

with the infrastructure issue. The current budgeted amount “is not averting the continued deterioration of the system,” Nahai explained. “If we do not get up to speed with repairs and replacement, it will be difficult to prevent the outages.”

Despite the challenges, Nahai has brought a sense of energy and determination to an agency that in the past has been criticized by the *Los Angeles Times* and others for “aloofness and arrogance.” When Nahai was vice president of the LADWP board in 2006, he found that the utility had no formal evaluation procedure in place for its 8,400 employees. It was also losing experienced workers to retirement. Nahai helped establish a standardized system for hiring and promotion that helped solve these issues.

Nahai said he is motivated by a desire to have the utility successfully transition into the future and set an example for the rest of the industry. “I took this job because I believe there is history to be made here,” Nahai explained. “LADWP can be at the forefront of leading an energy revolution. And we can do the same thing on

the water side by diversifying our sources. These are all challenged, but there is a real opportunity for leadership.”

2007-2998 electric budget
\$3.2 billion
Total generation
7,300 megawatts
LA peak demand
6,102 megawatts
Transmission
3,643 miles
Overhead distribution
8,685 miles
Underground distribution
6,200 miles

Cap-And-Trade Headache

BY AL SENIA

■ ■ ■ ALTHOUGH LADWP GENERAL

■ ■ ■ Manager David Nahai has been a vocal proponent of joining the “era of clean energy,” he is actively fighting a proposed state plan to achieve it by implement a cap-and-trade system that would end up financially penalizing public utilities that have traditionally relied on coal as a primary energy source.

LADWP generated 48 percent of its power from coal in 2006, so it could end up paying as much as \$750 million annually under the plan for the needed pollution credits. The state’s private utilities use much less coal, so they’d be selling their pollution credits to LADWP for a profit. Nahai argues that LADWP ratepayers would end up footing a lot of the state’s clean energy bill.

Nahai calls the proposal a transfer scheme that would shift billions of dollars from his customers to “the pockets of for-profit utilities.” Under the market-based plan, which hasn’t gained final approval and is patterned after a controversial program already implemented in Europe, the state would slap a ceiling on emissions, emission permits would be given away or auctioned, and companies could sell their unused

credits to others that require them.

That would benefit private utilities and hurt LADWP. Nahai’s political problem is especially acute because private utilities such as Pacific Gas & Electric use much less coal and would win big under the system. In 2006, PG&E generated just 3 percent of its energy from coal, Southern California Edison generated 8 percent and San Diego Gas & Electric generated 18 percent. The statewide average is 16 percent.

Nahai and LA Mayor Antonio Villaraigosa are vehemently lobbying against the proposal. Nahai believes the municipals would be hurt by the new system while they work on increasing the use of renewable energy. However, his political task is made more complicated by the fact that the state’s second-largest municipal utility, the Sacramento Municipal Utility District, uses no coal for its generation, relying much more on hydroelectricity and natural gas. It is LADWP and a few smaller municipal utilities that would be the big losers.

State officials say it is possible the final system could offset some of LADWP’s costs by granting the utility free pollution credits or returning some of the money it would have to spend for the credits. Others say Nahai shouldn’t worry yet because a final framework won’t be approved until the end of the year. But such a system if implemented could put a serious crimp in Nahai’s efforts to develop cleaner energy sources in Los Angeles.