



May 31, 2016

The Honorable Herb Wesson
The Honorable Marqueece Harris- Dawson
The Honorable Jose Huizar

200 N. Spring Street
Los Angeles, CA 90012

Re: Council File #16-0093 Department of Water and Power Reform Proposal

Dear Council President Wesson and Council Members Harris-Dawson and Huizar:

The Sierra Club writes regarding the proposal before the Los Angeles City Council Rules, Elections, Intergovernmental Relations, and Neighborhoods Committee (Rules Committee) to reform the Department of Water and Power (DWP). The Sierra Club thanks the Committee for its transparency and detailed stakeholder engagement to collect perspectives from across a broad range of stakeholders.

Sierra Club supports the effort underway to modernize DWP. The public has high expectations for our utility. We expect the utility to excel at customer service, maintain its strong reliability track record, deliver services equitably, and operate in a way that is environmentally sustainable. But, outdated contracting requirements, hiring challenges, a politicized ratemaking process, and a complicated governance structure are holding the utility back. We are asking a lot of DWP, but are not equipping it with the tools to succeed.

The problems identified by Navigant, as well as many local stakeholders, are problems the Sierra Club has encountered working with DWP to adopt sustainable practices. For example, the biggest culprit for missing our energy savings goals is not ineffective programs or lack of funding, but rather insufficient staffing, both to implement existing programs and create separate programs to address gaps like multi-family building tenants. Ratemaking is another example. Lack of certainty around the ratemaking schedule imperils key environmental initiatives, as well as basic infrastructure investment and customer service priorities. A more standard, regular rate-making schedule would help address this problem.

These structural challenges make it increasingly hard for DWP to succeed in its mission. In some ways DWP as an institution and especially its staff are unfairly blamed for these structural problems. We hope that the push to modernize the utility positions it for success and can be viewed as a way to restore public trust in DWP.

The good news is that in 2016, the core principles any public utility should uphold - reliable power, equitable service, environmental protection, and cost effective power - are mutually reinforcing. A utility cannot deliver on one without addressing the others. For example, wind, solar, and energy efficiency are the cheapest sources of power available today.¹ Aliso Canyon is a strong reminder of the reliability threat posed by our dependence on fossil fuels like natural gas. And, until every Angeleno can benefit from clean energy programs and utility investments, we perpetuate an inequitable energy system.

The utility industry itself is undergoing rapid change. A disruptive technological shift within the power sector is underway as clean energy upends a business model that succeeded for 100 years. Customers' relationship to their electricity consumption is more dynamic now as demand management software and other clean technologies create new ways for residents and businesses to lower their bills and manage costs. It is therefore important that as the city discusses how to reform the utility, the solutions proposed not only address the challenges experienced in the past, but also anticipate the challenges ahead in such a rapidly changing industry and position the utility to succeed and lead in the 21st century. The high levels of uncertainty about the industry's direction necessitate equipping DWP with tools to be more responsive than ever before.

In response to the Committee's ongoing dialogue, Sierra Club submits the following suggestions to modernize DWP.

1) Ratemaking should be informed by a multi-year strategic plan that incorporates equity and the environment.

Prior to submitting a rate increase proposal, DWP and the Mayor should submit a multi-year strategic plan that details a policy vision for the utility. The strategic plan should include key policy initiatives and a multi-year budget that projects both near and long terms costs and savings from various policy priorities. The plan must include an analysis of DWP's greenhouse gas and environmental impacts and and prioritize energy and water conservation, procurement of clean energy resources and development of local water resources. Any analysis of cost-effectiveness shall account for public health, environmental, and other societal impacts. The report should identify key environmental performance indicators to benchmark progress.

The strategic plan should also expressly demonstrate an equitable allocation of customer programs that serve all segments of the city, from renters to owners, low-income Angelenos, small businesses, seniors, and more. Similar to environmental outcomes, the plan shall include key performance indicators related to equity.

The adoption of the strategic plan should include opportunities for review from the City Council and require affirmative approval. This step ensures that the Mayor and City Council can shape and lead on environmental and equity policy, while ensuring that, as elected officials, the utility remains accountable to the public.

¹ "Levelized Cost of Energy 9.0." *Lazard*. November 17, 2015. Date of access: May 23, 2016. <https://www.lazard.com/perspective/levelized-cost-of-energy-analysis-90/>

Finally, the strategic plan and ratemaking should occur on a standard, three year cycle. Setting this expectation limits the ability of any number of decision makers, from the Board to Mayor or Council to delay or defer difficult choices for reasons political in nature or otherwise.

2) Contracting should reinforce public policy priority to increase renewable energy.

Contracting at DWP is onerous and in need of reform. While authorizing the General Manager to approve larger, longer contracts is sensible, this moment should not pass without reform of energy procurement and power purchase agreements. Specifically, the City should adopt an approach similar to that of the California Public Utilities Commission, which applies a loading order to energy procurement. The legislature has required DWP to first serve its load through energy efficiency and demand reduction. The relevant provision is Public Utilities Code section 9615, which states:

Each local publicly owned electric utility, in procuring energy to serve the load of its retail end-use customers, shall first acquire all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible

This policy is not consistently applied and should be strengthened in the reform process. Furthermore, there is already precedent within the Charter to preference certain forms of generation, as the Charter preferences the renewal of power contracts with the Hoover Dam. The city should expand this mandate to include all preferred resources, including demand response, energy storage, and clean energy resources. The utility should, like investor-owned utilities, demonstrate that it has exhausted all demand side management tools like energy efficiency, rooftop solar, and demand response, before procuring utility scale clean energy. Above all, procurement of fossil fuels should come only after all other resource solutions are exhausted.

Changes to the Charter could to reflect these suggestions include amending Section 674 Power Contracts to read (changes *italicized*):

Section 674. Power Contracts.

(a) Subject to approval by ordinance, the board shall have the power to contract with the United States or any of its agencies, any state or state agency, and any corporation, public or private, located inside or outside of the City or State of California:

- (1) For the construction, ownership, operation, and maintenance of facilities for the generation, transformation, and transmission of electric energy, subject to the following:
 - (A) Any contract entered into under this subsection may provide for a sharing of the use and benefits and of the capital charges and other obligations associated with the facilities.
 - (B) The term of any contract entered into under this subsection is not subject to the term limitations specified in Section [607\(a\)](#) and may extend over the useful life of the facilities constructed, purchased or developed.
 - (C) The contract meets the definition of a preferred resource, or the agency has reasonably attempted to first acquire all available cost-effective energy efficiency,

demand response, renewable generation, and energy storage resources, before renewing or approving new contracts with fossil-fired generation sources. The Board's determinations regarding cost-effectiveness shall account for public health, environmental, and other societal impacts.

- (2) For the sale, purchase, exchange or pooling of electric energy or electric generating capacity.
- (b) The board may renew, without Council approval:
- (1) Any contract with the United States existing as of December 12, 1940 concerning the delivery of electric energy to the City and the customers of the department from the Hoover Dam electric generating facility.
- (c) *In procuring power, board shall ensure that:*
- (1) *The agency has first attempted to acquire all available cost-effective energy efficiency, demand response, renewable generation, energy storage resources, and other non-polluting resources before approving new construction or contracts with fossil-fuel generation sources, or renewing contracts with existing fossil-fuel generation sources.*
- (A) *The Board's determinations regarding cost-effectiveness shall account for public health, climate, environmental, and other societal impacts.*
- (B) *Contracts with conventional resources shall be subject to a two-thirds majority City Council approval.*

Adding Sec 674(c) enables a few important improvements to contracting and power procurement. First, the proposal encourages a procurement strategy that reflects the city's commitment to a clean environment. Further, it enables no-regrets energy procurement strategy that limits the DWP and its customers to financial risks posed by long-term commitments to fossil fuels. As California expands its clean energy and climate goals, en route to reducing emissions at least 80% by 2050, building new power plants poses both an environmental and financial risk to the DWP and customers. Power plants can remain operational for decades, setting up a policy conflict in the years to come. Just as the city learned during the effort to eliminate coal-fired power, declining costs for clean energy and declining public support for fossil fuels suggest that new investments in natural gas power plants should receive deeper scrutiny and be pursued only as a last resort.

3) Hiring should be flexible and support innovative programs like the Utility Pre Craft Training (UPCT) program.

As DWP's workforce ages and retires, it's crucial that the utility provide a pipeline into high quality careers within the agency, and that the recruitment efforts result in a workforce as diverse as the city itself. A recent study by the University of California Berkeley Labor Center found that of the most recent 200 Utility Pre-Craft Trainees, the majority came from high poverty areas of Los Angeles, while 85% are people of color.² Any reform of the utility's hiring process should ensure that programs like the UPCT are expanded, and that participants in the program can transition quickly into a career at DWP following completion of the program.

² Scott, Mega Amiko, and Carol Zabin. "Training for the Future II Los Angeles's Utility Pre-Craft Trainee Program: Progress to Date." *UC Berkeley Labor Center*, 2016.

Sierra Club also supports increasing the exemption limit at DWP to enable DWP to more effectively compete for the skill sets needed to drive and manage change within key departments. However, we are concerned about the precedent set by entirely removing the Civil Service requirement and believe that aspect of reform requires more scrutiny and discussion before including it in reform proposal.

4) The DWP should develop key performance indicators for equity and the environment.

Critical to modernizing the utility and restoring trust is demonstrating progress towards a cleaner and more equitable utility. The utility should develop key performance indicators for equity and the environment. Indicators could range from dollars of utility investment by neighborhood, participation in conservation and local solar programs by customer class, percentage of clean energy installations in the top CalEnviroScreen communities, and more. Whatever the benchmarks, utility staff should report quarterly on progress towards meeting these goals and the results should be made available publicly on a dashboard on the utility's website.

Through the benchmarking and measurement of progress, the public can have a better understanding of how the bi-monthly checks are not only providing low-cost reliable service, but building a cleaner, greener, and more equitable city.

Conclusion

Modernizing DWP through the reform of contracting, ratemaking, decision making and more is important to positioning the utility for success in the 21st century. Good governance and the belief that DWP can function effectively is an important step towards restoring trust between the agency and the public. But we submit that in order to rebuild trust, the utility must show that not only can it operate effectively, but that its operations lead to the betterment of the city and its people. The city should aspire to more than a functioning agency, but rather one that is accountable for upholding broader values the city shares - to make the city cleaner and more equitable. Thus, Sierra Club feels strongly that any discussion of DWP should take specific steps to make the utility more equitable and environmentally sustainable. We look forward to working with you in the weeks to come as this important issue is discussed.

Sincerely,



Evan Gillespie
Sierra Club

CC:

Members of the Los Angeles City Council
Mayor Eric Garcetti
Barbara Romero, Deputy Mayor of City Services
Ted Bardacke, Director of Infrastructure, Mayor's Office