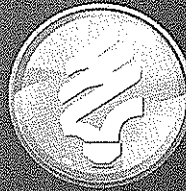


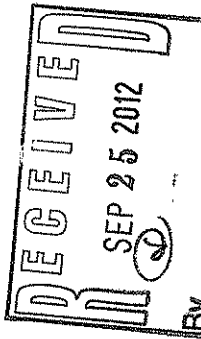
16 a, 23 12-1504

Proposed Power Rates 2012-2014

Mandates & Reliability

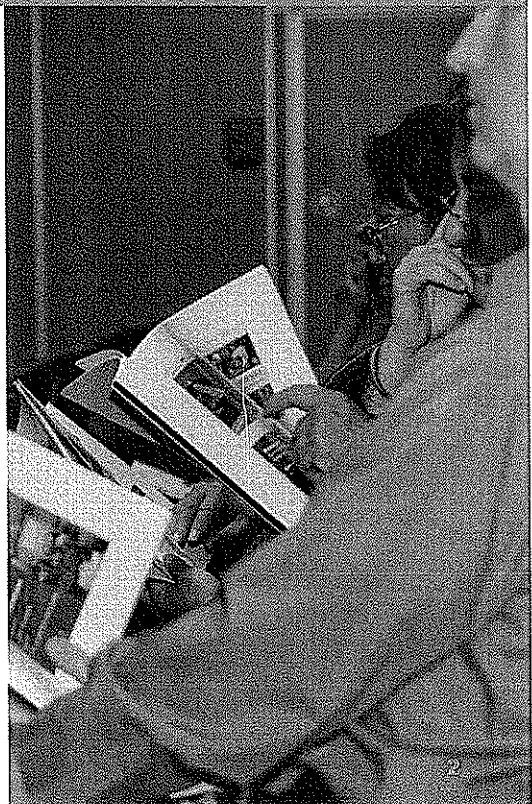


Council Energy & Environment Committee, September 19, 2012
City Council, September 25, 2012



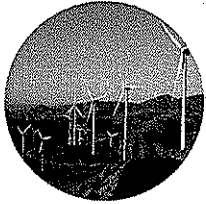
Where We Stand

- Conducted outreach over the past 16+ months on need for additional power and water investments
- Two-part process included 80+ community meetings and countless individual briefings
- We solicited our customers' input & included their priorities in our recommended plans
- We participated in a review for the first time with the City's Ratepayer Advocate
- Ratepayer Advocate's reports and recommendations on Power issued on August 22



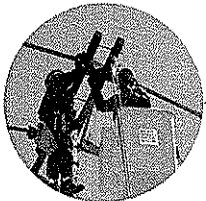
Next Century Power

We have developed a plan and the rates to support it



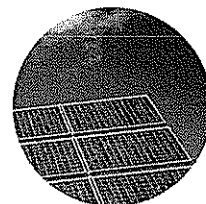
Power Supply Replacement Program

Rebuilding Local Power Plants
Renewable Energy
Coal Transition



Power Reliability Program

Replacing the rapidly aging backbone of our electric transmission & distribution system (poles, cables, crossarms, etc)



Customer Opportunities Program

Energy Efficiency
Customer Solar Programs

Implement Programs While Keeping Rates Competitive for Our Customers

3

Next Century Power

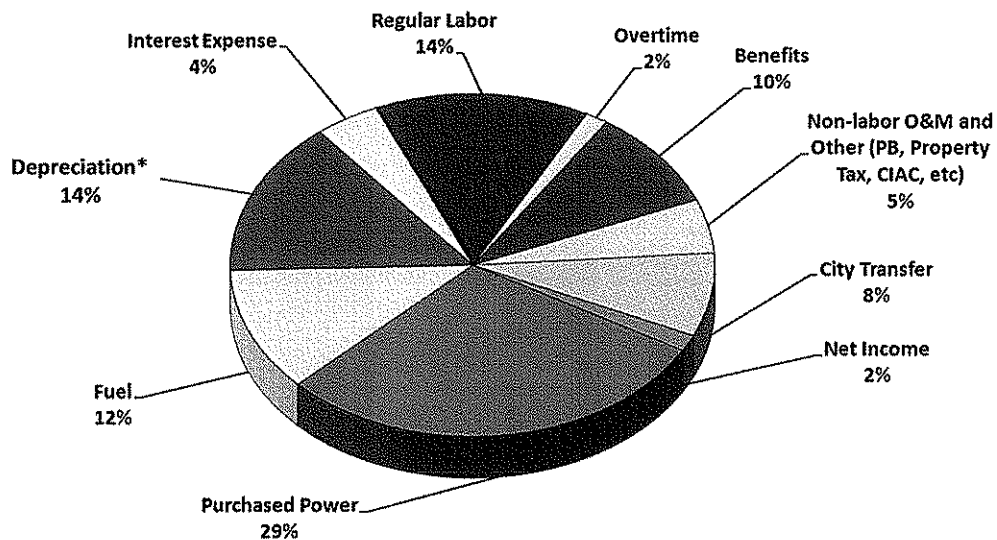
Proposed Power Investments

O&M and Capital Spending

Program	FY 2011/12	FY 2012/13	FY 2013/14
Power Supply Replacement Program	\$711 M	\$756 M	\$764 M
Power Reliability Program	\$708 M	\$785 M	\$885 M
Customer Opportunity Programs	\$138 M	\$193 M	\$204 M
Total	\$1,557 M	\$1,733 M	\$1,853 M

Allocation of Power Costs FY 2012/13

Power Revenue Fund - FY 12/13
\$3,143 Million



* Approx. 33% of depreciation is past labor related costs.

5

Status of Power Rates



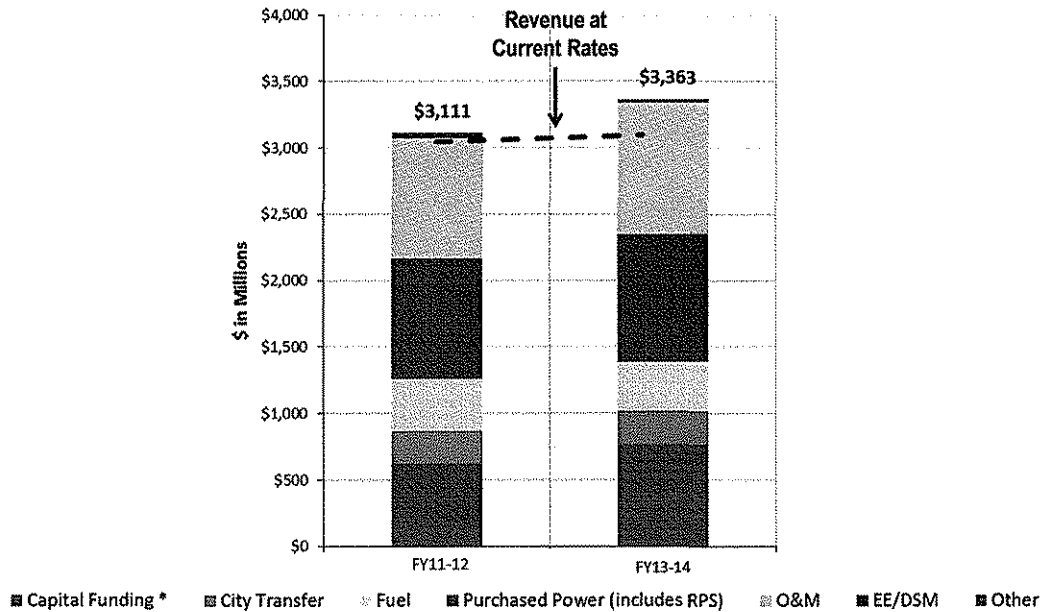
No base rate or Reliability Cost Adjustment increase since July 2009.

No energy or fuel cost adjustment since July 2010.

Regulatory mandates and priority programs **cannot** be completed without rate action this year.

6

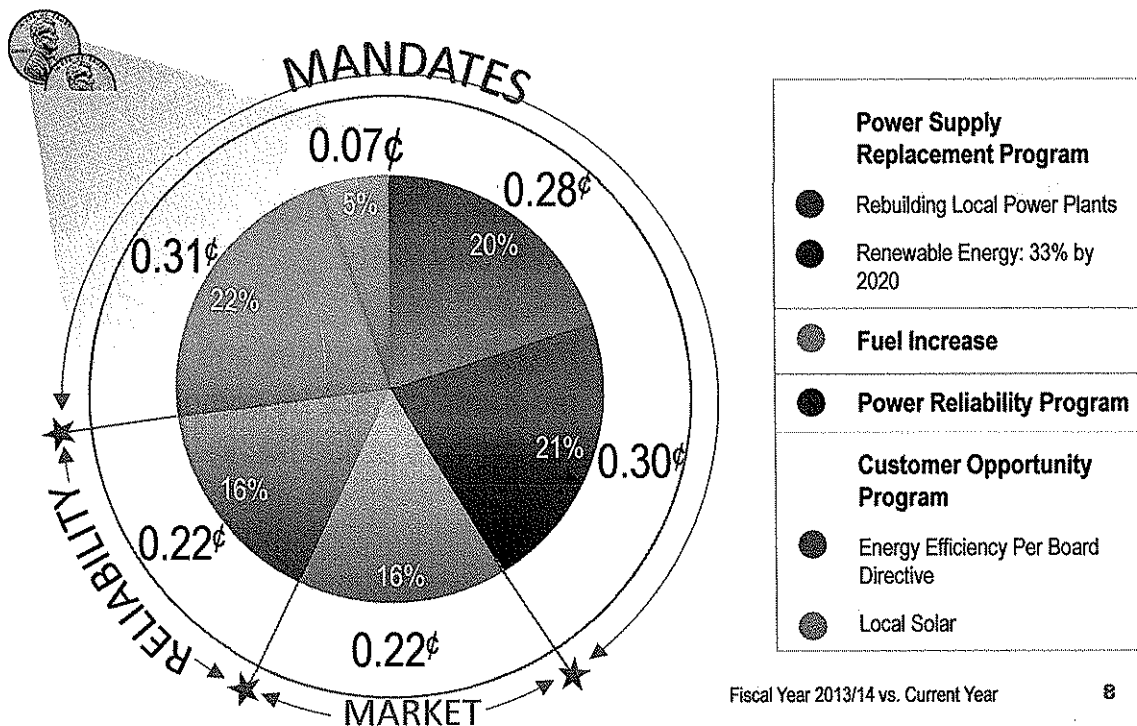
Revenue from Current Power Rates Won't Cover Power System Costs



* Capital Funding includes depreciation, net interest expense, and retained earnings

7

Drivers of 2-Year 1.4 cent increase per KWh in System Average Power Rate



8

Recommended 2-Year Rate Change with Customer Bill Impacts

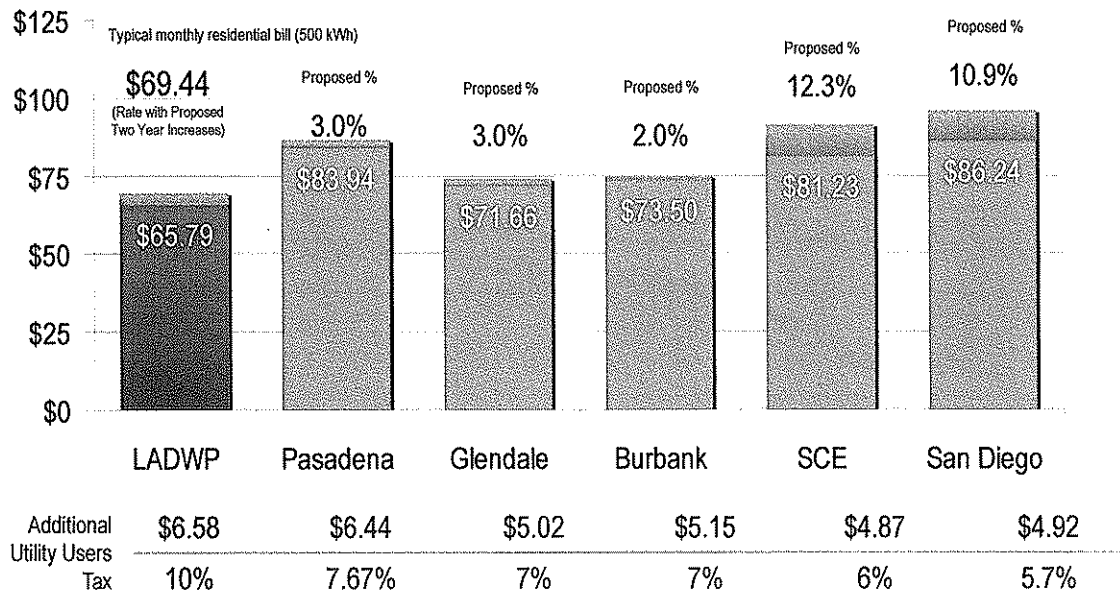
		Rate Change		Monthly Bill Impacts		
		System Avg Rate	System Avg % Change*	Typical residential (500 kWh/Month)	High-use single-family residential (1,000 kWh/Month)	Small Commercial (1,000 kWh/Month)
Current Total		12.69¢		\$65.79	\$134.07	\$136.40
Year 1	Power Rate Change (Effective July 1, 2012)	0.62¢	4.9%	\$1.57 (2.4%)	\$8.58 (6.4%)	\$6.39 (4.7%)
Year 2	Power Rate Change (Effective July 1, 2013)	0.79¢	6.0%	\$2.08 (3.1%)	\$10.21 (7.2%)	\$8.56 (6.0%)
Total 2-Year Change		1.41¢	11.1%	\$3.65 (5.5%)	\$18.79 (14.0%)	\$14.95(11.0%)

Note: Rate shown is System Average Rate. Actual rates vary by customer type and consumption levels.

9

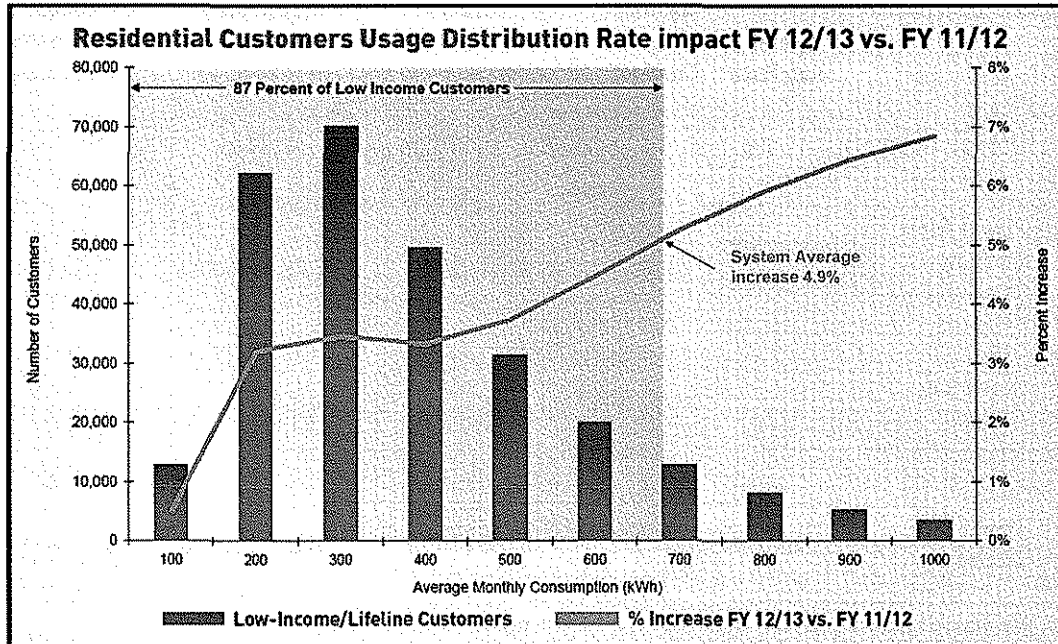
LADWP's Residential Power Rates Remain Competitive

LADWP Average Residential Customers Annualized Monthly Power Bill
Comparing with Neighboring Cities (without Utility User Tax) As of July 2012



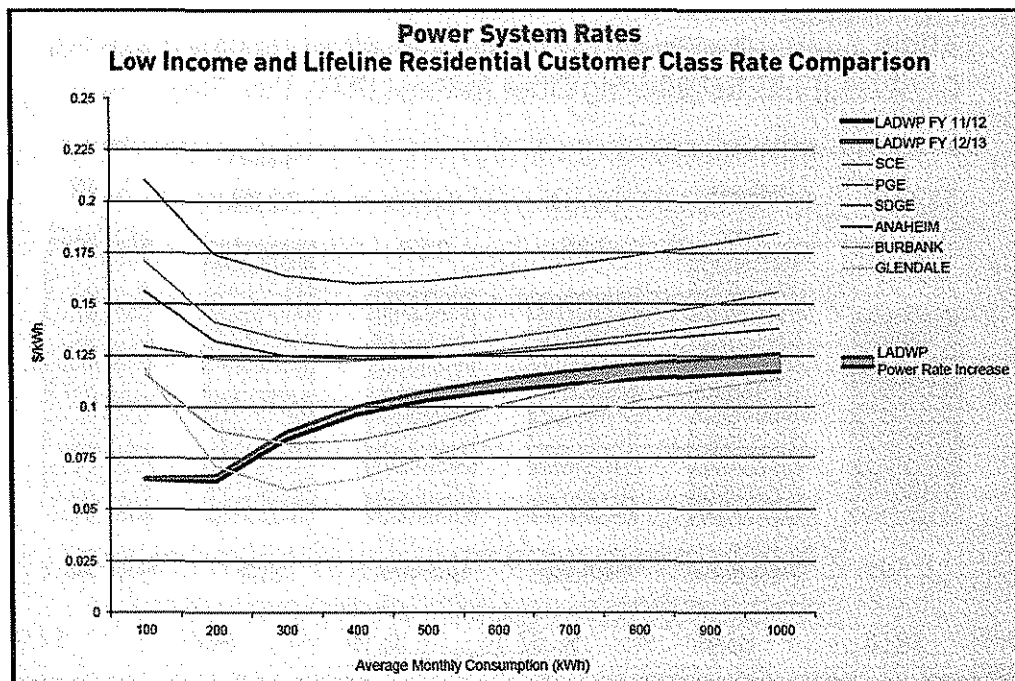
Low-Income and Lifeline Customer Impacts

- Nearly 284,000 electric customers receive Low-Income / Lifeline subsidies.
- 87% will see increases of less than the system average and over two-thirds (those using up to 400 kWh each month) will see increases of less than 3.5%, about \$0.99 or less on their bill per month.



11

Low Income Rates Compare Favorably to Neighboring Utilities



12

LADWP Offers Discount Rates & Support for Those Who Need Help Paying Their Bill

Low-Income/Lifeline Discount Program: Offsets approximately 20% of bill for income-qualified customers and 30% of bill for seniors and disabled customers.

Refrigerator Exchange Program: Provided Energy Star® refrigerators to 76,000 low-income customers since May 2007.

Weatherization program to help 3,700 low-income customers.

LADWP will work with any customer in making payment arrangements.



More Financial Support Options:

- Affordable Housing Trust Fund
- Assistance for Hearing-Impaired Customers
- Life-Support Device Discount
- Project Angel (through United Way)

13

2-Year Power Rate Changes for Commercial Customers

Average Rate Changes

(based on combination of demand and energy charges)

		Medium Commercial (A2)	Large Commercial (A3)	Large Commercial & Industrial (A3 with High Load Factor)
	Current Rate (¢/kWh)*	12.39¢	12.31¢	10.80¢
Year 1	Power Rate Change (Effective July 1, 2012)	0.66¢ (5.3%)	0.62¢ (5.0%)	0.50¢ (4.6%)
Year 2	Power Rate Change (Effective July 1, 2013)	0.84¢ (6.5%)	0.78¢ (6.0%)	0.65¢ (5.7%)
	Total 2-Yr Change	1.50¢ (12.1%)	1.40¢ (11.4%)	1.15¢ (10.6%)

* Total bill excluding tax

Notes:

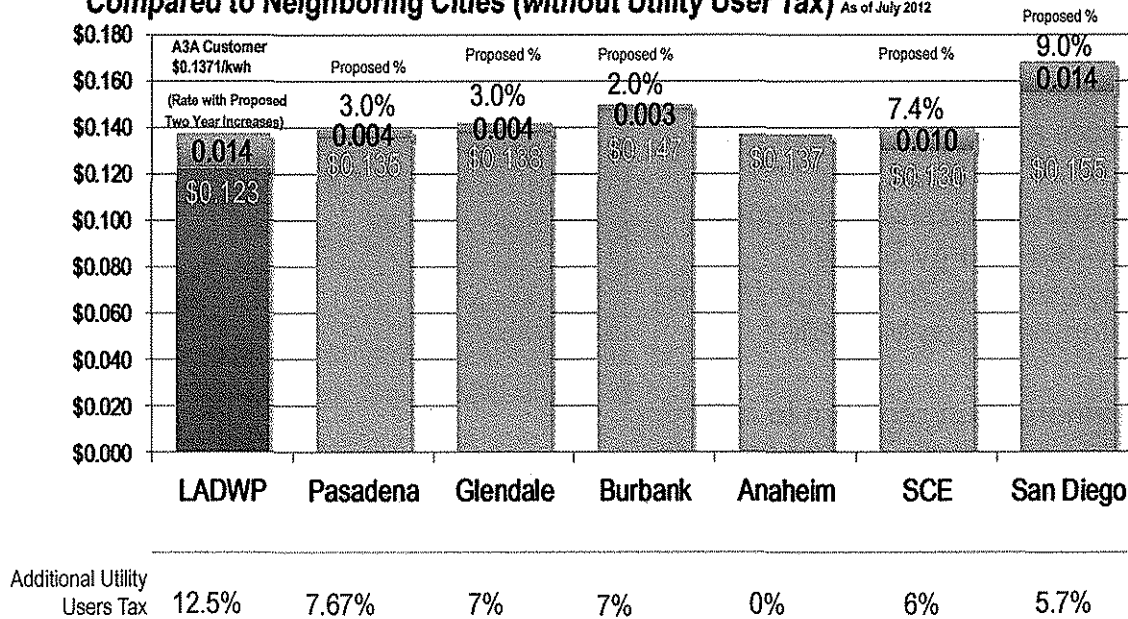
- Medium Commercial (A2): 50,000 kWh/MONTH; 175kW; LF 40%
- Large Commercial (A3): 300,000 kWh/MONTH; 1,000kW; LF 42%
- Large Commercial & Industrial (A3 with High Load Factor): 240,000 kWh/MONTH; 570kW; LF 80%

14

LADWP's Commercial Power Rates Remain Competitive

LADWP Commercial Customers-Rates per KWh

Compared to Neighboring Cities (without Utility User Tax) As of July 2012



15

Ratepayer Advocate Report Highlights

RPA Findings & Recommendations (Summary from CAO/CLA Cover Letter)

LADWP's increasing revenue requirements are driven by regulations, power system reliability needs, and credit rating considerations.

LADWP's proposed 5.5% average annual two-year rate increase is determined to be reasonable and warranted.

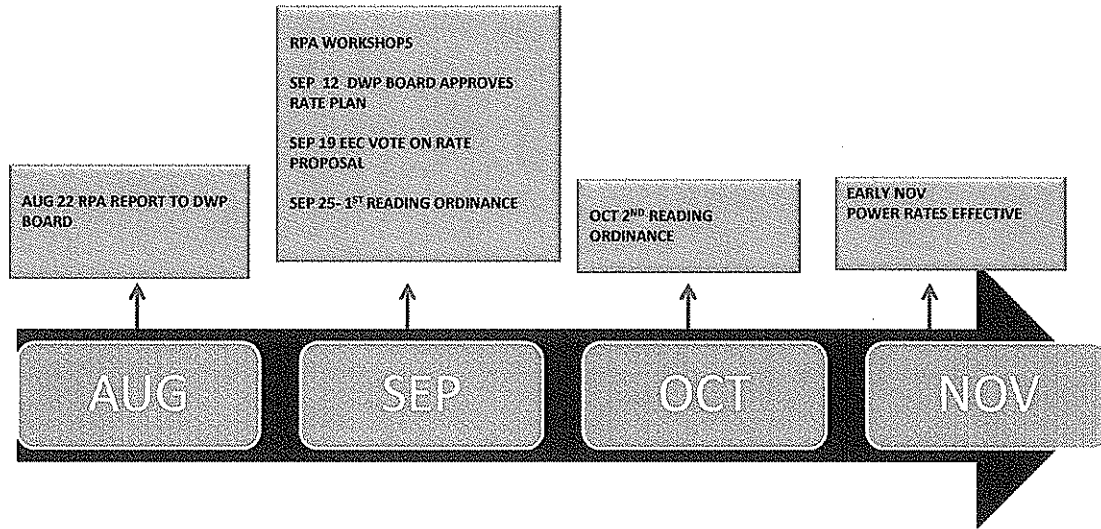
The surcharge-based restructuring approach of the two-year rate increase should be revisited in two years and be replaced with fully restructured permanent rates once legal considerations allow.

LADWP's 3-year cost reduction plan launched in 2011 has met or exceeded its first year objectives through the implementation of a hiring freeze, eliminating vacancies, reducing overtime costs, refinancing debt and increased collections.

Achieving operational cost containment will help mitigate significant future rate increases. Many of LADWP's transformational changes cannot occur without renegotiating existing labor contracts, which expire in approximately two years.

16

Rate Review/Approval Timeline





August 27, 2012

Executive Officers

Jacob Lipa, Chairman
Psomas

Brad Cox, Immediate Past Chairman
Trammell Crow Company

Alan Rothenberg, Vice Chairman
1st Century Bank

Richard Ziman, Vice Chairman, Chairman's Circle
American Value Partners

Mary Leslie, President
Los Angeles Business Council

Chairman's Circle

Celeste Altman, Haworth

Javier Angulo, Walmart

Ellen Berkowitz, Manatt, Phelps, Phillips LLP

Linda Bernhardt, Greenberg Traurig

Patricia T. Carey, Health Net, Inc.

David Cobb, HDR, Inc.

Andy Cohen, FAIA, Gensler

Joaquin DeMonet, Arden Realty

Kevin Dow, Turner Construction Co.

John Ek, Ek & Ek

Tom Flintoft, Kindel Gagan

Melinda Franklin, United Airlines

Amy Freilich, Armbruster Goldsmith & Delyac LLP

Sean Gallagher, K Road Power

Ron Griffith, Century Housing Corporation

Arno Harris, Recurrent Energy

Mary Hemmingsen, Brookfield Renewable Power

Carlos Illingworth, Safeway/Vons

Deborah Kallick, Cedars-Sinai Health System

Sharon Keyser, Paramount Pictures

Janet Lamkin, Bank of America

Antonio Manning, J.P. Morgan Chase & Co.

Mike Massey, National ITC Corporation

Allan McAutor, Airbus Americas, Inc.

George Mihlsten, Latham & Watkins

Andrew Millar, Hensel Phelps Construction Co.

Ron Nichols, LA Dept. of Water & Power

Kelly Olson, HMC Architects

Jerry Porter, CresaPartners

Kevin Rabner, Forest City

Tom Roell, Parsons

Michael Rosenfeld, Next Century Associates, LLC

David C. Sears, J.P. Morgan

Carmel Sella, Wells Fargo Bank

Sarah Shaw, JMB Realty Corporation

Patti Shwayder, AIMCO

Lori Tierney, Unisource Solutions

Nadine Watt, Watt Companies

Mike Whatley, SunPower

Jim Wilton, National Electrical Contractors Association

Gillian Wright, Sempra Energy Utilities

Ron Nichols

General Manager

Los Angeles Department of Water and Power

111 North Hope Street

Los Angeles, CA 90012

Dear Ron,

The Los Angeles Business Council (LABC) has carefully studied LADWP's proposal to raise utility rates. We are well aware of the exigent need to increase revenue to pay for much needed and overdue improvements to power system to ensure continued reliable service. At the same time we understand the LADWP's need to transition away from polluting sources of energy like coal due to state and federal mandates to reduce carbon emissions and increase renewable energy.

Given this urgent situation and your noted strides towards responsibly reducing labor costs where possible, the LABC supports the LADWP's proposed rate increase with the understanding that the Department continues its efforts at transparency and adopts clear accountability standards for its operations, maintenance, infrastructure, renewable energy and energy efficiency programs. Specifically, we recommend that the Department implement an effective cost management process to monitor and audit vital programs including conducting business plans for each program, annual performance reviews for program staff, regular standardized reports on all program costs and quarterly review of the energy efficiency program, the solar feed-in tariff program, and the infrastructure and maintenance program.

We are encouraged by the way the initial LADWP 10 MW pilot for the solar feed-in tariff program has been initiated and are looking forward to providing constructive input on the final program. We are also encouraged by the LADWP's increased commitment and funding for energy efficiency. We recommend that the department look at commonly used benchmarking models such as the Total Resource Cost test for evaluating the efficiency program's cost-effectiveness and continue to report to City Council on a quarterly basis on the efficacy of the solar feed-in tariff program.

While these rate increases are imperative for the continued health of the LADWP's systems and reliability, equally imperative is the implementation of these clean energy programs in a manner that is affordable and accountable to the rate-payer.

LABC commends LADWP for its commitment to transparency and collaboration as it moves to achieve its numerous goals and meet its challenges. For these reasons, and given the conditions we present above, we support the proposed power rate increase.

Thank you,

Mary Leslie, President



of LOS ANGELES

[illegible]

telephone 213.624.1213
facsimile 213.624.0858
www.ccala.org

Carol E. Schatz
President & CEO
Central City Association of Los Angeles



Los Angeles Area
Chamber of Commerce

September 19, 2012

Los Angeles City Council
200 North Spring St.
Los Angeles, CA 90012

Re: Support for Los Angeles Department of Water and Power's Proposed Incremental Electric Rate Ordinance

Honorable Members of the Los Angeles City Council,

On behalf of the Los Angeles Area Chamber of Commerce and our 1,600 member organizations, I am writing to express support for the Los Angeles Department of Water and Power's (LADWP) Proposed Incremental Electric Rate Ordinance, which is scheduled to be considered by the Energy & Environmental Committee on Wednesday, September 19, 2012.

The Los Angeles Area Chamber of Commerce has carefully reviewed the LADWP's proposal, and we agree with the City's Rate Payer Advocate that the LADWP needs to generate additional revenue over the next two years in order to:

- Comply with mandated Federal and State regulations and related deadlines;
- Replace/upgrade rapidly aging infrastructure; and
- Enhance conservation pricing signals and simplify the rate structure.

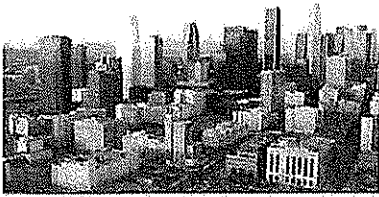
It is not any easy call for a business organization to support an increase in rates during this fragile economic climate. However, we believe the proposed rates are structured in a manner that minimize the impact on the business community, while providing LADWP with adequate revenue to support the infrastructure necessary to ensure Los Angeles continues to meet our utility goals. Furthermore, we believe that without the additional \$328.4 million in revenue, the LADWP's ability to provide safe and reliable power to Los Angeles businesses and residents would be compromised, jeopardizing the City's ongoing economic recovery. Therefore, we encourage the Los Angeles City Council to adopt LADWP's Proposed Ordinance.

Finally, I would like to commend LADWP General Manager Ron Nichols and his staff for being transparent and forthcoming with the business community throughout their decision-making process. The LADWP's transparency has significantly improved under his tenure and we encourage him, the LADWP Board of Commissioners, and the Los Angeles City Council to continue looking for ways to improve the agency's transparency and efficiency moving forward.

If you have any questions, please contact Frank Lopez at 213.580.7573 or flopez@lachamber.com

Sincerely,

Gary Toebben
President & CEO



Building Owners & Managers Association Greater Los Angeles

*Enhancing value in commercial real estate
through advocacy, education and networking.*

Council Member Jose Huizar
Los Angeles City Council
200 N. Spring Street, Room 465
Los Angeles, CA 90012

September 21, 2012

RE: Support for LADWP Electricity Rate Proposal

Dear Council Member Huizar:

On behalf of BOMA of Greater Los Angeles, we wish to indicate our support for the LADWP electric rate increase. The Building Owners and Managers Association of Greater L.A. represents over 75 million square feet of office space in the City and our members house over 250,000 workers, building staff and guests each day.

Having reviewed the LADWP proposal and report of the Ratepayer Advocate, we believe the approach outlined is reasonable and focused on ensuring system reliability, meeting state environmental mandates including renewable energy sources, and providing opportunities for building owners to continue to decrease their energy demand. BOMA members have led the way in investing in systems and procedures that cut their energy cost, and many have joined the City of L.A. Better Buildings Challenge. Yet more needs to be done, especially in older, smaller buildings.

We are concerned however, about the effect of the rate hike on the tenants in commercial buildings. The Ratepayer Advocate has identified areas in which the Department should continue to seek efficiencies and cap costs.

First, while labor costs are not a large percentage of overall department costs, they should be watched closely in the next two years. Where appropriate, the Department should consider contracting out to keep costs down. Additionally, selling excess electricity back onto the grid should be pursued, as it could offset some of the rate increases to customers.

While rising electricity costs are difficult in this economy, we applaud the measured approach recommended by the LADWP. Maintaining our power system and encouraging energy efficiency are crucial to the future of Los Angeles.

With regards,

Martha Cox-Nitkman
Senior Director for Public Policy



**STATEMENT REGARDING PA CONSULTING'S
REVIEW OF 13 LADWP JOB CLASSIFICATION SALARIES
September 14, 2012**

In a recent report on the Los Angeles Department of Water and Power's proposed power system rate action and rate restructuring request, PA Consulting recommended areas they believed LADWP could potentially reduce costs in future years, beyond the immediate two-year rate review period.

As part of that effort, PA reviewed 13 LADWP salary classifications, or approximately 3% of the total classifications utilized at the Department, and compared those salaries to salaries of similar classifications at other utilities. PA used salary data from 2007 as the basis for their analysis and a proprietary database, about which LADWP has been provided no supporting information. As such, LADWP has not verified the accuracy of PA's findings. However, we know that some differences in salaries between LADWP and other utilities can and do exist. Determining the extent to which disparities exist is very difficult to determine due to inherent limitations in the ability to accurately compare salaries between different employers with different job classes, duties and negotiated wages, in different cities with different costs of living, among other factors. For example, even with PA's resources, they were only able to analyze a small fraction of LADWP job classifications and based their conclusions on that limited data.

Employee salary and overall labor costs are issues that LADWP agrees should be part of our efforts to control costs and identify additional savings and efficiencies. These issues will of course be discussed in future labor negotiations as labor contracts near expiration; however, as PA notes, LADWP does not set salaries unilaterally.

The potential savings from any labor cost cutting effort must also be kept in perspective. LADWP has undertaken significant cost cuts, as the PA report also recognized. LADWP is absolutely committed to identifying further cost cuts and will work collaboratively with the City to do so. However, we caution against overstating or believing that labor or operating cuts would significantly reduce the need for the additional rate increases that will be required beyond the next two years. Unlike City General Fund supported departments which are typically comprised of over 90 percent labor, the LADWP's total labor budget, including salaries, overtime, pensions and benefits is only approximately 25% of its total budget.

Given this, even if the scenario for labor savings set forth by PA and the Ratepayer Advocate were achieved, by their own analysis, it would reduce future rate increases by approximately 1% – 2%, and those one-time savings would take many years to realize. While this level of savings is important, and we need to actively pursue savings where they are achievable, it must be understood in the context of the overall long-range cost drivers in water and power, which are largely driven by legal mandates with major new capital project obligations that reach into billions of dollars.

###

Legal Mandates and Aging Infrastructure Drive Need for LADWP Electric Rate Increase

- Key drivers of the power rate increase include investments needed to:
 - keep LADWP on track to meet 33% renewable energy by 2020;
 - stay on schedule with State of California requirements to eliminate the use of ocean water cooling at its coastal power plants; and
 - ramp up investments in energy efficiency over the next two years to put the Department on the path to achieving at a minimum, the required 10% reduction in electricity use by 2020.

These efforts, among others, will position LADWP to transition out of coal generation when current contracts for coal power expire, or sooner.

- The rate increases will also provide needed investments in replacing or repairing aging power distribution infrastructure. This increase will allow the Department to make a significant investment in reducing the current backlog of repairs to maintain power.
- The table below shows the two-year, average system-wide rate change and the monthly bill impact on residential and small commercial customers.

		Rate Change		Monthly Bill Impacts		
		System Avg Rate	System Avg % Change*	Typical residential (500 kWh/Month)	High-use single-family residential (1,000 kWh/Month)	Small Commercial (1,000 kWh/Month)
Current Total		12.69¢		\$65.79	\$134.07	\$136.40
Year 1	Power Rate Change (Effective July 1, 2012)	0.62¢	4.9%	\$1.57 (2.4%)	\$8.58 (6.4%)	\$6.39 (4.7%)
Year 2	Power Rate Change (Effective July 1, 2013)	0.79¢	6.0%	\$2.08 (3.1%)	\$10.21 (7.2%)	\$8.56 (6.0%)
Total 2-Year Change		1.41¢	11.1%	\$3.65 (5.5%)	\$18.79 (14.0%)	\$14.95(11.0%)

For more detailed information and to use the LADWP's online rates calculator, please visit www.ladwp.com/rates.

- The proposed 5% water rate increase that would have taken effect in July 2013 has been deferred to allow time for the city's independent ratepayer advocate, Dr. Fred Pickel, to further analyze proposed changes in the water rate structure and capital program.

