California Energy Commission
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BEFORE THE CALIFORNIA ENERGY COMMISSION

In the Matter of:	)	
	)	Docket No. 12-IEP-1D
Combined Heat and Power	)	

COMMENTS FROM THE LOS ANGELES DEPARTMENT OF WATER AND POWER TO THE CALIFORNIA ENERGY COMMISSION'S STAFF WORKSHOP ON COMBINED HEAT AND POWER STAFF PAPER

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October 19, 2012

BEFORE THE CALIFORNIA PUBLIC UTILITIES COMMISSION

In the Matter of:	)	
	)	Docket No. 12-IEP-1D
Combined Heat and Power Staff Paper	)	

COMMENTS FROM THE LOS ANGELES DEPARTMENT OF WATER AND POWER TO THE CALIFORNIA ENERGY COMMISSION'S STAFF WORKSHOP ON COMBINED HEAT AND POWER Staff Paper

Pursuant to the procedures established by the California Energy Commission (Energy Commission, or CEC) written notice issued September 27, 2012, the Los Angeles Department of Water and Power (LADWP) respectfully submits these Comments on the Combined Heat and Power (CHP) Staff Paper.

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. Los Angeles Department of Water and Power (LADWP) is a proprietary department of the City of Los Angeles that supplies both safe and reliable water and power to Los Angeles' residents, approximately 1.4 million customers, pursuant to the Los Angeles City Charter. LADWP is a vertically integrated utility that owns generation, transmission and distribution facilities

As LADWP looks into the future, most of the issues influencing strategic and resource planning are based on the critical issues that LADWP is facing in the areas of greenhouse gas (GHG) reduction, elimination of once through cooling (OTC) of its coastal power plants, the Renewable Portfolio Standard (RPS) target mandated in

California's Renewable Energy Resource Act (also known as and referred to as SB2 (1x)), and the reliable integration of increasing amounts of renewable resources.

The LADWP's foremost priorities are to protect its ratepayers from unnecessary rate impacts and ensure the continuous reliable operation of its electric grid.

II. COMMENTS

The LADWP has a history of supporting cost effective Combined Heat and Power (CHP) within its electrical grid. The unique service territory for LADWP and economic factors for the Los Angeles Basin (LA Basin) should drive CHP Portfolio Standards or subsidies. LADWP appreciates the opportunity to provide comments in this important effort.

CHP Development Challenges

On March 9, 2012, LADWP submitted comments on the ICF International Report related to the future increase potential for CHP. In this submittal, LADWP addressed the reasons behind not supporting a mandate for a CHP Portfolio Standards. LADWP continues to disagree with the California Energy Commission staff's final report conclusion that a CHP Portfolio Standard would be a viable pathway for CHP developers to achieve the state's CHP goals. The Energy Commission staff paper acknowledges the barriers identified in our previous comments as well as the other utilities' comments in the 2012 IERP CHP workshop (Staff Paper, page 50), including:

- Cap and Trade disincentives for CHP due to the uncertainty in acquiring California Air Resource Board (ARB) allowances (new on-site);
- Need for South Coast Air Quality Management District emission credits;
- Demand charges, standby charges, and departing load charges;

- Interconnection and metering costs and building requirements;
- Natural gas risks;
- Lack of Net Energy Metering (NEM) eligibility at the state level; and
- Lack of a long-term (beyond 2015) CHP goal in the state's utilities Long-Term Procurement Plans.

LADWP continues to face the same economical and operational factors that have influenced minimal CHP development in its service territory, including:

1. Availability and price volatility of natural gas in recent years has caused uncertainty in the economic feasibility of CHP projects.
2. A record drop in the retail energy as a result of the economic downturn. LADWP estimates that retail sales won't return to 2008-09 levels until 2018-2019. A lack of new CHP development coincides with this general decrease in electrical loads.
3. Industrial customer growth in the City of Los Angeles has been on a steady decline for many years.
4. LADWP's service territory includes portions of the South Coast Air Basin (SCAB) where new source of emissions from combustion generation will require Emission Reduction Credits (ERCs). It's unknown 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 SCAB territory.

LADWP Doesn't Support A Mandate For A CHP Portfolio Standard

The CEC Staff Paper acknowledges the difficulty of reaching the Governor's goal and the fact that RPS has shifted the focus from CHP as a valued resource to grid operators (Staff Paper, page 3). LADWP agrees with the CEC Staff Paper that in the long-term, the CEC and CPUC should revisit and update the CHP technical assessments, specifically performing analysis of CHP potential in specific POU service territories, and determining the effect of cap-and–trade on CHP before its full implementation in 2015. This analysis should be performed before a CHP Portfolio Standard is considered; currently it is premature to propose a CHP portfolio standard.

As stated in previous comments, 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. To encourage customer-developed CHP, LADWP currently offers the Standard Energy Credit (SEC), which is applicable to those customers who own or operate electrical generating facilities that are interconnected with the LADWP and under an applicable customer generation service rate.

CHP Technology and Untapping Future CHP Opportunities

LADWP agrees with the CEC staff paper assessment that the "old way of thinking" on how to design and operate CHP systems needs to change, and new creative business models that recognize contribution of CHP resources in improving stability and system reliability must be developed to create economic incentives for CHP projects (Staff Paper, page 49). Therefore, CHP technology must be improved and should be driven by project economics but should not require subsidies. By economic

necessity, utilities must build and maintain the distribution infrastructure, and consider departing load charges.

As stated in previous comments, LADWP believes that CHP shouldn't be subsidized by utilities because:

1. CHP excess power tends to be provided during the off-peak loading period, when it is least needed.
2. CHP excess power is competing and not assisting with RPS integration into the power system grid.
3. CHP export power can provide the needed VAR support if it's dispatchable.
4. The current utility emission credit allocation was determined based on emission reduction forecasts that included Distributed Generation (CHP including) and there are no additional emission credits beyond those forecasted.

The LADWP Integrated Resource Plan (IRP) continue to evaluate CHP technology and the potential for its service territory and it is developing CHP target goals in its future resource mix

III. CONCLUSION

The LADWP supports cost effective and highly efficient CHP as driven by the economics in its unique service territory. LADWP doesn't support the concept of mandated CHP Portfolio Standards or subsidies to force development. Until the economic conditions improve for California, compulsory CHP implementation will create

additional mandates, and take away resources from more cost effective programs to increase energy efficiency by its customers and to reduce emissions.

Dated: October 19, 2012 Respectfully submitted,

By: _____

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