BEFORE THE CALIFORNIA ENERGY COMMISSION

In the Matter of: Preparation of the 2012 Integrated Energy Policy Report Update	)))	Docket No. 12-1EP-01

COMMENTS FROM THE LOS ANGELES DEPARTMENT OF WATER AND POWER ON THE CALIFORNIA ENERGY COMMISSION'S DRAFT 2012 INTEGRATED ENERGY POLICY REPORT UPDATE

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Pursuant to the procedures established by the California Energy Commission (Energy Commission, or CEC) by written notice issued on October 25, 2012, the Los Angeles Department of Water and Power (LADWP) respectfully submits these comments on the Energy Commission's draft 2012 Integrated Energy Policy Report (IEPR) Update.

I. INTRODUCTION AND OPENING COMMENTS

The City of Los Angeles is a municipal corporation and charter city organized under the provisions of the California Constitution. LADWP is a proprietary department of the City of Los Angeles that supplies both water and power to Los Angeles's inhabitants pursuant to the Los Angeles City Charter. LADWP is a vertically integrated utility that owns generation, transmission and distribution facilities. LADWP provides safe and reliable retail electrical energy to its approximately 1.4 million customers.

II. Comments

As we have previously stated, the year 2020 is presenting utilities across the state, but particularly LADWP, with a deadline to meet several mandates simultaneously. Over the next 8 years, LADWP will be making significant

investments to eliminate Once-Though Cooling (OTC) for in-basin coastal generating units, replace base-load coal resources, comply with Cap-and-Trade regulations under Assembly Bill (AB) 32, and increase its Renewable Portfolio Standard (RPS) to at least 33 percent. Each mandate continues to be an extraordinary challenge in and of itself, and imposing them all at once is a monumental undertaking. In order to minimize the cost impacts and retain the reliability of the power grid, LADWP will need to carefully integrate the sequence of these complex activities.

The LADWP commends CEC staff for developing this draft update to the comprehensive IEPR report on California's priority energy issues and appreciates this opportunity to comment on this draft. In these comments, LADWP notes certain activities that we believe will make the IEPR more complete, and also reinstates certain issues that need to be resolved by the CEC in the IEPR.

1) POU Requirement for Public Engagement

LADWP, as a Publicly Owned Electric Utility (POU), would like to note that it is fully devoted to community engagement in important energy procurement decisions. For example, in developing the LADWP 2012 Integrated Resource Plan (IRP), the LADWP held numerous community and neighborhood meetings to gather input on the timing and the mix of these important strategic resource activities.

LADWP also notes that like many utilities, it is facing upward pressure on its rates in order to fund many of the policies listed in this IEPR draft. Thus, it is

important that the POU governing bodies have the ability to make important financial decisions in regard to State policies, and have full discretion in making the necessary changes to their Renewable Action Plan, because ultimately, the burden of the cost and rate impact will be borne by our customers.

2) Combined Heat and Power (CHP) Assessment and Barriers

Page 21 of the IEPR holds that the future of CHP in California "appears promising", and page 22 provides a discussion of certain barriers to achieving CHP goals. As we have previously stated, LADWP believes that projections on CHP potential should take into account the service territory characteristics and economic factors for each utility. There needs to be additional study and analysis of CHP potential in specific POU service territories.

Furthermore, in addition to economic and operational factors that could influence minimal CHP development in LADWP's service territory (e.g. natural gas price volatility, record drop in retail energy, and decline in industrial growth), there is the issue of Emission Reduction Credits (ERCs). It is unknown at this time whether there is an adequate amount of ERCs available to cover emissions associated with increased CHP in the service territories of those utilities in the South Coast Air Basin (SCAB) territory.

As we have stated before in our response to the ICF report, based on customer feedback, LADWP is pursuing other more cost effective and amenable alternatives over CHP in its service territory, including solar distributed generation, advancing energy efficiency programs, and demand response.

On page 9, the report refers to disincentives under current cap-and-trade rules as one of the barriers to increase in CHP development; LADWP believes that CHP technology must be improved and should be driven by project economics, and should not require subsidies. By economic necessity, utilities must build and maintain the distribution infrastructure and consider departing load charges and Feed-in Tariff (FIT) costs. LADWP believes that CHP shouldn't be subsidized by utilities because CHP excess power typically would be available during the off-peak loading period, and this excess power would be competing and not assisting with RPS integration into the power system grid. Further, the CHP excess power wouldn't be dispatchable and it would generate no additional emission credits.

3) CEC's Delay in Adopting RPS Regulations over POUs

On page 52 of the IEPR, there is a general description for improvement of procurement practices for utility-scale and Distributed Generation (DG), including RPS-eligible facilities. However, LADWP would like to reiterate general issues that it has been facing with the implementation of the California Renewable Energy Resources Act (known as and referred to as Senate Bill 2[1X] [SB 2(1x)]) that require immediate attention.

The CEC announced at the June 17, 2011 workshop that it would need to postpone the RPS regulations until February 2013. The CEC's delay in adopting regulations over POUs is creating regulatory uncertainity, and is a factor potentially hindering progress in the RPS implementation, as this guidance is needed for procurement programs to be in compliance with SB2(1X).

Furthermore, the CEC's latest draft Regulations are not in alignment with the clear language of SB 2(1X). Decision-making authority lies within the POUs Governing Board, not the CEC. The CEC's statuatory authority is based on compliance oversight with current regulatory proposals that reach back and undermine to historical governing decisions that precede SB2 (1X).

4) CEC Certification of RPS Projects

Another challenge LADWP has been facing in its implementation of the RPS policy is CEC Certification of RPS projects. The CEC is required to certify POU projects as "RPS Eligible" and through the RPS Eligibility Guidebook (Guidebook). The Guidebook is currently being revised to incorporate changes as directed by SB 2(1X) and AB 2196. However, as these changes are being implemented, entities are proceeding with procurement of renewable energy resources without the certainty that the CEC would certify such projects as "RPS Eligible."

This outstanding issue hinders entities' ability to confidently proceed with certain procurement activities. Regulated entities require the certainty that their procurement transactions meet the statute and will be counted towards that utility's RPS compliance. This issue needs to be addressed by the CEC and the IEPR, as it is a key concern for the RPS program moving forward.

5) Change of Law Ripple Effects Need to be Considered as a Constraining Factors in California's RPS Developments

LADWP believes that a major concern between POUs and project developers (developers) is with the inherent risk associated with Change of Law.

Change of Law risks are inherent and affect all contracts/agreements executed for compliance with California's RPS moving forward. The big point of contention between parties in negotiations is who should bear the risk of Change of Law, the utility or the developers? It is getting increasingly difficult to negotiate contracts due to this issue, which can significantly impact the net value of a project (e.g. Portfolio Content Category 1 producing project versus a Portfolio Content Category 3 producing project). This is not a speculative risk: it is real and has already affected several POUs and developers. Developers constantly point to the biomethane moratorium installed in March 29, 2012, which instituted economic impacts on historical decisions and left biomethane contracts in a "murky" state of eligibility. Prior to the enactment of AB 2196, eligibility criteria were placed as part of the moratorium, which have not been exercised by the CEC to date. As a consequence, both POUs and developers refuse to accept Change of Law liability due to the potential of not obtaining certification and/or appropriate Portfolio Content Category treatment.

The CEC and the State need to be cognizant that changes (whether they be considered miniscule or not) may have a ripple effect on procurement decisions made by POUs, and may impact compliance obligations.

6) Energy Efficiency Potential and Targets

On page 76, the IEPR encourages the development and implementation of new energy efficiency financing products. From LADWP's perspective, cost effectiveness is the key factor in setting incentive levels and determining which efficiency measures to include in programs.

In general, the IEPR discusses the impact of codes and standards on statewide energy savings, but does not address how these may result in reduced savings attributable to utility incentive programs. Higher appliance standards raise the baseline for efficiency, making it more difficult for utility programs to show energy savings without increasing costs.

Furthermore, the IEPR does not address how energy rates influence customer participation in energy efficiency programs. LADWP's rates are significantly lower than those provided by most utilities in California, so our customers may be less likely to take energy saving actions. Therefore, LADWP may achieve lower energy savings or pay higher incentives to influence customer behavior.

There is also no discussion in the IEPR regarding the differences between Investor Owned Utilities (IOU) and POU avoided costs. Avoided costs are an important factor in determining the cost effectiveness of efficiency measures. As mentioned above, the term "cost effective" from the utility perspective is a key factor in setting incentive levels and determining which efficiency measures to include in programs. Since LADWP is a vertically integrated utility with lower avoided costs than the IOUs, some IOU efficiency programs may not be cost

effective for LADWP to operate and, therefore, achieved energy savings may be lower.

7) 12,000 Mega Watt (MW) of Distributed Generation (DG) by 2020

Page 4 of the 2012 IEPR Update states the following: "With Governor Brown's goal of 12,000MW of distributed generation by 2020, distribution planning needs to be modernized and made more transparent." As we have commented before, LADWP is currently facing several issues in considering Governor Brown's goal of implementing significantly large amounts of DG in the Los Angeles City and County area. Excess amounts of DG (i.e. during low-load conditions) may result in problems controlling and operating the distribution and transmission systems.

The amount of customer DG installed in the future will depend on several factors, including power system reliability, cost of technologies, and the harmonization of the existing and future mandates and programs (RPS, Greenhouse Gas reduction, energy efficiency, demand response, etc.).

Because LADWP is self-reliant in terms of resources, it is very important to LADWP that utilities be provided with the flexibility to find the optimum amount of DG to integrate based on the value it provided to the customers and the utilities, and the consideration of all economic and environmental options available to them. Otherwise, it will potentially strand existing generation assets and negatively impact the local economy.

Currently LADWP has approximately 55MW of installed solar DG from the Solar Incentive Program and is planning to add 150MW of DG from the FiT Program and 100MW of solar DG from the Utility Built projects.

LADWP is interested in the emerging technologies, storage, and technical standards development to enable more DG deployments, but does not feel that the overall DG goal for Los Angeles City and County are appropriate at this time.

8) Once-Through Cooling

On page 38, the IEPR states that "as a result of extensive multiagency coordination in the development by the SWRCB of the OTC policy, it is unlikely that reliability will be threatened when infrastructure needed to enable OTC compliance falls behind schedule. If there is not enough replacement capacity on-line to allow for the timely retirement of OTC plants in Southern California, the energy agencies can petition the SWRCB to allow existing units to operate beyond their current compliance deadlines until replacement infrastructure is operational".

The State Water Resource Control Board (SWRCB) OTC policy only allows LADWP to apply for an extension, which requires a Board hearing to operate its units to maintain the reliability of the its electric system in the short term. It does not address long term extensions. However, LADWP has reached an agreement with the SWRCB for an extended schedule to the year 2029, in order to maintain reliability of its grid system. The LADWP Grid Reliability Reports submitted to the SWRCB have shown that in LADWP service territory, the OTC units are required for voltage support and stability to the local system.

Therefore, the sequencing of the repowering activity is critical to the reliability of LADWP's Power System and is addressed in our 2011 and 2012 Integrated Resource Plan. LADWP OTC's program is to completely eliminate OTC by 2029.

9) Alternative Fueled Vehicles

LADWP agrees with the IEPR proposed policy on page 55 of strengthening the links between transportation and clean electrification, and it is actively promoting the benefits of Electric Vehicles (EV) through public outreach, collaborating with various agencies and groups such as the EV Collaborative, and providing discounted EV electric rates. Furthermore, LADWP is strongly supporting EV charging infrastructure by working with other City departments for expedited permitting, through installation of new and upgraded public chargers, and with its "Charge-Up LA!" rebate for installation of residential chargers.

As we have previously stated, the Department of Energy (DOE) and CEC funding will be expecting for some of the major funding for EV chargers, LADWP would encourage continued State support and incentives for the vehicles and charging infrastructure. We would also encourage continued "soft" incentives, such as High-Occupancy Vehicle (HOV) lane access for Zero-Emissions Vehicles (ZEV), preferred parking, workplace charging incentives, and other means to encourage adoption of these types of vehicles.

As we have stated before, LADWP has gone beyond the electric vehicle charging station concept and has also pursued the electrification of ships, which is commonly referred to as Alternative Maritime Power (AMP). The same methodology that applies to metering electric vehicles applies to ships that would

otherwise burn fossil fuels while docked in the Port of Los Angeles. Just like electric vehicles, LADWP encourages the use of AMP through discounted electric rates. The LADWP would suggest that the AMP be addressed by the CEC and the IEPR, as it is a progressive step forward towards the overall electrification of California's transportation systems.

10)Grid Integration and Transmission Planning Recommendations

In regard to "Grid Integration and Transmission Planning recommendations stated on pages 58 to 60, LADWP believes that the CEC should have a process to monitor the status of the transmission development plans that are established by regional planning groups and Western Electricity Coordinating Council Transmission Expansion Planning Policy Committee (TEPPC).

We also encourage that the CEC consult with the California ISO and others to establish flexible resource adequacy capacity requirements that allow all technologies to participate in integration services to fully leverage Demand Response, energy storage, and other distributed technologies that provide renewable integration services.

11) Research and Development

LADWP agrees with the idea of a publicly vetted process for research proposal as it is stated on page 74 of the IEPR, and would like to extend that part of this publicly vetted process to include a design competition that encourages local utilities to partner with private industry to develop research proposals towards innovative renewable technology. This would showcase the variety of

areas that are of interest to the different utilities. Each team would be required to present their research proposals among their peers and the CEC. Then, the CEC would make the final decision on which research proposal it would approve for funding. This will initiate competition and encourage creativity among utilities.

12) Workforce Training

The IEPR, on page 69, recommends to better align workforce training to needs. LADWP fully supports this policy. Furthermore, LADWP believes that greater emphasis on creating pathways to utility jobs that require similar training and skill sets is needed. Utilities are facing severe shortages of skilled electrical workers and the CEC's efforts in education and training for Clean Energy Jobs should be broadened to include electrical service crafts, which generally provide higher pay and long-term employment. Due to the State's mandate of 33 percent in clean energy sales, it makes sense to leverage clean energy job training and education efforts at the State level to utilities' labor needs. LADWP believes that greater emphasis on creating pathways to utility jobs that require similar training and skill sets is needed.

13)Renewable Energy Development Zones and Disaggregation of Load Forecasts Down to the Distribution Level

Development zones and aggregation forecasts would be especially burdensome on LADWP's human resources, and would provide very limited benefit to LADWP and its ratepayers. This might be beneficial for renewable developers to some extent, but the major impediment to encouraging more renewables is less from the developer side and more from the demand side

(ratepayers and utilities). For example, our incentive funding for our solar commercial program was "sold out" within 17-minutes from the program year opening. The point is that there is no shortage of developers. The LADWP launched a 10MW FiT Demonstration Project and is preparing to launch the full 150MW program. To date, the need for Development Zones has not been a priority from developers.

14) Conclusion

As stated above, LADWP appreciates the opportunity to submit these comments and looks forward to cooperating with the Energy Commission in this proceeding.

Dated: December 3, 2012 Respectfully submitted,

By: _____

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