



NEXT CENTURY

BUILDING LA'S WATER & POWER FUTURE



Status Report on 2012 Rate Action Follow-up Items

Date: 3/5/14
Submitted to: E&E Committee
Council File No.: 12-1504
Item No.: 1
Deputy: Adam R. Lind

**Report to Energy & Environment Committee
March 5, 2014**


Council Follow-Up Items From 2012

Power Rate Action: Summary

		Status
2a	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.	
2b	Reevaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow.	Report to be provided
2c	Conduct a new formal cost of service study in order to prepare for future power rate restructuring.	On Track
2d	Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness.	
2e	Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers.	Ongoing
2f	Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime.	On Track

Council Follow-Up Items From 2012

Power Rate Action : Summary

2g	Complete a rigorous review of the Department's hedging plan to lock in low fuel prices.	
2h	Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost-effective level.	
2i	Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices.	Ongoing
2j	Submit a semi-annual report to the Mayor and the City Council regarding the status of the Renewable Portfolio Standards program and its impact on rates.	

Detailed Findings

Follow-Up Items From 2012 Rate Action

Status

- 2a 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.



Key MOU Components	Four-Year Savings Estimate
MOU term is extended from 10/1/14 to 9/30/17	N/A
Defer COLA from 10/1/13 to 10/1/16	\$385 Million
Entry-Level Salary Reduction for 34 Common Classes	\$15 Million
Contracting Out Overtime Reduction from 10% to 5%	\$3 Million
Sick Time Medical Certification Requirement	\$12 Million
Joint Labor/Management Resolution Board Process	TBD
Subtotal	\$415 Million
Tier 2 Pension	\$41 Million
Total Over 4 years	\$456 Million

Cost savings mean that water and power rates will be lower than the baseline forecast by the following amounts:

	FY14/15	FY15/16	FY16/17
Water	2.0%	2.9%	3.4%
Power	1.2%	1.8%	2.1%

Follow-Up Items From 2012 Rate Action

Status

2b	Reevaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow.	Report to be provided
2c	Conduct a new formal cost of service study in order to prepare for future power rate restructuring.	On Track

2b. LADWP does not anticipate a change to the surcharge-based approach would be appropriate for the next rate case, however, a report on this matter will be developed in connection with that upcoming rate case.

2c. LADWP retained consultant and has been working on a cost of service study. When complete, the study will be made available with any rate proposal.

Follow-Up Items From 2012 Rate Action

Status

- 2d 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

- Scattergood Unit 3 underway
- Benefits: comply with state/federal requirement, increase fuel efficiency and reduce emissions by 30%
- Assurance of reasonable cost:
 - Conceptual cost estimates
 - Third party review
 - Competitive procurement process used
- Benchmark of \$673/kWh; Scattergood 3 cost of \$730/kWh shows price is competitive

Power Reliability Program

- Priorities and Targets for distribution, substation, transmission, and generation
- Effectiveness and Industry Comparison
 - EPRI Review 2006, 2012
 - IEC Review completed in December 2013
 - Working with OPA/RPA on metrics

Follow-Up Items From 2012 Rate Action

Status

- 2e Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers.

Ongoing

Benchmarking

- Benchmarking of Joint System conducted during 2013 and being finalized now
- Benchmarking work for remaining of LADWP being planned now for start in 2014

Contracting Out

- Used for unique or peak jobs or where expertise is not available in current workforce.
- Examples in Power System:
 - \$32 million for vegetation management (~19% of five year program budget)
 - \$223 million over a three-year period for Power Reliability Program (total of \$516 million for FY13/14) for underground cables, overhead conductors and related structures (e.g. cross-arms, transformers, etc.).
 - \$713 million for Scattergood 3 repowering (89% of project budget)
 - Overall, 46% of planned capital budget in FY13/14

Follow-Up Items From 2012 Rate Action

Status

- 2f Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime.

On Track

SYSTEM (\$ in 000's)	LABOR	Actual FY 08-09	Actual FY 09-10	Actual FY 10-11	Actual FY 11-12	4-Year Average	Actual FY 12-13
POWER	REGULAR	\$ 370,823	\$ 395,310	\$ 390,808	\$ 403,692	\$ 390,158	\$ 404,706
	OVERTIME	\$ 99,312	\$ 98,235	\$ 94,862	\$ 72,163	\$ 91,143	\$ 82,839
	% OT	26.8%	24.9%	24.3%	17.9%	23.4%	20.5%
WATER	REGULAR	\$ 146,680	\$ 165,432	\$ 164,521	\$ 164,672	\$ 160,326	\$ 171,599
	OVERTIME	\$ 21,564	\$ 17,879	\$ 19,106	\$ 14,366	\$ 18,229	\$ 23,599
	% OT	14.7%	10.8%	11.6%	8.7%	11.4%	13.8%
JOINT	REGULAR	\$ 280,072	\$ 297,626	\$ 292,142	\$ 297,372	\$ 291,803	\$ 296,153
	OVERTIME	\$ 39,310	\$ 34,443	\$ 33,574	\$ 29,186	\$ 34,128	\$ 36,539
	% OT	14.0%	11.6%	11.5%	9.8%	11.7%	12.3%



- Overtime trended up in FY12/13 with increased workload on regulatory mandates and other key programs. Existing staff working more given bottlenecks in hiring new staff. Despite the increase in overtime, total compensation including regular salaries and overtime for FY12/13 at \$1,015 million was below budgeted level of \$1,020 million.
- Management has identified work rules and processes that affect overtime and expects to engage labor in discussions in the upcoming month to mutually prioritize the work rules to be addressed.

Follow-Up Items From 2012 Rate Action

Status

2g

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



- Currently 48% hedged for FY13/14 and 35% for FY14/15
- LADWP hired consultant PWC to conduct review of hedging program in fall of 2013
 - Draft report completed
- LADWP will review recommendations and commence improved hedging program with the goal of protecting customers from excessive natural gas price volatility

Follow-Up Items From 2012 Rate Action

Status

2h

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



- Established a metrics reporting system to provide a monthly report of actual results and projections to assist with establishing targets and monitoring progress on an ongoing and transparent basis.
- LADWP staff presented to the Board of Water and Power Commissioners on August 27, 2013, a “*Semi-Annual Report on Los Angeles Department of Water and Power Energy Efficiency Programs*”. This report is provided as Appendix 3.
- LADWP is completing a detailed EE Potential Study, the results of which will guide discussions about raising the goal of reducing consumption through EE by 2020 from 10% to 15%. Upon receipt of the study conclusions, budget requirements will be determined and circulated for discussion.

Follow-Up Items From 2012 Rate Action

Status

- 2i Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices.

Ongoing

LADWP has undertaken numerous process improvements:

Joint

- Implemented CISCON
- Implementing new Maximo Inventory control
- Supply Chain Services Reorg/Process Imprv.
- Benchmarking Study

Water

- Improved Project Management
- Owens Lake Dust Mitigation Water Optimization
- Eastern Sierra Conservation
- Meter Updates
- Regulator Station Maintenance
- \$671 million of low and zero-interest loans

Systemwide

- Eliminated assigned days off for salaried managers
- Staffing remains below budgeted level
- Tightened requirements for use of sick time

Power

- Integrated Human Resources Plan
- Facilities Information Program
- Inspection Dashboard
- Power Supply Reliability Program Assessment
- Key Performance Indicators (KPIs)

This work will continue, with a strengthened focus

Follow-Up Items From 2012 Rate Action

Status

2j Submit a semi-annual report to the Mayor and the City Council regarding the status of the Renewable Portfolio Standards program and its impact on rates.



- LADWP reports monthly on the status of the RPS program to the Board of Commissioners.
- LADWP also provides quarterly reports for Board approval related to the adjustment rate factors that recover costs for the RPS program.

Conclusions

- LADWP will continue to provide reports on progress towards these objectives until the next proposed rate action