

October 13, 2004

California Energy Commission

Re: Docket No. Docket 03-IEP-01, 02-REN-1038, 03-RPS-1078, and 04-DIST-GEN-1

Docket Unit, MS-4

1516 Ninth Street

Sacramento, CA 95814-5504

To whom it may concern:

Enclosed herewith are comments submitted in response to the CEC 2004 Update on the Integrated Energy Policy Report released in September 2004. These comments were also submitted electronically at docket@energy.state.ca.us on October 13, 2004.

If any additional attention is required concerning this matter, please contact Mr. Walter Hall at (213) 367-0308.

Sincerely,

Randy S. Howard
Executive Assistant to the General Manager-
Power System

California Energy Resources
Conservation and Development Commission

In the Matter of:) Docket 03-IEP-01, 02-REN-1038,
Informational Proceeding and) 03-RPS-1078, and 04-DIST-GEN -1
Preparation of the 2004)
Integrated, Energy Policy) Committee Draft Report
Report Update)

Comments of the Los Angeles Department of Water and Power
on the Committee Draft Report
September 2004

The Los Angeles Department of Water and Power (LADWP) welcomes this opportunity to provide comments concerning matters discussed in the draft report.

LADWP, pursuant to the Los Angeles City Charter, willingly bears its obligation to serve electricity to the residents and businesses of the City. Our lights have remained steady, our rates have been stable, we have planned for the future while at the same time reducing the impact that our production has on the environment. The Committee Draft Report errs when it projects CAISO shortcomings and problems onto other control areas in California, especially LADWP's. The Report also errs in attempting to implement a one-size-fits-all accelerated renewable program on public power since it fails to adequately acknowledge the unique circumstances that public power utilities find themselves in.

With respect to aging power plants:

As our previous comments filed with the Commission demonstrated, repowering of LADWP's aging power plants are part of our comprehensive integrated resource plan. The Commission has rightly recognized that if there are reliability repercussions from the many aging plants in California, they are not associated with those owned by the public power utilities. We have no recommendations or changes to make with respect to these matters other than to incorporate comments previously made to Commission staff in their proceedings, especially those that stress the inadequate attention paid in the Report to the value of repowering existing sites, both in reliability and economic terms.

With respect to transmission system concerns:

We would like to highlight four areas of significant concern in this section and provide recommendations for changes to the Committee Draft report.

1. Our first concern is the Report's tendency to fuzzy the distinction between the CAISO's system and that of LADWP. LADWP has invested and built transmission to meet both our present and future load growth. The 1200 MW Mead-Adelanto 500-kV line (January 1996 in-service date with participants: LADWP, Anaheim, Azusa, Banning, Burbank, Colton, Glendale, Pasadena, Riverside, Vernon and Western) was the last major transmission addition built to serve load in California and it was, as you know, a public power effort. If the Committee is concerned that California systematically under invests in transmission, it needs to be pointed out that such a concern does not apply to public power. Our clear obligations to serve allow us to plan and build for our needs and to receive favorable reception to our bonding issuances. On the other hand, the California ISO's problems with insufficient transmission infrastructure stems chiefly from two factors, one legislative and one regulatory:

- AB1890's relieving the state's IOUs of their obligation to serve, and
- Federal policy makers misguided decision to allow generators to interconnect wherever they please.

This second factor is magnified in the case of the CAISO because of its obligation to accept schedules from any and all generators connected to its system.

LADWP makes its unused transmission capacity available to others through its participation in the wesTTrans OASIS and is working with the CAISO, SMUD, IID and the Governor's office to further coordinate resources and otherwise develop planning and operational synergies.

2. The Committee Draft Report contains comments regarding the split of transmission in California between the state's IOUs and other entities. In one paragraph "the transmission systems of the state's IOUs, ... account for 75-80 percent of the transmission system" while the following paragraph speaks of the "30 percent of the transmission grid not subject to the CA ISO process."

Admittedly there are different ways to measure an entity's transmission assets, but if comparisons are to be made, then consistency of standards is called for.

The Report also incorrectly states that "the transmission systems of SCE and LADWP are only weakly interconnected at two locations." We have read the draft staff report on transmission planning matters and can find no additional information regarding these alleged weaknesses but can recall, during the Garamendi Report proceedings of over a decade ago, a Commission consultant discovering this "weakness" and making recommendations for upgrading these interconnections. The Report is apparently dusting off a concern created by a consultant based on insufficient knowledge of LADWP's and SCE's systems and which was put to sleep long ago. The systems, in fact, are strongly tied together

and thousands of megawatts, on an hourly basis, are regularly interchanged over these ties. In fact the strong ties between LADWP and SCE are being made even stronger. LADWP is currently installing a third bus-tie transformer at our Sylmar Switching Station that will increase the interchange capability there from 1200 MW to 1600 MW.

There is also an unfortunate adoption of the term Los Angeles Basin that could confuse weaknesses on the CAISO/SCE system with that of LADWP. Unless you modernize an old saying to read “All roads lead to Los Angeles.”, there is really no basis to associate weaknesses on the SCE system south of its high desert Lugo substation with the Los Angeles basin.

We would recommend that the Report be adequately annotated to support factual assertions or otherwise provide the appropriate backup material.

3. The Report also incorrectly states that CAISO reliability concerns could be reduced by a greater ability to rely upon LADWP’s resources in a system emergency. This assertion implies that LADWP has set its reliability standards too high and that we have a cushion that others can comfort themselves with. We don’t believe this is true. The report also asserts that use of pumped-storage facilities, including LADWP’s Castaic facility, could be better managed. In both of these matters, LADWP has set its reliability standards and planned its system to serve its customers at our adopted standards, which are consistent with the reliability criteria of the WECC. We have pointed out in our previous comments that studies done by Commission staff have not been subject to the review necessary to validate them and that LADWP has a long and positive track record helping our fellow Californians to the maximum extent practicable and stand ready to continue this invaluable assistance. This help, however, needs to be consistent with LADWP’s own obligation to serve, prudent utility practice and fiscal responsibility. Unless the Report appropriately backs up these statements, they should be deleted and recommendations made based on them reconsidered.

4. LADWP has been planning transmission with other utilities for over fifty years and we will continue to do so. We have experienced the benefits of joint and coordinated planning where generation and transmission are planned and sited, not in a vacuum, but in consideration of how they will work together. The CAISO has the unenviable chore of trying to plan for merchant plants, known and unknown, and merchant needs, also both known and unknown. We believe the planning approach that the Report is apparently advocating will lead to suboptimal, not optimal planning. To reiterate a point already made, allowing generators to interconnect at whatever point on the grid they should choose, compounded by the CAISO’s obligation to accept all schedules, results in planning and operational uncertainty. Getting parties involved that do not have in-depth system knowledge will only further compound the difficulties faced by the CAISO and other transmission planners. And again we repeat ourselves,

the transmission planning problem that exists is caused primarily by the CAISO business model and its tariff-based governance. LADWP, and others, will not enter into joint projects with the CAISO until cost recovery of expenses incurred in project construction and operations is assured, rights to use the project are clearly resolved and, once agreed to, that they remain in place, i.e., agreements must have a high degree of durability. Said another way, the resolution of the conflicts arising from a business model based on bilateral contracts, the prevailing one in the west, with that of a business model governed according to a FERC-approved tariff, needs to be resolved.

With respect to renewable resources:

The Commission's initiative that has resulted in creation of the Western Renewable Energy Generation Information System needs to be especially recognized for the significant contribution it will have in tracking renewable energy generation and accounting for Renewable Energy Credits.

However, the Report fails adequately to acknowledge the unique circumstances that public power utilities find themselves in. To repeat some of those concerns previously stressed to the Commission:

Public power utilities in California find themselves in a situation different than those of the IOUs:

- They did not divest of generation resources,
- They are vertically-integrated,
- Many have planned resources to meet both present and future loads, and
- Their service territories are concentrated and geographically unique.

In August of 2000, LADWP adopted its Integrated Resource Plan (IRP). Under our currently approved IRP, LADWP has already moved forward with a number of projects that will produce renewable energy, reduce emissions, and increase efficiency, including:

- 120 MW Pine Tree Wind project expected to be in service by 2006;
- \$150 million program to install rooftop solar photovoltaic systems throughout Los Angeles;
- Modernization of the 17 MW San Francisquito Canyon hydroelectric facility;
- Installation of 50 microturbines at Lopez Canyon Landfill to convert methane gas into energy;
- An agreement to purchase 40 MW of power annually from a Bioconverter green waste digestion facility;
- Installed Selective Catalytic Reduction devices on our large in-basin units;
- Committed to repowering projects to upgrade 10 aging in-basin generating units;

- Reduction of over 150 MW of peak load demand through conservation and energy efficiency programs since 2000;
- Installed of 280 MW of peaking units;
- Initiation of a ten year “Trees for a Green LA” program, with a goal of planting 15,000 trees per year;
- Modernization of Castaic pumped hydro power plant to increase efficiency and reliability;
- Modernization of the Sylmar converter station to improve reliability and access to hydro and other renewable energy from the Pacific Northwest;
- In partnership with the Port of Los Angeles, helped initiate the Alternative Maritime Power (AMP) Program, an effort to reduce emissions from container vessels docked in the Los Angeles Harbor by electrifying ships while in harbor in lieu of running on-board, highly-polluting, diesel engines; and
- Overall 90% NOx reduction since 1989, which is equivalent to removing 230,000 cars from the road.

Additionally, most if not all of public power entities in California have committed themselves to a renewable program. The implementation of these programs take into account their own circumstances and individual utility objectives as decided by their local regulatory bodies. LADWP is fully committed to fulfill the state goals, as envisioned by SB 1078, of increasing resource diversity, reliability, public health and environmental benefits through a Renewable Portfolio Standard plan that reaches 13 percent renewable energy by 2010, and 20 percent by 2017, while at the same time maintaining affordable and competitive rates for our customers, power system quality and reliability, and LADWP’s financial integrity.

Last month over 40 companies submitted renewable energy proposals to LADWP to fulfill its RPS commitment. These proposals cover a broad range of renewable energy resources, including wind, geothermal, solar, small hydro, landfill gas, biomass, and municipal solid waste. LADWP expects to shorten the lists of proposals by November and start awarding renewable energy contracts by February 2005.

LADWP believes that a publicly owned utility, with the approval of its local governing body, is in the best position to reflect the interest of its local constituency and the determination of the mix of goals to be met in a specific RPS. LADWP is currently developing cost recovery and financial control mechanisms that mitigate the financial impact on its retail customers, and will conduct public meetings with its customers to get input on the overall proposed plan.

Finally, LADWP believes that local flexibility and local decision-making allows public power the opportunity to meet both: (1) the overall state goals for renewables, and (2) public power objectives as determined by their local regulatory bodies, in a manner consistent with state and local interests. In light

of these comments, it behooves the Commission to recognize the differences between the state's IOUs and municipal utilities and to provide at least *some* analysis with respect to costs and availability of renewable resources within the schedule envisioned by the report. After all, the report does entertain the proposal to treat SCE differently than PG&E and SDG&E. The Commission needs to consider, based on our arguments above, that public power utilities are differently situated than are the IOUs and that, with respect to renewable energy programs, one size does not fit all.

Dated: October 13, 2004

Respectfully submitted,

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