



WENDY GREUEL  
CONTROLLER

September 6, 2011

City Council  
c/o City Clerk  
Room 395, City Hall

Dear Honorable Members of the City Council:

Attached, please find follow up correspondence for the "Performance Audit of the Renewable Portfolio Standard Program of the City of Los Angeles Department of Water and Power," released earlier this year (C.F. 11-0571).

Sincerely,

A handwritten signature in blue ink that reads "Wendy Greuel". The signature is written in a cursive, flowing style.

WENDY GREUEL  
City Controller



WENDY GREUEL  
CONTROLLER

September 1, 2011

Ronald O. Nichols, General Manager  
Department of Water and Power  
111 N. Hope Street, Room 1550  
Los Angeles, CA 90012

Dear Mr. Nichols:

**SUBJECT: EVALUATION OF FOLLOW-UP RESPONSE TO THE PERFORMANCE  
AUDIT OF THE RENEWABLE PORTFOLIO STANDARD PROGRAM**

My Audit Division received your June 28, 2011 response indicating the Department's actions planned or taken to implement the recommendations in the report entitled "Performance Audit of the Renewable Portfolio Standard Program" dated April 7, 2011.

I appreciate your Department's commitment to improve the Renewable Portfolio Standard Program (RPS), by ensuring there is a transparent and fiscally sustainable process for increasing the City's renewable energy portfolio and that it will meet the State's regulatory requirements. I acknowledge the actions already taken and find that your planned actions are acceptable. Based on your response, Recommendations 2, 4, 5, 6 and 10 are considered implemented. Recommendations 3, 7, 8 and 9 appear to be in progress. Please provide a targeted implementation date to my office for Recommendations 3, 7 and 8 by September 15, 2011.

According to your response, the Department'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. My office will review your proposed action plans related to these recommendations once they are finalized.

As part of my Office's follow-up program, we may request periodic status reports to ensure that the audit recommendations have been fully addressed.

Ronald O. Nichols  
September 1, 2011  
Page 2 of 2

If you have any questions, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,



WENDY GREUEL  
City Controller

cc: Gaye Williams, Chief of Staff, Office of the Mayor  
Matthew Karatz, Deputy Mayor, Office of the Mayor  
Thomas S. Sayles, President, Board of Water and Power Commissioners  
Ann M. Santilli, Interim Chief Financial Officer, DWP  
Miguel A. Santana, City Administrative Officer  
Gerry F. Miller, Chief Legislative Analyst  
June Lagmay, City clerk  
Farid Saffar, Director of Auditing, Office of the City Controller



ANTONIO R. VILLARAIGOSA  
Mayor

Commission  
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JONATHAN PARFREY  
BARBARA E. MOSCHOS, *Secretary*

RONALD O. NICHOLS  
*General Manager*

June 28, 2011

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The Honorable Wendy Greuel  
City Controller  
Room 300, City Hall East  
Mail Stop 183

Dear Controller Greuel:

Thank you for your report entitled "Performance Audit of the Renewable Portfolio Standard Program of the City of Los Angeles Department of Water and Power" (Department). The Department is in the process of completing the items in your Renewable Portfolio Standard (RPS) review. Below is the Department's response to your recommendations.

*Recommendation No. 1: Develop an approach to meeting future RPS targets (i.e., 33 percent by 2020) that complies with applicable regulations and addresses long-term cost recovery issues, in order to prevent deterioration in RPS performance relative to requirements. In developing its approach DWP and the City should:*

- a) *Establish specific RPS goals for 2020 to ensure certainty in planning and ensure intermediate RPS goals align with current legislative requirements.*
- b) *Evaluate the use and relative economic advantage to tradable Renewable Energy Credits (RECs) and non-certified renewables, to the extent allowed by regulation, as a means of complying with City requirements at a lower cost.*
- c) *Determine whether renewable project ownership targets are in the long-term best interest of the City and the DWP ratepayers.*

Response: Senate Bill SBx1 2 was signed into law by the governor on April 12, 2011 and lays out a tiered approach to getting to 33 percent of renewable energy by 2020. Additional legislation is in progress to address implementation difficulties, along with a regulatory rule-making process, and is expected to be completed by July 2012. Once this is complete the General Manager intends to recommend to the Board of Water and Power Commissioners (Board) and to the City Council that the Department use the

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same renewable energy targets as legally required by the State. Once a policy on the targets is approved, the Department will also draft a policy on the use of RECs for our Board and City Council to consider and a white paper on the pros and cons of owning versus buying renewable energy.

*Recommendation No. 2: Establish resource cost benchmarks to be included in resource planning decisions.*

Response: Included in the 2010 Integrated Resource Plan (2010 IRP), the Department has developed benchmarks to help facilitate resource planning decisions. The 2010 IRP benchmarks are in Appendix M.

*Recommendation No. 3: Continue recent efforts to improve the link between the RPS plan and the financial plan to support the execution of the financial plan.*

Response: As part of the 2010 IRP, the Department has developed a cross functional team of members from the Financial Services Organization and the Power System to improve the linkage between the 2010 IRP and the Financial Plan. This team will continue to be further defined so as to meet the needs of the Department in the most effective manner.

*Recommendation No. 4: Develop a integrated financial planning process linking the RPS and IRP planning process with the traditional financial planning requirements to ensure short and long-term solvency of the RPS programs.*

Response: As part of the financial planning efforts related to the 2010 rate adjustment process, an additional planning tool was developed that identifies the percentage of renewable energy in the future fiscal years based on projects planned to go into commercial service along with the traditional financial planning requirements to ensure short and long term solvency. This new planning tool along with the traditional financial planning documents will help ensure that renewable portfolio standard solvency issues can be identified and addressed as appropriate.

*Recommendation No. 5: Review the cost of its renewable energy program on a routine basis, and compare the actual costs to budget to take steps to address significant variances.*

Response: During the fiscal year 2011-2012 budget preparation process, the Department will be assessing the financial impact of funding various renewable energy projects and on a routine basis will be comparing actual costs to budgeted costs to identify and address variances.

*Recommendation No. 6: Manage its efforts to achieve the RPS goals as a comprehensive program and assign an RPS program manager with responsibility for renewable energy RPS goal achievement and associated costs.*

Response: The Department has a manager over the RPS program. Although he does not oversee the day to day activities of all employees who have helped achieve the goal for 2010, through our matrix reporting process he has the ability to redirect efforts if RPS goals are slipping. Also, he will be included in assessing the financial impact of funding various renewable energy projects on a routine basis and comparing actual costs to budgeted costs to identify and address variances.

*Recommendation No. 7: Assess the financial impact of funding its renewable energy projects, including the projected impact on the ECAF balance or other rate mechanism, as part of its renewable project development and approval process.*

Response: The Department is developing a template of additional information to be added to Board packages where authorization is being requested to obtain additional energy resources. This will help document the information presented to the Board and will allow for a consistent understanding of the assumptions related to the project including assessing the financial impact of funding the project.

*Recommendation No. 8: Include an ECAF or other rate mechanism impact analysis in Board packages for approval of projects over \$5 million.*

Response: The Department is developing a template of additional information to be added to Board packages where authorization is being requested to obtain additional energy resources. This will help document the information presented to the Board and will allow for a consistent understanding of the assumptions related to the project including assessing the financial impact of funding the project.

*Recommendation No. 9: DWP and the City should develop a cost recovery mechanism that addresses RPS costs in both a short-term and long-term basis and provides complete transparency of the costs of achieving its RPS goals.*

Response: The Department is presently undertaking a process to adjust the overall level of power rates for review and action by City Council in the September-October timeframe. In calendar year 2012, the Department will likely have a public process for rate design and cost recovery that would more clearly demonstrate the cost of achieving RPS goals.

*Recommendation No. 10: DWP should ensure it has the accounting structures in place to isolate and capture all identifiable and incremental RPS costs for recovery. All major categories of costs should be captured.*

The Honorable Wendy Greuel

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June 28, 2011

Response: The Department has established new work orders for many of the renewable projects and will validate that the new work orders are set up to capture incremental and identifiable costs related to a project. This will be a continuous process as costs are identified and new projects are added.

LADWP appreciates the opportunity to improve its RPS program. Looking back, LADWP could have done some things differently and we value the opportunity to constantly learn and improve. The renewable program is new for LADWP, and quite frankly, the utility industry, and the supply chain. As LADWP makes historic progress in this arena, there may sometimes be weaknesses and we see this as one of those opportunities to fine tune our strategy moving forward and suspect there will be continued lessons as we incorporate a larger renewables supply into our portfolio of generation.

If you or your staff would like to discuss this matter further, please contact me at (213) 367-1338, or have a member of your staff contact Ms. Ann M. Santilli, Interim Chief Financial Officer, at (213) 367-4319.

Sincerely,



Ronald O. Nichols  
General Manager

AMS:dl

c: Reverend Jeff Carr, Chief of Staff, Office of the Mayor  
Matthew Karatz, Deputy Mayor, Office of the Mayor  
Miguel A. Santana, City Administrative Officer  
Gerry F. Miller, Chief Legislative Analyst  
June Lagmay, City Clerk  
✓Farid Saffar, Office of the City Controller  
Thomas S. Sayles, President, Board of Water and Power Commissioners  
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