

# Energy Efficiency in the Building Sector

## One-Size-Fits-All Mandates May Hurt Rather than Help

### Summary

#### Background

California has long been a leader in the effort to reduce energy consumption. The state's building industry has been no different. New commercial buildings in California are 50 percent more efficient than the national average. And starting in June 2009, California's residential standards will tighten, making new homes 50 percent more energy efficient than those built to national standards.

Despite this, there is a trend developing among lawmakers and regulators to push for even greater energy efficiency mandates on California's building sector. Numerous bills introduced in the 2007-08 legislative session sought to make the state's building industry, already the most energy efficient in the nation, even greener. Green building standards, zero net energy requirements and mandatory reductions in energy usage have all been considered in the last two years by the Legislature in order to gain additional greenhouse gas (GHG) reductions from the building sector.

In addition, the California Air Resources Board (ARB) is including stricter energy efficiency requirements for the building sector in its Scoping Plan for implementing AB 32, the Global Warming Solutions Act of 2006. To help meet the state's GHG reduction targets, ARB has recommended — among other things — zero net energy building construction, stricter building codes with stronger enforcement and time-of-sale retrofit requirements for existing buildings.

#### Current State Policy

In July 2008, the California Building Standards Commission (BSC) adopted a first-in-the-nation statewide green building code, which sets targets for greater energy efficiency standards in all new construction starting in 2010. The new code will cover residential and commercial construction in the public and private sectors, as well as educational facilities, hospitals and other public structures.

Among other things, the new code sets targets of 15 percent reductions in energy use from current standards and 50 percent reductions in landscape water usage. California's green building code also represents a new baseline for energy efficiency in California building construction, and the BSC has encouraged builders and local governments to exceed the standards as they see fit.

#### Impact on Business/Consumers

The desire by ARB regulators and members of the Legislature to mandate even tighter energy efficiency standards on California's already-efficient building sector could prove very costly. For example, the Scoping Plan being touted by ARB fails to recognize that the California Energy Commission has increased the stringency of the state's energy efficiency requirements for new homes by 50 percent in the last seven years alone. This is over and above California's already-strict energy efficiency standards. These proposed requirements will add thousands of dollars to the cost of a new home, are not realistic, and will not be cost effective. For example, the Scoping Plan's zero net energy requirements would be difficult if not impossible to achieve. In a study by the National Renewable Energy Laboratory for the Sacramento Municipal Utility District, the cost of complying with zero net energy requirements was estimated to add \$50,000 or more to the cost of a new home (2,500 square feet) in California. Such a cost increase would have a staggering effect on the ability of California families to afford a new home, especially given the current economic climate.

The same is true for new commercial and industrial buildings that would be subjected to the strict requirements envisioned by ARB. Zero net energy requirements in this sector would likely be unrealistic and even technologically impossible for many commercial and industrial structures. If adopted, the zero net energy mandate would essentially require these facilities to have on-site power generators that would be unjustifiably expensive. In addition, time-of-sale retrofit requirements for existing commercial buildings would worsen the state's already-troubled real estate market.

Retrofits are doubly capital intensive because they not only require investment for the cost of retrofitting, but usually halt or severely curtail a building owner's revenue stream by rendering the building unusable during retrofit work.

#### Anticipated Action

It is likely that California's building industry will be facing stricter energy efficiency requirements

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under AB 32 as ARB continues the implementation process. In addition, energy efficiency mandates are likely to appear in several pieces of legislation again this year, following a pattern similar to last session.

### CalChamber Position

While the California Chamber of Commerce supports cost-effective increases in energy efficiency and conservation goals, many of the approaches being contemplated by lawmakers and regulators do not meet this standard. Misguided approaches and one-size-fits-all mandates for energy efficiency in the building sector could have significant and devastating consequences for California's already-struggling housing sector, reduce or eliminate new affordable housing projects and worsen the state's already-troubled commercial real estate market.

### Reasons for Position

- California already has the most energy efficient buildings in the nation, making even stricter energy standards more costly and difficult to achieve.
- New energy efficiency increases should be cost-effective and incentive-based.
- Developing environmentally sound residential and commercial buildings is not a new phenomenon, as many California builders have been quenching the market's thirst for green products for years.

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