question, but let me just say generally the way we treated this program is the way we treated all the programs when we got started on the Recovery Act. As has been mentioned, a number of times this was significant funding and new funding for the Department. Particularly for the State programs, many times, this represented anywhere from 20 to 60 times more funding than we get on an annual basis. In the case of a block grant, it was a brand new program.

So one of the things we did up front for this program and the others is to, before we start spending money to make sure we had the necessary controls in place and work with the States who were going to be recipients of an unprecedented amount of funding up front, to make sure that they were able to handle it. As to the specifics of your question——

Mr. STEARNS. Before you do that, just based upon what you said, I think I would take on face value that you are saying that to create a stimulus package through the weatherization program, this is not the best way to do it, because you had to ramp up so much. And when I see what you were dealing with annually, the program I think was preparing about 100,000 annually, but the stimulus increased it almost to 600,000 over a 3-year period.

So I think you are implying that you had to ramp up and perhaps all that ramp up made it more difficult for you, maybe the stimulus through this weatherization ramp up is not the best way to create a stimulus. Would you agree with that?

Mr. ISAKOWITZ. No. We think it actually has been a very effective program. And we think the program impact we have received as a result has shown that it has been very effective in saving average Americans and low-income homes significant funds.

Mr. STEARNS. How would you measure that? What measurement were you using to determine and validate what you just said?

Mr. ISAKOWITZ. Well, just broadly speaking, for low-income homes, energy costs are usually 15 percent of oftentimes what they have to pay where an average American it may——

Mr. STEARNS. So you are just broadly speaking on your own.

Mr. ISAKOWITZ. Speaking just in terms of the value of this program back, and in terms of actual homes that we have touched we have already done for 300,000 homes——

Mr. STEARNS. Do you think this will create sustainable jobs after?

Mr. ISAKOWITZ. Well, in many cases, we are creating the kind of skills that as we move in our entire economy to a more energy efficient economy, many of the skills that are being applied for those homes are same kind of skills that can be applied elsewhere.

Mr. STEARNS. But if they are not creating more work afterwards, if there is not work afterwards, then they will suddenly stop and they will not have any more work. But anyway, Mr. Chalk, why don't you finish so I don't go too far.

Mr. CHALK. If I may, I will address a couple of issues. One is the late start. The challenges that have been mentioned——

Mr. STEARNS. Through the Davis-Bacon Act?

Mr. CHALK [continuing.] With new requirements on the program that weren't with the legacy program. It was an increase of about 25-fold in terms of the size of the program.

The program was always structured to be done within 3 years of the Recovery Act. So even though we got a late start, we are on schedule, and we are scheduled for just about every State, every territory, every tribe to be completed in March of '12, March 2012, 3 years after the Recovery Act was initiated. So over the last year, we have been running at about 20-to-30,000 homes per month, doing about 300,000 homes a year. So we have really accelerated the program.

Initially, we had some workmanship problems, and there have been references to Tennessee and Illinois.

Mr. STEARNS. So you are familiar with the Tennessee, all the cases I have got.

Mr. CHALK. I'm not personally familiar with Tennessee but we have had workmanship issues in the onset of the program.

Mr. STEARNS. I need you to wrap up because my time has expired.

Mr. CHALK. Essentially, the way we are handling that is a significant 20 percent of the funding was for training and technical assistance. We have a massive training, about two dozen training centers, we are training the contractors, we are training the subrecipients who are monitoring the work. Our State folks now are actually measuring 5 percent of the homes by sample, and the DOE has about two dozen monitors that go out regularly and oversee the work. So we have several layers of oversight to make sure that the improvement measures are being instituted, the right ones, and that usually is not windows. It is usually insulation, caulking and things like that.

Mr. STEARNS. I'm going to let you wrap up so the ranking Member——

Mr. CHALK. And what we have now is working very well, and we are producing quality home weatherization.

Mr. STEARNS. All right. My time is expired.

Ms. DEGETTE. Thank you very much, Mr. Chairman.

Mr. Friedman, the Recovery Act contained quite a bit of money for oversight and investigation to try to eliminate fraud and other kinds of misuse of the funds, correct?

Mr. FRIEDMAN. That's correct.

Ms. DEGETTE. Can you explain to this committee very briefly what kinds of resources were available to the DOE Inspector General under the ARRA?

Mr. FRIEDMAN. Yes. As I recall, the precise number, Ms. DeGette, it was $15 million. With those funds, we have taken the following approach: One is we hired temporary employees to augment our staff, specifically focused on areas where we thought the most vulnerabilities, the most vulnerable aspects of the program.

Ms. DEGETTE. And you have done about 47 reports and audits on ARRA funding to date, correct?

Mr. FRIEDMAN. That's correct, yes.

Ms. DEGETTE. And Mr. Rusco, I wonder if you can tell us about the resources and responsibility given to GAO under the Recovery Act.

Mr. RUSCO. Yes, GAO received $25 million to oversee the Recovery Act. With that money, we hired largely retired annuitants back into the fold to help us with this work, but we also used a lot of our other resources in this. We focused on State programs primarily and we reported on a bimonthly basis typically.

Ms. DEGETTE. And you issued 107 reports, correct?

Mr. RUSCO. I will take your word for it. It was a lot.

Ms. DEGETTE. Now, Mr. Isakowitz, I would assume that you are not trying to imply when you say you had to ramp up quickly, that there is any view that we shouldn't have quickly tried to implement this program, correct?

Mr. ISAKOWITZ. No, we think this is a great program and it has great results and a lot of impacts.

Ms. DEGETTE. And let me ask you this: Do you think that the fact that you had to ramp up quickly meant that there was a disproportionate amount of poor work or improper use of the funds or anything like that?

Mr. ISAKOWITZ. No. In fact, we have been very careful as we ramped up to make sure we had all the internal controls the accountability and transparency in place.

Ms. DEGETTE. Now, what about situations like this shoddy work in Tennessee that the chairman was talking about?

Mr. ISAKOWITZ. Well, it is a vast undertaking and when you have as many homes as we have had to deal with, again, we had over 300,000 clearly you are going to have cases of issues that have come up. That is why it was very important up front before these dollars went out and that we went and visited all 50 States to actually work with them to set up controls to make sure, in fact, they had appropriate mechanisms in place to take care. And we had a very exacting monitoring process where we track and look for issues. In fact, very often we will work closely with the States and the IG and GAO to try to identify these problems before they become big problems.

Ms. DEGETTE. So what you are saying is you feel like where there are problems like this where certainly none of us would want to see problems like that, you are feeling that because of the programs you put in place, it is not endemic throughout the system?

Mr. ISAKOWITZ. That's correct. We would love to be perfect.

Ms. DEGETTE. What about Mr. Rusco, Mr. Friedman, would you agree with that statement, that it is not these problems aren't endemic throughout the system?

Mr. FRIEDMAN. First of all, one of the first things we did, Ms. DeGette, in early 2009 was issue a lessons learned report in which we looked back on the work that we had done the prior couple of years and determined whether there were lessons we could learn from what had been experienced in the past, including in weatherization.

Ms. DEGETTE. And did you learn lessons?

Mr. FRIEDMAN. Did we learn lessons? Yes, I think we did, and it was a teaching moment for us as how to use our resources to address the most pressing problems.

Ms. DEGETTE. Mr. Rusco, anything to add?

Mr. RUSCO. I guess I would say it is a mixed bag. There are problems identified in our reports that DOE has begun to implement and respond to. We continue to do work and we continue to have findings where we will be reporting in a couple of months on the Energy Efficiency and Conservation Block Grants program.

Ms. DEGETTE. I think, Mr. Chairman, that might be a good opportunity to have that other hearing you were talking about. They are coming up with another report in a couple of months.

Let me ask you, Mr. Rusco, you said one of the reasons for the slow start to starting these programs was Davis-Bacon. That is a law says you have to pay prevailing wages in these areas, correct?

Mr. RUSCO. That is correct.

Ms. DEGETTE. So, say in Tennessee, if you are going in and adopting weatherization programs or something, you can't undercut the local wages, right?

Mr. RUSCO. Right.

Ms. DEGETTE. That would seem to me to make sense, given what we are trying to do with the ARRA money, which is to promote the job market. Thank you, very much Mr. Chairman.

Mr. STEARNS. I thank the gentlelady.

The gentleman from Oklahoma is recognized for 5 minutes.

Mr. SULLIVAN. Thank you, Mr. Chairman. Mr. Rusco, GAO has completed two reports on loan guarantee programs; is that correct?

Mr. RUSCO. I think it is three now, yes.

Mr. SULLIVAN. So it is three programs.

Mr. RUSCO. Three reports. I am sorry.

Mr. SULLIVAN. Three reports? OK. The most recent report was issued July 2010; is that correct?

Mr. RUSCO. Correct.

Mr. SULLIVAN. As you know, the loan guarantee program is currently the subject of an investigation by this subcommittee, in particular, a loan guarantee to a California company named Solyndra. So I don't want to get into the particulars over certain guarantees at this point. Instead, I want to discuss the program generally. The first Recovery Act related guarantee was announced in March 2009; is that correct, sir?

Mr. RUSCO. I believe that is correct, yes.

Mr. SULLIVAN. And that was to Solyndra, a California company; is that correct?

Mr. RUSCO. Yes.

Mr. SULLIVAN. Was that a $535 million loan they got?

Mr. RUSCO. Yes, it was.

Mr. SULLIVAN. Since then, DOE has announced 15 other loan guarantees for companies engaging or planning to engage and producing innovative energy technologies; is that correct, sir?

Mr. RUSCO. They have issued now 10 and they have another— I am not sure exactly how many are conditional loans.

Mr. SULLIVAN. Aside from Solyndra, was is the status of the other 14 companies who received loan guarantees? Where are they in developing these projects?

Mr. RUSCO. Well, there are three other companies that have gotten loans that have identified and submitted job information. So there are a total of 4 out of the 10 loans that have actually been issued that were development——

Mr. SULLIVAN. Have any of these companies under consideration by you even broken ground yet?

Mr. RUSCO. Four have. And Solyndra is far along, if not finished, with the plant that it was building.

Mr. SULLIVAN. Of the 10 closed loans, only three have begun construction. And you say there may be some other activity?

Mr. RUSCO. That is what I believe, yes.

Mr. SULLIVAN. Mr. Isakowitz, the purpose of the stimulus was to create jobs as everyone was saying, right? Is that right?

Mr. ISAKOWITZ. That is correct.

Mr. SULLIVAN. And the loan program's Web site shows the number of jobs that each loan guarantee is supposedly creating; is that right, sir?

Mr. ISAKOWITZ. That is correct.

Mr. SULLIVAN. So the jobs numbers shown on the Web site, can they be considered created before the facilities have broken ground?

Mr. ISAKOWITZ. Well, it is important to note how we go about collecting information. They put the numbers in, the recipients of those dollars based upon dollars by which we have obligated. In many cases, some of these applicants would, in fact, start to break ground and create some of the jobs prior to it. So what we receive and what we report is what the recipients give us based upon those that we close.

Mr. SULLIVAN. But they were considered before they even broke ground, some of them were, right?

Mr. ISAKOWITZ. Yes. I cannot speak to—it happens usually when they are breaking ground.

Mr. SULLIVAN. Also, Mr. Rusco, in the July 2010 report, you state that the DOE loan program's office had not developed sufficient performance goals to measure the actual results of the loan guarantees against the planned or desired results. Why is this significant?

Mr. RUSCO. Well, with any program, we would like to be able to go back over time and see how they are doing in achieving their goals. And among the goals for the Loan Guarantee Program was to create funding for innovative projects, energy projects that reduce greenhouse gas emissions that also have a high probability of paying back the loan. And under the Recovery Act funding, also one of the goals was to create jobs.

Mr. SULLIVAN. Well, Mr. Rusco, is the Loan Guarantee Program office making any effort to determine whether loan guarantees and grants are actually resulting in greater energy efficiencies or infrastructure improvements? Yes or no?

Mr. RUSCO. They may be taking steps to do so. We are not satisfied with the steps and they have not agreed with most of our recommendations.

Mr. SULLIVAN. That would be no? Kind of no? It sounds like no. Mr. Isakowitz, in the GAO report, DOE states that we will revisit the performance goals. Has DOE done so?

Mr. ISAKOWITZ. I would have to get back to you on that.

Mr. SULLIVAN. Could you submit that for the record?

Mr. ISAKOWITZ. We will.

Mr. SULLIVAN. What are the performance goals?

Mr. ISAKOWITZ. Some of the general I can speak of, and again, I would have to get you the details for the record. But generally, we have looked at the impact we have in terms of our focus on clean energy, in terms of CO_2 sequestration and on issues on some of the jobs created.

[The information appears at the conclusion of the hearing.]

Mr. SULLIVAN. Does the loan program office plan to go back and determine the actual results of these loans?

Mr. ISAKOWITZ. Yes, we monitor it. In fact, when we close the loan, we don't step away from the loan. In fact, we are staying very close to the loans throughout the whole repayment of the loan itself.

Mr. SULLIVAN. Mr. Isakowitz, if the DOE does not close a number of the loans soon, it would stand to lose its unspent stimulus money, or $2 billion right now, I believe; is that right?

Mr. ISAKOWITZ. We have $2 billion of unobligated funds.

Mr. SULLIVAN. And you are going to try to get that out the door pretty quick?

Mr. ISAKOWITZ. We have the demand to get it out the door, yes.

Mr. SULLIVAN. And the office would need to close these loans soon, right, in order for the companies to meet the construction deadlines; is that correct?

Mr. ISAKOWITZ. And we have cued it up just for that, yes.

Mr. SULLIVAN. Does the loan program's office intend to spend all of this 2 billion? And if so, by what day would it need to do so?

Mr. ISAKOWITZ. Yes, we intend to and we need to do it by the statutory date, which is at the end of September.

Mr. SULLIVAN. Mr. Rusco, are you concerned by this situation?

Mr. RUSCO. Well, we do have concerns about the internal controls of the program. We have in every report issued recommendations to improve controls and performance measures for the program. So there is some concern about—if the program were to ramp up the speed of issuing loans, we would like to see those controls in place.

Mr. SULLIVAN. So, Mr. Rusco, you are still concerned about this, aren't you, this situation, how they are measuring it?

Mr. RUSCO. We are working on our fourth report right now.

Mr. STEARNS. The gentleman's time has expired.

Mr. RUSCO. And continuing to find issues that we are concerned about, yes.

Mr. SULLIVAN. Thank you, sir.

Mr. STEARNS. The gentlelady is recognized from the Virgin Islands, Ms. Christensen.

Mrs. CHRISTENSEN. Thank you, Mr. Chairman. And welcome to all of the people on the panel. Today, we have heard from DOE that the funds provided by the Recovery Act helped the Department and its State, local and private grantees create tens of thousands of new jobs. In just the last quarter, those grantees reported supporting employment for 43,000 workers. And those numbers are quite laudable, but they may understate actually the impact of DOE's Recovery Act funding.

For instance, I know that DOE has always relied heavily on both contractors and subcontractors to carry out its mission. Yet, as the DOE IG noted in an April 2010 audit report, many of the prime contractors reporting Recovery Act hiring to the department failed to report any of the job creation that occurred at the subcontractor level. So, Mr. Friedman, is that correct?

Mr. FRIEDMAN. That is correct. If I may, Ms. Christensen, I— not take exception to it, but your characterization may be a little different. According to the rules that have been established from the beginning, a subcontractor job creation was not to be included in the report. So in fairness, at some point, of course, they changed the rules, the rules did change, but that was the "going in" posture which we felt understated the job creation capability of the money that had been spent.

Mrs. CHRISTENSEN. So even though it wasn't absolutely required initially, the fact that subcontractors may not have reported may understate the number of jobs. Because it is my understanding from the same report that perhaps the subcontractors, the jobs created by them was nearly double that by the prime contractors.

Mr. FRIEDMAN. That is one of the interesting aspects that we discovered, which was that job creation at the subcontractor level may have far exceeded that of the contractor level. So I agree with your fundamental point.

Mrs. CHRISTENSEN. So you agree that we may have significantly underestimated the impact of the Recovery Act spending on employment?

Mr. FRIEDMAN. Certainly, as far as that category of spending is concerned at that time.

Mrs. CHRISTENSEN. And I know that calculating the exact number of jobs created by a Federal spending can be complicated. Some people suggest that this sort of spending might be crowding out private sector employment or bringing jobs into the present that would have been created in the future. So setting aside the validity of those concerns in a time of full employment, Mr. Rusco, are we worried that DOE job creation has been crowding out private sector hiring during the recession?

Mr. RUSCO. It varies depending on the economic conditions in any locality. But in a time when there is high unemployment and economic activity is very low, we are in a recession, there is much less concern for crowding out than there would be if we were at a point of full employment.

Mrs. CHRISTENSEN. So during recession, there is a benefit to turning potential future jobs into present jobs; is that right?

Mr. RUSCO. That is something I really can't comment on. That is a choice.

Mrs. CHRISTENSEN. And finally, Mr. Isakowitz, do the job numbers we have talked about capture all the economic benefits of the Department's Recovery Act spending or did that spending benefit Americans in other ways as well?

Mr. ISAKOWITZ. I think that is correct. As Mr. Friedman pointed out, in addition to the subcontracts, the way the numbers are collected is if there are two people working half-time on it, it is treated as one person. It also doesn't include those that it would call the induced and the indirect, like for those who let us say might be a vendor carrying goods across country would not be counted and as well as the impact on the local economy to, let us say, local restaurants and so on, those are not counted. And then again, a lot of what we are investing in is, in fact, an investment in the long term.

So, in fact, when our dollars stop from any of these activities, we hope it will stimulate local opportunities for small businesses to, in fact—in fact, we spent almost $10 billion of Recovery Act on small businesses that we think would enable a more vibrant economy than had we not been there.

Mrs. CHRISTENSEN. Then you have the average savings for homes that have been weatherized and other benefits. And I remember Dr. Chu speaking just as he became Secretary about maybe the lack of a strong record of grand management and trained staff at the Department. But it sounds as though from what you have had to do to prepare for the spending and the monitoring, that the Department is probably in much better shape going forward. So there is an additional benefit to the Department of Energy, isn't there?

Mr. ISAKOWITZ. Yes. In fact, we have demonstrated a number of best practices, that one of my focuses now going forward is to make sure that our ongoing programs, in fact, benefit from exactly that.

Mrs. CHRISTENSEN. We have a situation in the Virgin Islands where perhaps one of the programs is oversubscribed and others where our government has passed legislation determining, for example, that solar water heaters must be in new homes for 70 percent of the hot water and rebates should be allowable up to 50 percent. Is there any flexibility or a possibility, say, for those programs that are oversubscribed from moving money from one area to another?

Mr. STEARNS. The gentlelady's time has expired. You are certainly welcome to answer her question.

Mr. CHALK. Within the State Energy Program and within the Block Grant Program, we can revise activities, as long as there is money left and then do some of the things that have been oversubscribed and we would have to cut things that have been undersubscribed or you don't want to do any longer.

Mrs. CHRISTENSEN. Thank you. Thank you, Mr. Chairman.

Mr. STEARNS. The gentleman from Pennsylvania, Mr. Murphy, is recognized for 5 minutes.

Mr. MURPHY. This question is for Mr. Isakowitz and Mr. Chalk. As you review programs within the Department of Energy, how do you assess of a Federal program that is operating now, is working efficiently and effectively and it is worth keeping money in it versus one that you are going to reduce money in that? Can either one of you give me an idea?

Mr. ISAKOWITZ. Sure. I will just talk more broadly. On what we have done up front is we had identified these project plans where we identify specific metrics of what we wanted each program to achieve. In addition, we identified areas of risk. We also identified particular milestones in terms of when they would be delivering. And we had set up a system due to the unprecedented effort we had in transparency to actually collect this information. We have regular what we call deep dive reviews where we go over in great detail how we are doing, is the recipient delivering as promised. In areas that we see are running into issues, we work with the recipient to see how it is——

Mr. MURPHY. Recipients of the grants, for example?

Mr. ISAKOWITZ. Yes. Recipients of grants or contracts to make sure that they remain on track.

Mr. MURPHY. Of course, we have heard that some of the DOE monies, the 33 billion, are having trouble allocating that out or obligating or releasing it. Of course, one of the problems made by the administration is that they could rapidly disburse these funds. I want to see if we can look at a particular agency within the Department of Energy that executed its responsibilities from, what I understand in a timely and efficient manner which I think would meet those standards. Specifically to my understanding, that the National Energy Technology Laboratories, or NETL, obligated all of its stimulus dollars; is that correct?

Mr. ISAKOWITZ. Yes.

Mr. MURPHY. I understand they did that pretty effectively, on time, on budget, without fraud or any terrible thing. Am I correct on that too?

Mr. ISAKOWITZ. Yes. I want to give commendation not only to NETL, but a lot of the rest of the organizations, in fact, were able to obligate 99.9 percent at the prescribed deadline.

Mr. MURPHY. So they did a good job disbursing those funds?

Mr. CHALK. Yes, they did.

Mr. MURPHY. Now, I am concerned about something and perhaps you can help me with this. I am concerned there seems to be an effort in the President's 2012 budget that is going to transfer operations or programs like having experts out in the field into Washington, D.C. And in particular, when I look at the EERE presidential request of 3.23 billion, it is a 37 percent increase over 2011, presidential request. And yet I see NETL is projected to receive 14.9 million. It is a $10.6 million reduction, which would be about a 50 percent reduction of the Federal staff within NETL.

My concern is here is a program that has done its job, on time, on budget, without fraud or abuse and yet—correct me if I am wrong, maybe I am misreading this—but it looks like money is pulling away from there, expanding into another area. Does this indicate that this program is going to be reducing its funding and its mission?

Mr. CHALK. The reduction in program direction, or FTEs of NETL, is really symbolic of the decrease of workload, Recovery Act. So it peaked over the last 2 years and then in FY 2012, when most of the procurements and so forth are completed, it is dropping back to the FTE level that it saw prior to the Recovery Act.

Mr. MURPHY. But we still have some funds that are yet to be disbursed? And where will those be?

Mr. CHALK. All funds are disbursed.

Mr. MURPHY. Disbursed now? Are there other functions within NETL that you are looking to pull out and move to Washington, D.C.?

Mr. CHALK. We are constantly looking at optimal program management, whether something should be done in the field or at headquarters. That is under constant evaluation every year that we prepare for the budget.

Mr. MURPHY. When the President gave his State of the Union address, he also talked about clean coal. And I commented to him as he is walking up the aisle, I am pleased about that, every inch of my district is over coal and natural gas. Do you see us moving forward on some programs like NETL which, in the past, played a good role in research, et cetera, in coal-related research? Will those continue to be worked and funded and maintained?

Mr. ISAKOWITZ. Yes. We had in the President's 2011 request, and we will see where things come out. But we had important investments to make, in fact, in fossil energy and we are going to continue to make important R&D investments. When you heard the President and the Secretary speak about the need for a broad effort in clean energy, clearly coal, clean coal particularly and carbon capture sequestration is a key part of that. So we have maintained our investment. And, in fact, the Recovery Act has been very critical, in fact, to demonstrate the very technologies that are important for the future.

Mr. MURPHY. I would be glad to talk with you more and see how we can support this future too. I know it is important to have headquarters like that in the middle of coal country and I know that NETL is in both Pennsylvania, West Virginia. It is certainly the heart of everything there and a lot of great workers who have spent their careers and the long legacy of that across many administrations. And I hope that we can continue to look at programs that have been very efficient and effective in that and I will be glad to work with you and see how we can help on that together.

Mr. ISAKOWITZ. We would be happy to work with you.

Mr. MURPHY. Thank you, Mr. Chairman, I yield back.

Mr. STEARNS. I thank the gentleman. The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. Let me briefly talk about prevailing wage or Davis-Bacon. In my part of the country, we call it prevailing wage. Part of the Recovery Act also required to hire local workers or local folks, that if you had the skills in the local area to do the work. And I know not only was it Davis-Bacon for prevailing wage and that has been part of Federal law in construction projects as long as I can remember, is that generally true of our witnesses? Prevailing wages?

Mr. RUSCO. I am sorry. I don't know the full scope of where the Davis-Bacon Act is——

Mr. GREEN. Well, maybe it is new to the Department of Energy because in other construction projects, it is not new. It has been around, I think, since the 1930s. In fact, we have had some votes on the House floor in the last 50 years trying to remove it. And it typically always wins not to remove it on a bipartisan basis. I don't know if that got in the way as much because that is required on a lot of Federal projects that they do all over the country.

Let me ask you about some of the concerns about the DOE program. H.R. 1 that we had and will continue since we have a 3-week continuing resolution, cuts the budget of the Office of Energy Efficiency by 35 percent from over 2.2 billion to 1.5 and prevents DOE from spending money for weatherization and State energy programs. Could you discuss the consequences of the cuts? What is it going to do to both State energy programs, but also to home weatherization? I know it has benefited in a lot of our districts.

Mr. CHALK. Yes. Eliminating the weatherization program is going to be devastating. As I said earlier, it has been a tremendous effort to get the program back on schedule. We are supposed to be completed in March of '12. And without '11 appropriations—and there is tremendous lead time that is required. We need FY '11 appropriations because this is kind of a cash business, weatherization, materials need to be bought prior to the production year that the States have, which is usually right in the middle of our fiscal year.

So it is a little complicated. But if we don't get the FY '11 funding, we are in jeopardy of furloughing about 8,000 people, about 34,000 homes that won't be weatherized and, again, the investment ratio here is for every dollar that the Federal Government puts in, there is about a $1.80 of savings out. And this has been well-founded over the years. So we will lose that savings for low-income people who, again, they pay a disproportionate amount of their income on energy bills, about five times what non-low-income people pay. This will be pretty devastating to the weatherization network, as well as the low-income families. We jeopardize losing our training centers which—recognizing some of the startup in workmanship issues, most of those are behind us. Tennessee, for instance, is doing very well. We rate every State on how well they do in monitoring. Tennessee scored very well on our last site visit for monitoring.

So we feel things are very much on track. And 42 out of our 59 States and territories and Indian tribes, 42 out of 59 will be totally out of money in the middle of FY '12 with their annual money and their Recovery Act money. So if the FY '11 money does not come, then we see significant consequences of essentially a cliff, where work just stops, we lose the infrastructure related to training, certifying inspectors and training the actual contractors to do the work.

Mr. GREEN. It is my understanding about 300,000 homes thus far has been weatherized using Recovery Act funds.

Mr. CHALK. Well, if you include the January numbers, it is about 350,000. So we are past the halfway point.

Mr. GREEN. I am real familiar with the training centers. I have one in my district. Of course, my folks from up north wonder why would we weatherize in Texas. But come to Texas between May and September and you will know why we need to weatherize, because it gets pretty warm there.

About the State efficiency programs. I know I only have a few seconds. State offices use DOE funds to leverage investments and for efficiency upgrades. I understand it is estimated for every 50 million in State energy program funding, it produces 333 million in annual energy savings costs and leverages another 585 million for energy related economic development. Is that number true?

Mr. CHALK. I would have to get back to you on the record for that number. I would say that the State Energy Program, as well as the Energy Efficiency Block Grant Program really are reinvesting for the future. They are more long-term payoff than we typically think—the Recovery Act is immediate stimulus, like weatherization and the environmental restoration that we are doing. These programs that you are mentioning do have tremendous lifecycle savings and are really programs investing in the future.

[The information appears at the conclusion of the hearing.]

Mr. GREEN. Thank you, Mr. Chairman.

Mr. STEARNS. The gentleman's time has expired. The gentleman from Texas, Dr. Burgess.

Mr. BURGESS. Thank you, Mr. Chairman. And, Mr. Rusco and Mr. Friedman. Again, I apologize also for being out of the room for part of your testimony today. And if I am asking you something that has already been asked, please indulge me and don't embarrass me by pointing it out. On the loan programs, the loan office program, it is not a huge sum of money by Washington standards, but it is still a big bunch of money, $2½ billion, is that about right?

Mr. RUSCO. That is correct.

Mr. BURGESS. So this office is currently the subject of some investigations within this committee and it is the object of some interest by yourselves; is that correct?

Mr. RUSCO. Yes. We are currently doing a review of the program.

Mr. BURGESS. Now, I think one of the things that has raised some concern is that the loan program's office issued a loan guarantee to one company prior to receiving a single report from the external reviewers whose job it was to evaluate the soundness of the loan guarantee.

Mr. RUSCO. I believe that they issued a conditional commitment prior to receiving a final financial or marketing report and then issued the loan before having completed—I am sorry—a legal report.

Mr. BURGESS. Now, there is a time commitment to money to be received under this program, that the construction on the projects must begin by September of this year; is that correct?

Mr. RUSCO. That is correct.

Mr. BURGESS. Are you concerned that any other loans might be fast-tracked in the same nature?

Mr. RUSCO. Our concerns are broadly about the way the program has been set up, both to follow a consistent and rigorous due diligence process to make sure that before they issue loans, they have fully gone through their process and have fully vetted all of the issues that they have that the program has identified as important, and we found in our last report that for a number of loans that went to conditional commitment, they had not finished all of the steps of their due diligence process.

Mr. BURGESS. Well, is there any pressure—pressure is not quite the right word. But if you have got to be submitted and constructing by September, that is a fairly condensed time line, 6 months from now. Is that condensation of the time line? Is that putting any additional pressure to bear on that?

Mr. RUSCO. I cannot speak to exactly where the program is in terms of the process of all of the existing loan applications. I can say that the pace at which they have been able to issue loans up to date would, if that pace were to continue today, would definitely not make it.

Mr. BURGESS. And then what would happen, those loans would just go away or be reclaimed by the Department of Energy or by the Federal Treasury?

Mr. RUSCO. I think they go back to the Federal Treasury.

Mr. BURGESS. Mr. Isakowitz, is it appropriate that this committee is concerned about the loan program's office putting taxpayer dollars at risk by guaranteeing loans without doing the due diligence first?

Mr. ISAKOWITZ. First, I want to be really clear. We have set up a very exacting process of due diligence as we go through it. I think the report that you are referring back to was from about 9 months ago. We did not agree with that particular finding. Just to be clear, there is a major difference between what we call a conditional commitment and a closing. A closing is the key milestone. That is when we are committing and obligating the funds for that particular project. At a conditional commitment, we have just identified the issues that we expect the applicant to address before we close. So I believe in that particular report what they raised were some issues that some of the reports were not fully in hand at the time of the conditional commitment. But we understood that at the time and we were able to address that risk sufficiently so that we had told the recipient that before we close on the loan, all the required reports needed to be in. So we are not cutting any corners to get to closing.

Mr. BURGESS. What about now? There is an abbreviated time line between now and September. Does that put additional pressure on the program?

Mr. ISAKOWITZ. We have had the opportunity to either close or get the condition of commitment on 16 projects. And we have greatly improved the time line without cutting any corners in terms of getting to it. We had actually staffed up accordingly 2 years ago. We had maybe 10 or 15 people in the office. Today, we have over 100. In fact, we have put the processes in place to address the demand that we see in terms of getting to those funds by the end of the fiscal year.

Mr. BURGESS. Let me pose a question to the Inspector General. So we are told that this is kind of not a big deal, these are trivial. What is your response? Do you feel that this is a misplaced concern on the part of the committee?

Mr. FRIEDMAN. Well, to put it in some perspective, Dr. Burgess, essentially the authority under the loan guarantee program is $71 billion. So there is a significant amount of money at risk. I cannot address the particular specific issues that you are raising, but it is obviously for that reason that both deserves the attention of the Department and the attention of all of the oversight bodies to make sure that the taxpayers' risks are protected to the extent possible. Obviously you wouldn't need a government guarantee if there was no risk. So there is some element of risk inherently in these programs. So I think your probing is appropriate and that is basically all, I guess, I can add.

Mr. BURGESS. All right. Thank you, Mr. Chairman.

Mr. STEARNS. I thank the gentleman. We are going to allow Mr. Gardner to finish up and then we are going to close the hearing. I think we have had good timing with the votes. I just would like to ask for a unanimous consent request to place an audit report from Tennessee and the Department of Energy IG report into the record. Hearing no objection, so ordered.

[The information follows:]

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Justin P. Wilson
Comptroller

December 20, 2010

The Honorable Virginia T. Lodge, Commissioner
Department of Human Services
400 Deaderick Street
Nashville, Tennessee 37248

Dear Commissioner Lodge:

On April 1, 2009, the U.S. Department of Energy (DOE) awarded the state $99 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds for the Weatherization Assistance for Low-Income Persons (WAP) program. The ARRA funds are available for a three-year period ending March 31, 2012. In addition, DOE awarded $7 million of non-ARRA funding to the state in fiscal year ended June 30, 2010, bringing the total award to $106 million. Each of the three prior non-ARRA awards has not exceeded $8.5 million. To implement the program, the Department of Human Services (DHS) contracted with 18 subrecipients (nonprofit organizations) across the state.

WAP was created in 1976; however, the amount awarded for the year ended June 30, 2010, was at an unprecedented level for our state. The annual awards for the program for the three fiscal years ended June 30, 2007, 2008, and 2009 were approximately $3.7 million, $4.1 million, and $8.5 million, respectively. The total number of homes weatherized for these three fiscal years was 5,416.

In light of the numerous problems we noted in our field work, we wanted to advise you of our preliminary findings so that appropriate corrective actions could be initiated as soon as practicable. Our discussion of these preliminary findings regarding WAP raises substantial concerns and should be considered in the context of the anticipated completion of the *2010 Single Audit Report* by March 31, 2011. The *Single Audit Report* provides information to the federal government on the state's accountability for federal financial assistance and is critical to securing continued federal funding.

Office of Management and Budget Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations," requires us to plan and perform our audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred. At this point, we anticipate having to report that material noncompliance occurred with the Weatherization Assistance for Low-Income Persons program.

Program Objectives

According to Office of Management and Budget Circular A-133 Compliance Supplement:

> The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. WAP has a special interest in addressing these needs for low-income persons who are particularly vulnerable, such as the elderly, disabled persons, and families with children, as well as those with high energy usage and high energy burdens.

Scope of the Review

As of June 30, 2010, DHS paid the aforementioned 18 subrecipients, **(See Attachment 1)**, approximately $36 million for weatherizing approximately 6,800 homes. To determine DHS's compliance with WAP requirements, we reviewed the related client files, energy auditor files, and contractor files for 444 weatherized homes. During our preliminary analysis of the 444 homes reviewed, we found deficiencies with 233 files (52%).

Our work also included site visits at 84 weatherized homes. We noted that contractors had not performed weatherization measures, had not properly completed the weatherization measures, or had performed work that was not allowable under the weatherization program for 38 homes (45%).

Below is a summary of the significant internal control and compliance weaknesses we noted from our file reviews and site visits.

Internal Control and Compliance Weaknesses in Weatherization Process

Incomplete Files

During our review of the files, we noted that the subrecipients' weatherization coordinators did not always ensure that the files contained all the required documentation. Specifically, the files did not always contain:

- proof of home-ownership or written permission from the owner to weatherize the home,
- proof of income for weatherization applicants,
- pre-energy audit forms that identified the energy auditors,
- documented on-site visits approving work change orders in excess of $100, or
- documented verification that the energy auditor verified that each measure was completed.

Without all the required documentation in the files, we could not determine if the applicant was eligible for the program or whether the weatherization work performed was properly authorized and approved.

Post-Energy Audit Deficiencies

File Review

The post-energy audit is the final control for determining that the work has been appropriately completed and that payment can be issued. Although the department had created home inspection forms for the energy auditors to document review of weatherization measures performed, some subrecipients have used different forms. Our file review disclosed that in a number of instances, the home inspection forms

- did not include all weatherization measures to be inspected, and
- were not consistently completed to document whether the measure passed or failed.

However, the forms had been signed by the energy auditor and used by the subrecipient to process final payment to the contractor.

Site Visits

We also reviewed the home inspection forms as part of our site visits. Our review disclosed the home inspection forms were signed, certifying that the work was inspected and approved. However, we noted that the energy auditor did not always document whether individual measures were inspected (passed or failed). During our site visits, we noted that individual measures were

- not marked as failed on the forms, and the measures were not completed; or
- marked as passed on the forms, but the measures were poorly completed or not completed.

Consequently, based on our file review and site visits contractors were paid for work not inspected, not performed, or that was of poor quality.

Based on our site visits we also noted that the energy auditors failed to document on the forms whether individual measures passed or failed but the measures were completed and the contractors were properly paid.

Uncertified or Unauthorized Persons Performing Energy Audits

We noted at three subrecipients that the subrecipients' weatherization coordinators did not always ensure energy audits were conducted by certified or authorized individuals. At one subrecipient, a contracted certified energy auditor allowed an uncertified family member to conduct 22 energy audits. The subrecipient paid $4,400 for these energy audits. We also noted at two other subrecipients instances where the energy auditors permitted their uncertified or unauthorized assistants to perform at least 14 energy audits. The subrecipients paid at least $3,400 for these energy audits.

Weatherization Measures Poorly Performed or Not Performed at All

We noted at least $3,600 paid to weatherization contractors for weatherization measures that were not performed in seven homes. The post-energy audits failed to identify that weatherization measures invoiced by the contractor had not been properly performed or performed at all. Furthermore, the subrecipients' weatherization coordinators did not ensure appropriate post-audits were performed before the contractors were paid. **See Exhibit 1 and Exhibits 5-12.**

Subrecipient Did Not Verify Contractor's License

We noted at one subrecipient that an unlicensed contractor preformed weatherization work. Based on discussion with the weatherization coordinator, the subrecipient did not verify the license of the contractor prior to awarding the contract and authorizing weatherization work to begin on the seven homes. In fact, the contractor had completed weatherization work on four homes and was installing weatherization measures on three additional homes before the subrecipient determined the contractor did not have a license. This unlicensed contractor was paid $27,743 for work performed.

Non-Weatherization Measures Performed

We noted at least nine subrecipients' energy auditors inappropriately recommended measures which were not allowable under the program to be performed in at least 13 homes. The non-weatherization measures included stairs, steps, ramps, and shower surrounds, which do not increase energy efficiency of the home. The subrecipients' weatherization coordinators failed to identify the unallowable measures for which the contractors were paid. The subrecipients paid at least $6,785 for these non-weatherization measures. **See Exhibits 2-4.**

Weatherization Measures Needed But Not Performed

During our home visits, we noted that several homes needed critical weatherization measures to achieve energy efficiency; however, these weatherization measures were either not recommended by the pre-energy audit or, if recommended, the measures were not performed.

In one example, the pre-energy audit failed to recommend that a broken window pane be replaced. When we pointed this out to the weatherization coordinator, he stated that he believed the problem was that the energy auditor was new and lacked proper training to assess the energy needs of the home.

In another instance, the pre-energy audit recommended that broken window panes should be replaced; however, the recommended measures did not make it to the final work order. In some cases, homes are in such poor condition that the cost of weatherization measures required to increase energy efficiency may exceed the average spending allowance of $7,100 per dwelling ($6,500 average per dwelling and $600 for health and safety measures) permitted in the federal award application. As a result, not all recommended or needed weatherization measures could be installed. In these situations, the subrecipients' weatherization coordinators should have prioritized which weatherization measures needed to be installed to achieve the optimal energy efficiency for the home. In the instance mentioned above, the weatherization coordinator's prioritization of weatherization measures did not, in our opinion, provide optimal energy efficiency for the dwelling. **See Exhibit 13.**

Reasons Provided for the Above Internal Control and Compliance Weaknesses

When we discussed the above internal control and compliance weaknesses with the subrecipients' weatherization coordinators, we were informed that they felt rushed to weatherize a large number of homes. The contracts between DHS and the subrecipients include benchmarks to weatherize 25% of homes by December 31, 2009; 50% by March 31, 2010; 85% by June 30, 2010; and 100% by September 30, 2010.

The subrecipients' weatherization coordinators also explained that many of the weaknesses were caused by inexperienced personnel and lack of training. DHS is taking actions to improve the performance of the subrecipients involved in the weatherization process based on problems noted by the department's monitors and our office by providing additional training to the contractors and energy auditors.

As our review of the program progressed, we noted that subrecipients improved performance. Although it is possible that these latter subrecipients already had better controls, the subrecipients also received additional training and have been advised by DHS of the need to improve their controls over the weatherization program.

Immediate and Continuing Actions

We recognize that management of the Department of Human Services has experienced significant program implementation difficulties given the unprecedented federal award funding levels for the fiscal year June 30, 2010. In addition to the infusion of over $100 million to our state, DHS management has been expected to spend the federal funds quickly and efficiently to provide weatherization benefits to low-income persons who are particularly vulnerable, such as the elderly, disabled persons, and families with children, as well as those with high energy usage and high energy burdens.

We also realize that, given the number of homes weatherized, management relies on all parties involved in the weatherization process to perform their responsibilities in accordance with contract terms and federal regulations. In such circumstances it is critical that those individuals charged with the responsibility for approving, performing, and reviewing the actual work realize that there are real consequences for failure to meet their obligations. To that end, all remedies, including administrative, civil, and criminal actions, should be taken to hold those individuals accountable for their actions or failures to act. One of the greatest defenses to fraud is individuals understanding that there will be consequences for their behavior.

We have been informed by your staff that as of June 30, 2010, DHS weatherization monitors have inspected 455 of 6,796 weatherized homes (6.7%). As a result, DHS is currently on track to achieve the 5% federal monitoring requirement of all weatherized homes by March 31, 2012. We have also observed DHS's prompt action when subrecipient and/or contractor deficiencies have been identified by your program staff and monitors.

Because of the ongoing potential for risks of noncompliance, fraud, waste, and abuse in the program, it is imperative that management continue to monitor the work performed by subrecipients and contractors. The department should use the knowledge gained from these monitoring efforts to identify and mitigate these and other risks promptly.

Specifically, DHS management, at a minimum, should:

1. Require WAP program staff to develop effective tools to assist in identifying patterns of potential noncompliance, fraud, waste, or abuse, and share those tools with the subrecipients.
2. Reemphasize to the subrecipients that they are responsible for following all contract terms, policies, procedures, and guidelines.
3. Enforce strict penalties for subrecipients, energy auditors, or contractors who fail to follow contract terms.
4. Determine why energy auditors have not performed appropriate post-energy audits to identify contractors who fail to perform weatherization measures.
5. Require subrecipients to complete the DHS Weatherization Home Inspection Form that itemizes the specific weatherization measures that were to be performed and to require energy auditors to initial each item individually as to whether the measure passed or failed the inspection and to sign the form.
6. Take prompt action to address post-energy audit deficiencies and require subrecipients to terminate contracts or employment with the energy auditors or contractors as necessary.
7. Provide continued training for subrecipients, energy auditors, and contractors regarding WAP requirements.
8. Ensure prompt action is taken to report possible fraud, waste, and abuse to the appropriate authorities.
9. Take steps to remind all parties involved in the program that fraud, waste, and abuse will be dealt with promptly and decisively and that each individual has a continuing duty to report any indication of fraud, waste, and abuse to the Comptroller's hot-line at 1-800-232-5454 or to your staff.

Government officials are responsible for our tax dollars. Taxpayers rightly expect that state officials responsible for the weatherization program for low-income persons will identify eligible persons, determine needed and allowable weatherization measures, have the weatherization work performed by qualified companies and individuals, verify that the work has been completed as specified, and ensure prompt payment. Therefore, it is imperative that the Department of Human Services in conjunction with its 18 subrecipients:

- ensure the weatherization program achieves its objectives;
- ensure that weatherization services are provided effectively, efficiently, economically, ethically, and equitably; and

- manage and spend the weatherization resources in compliance with laws and regulations.

Failure to comply with program requirements may cause the state to lose substantial federal funding for which our citizens pay taxes.

Sincerely,

Justin P. Wilson
Comptroller

JPW/kbt
Attachment 1/Exhibits 1-13

cc: Senator Bill Ketron, Chair, Senate State and Local Government Committee
Representative Curry Todd, Chair, House State and Local Government Committee
Robert E. Cooper, Jr., Office of the Attorney General and Reporter

WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS

Attachment 1

The Department of Human Services contracted with the following subrecipients for the fiscal year ended June 30, 2010, to administer the Weatherization Assistance for Low-Income Persons

1. Mid-Cumberland Community Action Agency - **Lebanon**
2. Clarksville-Montgomery County Community Action Agency - **Clarksville**
3. South Central Human Resource Agency - **Fayetteville**
4. Upper Cumberland Human Resource Agency - **Cookeville**
5. Chattanooga Human Services Department - **Chattanooga**
6. Highland Rim Economic Corporation - **Erin**
7. Upper East Tennessee Human Development Agency - **Kingsport**
8. Metropolitan Development and Housing Agency - **Nashville**
9. Southwest Human Resource Agency - **Henderson**
10. Northwest Tennessee Economic Development Council - **Dresden**
11. Knoxville-Knox County Community Action Committee - **Knoxville**
12. Mid-East Community Action Agency - **Kingston**
13. Blount County Community Action Agency - **Maryville**
14. Bradley-Cleveland Community Services Agency - **Cleveland**
15. Shelby County Community Services Agency - **Memphis**
16. Delta Human Resource Agency - **Covington**
17. East Tennessee Human Resource Agency - **Knoxville**
18. Southeast Tennessee Human Resource Agency - **Dunlap**

Exhibits

Exhibit 1: The contractor was paid to install a crawl space door; however, the contractor only installed plywood and cinder block. **Metropolitan Development and Housing Agency**

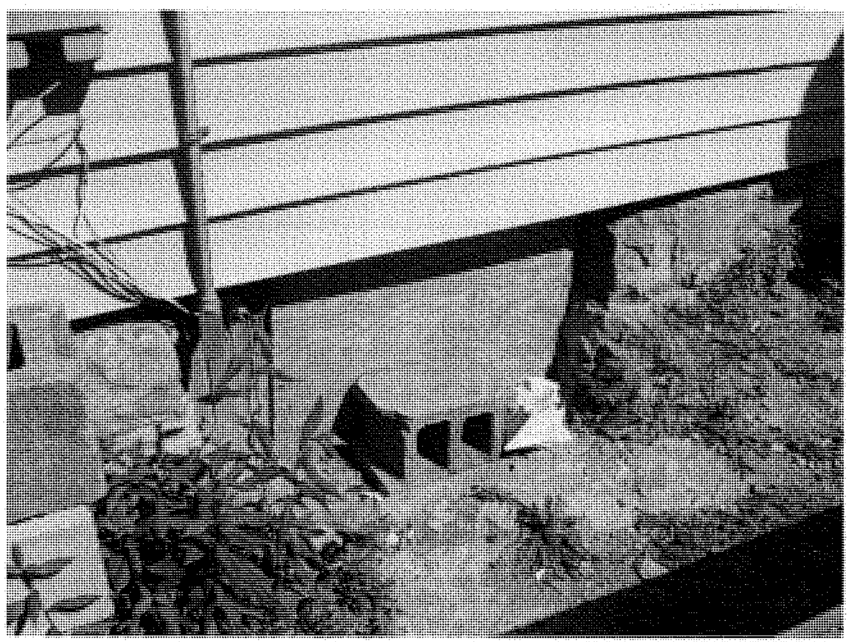

Exhibit 2: The contractor installed a ramp on a home which was not a weatherization measure. **Metropolitan Development and Housing Agency**

Exhibit 3: The contractor repaired steps entering a crawl space which was not a weatherization measure. **Metropolitan Development and Housing Agency**

Exhibit 4: The contractor was paid for painting the fascia perimeter of the home which was not a weatherization measure. **Highland Rim Economic Corporation**

Exhibits 5 – 7 relate to the same house

Exhibit 5: This was the photo taken by the energy auditor of the floor insulation that was to be repaired and installed. **Metropolitan Development and Housing Agency**

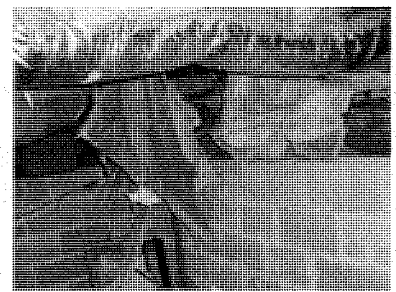

Exhibit 6: This is the photo we took at the time of our review where the contractor was paid to repair and install floor insulation which was not completed. **Metropolitan Development and Housing Agency**

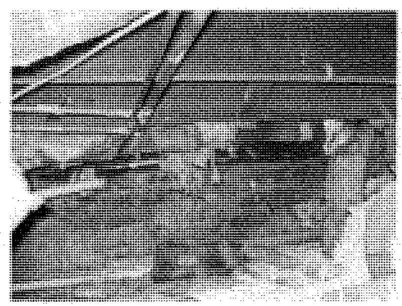

Exhibit 7: The contractor left the floor insulation instead of installing. **Metropolitan Development and Housing Agency**

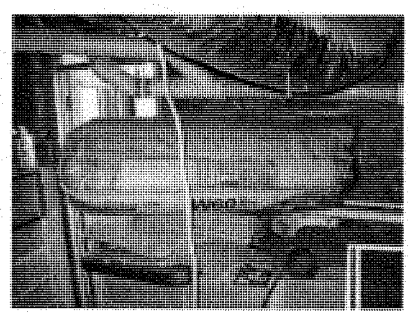

Exhibit 8: The contractor did not properly install the windows. **Metropolitan Development and Housing Agency**

Exhibit 9: The contractor did not properly install the door. **Metropolitan Development and Housing Agency**

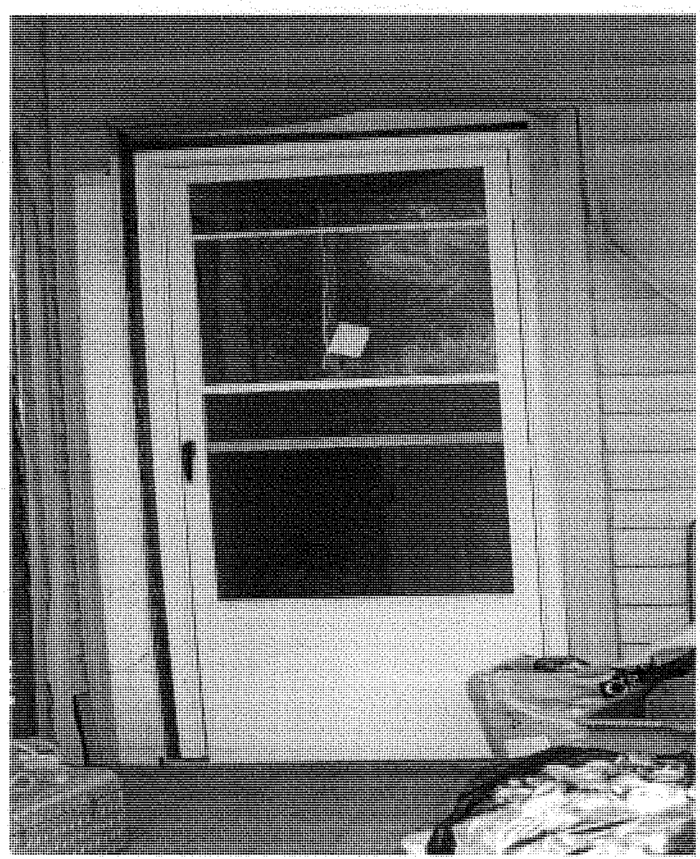

Exhibit 10: The contractor did not properly install the door allowing air to enter the home. **Metropolitan Development and Housing Agency**

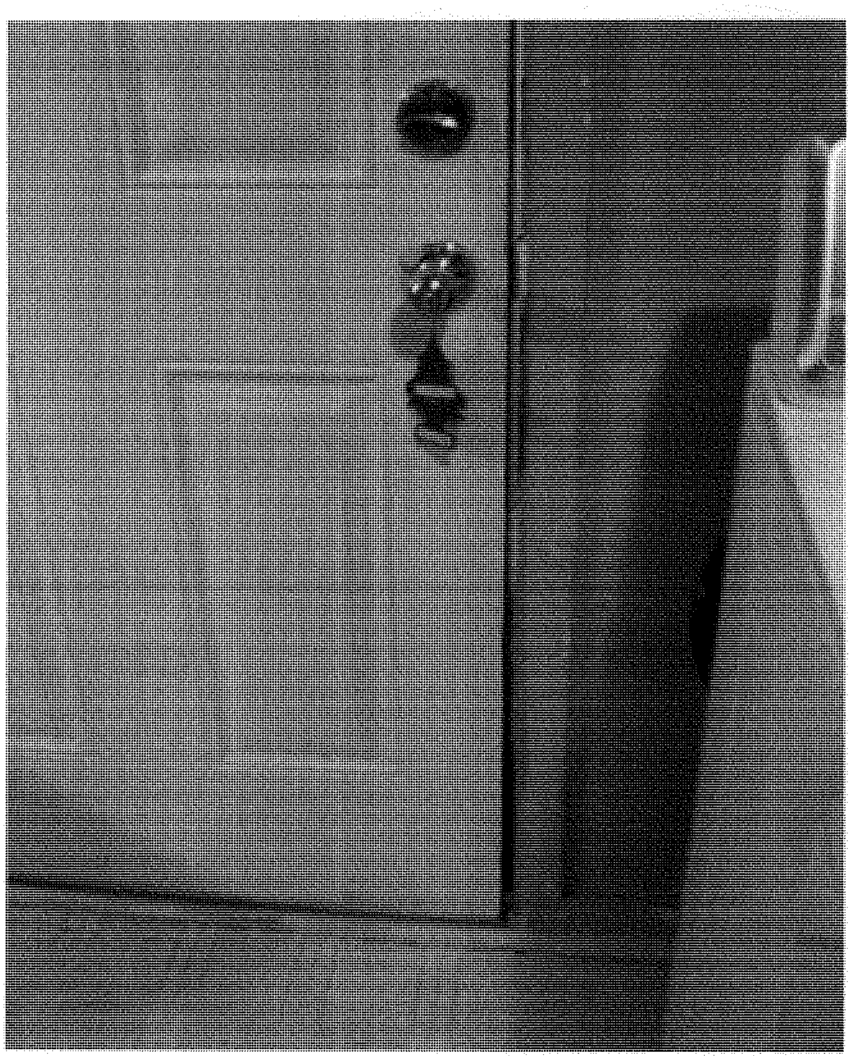

Exhibit 11: The contractor did not properly install eight windows and screens. Nails were inserted by the homeowner after the contractor left to hold the window screens in place. **Upper East Tennessee Human Development Agency**

Exhibit 12: The hot water heater wrap was not properly installed. **Metropolitan Development and Housing Agency**

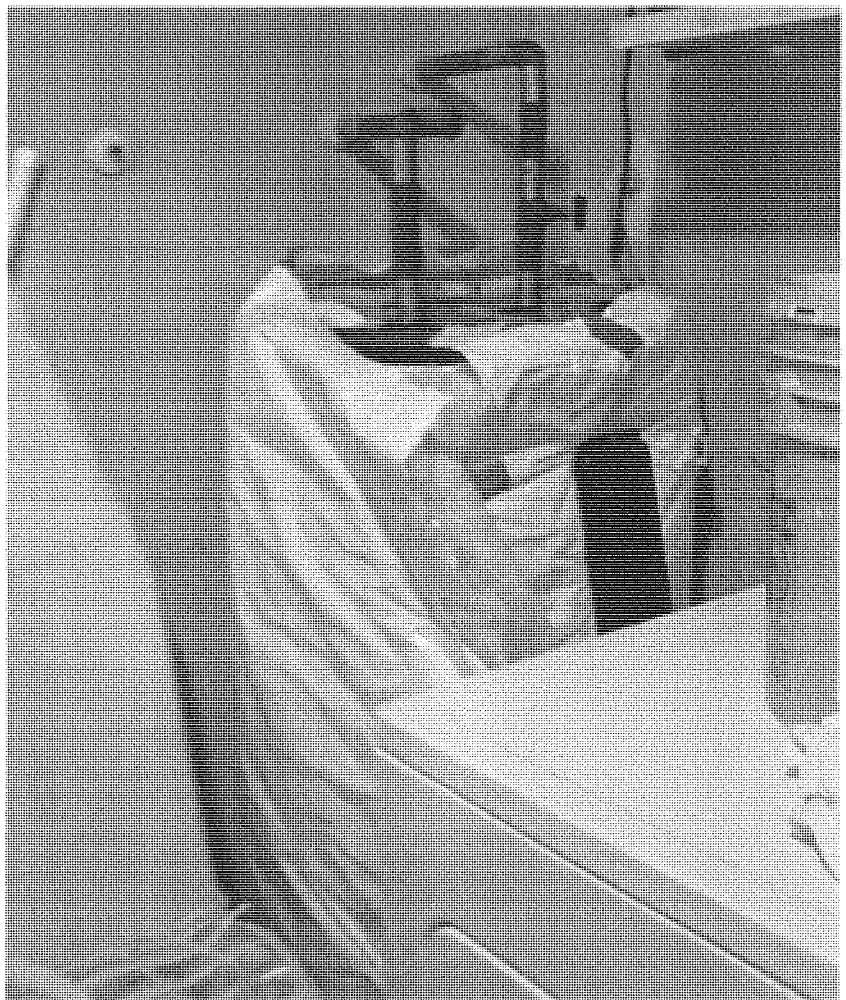

Exhibit 13: The window panes should have been replaced to reduce the flow of air that entered the home. **Bradley-Cleveland Community Services Agency**

U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

The State of Illinois Weatherization Assistance Program

OAS-RA-11-01 October 2010

Department of Energy
Washington, DC 20585
October 14, 2010

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "The State of Illinois Weatherization Assistance Program"

BACKGROUND

The Department of Energy's Weatherization Assistance Program received $5 billion under the American Recovery and Reinvestment Act of 2009 (Recovery Act) to improve the energy efficiency of single-family, multi-family, and mobile homes owned or occupied by individuals or families with low incomes. Of the $5 billion, the Department awarded the State of Illinois a 3-year Weatherization Assistance Program grant of $242 million, a significant increase over the $24 million authorized in Program Year 2009. Illinois planned to use its Recovery Act funding to weatherize about 27,000 homes.

In Illinois, the Department of Commerce and Economic Opportunity is responsible for administering the Recovery Act grant through 35 local agencies. The local agencies determine applicant eligibility; perform initial home assessments to determine appropriate weatherization measures needed; assign contractors to weatherize homes; and, conduct final inspections on completed homes. The Community and Economic Development Association of Cook County, Inc. (CEDA), one of the largest local agencies nationwide participating in the Weatherization Program, was expected to receive approximately $91 million over 3 years to weatherize an estimated 12,500 homes – almost half of Illinois' total.

In December 2009, we issued a Management Alert on *The Department's Monitoring of the Weatherization Assistance Program in the State of Illinois* (OAS-RA-10-02), in which we raised concerns regarding inadequate monitoring and substandard contractor workmanship. Based on these concerns, we extended test work, focusing on the Illinois Weatherization Program and its largest local agency, CEDA. This report provides the results of our review.

OBSERVATIONS AND CONCLUSIONS

Our testing revealed substandard performance in weatherization workmanship, initial home assessments, and contractor billing. These problems were of such significance that they put the integrity of the entire Program at risk, although Illinois and CEDA asserted during the audit that they were in the process of improving performance. Specifically, of the 15 homes we visited in conjunction with CEDA inspectors:

- Twelve homes failed final inspection because of substandard workmanship. For example, improperly performed heating system tune-ups allowed the heating systems to either improperly fire or emit carbon monoxide at higher than acceptable levels;

- Eight homes had initial assessments that called for inappropriate weatherization measures or the assessments overlooked key measures needed to make the homes more energy efficient. To cite one example, a CEDA inspector identified a home where an assessor had inappropriately called for attic insulation when sizeable leaks in the roof would have significantly reduced the effectiveness of the insulation; and,

- For 10 homes, contractors billed for labor charges that had not been incurred and for materials that had not been installed. Billing issues appeared to be pervasive, since 7 of the 10 contractors in our sample were cited by CEDA for erroneous invoicing.

We also determined that CEDA had not always ensured that contractors' material costs were reasonable. This wasteful practice could ultimately reduce the number of homes of low income families that can be weatherized with the limited Recovery Act funds available. Additionally, CEDA approved contractors' weatherization material costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. The importance of managing these costs cannot be overstated since CEDA expects to spend about $28 million for weatherization materials over the next 3 years.

These Program execution issues resulted from a combination of problems including internal control weaknesses, inadequate final inspections, ineffective follow-up on inspection issues, and insufficient training. In particular:

- When we were present, CEDA inspectors conducted thorough inspections. However, in reviewing CEDA's past performance, we found that this had not always been the case. Based on our review of the State's monitoring conducted from October 2008 to February 2010, we calculated a 62 percent final inspection error rate on those homes that the State had re-inspected;

- Although CEDA had required poorly performing contractors to submit proposed corrective actions, it had not properly followed-up to ensure improvements had been made. Further, even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, Illinois had not adequately followed-up to ensure that CEDA improved its overall inspection capabilities; and,

- While CEDA and the State provided numerous technical weatherization courses to CEDA employees and contractors, the State had not completed its overall training plan and still needed to conduct a one-week contractor certification class.

Substandard weatherization work can pose health and safety risks to occupants and area residents, hinder production, and increase Program costs. Additionally, payment of excessive materials costs to contractors reduced the amount of funding available to: (i) weatherize homes; and, (ii) create jobs. Collectively these problems have a direct impact on the likelihood that Recovery Act and Program goals of stimulating the economy, creating jobs, reducing energy demand and improving the lives of thousands of low income families will be achieved.

As noted in the report and as a result of our audit, CEDA reported that it has made several changes to strengthen its program. Because the claimed improvements were made subsequent to our audit, we were unable to evaluate the adequacy of the improvements and the impact they may have on CEDA's Weatherization Program.

We made a number of recommendations designed to help resolve problems at the Department, State and CEDA levels.

MANAGEMENT REACTION

The Department, State of Illinois, and CEDA provided extensive responses to our draft audit report. They expressed concerns with specific findings and conclusions. Although the Department stated that implementation improvements had been made to the Weatherization Program by the State and CEDA, it acknowledged that significant work still needs to be done.

The State asserted that it had seen continual improvement in CEDA quality. Concerning excessive materials costs, the State pointed out that CEDA had renegotiated its material and labor prices. The State also described the extensive training that it had provided to assessors, final inspectors and contractors.

CEDA officials stated that they had implemented programs and processes to improve the quality of work performed and to address excessive materials costs. CEDA noted that re-inspection failure rates had declined. CEDA officials also commented that our sample size of 15 homes was insignificant and that our materials cost analysis may be skewed by the fact that contractors may use higher quality materials than those in our sample.

As discussed in the body of our report, the State and CEDA asserted that they have made improvements to their Weatherization Programs. Yet despite these efforts, we found that workmanship quality issues continued to exist. Further, regarding CEDA's comments about our sample size, we concluded that the results of our sample were reliable since they were corroborated by and consistent with work done by the State of Illinois. Finally, CEDA's assertion that contractors used higher quality materials than we used to compare materials prices was not persuasive. CEDA was unable to provide any evidence to support its comment.

Management's comments and our response are discussed in more detail in the body of our report. Management's comments are included in Appendix 3 in their entirety.

Attachment

cc: Deputy Secretary
Acting Under Secretary of Energy
Assistant Secretary for Energy Efficiency and Renewable Energy
Chief of Staff
Chief Financial Officer

REPORT ON THE STATE OF ILLINOIS WEATHERIZATION ASSISTANCE PROGRAM

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THE STATE OF ILLINOIS WEATHERIZATION ASSISTANCE PROGRAM

Illinois and CEDA Weatherization Programs

The State of Illinois and the Community and Economic Development Association of Cook County, Inc. (CEDA), Weatherization Programs experienced substandard performance in the areas of workmanship, initial home assessments and contractor billing for labor costs not incurred and materials that had not been installed. CEDA also had not always ensured that contractors' materials costs were reasonable, a practice that could ultimately reduce the number of homes of low income families that can be weatherized with available American Recovery and Reinvestment Act of 2009 (Recovery Act) monies. As a result of our audit, CEDA reported that it has made several changes to strengthen its program. Because the claimed improvements were made subsequent to our audit, we were unable to evaluate the adequacy of the improvements and the impact they may have on CEDA's Weatherization Program.

<u>Substandard Weatherization Efforts</u>

We found that 14 of the 15 homes we visited in conjunction with CEDA inspectors failed final inspection because of poor workmanship and/or inadequate initial assessments. Equally troubling, we noted that contractors weatherizing the homes we visited had, in some instances, improperly billed for the work performed. Federal and State regulations require CEDA to conduct final inspections. State officials informed us that final inspections are performed before contractors are paid. In particular, we noted:

- **Poor Workmanship:** At 12 of the homes, CEDA inspectors found substandard work that could have, in some cases, resulted in significant property damage or injury to the homeowners. In one home, 11 of the 14 items that the contractor should have installed or repaired to improve energy efficiency failed inspection. In another instance, while accompanying inspectors, we found that a contractor had not corrected, as required by the home's work order, improperly installed kitchen exhaust ductwork, a potential fire hazard. Although CEDA and certain State officials disagreed that the ductwork problem posed a fire hazard, State building code officials we consulted confirmed the concern. Further, we observed a furnace intake vent pipe that had been improperly installed and found that five of the six tune-ups to heating systems had not been properly performed, allowing the heating systems to either improperly fire or emit carbon monoxide at higher than acceptable levels. Further, CEDA's own inspectors cited contractors for improper insulation of attics, band joists, and walls. In all, 8 of the 10 contractors that had weatherized homes included in our evaluation were cited for poor workmanship.

Our observations of poor workmanship were consistent with State monitoring reports that identified widespread deficiencies in weatherization work. State officials found issues such as the lack of pressure release pipes on water heaters, doors improperly hung, incomplete items on work orders, and heat barriers around chimneys that had not been installed, causing fire hazards. State officials also found instances where a furnace had not been vented properly; a shut-off valve had not been installed on a gas stove; and, carbon monoxide detectors, smoke alarms and fire extinguishers had not been installed as planned. In one home, a contractor had been paid for removing siding to insert insulation, but the contractor had actually taken a short cut, drilling holes through the existing siding. A July 2010 State monitoring report cited a significant number of gas leaks in single-family homes weatherized by CEDA contractors. State officials reported that the number of gas leaks verified during the monitoring review was "alarming."

- **Inadequate Initial Assessments:** At eight of the homes, CEDA inspectors found that assessors from within its organization had either called for inappropriate measures or had overlooked key weatherization measures needed to make the homes more energy efficient. In one home, for example, an inspection report noted that an assessor had inappropriately called for attic insulation when sizeable leaks in the roof would have reduced the effectiveness of the insulation. In addition, we found homes where inspectors cited assessors for failing to identify an open sump pump, leaking water lines, and a skylight that had not been properly insulated. CEDA acknowledged that, due to hiring nearly 60 new field personnel who were needed for the increased level of weatherization work funded by the Recovery Act, it had experienced "an inevitable level of inadequate assessments that were not corrected or were incompletely reviewed before the jobs were assigned to contractors."

- **Erroneous Billing:** At 10 of the 15 homes we visited, CEDA inspectors found that contractors had billed a total of about $3,300 for labor and materials that had not been installed. For example, a contractor had installed a 125,000 BTU boiler, but had billed CEDA for a 200,000 BTU boiler costing an estimated $1,000 more. Additionally, a contractor had installed one carbon monoxide detector, but had billed CEDA for 3; another contractor had installed 12 light bulbs, but had billed CEDA for 20; and, yet another had failed to install a gas shut-off valve, but had billed for the work. In addition, a contractor had billed for almost four times the amount of drywall actually installed. Billing issues appeared to be pervasive, since 7 of the 10 contractors in our sample were cited by CEDA for erroneous invoicing.

According to CEDA officials, inspectors had identified the erroneous billings during the final inspection, corrected all errors at that time, and no overpayments occurred as a result of the erroneous billings. However, during our review of 298 State re-inspections conducted between October 2008 and February 2010, we identified more than 20 instances in which contractors had submitted invoices and received payment for work not performed. For example, in two separate cases, CEDA had paid contractors to install a pump on a furnace, even though the work had not been done. The State had also identified instances in which contractors had been paid, but: (i) had only installed one of two chimney liners; and, (ii) had not installed crawlspace wall insulation and a vapor barrier as called for in the work order. As a result of their re-inspection findings, the State had repeatedly recommended that CEDA closely monitor contractors' work to ensure the accuracy of their billings. Since the State is only required to re-inspect five percent of CEDA's completed homes, its findings suggest a serious concern that contractors may have been paid for work that had not been performed.

CEDA officials expressed the belief that most erroneous bills submitted by contractors resulted from the lack of coordination between the contractor field crews and billing operations. They concluded that the lack of coordination led contractors to bill from the original work order without adjusting for changes made when the work was actually performed. CEDA management acknowledged that billing problems may have increased because of the influx of new contractor employees unfamiliar with CEDA's procedures. Specifically, to accommodate the increase in production resulting from the infusion of Recovery Act money, CEDA's pool of contractors grew from 18 to 60. To its credit, CEDA told us that it plans to modify its procedures and monitor contractor billings on a quarterly basis.

Program Weaknesses

Widespread issues with CEDA's Weatherization Program resulted from a combination of problems including internal control weaknesses, inadequate final inspections, ineffective follow-up on inspection issues, and insufficient training.

- **Quality of Inspections:** When we were present, CEDA inspectors conducted thorough inspections and identified significant workmanship and billing issues. In reviewing past performance of CEDA inspectors, however, we found that this had not always been the case. In fact, prior CEDA inspections had overlooked significant workmanship issues. Based on our review of the State's monitoring conducted from October 2008 to February 2010, we calculated a 62 percent final inspection error rate on only those homes that the State had re-inspected. During this period, the State had re-inspected 298 single-family and multi-family homes originally passed by CEDA inspectors and rated 185 of the homes as either unacceptable or improvement needed, requiring CEDA to return to the homes and remedy the deficiencies found.

  In its July 2010 monitoring report, the State rated 38 of the 238 single-family and multi-family units inspected (16 percent) as either unacceptable or in need of improvement. When we analyzed the State's underlying data, however, we found that 38 of 57, or 67 percent, of single-family homes were rated either unacceptable or in need of improvement. In all 38 cases, the State required CEDA to return to the home to rectify problems identified.

  Further, the report cited an "alarming" number of gas leaks at the single-family homes and noted that the weatherization process calls for an assessor, contractor, and final inspector to review a home to determine needs; and, in each aforementioned phase, the detection of gas leaks went unnoticed. State officials stated that the failure to detect gas leaks may in part be attributed to overburdened inspectors. Lacking a strong inspection program, CEDA is at high risk of accepting substandard contractor workmanship. In our view, continued excessive failure rates are inconsistent with the standards of accountability and transparency established for the Recovery Act and could result in potentially dangerous conditions if not identified and corrected.

- **CEDA's Follow-up on Deficiencies:** Although CEDA had required poorly performing contractors to submit proposed corrective actions, it had not properly followed-up to ensure improvements had actually been made. Planned corrective action items included, for example, improved communication between assessors, final inspectors, and contractors; better detailed information on work orders; and, more oversight of new employees. However, CEDA did not have a process in place to ensure that all items in the plans had been addressed and that the quality of the workmanship had improved. This is distressing because one of the eight contractors in our sample that was cited for poor workmanship had been under a prior corrective action plan that had been closed in March 2010. When we asked officials in two of CEDA's departments, Quality Assurance and Contractor Relations, why they had not followed up, we found that there was confusion as to who was responsible for follow-up. In addition to the lack of follow-up on individual corrective action plans, we noted that CEDA had only evaluated the performance of contractors once a year. Given the substantial increase in the number of homes a contractor may weatherize each month under the Recovery Act, we believe that continual review of poorly performing contractors and inspection of their work is essential. In response to a preliminary draft of this report, CEDA informed us that its contractor evaluation process has now been significantly revamped and will include quarterly evaluations on all contractors and monthly for those under a corrective action plan.

- **The State's Follow-Up on Deficiencies:** Illinois had also not ensured that widespread workmanship and inspection deficiencies were adequately addressed. Even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, it had not required the agency to improve its overall inspection capabilities. Instead, the State required CEDA to address deficiencies on a case-by-case basis. Further, because of staffing deficiencies, the State had not analyzed its own data to identify contractors, inspectors, and assessors that had repeatedly failed to perform and to identify common weatherization problems.

In our December 2009 Management Alert on *The Department's Monitoring of the Weatherization Assistance Program in the State of Illinois* (OAS-RA-10-02), we recommended that the Department of Energy (Department) ensure that the State develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance. State officials told us that as of July 28, 2010, they had completed, but not yet implemented, a tracking system to analyze monitoring visit results and to identify contractors, final inspectors and assessors who repeatedly fail to perform. State officials indicated that delays in completion and implementation of the tracking system were due to staffing constraints.

- **Training:** While CEDA and the State have provided numerous technical weatherization courses to CEDA employees and contractors, the State had not completed its overall plan and still needs to conduct a one-week certification class, now scheduled to begin in October 2010. In light of the substandard workmanship noted above, implementing the certification program is essential for improving contractor performance. A State official informed us that training had been delayed by curriculum development and staffing issues at the local college providing the training.

CEDA officials expressed their view that the observations in our audit are the result of the extraordinary expansion of the Weatherization Program under the Recovery Act. Specifically, CEDA reported that production tripled in Program Year 2010 and another 50 percent increase is expected in Program Year 2011. CEDA also stated that its staff grew from 53 to 149 individuals over a period of 9 months. CEDA also reported that at the time of our visit, "CEDA was at the exact epicenter of its own perfect storm; newly trained but inexperienced contractors and CEDA personnel were scrambling to produce assessments and completed jobs. CEDA's Training and Quality Departments were straining to keep up with this influx of new weatherization participants, and State resources for assistance were scarce as well."

After we surfaced issues described in this report, the Department asked the State to notify CEDA of its intent to terminate the agency's Weatherization Program if improvements were not promptly made. In response, the State issued an April 2010, "Special Conditions" letter to CEDA discussing the agency's lack of productivity and poor workmanship issues. The letter established expectations regarding productivity increases and quality improvements. To address workmanship issues, the State assigned two full time monitors to oversee the local agency. We were informed that because of improvements in productivity and quality subsequent to the issuance of the Special Conditions, the State had not terminated CEDA's Program.

Excessive Materials Costs

CEDA approved contractors' weatherization materials costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. In accordance with State policy, contractors bill for materials at prices established by CEDA. We compared the prices of seven commonly used weatherization materials to those charged by two local retailers and found that all seven were higher. For example, CEDA's published prices for smoke alarms, fire extinguishers, and thermostats ranged from about 120 percent to 200 percent over the average retail price. CEDA's price for compact florescent bulbs was almost three times the average retail price. The price in CEDA's catalog for one 60 watt compact fluorescent lamp was $3.50, while average retail was $1.33. These charges were for the materials only – labor charges for installation of these items were identified separately.

We understand that carrying costs, taxes, and overhead incurred by contractors may affect materials pricing. However, in our opinion, prices of 120 percent to 200 percent of retail appear excessive. Neither CEDA nor State officials could justify such large mark-ups on materials. Officials indicated that mark-ups ranging from 20 percent to 50 percent would be reasonable; however, neither the State nor CEDA maintained documentation to support such mark-ups. Even allowing for a 50 percent mark-up on smoke alarms, fire extinguishers, and thermostats, prices were still dramatically above retail.

<u>Materials Pricing</u>

CEDA had not complied with the State's policy for establishing competitively negotiated materials prices. The policy requires local agencies to solicit and average materials costs proposed by contractors and then, after validating those costs against wholesale and manufacturer's costs, negotiate final prices. Local agencies are also required to maintain documentation, including vendor name, address, and price quoted per item to support final pricing decisions. CEDA officials told us that for about 500 products used in weatherizing homes, they had averaged materials costs solicited from local contractors and then benchmarked them against retailers. However, CEDA could not provide documentation supporting this assertion. Further, State officials reported that they had reviewed CEDA's overall process for determining materials costs in its price catalog by evaluating reasonableness through randomly checking selected materials costs; however, they had not documented their findings and conclusions and could not provide supporting documentation.

CEDA and State officials acknowledged that the catalog prices needed to be revised to better reflect the market and indicated that they would make such revisions in the summer of 2010 during the next contract negotiation period and every year thereafter. CEDA officials also indicated that they believed that about 100 of the 500 products in their catalog may actually have been underpriced. Because of the lack of documentation, we were unable to verify these assertions or calculate amounts over or undercharged. Overpaying contractors for materials not only violates basic Federal grant requirements to ensure that costs are reasonable, but will result in enriching contractors at the expense of program participants. The importance of managing materials costs cannot be overstated, given that CEDA expects to exceed $28 million in materials costs over the next 3 years. However, at a minimum, such practices, in the end, reduce the number of homes that can be weatherized with available funding and decrease the energy efficiency savings realized.

Follow-Up on December December 2009 *Management Alert*

In our December 2009 *Management Alert,* we recommended that the Department's Office of Energy Efficiency and Renewable Energy complete required state-level, on-site monitoring. Subsequent to our *Management Alert*, the Department conducted two on-site monitoring visits resulting in reports issued to the State in February and May 2010. Additionally, the *Management Alert* made a recommendation that the Department ensure that the states take specific actions to manage their programs. The following table provides a status of those actions that the State of Illinois reported it had taken to resolve the reported weaknesses.

Status of December 2009 *Management Alert* Recommendations

Recommendation	Status
Conduct annual on-site monitoring of the Weatherization Assistance Program at each local agency in accordance with program requirements.	The State completed annual on-site monitoring and implemented a tracking mechanism to ensure completion of monitoring at each local agency in accordance with program requirements.
Meet the Department's minimum five percent requirement for inspecting homes weatherized by each local agency.	The State met the minimum five percent requirement for inspecting homes weatherized by each local agency and implemented a tracking mechanism to ensure that the minimum five percent requirement continues to be met.
Develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance.	The State had completed, but not yet implemented, its system to aggregate and track major findings from local agencies' monitoring visits.
Determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification.	The State had not yet implemented this recommendation. The State currently relies on local agencies to determine whether inspectors and weatherization contractors have the appropriate training and certification. The State plans to develop a database to ensure its inspectors and contractors have completed the State required training.
Understand requirements for inspecting weatherized units funded by the Department.	The State has demonstrated its understanding of the requirements for inspecting weatherized units funded by the Department.

These efforts are positive first steps. Yet, as evidenced by our findings, significant problems at both the CEDA and Illinois levels continue to exist. A comprehensive series of effective actions will be required if an acceptable level of performance is to be achieved.

Impacts of Poor Quality Work and Path Forward

Substandard weatherization work can pose health and safety risks to occupants and area residents, hinder production, increase costs, and dramatically reduce the likelihood that CEDA's Weatherization Program will achieve its goal to weatherize an estimated 12,500 homes by the end of the grant period. Additionally, payment of excessive materials costs to contractors reduces the amount of funding available to weatherize homes of individuals and families with low income and reduces the amount of funding for direct job creation. Individually and collectively these problems have the practical effect of limiting the achievement of overall Program goals. While the State has taken a number of actions designed to correct previously observed weaknesses, lingering and significant problems remain. Additional action is necessary to preserve the integrity of the Weatherization Program and to ensure that deserving households receive the services to which they are entitled.

RECOMMENDATIONS

To address the significant deficiencies we observed during our audit, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy:

1. Take immediate action to ensure that the State of Illinois' Weatherization Program:

    a. Analyzes its monitoring reports to identify and recommend correction of systemic problems and to ensure that those contractors, inspectors, and assessors who repeatedly under-perform, address known weaknesses;

    b. Determines that the cost of materials is reasonable and supported with required documentation and establishes guidance regarding the percentage of mark-up on materials for tax, carrying cost, and overhead;

    c. Completes the implementation of the proposed State-wide weatherization training and certification for contractors and crew leads; and,

    d. As appropriate, takes action to suspend funding or impose other available sanctions to help achieve compliance with program quality requirements.

2. Take action to ensure that the State of Illinois requires CEDA to:

    a. Improve its initial assessment and final inspection processes by examining completed and final inspected homes, analyzing results, and taking corrective action on any deficiencies noted; and,

    b. Implement a formal follow-up process to ensure that corrective action plans addressing needed contractor improvements have been implemented.

MANAGEMENT AND AUDITOR COMMENTS

The Department, State of Illinois, and CEDA provided responses to our draft audit report which are included in their entirety in Appendix 3. The responses expressed concerns with specific findings and conclusions. After reviewing the comments, we made appropriate changes to our report to address these concerns and clarify our findings and conclusions. Below is a summary of their key comments and our response to their comments.

Management Comments (Department)

The Department concurred with and is holding the State accountable for addressing each of the report's recommendations. The Department committed to ensuring that every grantee under the Weatherization Program performs high quality work that meets the goals of the Recovery Act. Although the Department stated that implementation improvements had been made to the Weatherization Program by the State and CEDA, it also acknowledged that significant work still needs to be done.

Auditor Response to Department Comments

The Department's comments are responsive to our recommendations.

Management Comments (State)

In its response to our audit, Illinois officials noted that in April 2010, they had placed Special Conditions on CEDA's Weatherization Assistance Program and had assigned two full-time monitoring staff to CEDA. The State asserted that although CEDA had workmanship quality issues during the time frame of our audit, the State had seen continual improvement in quality. Specifically, State officials citing inspection results reported by CEDA noted that during the weeks of March 26, 2010, June 25, 2010, and August 30, 2010, failure rates were 42 percent, 23 percent, and 16 percent, respectively. Concerning excessive materials costs, the State pointed out that CEDA had renegotiated its materials and labor prices and that the State is in the process of obtaining quotes for commonly used heating systems and related components and is researching appropriate contractor price mark-up for materials that are supplied by the contractor. The State also described the extensive training that it has provided to assessors, final inspectors and contractors and indicated that a Community College-based contractor training course is scheduled to begin in October 2010.

Auditor Response to State's Comments

The State has taken actions to address issues at CEDA regarding poor workmanship and excessive materials costs, including the Special Conditions that it had placed on CEDA in April 2010. However, as discussed in the body of the report, we believe that workmanship issues on single family homes remain. The State's response did not address whether it concurred with our recommendations and whether it would implement those recommendations.

Management Comments (CEDA)

CEDA officials acknowledged that improvement was needed and agreed with our recommendations. Officials stated that they had implemented programs and process improvements to address our recommendations regarding the quality of work performed and excessive materials costs. CEDA noted that re-inspection failure rates had declined. While agreeing with our recommendations, officials commented that our sample size of 15 homes was insignificant and that our materials cost analysis may be skewed by the fact that contractors may use higher quality materials than those in our sample.

Auditor Response to CEDA's Comments

CEDA's comments were responsive to our recommendations. CEDA officials plan to take actions to improve the initial assessment and final inspection processes; to ensure implementation of contractor corrective action plans; and to reduce materials costs. However, regarding CEDA's comments on sample size, our findings are corroborated by work done by the State, and we stand by our conclusions regarding the quality of workmanship. Additionally, although CEDA cites a decline in inspection failures, we remain concerned about the quality of work on single family homes.

Concerning excessive materials costs, CEDA officials did not provide evidence to support their assertion that contractors used higher quality of materials than what we had selected for comparison. During our audit, we selected standard products that CEDA officials had acknowledged would be acceptable if used by its contractors.

Appendix 1

OBJECTIVE

The objective of the audit was to determine whether the Illinois Department of Commerce and Economic Opportunity and its largest local agency, the Community and Economic Development Association of Cook County, Inc. (CEDA), were efficiently and effectively meeting the goals of the Weatherization Assistance Program and the American Recovery and Reinvestment Act of 2009 (Recovery Act).

SCOPE

The audit was performed between February 2010 and September 2010, at State offices in Springfield, Illinois, and the CEDA Weatherization Assistance Program in Chicago, Illinois.

METHODOLOGY

To accomplish our objective, we:

- Interviewed CEDA and State officials;
- Reviewed laws, regulations, policies and procedures pertaining to the Weatherization Assistance Program;
- Reviewed prior Office of Inspector General and Government Accountability Office reports and other related reports on the Weatherization Assistance Program;
- Accompanied inspectors on final inspections and reviewed past State monitoring reports which evaluated the performance of final inspectors, as well as the performance of the contractors and assessors;
- Evaluated CEDA's cost catalog for reasonableness and benchmarked seven commonly used materials costs with two local retail stores; and,
- Assessed CEDA's internal controls over its Weatherization Program, including its controls over quality assurance and materials cost catalog.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control

Appendix 1 (continued)

deficiencies that may have existed at the time of our audit. We considered the establishment of Recovery Act performance measures, which included certain aspects of compliance with the Government Performance and Results Act of 1993, as necessary to accomplish the objective. We conducted a limited reliability assessment of computer processed data, and we deemed the data to be sufficiently reliable to achieve our audit objective. We held an exit conference with Department of Energy officials on October 14, 2010.

Appendix 2

PRIOR REPORTS

Office of Inspector General

- *Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois (OAS-RA-10-02, December 2009).* The report identified significant internal control deficiencies in the management of the Weatherization Program in Illinois that required immediate attention. In particular, the Alert revealed: (i) the State of Illinois had not inspected any of the weatherized units completed with the Department of Energy (Department) funds during the State's most recent Fiscal Year at 7 of 35 local agencies; (ii) Illinois did not have a system for aggregating and tracking major findings identified during on-site monitoring visits to local agencies; (iii) a local agency weatherization inspector failed to perform a required test and did not detect a furnace gas leak, which could have resulted in serious injury to the occupants and material damage to the structure; and, 4) the Department's Office of Energy Efficiency and Renewable Energy had not detected inspection problems because it had not performed on-site monitoring/inspection visits of State of Illinois activity at the required frequency.

- *Management Alert on the Department's Monitoring of the Weatherization Assistance Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act (OAS-RA-10-04, February 2010).* The audit was initiated to provide the Department with an interim status report highlighting factors impacting progress in meeting Weatherization Assistance Program and the American Recovery and Reinvestment Act of 2009 (Recovery Act) goals. The report noted that the Department had taken a number of proactive steps to foster timely implementation of the Weatherization Program. However, in spite of the Department's efforts, grantees had made little progress in weatherizing homes. As of February 2010, the one-year anniversary of the Recovery Act, only a small percentage of Recovery Act weatherization funds had been spent and few homes had actually been weatherized. Only $368.2 million (less than 8 percent) of the total award of $4.73 billion had been drawn by grantees for weatherization work. Corresponding to the low spending rates, grant recipients fell significantly short of goals to weatherize homes.

Appendix 3

Department of Energy
OCT 5 2010 Washington, DC 20585

MEMORANDUM FOR: Rickey R. Haas
Deputy Inspector General
for Audit Services
Office of Inspector General

FROM: Kathleen B. Hogan
Deputy Assistant Secretary
for Energy Efficiency
Energy Efficiency and Renewable Energy

SUBJECT: Response to Recommendations proposed in Office of Inspector General (OIG) Draft Audit Report on "The State of Illinois Weatherization Assistance Program"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review the Office of Inspector General's Draft Audit Report "The State of Illinois Weatherization Assistance Program" and concurs with the report's recommendations. The Department of Energy is strongly committed to ensuring that each of the grantees under the Weatherization Program performs high quality work that meets the goals of the Recovery Act. In response to DOE concerns and corrective action plans, the State of Illinois and CEDA have made a number of improvements in how they implement the weatherization program. However, as this report shows, there is significant work still to be done. The Department will continue to aggressively monitor progress in the areas identified by the Inspector General.

As part of the Department's monitoring and oversight process, the state of Illinois will be required to submit written responses providing documentation showing that contractors are providing quality work to local homeowners and detailing the processes in place to ensure taxpayer funding is well spent. This will include describing the steps taken to ensure that under-performing contractors, inspectors and assessors have addressed their weakness, as well as documenting how the state and local agencies determine reasonable costs for weatherization materials.

Additionally, DOE will continue to monitor and report on the implementation of statewide weatherization training and certification programs. For example, in August, CEDA hosted its annual weatherization conference which involved approximately 300 CEDA staff and contractors and focused on implementing newly published work standards, exchanging best practices from the field, and maximizing the quality of customer service.

Finally, the state will be required to report on the imposition of sanctions as needed to help achieve compliance with program quality requirements, along with providing a written update on the corrective actions taken to improve CEDA's processes for initial assessment and final inspection of weatherized homes.

Appendix 3 (continued)

Additional responses are included below that address the specific recommendations in the draft report:

1. **Take immediate action to ensure that the State of Illinois' Weatherization Program:**

   a. Analyzes its monitoring reports to identify and recommend correction of systemic problems and to ensure that those contractors, inspectors and assessors who repeatedly under-perform address known weaknesses;

   RESPONSE: *EERE will continue to monitor the quality of work performed under the Illinois WAP, and will require a written response from the State describing follow-up and resolution of poor workmanship issues to ensure that those contractors, inspectors, and assessors who repeatedly under-perform address known weaknesses.*
   Estimated Completion Date: On-going as part of quarterly reviews

   b. Determines that the cost of materials is reasonable and supported with required documentation and establish guidance regarding the percentage of mark-up on material for tax, carrying cost and overhead;

   RESPONSE: *EERE will require the State to provide a written description of their procedure for determining that the cost of materials reported by subgrantees is reasonable and supported with required documentation. This response will include a description of the guidance provided by the State to its subgrantees regarding how costs are determined for materials and overhead, noting any recent updates to policies and procedures as applicable. The Department will also review the state's monitoring reports of its subgrantees to confirm that procedure is being followed.*
   Estimated Completion Date: November 2010

   c. Completes the implementation of the proposed State-wide weatherization training and certification for contractors and crew leads; and,

   RESPONSE: *EERE will continue to monitor and report on the implementation of statewide weatherization training and certification for contractors and crew leads.*
   Training Update: The CEDA Annual WAP Conference was held the week of 8/26/10. This weeklong conference involved approximately 150 CEDA staff and 150 contractor staff, and covered topics such as: teambuilding, maximizing quality of customer service, exchange of best practices from the field, and the implementation of newly published Illinois State 2010 WAP Work Standards
   Estimated Completion Date: On-going as part of quarterly reviews

   d. As appropriate, takes action to suspend funding or impose other available sanctions to help achieve compliance with program quality requirements.

   RESPONSE: *EERE will require the State to report on the imposition of any type of sanction imposed on a subgrantee as a result of a failure to comply with program*

quality requirements. Generally, when a finding occurs through monitoring and oversight, subgrantees take immediate action to correct the noted deficiency. In those cases where corrective action is inadequate or non-responsive, the state will impose additional sanctions and report those actions to EERE. These sanctions can be in the form of corrective action plans filed by the subgrantee, expanded monitoring requirements by the state, questioning of costs for services delivered but unacceptable, or suspension of project activity while corrective actions are being implemented. The type and scope of any sanction is determined by the findings of the monitoring or oversight and the subgrantee's response to those findings.
Estimated Completion Date: Within 30 days of response to the Report

2. Take action to ensure that the State of Illinois requires CEDA to:

a. Improve its initial assessment and final inspection process by examining completed and final inspected homes, analyzing results, and taking corrective action on any deficiencies noted; and,

RESPONSE: EERE *will require the State to provide a written update on the corrective actions taken to improve CEDA's processes for initial assessment and final inspection of weatherized homes. This report will include a description of corrective actions taken to address any noted deficiencies.*
Estimated Completion Date: Within 30 days of response to the Report

b. Implement a formal follow-up process to ensure that corrective action plans addressing needed contractor improvements have been implemented.

RESPONSE: EERE *will require the State to provide a written update on the implementation of a formal follow-up process for corrective action plans at CEDA.*
Estimated Completion Date: On-going in response to follow-up/Required

Appendix 3 (continued)

Illinois Department of Commerce & Economic Opportunity
DCEO
Pat Quinn, Governor • Warren Ribley, Director

September 22, 2010

Gregory H. Friedman
Inspector General
United States Department of Energy
Washington, DC 20585

Dear Mr. Friedman:

This document provides our comments to the U. S. Department of Energy Office of Inspector General Draft Audit Report transmitted via email to my office on September 8, 2010. In this Audit Report, several areas of concern were identified at both the State and local administering agency levels of the Illinois Home Weatherization Assistance Program. The State of Illinois appreciates your office's practice of coordinating with subject of the audit during draft report development. However, we remain concerned about perceptions projected by the report upon the Illinois Home Weatherization Assistance Program. We respectfully submit the following responses to the observations and conclusions noted in the September 8, 2010 report.

BACKGROUND

DOE OIG: "In December 2009, after completing site visits to two Illinois local agencies including the Community and Economic Development Association of Cook County, Inc. (CEDA), we issued a *Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois*. The *report* discussed our concerns regarding inadequate monitoring and substandard workmanship."

Illinois Comment: The *December 2009 Management Alert* had no direct references to any monitoring issues or substandard contractor workmanship as relates to CEDA.

OBSERVATIONS AND CONCLUSIONS

Substandard Weatherization Efforts

DOE OIG: Page 2 - "We found that 14 of the 15 homes we visited, in conjunction with CEDA inspectors, failed final inspection because of poor workmanship and/or inadequate initial assessments."

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Appendix 3 (continued)

DOE OIG Response
Page 2 of 6

Illinois Comment: The 15 homes cited above were not completed and CEDA inspectors were conducting final inspections to determine if the homes could be passed as Completed units. The fact that CEDA did not pass these homes is proof that their Final Inspection system was in fact working.

Poor Workmanship

DOE OIG: Page 2, Paragraph 1 - The draft report states, "we observed a kitchen exhaust fan that had been vented to the attic rather than to the outside, causing a potential fire hazard..."

Illinois Comment: The pre-existing kitchen exhaust fan (installed by the homeowner, not the IHWAP) while not a potential fire hazard, was noted by the inspector to be corrected before the home could be considered acceptable. Failed final inspection rates have been continually falling since Mach 2010. The rates have fallen from 42% in March to 16% in August. We attribute this reduction to increased quality control monitoring by State staff and technical assistance training. The training provided to contractors, assessors and inspectors is detailed on page 4 of this letter.

Inadequate Initial Assessments

DOE OIG: Page 2, Paragraph 1 - The draft report states, "At eight of the homes, CEDA inspectors found that assessors from within its organization had either called for inappropriate measures or had overlooked key weatherization measures needed to make their homes more energy efficient."

Illinois Comment: It should be pointed out that the CEDA inspectors were in fact acting as an appropriate "check and balance" in order to maintain a good quality of weatherization assessment and work.

Erroneous Billing

DOE OIG: Page 2, Paragraph 3 - At 10 of the 15 homes we visited, CEDA inspectors found that contractors had billed a total of about $3,300 for labor and materials that had not been installed."

Illinois Comment: It should be pointed out that the CEDA inspectors identified the billing problems and corrected them before any overpayments occurred. Since none of these erroneous bills were actually paid by CEDA, we request that this section be removed from the report. If it remains, it will give the average reader the impression that CEDA improperly paid for labor and materials that were not received.

Appendix 3 (continued)

DOE OIG Response
Page 3 of 6

Program Weaknesses

Quality of Inspections

DOE OIG: Page 3, Paragraph 4 - "When we were present, CEDA inspectors conducted thorough inspections and identified significant workmanship and billing issues. In reviewing past performance of CEDA inspectors, however, we found that this had not always been the case."

Illinois Comment: CEDA and their contractors have improved their overall quality of work. Some examples of this improvement regarding CEDA's failed final inspection rate are: week of March 26 – 42% failed; week of May 21—32% failed; week of June 25 – 23% failed; week of August 30 – 16% failed. CEDA's final inspection process is working well, and the Office of Energy Assistance will continue to monitor this improving situation.

DOE OIG: Page 3, Paragraph 4 - "Based on our review of the State's monitoring reports from October 2008 to March 2010, we calculated a 59 percent final inspection error rate on single-family homes that the State had re-inspected."

Illinois Comment: DCEO's last large-scale monitoring of CEDA in June 2010 showed a final inspection error rate of 8%. We looked at 239 units total and found 19 units to be unacceptable. We will continue to work with CEDA to improve this error rate. DCEO has assigned two full-time monitoring staff to CEDA on a constant basis.

DOE OIG: Page 4, Paragraph 1 – "Specifically, monitoring data indicated that 38 of 57 single-family homes re-inspected by the State, or 67 percent, failed the State's re-inspection. Additionally, 51 of 181, or 28 percent of multi-family units also failed re-inspection."

Illinois Comment: Of the 57 homes noted above, only 19 failed the State's re-inspection. The other 19 homes were categorized as acceptable, but improvement was needed. The State realizes that these categories can be confusing and will be going to a "Pass or Fail" system in the 2nd quarter of PY2011. In addition, during the June 2010 DCEO monitoring visit, a state weatherization monitor failed a 51-unit multifamily building due to an improperly placed natural gas shut off valve to a boiler, even though all other work on the building was acceptable. The state monitor noted that the boiler's gas valve was placed too high to reach. As a result, all 51 units were failed. CEDA appealed this decision in August 2010, citing that in fact the gas valve was for a water heater and not the boiler, and was properly placed. On September 9, 2010, a State Weatherization Supervisor and Weatherization Monitor accompanied CEDA staff to review the building. Upon re-inspection and examination of documentation and photographs (before and after the work), OEA determined that the rating for the building should be changed to "acceptable." The original gas valve was indeed for the water heater and appeared to be approximately 5'4" from the floor.

Appendix 3 (continued)

DOE OIG Response
Page 4 of 6

During our monitoring process, we did find several homes that had minor gas leaks. None of these leaks were a result of any of the weatherization work that was done. We found these leaks in existing piping while conducting a thorough inspection of the dwelling. These problems should have been found at the time of assessment, or final inspection. The State of Illinois takes all gas leaks seriously. As a result, we immediately conducted additional training with all of CEDA's assessors, final inspectors, and contractors on June 12, 2010.

The State's Follow-Up on Deficiencies

DOE OIG: Page 4, Paragraph 3 – "Illinois had also not ensured that widespread workmanship and inspection deficiencies were adequately addressed. Even though the State had consistently cited CEDA inspectors for failing to identify significant workmanship deficiencies, it had not required the agency to improve its overall inspection capabilities. Instead, the State required CEDA to address deficiencies on a case-by-case basis. Further, because of staffing deficiencies, the State had not analyzed its own data to identify contractors, inspectors, and assessors that had repeatedly failed to perform and to identify common weatherization problems."

Illinois Comment: DCEO placed Special Conditions on CEDA's weatherization grants for quality and production and provided final inspection training to CEDA in June and August of 2010. The Special Conditions letter sent to CEDA on April 12, 2010 explicitly stated our concerns regarding their weatherization work quality and low production numbers. The letter states, "Failure to correct the serious problems noted and successfully complete the 2010 Weatherization grants in a satisfactory manner may result in the termination of the four Weatherization grants, thereby requiring the Department to seek another local provider for the Weatherization program in Cook County... DCEO will randomly inspect completed units for quality control purposes and if more than 20% are rated unacceptable, this will result in a failure."
The State has completed and implemented a Sharepoint-based monitoring system that now allows staff to identify poorly performing contractors, inspectors, and assessors.

Training

DOE OIG: Page 5, Paragraph 2 – "More than a year into the Recovery Act, the State had not completely implemented its planned weatherization training for owners contracting with CEDA and their crew leads. The training curriculum was intended to address topics such as heat loss and construction fundamentals and to certify contractors for weatherization work."

Illinois Comment: DCEO and CEDA have conducted extensive Weatherization training with assessors, final inspectors and contractors. In calendar year 2010 these individuals have received:

- HVAC training in February
- Assessor and Lead Renovator training in March
- Assessor and Air Sealing training in April
- Assessor and Multi-family training in May

Appendix 3 (continued)

DOE OIG Response
Page 5 of 6

- DCEO Weatherization Standards training (for all groups) in June
- WeatherWorks Catalog training in July
- Weatherization Quality and Best Practices training(for all groups) and Final Inspector training in August
- Air Sealing, Dense-Pack Insulation training and Diagnostic training four contractors in September

The Community College-based contractor training is scheduled to begin the week of October 4, 2010. The pilot one–week class was held in July of 2010. Instructors from 11 Community Colleges across Illinois were trained during two weeks in mid-August.

In addition, DOE has awarded the state of Illinois two Training Center grants that began this month. In the North, the Weatherization training center will be in Chicago at Wilbur Wright College. The other Training Center will be located in Champaign, Illinois at the University of Illinois, Building Research Center. DOE is convening a Training Center meeting in early October. These two Training Centers will greatly enhance the overall weatherization training methodology and allow us to standardize training opportunities across the state.

<u>Excessive Material Costs</u>

DOE OIG: Page 5, Paragraph 5 – "CEDA approved contractors' weatherization material costs that, in some cases, far exceeded the price an individual consumer would pay for the same materials. In accordance with State policy, contractors bill for materials at prices established by CEDA. We compared the prices of seven commonly used weatherization materials to those charged by two local retailers and found that all seven were higher."

Illinois Comment: We understand that the prices that CEDA was paying for their compact fluorescent lights have greatly decreased in the two years since they were last bid at the agency. CEDA has renegotiated their material and labor prices to begin this year's weatherization program. It was difficult to determine if the types and brands of building materials that the OIG used for comparison were the same types and brands used in the IHWAP. If possible, please forward this information to Randy Bennett, IHWAP Program Manager, Office of Energy Assistance.

DCEO is also in the process of obtaining quotes for commonly used heating systems and related components. We believe this could result in a substantial savings for the program. We are also researching appropriate contractor price mark-up for materials that are supplied by the contractor and not warehoused.

STATUS OF DECEMBER 2009 MANAGEMENT ALERT RECOMMENDATIONS

DOE OIG Recommendation 3: Page 7 - "Develop and implement a system to aggregate and track major findings from local agency monitoring visits to assess overall performance."

DCEO Status: This SharePoint system has been completed and is currently being used by Weatherization staff.

DOE OIG Recommendation 4: Page 7 - "Determine whether local agency inspectors and weatherization contractors have received appropriate training, and where appropriate, certification."

DCEO Status: The State of Illinois has offered a significant amount of training to its Weatherization network. The only remaining item is the (1) week contractor training and certification through 12 of Illinois' Community Colleges. This training is scheduled to start the week of October 4, 2010.

Sincerely,

Larry L Dawson

Larry L. Dawson
Deputy Director

cc: Cathy Zoi, Assistant Secretary for EERE
Jack Lavin, State of Illinois Chief Operating Officer
Warren Ribley, DCEO Director

Appendix 3 (continued)

CEDA

CEDA Weatherization Comments:

Draft Audit Report on

"The State of Illinois Weatherization Assistance Program"

September 20, 2010

Letter of Transmittal: Thank you for the opportunity to respond to the OIG "Draft Audit Report" and for incorporating some of the comments and changes CEDA recommended earlier in our response to the OIG "Coordination Draft". CEDA's latest comments were prepared within the ten working day requirement following the thirty plus days OIG used to prepare the "Draft Report" after our initial response. We have attached the original CEDA "Comments" and supporting documents to comply with the requirement we restrict our comments to two pages while responding to OIG's detailed ten page Draft. We believe that such restriction limits the possibility of a nuanced and balanced reading by press and policy makers alike. Many will read the full published OIG detailed report, but few will drill deeper to read CEDA's "Attachments".

CEDA General Observations: CEDA requests the inclusion in the Draft of the characterization by OIG of CEDA's cooperation in the inspection process as "excellent". We also request that the inclusion of quotes from CEDA's response to the Coordination Draft be put into proper context as they relate to delays in funding due to Davis Bacon implementation, not as a general comment regarding quality issues.

CEDA was informed by OIG that the description of a kitchen fan improperly venting to the attic as creating a "fire hazard" was confirmed by Illinois State code officials. CEDA is aware that venting kitchen fans directly to attics is not in compliance with certain codes, but would like clarification on which code issues and which code official stated that venting to the attic creates a "fire hazard". We want to address changing the health and safety cost limitations with DCEO to re-vent kitchen fans in all circumstances considering this code reference. OIG also stated that any unchanged observations by OIG indicated disagreement with CEDA's earlier explanations. Without written explanation of why OIG disagreed with CEDA's earlier Comments, it is not possible for CEDA to respond to restatements of the Coordination Draft except by including copies of CEDA's original Comments.

BACKGROUND: The first sentence of the last paragraph implies that OIG's *Management Alert* was a response to CEDA workmanship. That is not the case, and it needs to be clarified that no CEDA homes were referenced in the *Alert*.

OBSERVATIONS AND CONCLUSIONS: What are the "three commonly used materials we tested"? If one is caulk, CEDA has explained it uses a higher grade of caulk than what was tested for pricing at two big box stores. We have upgraded our catalog descriptions to avoid the possibility of a cheaper grade being substituted. If another item is thermostats, CEDA has explained its contractors purchase higher grade and warranted units through HVAC distribution channels. If the third is CFLs, we have adjusted prices downwards. We have also changed our catalog review frequency from a two year interval to every year. The entire paragraph of observations and conclusions takes broad-based swipes at CEDA's quality with no balancing comments about CEDA's changes, although some of these are mentioned deeper into the Draft.

Substandard Weatherization Efforts: These deficiencies were discovered at the time of final inspection, as designed. CEDA acknowledges that assessments and contractor performance during the OIG inspection required improvement and has put in place substantial revisions and improvements to its operating departments.

CEDA previously pointed out that the results of the OIG inspection which found fail items in 14 of 15 homes visited are inconsistent with CEDA and DCEO results and that this sample size is insufficient to provide statistical significance. We have demonstrated that no home furnaces were producing CO in excess of Standards. We disagree that an improperly vented kitchen fan creates a "fire hazard" as thousands are installed and are in place improperly vented into attic spaces. Please provide us with information concerning a furnace intake pipe being improperly installed as this is a new observation.

Appendix 3 (continued)

Drilling and plugging was a formerly approved method of installing sidewall insulation. Although less attractive than the current method of pulling siding before drilling, there is no deleterious effect on the efficiency of the installed insulation. CEDA believes the reference to gas leaks refers to one home where the contractor had returned after

initial Final Inspection and created a very dangerous situation. That contractor has been terminated from CEDA Weatherization. Please provide CEDA with information regarding this comment.

Inadequate Initial Assessments: The home with the roof leaks was returned to after leaks were reported and insulation moved to protect its performance. Unfortunately, CEDA does not have funds available for roof replacement, thus moving the insulation from beneath the leaks was the only viable solution.

The out of context quote in this paragraph should not be included unless reference is also made to the quality improvements CEDA has put in place.

Erroneous Billing: Absolutely no erroneous payments were made to contractors as was previously pointed out.

Quality of Inspections: Closer examination will show that workmanship issues peaked in the fall 2009 to early spring 2010 period, consistent with the highest departmental and contractor stress relating to ramp-up. Since then, as reflected in the most recent AHOD inspection in June, CEDA's fail rate has declined. The June AHOD showed an overall fail rate of 8% which CEDA believes will be even lower after DCEO reviews certain challenges CEDA will make on single-family homes. Please revise this paragraph given the newly supplied data. Further, following earlier AHODs, a number of job fails were challenged by CEDA and those challenges were supported by DCEO. These challenges were not reflected in the statistics cited by OIG but will result in a lower fail rate than reported.

CEDA's Follow-up on Deficiencies: As reported, CEDA has significantly revamped its contractor evaluation process. CEDA is also reinstituting the CEDA Contractor Council, charged with quality and process improvements for Weatherization. Participants will be notified and quarterly meetings will begin before the end of October. The Quality Department will also review all State fails with the essessors, contractors, and final inspectors assigned to the failed job.

Training: CEDA has implemented an extensive contractor training initiative and has recently supplied DCEO with a complete list of contractor trainings held and planned. As stated, the quote in the following paragraph should be put into the context of delayed availability of ARRA funding and extraordinary pressure to ramp-up production. CEDA has improved production with an accompanying improvement in quality. Indeed, they are to a degree interdependent. We realize we need to make further progress and we are implementing plans and programs to meet the commitment of the ARRA.

Excessive Material Costs: All of the items mentioned in the OIG Draft were addressed and changed, if appropriate, in CEDA's recent contractor procurement process which has occurred every two years. CEDA will open catalog negotiations each year moving forward to better reflect changing market pricing. Certain electronic items have traced a continual downward path for years, such as CFLs and digital setback thermostats. Other construction materials behave as commodities and will rise and fall based on construction activity and/or supply disruptions for raw materials. OIG states "These charges were for materials only-labor charges for installation of these items were identified separately". This sentence leaves the impression that labor charges are excessive as well, when no such evidence is presented or even discussed. Please eliminate this sentence in its entirety.

Materials Pricing: CEDA has been unable to locate certain supporting documentation relating to past catalog negotiations. However, we believe and have been advised by DCEO historically that we have been in compliance with State Policy. We did supply documentation concerning furnace and boiler pricing indicating CEDA receives far lower than retail and builder pricing for furnaces at $2600 installed for 90%+ units and boilers installed for $3400. And we remain confident that any inaccuracies in our catalog pricing *overall* do not produce significantly inaccurate payments to contractors.

Final CEDA Comments: CEDA agrees with OIG's recommendations regarding the goal of CEDA improving its initial assessment and final inspection process. CEDA has implemented programs and process improvements to address those goals (see attachments), and has also begun a formal follow-up process to ensure corrective action plans addressing needed contractor improvements have been implemented.

Appendix 3 (continued)

CEDA is appreciative of the courtesy and consideration extended by the OIG and the opportunity to express its opinions regarding the Draft Report. Please contact us with any questions regarding these Comments or any other issues regarding the preparation of the Final Report.

Mr. STEARNS. Mr. Gardner, you are recognized for 5 minutes.

Mr. GARDNER. Thank you, Mr. Chairman, and the witnesses here today. Just a couple of quick questions for Mr. Friedman. In one of your audit reports, you stated the State resources have been significantly strained due to the administration of DOE stimulus dollars; is that correct?

Mr. FRIEDMAN. That is correct. And without meaning to be too clever, we have characterized this as attaching a garden hose to a fire hydrant. The money is extraordinarily large, in many cases.

Mr. GARDNER. And DOE also then had to ramp up as a result to manage the DOE stimulus portions; is that correct?

Mr. FRIEDMAN. That is correct.

Mr. GARDNER. Is that the same hose to fire hose——

Mr. FRIEDMAN. Absolutely.

Mr. GARDNER. Very good. In your testimony, you state that you are now in the process of—and I quote—evaluating contingency plans to address problems with transitioning to a post Recovery Act funding posture. The immediate concern you identify is how the Department will deal with the significant, again, in quotes, "significant downsizing of the contractor workforce." Do you have any estimate of many contractors will lose their jobs at DOE after Recovery Act funding runs out?

Mr. FRIEDMAN. I don't have that.

Mr. GARDNER. Mr. Isakowitz, as CFO, can you comment on that question?

Mr. ISAKOWITZ. Many of these activities we expect and hope would continue, that the economy would, as was the intent of the Recovery Act, to be targeted and temporary would allow activities to follow from that. To speak to some of the specific ones, I am going to turn to Inez who can speak most directly to your question.

Ms. TRIAY. Our approach in the Environmental Management program was to create temporary jobs and to train those workers to work in the important field of nuclear and radioactive contamination areas. So what we did was to concentrate on footprint reduction, which then creates assets of now liabilities in the communities where we have installations in the Environmental Management complex so that the communities could enter into economic development efforts using the assets that the Environmental Management program through the Recovery Act was able to put at their disposal.

We intend to reduce the active cleanup footprint by 40 percent by the end of 2011. In addition to that, of course, we have the small business development that we have been able to accomplish. We have awarded $1.8 billion out of the $6 billion to small business in the Environmental Management Recovery Act. We have been able to create infrastructure in the small businesses to be able to compete in the national and international nuclear industry.

Mr. GARDNER. But in terms of estimates of how many contractors will lose their jobs at DOE, do you have any?

Ms. TRIAY. In the Environmental Management program, we are talking about 2,000 jobs just like was stated at the beginning.

Mr. GARDNER. Thank you. Mr. Rusco, GAO has spent the last 2 years evaluating how States and localities are implementing the stimulus. Now that we are nearing the end of its funding in 2012, what impact will this have on the States? And will those workers that the States added through these programs be furloughed?

Mr. RUSCO. In some cases, we are going to see with the end of the Recovery Act, we are certainly going to see a cliff effect of jobs ending, and environmental management is one such case. Already we are seeing reductions in employment in the fourth quarter of last year over the third quarter and expected decreases in employment after that. So if we go back to the regular annual budget for that, then there will be a large drop-off in jobs at the sites.

Mr. GARDNER. Thank you. And, Mr. Isakowitz, I think in response to Mr. Sullivan's question, responded if the primary job, or the primary purpose of the stimulus was to create jobs. And I believe your answer was yes; is that correct? I think that was directed to you.

Mr. ISAKOWITZ. It is to create jobs and make long-term investments for our economy.

Mr. GARDNER. There was a grant that was awarded by the Department of Energy to a city in my district that was over $2 million and it is less than 50 percent completed and it says zero jobs were created. This is according to the Web site that reveals information on grants awarded and how many jobs have been created. How many awards have been granted that have created zero jobs by the DOE?

Mr. ISAKOWITZ. I cannot speak to that specific one. But in every case, the recipient who we have worked with identifies back to us how many people have, in fact, been employed as a result of the dollars that they received. Anybody who receives a dollar from us clearly has created some kind of work that they should be reporting back to the system. But we would be happy to get back to the specific example for the record.

[The information appears at the conclusion of the hearing.]

Mr. GARDNER. Thank you very much. And in terms of—I yield back my time. Thanks.

Mr. STEARNS. I thank the gentleman. We just want to get to vote. I will just close. Mr. Friedman, I put into the record your letter of October 14th where you had indicated—and this is considering the State of Illinois' weatherization assistance program. You said, "Our testing reveals substandard performance in weatherization workmanship, initial home assessments and contractor billing. These problems were of such significance, they put the integrity of the entire program at risk."

So that was put in. I want to the thank our witnesses for coming today, for the testimony and Members for their devotion to this hearing. The committee rules provide that Members have 10 days to submit additional questions for the record to the witnesses. And with that, the subcommittee is adjourned.

[Whereupon, at 3:03 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Opening Statement of the Honorable Fred Upton
Chairman, House Committee on Energy and Commerce
"Oversight of DOE Recovery Act Spending"
March 17, 2011

Thank you, Chairman Stearns, for convening the first oversight hearing this Subcommittee has had on the Department of Energy's use of American Recovery and Reinvestment Act funds, which most people know as the stimulus.

When the stimulus was proposed two years ago by President Obama, the Republicans on this Committee fought to markup the parts of the bill within our jurisdiction. Before spending over $800 billion, we thought it was a good idea to talk about where that money was going. But we were told there wasn't time to ask those questions. There wasn't time to have a single hearing on what was in the 400 pages of the stimulus bill. We kept hearing that there wasn't time to debate – that the Congress needed to act immediately to help the economy, and not ask too many questions. This Committee was allocated just one day to markup and debate the stimulus. And despite the administration's urgency and haste to pass the bill, as we will hear today, billions of dollars still have yet to be spent, some two years later.

I believe every member of this Committee wanted to make sure our country survived one of the toughest economic times it has experienced. My home state of Michigan has suffered terribly in the recession. But the question that was asked then, and that we will ask again today is — was the stimulus the right thing to do to repair the economy?

Today we will attempt to answer that question, at least at it relates to the share of stimulus funding that went to the Department of Energy, by examining the approximately $35 billion in funding the agency received. This sum represents a massive increase in funding to the department: DOE's entire budget in Fiscal Year 2010 was almost $10 billion less than the stimulus appropriation. I look forward to learning more about how DOE has implemented the stimulus-funded programs and what lessons have been learned. I want to understand whether DOE believes this Committee should be concerned that, as of today, only $12.4 billion of the $35 billion in stimulus funds, or around 35 percent, has actually made it to DOE project or program recipients. I also hope the witnesses will be able to tell this Committee more about the results of this stimulus spending. Has the money been spent in a cost-effective manner? Has DOE done a good job of prioritizing the projects that deserve funding — or was this simply a rush to spend money with the stimulus deadline looming? Were these projects actually "shovel-ready" and – the ultimate question – did funding them stimulate the economy and create jobs?

While I am pleased we are looking into this issue now, I regret that it has taken this Committee two years to start asking questions about DOE stimulus. I will note, though, that it is not for lack of trying. I sent a letter to DOE four months ago, in November, asking a number of questions about the stimulus. I was happy to receive Secretary Chu's response just this week. I look forward to exploring some of the Secretary's responses with you today, Mr. Isakowitz, and with the other witnesses as well.

I yield back.

Opening Statement of the Honorable Joe Barton
Chairman Emeritus, Committee on Energy and Commerce
Subcommittee on Oversight & Investigations Hearing
"Oversight of DOE Recovery Act Spending"
March 17, 2011

Thank you Mr. Chairman for holding this hearing to get an accounting of stimulus funds in excess of 35 billion dollars appropriated to the Department of Energy (DOE) as part of the American Recovery and Reinvestment Act of January 2009. I voted against that Act and as Ranking Member of this Committee, I requested hearings and sent letters communicating the need to examine where these billions of dollars were going and why.

In June of 2010, I wrote to the Office of Management and Budget (OMB) expressing my concern that the stimulus was not the catalyst the President and the Democrats wanted it to be to jumpstart and grow our economy. I asked for an examination of the spent and unspent funds in an attempt to prevent any further waste to the American taxpayer. In March of 2009, I asked the Government Accountability Office (GAO) to review 5 out of the 35 billion given to DOE specifically for environmental clean-up.

The American people are counting on us and we owe it to them to maintain oversight of the nearly one trillion dollars the President and

Democrats promised would help our economy and add jobs and this hearing demonstrates our commitment to do just that.

Department of Energy
Washington, DC 20585

August 8, 2011

The Honorable Cliff Stearns
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On March 17, 2011, Steve Isakowitz, Chief Financial Officer, testified regarding the Oversight of DOE Recovery Act Spending.

Enclosed are the answers to 20 questions submitted by Representatives Upton, Burgess, Bilbray, and Murphy for the hearing record.

If we can be of further assistance, please have your staff contact our Congressional Hearing Coordinator, Lillian Owen, at (202) 586-2031.

Sincerely,

Amelia Jenkins
Principal Deputy Assistant Secretary
Congressional and Intergovernmental
Affairs

Enclosures

QUESTION FROM REPRESENTATIVE UPTON

Q1. During the hearing, in response to a question from Mr. Sullivan, you said that you would submit for the record the performance goals for the Loan Guarantee Program, and whether the DOE Loan Programs Office had revisited them in light of the DOE Office of Inspector General report.

A1. The Department agrees that it is important for the Loan Guarantee Program to accurately track its progress and the impacts that the projects it supports are having. Our principal performance goals, including reducing or avoiding greenhouse gas emissions, creating new, clean generation capacity, and containing the loss rate associated with guaranteed loans are published annually in the program's Congressional Justification. We have long tracked our progress in meeting these goals, and we believe that these are important measures of the effectiveness of our program. We take the recommendations contained in the recent IG report very seriously, though we note that the report did not address the subject of performance goals. That being said, we are continually looking for ways to improve all aspects of our program, including the methods by which we track and measure our performance.

QUESTION FROM REPRESENTATIVE UPTON

Q2. During the hearing, Mr. Gardner asked how many DOE awards have been granted that had created zero jobs, and you testified that you would provide information for the record. Please provide a list of DOE awards or which no jobs have been created.

A2. As of September 2010, the Department of Energy obligated 100% of its appropriated $32.5 billion that had a period of availability of September 30, 2010 to over 4,100 recipients conducting approximately 15,000 projects.

All DOE projects are creating jobs, though capturing the exact number of jobs created is complex. The Political Economy and Research Institute (PERI), affiliated with the University of Massachusetts, has developed jobs multipliers that estimate job creation for each project based, in part, on standards established by the Department of Commerce Bureau of Economic Analysis (BEA). These results show that all DOE projects will create jobs.

Under the current awards, the Department is only tracking the number of direct jobs funded by each awardee through FederalReporting.gov, which has significant limitations on tracking jobs. Under Section 1512 of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-05; Recovery Act), all recipients of Recovery Act funds are required to report the number of direct jobs funded every quarter, with each quarter being a discrete period. The statute requires recipients to report primary and sub-awardee level direct jobs, but instructs recipients not to report indirect jobs, induced jobs, or jobs created from making purchases from vendors. For example, if an awardee purchases capital equipment from a manufacturer using Recovery Act dollars, the jobs created at the manufacturing plant are not reported.

Using the data reported in FederalReporting.gov, of about 4,100 recipients, 732 DOE recipients have not reported any jobs funded in FederalReporting.gov. There are a variety of reasons why a recipient has not reported any jobs, including, but not limited to, a recipient not having started work on a project, and/or a recipient purchasing equipment through vendors. Only recipients are allowed to enter data into FederalReporting.gov, though DOE does perform a quality assurance check and encourages our recipients to make corrections to data, including jobs information.

Last quarter, DOE recipients reported funding approximately 46,500 direct jobs. We expect this number to increase in subsequent quarters as DOE continues to execute its projects.

QUESTION FROM REPRESENTATIVE BURGESS

Q1. How would you rate the stimulus program in terms of growth? How much money still exists in accounts at DOE that was appropriated in the Stimulus bill?

A1. The Department of Energy (DOE) believes that the stimulus effect of the programs is consistent with what was expected. DOE projects are now funding about 46,000 direct jobs every quarter, and supporting many more indirect and induced jobs that are not tracked within recipient reporting. In addition, DOE-funded Recovery Act projects have supported a significant reinvestment in our economic infrastructure that will help support high quality jobs in the future. For example, DOE projects are helping make America the world's leader in advanced battery manufacturing and supporting major solar and transmission projects that will reduce our energy consumption, dependence on oil, and create long-term American jobs.

DOE is also obligating and spending funding in a manner consistent with the Department's plans to execute projects quickly, but also to make sure that DOE invests in good projects without waste, fraud, or abuse. The Department of Energy obligated 100% of its appropriated $32.5 billion that had a period of availability of September 30, 2010 to over 4,100 recipients conducting approximately 15,000 projects.

Congress also appropriated $6 billion – of which $3.5 was subsequently rescinded – to DOE's Loan Program Office (LPO) to provide loan guarantees for certain renewable energy systems, electric power transmission systems and leading edge biofuels projects. These funds have to be obligated no later than September 30,

2011. Of the $2.47 billion net of rescissions, $1.7 billion remained to be obligated as of June 1, 2011. DOE has a robust plan in place to obligate these funds before September 30. There is an additional $45 million in funds for Recovery Act project management and oversight that is available to obligate through FY 2012. Most of these funds are for temporary federal worker salaries, and will be obligated as salaries are earned.

DOE is also on track to spend all of the appropriated funds in a timely manner, to do so prudently, and to meet the Department's goals for job creation on these projects. Through May 2011, the Department has paid out $15.2 billion and is now spending about $1 billion per month. At this rate, the Department can effectively manage and monitor all of the projects in order to minimize risk to the taxpayer.

QUESTION FROM REPRESENTATIVE BURGESS

Q2. How many major projects in the last decade or so has DOE started, obligated money toward, and subsequently failed to follow through on or explicitly rescinded the money, mid-project, despite substantial private investment? E.g., Future Gen (Illinois); WMPI Gilbertson Coal-to-Liquid Plant (Pennsylvania).

A2. DOE does not track projects based on whether they received funding through the originally planned completion. DOE also does not track projects that continue even after federal funding and DOE involvement have ceased. Tracking such information, including often after the Department's relationship with the project has concluded, would be impracticable. Project funding that extends over multiple years is subject to many processes outside of the Department's control, for example private, local or state partnering, interagency budget considerations, or congressional appropriation and rescission. Nevertheless, the Department seeks in all cases to be a responsible steward of taxpayer funds. DOE decision-making considers the budget periods and project structure in order to manage and minimize the risk associated with DOE-financed projects.

QUESTION FROM REPRESENTATIVE BURGESS

Q3a. How much of the DOE budget for the past year is devoted to studying E-15 gasoline blend? How much money in the FY12 budget would be devoted to ethanol research?

A3a. DOE dedicated $6.2 million of FY 2010 appropriations to the study of E15 gasoline blends. The FY 2012 request has $26 million of research funding for production of cellulosic ethanol.

QUESTION FROM REPRESENTATIVE BURGESS

Q3b. What are your thoughts on the efficacy of corn-based ethanol v. cellulosic or other forms of ethanol?

A3b. The efficacy of ethanol as a liquid transportation fuel is independent of the process by which it is produced. In terms of greenhouse gas emissions and life cycle analysis, the "efficacy" of ethanol varies based on the production process. As a renewable fuel, corn-based ethanol has greenhouse gas (GHG) benefits and a reduced GHG profile[1] compared to gasoline, as well as a positive energy balance[2]. Cellulosic ethanol has a GHG profile between 70% and 130% less than gasoline, depending on production process and the amount of renewable energy used in production.[3] Cane-based ethanol (from cane sugar) has a GHG profile between 50% and 80% less than that for gasoline and is currently the only renewable fuel produced in quantity that qualifies as an Advanced Non-Cellulosic Renewable Fuel under RFS2. Certain improvements in the corn ethanol production process have the potential to reduce the lifecycle GHG emissions of corn ethanol below the 50% threshold defined for advanced biofuels, but due to the present cap on corn ethanol in RFS2, many of these improvements are not being pursued at the present time.

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[1] EPA RFS2 Final Rule, March 26, 2010)

[2] Biomass and Bioenergy, Volume 35, Issue 5, May 2011, Pages 1885-1896 Michael Q. Wang, Jeongwoo Han, Zia Haq, Wallace E. Tyner, May Wu, Amgad Elgowainy

[3] Reductions of greater than 100% of GHG emissions are possible due to the way GHG reduction estimates are calculated. GHG reduction estimates are based on EPA's lifecycle GHG assessments conducted for the RFS final rule (40 CFR Part 80) relative to the petroleum gasoline 2005 baseline. Fuel production emissions for the biochemical production process include credit for excess electricity generation (from lignin combustion) at the fuel production facility. This electricity production is assumed to displace fossil fuel-based electricity allowing for further GHG reductions.

QUESTION FROM REPRESENTATIVE BURGESS

Q3c. What portion of the DOE budget is devoted to non-corn based ethanol research v. the portion for corn-based ethanol research?

A3c. The DOE does not fund any research specifically directed at corn based ethanol. DOE does conduct research into intermediate blends of ethanol above E10 which support markets for ethanol regardless of the feedstock. All biofuels research is focused on non-food feedstocks (cellulosic, algae, etc).

QUESTION FROM REPRESENTATIVE BILBRAY

Q1a. Regarding the Advanced Technology Vehicles Manufacturing (ATVM) program, of the $8.3 billion in loans already closed, how much of the $7.5 billion in credit subsidy funding has been utilized?

A1a. The ATVM Loan Program has obligated approximately $3.44 billion of the $7.5 billion of appropriated credit subsidy. We have a robust pipeline of projects in active review.

QUESTION FROM REPRESENTATIVE BILBRAY

Q1b. What has been the average credit subsidy score for the loan awarded to date?

A1b. As indicated in the Federal Credit Supplement for the FY 2012 Budget, the average credit subsidy for ATVM projects is 38.29 percent.

QUESTION FROM REPRESENTATIVE BILBRAY

Q1c. In determining "financial viability" for a company, the Interim Final Rule for the program states that financial viability means that an applicant must demonstrate a reasonable prospect of repayment and that the applicant has a net present value which is positive. The regulations further describe specific criteria for determining financial viability. How does DOE implement these criteria? Are the rules for implementation described in the "Policies and Procedures manual" referenced by GAO report 10-627? Please provide a copy of the current policies and procedures relating to the determination of financial viability.

A1c. DOE implements these criteria as part of the Department's due diligence and underwriting process. The program's policies and procedures manual is an internal document, as it contains business sensitive information. However, the policies and procedures and staff implementation of these policies and procedures are reviewed by its auditors.

QUESTION FROM REPRESENTATIVE BILBRAY

Q2. The previous Director of the ATVM program recently retired and the position is currently being filled by Mr. David Frantz, who is also responsible for overseeing the Title XVII Loan Guarantee Program (LGP). What is the approximate ratio of time that Mr. Frantz spends on ATVM versus the LGP? When does DOE expect the ATVM Director position to be filled permanently?

A2. Because there are considerably fewer projects under active review in the ATVM program, than in the Title XVII programs, we estimate that Mr. Frantz spends approximately one quarter of his time on ATVM. However, the exact distribution of Mr. Frantz's time often varies, depending on the immediate needs of individual projects. The Department does not anticipate hiring a new ATVM Director given Mr. Frantz's expertise, and that of the ATVM staff, including staff who perform the ongoing monitoring of existing loans.

QUESTION FROM REPRESENTATIVE BILBRAY

Q3. In September 2010, Jonathan Silver, who oversees both the LGP and ATVM, stated that "We anticipate making a number of additional ATVM loan commitments in the coming months." Since that time, ATVM has announced one award - $50 million for the Vehicles Production Group in November 2010 (which closed in March 2011). What has changed since Mr. Silver's testimony? What are the specific issues that have prevented the Department from meeting its expectation of "a number of additional ATVM loan commitments"?

A3. The ATVM Loan Program continues to actively conduct due diligence on a number of transactions, some of which are expected to reach conditional commitment in the coming months. The application and evaluation process requires an unwavering attention to detail in areas such as applicant financial history and viability, market share and penetration concerns, construction, manufacturing and logistics costs, legal diligence and the credit risks associated with a particular proposal. The ATVM staff continues to work closely with their counterparts at the applicant companies to make progress and prepare loan commitments for approval, while maintaining their responsibility to the American taxpayer.

QUESTION FROM REPRESENTATIVE BILBRAY

Q4. How many ATVM applications are currently in late-stage due diligence or term sheet negotiations? What is DOE's expected timeline for coming to a decision on these applications?

A4. The ATVM program has a number of applications in active review.

QUESTION FROM REPRESENTATIVE BILBRAY

Q5a. How many Department of Energy (full-time equivalent or FTE) personnel are currently at the ATVM program?

A5a. There are currently eight FTEs working on the ATVM program.

QUESTION FROM REPRESENTATIVE BILBRAY

Q5b. What is the ratio of Federal employees to consultants?

A5b. The ATVM program currently has eight full-time Federal employees on staff in addition to eight full-time contractors who work for the program. Therefore, the ratio of full-time Federal employees to full-time consultants is 1:1.

QUESTION FROM REPRESENTATIVE BILBRAY

Q5c. What is DOE's monthly expenditures on consultants for the ATVM program?

A5c. In FY 11, the average monthly expenditure to date on full and part-time outside legal and financial advisors in addition to general consultants is approximately $625,000.

QUESTION FROM REPRESENTATIVE BILBRAY

Q5d. How many personnel typically make up the credit staff/committee that review ATVM loans?

A5d. The Loan Programs Office has two contractors with credit expertise whose time is fully devoted to the review of ATVM loans, and the Loan Programs Office has two other contractors with credit expertise who devote considerable effort to the ATVM program, as well. In addition, prior to conditional commitment, each ATVM project is reviewed by a five-member Credit Committee, which is comprised of experts from the Department's Loan Programs Office and Office of the Chief Financial Officer.

QUESTION FROM REPRESENTATIVE BILBRAY

Q5e. Please describe the automotive expertise of the members of the credit staff/committee who are reviewing ATVM conditional commitments.

A5e. All contractors performing credit analysis for the ATVM program have prior experience reviewing auto industry credits, and each has significant corporate, treasury, and/or financial industry credit experience directly applicable to the credit review of ATVM applications. Two members have specific experience in bankruptcy workouts of auto industry suppliers. For specialized automotive expertise, the ATVM program, including contractors providing credit analysis, relies on expert outside consultants with extensive background and experience in the automotive industry.

QUESTION FROM REPRESENTATIVE MURPHY

Q1. Although obligation of funds for ARRA projects has been completed, the majority of the projects are multi-year in length, some being completed nearly five years after implementation. How will these projects be effectively managed if resources at NETL (Program Direction funds) are reduced, and NETL is to continue the administration and oversight activities for these Programs and Projects?

A1. The Department of Energy's budget request for Fossil Energy R&D program direction funds is sufficient to ensure that all currently active and budgeted projects are effectively managed.

QUESTION FROM REPRESENTATIVE MURPHY

Q2. With this reduction in Program Direction Funds going to NETL it appears that the management, oversight and coordination of projects at NETL will be performed elsewhere. Is this true? If yes, why?

A2. The Department does not anticipate oversight and coordination of projects being performed elsewhere.

COMMITTEE: HOUSE ENERGY & COMMERCE SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

HEARING DATE: MARCH 17, 2011

WITNESS: STEVE CHALK
PAGE: 11; LINES: 1-7

INSERT FOR THE RECORD

The American Recovery and Reinvestment Act greatly expanded the Department of Energy's (DOE's) level of investment in the State Energy Program (SEP). An evaluation of the impact of SEP funding, including energy cost savings and additional money leveraged, is currently underway, but we do not yet have results from this evaluation.

DOE commissioned an earlier study, by Oak Ridge National Laboratory (ORNL), to quantify the nationwide energy and cost savings and emissions reductions associated with the 2002 program year under SEP. These results, which covered a wide variety of energy efficiency and renewable energy activities performed by the states and territories, were published in 2005 in Martin Schweitzer and Bruce E. Tonn, *An Evaluation of State Energy Program Accomplishments: 2002 Program Year* (ORNL, 2005).

According to this study, the SEP contribution in support of the states' and territories' program year 2002 activities was $46.2 million, which leveraged an additional $494.7 million in federal, state, local and private-sector investment, for a total expenditure of $540.9 million in activities defined by grantees as "SEP projects." This total investment was estimated to have achieved $333.6 million in annual savings from energy costs. The Oak Ridge study did not identify the portion of the $333.6 million in annual savings that resulted only from the $46.2 million in funds directly provided by the SEP.

Significantly, the energy cost savings noted above are annual savings numbers and, as the authors of the Oak Ridge study note, the savings generated by the investment of SEP and leverage funds "are expected to continue for many years to come," with "lifetime savings…expected to greatly exceed the total investment required to achieve them." The projects in which SEP invests are conservatively estimated to have useful lives of ten years. Over this span, the 2002 program year activities may yield over $3.3 billion in energy savings, before adjustment for inflation and depreciation.