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BEFORE THE CALIFORNIA ENERGY COMMISSION

In the Matter of:)
 Preparation of the)
2011 Integrated Energy Policy Report)

Docket No. 11-IEP-1A

**COMMENTS FROM THE LOS ANGELES DEPARTMENT OF WATER AND
 POWER TO THE CALIFORNIA ENERGY COMMISSION'S DRAFT 2011
 INTEGRATED ENERGY POLICY REPORT**

December 23, 2011

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Pursuant to the procedures established by the California Energy Commission (Energy Commission, or CEC) by written notice issued on December 5, 2011, the Los Angeles Department of Water and Power (LADWP) respectfully submits these comments on the Energy Commission’s draft 2011 Integrated Energy Policy Report (IEPR).

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

The year 2020 is presenting utilities across the state, but particularly LADWP, with a deadline to meet several mandates simultaneously. Over the next 9 years, LADWP will be making significant investments to eliminate Once-Through Cooling (OTC) for in-basin coastal generating units, replace base-load coal resources, comply with Cap-and-

Trade regulations under Assembly Bill (AB) 32, enhance Energy Efficiency offerings to the customers, offer a Feed-in-Tariff (FiT) program, and increase its renewable portfolio standard to at least 33%. Each mandate is an extraordinary challenge in and of itself, and imposing them all simultaneously is a monumental undertaking. In order to minimize the cost impacts and retain the reliability of the power grid, LADWP will need to carefully and efficiently integrate the sequence of these complex activities.

The LADWP commends CEC staff for developing this comprehensive IEPR report on California's priority energy issues and appreciates this opportunity to comment on this draft IEPR document. In these comments, LADWP notes certain activities that will make the IEPR more complete, and also reinstates certain issues that need to be resolved by the CEC and the IEPR. LADWP supports the comments filed concurrently by the California Municipal Utilities Association (CMUA).

LADWP's comments are not intended to address all issues covered by the draft IEPR.

1) POU requirement for Public Engagement

We would like to note and emphasize that Publicly Owned Electric Utilities (POUs) are devoted to community engagement in important energy procurement decisions. It is the customers that ultimately pay for the LADWP programs mentioned in this document. For example, in developing the LADWP 2010 Integrated Resource Plan (IRP), the LADWP held numerous community and neighborhood meetings to gather input on the timing and the mix of these important renewable resource activities and coal replacement options.

The LADWP also notes that increasing rates tariffs to address many of the policies listed above is complex and difficult, with the LADWP Board of Commissioners, the Los Angeles City Council, and Mayor approving such rate changes. That is the reason why the POU governing bodies need to have the discretion and ability to make important policy decisions on cost impacts to the customers.

2) CEC Certification of RPS Projects

Under the revised state Renewable Portfolio Standard (RPS) program, the CEC is required to certify POU projects as “RPS Eligible”¹ if it deems them to meet the definition of a “renewable electrical generating facility” as defined in Section 25741 of the Public Resources Code (PRC), and satisfies the supplemental criteria as set forth in Section 399.12 (e). The CEC verifies project compliance through the RPS Eligibility Guidebook (Guidebook), which is currently being revised to incorporate those changes as directed by Senate Bill (SB) 2 (1X). 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 issue is especially evident as the CEC proposes to make revisions to the eligibility of pipeline biomethane.

This outstanding issue hinders entities’ ability to confidently proceed with certain procurement activity. 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.

3) CEC’s Delay in Adopting RPS Regulations Over POU

¹ Public Utilities Code §399.25 (a). All code sections references are to the Public Utilities Code, unless otherwise specified.

SB 2 (1X) also requires the CEC to “adopt regulations specifying procedures for enforcement of [SB 2 (1X)]”² by July 1, 2011. The CEC announced at the June 17, 2011 workshop³ that it would not have regulations in-place until June 2012. This delay had ramifications on the RPS program. Currently, POU’s are operating under the first compliance period without certainty that their programs conform to the CEC’s pending regulations. As required by Section 399.30(e), POU governing boards have or are in the process of adopting programs for the enforcement of SB 2 (1X) without guidance from the CEC as to whether their programs are in alignment with SB 2 (1X). Again, the CEC’s delay in adopting regulations over POU’s is a factor potentially hindering progress in the RPS implementation and should be addressed by the CEC and the draft IEPR.

4) Energy Efficiency Potential and Targets

The LADWP has a concern with the statement made on pages 4-5 of the draft IEPR: *“the publicly owned utilities achieved 74 percent of their 2010 energy savings target set in 2007. The decline in the 2010 numbers, however, is largely due to the completion of a large lighting program at Los Angeles Department of Water and Power.”* This statement is true; however, the net energy savings achieved in 2009 set an LADWP record, so some decline should be expected. As stated on page 5, the annual decline in energy savings over the past few years is due primarily to the completion of a large contracted lighting program. The lack of follow-up from this statement can mislead readers into assuming that the LADWP is doing nothing to achieve additional energy savings from this source, which is inaccurate. The LADWP is currently evaluating an

² §399.30(n)

³California RPS for Publicly Owned Electric Utilities: Energy Commission Regulations Slide 9. June 17, 2011. Presentation slides are available at: http://www.energy.ca.gov/portfolio/documents/2011-06-17_workshop/presentations/2011-06-17_RPS%20regs_workshop_Gould_unified_presentation.pdf

updated version of the lighting program, which will be targeted to capture additional energy savings from the small business market that are historically difficult to reach with efficiency programs.

The CEC also notes on page 5 that the “*IOUs did not have revised potential estimates and goals available, Sacramento Municipal Utility District (SMUD) did not have a revised potential study, and LADWP did not have revised savings potential or targets.*” A plain reading of this text gives the impression that the major utilities (in particular, LADWP) have made no effort in developing revised savings potential or targets. This is, in fact, not accurate either. Efforts have been under way, and the Los Angeles Board of Water and Power Commissioners have approved energy savings targets at their meeting on December 6, 2011.

The CEC also notes on page 55 that “*for most utilities, market savings potentials were calculated using a 50 percent customer measure incentive level. Additional modeling indicated that when a 75 percent incentive level is used, nearly all utilities meet the 10 percent consumption reduction goal. This indicates that the publicly owned utilities meet the consumption reduction goal of AB 2021 but may be required a higher level of program effort and budget than most of them factored into their targets.*”

(Emphasis added). The issue of cost effectiveness, from LADWP’s perspective, is a key factor in setting incentive levels and determining which efficiency measures to include in programs. Although modeling indicates that a 75 percent incentive level meets the 10 percent consumption reduction goal, increasing incentive levels to the 75 percent may not be cost effective for all utilities. Also, the meaning of “*measure incentive level*” is

unclear. This phrase can refer to the installation cost of the customer project or to the incremental cost of moving from standard to high efficiency equipment.

In general, the draft IEPR report 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. That being said, LADWP continues to support incremental code and standard amendments to increase efficient usage of electricity.

Furthermore, the draft IEPR report 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 draft IEPR of 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.

5) 12,000 Megawatts (MWs) of Distributed Generation (DG) by 2020

Page 28 of the draft IEPR states the following: *To support these RPS targets, Governor Brown's Clean Energy Jobs Plan calls for adding 20,000 MW of renewable capacity by 2020, including 8,000 MW of large-scale wind, solar and geothermal as well as 12,000 MW of localized generation close to consumer loads and transmission and distribution lines.* According to Table 3 on page 31, approximately 4,000 MW of the total DG goal would be allocated to the Los Angeles City and County.

The LADWP is currently facing several issues in considering the 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 (GHG) reduction, energy efficiency, demand response, etc.).

The LADWP also considers the extent of the need for renewable distributed generation. LADWP has a peak load of approximately 6,100 MW and a generating capacity of approximately 7,266 MW; LADWP is self-reliant in terms of resources. Therefore, 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 45 MW of installed solar DG from the Solar Incentive Program and is planning to add 150MW of DG from the Feed-in Tariff Program and 100MW of solar DG from the Utility Built projects.

The LADWP is interested in the emerging technologies and technical standards development to enable more DG deployments, but questions some of the purported benefits in large quantities of DG and is challenged by the system integration issues.

6) Once-Through Cooling

The LADWP has initiated the elimination of Once-thru-Cooling (OTC) with the groundbreaking of the 600 MWs of new Combustion Turbines at Haynes Generating Stations. These units will be operational in 2013. In addition, LADWP is designing and developing the specifications for repowering Scattergood Unit 3 by the end of 2015. Once these projects are completed, LADWP's overall cooling water requirements will be reduced by 56%, leaving only 6 units left to repower. LADWP has prepared in their 2011 Integrated Resource Plan (IRP) an implementation schedule for the remaining six units.

The OTC Grid Reliability Reports 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. LADWP believes the dates negotiated as adopted on July 19, 2011 by the State Board, are its compliance dates, and only if these dates impact reliability can they be renegotiated.

7) Alternative Fueled Vehicles

The LADWP is actively promoting the benefits of Electric Vehicles (EV) through its public outreach, collaboration with various agencies and groups such as the EV

Collaborative, and discounted EV electric rates. As stated on page 115, “*California now has the largest networks of electric vehicle charging systems and hydrogen fueling stations in the country.*” LADWP is aggressively supporting EV charging infrastructure by working with other City Departments for expedited permitting, installation of new and upgraded public chargers, and through its “Charge-Up LA!” rebate for installation of residential chargers.

As the Department of Energy (DOE) and CEC funding expires in the next few months for some of the EV chargers, LADWP will seek extensions for State support and incentives for the vehicles and charging infrastructure. The IEPR should encourage continued “soft” incentives such as High-Occupancy Vehicle (HOV) lane access for Zero-Emissions Vehicles (ZEV), preferred parking, work place charging incentives, and other means to promote adoption of these vehicles.

The IEPR should expand the support for electrification beyond EV technology. LADWP is implementing the electric vehicle charging station concept and continues to pursue the electrification of ships (commonly referred to as Alternative Maritime Power (AMP)) and other Port and Airport ground transportation vehicles. The same methodology that applies to metering electric vehicles applies to ships that would otherwise burn fossil fuels while docked in port of Los Angeles. Just like electric vehicles, LADWP encourages the use of AMP through discounted electric rates. The CEC and the IEPR, should add more emphasis towards the overall electrification of California’s transportation systems.

III. 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 23, 2011 Respectfully submitted,

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