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Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Re: Testimony on the Governor's Reorganization Plan to Create a California Department of Energy

Chairman Alpert and Members of the Commission,

On behalf of the Silicon Valley Leadership Group (formerly the Silicon Valley Manufacturing Group), whose nearly 200 member companies include our region's most respected high-technology firms, we welcome the opportunity to provide input regarding the Governor's planned reorganization of energy agencies creating a new California Department of Energy. SVLG strongly supports this long-overdue reorganization which will provide the needed accountability while preserving stakeholder participation. If California is to avoid another crisis, swift implementation of this plan is essential.

By way of background, SVLG's diverse membership includes high tech companies, durable and perishable goods manufacturing, telecommunications, biotech, software, hospitals, water and electric utilities and higher educational institutions both public and private. Most are PG&E customers, but many have direct access contracts, others are in with municipal power authorities of Santa Clara and Palo Alto. We are companies as small as one and as large as 15,000 in the valley. Together, these companies have more than 250,000 workers in Silicon Valley (one quarter of the workforce), exceeds \$1 Trillion in contribution to the state economy and 400 megawatts of load on the local grid. And, with one third of the nation's venture capital invested in this area, much is at stake if we do not learn and correct the causes of the 2001 Energy Crisis.

First, a caveat: We are not energy regulatory experts. We are customers who use energy to create wealth and value, drive our economy making products, providing services and jobs and financing the public good. Our comments will be brief and high level. Much of the details of the plan are beyond our ability to assess with confidence at this early date. But we can say this: It is vitally important that this central issue of establishing clear vision and accountability must not be derailed by partisan conflict or "turf-retention" inertia. Our energy sector and economy are too important for shortsightedness.

SVLG has been involved in energy issues advocacy since 2000 and much of it anticipated this opportunity today. We have partnered extensively with the Bay Area Economic Forum on five energy policy reports. And recently SVLG submitted a letter to the Governor dated October 5, 2004 which made response and recommendations on the California Performance Review. In each our message was clear and consistent: California needs an **integrated statewide energy policy** through **unified leadership and clear accountability**.

In addition, there must be regulatory clarity for siting, permitting and installation of generation and transmission infrastructure as well as a clear competitive market structure. Regulatory clarity and efficiency is an essential signal to investors that California is addressing energy issues so that needed capital will become available. Much progress has been made in the last five years. But we are not there yet.

Greatest Challenges to a Cohesive Energy Policy

There has been much to be encouraged about in the past 18 months. There are now clear rules for competitive procurement for IOUs, a commitment to Resource Adequacy, establishing the loading order valuing the megawatts of energy efficiency are essential steps forward, to name a few. And until the Joint Agencies developed the Energy Action Plan (EAP), there was no clear and unified vision for California's energy future. We are grateful for the cooperation and leadership of the CPUC, CEC and ISO and other in creating this blueprint. What is still needed is an office and structure to be accountable to carry out this plan. This post must have the requisite responsibility, resources and authority to carry out the vision in a responsive and timely way.

The core of the governor's plan is the establishment of the new cabinet post of Department of Energy with what appears to be reasonable consolidation of functions and responsibilities. While reserving future comment on the details of the plan, SVLG supports this approach.

Impact on the Price and Reliability of Energy

Prices and reliability of electricity and natural gas are critical to Silicon Valley's long-term competitiveness. Our manufacturing sector, which is still viable and larger than any other state, (see BAEF Report "One Million Jobs at Risk: The future of Manufacturing in California" March 2005), is still burdened with electric rates among the highest in the nation. Rates have begun to drop, but much more is needed to allow us to be competitive. Advanced metering holds the promise to bring significant cost savings and grid efficiency. PG&E's Advanced Metering Infrastructure is a wise investment which SVLG strongly supports. Rates can come down if market uncertainty can be relieved, and investment and innovation are allowed to flourish. Specifically, we believe that speeding Liquefied Natural Gas (LNG) to the California market will have significant beneficial effects on electricity prices. A Department of Energy chief and chairman of the CEC could help add needed weight to these issues and provide further evidence of the commitment of the State of California to infrastructure investment.

We are encouraged by the Governor's bold plan to streamline government for world-class infrastructure for a world class economy that will benefit all its citizens. In the long run, regulatory clarity and clear accountability will lead to a more robust and fluid investment climate that sustains California's reputation as a premium place to live and invest.

If you have any further questions, please do not hesitate to call me at (408) 501-7852.

Sincerely,



Justin Bradley
Director of Energy Programs

Cc: Silicon Valley Legislative Delegation
NRDC
IEP