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***Benefits of Energy Efficiency, and  
A View of the Future of California***

For Presentation to  
San Diego Gas & Electric Company's  
Energy Showcase 2010  
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**Introduction**

Good morning! I am delighted to be here before you today at San Diego Gas & Electric Company's (SDG&E's) *Energy Showcase* event. I am very impressed with the size and scope of this meeting, with all you are doing to conserve energy and to use it wisely, and with the exciting technologies I had a chance to see today.

I wish to thank our host, SDG&E, for the Company's great efforts over many the years, to assist its customers to use its products wisely and frugally.

I especially wish to thank Dan Skopec, who invited me to participate in this event.

And, of course, I must state my usual disclaimer:

- I am one of five independent commissioners who regulate the investor-owned utilities of California, including, of course, SDG&E.
- I get only one vote.
- So you should not take anything I say here today to be the official opinion of the Public Utilities Commission.
- Finally, I will not be discussing how I intend to vote on any proceedings that are before me at the Public Utilities Commission.

Today I want to step back from the specific and try to put all that you are doing in a broader context.

## **Energy Efficiency – A Top Priority for California**

Since at least the 1970s, California has made an effort to find ways to be more efficient in the use of electricity and gas. In election after election, Californians have voted for office-holders at every level of government who are dedicated to improving California's livability and environment, even at some cost. The rewards have been phenomenal; we lead our nation in environmental efforts and have preserved our natural lands and waters to the envy of all.

One fact stands out: Notwithstanding California growth, while the average rate of electric usage has risen about 50-percent per person across the U.S. over the last 35 years, the rate of usage in California has remained flat. If Californians had increased their usage in line with the rest

of the U.S., we would have had to build dozens more power plants; we would have to site more transmission lines in people's yards and in our open space; we would have had to upgrade the capacities of substations across the state. To serve all of those power plants, we would have been burning even more fuel, which would have to be delivered over more pipelines. As a result, we would have more air and water pollution.

Instead, Californians chose another path, an aggressive but riskier search for conservation and for efficiency in energy use. Not to put too fine a point on it, and as you are well aware, this path has not been cheap. What we have saved by not building more power plants, we have spent on better lighting systems, better motors, better refrigeration, heating, and air conditioning systems, more insulation in our walls, better control systems for our buildings, and much, much more.

You, the people in this room, the businessmen and women and the innovators of Southern California, have been important participants in this effort. Without your cooperation and your willingness to invest, and your creativity, much of this progress would not have happened. And so I thank you. I thank you, and SDG&E thanks you, for they have a lot on the line in this effort, too.

Sometimes you may wonder if the effort to increase energy efficiency has been worth the cost. I wonder about it, too. Up to now, it seems so. Again, broadly speaking, the people of the state have benefitted, as has our environment.

But let's focus on you as businessmen and women, and let me first make the case for energy efficiency from the Business point of view. And then I will make the case from the Policy point of view.

### ***The Business Case***

Energy costs are part of the costs of business. You would like to pay less, and you would like to use less. You need to balance your energy costs against all your other costs. You are competing against other local businesses, and you are competing against other businesses across the world. Through careful investments in greater efficiency, you can find ways to use less energy, or use less expensive forms of energy, or move your energy use to times when the energy is less costly. If you are successful in applying energy efficiency, your costs will be lower, and that should increase your competitiveness. But energy efficiency should not imply that you are just getting along with less, or that you are cutting back or reducing your output. "Efficiency" implies that you are able to continue or even increase your business using energy more effectively – less input per unit of output!

I presume that you, who are here at today's Energy Showcase, are familiar with this business case, and that you have availed yourself of SDG&E's many programs to increase your energy efficiency. Those programs are funded through assessments on all energy bills throughout the state. Your neighbors are helping to bring down your costs. So, it is your money being channeled through the Company and back to you. There are rebates, on-bill

financing programs at low- or no-interest, and other incentives that can reduce your up-front costs and shorten your payback time. There are many ways for you to take advantage of energy-saving technologies, to increase your competitiveness. Remember, this is your money; if you are not using it, you are helping someone else.

### ***The Policy Case***

California is committed to energy efficiency for reasons that are only marginally related to helping businesses save money. Over the years, Californians have elected governors and legislators who are committed to a better and cleaner environment. Governor Schwarzenegger has taken a leadership position. Recently, we have added the imperative of global warming. The strongest statement of this commitment is *The Global Warming Solutions Act of 2006*, otherwise known as AB-32. That law, passed by both houses of the legislature and duly signed by the Governor, commits our state to reduce emissions of greenhouse gas back to the level of 1990 by the year 2020. That would be about 30-percent below the business-as-usual scenario.

Back in 1990 there were fewer than 30 million people in California; now there are 38 million. If this is a serious target, and the law says it is, then we have to use every method to reach it. Efficiency is a critical beginning.

What are the other methods?

- Substituting renewable electric production for today's conventional energy sources, otherwise known as a Renewable Portfolio Standard;
- Conservation and changes in use of resources, not only energy, but also other energy-intensive products, such as water;
- Changes in price signals, including some form of Cap & Trade or Carbon Tax; and
- Direct regulation of business and personal use of energy and energy-consuming products.

Will these policies actually, produce the intended results? It has begun to deliver, but I do not know, and neither does anyone else know for certain. But given California's history of continuous movement in this direction, and given California's electoral history, it appears that our state's policy is unlikely to change direction. While we may change the rate at which we move in this direction, it is unlikely that we will abandon our goals.

Therefore, I expect that California will continue for many years on the path of searching for efficiency savings to enhance our environment and to reduce greenhouse gas emissions. And you, the business people, the visionaries, will need to adapt. And you as innovators are presented with new and exciting opportunities.

At the California Public Utilities Commission, we oversee the efficiency programs of the investor-owned

electric and gas utilities. It is our plan for the utilities around the state to spend over *Three Billion Dollars* over three years on energy efficiency programs. We are working to make sure that the programs are well managed and effective, and that you, the users of the programs, receive benefits from them. We consciously try in our program design to encourage new and small-business participation.

## **What is the Future for California and for Efficiency?**

Now, let me turn to my larger topic, the future of California, and the future of efficiency. I would not want you to leave here thinking I am just a cheerleader for ever increasing efficiency standards and ever tighter environmental requirements. To some extent, I am, of course. As I said, up to now, these programs have provided substantial benefits to Californians and more efficient use of energy is a business imperative. Energy is not getting cheaper! I do not think that there is a person in the state who would abandon California's ambition to be a clean and pleasant place to live and work.

And yet, and yet, as a policymaker, I am not sure how much longer we can continue in the same direction at the same pace. Let me explain what I mean.

- First, there is the matter of diminishing returns. That is fancy talk for saying that maybe we have picked all the low-hanging fruit. Future gains in efficiency, as well as gains in other environmental

goals, may require greater sacrifice than what we have had to pay up to now, both in cost and in competitiveness.

- Then, there is the price problem. Really two price problems.
  - The first is called *High Rates but Low Bills*. In order to achieve these efficiency gains, we must continually invest in other factors, such as better motors, better control systems, and the like, as I stated before. We build some of the costs of those other technologies into the energy rates. You see higher rates and lower usage at the same time. The total bill goes down, or at least it does not go up very much. Up to now, this has been true, at least for residential customers: We have high rates, but we do not have high bills. How much longer will we be able to keep the bills down if we keep raising rates to accommodate our objectives?
  - The second is about *Price Comparisons*. What happens when a California business owner compares utility costs associated with some specific process across state lines? You already know the answer. Almost any standardized process, whether it is extruding aluminum or baking pizzas, can be undertaken at lower energy cost if the rates are lower. Energy efficiency is key, but it is not sufficient

by itself. So, for our energy policies to succeed, there have to be other advantages for a business to keep its California location. For most heavy industry, the advantages of being in California typically do NOT outweigh the additional costs of being in California. That is not just an energy cost problem, but a general problem for industry in California.

- Finally, there is an issue that I think is even larger and more important than the problem of diminishing returns or the price problems. It is the problem of *How much can California Do By Itself and In These Times?*
  - California has always had a big imagination and a willingness to push the limits. But have we reached the limits? Can one state maintain and sustain an environmental and energy policy that is so much more restrictive than the other 49 states without chasing away the people and the resources it needs to remain competitive? Never mind the other states, what about other countries? I am concerned about how much further we can step out ahead of the rest of the world without severe economic dislocations. In fact, I occasionally have a sense that others are watching California and hoping to pick up the pieces when we fall.
  - Not only that, but California seems to act as though costs do not matter. But now our state

budget is tapped out. We see the result: According to our governor, whole programs will have to be zeroed out because there just is not enough money in the state treasury to pay for them. This is not a matter of a little bit of trimming at the edges, or a matter of political posturing. California cannot – I repeat, CANNOT – go on the way it has in the past, passing out benefits now with the costs to be paid later. What is true for taxes and government services may also be true at some point for energy efficiency programs. This may not be the case only for California, but also for our nation. What you do a businesses must, over the long term, be sustainable!

- Finally, there may be a point in time when the people of our state begin to change their minds about all of the benefits they wish to receive from their government and from its environmental policies. I do not know if the time of reckoning is near or far, and I cannot say for sure that it will come at all. But it would not be wise to deny the possibility.

But I am quite clear that you as business people need to continue to focus doing more with less energy to stay competitive and prosper, no matter what the politicians do. At the CPUC, we recognize this, but we need you in the business community to remind us constantly! Get engaged

in the policy process, the legislative process, and in your local government processes!

## **Conclusion**

Ladies and Gentlemen, if I may quote the old Chinese expression, you are “living in interesting times.” You are among the most successful and adaptive people, and your adoption of energy efficiency as a strategy for success in your businesses proves the point.

Energy efficiency helps you to be more cost-efficient and therefore more profitable and likely to succeed.

Let me close on this note: In SDG&E you have a creative, reliable, and strong partner, one that is dedicated to helping you to be efficient in your energy use, and to helping you to compete.

It is up to you to reach out to the future.

Thank you.