

# Reshaping LA's Utility

RESPONDING TO CALIFORNIA'S RENEWABLES PUSH

BY AL SENIA

**THE LOS ANGELES DEPARTMENT OF** Water & Power has attracted attention and controversy throughout its 106-year history, and it has often struggled to maintain its focus and direction. First established in 1902 primarily to deliver water to thirsty citizens of the small but growing desert metropolis of Los Angeles, the utility has morphed into a giant that dwarfs municipal rivals and delivers water and electrical power to nearly 4 million residents in an area of 465 square miles.

Accomplishing that primary task has been daunting enough, but now LADWP is under growing pressure to redefine itself and move in lockstep with looming mandates that place a growing emphasis on renewable energy and clean power. LADWP faces a city mandate that closely parallels a recent state requirement for private utilities: Obtain 20 percent of your power from renewable sources by 2010. But that's an especially difficult task for the city utility, which throughout its history has relied heavily on cheap but dirty coal as its primary energy source.

This push toward clean energy has set the course for David Nahai, a former attorney, LADWP board member and close political ally of Los Angeles Mayor Antonio Villaraigosa, who selected him to oversee the utility last October. The Los Angeles City Council approved his appointment. Nahai immediately set about touting the importance of clean energy. He stood next to Villaraigosa on the day he was selected, promising the greening of LADWP and pledging to have the city become the center and leader for renewable energy.

It won't be easy. "Our push is for 20 percent by 2010 and 35 percent by 2020," said Nahai. "Right now we are over 8 percent." Nahai promised the clean transition would occur as scheduled, thanks to the "three-legged stool" of wind, solar and geothermal energy that the utility is counting on to seal its clean future.

"This is something that occupies an enormous amount of time and energy at the department," Nahai said. He meets weekly with a special management team to assess progress. Like other California utilities, LADWP puts out RFPs to the private sector for renewable energy sources. "We've received over-



David Nahai  
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DEPARTMENT OF WATER AND POWER

whelming response, more than 60 proposals over the past year," Nahai said.

Still, he and the utility are walking a political tightrope. Renewable energy costs more than traditional fossil fuels, and LADWP faces fierce opposition from the City Council and skeptical L.A. residents opposed to rate increases. The utility also has been hurt by past, sporadic summertime power outages in different parts of the sprawling city caused by a deteriorating infrastructure. The infrastructure, like the city, was built in spurts and the pipes, power lines and other equipment erected after World War II is simply falling apart.

LADWP faced another public relations nightmare seven years ago when it was revealed the utility sold excess power for millions of dollars in profits in the open market during the state's serious energy shortage following a deregulation experiment. At the time, LADWP faced a \$4 billion debt that has now been paid down.

Nahai has been trying for more than six months to get City Council approval for phased-in rate hikes totaling 8.5 percent for electricity and 6.2 percent for water by July 2009. Nahai pledged to use the money to repair aging utility and water lines. Nahai noted that LADWP's annual budget is about \$4.5 billion. He needs \$1 billion over the next five years just to deal

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.”

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