

12-1504 #2

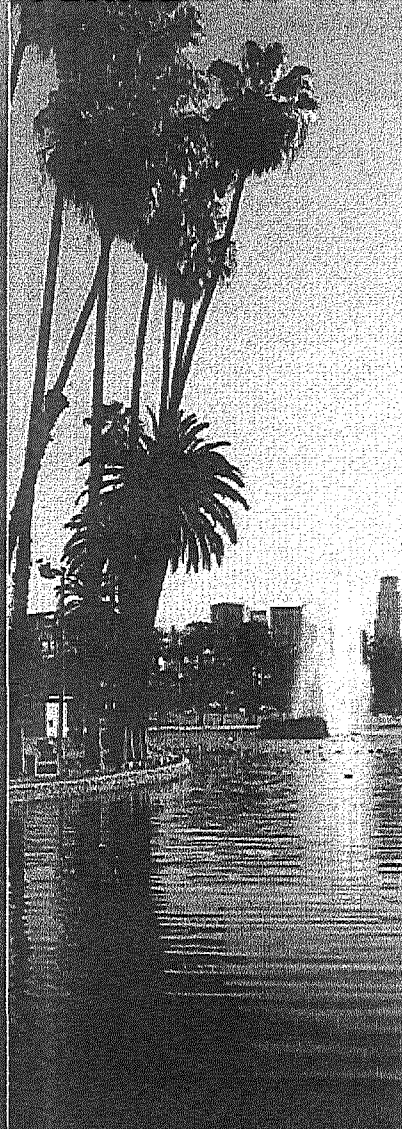
**First Report Back on Council Adopted
Recommendations for LADWP in Connection with
FY12/13-FY13/14 Power System Rates**

**Presented at:
Energy & Environment Committee
April 3, 2013**

**City Council
April 23, 2013**

Council requires LADWP to report back on 10 recommendations related to the FY12/13-FY13/14 power system rate case

#	Cost Related	Rate Impact	Description
2a	Yes	To be determined	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	No	None / Revenue Neutral	Reevaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow.
2c	No	None / Revenue Neutral	Conduct a new formal cost of service study in order to prepare for future power rate restructuring.
2d	Yes	Minor / Moderate	Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness.
2e	Yes	Moderate	Identify opportunities to contract out and explore the potential savings, including the benchmarking of staffing and outsourcing levels against utility peers.
2f	Yes	Minor	Review overtime expenses allocation, as well as the Department's contractual requirements that have an impact on overtime.
2g	Yes	Minor / Moderate as to reducing rate volatility	Complete a rigorous review of the Department's hedging plan to lock in low fuel prices.
2h	Yes	Minor	Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost effective level.
2i	Yes	Moderate	Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices.
2j	Yes	Status report only	Submit a semi-annual report to the Mayor and Council regarding the status of the renewable portfolio Standards program and its impact on rates



Recommendation 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.

- MOU with IBEW expires September 2014
- Changes to agreements require work by City management, LADWP, and its labor unions
- LADWP will communicate with Executive Employee Relations Committee

Rate Impact

To be
determined

Recommendation Status

2b

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

- Recently adopted rates added surcharge to existing rates
- Need for changes to rates for FY14/15 forward anticipated to reflect costs, marginal cost study, rate design matters
- Will work closely with the City Attorney's office to determine if legal conditions will allow for the replacement of surcharge based electric rates for FY14/15 forward

Rate Impact

None /
Revenue
Neutral



Recommendation Status

2c

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

- RFP issued for rate consultants and responses are being evaluated. Award expected in May.
- Work to include: cost of service study, rate designs/factors, seeking input from key stakeholders, and finalizing the rate proposals for both Water and Power for implementation by FY2014/15

Rate Impact

None /
Revenue
Neutral

Recommendation Status

2d.1

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

- Coastal repowering effort through 2029 to comply with EPA requirements to eliminate the use of ocean water for cooling
- Ensure the work is completed timely and cost effectively through:
 - Conceptual Cost Estimates
 - Third Party Reviews
 - Competitive Bidding & Separate Bidding of turbines
 - Comparison with other projects

Rate Impact

Minor



NEXTCENTURY

Recommendation Status

2d.2

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

- PRP funds all aspects of distribution and substation work for reliability and load growth, and non-renewable transmission work
- Three part assessment of PRP through updated EPRI study, in-house effort and consultant
 - Priorities and Targets
 - Effectiveness
 - Industry Comparison

Rate Impact

Moderate

Recommendation Status

2e

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

- Assessments conducted: overall rate levels and of various functions including cost/staffing levels.
- Role of outsourcing: peaks, limited duration, specialized expertise.
- Will consider potential of additional outsourcing based on results of studies.

Rate Impact

Moderate



Recommendation Status

2f

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

- DWP actively monitors overtime.

SYSTEM (\$ in 000's)	LABOR	FY 08-09	FY 09-10	FY 10-11	3-Year Average	FY 11-12
POWER	REGULAR	\$ 370,823	\$ 395,310	\$ 390,808	\$ 385,647	\$ 403,692
	OVERTIME	\$ 99,312	\$ 98,235	\$ 94,862	\$ 97,470	\$ 72,163
	% OT	26.8%	24.9%	24.3%	25.3%	17.9%
WATER	REGULAR	\$ 146,680	\$ 165,435	\$ 164,521	\$ 158,879	\$ 164,672
	OVERTIME	\$ 21,564	\$ 17,879	\$ 19,106	\$ 19,516	\$ 14,366
	% OT	14.7%	10.8%	11.6%	12.3%	8.7%
JOINT	REGULAR	\$ 280,072	\$ 297,626	\$ 292,142	\$ 289,947	\$ 297,372
	OVERTIME	\$ 39,310	\$ 34,443	\$ 33,574	\$ 35,775	\$ 29,186
	% OT	14.0%	11.6%	11.5%	12.3%	9.8%

- Drivers of overtime: outage restoration, need to repair aging system with limited staff
- Reductions in overtime possible, but trade-off with increasing work-backlog
- Outsourcing: Charter Section 1022 and MOU provisions

Rate Impact

Minor

Recommendation Status

2g

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

- Current policy permits up to 75% hedging.
 - Current position: 58% in FY13/14 to 14% in FY21/22.
- Current tools: (1) physical from gas-fields owned by LADWP; (2) forward physical natural gas purchases; (3) financial contracts.
- Recent events driving need to review: Controller audit, DWP consultant study, changes in hedging tools, rate structure changes vs. original hedging program goals.
- Consultant to assist in updating strategy including objective, changes since original program developed, hedge choices, reporting, controls, other recommendations.

Rate Impact

Minor /
Moderate as to
reducing rate
volatility



Recommendation Status

2h

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

- Two-year (with additional 3 year pro-forma) business plan reflective of adopted program and rates covers:
 - (1) overview; (2) budget, projected energy saving and measures of cost effectiveness (3) program description (4) rationale, objectives, anticipated outcome and strategy (5) implementation considerations; (6) long-term vision/goals; (7) process flows; and (8) indications of how the program element supports the overall Board adopted energy efficiency plan principles.
- Multi-year plan to be developed after new Energy Efficiency Potential Study later this year. Needed for:
 - (1) Sending strong signal regarding commitment to EE program; (2) need for long-term perspective for certain projects; (3) energy efficiency portfolio cost effectiveness and savings verification

Rate Impact

Minor

Recommendation Status

2i

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

- Process improvement will be a focus in the years ahead.
- To be emphasized in strategic plan:
 - Objectives include (1) Increase efficiency & effectiveness by leveraging best practices, business process improvements, technology and benchmarking; (2) Instill a culture of continuous improvement
 - Establishment of group within LADWP responsible for promoting, monitoring and reporting on performance improvement effort

System	Past, current and future projects
Power	<ul style="list-style-type: none"> ▪ Service Planning Initiative, KPIs, Plant Modernization (Castaic), solar on existing facilities ▪ Power System Model, Smart Grid Pilot, Asset management, Capital Controls
Water	<ul style="list-style-type: none"> ▪ Project Management Office for Capital Projects, Dust control measures at Owens, Revenue Enhancement through focus on meters, external funding opportunities ▪ Comprehensive Asset Management, Analysis of meters/billings, Coordination with Public Works/Street Services on paving, Water Conservation Potential Studies
Joint	<ul style="list-style-type: none"> ▪ Staffing reductions, Customer Information System, Work Management System, Supply Chain Services & Real Estate Restructuring, HR benchmark study, Joint/FSO benchmarking Study ▪ Implementing improvements from benchmarking

Rate Impact

Moderate



Recommendation Status

2j

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

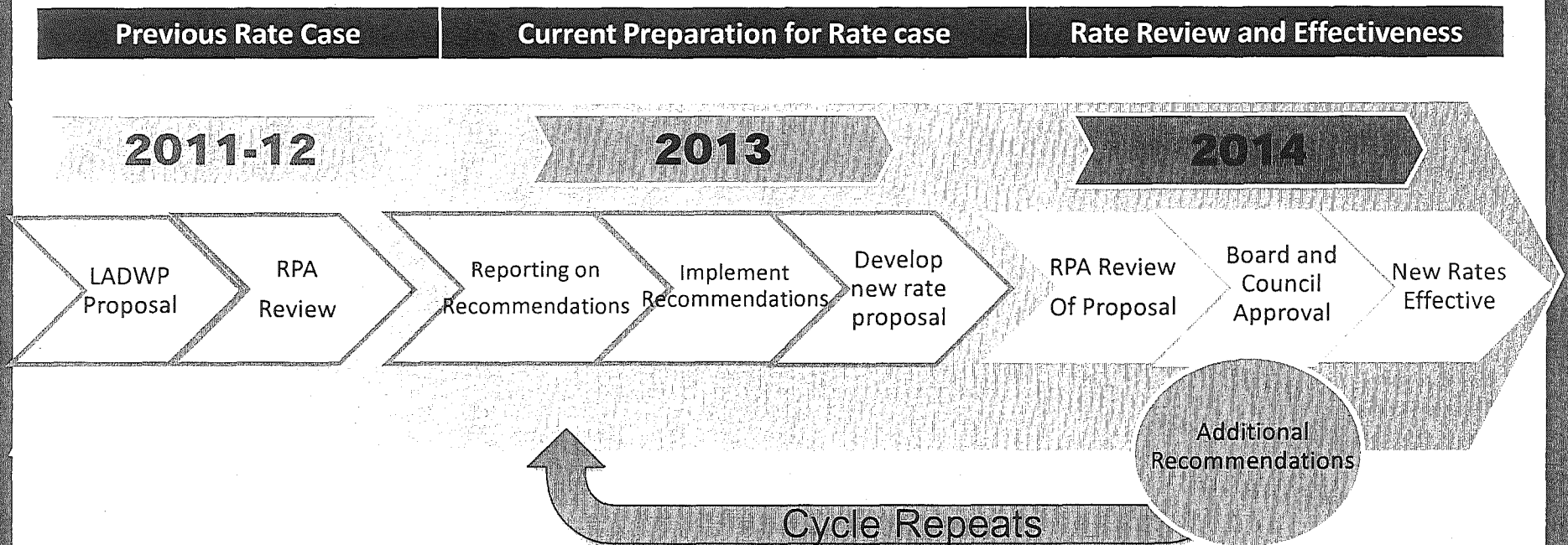
- Current monthly RPS report to Board
- Quarterly reports on rate changes recover RPS program costs
- Reviewing reports to determine additional useful information potentially more cost / rate detail

Rate Impact

Status Report
Only

Context of Recommendations in Overall Rates Process

The rate recommendations will be part of a continuous improvement cycle for LADWP. Each rate case will generate new recommendations, and incorporate changes from adopting previous recommendations.



Conclusions

LADWP will continue to strive to improve efficiency and effectiveness by addressing recommendations adopted by Council, and future RPA recommendations in furtherance of Utility's Mission and Vision



Mission >

Leader in delivering reliable water and power to LA in a customer focused, efficient and environmentally responsible manner



Vision >

Water for Life,
Power for
Progress