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1. Executive Summary

The purpose of this report is to add shape, structure, and guidance to the Los Angeles Department of Water and Power Office of Public Accountability, as created by 2011 ballot Measure I. The primary function of the Office of Accountability (OPA) is to ensure the Los Angeles Department of Water and Power (DWP) manages its rates and investments to the highest overall benefit of its ratepayers. To that end, this report outlines recommended functions and structures of the newly created office.

The OPA should hold high the importance of public outreach and education and center much of its actions around these functions. However, the OPA must not neglect its advocacy role and must ensure that all DWP customer needs are considered. The OPA should create and distribute an array of analyses of utility operations, financial health, rate design, and proposed investments for public consumption, and should monitor DWP customer relations activities. In order to best complete these duties the OPA must have broad access to all information within the DWP and must be located in an office outside both the DWP and City Hall. Finally, the OPA should have sufficient budget allotted to hire expert consultants on an as-needed basis.

An Executive Director with extensive leadership and management experience, as well as a deep understanding of utility operations, should head the staff of the OPA. The Executive Director will set the priorities for the department, present information to City Council and the DWP, and act as the face of the OPA. A distinctly separate Rate Payer Advocate (RPA) should head the analytical and outreach efforts within the department. The RPA will lead the OPA's efforts in community engagement and should have more in-depth knowledge of utility services, rate construction, and long-term operations. A staff of outreach coordinators, technical experts, and legal counsel should support the Executive Director and the RPA. Even with all of the above set in place, however, there are possible hurdles to successful operation of the OPA.

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6. Closing Remarks

The aforementioned recommended functions and structure of the OPA are intended to equip the office with the best tools and guidance to serve the customers of the Los Angeles DWP. These recommendations were compiled during the span of the 2011 UCLA Spring Quarter by performing research and interviews, both in-person and over the phone, with Los Angeles City officials, community members, professors, members of Ratepayer Advocate offices around the country, and members of privately held utilities. These recommendations embody the result of a robust effort and the team members' best understanding of the operations of the City and DWP.

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TO: Los Angeles City Council Members

FROM: Julia Campbell, Vahagn Karapetyan, Lucy Martikyan

RE: Creation & Implementation of the Office of Public Accountability

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1. Executive Summary

2. Purpose of this Report

In the past months and years, the leadership of the Los Angeles Department of Water and Power has been on rocky ground. Relations between the DWP, City Hall, and the people of Los Angeles served by the DWP (customers or ratepayers) have been strained and trust has been eroded. Catering to the pressure of their constituents, City Council has eschewed higher rates associated with long-term resource planning in favor of lower rates in the immediate future. After seeing a handful of General Managers in through its doors in recent years, the DWP has finally secured an experienced and dedicated leader at its helm: General Manager Ron Nichols. Nichols appears to be leading the DWP in the right direction, intensively engaging communities around the city in the newest proposed rate increase approval process and more productively communicating with City Hall. In the coming months, Nichols and the leaders of the City will have a new tool at their disposal and a new ally in serving the residents of Los Angeles.

On March 8, 2011, the voters of the City of Los Angeles passed Measure I by an overwhelming 77% majority. The ballot initiative creates the Office of Public Accountability (OPA) for the City's DWP. This office is born of the recent struggles surrounding the DWP and its relationship and responsibility to ratepayers. Heavily advocated for by the Neighborhood Council, the creation of this office is intended to heal recent and prevent future breaches of trust between the DWP, the City, and its residents and ratepayers. In this same spirit, here we recommend specific policies to best shape the function and structure of the OPA to most equitably and responsibly serve the ratepaying residents and businesses of Los Angeles.

Measure I provided no guidance as to the structure or function of the OPA. The measure has left open-ended the question of the OPA's duties, staff structure, and

possible hurdles along the way to implementation. The offices of the Chief Legislative Analyst (CLA) and the City Administrative Officer (CAO) have co-authored a brief report to provide details on issues such as the requirements for the OPA director's removal, how the director shall be selected, and initial details on the agency's budget. However, the report still leaves gaps in agency design characteristics and does not provide specific details on the staff structure and duties. The following recommendations are meant to provide specific details and possible solutions to these issues. By providing such details, we hope to provide the OPA with specific tools and instructions, allowing it sufficiently carry out the intent of the enabling ordinance.

3. Functions of the OPA

The primary function of the OPA is to ensure the Los Angeles DWP responsibly manages its rates and investments. In years past, the DWP has been a notoriously poor provider of information about its operations. This lack of transparency significantly contributed to the recent breakdown of trust between City Hall and the DWP and between ratepayers and the DWP. Public outreach and education are just as, if not more, important as customer feedback in regards to DWP operations. If customers are forever in the dark about how their utility rates are created and why rates must go up, they will never be satisfied customers. On the contrary, if customers know that a rate increase is necessary to meet compliance from state legislation and to create safe and reliable services in their future, customers may welcome a reasonable rate increase. The OPA must include public outreach and education in its primary objectives. However, the OPA must also retain its traditional role as an advocate for the customers of DWP. It must ensure that those customers who have no political power have representation. In the unique structure of the Los Angeles DWP, residential customers have been well represented by members of City Council. Other customers (commercial, industrial, and low-income) may currently be underrepresented.

In order to perform its analyses and provide information to the public, the OPA will need a completely open flow of data from DWP. The CLA/ CAO report states that the OPA shall have access to "all the information it requires" but required information may turn out to be a debatable issue. Because the DWP is a municipal utility, it does not

go through the formal legal proceedings, similar to civil lawsuits, which privately held utilities like Edison must undergo for rate increases. Though the DWP's more casual rate increase process allows for greater flexibility and faster processing, it lacks enforceable accountability. The recent breaches of trust between the DWP and City Hall have the potential to severely hinder the communication process in this informal setting. The OPA must be granted broad discovery authority with the DWP with enforceable consequences for delays or noncompliance. Yet it must always maintain confidentiality with all sensitive information.

Part of ratepayer advocacy must include monitoring of DWP's fiscal health to ensure the utility retains an excellent credit rating. If the DWP credit rating is allowed to fall, any infrastructure investments will be more costly or stalled, both of which are irresponsible wastes of public funds. The OPA must be allowed to analyze each rate increase proposal and funds transfer to the City as it affects the credit rating of the utility.

Finally, so that the OPA may operate without the immediate influence of either the DWP or City Hall, the OPA must be located in a physical location separate from the other two entities. The OPA is intended to rebuild trust between the DWP, City Hall, and ratepayers. To best serve the people of Los Angeles, and to fill gaps in previously under-represented areas, the OPA must be allowed to operate confidentially and independently.

After researching successful OPA functions across the country, we have compiled the following duties for the OPA. The actions outlined below are intended to aid in the continued transparent operation of DWP and to mend the breach in trust between the DWP and City Hall as well as the DWP and its customers.

- **Oversee customer relations within DWP.** The OPA should oversee the handling and management of customer complaints and feedback to the DWP but it should not be the primary recipient of these complaints and feedback. An annual audit of DWP's customer relations should be produced.
- **Produce of Cost of Service studies.** These ratemaking analyses should be the primary technical contribution of the OPA. These reports should be produced on an annual rate at a minimum and possibly on a quarterly basis. Additionally, a Cost of Service study should accompany each rate increase proposal. Every report should be produced in language universally understood

by utilities but also translated into layman's terms. Easy digestible summary documents must be actively distributed to ratepayers through multiple mediums and multiple languages.

- **Produce Results of Operations report.** This report should compare DWP investments and rates to those of other utilities around the state and country. Through this analysis, customers may better understand the investments the DWP is making and can better compare the service they receive to that of other customers. This report should be produced in easy to understand language and distributed as the Cost of Service study above.
- **Analyze rate design.** The OPA must analyze how rates affect different customer classes. The DWP currently has many customer classes and rate designs including different fixed versus volumetric rates. The OPA must produce easy to understand summaries of DWP rate design and identify any inequitable findings.
- **Hire outside consultants when needed.** The DWP currently serves its customers with a wide variety of variable energy and water sources. The OPA staff will inevitably have some deficiencies in knowledge regarding all technologies used or proposed to be used by the DWP. In order to adequately analyze existing facilities or proposed investments, the OPA must consult with outside experts when in-house expert knowledge is lacking.

4. Structural Design of the OPA

Due to the intricate nature of the OPA's duties, properly staffing the agency will play a vital role in its efficiency and durability. The purpose of the OPA is to protect ratepayers, but its function will not be to lobby the DWP for lower rates. Ensuring utility rates are set at the proper levels to best serve the ratepayers and providing education and outreach to communities will dominate the OPA's activities. A broad range of skills is essential for facilitating a healthy relationship with the ratepayers, the City Council, and the DWP. OPA's staffing should be viewed through the lens of these three players, respectively, as the agency is (i) created for the ratepayers, (ii) enabled by the City Council, and (iii) funded by the DWP. The following staffing model for the OPA will

ensure a personnel structure capable of effectively dealing with political pressures and equipped with technical expertise necessary to deliver required services. The Office should be comprised of three sections and a subsection. These sections include the Executive Director, the Ratepayers Advocate (RPA), and the staff. The staff is divided into three categories: public outreach coordinators, technical experts, and legal counsel.

The Executive Director is principally important to the success of the OPA. This position will manage OPA staff and build relationships with the managers within the DWP and City Council members. The Executive Director will be responsible for providing direction for OPA reports, setting priorities for the OPA, approving OPA reports, and presenting to the City Council. The Executive Director needs to possess a diverse set of skills and extensive experience in management with a thorough knowledge of public utility economics and principles of utility service and rate construction. Moreover, the Executive Director should be able to understand quantitative utility analysis and should have an intimate understanding of utility management. Utility expertise is principally important for assessing DWP policies and understanding the regulatory impacts on the utility rates of the department. A highly qualified expert in the field is also critical for protecting the agency from outside influence, whether it is in the form of political pressure or ratepayer outrage. Managerial experience and advanced communication skills should comprise the other half of the Executive Director's resume. Expertise alone cannot ensure optimal performance for the OPA; the Executive Director needs to be capable of managing people and setting an environment in which different skill sets and personalities can combine to establish the team synergy necessary for effective and efficient outcomes. Strong communication skills are complimentary to managing staff, as well as communicating complex ideas with external entities that rely on OPA's clear and concise deliverance of information on the DWP. A qualified Executive Director should be someone with perhaps decades of experience in managing an entire body of personnel and who has a successful track record of diverse communication skills, specifically as applied to utilities and public officials.

In addition to the Executive Director, a Ratepayers Advocate (RPA) position is needed. The RPA should be a separate and distinct position, as outlined in Measure I., not a position combined with the Executive Director as the CLA/ CAO report suggests may

be possible. The RPA will primarily be responsible for overseeing the public outreach and communication strategies of the OPA. The RPA will also foster communication between staff and help translate technical utility information into easily digestible reports to release to the public. The RPA's resume should resemble that of the Executive Director in terms of communication skills but more importantly, utility expertise. This is primarily because the RPA will be in the center of the communication channels, digesting complex information for the public through the staff and reporting back to the Executive Director. The position of the RPA is critical to the success of the OPA for the linkages he or she can establish between the staff and the Executive Director, and between the Executive Director and the DWP. The attainment of an MBA degree and a minimum of five years experience in analyzing quantitative and qualitative data, particularly with regard to utility services and rate construction, is a vital background for the RPA to effectively carry out his or her duties. The RPA should also have an understanding of issues related to renewable energy and a thorough understanding of government regulations of utilities. The ability to analyze technical procedures, legal documents, financial reports, and state and federal renewable energy compliance requirements will prove to be necessary skills of the RPA for providing substantive information and truncating the overwhelming workload of the Executive Director. Moreover, excellent written and oral communication skills are required from the individual in order to easily present to the public and discuss issues with leaders at the DWP.

The staff that the Executive Director will manage and the RPA will work closely with should be divided into three sections: public outreach coordinators, technical experts, and legal counsel. The OPA can greatly benefit from outreach coordinators with campaign and community leadership experience. An ideal individual for this position is someone who enjoys dealing with people and has strong communication skills to deal with crowds of discontented ratepayers at meetings and other events. Community organizing experience should be highly valued. The technical experts are required to have, at the minimum, working knowledge on utility operations and strong research skills. An ideal OPA technical expert will be someone familiar with the technological aspects of the DWP and should possess the ability to analyze their data. Technical staff should also have strong writing skills to produce reports based on their analysis to

support the public outreach coordinators communicate with the ratepayers. Legal counsel should be versed in utility law and the workings of Los Angeles and its city charter. Excellent research, writing, and presentation skills are essential for this position. Legal counsel should be prepared to assist with guidance on information sharing, proprietary information law, and City proceedings.

4.a Public Outreach Coordinator Duties

One of the primary duties of the staff is going to involve actively engaging the public, informing them about DWP's proposed rate changes, and creating a dialogue between the DWP and the ratepayers. Ultimately, the ratepayers should understand *why* rate changes are occurring especially if the changes are unavoidable and what will happen if the changes are not made. Because an effective outreach effort is complex and time intensive the OPA should have a set percentage of its staff primarily dedicated to outreach work. These goals of the OPA's outreach plan can be accomplished through many ways including the following strategies:

- Identify the most effective ways of reaching the target audience, the ratepayers. For instance, consider utilizing the email list of the Neighborhood Council, city agencies such as the controller's office, and community groups to send an initial mass email that briefly describes the OPA, its goals, and where interested individuals can turn to for further info. Create a link to the OPA on the LADWP website and spread information about the OPA through DWP's newly revamped bill. For instance, the department of justice (<http://www.justice.gov/>) prominently features the "open government" initiative on their front page. A similar method can be used with DWP's website.
- Identify and foster relationships with community and business leaders that can help spread information and gain support for the OPA while beginning a dialogue about ratepayer needs and expectations of the DWP. The OPA should also work with relevant groups such as the Green LA coalition and the Sierra Club.
- Create and maintain a website that allows visitors to leave feedback and questions, has the option to opt-in to an email subscription, provides information about the OPA itself, and has links to OPA created reports and upcoming events.

- Utilize social media. Create a Facebook OPA “fan page” and a twitter feed.
- Utilize traditional media such as local newspapers to author op-ed pieces and to spread information about OPA reports, initiatives, and events through press releases. Also consider using local influential bloggers and appearing on local radio stations.
- Create and electronically publish a monthly e-newsletter that outlines what the OPA has worked on during that particular month. Email the newsletter to the OPA email list and publish it on the OPA website.
- Attend workshops and forums held by the DWP regarding rate changes or any other matter of interest to the ratepayer constituency.
- Conduct ongoing evaluations of outreach strategies. For instance, track the increases in numbers on the OPA email list, the amount of visitors to the website, and the amount of attendees to public forums and workshops. Furthermore, conduct online and telephone surveys to both further engage the ratepayers and to get their feedback on the effectiveness of OPA's outreach efforts.
- Conduct informational public hearings and workshops leading up to announced rate changes.

4.b Technical Expert Duties

The other major objective of the OPA staff will be to publish non-technical reports, as described in section 3, that both the public and the city council can read and clearly understand. These reports should be free of financial, legal, and technical jargon of any type. If such language has to be used, it should be clearly defined and explained. The source material from these reports will be DWP's internal financial and technical documents. The OPA staff can fulfill its analysis duties by following strategies such as:

- Review DWP documents such as major contracts with the metropolitan water district and DWP unions, long term strategies, renewable energy investments, financing strategies, internal financing sources, strategies for complying with regulatory requirements, and cost-cutting and efficiency measures.
- In addition to the above materials, the OPA shall have access to any other DWP documents that are used by the DWP when making decisions on rate changes.

The OPA staff should compile a complete list of these documents with the help of DWP analysts.

- Foster relationships and consistently communicate with DWP staff thoroughly involved in analysis and activities related to rate-setting.

4.c Legal Counsel Duties

The office of the OPA will require legal counsel when issues regarding transfers of information from the DWP arise, as well as in regards to daily data management and privacy concerns. These and other unforeseen conflicts may arise between the OPA and the DWP, City Council, ratepayers, or the Mayor. If a conflict between City Council and the OPA were to arise, it may be difficult for the OPA to receive unbiased support from the office of the CLA. Depending on the amount of on-going legal services needed, as well as consideration of the role of the CLA, an independent, on-staff lawyer may be required in the OPA. At a minimum, the OPA will need the assistance of the CLA. A middle ground solution may be to consult with the CLA for daily operations but hire outside representation for conflicts between the City agencies.

5. Feasibility Considerations

The strategies outlined in this report will help ensure the OPA can effectively carry out the goals of the enabling ordinance. However, there are potential barriers that might hinder proper implementation of the OPA and weaken its effectiveness. Some of these barriers may pertain to issues related budgeting, information asymmetry, prolonged staff adjustment, and restrictive agency design characteristics.

- **Budgeting:** Currently, there are no penalties in place to ensure the timely funding of the OPA by the DWP. Delayed budgeting can cripple the OPA and effectively stop it from carrying out its duties. In order to prevent this from occurring, we recommend that the City Council have specific penalties that it can enforce in the case of a non-compliant DWP.
- **Information asymmetry:** The DWP possesses all the required information that the OPA needs to conduct its analysis. The DWP might delay the distribution of the required information and the OPA staff might not possess

the knowledge of an experienced DWP insider to know if such delays are genuine.

- **Prolonged staff adjustment:** The inner financial, technical, and legal workings of the DWP are very complex and even with substantial expertise, it will take time for an OPA staffer to get fully familiarized with the process and be effective at doing his job.
- **Restrictive agency design characteristics:** Establishing detailed procedures prior to appointing an Executive Director may limit autonomy in using his or her judgment and expertise in shaping the agency. Therefore, we encourage that our recommendations are treated as guidelines or starting points, rather than strict requirements that the Executive Director should follow.