

LOS ANGELES DEPARTMENT OF WATER & POWER: CLEAN ENERGY PROGRAMS & PROGRESS

California is leading the nation in establishing and reaching goals for a clean energy portfolio. Many utilities are at or near procuring 20% of electric generation from renewable resources; while the national per capita energy use has nearly doubled over the last 30 years, California's use generally remained level during that time due to myriad energy efficiency programs; and we have installed more than one million megawatts (MW) of rooftop solar photovoltaic (PV) capacity across the state making us the leader in the nation for grid-connected PV cumulative installed capacity. We have nearly divested our electric generation portfolio from coal-fired generation which now comprises just 7.7% of retail electric sales statewide.

At the same time we have much further to go and will need to rely on publicly and privately owned electric utilities to meet our goals. Although the state's investor-owned utilities (IOUs) account for approximately 25% of retail electric sales in the state, there are more than 40 separate energy-providing municipal or publicly owned utilities (POUs) throughout California which share 25% of the load. As a consequence the success of the POU's in implementing our clean energy goals will be integral to California's overall success in achieving those objectives.

The Los Angeles Department of Water and Power (DWP) which is the largest POU in the state with approximately 1.5 million customer connections and 10% of retail electric sales will play a critical role. Its success will have a significant impact on achieving our clean energy goals. The purpose of today's hearing is to review the DWP's implementation and progress of those programs.

RENEWABLES

Renewables Portfolio Standard

Established in 2002 under Senate Bill 1078, accelerated in 2006 under Senate Bill 107 and expanded in 2011 under Senate Bill 2, California's Renewables Portfolio Standard (RPS) is one of the most ambitious renewable energy standards in the country. The RPS program requires IOUs, POU's, electric service providers, and community choice aggregators (collectively referred to as retail sellers) to increase procurement from eligible renewable energy resources to 33% of total procurement by 2020. Incremental targets for all retail sellers are also established – 20 % by 2013; 25% by 2016.

Until the passage of SB 2, POU's had been required under law to "be responsible for implementing and enforcing a renewables portfolio standard that recognizes the intent of the Legislature to encourage renewable resources, while taking into consideration the effect of the standard on rates, reliability, and financial resources and the goal of environmental improvement." Great latitude was left to the POU's for design and implementation of local RPS programs but many lacked clear commitment to reaching the RPS goals. The state has historically tried to respect the autonomy of the POU's, and oversight by their voters, and has generally refrained from instituting enforcement protocols related to electric programs. Only with the passage of SB 2 will there be penalties if a POU fails to meet the RPS goals. The role of the California Energy Commission (CEC) has been increased by directing it to adopt regulations specifying procedures for enforcement of the RPS for POU's. The CEC will certify and verify eligible renewable energy resources procured by POU's and monitor their compliance with the RPS. If a POU does not meet its RPS goals, the CEC will refer the POU to the Air Resources Board, which may impose penalties.

The DWP Board of Commissioners (Board) responded to the requirements with SB 2 by adopting a resolution on December 6th to align its RPS goals with the procurement requirements of SB 2. This resolution relaxes the prior RPS goal adopted by the Board in 2008 of 35% and does not reflect the Mayor's goal of 40% called for in his 2009 inaugural. The resolution notes that the DWP "may elect to procure additional electricity products from eligible renewable resources" above the targets called for by SB 2 and the DWP's resolution.

Progress

Mayor Villaraigosa announced in January 2011 that the DWP had met a goal he called for in 2005 of securing 20% of its power from renewable sources, including wind and solar power, by 2010. The mix of resources was heavily based on wind (41%) and small hydro (35%) with the remainder from biogas, geothermal and solar. Whether this portfolio is sustainable and a solid base upon which the utility can meet its future obligations is not known at this time. The utility secured 15% of the renewable power from short-term purchase contracts of less than 18 months duration meaning that those same purchases will not necessarily be available going forward including all or part of 2011. In fact, although the utility hit a high of 24% generation from renewables in May of this year, unreconciled data for September show renewable deliveries had dropped to 15.6%. It should be noted that the requirements of SB 2 are that the POU procure an *average* of 20% in 2011, 2012, 2013 so if RPS generation falls short a few months it would not be fatal to achieving the goal. The trend is however troubling.

A letter from L.A. City Controller Wendy Greuel submitting a performance audit of the DWP's RPS program opined that DWP's achievement of the 20% goal "was likely due more to luck than to strong planning and policies."¹ The utility's electric sales were lower in 2010 due to "abnormally cool temperatures and higher than expected wind." The cool climate afforded the same "luck" on other utilities throughout the state but the more significant factor across the state

¹ Cover letter dated April 7, 2011 to L.A. City officials submitting *Performance Audit of the Renewable Portfolio Standard Program of The City of Los Angeles Department of Water and Power*, Submitted to the City of Los Angeles Office of the Controller, NorthStar Consulting Group, April 7, 2011.

has been a lagging economy which also reduced electric sales and therefore the amount of electricity required to be procured to meet the RPS goals.

Other observations presented by the audit:

- Absent a renewed focus on the procurement of renewable resources the relative position of renewables will decline in future years as existing contracts expire;
- The DWP suspended entering into new RPS contracts in 2010 until the time that they could identify sufficient resources to cover the expenses of those contracts. The suspension appears to remain in effect and puts “their ability to achieve future renewable goals in jeopardy;”²
- Utility-owned generation provides price stability but that percentage went down from 79% in 2004-05 to 23% in 2009-10; and
- Delays in the procurement of long-term contracts now will force the DWP to use short-term purchases later to meet the RPS goals. “With other utilities in the same situation, it is very likely that the cost of purchasing power on the open market will rise dramatically as 2020 draws closer.

Costs

The Controller also evaluated DWP’s Financial Planning and Reporting and Cost Recovery processes. Most significantly the Controller found no financial plan in support of the operation plans to achieve the RPS goals. The Controller appears to have relied on a 2007 Integrated Resource Plan (IRP) which provides a framework on how the utility plans to meet the long-term energy needs of its ratepayers. In 2010 the DWP developed a new IRP but there doesn’t appear to be a financial plan in that document either. The IRP says that RPS procurement will strive to mitigate the financial impact on retail customers and notes that the cost of renewables can be higher than natural gas and coal but there is no plan or analysis of RPS costs.

It is noteworthy however that the Controller opined that the “costs of renewables can be more expensive than traditional generation sources such as coal and nuclear.” This is true if one is comparing RPS costs today to existing coal and nuclear resources in DWP’s portfolio³ and that of other utilities in California. That is however misleading.

The DWP’s portfolio includes 40% coal generation of which they are attempting to divest themselves. These coal purchases result in an extraordinarily low energy cost to ratepayers. New coal contracts are no longer permitted in the State of California which means that new procurement must come from ultra-clean natural gas power plants or renewables. The costs of power from existing nuclear plants are low; given their age the plants have long ago covered initial costs of construction. However, there has not been a nuclear power plant sited in the United States in more than 30 years and the likelihood of siting a new nuclear plant in California or anywhere else is remote. Interestingly, the costs of electricity from a new nuclear power plant are now estimated to exceed that of renewables. Consequently, the appropriate cost comparison to determine whether RPS costs are higher than other new generation sources should be to natural gas procurement which is the viable alternative to renewables for generation in

² *Id.*

³ *Id.* at p. 15. The Controller found a blended commodity energy price to the utility of \$0.045 per kilowatt hour.

California. Utilities around the state are now reporting to this committee that bids received for utility-scale renewable generation are falling below the costs of a new natural gas plant.

There can be additional costs associated with renewables that would not be reflected by merely comparing the costs of contracts for natural gas plant with renewables. Those costs vary depending on the distance of the generation from the load being served (e.g. transmission costs) and the need to firm and shape intermittent generation sources such as wind and solar.

DWP has reported that its revenue requirements for the RPS have climbed to a total of \$350 million annually in 2010. This number however lacks sufficient detail to be of use. It does not net-out the costs of non-renewable generation so that the cost figure would reflect where the RPS costs fall in relation to other electric products in the marketplace (e.g. natural gas) nor does it specify how much of these costs are related to firming, shaping and transmission of renewables that would not otherwise be incurred by the utility.

Resource Mix

As noted previously the DWP's renewable portfolio is heavily based first on wind and small hydro with short-term market purchases coming in third. Other notable elements of the portfolio include the purchase of biogas from landfills located in Texas, Tennessee, Ohio, Arkansas, Louisiana, and Kansas. Although this resource has previously been identified as eligible under the RPS by the CEC, it is now being called into question. The CPUC has recently eliminated the eligibility of out-of-state biogas from landfills from its Self Generation Incentive Program finding that actual delivery of the biogas to California could not be verified. The biogas or methane is reportedly pumped from landfills and added to interstate natural gas transmission lines. The concern is that this state cannot verify delivery to the pipeline and if it is added to the gas transmission lines by the time the biogas reaches California, it has been so diluted that and it is really nothing more than natural gas and therefore receipt cannot be verified.

Another concern about the out-of-state biogas is that it expands the use of natural gas plants to generate electricity. The use of biogas in the RPS program does contribute to greenhouse gas reduction goals (by utilizing excess landfill gas) but it also contributes to in-basin local air emissions of other particulate matter.

DWP is considering doubling its purchases of out-of-state biogas in the coming months.

DWP's portfolio is also interesting due to its reliance on out-of-state generation. More than 50% of the RPS portfolio comes from wind sources outside of California. Although some generation comes in from the west on DWP's own transmission line a large amount of wind also comes in from the north in a transmission relationship with BPA. There have been concerns raised about utilities having a disproportionate amount of out-of-state resources due to loss of control of deliveries which DWP experienced earlier this year when the BPA curtailed wind deliveries due to a high volume of hydroelectric generation. These resources also encourage the construction of hundreds of miles of transmission lines and do little to contribute to California's economy and the need to create more jobs in the state.

Program questions/observations:

- Will DWP be able to meet its RPS goals without rate increases? Are the costs of RPS projects to date greater than acquisition of other generation sources such as natural gas?
- Does DWP still have suspension in place for RPS acquisition? Did or does the suspension jeopardize federally-backed loan guarantees or any other ARRA benefits which expire on December 31st? Has DWP's suspension resulted in greater long-term costs for ratepayers?
- What benefit are investment tax credits (ITC) for renewable generation to DWP? When are next ITC deadlines? What is DWP's plan to ensure that it can take full advantage of the ITC by those deadlines?
- How are out of state biogas contracts beneficial to the local environment or economy?
- How can DWP verify delivery of these biogas resources to your natural gas plants?
- How does DWP's RPS procurement plan benefit the economy in California and the state?

Feed-In-Tariff

Feed-in-tariffs (FiT) are a simple, comprehensible, transparent mechanism for renewable generators to sell power to a utility at predefined terms and conditions, without contract negotiations. For the utilities, the FiT operates as a "must-take" contract in its portfolio. If the participant generates the power, the utility must take it.

The FiT is an alternative contracting mechanism used to procure renewable energy. California utilities generally use a competitive approach to funding renewable generation projects most typically through a public bidding process. This mechanism is thought to ensure that the lowest price is paid for generation therefore benefitting ratepayers by lowering costs. The FiT is a stark contrast to the competitive approach the historical model relies on a fixed, guaranteed price.

There has been great pressure on many utilities in the United States to utilize a FiT to meet renewable procurement goals. The interest has been spurred by countries such as Germany and Spain which have installed a great deal of solar using this payment mechanism. However, recent analysis has shown that these countries have over-extended themselves on the costs of this mechanism because the fixed price was set too high creating lucrative payments for solar developers at the expense of ratepayers and taxpayers. Consequently California has proceeded more cautiously in approaching the FiT.

In 2006 the Legislature called upon the CPUC to develop a FiT for IOU territories for renewable facilities of up to 1.5 MW in size. In 2009 the Legislature expanded the program to facilities up to 3 MW and the CPUC is currently designing the payment structure for the expanded program. The legislation also required that POUs serving 75,000 customers or more make a FiT available to solar developers in those territories. The affected POUs include: Anaheim, Glendale, Imperial, Los Angeles, Merced, Modesto, Riverside, Turlock, and Sacramento. Broad parameters for the tariff are included in the statute but the basis for the fixed rate is not mandated as it is for the IOU program. The program is capped at 750 MW statewide which is split proportionately between the three largest IOUs and the large POUs. DWP is allocated 10% totaling 75 MW.

The DWP held workshops earlier this year, developed a draft proposal for review, as well the parameters of a demonstration project. On December 6th the Board approved a resolution recommending to the City Council that an ordinance be adopted that provides the Board authority to enter into long term contracts and agreements to implement SB 32. DWP will also seek Board approval for a Demonstration FiT Program next month which is intended to test a FiT as a new business model for solar power deployment in Los Angeles and gain local market reaction to pricing required to support solar via FiT. Program elements to be tested and fine-tuned before ramping up include:

- Application process
- Project selection
- Contract terms
- Interconnection process
- Staffing assessment
- Price discovery
- Metering and payment process

Demonstration program approval, launch, and evaluation are expected in 2012 with a full 75 MW program going to the Board for approval in late 2012.

Some have criticized the delay in DWP's implementation of SB 32 but it is important to note that the CPUC has also yet to implement the expanded FiT for the IOU territories. The pricing mechanism for the PUC FiT has also not been established. The CPUC historically used a fixed price for its FiT but has instituted a renewable auction mechanism (RAM) for a FiT of up to 20 MW. This pricing mechanism relies on least cost bid rather than on a first-come first-served basis at an administratively determined price.

DWP's pilot project may use a RAM rather than a fixed price. Critics opine that a RAM undermines the FIT by creating uncertainty. Interestingly one critic said the problem with the RAM was that it would allow the DWP to take the lowest price for power – but wouldn't this be of benefit to the ratepayers who have to pay for the power?

Program questions/observations:

- What pricing mechanism for the FiT strikes the right balance between the need for localized renewable development and rates paid for the generation?
- Senator Negrete McLeod who authored the legislation requiring DWP to develop a FiT has opined that the legislation requires a fixed price mechanism. Has DWP responded to this opinion?
- What portion of DWP's RPS goals would be met with the 75 MW FiT?
- FiTs have been implemented across the state and by the CPUC. Given that does DWP need a pilot program? Are there sufficient lessons to be learned from the other programs?

Solar Incentive Program (California Solar Initiative)

In 2006 the Legislature adopted the California Solar Initiative (CSI) which called for the installation of 3,000 megawatts (MW) of new, solar-produced electricity by 2016 with expenditures of at least \$3.3 billion. The primary goal was to help build a self-sustaining solar electricity industry in ten years so that solar energy systems are a viable mainstream option for homes and commercial buildings.

Targeted megawatt and expenditure goals under the CSI, funded by electric ratepayers, are \$3.3 billion over ten years, distributed among three distinct program components:

- IOUs – \$2.167 million/1,940 MW for existing residential homes, as well as existing and new commercial, industrial, government, non-profit, and agricultural properties;
- New Solar Homes Partnership, \$400 million/360 MW, administered by the California Energy Commission and funded by the Public Goods Charge for new residential homes; and
- POUs \$784 million/700 MW.

This fall CSI installations in the territories of the IOUs have exceeded one gigawatt taking them more than half way to the program's goal for IOUs. This figure includes both installed projects and those holding reservations for incentives and in the process of being installed.

Unfortunately the POUs have not made the same progress in meeting the CSI goals. One year ago the CEC reported that collectively the POUs have met only 10% of their CSI goals. Many POUs are at or over 30% of goal. According to the CEC the DWP is expected to install 280 MW of rooftop solar by 2016 under its share of the POU goal. However, as of the fall of 2010, the CEC reported that DWP had only met 6.2% of their statewide goal for a total of 17.4 MW.

In response to the CSI legislation the DWP adopted the Solar Incentive Program (SIP). Funds for this program were depleted earlier this year and the program was suspended in April until September 2011 when the program was re-launched. As of September DWP has spent or had reservation for PV installs totaling \$198 million. An additional \$89 million remains in DWP's planned budget. The utility has also elected to finance the SIP rebates as a capital expenditure much like a power plant. This is contrary to the IOUs and other POUs like the Sacramento Municipal Utility District which assess a surcharge on ratepayers to fund the program as it goes.

As of September, 2011 DWP reported 202 residential and 3,191 commercial rooftop solar installations for a total of 3,393 installations and 26.2 MW which would be 9.4% of the statewide CSI goal.

While the state would view DWP's compliance at just over 9%, DWP reports that its total budget for the SIP is consistent with the funding allocated by SB 1 to the POUs which would bring the utility to 100% of its CSI goal. This interpretation of the CSI however is not shared outside of DWP.

The POU's manage their own programs and report annual progress to the CEC. Unlike the RPS, there is currently no penalty under state law for POU's which fail to meet the CSI goal.

Program questions/observations:

- Is it in the financial interest of ratepayers to finance the CSI/SIP incentive payments?
- DWP has uniquely interpreted SB 1 as requiring only an expenditure of \$288 to meet the CSI goal. As a consequence it has no plans to meet the 280 MW goal identified by the CEC and may fall short by more than 50%.
- There are currently no penalties on an POU for failure to meet the CSI goal. Should there be?

Greenhouse Gas Emissions Performance Standard

In 2006 the Legislature restricted electric utilities from entering into long-term contracts for ownership of baseload generation unless those resources meet an emissions performance standard (EPS) jointly established by the CEC and the CPUC (SB 1368, Perata). The resulting standard of 1,100 lbs CO₂ per megawatt-hour (MWh) effectively prohibits new coal contracts and encourages the development of power plants that meet California's growing energy needs while minimizing their emissions of greenhouse gases.

DWP has one of the largest coal portfolios in the state securing 40% of its generation from coal plants in Utah and Arizona. These contracts predate the 2006 law and expire in 2019 and 2027. SB 1368 did not require utilities to break existing contracts. DWP reports it is taking steps to divest itself of these coal obligations but its current projected resource mix in 2020 would only bring coal down to 27% of its portfolio. The DWP Integrated Resource Plan adopted in 2010 calls for DWP to divest its ownership in the Navajo Generating Station in Arizona by 2014.

ENERGY EFFICIENCY

Energy efficiency is California's top strategy for reducing energy use and meeting the state's energy needs. Every unit of energy not used, or saved, because of a more efficient appliance, building or other measure has an equivalent in a unit of fossil fuel that need not be produced, generally a kilowatt hour (kWh) of electricity or therm of natural gas. Aggregated energy efficiency savings equate to power plants that need not be built, thereby also reducing greenhouse gas and other air emissions.

POU Energy Efficiency Investment and Reporting Required, but No Enforcement – Like the IOUs, POU's are subject to current law that requires each utility, in procuring energy to serve its customers, to first acquire all available cost-effective, reliable and feasible energy efficiency. In 2006, AB 2021 (Kehoe) established a goal of reducing statewide electrical consumption through cost-effective energy efficiency measures by 10% over 10 years. The law required each POU, beginning in 2007, and every three years thereafter, to identify all potentially achievable cost-effective energy savings for the next 10-year period, establish annual targets, and annually report to CEC on its energy efficiency investments and verified savings. CEC issues an annual report

summarizing these reports and comparing POU and IOU energy efficiency performance. However, current law provides no penalty or consequence for a POU's failure to meet these requirements, and neither the CEC, nor the CPUC, has jurisdiction to enforce POU compliance.

For the IOUs, the CPUC has established a process of authorizing three-year portfolios of energy efficiency investments, about \$3.1 billion for 2010-12, which are funded through a customer rate element and, until the end of 2011, a portion of the Public Goods Charge (PGC). Current law also requires POU's to collect a PGC of at least 2.85% of sales, but authorizes them to use it for funding *any or all* of the following: energy efficiency, renewable energy, public interest energy research, and low-income programs. Thus, POU's have discretion on using PGC funds for energy efficiency, although the California Municipal Utilities Association reports that POU governing boards allocate the majority of PGC funds for energy efficiency. DWP, on the other hand, has never used its PGC to fund energy efficiency but instead has relied on revenues from an Energy Cost Adjustment Factor (ECAAF) built into rates, plus one-time funding under the American Recovery and Reinvestment Act of 2009 (ARRA). DWP currently is considering borrowing to fund energy efficiency, largely unprecedented for utility energy efficiency programs. While the CPUC established an incentive mechanism that rewards IOUs for verified savings achieved from energy efficiency investments, there is no provision in law to reward or penalize a POU for its energy efficiency investments.

DWP's Energy Savings Goals – In 2006, DWP set a goal of 10% energy savings over 10 years, in sync with the statewide goal, but it is not on track to achieve that goal because of unstable funding, among other reasons. The chart below shows annual energy savings targets and actual savings in GWh:

<u>Year</u>	<u>Target</u>	<u>Actual</u>
2006-07	58	58
2007-08	176	118
2008-09	446	270
2009-10	602	156
<u>2010-11</u>	<u>753</u>	<u>151</u>
TOTAL	2,035	602

On December 6, 2011, nearly 18 months after the deadline for POU's to submit to CEC new 10-year energy efficiency savings targets, as required by AB 2021, the Board approved a resolution adopting its 10-year savings targets with cumulative energy savings of 2,161 gigawatt hours (GWh), which is 8.5% by 2020, less than the 10% required by law for the 10-year period. More critically, DWP has chosen to ignore the initial goal required of 10% by 2016.

DWP's Unstable Investment in Energy Efficiency – Following enactment of AB 2021, DWP ramped up its energy efficiency investment with about \$14 million in 2006-07, followed by \$38 million in 2007-08. Its highest annual energy efficiency investment was \$68 million in 2008-09 with the bulk of it in a residential lighting program. The 2009-10 budget was \$44 million, but was frozen by December 2009, although it received \$8 million in ARRA funds from the City's \$37 million Energy Efficiency and Conservation Block Grant. The budget has been unstable since, with \$50 million budgeted in 2010-11, although it is unclear how much was funded. For the current year 2011-12, the \$70 million originally budgeted was reduced to \$50 million and is currently not funded, although borrowing to pay for customer rebates already committed is under consideration. The programs to achieve the recently adopted 8.6% energy savings goal through 2020 will cost about \$1.25 billion. The board approved this goal upon the condition that, until a rate increase is approved, the plan is to fund these programs with borrowed money.

Program Emphasis on Lighting – DWP's energy efficiency investments have been substantially similar to other utility programs including a mix of residential, commercial and industrial rebates and incentives for lighting, appliances, refrigeration, energy assessments, and technical assistance. Its biggest program was in 2008-09 when it distributed 2.5 million compact fluorescent light bulbs (CFLs) – two to each residential customer.

Cost-Effectiveness of DWP's Energy Efficiency Investments – One measure of energy efficiency cost-effectiveness is determining the amount of money invested for each kilowatt hour of energy that is not used because of the efficiency measure. DWP's energy efficiency programs currently cost about 4 cents per KWh saved. The cost of the programs to achieve the newly adopted 10-year savings target of 8.5% is 6 cents per KWh. SMUD, California's other large POU, has energy efficiency costs of about 2.2 cents per KWh. California POUs, on average, spend 2.5 cents per KWh. By comparison, and to support the claim that energy efficiency is the least expensive way to procure energy, renewable energy costs about 12 cents per KWh, natural gas about 10 cents per KWh, and coal about 4.5 cents per KWh.

The Total Resource Cost (TRC) is another metric for evaluating cost-effectiveness, which compares the cost of energy saved and other benefits for each dollar invested in energy efficiency measures. By this measure, DWP's TRC for 2009-10 was 3.12, in line with the POU statewide average of 3.15, according to CMUA. The IOUs' energy efficiency programs for 2009 had a TRC ratio of 1.47, continuing a downward trend from prior years' TRC above 3.0.

By any measure, the benefits of energy efficiency investments are greatly impacted by the accuracy of the verification of actual energy savings. CEC's annual AB 2021 report has repeatedly called for standardized independent verification of claimed savings by POUs, especially DWP and SMUD. CEC also has identified discrepancies between data submitted to CMUA and to the CEC. For IOUs, claimed savings are subject to heavy stakeholder review in CPUC proceedings. No similar scrutiny is applied to POU reports of savings achieved from energy efficiency investments.

Program observations/questions:

- Does DWP view energy efficiency as an integral component of resource procurement planning, or a program requirement to be emphasized as funding is available?
- Are DWP's energy efficiency programs actually resulting in lower energy bills for customers? Are they actually resulting in DWP building fewer power plants?
- DWP has no plans to meet its mandated 2016 goal to achieve 10% energy efficiency savings. Should there be consequences for this failure?
- The adopted 10-year energy savings of 8.5% is below the 10% required by AB 2021. What is the legal or other consequence of DWP setting a 10-year savings target lower than that required by law?
- Under AB 2021, the CEC set June 30, 2010, as the date POU's were to submit 10-year savings targets through 2020. DWP is just submitting its targets this month, 18 months late. What is the legal or other consequence of this failure to meet the deadline?
- What is the significance of adopting the 10-year targets if funding is uncertain?
- The staff report identifies the difference between the Base Program and the Advanced Program as the amount DWP pays for each energy efficiency measure – 50% in the Base Program and 100% in the Advanced Program. What is the foundation for concluding that paying 100% of the cost of a measure will yield the most cost-effective energy savings? Was consideration given to setting a subsidy amount for each measure based on best practices and studies of other utilities' energy efficiency programs?

WEATHERIZATION PROGRAMS FUNDED BY THE AMERICAN RECOVERY & REINVESTMENT ACT

DWP is one of about 45 contractors statewide that provide free weatherization and energy efficiency services to eligible low-income residents in a program administered by the California Department of Community Services and Development (DCSD) with \$185 million in American Recovery & Reinvestment Act (ARRA) funds. The program's objectives include increasing the energy efficiency of dwellings owned or occupied by low-income persons and reducing their total expenditures on energy. DCSD contracts with community energy service providers that deliver to eligible households weatherization and other services such as attic insulation, energy efficient refrigerators, energy efficient furnaces, weatherstripping, caulking, low-flow showerheads, water heater blankets, and door and building envelope repairs that reduce air infiltration. The ARRA funds were a huge infusion into DCSD's ongoing low-income weatherization program for which it receives about \$25 million per year in Low-Income Home Energy Assistance Program (LIHEAP) funds from the federal Department of Health and Human Services and another \$5 million per year from the Department of Energy (DOE).

The deadline for spending all ARRA weatherization funds is March 31, 2012, although DOE announced last week that it will work with states to extend this deadline three months at a time, on a case-by-case basis, depending on a state's production and expenditures and subject to DOE's final approval. Statewide program delays, including those of DWP, have been addressed in two reports of the State Auditor and in hearings of this committee held on August 1, 2011, and October 31, 2012. Funds not spent by the deadline revert to the federal government.

Although DWP was never a weatherization service provider for DCSD's ongoing program, it was awarded \$4.6 million in ARRA funds in June 2010 when some regular service providers in Los Angeles declined to participate under the stricter requirements of the ARRA program. DWP experienced substantial delays getting the program started due to the need to build the program infrastructure from the ground up. According to a July 2011 State Auditor report, DWP forecast it would weatherize 806 homes by May 31, 2011, but completed only 78 units, just 9.7% of its planned production, even though it spent \$2 million, or 43% of its award by that date. Nonetheless, DCSD increased DWP's award to \$8.5 million in June 2011.

DWP was one of six service providers that DCSD identified in September 2011 as "at risk" of not spending all ARRA funds by the 2012, deadline because of extremely low production in number of housing units weatherized. DCSD made three recommendations for DWP to improve its production – (1) use the mail for intake of eligible households rather than relying only on inefficient and costly personal visits; (2) use subcontractors to implement the program rather than relying solely on DWP staff; and (3) provide services to multi-unit dwellings (MUD) rather than only single-family homes. DCSD also observed that a "distinguishing feature of DWP's performance thus far is the extraordinary rate the City is expending on contract administration, which is largely reflective of the City's high overhead costs and inefficiencies in process and program operations," resulting in an average cost per unit of \$9,759, above the ARRA limit of \$6,500 per unit and above the statewide average of around \$2,800.

Although initially hesitant to embrace DCSD's recommendations, DWP eventually committed to using mail intake and serve MUDs, as described in a letter to DCSD dated October 12, 2011. DWP continues to implement the program with its own staff, and has created a new job classification, the Utility Pre-Craft Trainee, to train individuals with no construction experience in weatherization and basic residential construction, and has partnered with Los Angeles Trade Technical College to create a new curriculum in Weatherization.

Even with these changes, however, DWP anticipated in late October that it still could not weatherize enough units to spend its full grant and proposed to DCSD that \$1 million of its grant be reallocated to another provider. But by early December DWP rescinded that proposal and instead is projecting to expend the full grant and more by March 31, 2012 – a total of \$10,166,529. Although it completed weatherization on only 187 units in the month of November, it expects to weatherize 413 units in December, and 500 units in each of January, February and March, for a total of 2,643 units (see chart below). It claims the additional \$1.6 million to fund costs not covered by the ARRA grant will be from existing resources in the current year budget, likely a construction account. By the end of November, DWP's average cost per unit was \$2,849 for MUDs and \$4,695 for single family dwellings, both within the ARRA limit. All overhead and administrative costs are included in the cost per unit.

DCSD states that it has no plans to reallocate ARRA funds from DWP at this time but continues to monitor DWP's progress closely as an "at-risk" provider. DCSD's monthly "Dashboard" of contractor performance is attached.

Dates	MUD	Single	Total Units	ARRA Funds
June 10 – Oct 11 (actual)			543	\$4,312,532
11-Nov (actual)	113	74	187	793,000
11-Dec	280	133	413	1,422,155
11-Jan	333	167	500	1,472,865
11-Feb	333	167	500	1,212,947
11-Mar	333	167	500	953,030
			2643	\$10,166,529

The State Auditor’s letter report dated July 11, 2011, on the DCSD weatherization program is available at <http://www.bsa.ca.gov/pdfs/reports/2011-503.2.pdf>.

Program questions/observations:

- What are the potential obstacles to completing weatherization of the projected number of housing units to spend all ARRA funds by the deadline, and what is the back-up plan to prevent reallocation of funds?
- For DWP customers, is the program achieving its goal of increasing the energy efficiency of dwellings owned or occupied by low-income persons and reducing their total expenditures on energy? What is the protocol to make this determination and measure program outcomes?
- Is the decision to expend additional non-ARRA funds to continue the program based on a conclusion that the program is achieving these goals?
- If weatherization provided under this program results in greater savings in gas use than electricity for DWP customers, who get gas from another utility, is it appropriate to use DWP ratepayer funds for these weatherization services?
- Will DWP become a regular service provider in the ongoing program?
- Why has DWP been reluctant to use subcontractors to implement a program with one-time funds? Is there stable funding to sustain the new weatherization employees after the grant expires?