

**TO THE COUNCIL OF THE  
CITY OF LOS ANGELES**

**Your                    AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE**

**reports as follows:**

AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE REPORT relative to the Performance Audit of the Renewable Portfolio Standard Program of the Los Angeles Department of Water and Power (LADWP).

Recommendations for Council action:

1. NOTE and FILE the April 7, 2011 and September 6, 2011 City Controller reports relative to the Performance Audit of the Renewable Portfolio Standard Program of the LADWP.
2. REQUEST the LADWP to conduct an audit of its property holdings in regard to determining if there are holdings that are surplus to the LADWP's needs.

Fiscal Impact Statement: Not applicable.

Community Impact Statement: None submitted.

Summary:

On April 26, 2011, your Committee considered an April 7, 2011 City Controller report relative to the Performance Audit of the Renewable Portfolio Standard Program of the LADWP. According to the Controller, the audit analyzes the LADWP's efforts in managing its renewable energy portfolio (RPS) through 2010 and examined whether it is well positioned to meet future renewable energy requirements. The audit found that the LADWP has recently begun to improve the linkage between the RPS plans and its financial plans.

However, the audit also revealed serious cause for concern and, specifically, the absence of a comprehensive financial plan for the renewable program. While the LADWP's unaudited numbers state that they achieved the goal of 20% renewable energy by 2010, it appears that this was likely due more to luck than to strong planning and policies. The Controller estimate that the LADWP only achieved a 20% renewable energy portfolio due to abnormally cool temperatures and higher than expected wind at LADWP-owned wind farms. If temperatures and wind rates had been at expected levels, the LADWP would have only achieved an 18% renewable energy portfolio.

The Controller then stated that It appears that the LADWP's "plan" for achieving the 20% goal was accomplished by incurring renewable energy costs with little discussion on the impact to the ratepayers. The LADWP's percentage of renewable energy that is owned by the LADWP- and therefore the costs associated with it are more stable - went from 79% in 2004-05 to 23% in 2009-10. Additionally, the LADWP's recent actions of suspending spending on new renewables until a clear funding source could be identified put their ability to achieve future renewable goals in jeopardy.

Furthermore, what is of great concern is whether the mandated goals set for 2020 can be achieved. With looming requirements coming from the implementation of AS 32 and the Governor's Executive Order requiring 33% renewable energy by 2020, if the City does not increase our renewable portfolio to that level, we will likely face penalties from the State that could be significantly more costly than the purchase of a wind farm or solar panel. If the City chooses to delay investment in renewable energy now, it will be forced to purchase more renewable energy on the open market as the 2020 deadline draws near.

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. This would force the LADWP to increase rates exponentially. Therefore it would be wise for the LADWP to make the necessary investments now and increase its renewable energy portfolio sooner rather than later and this can only be done if the LADWP has a well defined financial plan and funding in support of its operational program to achieve the City's renewable energy goals. After further consideration and having provided an opportunity for public comment, the Committee moved to continue this matter pending a response from the LADWP.

Subsequently, on March 27, 2012, the Committee further considered this matter, along with a September 6, 2011 Controller report. According to the Controller, on July 28, 2011, the LADWP responded to the Audit findings. Specifically, the Controller noted that actions have already been taken and that these planned actions are acceptable. Based on the LADWP's response, Recommendations 2, 4, 5, 6 and 10 are considered implemented. Recommendations 3, 7, 8 and 9 appear to be in progress. However, the Controller also indicated that it will require targeted implementation dates for Recommendations 3, 7 and 8 by September 15, 2011. Finally, according to the LADWP's response, the LADWP's action plans have not yet been developed for Recommendations 1a, 1b, and 1c, since it is contingent on additional pending State legislation. Therefore, we consider these as not yet implemented.

After further consideration and having provided an opportunity for public comment, the Committee moved to note and file the 7, 2011 and September 6, 2011 City Controller reports. Additionally, the Committee moved to recommend requesting the LADWP to conduct an audit of its real estate holdings in regard to determining if there are holdings that are surplus to the LADWP's needs. This matter is now submitted to Council for its consideration.

Respectfully submitted,

AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
ZINE:	YES
ROSENDAHL:	YES
LABONGE:	YES

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**Not Official Until Council Acts**