



Putting Our Customers First











WATER & POWER COUNCIL MOTION STATUS

Energy and Environment Committee Presentation

February 3, 2016



LADWP has addressed all of the recommendations outlined in Council's October 3, 2012 motion...

ITEM	DESCRIPTION	
a.	Conduct negotiations with labor to find common ground that allows for greater flexibility to contract out effectively and bring salaries and benefits closer to other power utility providers	
b.	Re-evaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow	
c.	Conduct a new formal cost of service study in order to prepare for future power rate restructuring	
d.	Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness	
e.	Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers	
f.	Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime	
g.	Complete a rigorous review of the Department's hedging plan to lock in low fuel prices	
h.	Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost effective level	
i.	Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices	
j.	Submit a semi-annual report to the Mayor and Council regarding the status of the Renewable Portfolio Standards program and its impact on rates	

Many of the Council’s recommendations have been fully addressed, while the resolution of several items requires an ongoing, longer-term effort

a. “Conduct negotiations with labor to find common ground that allows for greater flexibility to contract out effectively and bring salaries and benefits closer to other power utility providers”

The new Memorandum of Understanding (MOU) is expected to reduce costs by \$456 million during the period from October 1, 2014 to September 30, 2017. The Department is anticipating further negotiations and a new MOU to take effect in 2017.

Progress Made – Work Ongoing

c. “Conduct a new formal cost of service study in order to prepare for future power rate restructuring”

LADWP has completed cost of services studies for both the Water and Power Systems. These studies are based on marginal cost principles.

Completed

b. “Re-evaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow”

The Department has worked with the RPA and the Office of the City Attorney to evaluate the current approach to the ordinance structure. At this time, the current approach is being retained.

Completed

d. “Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness”

Actual awarded prices for the LADWP repowering project came within the median pricing range for other similar projects for other utilities. After discussions with the RPA, the Department lowered PSRP spending to a manageable level and established metrics to track program spending.

Completed

Many of the Council's recommendations have been fully addressed, while the resolution of several items requires an ongoing, longer-term effort (cont.)

e. "Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers"

Phase I high-level benchmarking study completed in January 2015. Phase II to complete follow-up in-depth studies on opportunity areas identified during Phase I is in process with the RPA. Planning for Phase III process mapping underway.

Phase I Completed

g. "Complete a rigorous review of the Department's hedging plan to lock in low fuel prices"

LADWP's new hedging framework reduces potential rate volatility, and outlines that:

- The nearest fiscal year should be 50% hedged
- There should be less than 1% volatility in rate changes due to gas price volatility

Completed

f. "Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime"

The Department projects a significant reduction of overtime from historical levels over the next five years. Work is still underway to continue to improve the Department's overtime expenses

Progress Made – Work Ongoing

h. "Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost effective level"

An EE potential study indicated achieving 15% EE by 2020 is both cost effective and achievable and, consequently, the Board has formally adopted a 15% EE goal by 2020

Completed

Many of the Council's recommendations have been fully addressed, while the resolution of several items requires an ongoing, longer-term effort (cont.)

- i. "Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices"

The Department:

- Created a new corporate performance program;
- Completed Phase I Benchmarking;
- Initiated Phase II follow-up Benchmarking studies in partnership with the RPA;
- Initiated efforts to perform business process mapping studies following the Phase II studies;
- Implemented COMSTAT;
- Saved through a cost reduction program; and
- Conducted negotiations with labor to reach a MOU for \$456 million in savings over four years.

Progress Made – Work Ongoing

- j. "Submit a semi-annual report to the Mayor and Council regarding the status of the Renewable Portfolio Standards program and its impact on rates"

Reports provided monthly to the Board on the status of the RPS program and quarterly to the Board on costs that may impact future rates. Significant costs, which have the potential to impact long term rates, are reported to the Board and the City.

Completed – Reports Will Continue



APPENDIX – DETAILED
INFORMATION FOR
EACH
RECOMMENDATION

Progress Made – Work Ongoing

a. Conduct negotiations with labor to find common ground that allows for greater flexibility to contract out effectively and bring salaries and benefits closer to other power utility providers

In December of 2013, the Council approved a new Memorandum of Understanding (MOU) with IBEW Local 18 that provides significant savings to LADWP ratepayers and makes significant progress toward addressing this Council motion item. Specifically, the new MOU makes progress in the following major areas:

- The MOU term was extended from October 1, 2014, to September 30, 2017
- The existing 2.9% COLA was deferred from October 1, 2013, to October 1, 2016
- New lower (Tier 2) pension benefits were created for new employees
- Entry level salaries were reduced for 34 common classes
- The contracting out overtime restriction was reduced from 10% to 5%
- The sick time medical certification requirement was reduced from five to three days

As a result of these changes, LADWP is projected to reduce labor costs by \$456 million over the next four years.

The Department expects additional negotiations to begin with respect to a new MOU with IBEW Local 18 for the period beginning in 2017. The Department will continue efforts to include terms in the next MOU that reduce costs to ratepayers and increase flexibility.

Completed

b. Re-evaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow

The Department has worked with the RPA and the Office of the City Attorney to evaluate the current approach to the ordinance structure. For this proposed rate action, it has been determined that:

- Due to pending litigation regarding the Department's annual transfer of monies from the Power Revenue Fund to the City's Reserve Fund, the Department will continue to adopt an electrical rate structure that preserves the 2008 rate structure and layers incremental charges on top of the applicable existing charges of the 2008 ordinance.
- The results of the Department's recently conducted cost of service study and the impact of the new revenue requirements for power service will be applied to only the proposed incremental electric rate ordinance.

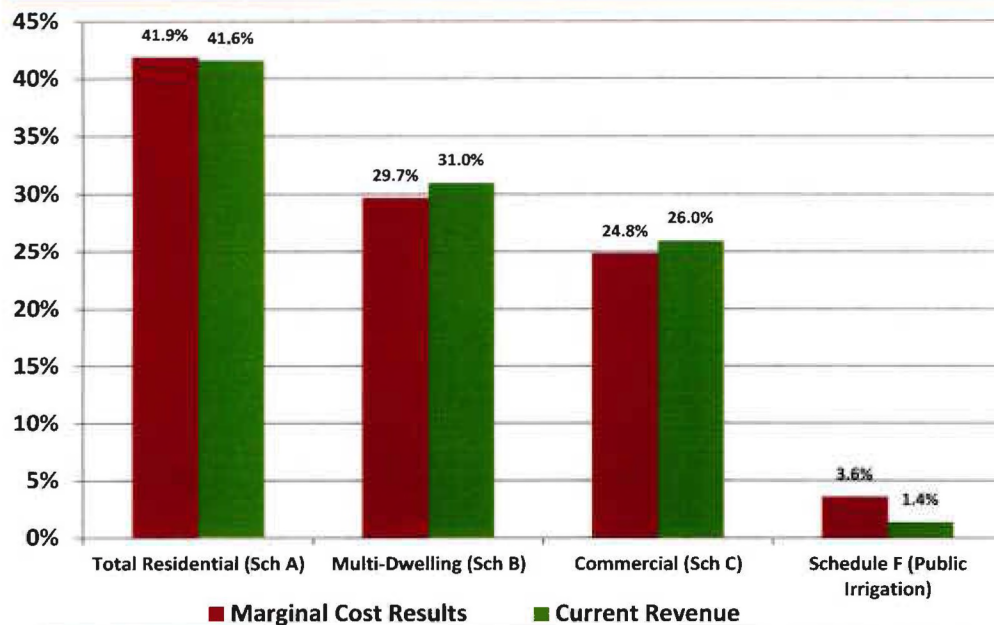
Completed

c. Conduct a new formal cost of service study in order to prepare for future power rate restructuring

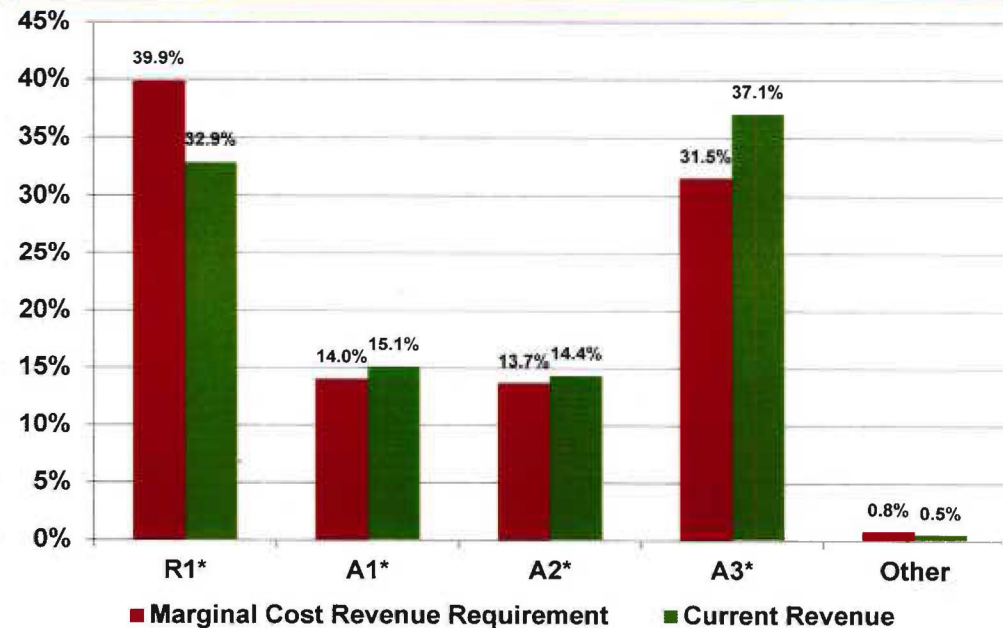
LADWP has completed new cost of services studies for both the Water and Power Systems. These studies are based on marginal cost principles.

The new cost of service studies by themselves have no impact on the overall revenue requirements; however, the results are used to allocate costs among customer classes and provide guidance on rate design. The marginal cost methodology is consistent with industry best practice and leads to rates that support the most efficient use of utility resources by LADWP customers.

Water COSS Study Results



Power COSS Study Results



Completed

d. Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness

Repowering Program

To ensure cost effectiveness, LADWP is relying primarily upon:

- A highly competitive procurement process for the coastal plant repowering; and
- Use of new construction bids for similar combined cycle generating units in a separate power plant procurement process underway by LADWP for comparative purposes.

Actual awarded prices for the LADWP repowering project came within the median pricing range of the new projects proposed by various competitive proposers for the Navajo replacement project.

Power System Reliability Program (PSRP)**

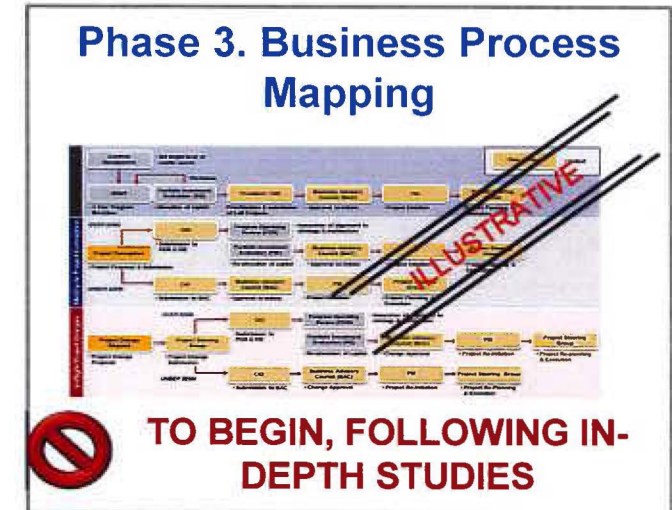
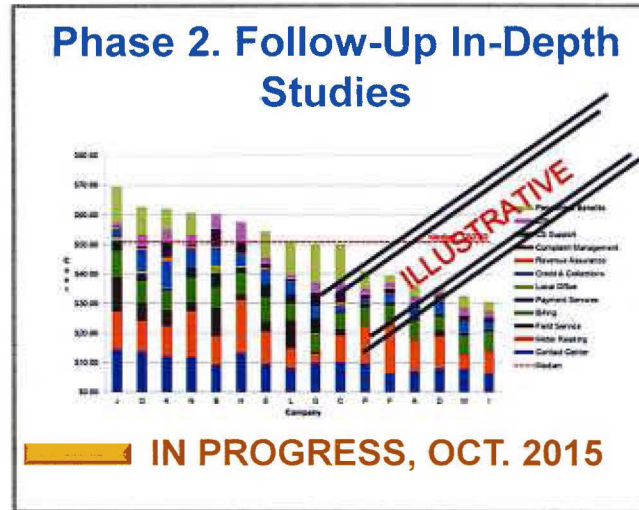
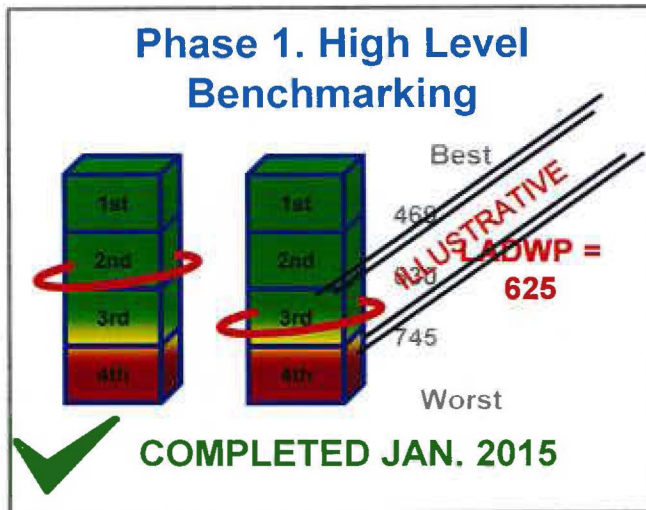
A detailed assessment of LADWP's reliability capital program expenditures and methodologies was completed with recommended levels of expenditures for distribution, substation, transmission, and generation. Based on discussions with the RPA, the Department formulated an achievable PSRP spending plan, reflecting reasonable, but lower than recommended by initial assessment, expenditures/infrastructure replacement levels using a combination of in-house resources and contract services. Jointly developed performance metrics will provide enhanced transparency and accountability.

** Note that the "Power Reliability Program" has been renamed the "Power System Reliability Program" and has evolved to include all aspects of the power service delivery infrastructure

Phase I Completed

e. Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers

As part of the LADWP reorganization by the General Manager, a Corporate Performance function has been created. One of the main focuses of this new function is:



The Department has completed its initial high-level benchmarking and identified areas where LADWP is comparable to or better than industry performance and where there are opportunities for improvement. The initial benchmarking study findings were used as a “road map” to identify areas for more in-depth analysis as part of the Phase II study. These opportunities for significantly improving financial and/or Departmental performance will serve as the subjects for specific business process mapping studies.

Progress Made – Work Ongoing

f. Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime

The current MOU with IBEW Local 18 has key provisions in it for reducing overtime as a consequence of obtaining contracting services. Overtime at a utility is affected by several factors, many of which are operational in nature and in some cases outside the immediate control of the utility (for example, emergency mainline breaks or regulator station call-outs).

Overtime is considered a safe and cost effective means of obtaining needed resources when used in moderation. In general, it is good utility practice to use overtime at the rate of roughly 15% of regular labor costs. Overall overtime averaged 17.3% for the period of FY 2008-09 through FY 2013-14; however, the estimate for overtime* during the five-year rate period reflects a significant reduction to 13.4%. The Department will continue to explore ways to reduce these costs over the proposed rate period.

	FY 08-09 through FY 13-14	Actual	Proposed Rate Period					
		FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	Average
Power System	22.9%	29.4%	16.4%	18.1%	19.7%	19.1%	19.4%	18.5%
Water System	12.5%	17.5%	10.4%	10.1%	9.6%	9.7%	9.8%	9.9%
Joint System	12.4%	13.6%	9.0%	8.9%	8.9%	8.9%	8.9%	8.9%
Overall	17.3%	21.7%	12.6%	13.2%	13.9%	13.6%	13.8%	13.4%

*Estimates exclude daily exempts and are based on budget data as of 4/22/15

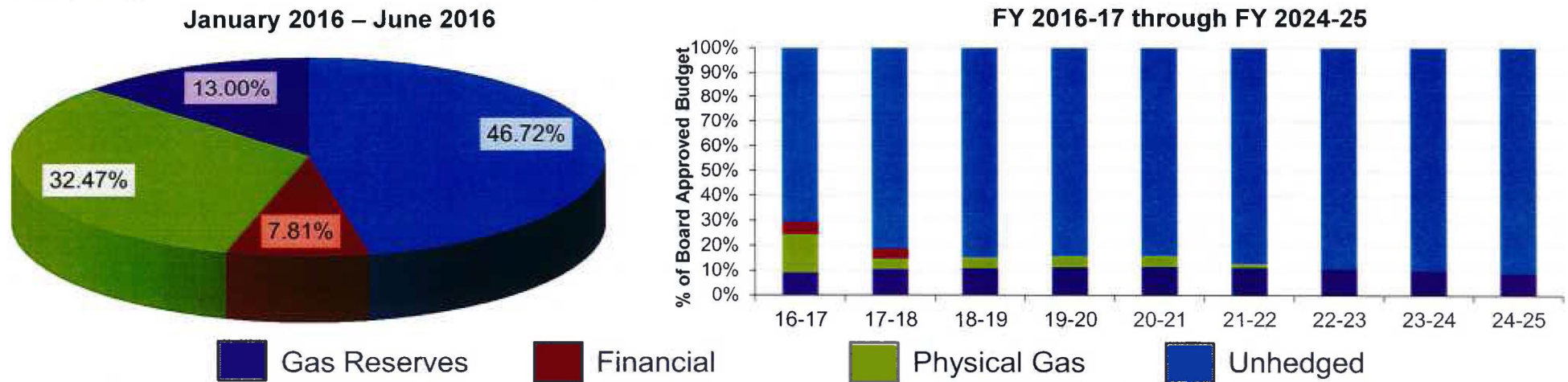
Completed

g. Complete a rigorous review of the Department's hedging plan to lock in low fuel prices

The main objective of LADWP's hedging program is to reduce the volatility in the price of natural gas used in the production of electricity to serve retail customers; the program is not designed to necessarily reduce the cost of fuel. The Department's hedging framework provides an integrated approach for developing and evaluating hedging strategies, and includes:

- Goal of having the nearest fiscal year 50% hedged through financial hedges, power hedges, physical hedges, and gas reserves.
- Goal of executing hedges such that unplanned rate changes will not (with a 95% confidence level) vary by more than 1% from the announced level due to natural gas volatility.

To enhance transparency of the operation and effectiveness of the hedging program, the Department began publishing the Risk Control Reports to the Board. The charts below illustrate the Department's volumetric position as of December 31, 2015.



Completed

h. Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost effective level

LADWP has significantly increased its energy efficiency (EE) program targets and has developed/updated its EE Portfolio Business Plan.

An EE potential study indicated that a goal of 15% EE* is both cost effective and achievable by 2020; consequently, the Board has formally adopted a 15% EE goal by 2020. Major programs included in the new EE Portfolio Business Plan are projected to accrue the following estimated energy savings:

(GWh)	Current Year	Proposed Rate Period					
	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	Total
Mass Market	112.9	202.0	248.9	264.5	274.0	243.8	1,346.1
Commercial & Industrial	113.5	148.8	181.0	207.3	188.8	175.0	1,014.4
Cross-Cutting	83.6	91.2	85.2	69.2	57.2	52.2	438.5
Total	310.0	442.0	515.0	541.0	520.0	471.0	2,799.0

* Measured as 15% of total GWh served to customers in 2010

Progress Made – Work Ongoing

i. Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices

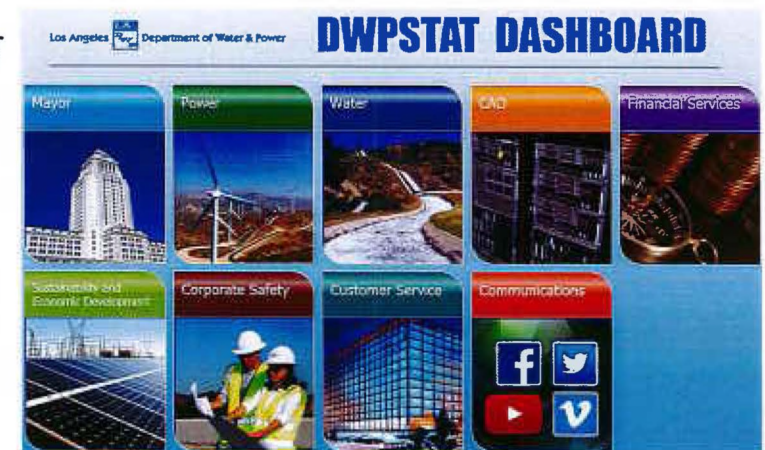
The Department has taken several steps in seeking Departmental efficiencies. Those include:

Creating a new Corporate Performance function:

- **Comprehensive Benchmarking:** Completed a high level (Phase I) benchmarking study, which focused on LADWP's operating and capital expenditures on a functional level (completed on January 30, 2015). Phase II benchmarking will utilize Phase I findings as a "road map" to identify areas possessing the highest potential to improve cost, reliability, and/or customer service performance for more in-depth analysis. Phase III process mapping will assist LADWP in moving toward best practices.
- **Implementing COMSTAT:** Consistent with the Mayor's goal of making City government more efficient and effective, LADWP has implemented the COMSTAT (i.e., DWPSTAT) key performance indicators tool and process throughout the Department.

Cost Reduction Programs: In FY 2011-12, LADWP initiated a three-year cost reduction program. The final results from the cost reduction plan, which concluded in June 2014, exceeded the total \$459 million cost reduction target.

New MOU: In December of 2013, the Council approved a new Memorandum of Understanding (MOU) with IBEW Local 18 that provides significant savings to LADWP ratepayers. LADWP will continue to work with its labor partners to reduce costs to ratepayers and increase flexibility through the next MOU.



Completed – Reports Will Continue

j. Submit a semi-annual report to the Mayor and Council regarding the status of the Renewable Portfolio Standards program and its impact on rates

Status of RPS Program (Monthly): LADWP currently reports to the Board monthly on the status of the RPS program. This report provides LADWP's portion of energy derived from renewable sources, the status of the solar incentive program, a listing of projects (current, under-construction, planned and potential), Feed-In Tariff (FiT) information, and their contribution toward RPS goals.

Impact on Rates (Quarterly): LADWP currently reports to the Board quarterly on costs related to the RPS program in order to reduce the possibility of unexpected rate increases. As part of the Energy Cost Adjustment (ECA) calculation, LADWP requests Board approval for costs related to the RPS program, which are allocated to the Variable Renewable Portfolio Standard Energy Adjustment (VRPSEA) and the Capped Renewable Portfolio Standard Energy Adjustment (CRPSEA).