

**Senate Subcommittee on Alternative Energy 32 Oversight Hearing:
Energy Sector Compliance**

**Testimony of the Los Angeles Department of Water and Power
LeiLani Johnson Kowal
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Good afternoon Senator Kehoe and other Subcommittee Members. I am LeiLani Johnson Kowal with the Los Angeles Department of Water and Power. As the largest municipally-owned electric utility in the country, LADWP is a proprietary department of the City of Los Angeles, providing an essential public service to 1.4 million retail customers, or roughly 3.8 million residents and businesses in Los Angeles and Owens Valley. Unlike some of the other stakeholders you have heard from today, we remain vertically integrated, meaning that we own our generation, transmission & distribution resources to meet our native load. We have installed generating capacity in excess of 7,300 MW, operate over 3,600 miles of transmission lines, and as a Balancing Authority similar to California Integrated System Operator (CAISO), we control 28% of the State's transmission grid.

I appreciate the opportunity to discuss the implementation of AB 32 and related rulemaking activities. As you are aware, several important components of AB 32 are currently under development, including 1) the 1990 statewide greenhouse gas inventory that will ultimately become our end goal in 2020, 2) the mandatory reporting regulations that will track our progress as we work to achieve that end goal, and 3) the identification of additional early action measures that will help reduce emissions in the near-term before 2012 compliance begins. Other components that are equally important include discussions surrounding an emissions cap-and-trade program, the point of regulation (whether first-seller or load-based) that will best position California to achieve emission reductions, and integration with regional and federal efforts, such as the Western Climate Initiative.

Next year, efforts will shift to answering the question of how best to merge these regulatory components. Currently, there are many moving parts that must become a finely tuned machine. That regulatory machine must be simply designed, easily understood, easy to administer, and easy to comply with. It is absolutely critical that we get it right -- that the ultimate path taken leaves us with confidence that the intent of AB 32 to achieve emission reductions will be realized and that it will not be undermined by market manipulation, gaming, and unnecessary increases in consumer electricity prices. It should also work in harmony with, and not against, other important policy goals such as developing renewable energy resources, increasing energy efficiency, and minimizing environmental justice impacts.

LADWP's Commitment to Greenhouse Gas Emission Reductions

Given our geographic location and historical decisions to develop coal generation, it is no surprise that we are one of the largest sources of greenhouse gas emissions in the electric sector. The LADWP has a carbon intensity of approximately 1303 lbs/MWh (2005), while the California 1990 greenhouse gas average emissions level for the electric sector is estimated at 651 lbs/MWh. While coal makes up 47% of LADWP's generation resource mix, it accounts for three-quarters of our carbon emissions. On the other hand, we also represent one of the greatest opportunities for reducing emissions to help realize the goals of AB 32, and we are prepared and committed to meet that challenge head-on:

- We have accelerated our RPS goal from 20% in 2017 to 20% in 2010
- We have added an aggressive RPS goal of 35% by 2020
- We have and will continue to repower our in-basin natural gas power plants
- We will let contracts for imports from coal-fired power plants expire per SB 1368, and
- We will increase the use of biogas co-firing of natural gas-fired plants

In May 2007, the Mayor of Los Angeles unveiled the “GREEN LA” action plan that outlines over 50 strategies to reduce the City’s overall greenhouse gas emissions to 35% below 1990 levels by 2030. The LADWP is fully committed to working with its sister departments to achieve this local goal.

Funding Commitment (2007-08 and beyond)

For the electric sector, there are two key ways to address emissions: 1) avoid emissions through energy efficiency and demand-side management, and 2) shift the generation mix to cleaner resources. The LADWP has committed \$1.9 billion over the next five years to efforts that will result in direct emission reductions.

This year, LADWP:

- Budgeted \$181 million for our RPS, and will more than triple that to \$599 million beginning in 2009-2010
- Tripled our solar rebate program to \$30 million (from 2006-07 levels)
- Doubled our funding for energy efficiency programs to \$79 million (from 2006-07 levels), and
- Continued our commitment to energy and water conservation technologies

Greenhouse Gas Cap-and-Trade Program

AB 32’s primary goal is to reduce greenhouse gas emissions, and a cap-and-trade program should appropriately play a secondary role. The emission allowance allocation methodology should not be punitive and should not result in significant cost impacts to our customers, particularly those in low-income and disadvantaged communities. An allocation should not result in a transfer of wealth resulting from an over-allocation to entities in relation to their AB 32 compliance burden, and under-allocation to entities that have the greatest contributions to make AB 32 a successful program.

LADWP supports an administrative allocation based on current generation emissions combined with a declining cap that achieves 1990 emissions levels by 2020. We support a greater rate of reductions for those entities, like LADWP, that have higher GHG emissions, and a lower rate of reductions for those that have lower GHG emissions. Ratepayer funds are best spent on direct emission reductions like those I mentioned earlier, rather than diverted to other utilities or to an auction where they may be used for purposes other than reducing GHG emissions, or where speculators may gain market control and force allowances prices to skyrocket.

In closing, we need to keep our eye on the end goal – and that is emission reductions. Be cautious moving forward. AB 32 will be a success if it is simply designed, easily understood, easy to administer, and easy to comply with. Focusing on emissions reductions and giving cap-and-trade the appropriate role as a secondary feature of AB 32 will ensure that success.