Statement of
Commissioner Susan P. Kennedy

Item 30: 2006-2008 Energy Efficiency Program Funding
September 22, 2005

Colleagues:

As yet another catastrophic hurricane bears down on our friends and families in the Gulf Coast, threatening to take lives, destroy homes and businesses, and wipe out some of the critical infrastructure that feeds our nation's energy needs, today's decision takes on a new level of saliency and urgency.

With today's decision, California is launching the largest, most aggressive energy-use reduction program in our nation's history. And while our actions may bring little comfort to those who have lost so much, or do much to ease the pain of the here and now, Californians can rightfully take a small measure of pride in knowing that we, in fact, are doing everything within our power to avoid future catastrophes and to create a secure energy future in our small edge of the world.

With Californians already facing a winter of the highest natural gas prices we've seen in history – and knowing the huge impact that natural gas prices have on the cost of electricity – which is also passed on to consumers one way or another – our first responsibility is to do all we can to batten down the hatches here at home.

Today's decision authorizes the 2006-2008 energy efficiency plans and funding levels for PG&E, SoCal Edison, San Diego Gas & Electric and Southern California Gas. It represents the single largest funding authorization for energy efficiency programs in U.S. history.

Following clear direction from the Energy Action Plan, the utility plans we authorize today make energy efficiency the first resource we turn to in order to meet California's growing energy needs.

In plain English, that simply means that before our electric utilities spend a dollar to buy or build new generation, they will first invest in ways to help us use energy more efficiently.

By fully integrating energy efficiency into the resource acquisition plans of our utilities, we will nearly double our investment in energy efficiency – without raising consumers' bills.

In 2005, California authorized approximately $400 million in energy efficiency funding and evaluation. The programs we're authorizing today will increase authorized funding to nearly $775 million in 2008. The total amount spent over the next three years for all three electric utilities plus SoCalGas reaches $2 billion.

But, consistent with our new, integrated resource approach to energy efficiency – the real measure is <u>not</u> how much money we will spend, but how much energy we will save. And the numbers are impressive.

Over the three-year funding cycle approved in this decision, these programs will replace 1,500 megawatts of energy usage – the equivalent of building three large power plants.

The estimated gross savings to California consumers over the life of the energy saving measures that will be installed over the next three years through these programs is $5.4 billion. Total costs to install these measures will be approximately $2.7 billion. So the net savings to consumers by investing in energy efficiency as a resource is $2.7 billion.

And let me be clear – while we are nearly doubling our investment in energy efficiency – we're saving customers money because we're avoiding having to pay for more expensive power plants to be built.

That does not mean we won't have to build. Our aging, less efficient and not-so-clean power plants will need to be replaced. Our population and our economy and therefore our energy needs will continue to grow. And what this plan does is help us meet those growing needs, first and foremost, with the cleanest most cost-effective energy of all – greater efficiency.

This decision is part of a package – California is also investing in the most aggressive renewable energy program in the US, and we are developing aggressive demand response systems, such as dynamic pricing, that will give consumers the tools to help themselves and take charge of their own energy future.

Today's decision is also part of a much larger and more important effort to reduce global warming. Governor Schwarzenegger put the U.S. at the world table on climate change by signing an executive order launching the Green Building Initiative in California. The Governor's order directs efforts to make commercial and government buildings in California more energy efficient by 20%.

This Commission, through President Peevey and the Energy Action Plan, has strongly supported climate change initiatives by working with our utilities and other businesses, and today's decision provides the cornerstone of those efforts. With this decision, the utilities' have integrated the Green Building Initiative into their portfolio plans, and as a result, funding for the Green Building Initiative will increase to $230 million per year – a 36% increase in annual funding for climate change efforts.

The combined results of all these programs is that California will be the most aggressive nation-state in the world in reducing energy usage and reducing the harmful emissions linked to global climate change.

There is more work to be done.

Today's decision adopts the utilities' portfolio plans. It approves the evaluation criteria that the utilities will use to develop their bid proposals for third party implementers. – And for those of you who worried that integrating our energy efficiency programs back into the utility portfolios would stifle innovation and provide fewer opportunities for non-utilities – I'm here to tell you that PG&E's putting 45% of its portfolio out to bid – twice the minimum required by the framework we adopted – and they are doing it voluntarily because we've given the utilities the flexibility and the incentives to find the best of the best programs that are out there.

The Peer Advisory and Review process we established puts stakeholders at the table with the utilities at every step of the way and takes the commission out of micromanaging these programs. As a result – we have as near a consensus on these portfolio plans as has ever been the case in the past.

There is not 100% consensus on a few points – such as how much emphasis should be on peak energy reductions versus reducing baseload. But the stakeholder process worked and to near consensus these issues were resolved by the stakeholders and utilities.

Two more key points and I will close…

We built flexibility into these portfolios – we did this on purpose to allow the utilities to respond to events and customer needs instead of being locked into inflexible programs where the funding can't get to where it's needed. For example we're allowing the utilities to spend 2006 funding immediately to make sure that all energy efficiency programs that could possibly help customers through this winter with high natural gas prices is fully funded and available.

During the summer, if Edison needs to shift funding to air conditioner rebates from lighting rebate programs because of high temperatures and customer demand – that's what we want them to be able to do.

Finally, the key to the success of our energy efficiency programs is in the measurement and evaluation process, and the toughest work lies ahead.

In order to ensure that every dollar is spent as cost-effectively as possible and to ensure that we're getting the savings we need throughout the entire implementation period – measurement and evaluation of programs will be done by independent experts and overseen by PUC staff.

This next phase of the proceeding will focus on developing avoided cost valuation methodologies, developing common definitions of peak demand reduction and critical peak savings across service territories. This process will take place during the first half of 2006 as quickly as possible.

And once the roll out of energy efficiency programs begin in 2006 and we get the EM&V process underway, we will turn our attention to the third leg of our energy efficiency program - developing the risk/reward incentive programs for utilities. As we've learned over the last two decades, by making investment in energy efficiency at least as profitable as building new generation, we tap into billions of dollars in investment decisions being made by the utilities to secure our energy future.

I can't find new words to describe the unbelievable job Judge Meg Gottstein did in crafting this program. This isn't just about writing a PUC decision – Meg brought the parties together in a collaborative effort that has never been seen before. She brought her unmatched abilities to drive parties to consensus – and I've never seen a program that involves hundreds of parties and billions of dollars in program spending come this close to consensus and still reach the mark in terms of the aggressive goals we established. But she did it.

We did this with our sister agency the Energy Commission as full partners. Art Rosenfeld was my equal as assigned commissioner on this proceeding, and I'm not sure which commission Mike Messenger actually works for any more, but we could not have been done without him.

Zenny Tapawan-Conway and the rest of the team in the Energy Division – did a great job. They treated this like the history-making effort it truly is.

And of course my Chief of Staff Brian Prusnek who ran the whole drill for me and made me look really good without much effort on my part.

I'm very proud of this decision and what this Commission is doing.

Thank you for indulging me. I move item 30 and ask for an aye vote.