

Los Angeles



Department of Water & Power

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General Manager

November 20, 2013

The Honorable City Council
Office of the City Clerk
Room 395, City Hall
Mail Stop 160

Attention: Councilmember Felipe Fuentes
Chairperson, Energy and Environment Committee (E&E)

Honorable Members:

Subject: Council File 12-1504 - Incremental Electric Rate Ordinance

In connection with the Council File noted above, the Los Angeles Department of Water and Power (LADWP), as lead, in conjunction with the Ratepayer Advocate, Chief Legislative Analyst (CLA) and City Administrative Officer (CAO), hereby provide the enclosed second status report related to recommendations of the Independent Third Party Review. These recommendations were adopted by the Energy and Environment Committee on September 19, 2012, and the full City Council on October 2, 2012, in connection with the approval of the LADWP Power System rate increase for Fiscal Years 2012/13 and 2013/14. This second report provides updates to the status of each recommendation supplementing the initial responses from March 2013. For ease of reference and in recognition that these recommendations are an ongoing effort, the initial responses are also provided. Those initial responses provided background related to each recommendation, measures taken to date, and an indication of future plans of LADWP in each area. A summary of the recommendations, along with an indication of the potential/likely savings that could be generated from each is shown in the table on page 2. These savings indications have been and will continue to be updated as work is conducted on the recommendations. As an example, the savings for recommendation 2a regarding salaries and benefits and contracting out have been updated from "to be determined" to "moderate" given the completion of the contract amendment with the International Brotherhood of Electrical Workers Local 18 that will provide an estimated \$456 million in savings over four years.

Los Angeles Aqueduct Centennial Celebrating 100 Years of Water 1913-2013

111 N. Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles, CA 90051-5700
Telephone: (213) 367-4211 www.LADWP.com

No.	Cost Related	Magnitude of Potential/Likely Rate Impact*	Description
2a	Yes	Moderate	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	Revenue Neutral overall, but moderate changes between classes.	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	Spending on the energy efficiency program is a moderate contributor to the anticipated need for rate adjustments needed over the coming years.	Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost-effective level.
2i	Yes	Moderate, potential assessments still underway.	Seek greater Departmental efficiencies by pursuing process improvement efforts across a range of areas and practices.
2j	Yes	Status report will not affect rates, but implementing the RPS program does.	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.

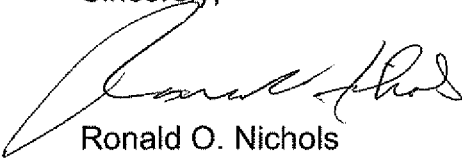
*Assessments of potential/likely rate impact are subjective at this time, and are likely to be refined over time as additional work is completed on the recommendations.

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The responses contained in this report are as of September 2013. LADWP will be continuing efforts for progress in all of these areas, under the oversight and direction of the Board of Water and Power Commissioners, the Mayor, the Energy & Environment Committee, and the entire City Council. LADWP notes that additional details on our progress related to the above areas will be further documented in an overall status report on improvements since the last rate case that will be included in the planned rate proposal anticipated for early 2014.

If you have any questions or further information is required, please contact me at (213) 367-1338, or your staff may contact Ms. Winifred J. Yancy, Director of Intergovernmental Affairs and Community Relations, at (213) 367-0025, or Philip Leiber, Chief Financial Officer, at (213) 367-8755.

Sincerely,



Ronald O. Nichols
General Manager

PL:en

Enclosure

c/enc: Honorable Eric Garcetti, Mayor, City of Los Angeles
The Honorable Bob Blumenfield, Vice-Chair, E&E
The Honorable Jose Huizar, Member, E&E
The Honorable Paul Koretz, Member, E&E
The Honorable Tom LaBonge, Member, E&E
Dr. Frederick Pickel, Executive Director, Office of Public Accountability
Mr. Ron Galperin, City Controller
Mr. Gerry Miller, Chief Legislative Analyst
Mr. Miguel Santana, City Administrative Officer
The Board of Water and Power Commissioners
Mr. Philip Leiber
Ms. Winifred J. Yancy

**LADWP'S 2ND REPORT OF RESPONSES
TO THE LOS ANGELES CITY COUNCIL'S FOLLOW-UP ITEMS ON RATES
(Council File No. 12-1504)**

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.

1st Status Report Response:

LADWP's memorandum of understanding between the Utility and the largest labor organization expires in September 2014. Negotiations will be undertaken between the City and the labor organization between now and the expiration of the contract. Given that salaries are not set unilaterally, changes to labor agreements will necessitate leadership and cooperation between City management, LADWP, and its labor unions. Accordingly, LADWP will have further communications with the City's Executive Employee Relations Committee regarding this topic on a confidential basis, for subsequent discussions with labor.

2nd Status Report Response:

The City Council approved on August 23, 2013, a settlement agreement that will provide significant savings to LADWP ratepayers and will make significant progress towards allowing for "greater flexibility to contract out effectively" and "bring salaries and benefits closer to other power utility providers". The agreement, if also approved by IBEW members during a September 2013 vote, would generate savings over the contract term and thereafter. Key elements of the agreement include:

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
Employee Healthcare Contribution Defrayal	N/A
Joint Labor/Management Resolution Board Process	TBD
Total Estimated Savings over four years	\$415 Million

Additionally, reciprocity between the Water and Power Employees' Retirement Plan (WPERP) and Los Angeles City Employees' Retirement System (LACERS) will be amended as follows for all future transfers: (1) Each system will only pay for service credit earned while an employee is a member of that system; (2) Employees may purchase time served with the other system at full actuarial value; (3) Employees transferring from either retirement plan are barred from entering Tier 1 pension plans and will enter the Tier 2 pension plan at each system. WPERP has in past years been adversely impacted by transfers of City employees to LADWP, causing underfunding and higher required costs that have to be borne by LADWP ratepayers. The reforms noted above will eliminate this issue going forward.

All new hires will also be placed in a new Tier 2 pension that provides for the following changes:

Key Plan Design Components	Current	Proposed
Formula (Unreduced):	2.1% @ Age 60/5 Years 2.3% @ Age 55/30 Years	2.1% @ Age 63/10 Years 2.3% @ Age 63/30 Years
Maximum Pension:	100%	80%
Pension Calculation:	Highest Year Salary	Highest Three-Year Average
COLA:	3% maximum	2% maximum
Employee Contribution:	6% Total	7% Pension 3% Retiree Healthcare 10% Total
Retiree Health Subsidy:	Two-Party Coverage	Single-Party Coverage
Total Estimated Savings:		\$41 million over four years, \$1.875 billion (PV) over 30 years (at 2.9% discount rate)

Certain elements of the proposal will also be applicable to employees not in the IBEW including the new second tier pension. The deferral of cost of living adjustments will require negotiation with the other LADWP unions, but the current settlement agreement provides the template for the City's objectives in resolution of those matters as well.

Finally, the agreement provides a mechanism to permit additional progress toward the objectives of allowing for "greater flexibility to contract out effectively" and "bring salaries and benefits closer to other power utility providers". The agreement defines a process to review and potentially amend the rules that define how work is performed and the cost of that work. These rules are defined in the labor agreement (memorandum of understanding, or "MOU" provisions including appendices and footnotes), as well as Letters of Agreement, Letters of Intent, and Settlement Agreements. This review will be conducted through the Joint Labor/Management Resolution Board (JRB). Both management and labor may submit items through this process, which may include: compensation, salary inequities, bonuses, overtime, other supplemental pay, LADWP pay codes, and working rules. The JRB will specifically review salary disparity between classes common to other City Departments and the LADWP by September 30, 2014.

The quantified elements of the agreement as described above are expected to save \$456 million over four years, and as a result, LADWP water and power rates will be lower than they would otherwise have been in the absence of this labor agreement. In comparison to LADWP's financial projection that assumed a continuation of current compensation and benefit terms and anticipated cost of living increases during each of the next four years, the cost savings from this settlement will mean that water and power rates will be lower than the baseline forecast by the following amounts:

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

2b: Reevaluate and consider replacing the surcharge-based restructuring approach with fully restructured permanent rates once legal considerations allow.

1st Status Report Response:

The recently adopted Power rate ordinance modified existing rates by applying surcharges to the rates in effect prior to the rate modification.

LADWP anticipates the need for rate adjustments for FY 2014/15 and forward. At that time, the rate ordinance would need to be updated to reflect changed costs. Further, LADWP intends to conduct a marginal cost of service study in the next two years to examine the allocation of costs between customer classes, and this too could result in changes in rates specified in the current incremental rate ordinance.

LADWP is amenable to the development and adoption of a new rate ordinance to replace the incremental and previously existing rate ordinance currently in place, as conditions develop that will permit that approach. LADWP will continue to work closely with the City Attorney's office to determine if legal conditions will allow for the replacement of the recently implemented surcharge based electric rates when future rate adjustments are made for FY 2014/15 and beyond. The recently adopted incremental rate ordinance requires a report on this matter, and LADWP will comply with this requirement:

Sec. 6. That, within two years of the effective date of this ordinance, the LADWP and the Office of Public Accountability, in consultation with the Office of the City Attorney, shall report to the Board of Water and Power Commissioners and to the City Council as to whether consideration should then be given to fixing revised rates.

LADWP intends to provide such a report in connection with the next anticipated rate filing for FY 2014/15.

Magnitude of potential rate impact: None

2nd Status Report Response:

No change to response from first status report. At this time, LADWP does not anticipate a change to the surcharge-based approach would be appropriate for the next rate case, however, as required, a report on this matter would be developed in connection with that upcoming rate case.

2c: Conduct a new formal cost of service study in order to prepare for future power rate restructuring.

1st Status Report Response:

LADWP developed and issued in early 2013 a Request for Proposal (RFP) to retain a consultant to further review issues regarding rates, including rate design matters, and the development of an updated formal marginal cost of service study for both the Water and Power Systems. The new rates consultant contract should be awarded by May of 2013, with work beginning soon thereafter.

Working with the selected contractor, LADWP staff will begin the process of developing rate designs/factors, seeking input from key stakeholders, and finalizing the rate proposals for both Water and Power for implementation by FY 2014/15.

Magnitude of potential rate impact: None

2nd Status Report Response:

A consultant was selected and brought for Board approval on June 4, 2013. Work on the cost of service study commenced in June. Internal assessment of various cost of service issues has been conducted since then, in consultation with the Office of Public Accountability/Rate Payer Advocate (OPA/RPA). LADWP plans to outreach to city elected officials to discuss various elements of these cost of service studies in the coming weeks, as well as outreach to key customer groups thereafter, followed by the formal proposals for evaluation by the OPA/RPA around the beginning of 2014.

Magnitude of potential rate impact: No impact on overall revenue requirement, however there is the likelihood of changes of cost allocations between customer classes that can result in moderate rate impacts.

2d: Conduct a benchmarking assessment to review the cost per project for the repowering program and the Power Reliability Program to ensure cost reasonableness.

1st Status Report Response:

LADWP has prepared two separate responses to this follow-up request—this response addresses the Repowering Program. Direct benchmarking assessments are challenging given the circumstances facing LADWP in the repowering of its coastal gas-fired plants to eliminate once-through cooling and maintain a reliable system which is supported by these key generating units. To ensure cost effectiveness, LADWP is relying primarily upon (1) a highly competitive procurement process for the coastal plant repowering and (2) use of new construction bids for similar combined cycle generating units in a separate power plant procurement process underway by LADWP for comparative purposes. With that said, some comparisons are possible as described below.

LADWP is committed to developing and providing to our customers power that is reliable, complies with state's renewable portfolio requirements, other regulatory

mandates, and is cost effective. The annually published *Integrated Resource Plans* describes the LADWP's plans for how the power portfolio will change over time to meet these requirements, including evaluation of alternative means to meet future power supply needs. The coastal repowering effort is being conducted to comply with state and federal Environmental Protection Agency requirements to eliminate the use of ocean water for cooling. These plants must be replaced sequentially over a period extending through 2029. Given the magnitude of the work involved, and the costs, LADWP has dedicated significant resources and attention to ensure the work is completed timely and cost effectively. To ensure cost effectiveness, the LADWP follows the approach outlined below (presently being used for the current Scattergood Unit 3 repowering effort):

1. Conceptual Cost Estimates: Prior to the development of a repowering project, the Project Manager developed a conceptual cost estimate based on current pricing trends for similar projects recently built by others. For the conceptual cost estimates, the repowering project manager also obtained current pricing for labor and major equipment (i.e. turbines, generators, steam generators, transformers, emission control equipment, etc.). Additionally, the conceptual cost estimate considers the specific site conditions (site demolition and preparation, connections for water, fuel, transmission, sewer, telecommunications, etc.), and current regulatory requirements (environmental mitigation, emission controls and limits, permit requirements, chemical storage, sewer or industrial waste discharge, aesthetics, etc.). Finally, additional features for operation, maintenance, safety and long term reliability are given significant weight and consideration as LADWP will own, operate, and maintain these units for their full life.

2. Third Party Reviews: LADWP has retained a third party engineering firm, Worley Parsons, that is fully knowledgeable with similar repowering projects and they have provided LADWP with a target cost estimate for this project. Their costs are based on similar projects, the uniqueness of this project, and current market conditions.

3. Competitive bidding: To encourage best pricing and performance, the contracts are competitively bid through a public process in accordance with the provisions of the Los Angeles City Charter. Proposed contracts are publicly posted and awarded and competition for contractors and suppliers is strongly promoted in the pre-bid activities. LADWP has solicited a request for proposal to turbine suppliers (the largest component cost of the project) and to Engineering and Construction firms. By providing basic project parameters, LADWP will be able to achieve best pricing for the unique conditions of the site.

4. Comparison with Other Projects: The Scattergood Unit 3 project is unique in several aspects, and therefore exact project-to-project comparisons are not possible. Factors distinguishing this project include: building new units in a constrained property while existing units continue to operate, tight timeframes required for overall repowering program compliance, other regulatory requirements including meeting the most stringent air quality management standards in the country. That said, it is of interest to compare costs, while recognizing these limitations. On another natural gas-fired project

separate from the repowering of the coastal gas-fired units, LADWP is in the process of evaluating proposals for the purchase of a generating station using gas-fired combined cycle technology similar to the planned replacement of the Scattergood Unit 3 project. In response to a competitive RFP, proposals have been received for both new and existing power plants. Some of the new projects have similar features to the Scattergood Unit 3 replacement project, although none of the other projects reflect the unique constraints of building on an existing area-limited site such as encountered in each of the LADWP coastal generating plant sites at which the units must be totally replaced. LADWP believes that these prices are also reflective of the current market conditions and have enough similarities to the Scattergood Unit 3 project such that our current target prices from earlier steps 1 through 3 have been affirmed.

One nearby comparison is the El Segundo power plant presently under construction. This plant, about a mile apart from Scattergood 3, reflects some similar conditions and the cost is comparable. Based on a comparison of contracts between this plant and LADWP's, it is within 5 percent cost per kWh.

Other factors that affect the cost of the repowering at Scattergood Unit 3 versus some other plants include the factors noted below, most of which relate to the unique "existing site" at Scattergood versus the "greenfield" nature of the construction at other locations.

- Need for noise abatement in an urbanized environment.
- Type of cooling towers--dry versus wet; dry must use different designs to reduce noise, while staying within height limitations.
- Less real-estate available, requiring underground cabling to have deeper duct banks.
- Retaining walls because the Scattergood site is on terraced terrain.
- The need for ground water mitigation during construction.
- Maintaining operation of the existing in-basin plant.
- Separating shared piping and systems to other units.
- Built out nature of the site makes moving equipment during construction difficult which increases the labor cost.
- The construction staging area has to be leased at a premium cost in the expensive Los Angeles Airport area and the cost of transportation to the site.
- Parking of approximately 450 vehicles and bussing the workers and the labor cost during travel (labor contract requirements).
- The type of construction labor utilized (union versus non-union).

5. Additional cost savings efforts: To reduce project costs on the repowering projects, LADWP has purchased the turbine/generators separately. This reduces the approximate 10 percent mark-up on parts by the Engineer-Procure-Construct (EPC) contractor and puts the selection of the key components of the project under the control of LADWP. Thus LADWP is able to assure that this critical material will be available for the project to meet the schedule. Typically, the turbine/generators comprise 30 to 50 percent of the overall project cost and by LADWP performing the contract administration; the savings can be in the range of \$30 to \$40 million per project.

Additionally to minimize project risk and to keep existing generators functioning during the project, LADWP has used a combination of in-house forces and contractors to do the site preparation work such as relocating utilities (gas and chemical pipelines) and to clean and demolish old fuel oil tanks. LADWP construction forces will do the construction work on the interconnecting transmission station which is an energized area. The contractor will perform all the rest of the engineering and construction work and LADWP will manage the project, inspect the site work, perform limited factory inspections on major equipment, and administer the contracts.

LADWP proposes to follow the above approach to assure best pricing prior to the initiation of each repowering project.

Magnitude of potential rate impact: Minor

2nd Status Report Response:

- Overall Repowering Program: In regards to the overall status of the repowering program, Haynes Units 5 and 6 repowering has been completed and Scattergood Unit 3 work broke ground this past June.

As noted in the first status report, direct benchmarking on LADWP's repowering program assessments are challenging given the circumstances facing LADWP in the repowering of its coastal gas-fired plants. Therefore, in order to ensure cost effectiveness, LADWP is utilizing a highly competitive procurement process; comparisons to other similar projects to the extent possible; and third party reviews.

In addition, the following table containing estimates from the Gas Turbine World Handbook 2012 indicates that LADWP's prices for the Scattergood Generating Station Unit 3 turbines were competitive.

Gas Turbine World Handbook (+/- 5%)		SGS Base Bid Pricing	
LMS100 CT x2	\$72	LMS100 CT x2	\$75
7FA CC (1x1)	\$81	7FA CC	\$86
Balance of Plant	\$200*	Balance of Plant	\$222
Cost / kWh (\$)	\$673 / kWh	Cost / kWh (\$)	\$730 / kWh

*Based on GTW's design build estimate minus the CC price

- Increased Generating Unit Efficiency from Repowerings: The repowering of LADWP's coastal generating units not only ensures that it complies with the State's Once-Through Cooling mandate, it also: 1) replaces older technology with modern high-efficiency generating units; 2) assists in integrating intermittent renewable energy into our system through faster unit starting and ramping; 3) reduces emissions; and 4) increases reliability.

As an example, the repowering of Scattergood Unit 3 will increase its efficiency by almost 30 percent (reducing fuel consumption and greenhouse gas emissions) from what is currently in place. It is also likely that the efficiency of the

units included in the future repowerings will increase beyond what is currently anticipated because of continuous improvements in technology.

- Castaic Power Plant Modernization and Capital Rehabilitation: Castaic is an extremely valuable power plant given its ability to store energy and provide fast ramping. As noted in the first Status Report, LADWP has also been modernizing its Castaic Pump Storage Hydro plant. The final and 7th unit will be modernized by April of 2014. Based on test results, an improved efficiency of approximately 3 percent in pump mode and 1percent in generate mode was achieved. The overall plant capacity has also increased by approximately 80 to 90 MW.

Magnitude of potential rate impact: Minor

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.

1st Status Report Response:

LADWP has prepared two separate responses to this follow-up request—this response addresses the Power Reliability Program (PRP).

LADWP concurs with the recommendation, and will undertake steps in the coming months to make further progress in this area. LADWP has retained the Electric Power Research Institute (EPRI) previously to evaluate the PRP, but more detailed analysis is warranted, and LADWP plans to undertake this work internally and through consulting support.

The PRP consists of 41 Functional Items (budget line items) for both capital and operation and maintenance activities (O&M) for the Power System. It covers funding for all aspects of distribution and substation work for reliability and load growth, and non-renewable transmission work. The “assessment” aspect of the recommendation will address issues such as: (1) how LADWP sets priorities or targets; (2) effectiveness of the spending; (3) how LADWP’s spending for PRP compares with others in the industry.

1. Priorities and Targets:

- *Distribution - LADWP replaces distribution assets based on condition, load growth, or because of customer requests for relocation or service connections. Due to budget limitations in recent years, all the equipment replaced has been primarily a reactive process based on a determination of conditions from various inspection programs, equipment failures, and budget allowances. The urgency of the repair is dependent on the severity of the potential failure, condition of the equipment and the safety to the public. The only proactive program currently in place is our line clearance tree trimming program, and this program has been funded at a minimal level to live within allowed rate levels.*

- *As a result of budget limitations, there are currently 41,000 distribution system items requiring action (so-called Fix-It Tickets) for pending repair in our backlog and the number is climbing due to funding limitations.*
- *Every program has annual targets that are budgeted and monitored weekly.*

2. Effectiveness:

A recent review of the PRP by EPRI found that since 2007, LADWP's distribution reliability has held steady on a net basis. Some programs have reduced outages caused by specified factors, while other programs need to be expanded because certain types of outages continue to rise. See Appendix 2 for this EPRI report. Continued work will be undertaken to prioritize spending and direct resources to program elements that have the greatest benefit to reliability.

3. Industry Comparison:

LADWP is working to pick up where the updated EPRI study left off to develop reliability and financial models to set program priorities to be the most effective. Current activities are to look at our various PRP programs and their effectiveness and contribution to improving reliability indices. In the April time frame, a task will be issued to a consultant to perform an independent audit of our programs and to benchmark aspects of the PRP program performance.

Another consultant task will be issued to develop a methodology to analyze possible changes to distribution, substations and transmission systems either for design or program scope, and the attendant effect on reliability and cost. It is also a tool that will enable LADWP to adjust priorities due to changing conditions as well as provide optimal designs. This analysis and development of the modeling tools is expected to be completed in September 2013.

Magnitude of potential rate impact: Moderate

2nd Status Report Response:

LADWP is currently updating its Power System Reliability Program (PSRP) Business Plan to ensure that our expenditures maximize the reliability benefits for its Ratepayers. Therefore, the primary goal of the updated PSRP is identify and prioritize all of the projects necessary to improve the reliability of our aging infrastructure in a cost-effective manner and consistent with industry best practices.

To that end, and as discussed in the first Status Report, LADWP has issued a task for a Consultant (IEC) to perform an assessment of its reliability capital program expenditures and methodologies. The Scope of Work is for the Consultant to evaluate the PSRP and perform a Reliability Benchmark Assessment (RBA) consistent with industry's best practices to ensure that appropriate levels of expenditures are committed to the overall PSRP in regards to distribution, substation, transmission, and generation.

The expected completion date remains in September-October 2013. LADWP will review the PSRP on an annual basis and to continuously improve its processes and procedures such that effective reliability assessments are performed consistent with best industry practice.

Magnitude of potential rate impact: Moderate

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

1st Status Report Response:

LADWP has implemented, and will continue to identify opportunities for process improvements throughout the Utility. At the highest level, LADWP regularly monitors water and electric rates against peers as this is a key indicator of overall value to customers. Operational assessments of important business processes have been conducted in the water, power, and system support systems, while information sharing with other utilities has been conducted to learn about best practices. LADWP recognizes the importance of operating efficiently, and intends to achieve this through process optimization and continuous process improvement. Such measures will contribute to the effective and efficient use of LADWP's staff. LADWP's strategic plan, currently under development, will include initiatives towards this end.

Outsourcing in LADWP is typically done to supplement staffing for peaks, short duration jobs/work of an emergency nature, or work that requires specialized expertise that does not exist within the staff. For example, the Power System uses contractors for unique or peak jobs such as design/building contractors for the construction of new power plants, engineering contractors for technical support on unique and large projects, environmental contractors for hazardous materials handling and disposal, environmental consultants for project permitting, specialty machining and repair contractors for unique turbine and generator repair work, real estate services for large project land acquisitions, and tree trimming contractors for the power distribution and transmission right of ways. That said, as a municipal utility, the Power System continues to see value in primarily relying on skilled, knowledgeable, and dedicated staff to perform core work. The Water System's use of outsourcing is comparable. The Water System is aware of discussions within water utility associations to explore further collaboration regarding shared services, and LADWP will participate in these discussions to see what value such approaches could have for us.

As LADWP continues to use outsourcing as a tool to accomplish certain goals, Management will further investigate outsourcing potential through information obtained from operational assessments and benchmarking studies. The Utility will continue to consider outsourcing where it appears advantageous, subject to the provisions of the Memorandums of Understanding (MOU) with the labor unions.

Magnitude of potential rate impact: Moderate

2nd Status Report Response:

Benchmarking

In the fall of 2012, LADWP began, with the assistance of PA consulting, a study reviewing the costs of services in the "Corporate Shared Services and Customer Service Division". A draft report has been completed and is undergoing final review to ensure accuracy of LADWP reported data. The intent of the report was to provide LADWP a mechanism to:

1. Monitor, support and improve service levels in these areas;
2. Help evaluate staffing requirements and other costs based on changes in workload as LADWP transforms its water and power supply and modernizes its infrastructure; and
3. Help the organization evaluate its performance relative to peers.

The study uses LADWP data for FY2011/12 and compares it to data available from PA Consulting's 2012 Corporate Services and Polaris Customer Service Studies (based on 2011 calendar year data, Corporate Services Benchmark and Polaris Customer Service studies for 2011). The studies benchmark power-centric utilities serving large cities in California and other states. Data for 68 metrics was compiled for LADWP shared services functions including Operation Support Services (including fleet, facilities, reprographics, records management), Information Technology, Supply Chain Services, Security, Environmental Affairs, Communications, Local Government and Community Relations, Human Resources, Corporate Safety, Financial Services, and Customer Service.

The survey includes data on the relative use of outsourcing at LADWP compared to peer utilities for selected metrics. In addition to presenting results for each area, the report includes recommended follow-up activities which are presently underway.

LADWP will also be preparing a plan for wider benchmarking of the Water and Power systems as required by Counsel's August 2013 motion, and will submit a preliminary plan for accomplishing such work during September 2013.

Contracting Out

Power System Current Status of Major Contracting Out Opportunities:

As noted in the first Status Report, LADWP utilizes contracting for a variety of work including but not limited to: (1) Unique or peak jobs such as design/build contractors for the construction of new power plants; (2) Engineering contractors for technical support on unique and large projects; (3) Expertise that is currently not available from our current workforce; (4) Supplementing the LADWP workforce to account for peak work that will continue for an extended period of time. Such work is contracted subject to the provisions of the City Charter, and the MOUs with Labor Unions. Contracting out of work is conducted for work in both the operating & maintenance (O&M) and capital budgets.

The Power System utilizes contracting out for O&M work. As an example, the Power Transmission and Distribution Vegetation Management Program (i.e. tree trimming around power poles and lines) requires approximately \$32 million in contracted out O&M services that represent 19 percent of the overall Vegetation Management Program budget for the next five fiscal years.

In FY 13-14, the Power System plans to contract out approximately 46 percent of the Power System capital budget. The table below shows the percentages of planned Power System contracting to the total Power System capital work (segmented by contract type) for the next five years.

	\$ in Millions				
Contract Type - Capital	FY 13-14	FY14-15	FY 15-16	FY 16-17	FY 17-18
Construction Services	524.7	542.5	338.6	327.3	531.3
Other Outside Services	38.8	83.2	119.8	185.5	177.7
Professional Services	54.1	47.5	27.4	12.9	13.6
Total	617.5	673.2	485.8	525.8	722.6
Total Capital Budget	1351.4	1377.2	1137.1	1254.9	1414.6

	% of Capital Budget				
Contract Type - Capital	FY 13-14	FY14-15	FY 15-16	FY 16-17	FY 17-18
Construction Services	38.8%	39.4%	29.8%	26.1%	37.6%
Other Outside Services	2.9%	6.0%	10.5%	14.8%	12.6%
Professional Services	4.0%	3.5%	2.4%	1.0%	1.0%
Total	45.7%	48.9%	42.7%	41.9%	51.1%

Notes: These figures do not include Joint System Organizations that are Power Funded. Data for years beyond FY13-14 is preliminary and subject to adoption of budgets for those years.

Examples of contracting out for two key capital programs follows: (1) Power System Reliability Program; (2) Power System Replacement Program.

With respect to a key element of the Power System Capital budget (\$1.565 billion for FY13/14), a material portion of the spending on the Power Reliability Program capital budget (total of \$516 million for FY13/14) will be contracted out. A major element of the Program is the timely replacement of aging underground cables, overhead conductors and related structures (e.g. cross-arms, transformers, etc.). Given the existing workload and the lack of a sufficient number of field crews, the Power System intends to contract out approximately \$223 million over a three-year period to perform this critical work.

Proposed Future PRP Contracts				
SCOPE	EST VALUE	TERM	TARGETED BOARD DATE	TARGETED START DATE
Install, remove, and splice Underground Distribution System Cables - Spec. 531	\$49M	Up to 3 years	Dec. 17, 2013	Jan. 13, 2014
Install, remove, and replace Overhead Distribution Facilities (south of Mulholland Drive and within City boundaries) – Spec. 532	\$87M	Up to 3 years	Dec. 17, 2013	Jan. 13, 2014
Install, remove, and replace Overhead Distribution Facilities (north of Mulholland Drive and within City boundaries) – Spec. 540	\$87M	Up to 3 years	Dec. 17, 2013	Jan. 13, 2014
Total	\$223M			

In terms of flexibility, LADWP policy allows contracts to be structured so that Power System will only be required to expend 25 percent of the contract limit and be allowed to expend 25 percent over the contract limit. The actual spending levels will fluctuate based upon the available funding levels and/or the Power System’s success in filling critical vacant field positions.

The level of contracting out utilized by the Power Supply Replacement Program (\$624 million of capital spending in FY13/14 of the \$1.565 billion capital budget) is substantial. For example for one key project in this program, the estimates for the repowering of Scattergood Unit 3 (capital) include a total of \$713 million in construction, professional and other outside services that represent 89 percent of the overall project budget for the next three fiscal years.

Magnitude of potential rate impact: Moderate

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

1st Status Report Response:

LADWP’s use of overtime is affected by numerous factors, most of which are operational in nature, and some of which driven by MOU provisions, including provisions related to the contracting out of work performed by LADWP staff.

LADWP proactively monitors overtime expenses, and has reduced such costs as part of cost-containment efforts. From FY 2008-09 to FY 2010-11, overtime averaged 12.3 percent for the Water System, 12.3 percent for the Joint System and 25.3 percent for the Power System. The 2011-12 cost reduction plan reduced the level of overtime to around 10 percent for the Water System, 10 percent for the Joint System and 22 percent for the Power System resulting in an estimated projected savings of \$25 million in FY 2011-12. Financial results for FY 2011-12 show that actual overtime rates for the Water, Power, and Joint Systems are below the rates from a year ago.

Overtime is 8.7 percent for the Water System, 9.8 percent for the Joint System, and 17.9 percent for the Power System. Overall, the LADWP was at a 13.4 percent overtime rate for FY 2012. At this rate, the LADWP will save an estimated \$45 million in overtime costs compared to the FY 2010/11 rate.

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%

Emergency response and restoration of outages contribute significantly to these overtime costs in the Water and Power Systems. In the Water System, overtime is driven primarily by two factors in about equal proportions--capital related work including installation of infrastructure and water quality projects, and O&M which is predominately responsive to leaks and related service restoration. In the Power System, overtime related to outages and emergency response is tracked separately and has been about 12-15 percent recently. Other Power System overtime is driven by the need to maintain and repair an aging system, with a workforce that has been hard pressed to keep up. As a result, for the past three years, the Power System has steadily reduced overtime spending but at a cost of increased backlog in general maintenance, i.e. fix-it tickets, and reduction in pole and cable replacements. The Power System will continue to explore opportunities to further reduce overtime costs without compromising the delivery of essential services to the residents of Los Angeles.

The prevailing rules as to when the LADWP may outsource are found in Charter Section 1022, which provides authorization for City Departments to enter into contracts when it is determined that the work can be performed more economically or feasibly by independent contractors than City employees. The MOU between LADWP and the International Brotherhood of Electrical Workers (IBEW) also specifically address "Contracting Out" in Appendix B. For work such as vegetation management and underground conduit construction, contracting out provides relief for stressed internal forces, and has been regularly used by the LADWP.

Magnitude of potential rate impact: Minor

2nd Status Report Response:

SYSTEM (\$ in 000's)	LABOR	FY 08-09	FY 09-10	FY 10-11	3-Year Average	FY 11-12	FY 12/13 (June 1-6 Closing)
POWER	REGULAR	\$ 370,823	\$ 395,310	\$ 390,808	\$ 385,647	\$ 403,692	\$ 404,706
	OVERTIME	\$ 99,312	\$ 98,235	\$ 94,862	\$ 97,470	\$ 72,163	\$ 82,839
	% OT	26.8%	24.9%	24.3%	25.3%	17.9%	20.5%
WATER	REGULAR	\$ 146,680	\$ 165,432	\$ 164,521	\$ 158,878	\$ 164,672	\$ 171,599
	OVERTIME	\$ 21,564	\$ 17,879	\$ 19,106	\$ 19,516	\$ 14,366	\$ 23,599
	% OT	14.7%	10.8%	11.6%	12.3%	8.7%	13.8%
JOINT	REGULAR	\$ 280,072	\$ 297,626	\$ 292,142	\$ 289,947	\$ 297,372	\$ 296,153
	OVERTIME	\$ 39,310	\$ 34,443	\$ 33,574	\$ 35,775	\$ 29,186	\$ 36,539
	% OT	14.0%	11.6%	11.5%	12.3%	9.8%	12.3%

Note: FY12/13 numbers are preliminary/subject to audit adjustments

Overtime usage has trended up in FY12/13 given the increased workload the LADWP has faced in making progress on regulatory mandates and other key programs. The LADWP had budgeted for increased staffing to address this additional ongoing work, but has not been able to hire at the planned pace; accordingly existing staff are being required to work more overtime to continue progress on this required work. Funding for budgeted staffing was to increase to 9,417 for FY 12/13, however, staffing was only at 8,764 as of June 30, 2013. Despite the increase in overtime, total compensation including regular salaries and overtime for FY12/13 at \$1,015 million remains below the budgeted level of \$1,020 million.

In FY13/14, we expect this upward trend in overtime will continue. Funding for budgeted staffing was to increase to 9,706, however, net employee outflows due to retirements continues in the near term to outpace new hiring. Accordingly, utilization of overtime to complete needed work will continue. LADWP will recognize in the budget for FY14/15 and subsequent years the need for flexibility in how work is accomplished given these trends. Needed work will be accomplished by staff additions where warranted for ongoing work, overtime, and where appropriate, contracting.

Magnitude of potential rate impact: Minor

2g: Complete a rigorous review of the Department's hedging plan to lock in low fuel prices.

1st Status Report Response:

LADWP is currently working on developing an updated hedging strategy for implementation during 2013. Steps that have led to this being an appropriate and opportune time for a thorough review of the hedging plan include:

- LADWP has received certain recommendations and third-party advice regarding hedging including:

- A City Controller's "Audit of LADWP's Contracts for Fuel Procurement and Purchased Power" completed in June 2012 included five recommendations related to hedging, at least two of which require further studies by LADWP, including whether hedging instruments other than those currently permitted to LADWP should be authorized, and to determine the most advantageous timeframe for hedging.
- During FY2011/12, LADWP contracted with a consultant to conduct a review of hedging practices, which are governed by the Retail Natural Gas Risk Management Policy (Risk Policy) and Section 10.5.3 of the Los Angeles Administrative Code (City Ordinance). This report, issued in the fall of 2012, found LADWP met its hedging objective of reducing the price volatility of natural gas needed for retail customers and LADWP realized gas hedging mark-to-market losses on average, and when normalized by natural gas operating capacity, were lower than average losses at other companies in both FY 2008/09 and FY 2009/10 whose operations include similar risks.
- In recent years, declining natural gas prices raised questions about prudence of locking in future gas needs at higher than spot market prices. Natural gas prices, after several years of declines due to the weak economy and increased gas supply, have begun to firm up and increase moderately.
- In October 2012, LADWP submitted (as required by the Risk Policy and City Ordinance) for Board approval a ten-year budget of natural gas volumes. With the approval of the budget, LADWP has authority to enter into contracts and financial transactions for the purchase of natural gas for the production of electricity for retail customers for FYs 2013-14 through 2021-22.
- Changes in the viability and attractiveness of certain hedging tools has taken place in recent years, including: (1) regulatory uncertainty around the treatment of biogas purchases for meeting renewable energy requirements; (2) uncertainty regarding potential additional administrative burdens and financial implications related to the Dodd-Frank Financial Regulatory Reform bill; (3) increasing recognition of the LADWP's limited borrowing capacity for purchasing interests in gas fields given competing capital needs.

LADWP is working to retain a consultant to assist the LADWP in the development of an updated hedging strategy that will reflect these issues, and help meet the goal of reducing volatility in the cost of natural gas and thereby mitigate fluctuations in retail electric rates. This review will consist of an assessment of the current hedging program goals, changes since the development of the program in 2004, available instruments, parameters/limits, reporting, metrics, controls/oversight and other recommendations for changes to improve program effectiveness.

LADWP's hedged natural gas position is consistent with the current hedging policy, which permits up to 75 percent of natural gas budget volumes to be hedged for each year. FY 2013/14 is 58 percent hedged, and for FYs 2014/15 through 2021/22, LADWP's natural gas needs are hedged in declining percentages ranging from

42 percent to 14 percent. LADWP's current hedge position has been the result of a strategy which calls for cost averaging which is a disciplined approach to hedging. The focus of this strategy has been to mitigate volatility rather than to "time the market" or otherwise aim to take advantage of perceived "low points" in ever changing natural gas prices.

LADWP's hedged position results from several sources of "firm supply", including:

- physical natural gas from gas-fields owned by LADWP;
- forward physical natural gas purchases, including a biogas contract with a specified price for ten years; and
- financial contracts where LADWP pays or receives the difference between a specified contract prices and market gas prices in the spot market in the settlement month.

There may be other hedging instruments (such as options) that can help LADWP achieve the goal of mitigating the risk of fuel price volatility that may or may not be permitted under the current City Ordinance for the hedge program (Los Angeles City Administrative Code Sections 10.1.1(b) and 10.5.3). To the extent that additional instruments can play a useful role and are recommended in the hedging strategy assessment noted above, LADWP may request amendments to the hedging authority to permit such use.

LADWP will report back in a subsequent quarterly update on the progress of the development of the updated hedging strategy.

Magnitude of potential rate impact: Minor as to cost reduction, moderate as to reducing fluctuations in rates.

2nd Status Report Response:

LADWP issued in June 2013 a solicitation letter to a vendor to assist LADWP in the formulation of an updated hedging strategy. The vendor began on-site work at LADWP during September 2013, and their scope of work includes the following:

1. Define overall strategy for hedging timeframe (long vs. short term).
2. Define key risk measure, limits and controls to align natural gas hedging strategy with the:
 - a. Approved ECAF and target customer rate levels with focus on reduced rate impacts and overall fuel cost reduction.
 - b. Target financial ratios.
3. Identify various options for derivative instruments (including futures) and hedging timeframe and identify benefits/impacts of each on portfolio cost, risk and credit and margining.
4. Perform sensitivity assessments on LADWP portfolio with proposed hedging strategies in rising, falling and flat market prices at 2-, 5-, and 10-year durations.

- 5. Perform a basis risk assessment between Kern River, SoCal and other appropriate supply/delivery locations for inclusion in hedge plan. Develop framework (templates and tools) for LADWP to perform annual or semi-annual review on ongoing basis.

The next Status Report will likely cover the recommendations from this consultant report. LADWP has also appointed a new Fuels Manager in the Power System, who will have overall responsibility for all fuel hedging.

LADWP is also finalizing an updated fuel and purchased power budget for the five fiscal years of 2014-2018. Based on those new projections of natural gas needs of LADWP, the amount hedged by year has changed from the amount reported in the first quarterly response:

Time	Outlook
First Report (March 2013)	FY 2013/14 is 58 percent hedged, and for FYs 2014/15 through 2021/22, LADWP's natural gas needs are hedged in declining percentages ranging from 42 percent to 14 percent.
Current Outlook (September 2013)	FY 2013/14 is 48 percent hedged, and for FYs 2014/15 through 2021/22, LADWP's natural gas needs are hedged in declining percentages ranging from 35 percent to 19 percent.

No new hedges have been added during this period; the changes are reflective of the updated outlook of natural gas needs. The primary drivers of the change in the natural gas needs are:

- Early divestiture of Navajo Generating Station.
- Anticipated higher RPS generation during off-peak hours that displaces Intermountain Power Project energy rather than natural gas fired generation during peak times. This causes more natural gas generation.
- Slightly slower than anticipated RPS and Energy Efficiency program implementation, resulting in higher natural gas generation.

These hedged positions remain in compliance with the volumetric limits called for in the hedging policy parameters and governing documents, however, additional hedges will be considered upon the completion of the hedging strategy work noted above.

Magnitude of potential rate impact: Minor as to cost reduction, moderate as to reducing fluctuations in rates.

2h: Establish a plan for energy efficiency that maintains expenditure levels at an achievable and cost effective level.

1st Status Report Response:

LADWP has an existing energy efficiency plan for the present fiscal year and for FY 2013/14 that matches the existing approved rates. This is supported by an energy efficiency portfolio business plan that covers these two fiscal years and also provides a pro-forma outlook for the following three years. The plan provides, for each element of the overall energy efficiency program: (1) overview; (2) budget, projected energy savings 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. This document will be released in the coming weeks.

Additionally, LADWP will develop and adopt a multi-year plan for energy efficiency, inclusive of savings targets and budgets, after the completion of an updated Energy Efficiency Potential Study later in calendar year 2013. Such a plan will be reflected in future financial plans and rate proposals beyond FY 2013/14. This plan will serve several purposes supportive of energy efficiency:

1. Multi-year commitments to energy efficiency by utilities send a strong message to the marketplace and other stakeholders that the utility is serious about energy efficiency, and that future incentives and rebates can be relied upon when customers are planning projects. In addition, such longer-term energy efficiency planning and commitments can reduce the likelihood of seeing the Energy Efficiency budgets cut as a more "discretionary" item to control costs when the Utility faces tight finances. This continuity is critical to building sufficient market acceptance, participation, and momentum for the City to achieve its ambitious goals around energy efficiency.
2. For some types of energy efficiency projects, an even longer-horizon is warranted. Accordingly, LADWP will seek to specify energy efficiency plans and budgets in several program areas for a period. These areas include commercial and residential new construction, infill, redevelopment, and other planned development activities associated with a longer planning horizon. For example, commercial construction projects often take three to five years from initial planning through construction and to occupancy. A building owner must know that incentives committed today will indeed be paid when the project is completed several years in the future, in order to include such incentives in upfront financial decision-making about what level of energy efficiency to incorporate in the project.
3. Finally, energy efficiency portfolio cost effectiveness and savings verification are key to the successful incorporation of energy efficiency as the least-cost resource in the LADWP's long-term power procurement plans. That is, energy efficiency programs and expenditures are evaluated as options to the procurement or other commitment to power supply resources in the Utility's Integrated Resource Plan and in adoption

of an energy efficiency plan. LADWP is also required by SB 1037 to perform regular measurement and verification on its energy efficiency programs to evaluate the performance of energy efficiency investments, and is committed to apply the feedback received to the portfolio in order to drive continuous improvement in future program design and execution.

Magnitude of potential rate impact: Minor

2nd Status Report Response:

LADWP continues its ramp-up of its energy efficiency portfolio according to the Portfolio Business Plans developed earlier in the year. Updates on several key areas follow:

- A uniform and regular KPI reporting system has been established in the Energy Efficiency organization in order 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 has launched \$60 million per year of Direct Install programs, serving residential (HEIP) and small business (SBDI) customers, as well as LAUSD (LAUSD DI). LADWP expects all three direct install programs to achieve full momentum in the first quarter of 2014 (third quarter of the 2013-14 fiscal year). LAUSD DI currently has three crews performing the EE measure installations and plans to increase staffing at the earliest opportunity. SBDI has recently begun active fieldwork, while HEIP will ramp up in earnest in the coming months.
- As part of the expanded EE portfolio, LADWP has partnered with the Southern California Gas Company (SCG), via an inter-utility agreement, to provide a more comprehensive package of EE services for residential and commercial new construction programs (California Advanced Homes and Savings By Design), and a comprehensive home retrofit program (Energy Upgrade California). In the next month, LADWP expects to enter into partnerships with SCG on SBDI and LAUSD, as well as a combined effort to provide technical project development assistance to larger, more complex projects. All of these joint efforts create economies of scale for both LADWP and SCG, and as each utility will alternate taking the lead on implementation of certain programs/projects which will reduce program administration costs for each utility, and reduce customer confusion.
- A new record was set in the Energy Efficiency organization in June, as in the closing month of FY 12-13 (June 2013), we were able to process 234 Commercial Lighting Efficiency Offer (CLEO) project rebates, representing a 244 percent increase over what we were able to process in June 2012, and this is not a one-time fluke; given our performance in the current and other recent months, this progress is proving to be sustained and sustainable (i.e. the "new normal").
- LADWP is adopting the Codes and Standards methodology used by the IOUs to account for declining overall savings potential in voluntary EE programs due to increasingly stringent codes and standards. California estimates the amount of

savings resulting from statewide codes and standards efforts and has a methodology to allocate a share of those savings back to utilities to make up for reduced voluntary program savings opportunity in their respective service territories. The IOUs in California have taken advantage of this mechanism since the early 2000s, while thus far the POUs have not. As LADWP’s voluntary programs are similarly affected as the IOUs, LADWP is adopting the same methodology to allocate savings from codes and standards to our EE reporting as the IOUs. It is estimated this will give us approximately an additional 65 GWh per year in reportable savings.

- LADWP will update the portfolio business plans in the first quarter of 2014 to incorporate refined projections for coming years based on actual performance during FY 2012-13, and the first two quarters of FY 2013-2014. The EE potential study contract was awarded in August 2013, and the study should be completed in early 2014. The findings of the Potential Study will be integrated into the program business plans.
- Energy Efficiency: The Power System is providing staffing and resources to increase energy efficiency for LADWP. Utility Pre-Craft Trainees (UPCTs) are effectively being used to supplement the workforce as part of LADWP’s Workforce Development Plan.

Community-Based Organizations (CBOs) are providing outbound canvassing across all Council District’s to identify eligible business and residential customers for our SBDI Program and the HEIP for our low-income customers.

<p><u>LAUSD:</u></p> <p>LAUSD completed schools:</p> <ul style="list-style-type: none"> - LA Academy - Evans Adult School - Lanterman High School <p>LAUSD schools in progress:</p> <ul style="list-style-type: none"> - North Valley Occupational Center - El Camino Real High School - Banning High School <p>LAUSD schools in queue:</p> <ul style="list-style-type: none"> - Glassell Elementary School - Fairfax High School - Los Angeles High School 	<p><u>SBDI:</u></p> <ul style="list-style-type: none"> – Completed installations (960) – Pending assessments (1203) <p><u>HEIP:</u></p> <ul style="list-style-type: none"> – Completed homes (472) – Pending assessments (324)
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- 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.

Magnitude of potential rate impact: Spending on the energy efficiency program is a moderate contributor to the anticipated need for rate adjustments needed over the coming years.

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

1st Status Report Response:

Process improvement efforts will be a focus for LADWP in the years ahead. This will be reflected in the soon to be released draft strategic plan, which will include process improvement as a major focus area supported by several initiatives, including the establishment of a small organization within LADWP which will be responsible for promoting, monitoring, and reporting on performance improvement efforts.

Process improvement initiatives have also taken place in the past, and are underway currently. The implementation of the electronic procurement system "eRSP" was an effort completed in recent years. The development of a new customer information system in the Customer Services Division is an example of one key ongoing effort that will be completed in 2013, and which reflects not just the implementation of newer software and computer systems, but new business processes to improve efficiency, accuracy, and improve the overall customer interface. In 2013/14, LADWP will begin formal assessments of replacement of key financial systems for similar improvements.

Improvement initiatives have always been a focus in the Joint area, and in the Power and Water Systems, as described further below:

Joint/Systems Support Division

Over the past 18 months, several initiatives of the System Support Division (SSD) have been in progress to improve internal controls and efficiency throughout LADWP:

- The System Support Division (SSD) has achieved a 4.3% staffing reduction in the past year.*
- SSD is also pursuing or supporting process improvements in a number of areas. The Information Technology Services Division is currently supporting the replacement of the Customer Information System and Maximo Work Management System. The Maximo implementation is particularly significant as the implementation includes material handling, which will help address inefficiencies in procurement and inventory management.*
- SSD recently restructured Real Estate Services to dedicate staff in support of the Water and Power Systems. The restructuring will enable staff to become more familiar with the specific operating requirements of each System while leading to improved and more efficient service. A similar restructuring is underway for the Supply Services Division.*

- *In Supply Chain Services, a new Director with a career of supply chain service experience was hired and the new Director has (1) reorganized and provided dedicated teams to support water, power, joint to provide better understanding of each system's procurement needs and be more responsive to procurement priorities; (2) streamlined the process for required subcontracting with the adoption of a new small business program; (3) implemented improvements to the purchasing card program to streamline the procurement process for small purchases, while meeting the need for control over purchasing card use by employees in accordance with past audit recommendations; (4) eliminated non-valued added steps in the procurement process, etc. Such progress will continue into 2013.*
- *In the Human Resources Division, another joint service, management has recently engaged in a benchmark study to identify best practices and meaningful metrics with the goal of exploring potential savings, optimal resourcing and staffing levels, and process improvements.*
- *The entire Support Services System, including Financial Services, has during fall 2012 been participating in a benchmarking study of all key support functions (so-called "shared services"), comparing costs of these functions at LADWP against those of other utilities. With the results, LADWP will develop a prioritized list of areas for further investigation and performance improvement efforts. See also response to question 2e.*

Power System

Process improvements occur continually in the Power System. The following are a sampling of those types of process improvements that have transpired or are currently underway. Prior Initiatives include:

- *Two initiatives implemented in Service Planning this past year that received a City of Los Angeles' Productivity Award. One new Service Planning initiative provides new service options for customers, resulting in faster design and installation, with reduced cost to both the customers and to LADWP.*
- *The Power System tracks key performance indicators (KPIs). Every Division in the Power System has specific targets that roll up to System goals that provide a measurable check on achieving strategic objectives. This tool is used LADWP-wide and provides an open platform to set goals and monitor progress. By monitoring these KPIs and their trends, corrective actions can be made to improve service and overall effectiveness and control costs. The tracking tool was recently updated to improve reporting functions. Tracking of these KPIs will be a continued effort and reference to overall process improvements.*
- *The Power System just completed an update of the prioritization process for all proposed capital projects to ensure best use of capital dollars. The ranking process was based on a variety of strategic objectives including reliability, environmental stewardship, and competitive rates. This process will be expanded into the PRP area as described in more detail in the response to recommendation 2d.*

- *The Power System has modernized the Castaic Power Plant to improve overall operating efficiency. The new turbines and the modifications to the hydraulic path have improved the generating unit output and pumping efficiencies.*
- *The renewable energy program maximized the use of LADWP property and existing electrical infrastructure by building two new 10-mw solar power plants at our Pine Tree Wind Farm and Adelanto Converter Station. They are also installing solar projects on LADWP-owned buildings. This is an example of maximizing the use of LADWP assets and controlling costs while reaching our renewable energy goals.*
- *The Power System has adopted a "Safety by Design" program wherein projects are evaluated in their conceptual stages to incorporate operating efficiency, operational safety, and safe maintenance access to equipment. Through this effort, we believe there will be long-term benefits of employee safety records through reduced lost work injuries such as strains, sprains, and repetitive motion injuries. Additional benefits will come in the form of improved operability and maintainability of equipment through improved ergonomics and equipment access. Specific examples are cited in the EPRI Ergonomics Handbook for the Electric Power Industry.*

These are examples of efforts underway to improve system efficiencies:

- *Power System Planning and Engineering Divisions are developing a power system model. The model will have a wide range of functionality but a critical piece of the electric model will be to identify areas of power system electrical losses and then model the equipment improvements that will help offset those losses. The program to reduce losses will include the installation of shunt reactors in critical locations on our in-basin transmission system over the next ten years. Based on findings from the electric model, additional system equipment may be added throughout the power distribution system to reduce losses. Reducing system losses is equivalent to LADWP customers adopting energy efficiency measures and results in lower need for power supply resources, thereby reducing the cost of power to LADWP customers.*
- *As a pilot project, the Power System will be installing new smart meters to determine possible reductions in system losses, other costs, and to enhance overall customer opportunities. This will be a part of the overall Smart Grid Development Program effort.*
- *The Power System is implementing a new asset management system to incorporate best practices on new and existing equipment. Through this program, the LADWP expects to optimize maintenance costs, life cycle costs, and best practices for overall equipment maintenance.*
- *The Power System is improving capital project controls through additional features in the Work Management Information System. Additionally, the Power System is working on improvement of overall project management process to ensure proper approval and review processes throughout the life cycle of a project. A Project Management Technical bulletin is being developed to ensure overall consistency in*

the execution of major projects. Through proper scoping, scheduling, estimating, and overall management of these projects, the LADWP will benefit in cost and general effectiveness. These actions are consistent with the recommendations of the 2012 Controller's audit of Construction Management practices.

Water System

LADWP's Water System continually seeks and acts to improve performance on core responsibilities. Recent accomplishments include:

- *In the area of capital projects management, the Project Management Office has been expanded to provide increased project oversight and control for all capital projects.*
- *Water System has made improvements in the area of operational and distribution system efficiency through the Regulator Station Retrofit Program (see Appendix 1 for more details).*
- *Implementation of water conservation and water-less dust control measures at Owens Lake. This is a major multi-year program aimed at meeting regulatory requirements for dust control on Owens Lake while reducing wasteful water applications for dust mitigation with measures that use no water or far less water, while simultaneously enhancing the environmental value of Owens Lake for habitat (see additional detail in Appendix 1).*
- *On the Water distribution side, revenue collection has been enhanced by executing strategies developed to provide for more timely repair and replacement of stuck/defective meters, reduce the number of estimated meter reads, and increased automation.*
- *LADWP has initiated pilot projects to test/evaluate alternate pipe materials to maximize the life of pipeline infrastructure and reduce the long-term cost of ownership.*
- *The Water System has also been aggressively pursuing external funding opportunities, which are very helpful in our efforts to reduce rate impacts for our customers. Nearly \$200 million of no interest loans for water quality projects were obtained in the Third Quarter of 2012 and there are continuing efforts to identify additional funding opportunities.*
- *The Water System has also undertaken a variety of additional cost saving measures including modified work schedules, modifying flow schedules to increase hydropower generation along the L.A. Aqueduct, securing low-cost contracts and reduced chemical usage, reduced travel, and targeted hiring to meet the most critical of staffing replacements for vacancies caused by retirement or other employee departures.*

Current efforts to improve system performance in the Water System include:

- *Development of a comprehensive asset management program is continuing to assist in making optimal decisions and more accurate forecasts for required near-term and long-range infrastructure replacement expenditures.*
- *To protect and accurately account for meter revenues, industry experts have been hired to assist with analysis of customer billings, water consumption, and water meter selection. An RFP has recently been issued for expert assistance in developing maintenance programs for large meters, which generate approximately 20 percent of the total Water System revenue (see additional detail in Appendix 1).*
- *We are also working with the City's Bureau of Street Services and Department of Public Works to improve planning and coordination of construction projects in City streets to reduce paving costs and improve the long-term durability of the street.*
- *Water System continues to build on successes in water use efficiency, moving forward with a Water Conservation Potential Study to more comprehensively assess the current hardware conservation saturation rate and how much hardware conservation potential is available within the City of Los Angeles.*

Additional detail regarding these projects is available upon request.

Magnitude of potential rate impact: Moderate

2nd Status Report Response:

LADWP-wide Changes

- Elimination of Assigned Days Off (ASDOs) for managers: salaried managers previously could work modified work schedules of 80 hours over 9 days. This arrangement was eliminated.
- Overall staffing remains well below the level prior in January 2011, prior to the current General Manager. Staffing was at 9218 in January 2011 and currently is at 8,764 as of June 30, 2013. This represents 454 fewer employees overall, or almost 5 percent of the workforce (4.92 percent) in 2.5 years.

Joint/Systems Support Division

- The Customer Service Division went live with CISCON on September 3, 2013. This project replaced LADWP's 36-year old Customer Information System. CISCON is a new integrated system utilizing modern technology to better serve customers.

Over the past 24 months, a number of initiatives of the Systems Support Division (SSD) have been in progress to improve internal controls and efficiency throughout LADWP:

- Staffing Reductions: The SSD has continued optimizing staffing by achieving a 5.4 percent staffing reduction over the past 24 months.

- Process Improvements: SSD is also pursuing or supporting process improvements in a number of areas. The Information Technology Services Division is currently supporting the replacement of the Customer Information System and Maximo Work Management System. The Maximo implementation is significant as the implementation includes material handling, which will help address inefficiencies and improve procurement and inventory management. The implementation of Maximo for Supply Chain Services is anticipated for the second quarter of calendar year 2014.
- Restructuring: SSD restructured Supply Chain Services and Real Estate Services to dedicate staff in support of the Water and Power Systems. The restructuring enables staff to become more familiar with the specific operating requirements of each System while leading to improved and more efficient service.
- Supply Chain Reorganization and Improvements: In Supply Chain Services, the new Director has completed her first year with LADWP and has (1) reorganized and provided dedicated teams to support Water, Power, Joint Systems to provide better understanding of each System's procurement needs and be more responsive to procurement priorities; (2) streamlined the process for required subcontracting with the adoption of a new small business program; (3) implemented improvements to the purchasing card program to streamline the procurement and payment process for stationery supplies and lodging for LADWP's out of basin operations, while meeting the need for control over purchasing card use by employees in accordance with past audit recommendations; (4) eliminated non-valued added steps in the procurement process; and 5) updated procurement processes, manuals and contract language.
- Supplier Outreach: Supply Chain Services initiated the "LADWP Connection" event for 650+ suppliers for discussions with staff from the Water, Power, and Joint Systems and 30 exhibitors who represent some of the largest firms currently under contract with LADWP. The objective of the event was to encourage local business to compete in LADWP's competitive procurement process and also to promote economic development.
- Real Estate Consolidation: LADWP is in the process of acquiring a 17.35-acre property adjacent to our 35 acre Valley Center facility. The consolidated property is expected to provide opportunities to 1) improve operations, and 2) leverage existing staffing, infrastructure and shared services (including a number of the benchmarking recommendations for performance improvement). The proposed purchase will provide an opportunity to optimize LADWP facilities/real estate by:
 - Achieving operating and shared services efficiencies including, but not limited to improving response time, reducing miles traveled, and leverage existing strategic and/or major properties.

- Vacating non-strategic properties for potential surplus sale with a primary focus on high-value properties.
- Shared Services Benchmarking: The shared services functions have been participating in a benchmarking study of all key support functions (so-called "shared services"), comparing costs of these functions at LADWP against those of other utilities. Data is undergoing final validation at this time. With the results of this study, LADWP will develop a prioritized list of areas for further investigation and performance improvement efforts. See also response to recommendation 2e.
- HR Benchmarking: In the Human Resources Division, another shared service, management has recently engaged in a benchmark study to identify best practices and meaningful metrics with the goal of exploring potential savings, optimal resourcing and staffing levels, and process improvements.

Power System

As discussed in the first Status Report, the Power System continually seeks out process improvements to reduce costs and increase reliability across all areas. Below are some of the initiatives currently underway.

- Rush Hour Traffic Ban: One ongoing effort has been to reduce the impacts of the City's Rush Hour Traffic Ban which restricts LADWP construction work on all major thoroughfares and collector streets to the hours between 9:00 a.m. and 3:30 p.m. on Mondays through Fridays which only allows for 5.5 hours of actual on-site construction work per day.

The cost to the Power System resulting from the lost work hours is approximately \$27,000 per day. LADWP is currently working with the Departments of Transportation and the Bureaus of Street Services, Contract Administration and Engineering to amend Work Hour Street Restrictions which would allow LADWP to efficiently complete projects in a timely manner. The proposed amendments include, but are not limited to, emergency related work, reduced restrictions on lower use side streets, etc.

- Integrated Human Resource Plan (IHRP) Development: Providing cost-effective and reliable power services to over 1.4 million customers over 465 square miles requires a large and skilled workforce. Given the high percentage of employees eligible to retire over the next seven years, LADWP is creating an IHRP to provide workforce development targets, lead times, and resources to forecast and develop the talent that the Power System will need.

The IHRP will work to effectively forecast and secure personnel resources in line with the Integrated Resources Plan by improving the analysis requirements for the demands of the Power System and then improving the personnel training delivery programs to increase output and quality as well as improve the effectiveness and timeline of the critical path to recruit, select, train and place employees into the Power System when they are needed.

For example, the cost of training potential candidates for our critical craft positions is substantial and to have significant numbers drop out places a great financial and operational burden on LADWP. Therefore, LADWP is actively working on increasing the graduation success rates by: 1) upgrading the value of the training class content by identifying the actual job duties and tasks that a trainee will be required to successfully perform on the job as a journey-level employee; 2) improving the instructor's effectiveness through additional training opportunities to improve their course development and classroom presentation skills; and 3) by improving the quality of candidate that is hired into one of our craft training programs through additional qualification requirements and screening during the examination process.

- Facility Information Program: The Power System has recently initiated a Facility Information Program to serve as an additional facilities management tool to increase operational efficiencies at Distributing and Receiving Stations. It will be web-based (Intranet) and will provide a centralized location to quickly access data and documents pertaining to these facilities, including: (1) Facility Inspection Reports, (2) Power Usage Data, (3) Facility site plans, (4) Facility Lists, and (5) Facility Managers.
- Inspection Dashboard: The Power System is also developing a web-based (Intranet) Inspection Dashboard for our distribution facilities (e.g., poles, vaults, substructures, pad mounted transformers, etc.). One of the key benefits is that it will have the ability to identify all of the pending work on a facility as well as smaller maintenance jobs in the surrounding areas so the crew can ensure that it addresses all of the maintenance items while at that location, thus reducing unnecessary travel time and improving productivity.
- Engineering / Drafting Work Flows: The Power System is improving its existing conduit/cable design process by further clarifying the roles and responsibilities for both the Engineering and Drafting groups to ensure that there are clear delineations of handoffs between them to avoid redundant work efforts, thus allowing each group to focus on their respective specialties in a more productive manner. In addition, the Project Wise software system is being fully deployed to electronically capture the "as-built" drawings updates from field work to eliminate the need to transfer hand-drawn notes from one set of drawings to another which increases timeliness to current information and decreases errors.
- As previously noted in this document, LADWP is also updating its PSRP Business Plan to ensure that our expenditures maximize the reliability benefits for its Ratepayers. Therefore, the primary goal of the updated PSRP is identify and prioritize all of the projects necessary to improve the reliability of our aging infrastructure in a cost-effective manner and consistent with industry best practices.
- Safety Program Improvement: Preventing work place injuries is a primary goal of the Power System, and also improves operational and cost performance. To that

end, the Power System has been implementing the "Safe Start" Safety Program Training from August through December 2013. In addition, "Critical Error Reduction Techniques" training was also introduced to Power Supply Operations Division employees to reduce injuries, improve communications, increase peer-to-peer intervention, and reduce accidental equipment damage.

- Animal Intrusion Mitigation: The Power System has worked towards reducing animal intrusions into LADWP substations. Power disruptions occur multiple times per year due to squirrels, raccoons, birds, etc. coming in contact with energized station equipment. Barriers have been strategically applied to equipment such as capacitor banks, circuit breakers, and bus work. For example, bird-related flashovers are being mitigated through the installation of non-conductive composite covers on circuit breaker bushings and bus work at RS-Q and RS-C. Many of these simple and cost-effective applications have proven successful as demonstrated through increased reliability and monetary savings due to a reduction in equipment repairs.
- Drought Tolerant Landscape: The Power System has initiated in 2012 a beautification and drought tolerant landscape program to reduce water usage and O&M costs and to increase public awareness of what can be achieved through landscape design which lowers water usage and maintenance costs.
- Energy Efficiency: The Power System is providing oversight and resources to increase energy efficiency for LAUSD. UPCTs are effectively being used to supplement the workforce and complete this work in a cost-effective manner as part of LADWP's Workforce Development Plan. CBOs are providing direct outreach to our A1 (small) business customers across all Council Districts for our SBDI Program and for the HEIP for our low-income customers. Progress and statistics related to these programs follow:

<p><u>LAUSD:</u></p> <p>LAUSD completed schools:</p> <ul style="list-style-type: none"> - LA Academy - Evans Adult School - Lanterman High School <p>LAUSD schools in progress:</p> <ul style="list-style-type: none"> - North Valley Occupational Center - El Camino Real High School - Banning High School <p>LAUSD schools in queue:</p> <ul style="list-style-type: none"> - Glassell Elementary School - Fairfax High School - Los Angeles High School 	<p><u>SBDI:</u></p> <ul style="list-style-type: none"> - Completed installations (960) – Pending assessments (1203) <p><u>HEIP:</u></p> <ul style="list-style-type: none"> - Completed homes (472) - Assessment pending (324)
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- Power System DC Backup Systems (Batteries): Battery backup systems are a critical element in protecting the Power System and the public when power interruptions occur. The following steps have been taken to increase reliability, safety, and financial efficiencies: (1) development of an automated tracking/warning system for batteries; (2) On-Line Remote Battery Monitoring Pilot to monitor batteries in remote substations, enhances reliability and provides significant cost savings by eliminating the need to send crews long distances to get the same information; (3) Battery Identification Project to identify all regulatory batteries throughout the system and minimize the potential for noncompliance issues.
- Key Performance Indicators: As noted in the first Status Report, the Power System tracks key performance indicators (KPIs). Every Division in the Power System has specific targets that roll up to System goals that provide a measurable check on achieving strategic objectives. The Power System is undergoing a comprehensive review of its KPIs to streamline and eliminate any KPIs of limited value due to changing circumstances and/or to match changes pursuant to our pending Strategic Plan.

Water System

LADWP's Water System continually seeks and acts to improve performance on core responsibilities. Recent and ongoing accomplishments include:

- Project Management: The Water System's Project Management Office has been expanded to increase project oversight and control for all capital projects. A Value Engineering process is performed for major projects, which reduces costs and improves project function. The Earned Value tracking system establishes uniform work breakdown structures, and improves project execution, cost, and schedule tracking. Dashboards are used to track capital projects with the new version of Primavera P6 improving analysis and reporting. Staff's innovation has resulted in pioneering the use of shade balls and future implementation of a large-scale ultraviolet (UV) light application for water disinfection to meet water quality regulatory compliance.
- Owens Lake Dust Control Water Optimization: The Water System is implementing water conservation and water-less dust control measures at Owens Lake. This major multi-year program is aimed at meeting regulatory requirements for dust control on Owens Lake while reducing wasteful water applications with measures that use no or far-less water, while simultaneously enhancing the environment of Owens Lake for habitat. These measures include:
 - Completion of first major gravel dust control project on 2.03 square miles of lakebed, saving approximately 5,000 acre-feet of water per year compared to shallow flooding, which is the most common form of dust control.

- Conducting a Tillage Best Available Control Method (BACM) test – if successful, this measure will provide a significantly lower cost waterless dust control measure that could be applied on many areas of the lakebed.
- Implementing shallow flooding improvements on sheet-flow areas through replacement of bubblers with sprinklers to provide significantly better area coverage and better control of wetness levels, resulting in lower water use.
- Investigating possible use of soil binders for dust control.
- **Eastern Sierra Conservation:** Through focused conservation efforts and better management of water usage on City-owned lands in Inyo and Mono Counties, the Water System has met all of its Eastern Sierra water supply obligations while reducing the total amount of water supplied for these uses by over 17,000 acre-feet annually. The water conserved in the Eastern Sierra is exported to the City and results in nearly \$10 million in direct annual savings for LADWP's water rate payers.
- **Regulator Station Maintenance:** The Water System is developing a comprehensive asset management program to assist in optimizing decisions and more accurately forecasting near- and long-range infrastructure replacement expenditures.

Water System improved operational and distribution system efficiency through the Regulator Station Retrofit Program (RSRP). The RSRP has systematically upgraded the City's 300-plus pressure regulating stations, significantly reducing the number of repair call-outs, reducing water main breaks, street repairs, and other related direct and indirect costs.

- **Meter Updates:** Revenue collection has been enhanced by providing more timely repair and replacement of stuck/defective meters, reducing the number of estimated meter reads, reducing leaks and increased automation.

To protect and accurately account for meter revenues, industry experts assist with analysis of customer billings, water consumption, and water meter selection. In the first quarter of FY 2014, a new Request for Proposals will be issued to continue a further phase of this work. Recent work conducted in the transitioning to a new billing system (CISCON) has resulted in approximately \$500,000 in increased revenue. Upon implementation of CISCON, its new features will enable a higher rate of collection than under the current system.

- **New Materials:** LADWP has initiated pilot projects to test and evaluate alternate pipe materials to maximize the life of pipeline infrastructure and reduce the long-term cost of ownership. A pilot test installation of seismic-resistant pipe was completed with the cooperation of the Japanese pipe manufacturer, Kubota Corporation. The pipe has a long history of leak-free service in Japan and may be appropriate in some areas of the City to minimize risk associated with earthquakes and soil movement. This new material will be considered in high risk areas.

Pilot projects using C909 PVC pipe are taking place in the western portions of City that are subject to brackish groundwater and aggressive corrosion. This would reduce the initial installation cost of pipe by up to 20 percent, as well as extend the life of pipe assets in those areas.

- Outside Funding: The Water System has aggressively pursued external funding opportunities reducing the rate impacts for our customers. The Water System obtained \$204.8 million in zero interest loans for water quality improvement projects in the third quarter of 2013 and continues to identify additional funding opportunities. To date, the Water System has been awarded a total of \$671.4 million in low- and zero-interest loans. Details of grant and loan funding are in Appendix 1.
- Coordination: Through partnering with the City's Bureau of Street Services and other Bureaus of the Department of Public Works, the organizations have improved planning and coordination of construction projects in City streets. LADWP met and coordinated mainline replacement and trunk line construction projects with the Bureau of Street Services in the development of their five-year Paving/Re-Surfacing Program to avoid trench construction on newly paved streets. Coordination reduces LADWP-paid street damage restoration fees paid in the permitting process by approximately \$6 million over a five-year period (\$4.5 million for trunk line projects and \$1.5 million for mainline projects). This coordination also benefits local residents by avoiding trench construction on recently resurfaced streets, which maintains the appearance and durability of the finished surface.
- Conservation: Water System continues to build on successes in water use efficiency, moving forward with a Water Conservation Potential Study to more comprehensively assess the current hardware conservation saturation rate and how much hardware conservation potential is available within the City of Los Angeles. The Request for Proposals is scheduled for release in the summer 2013. The study is expected to take 12 months.
- Other Cost savings: The Water System has also undertaken a variety of additional cost saving measures including modified work schedules, modifying flow schedules to increase hydropower generation along the L.A. Aqueduct, securing low-cost contracts and reduced chemical usage, reduced travel, and targeted hiring to meet the most critical of staffing replacements for vacancies.

Magnitude of potential rate impact: Moderate. Quantification and studies of potential savings are still underway.

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.

1st Status Report Response:

LADWP currently reports monthly on the status of the RPS program to the Board of Commissioners. 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) and their contribution towards the

RPS goals, and information about specific projects under consideration. Future reports will also include Feed-in Tariff program information.

LADWP also provides quarterly reports for Board approval related to the adjustment rate factors that recover costs for the RPS program—the Variable Renewable Portfolio Energy Factor (VRPSEA) and the capped Renewable Portfolio Standard Energy Adjustment Factor (CRPSEA). In conjunction with this, LADWP is also required to provide three-year projections for the CRPSEA factors. If the allowed rates do not fully fund the planned project costs and an under-collection of \$50 million or more is projected, then LADWP must communicate this to the Board and City Council. If the under-collection grows to over \$100 million, LADWP is required to request a rate action.

LADWP is currently reviewing the information provided in these reports to determine what modifications and/or additional reporting will provide the greatest value of the status of the RPS program, and the impact on rates, to the Mayor and the Council. LADWP anticipates publishing the first report in July of 2013.

Magnitude of potential rate impact: The RPS program, collectively, is a significant driver of the changes in rates that LADWP foresees as the Utility progresses towards the 33 percent goal in 2020. A status report will not affect the rate impacts that will arise from progressing toward this goal, but will provide additional transparency about the progress and the costs involved.

2nd Status Report Response:

As noted in the first Status Report, 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.

An example of the monthly reports on RPS attainment that are provided to the LADWP Board are attached (Appendix 2). With respect to the rate impacts of RPS projects, this information is available in two sources. At a summary level, the rate impact of RPS attainment is provided for in the annual Integrated Resource Plan. The December 2012 IRP shows that going to 33 percent renewable power will add about 2½ cents to rates as of 2012 by around 2020. This information is shown in pages ES-22, ES-23 of the 2012 IRP, which is referenced below, and relevant extracts are shown here.

https://www.ladwp.com/cs/idcplg?IdcService=GET_FILE&dDocName=OPLADWP038230&RevisionSelectionMethod=LatestReleased

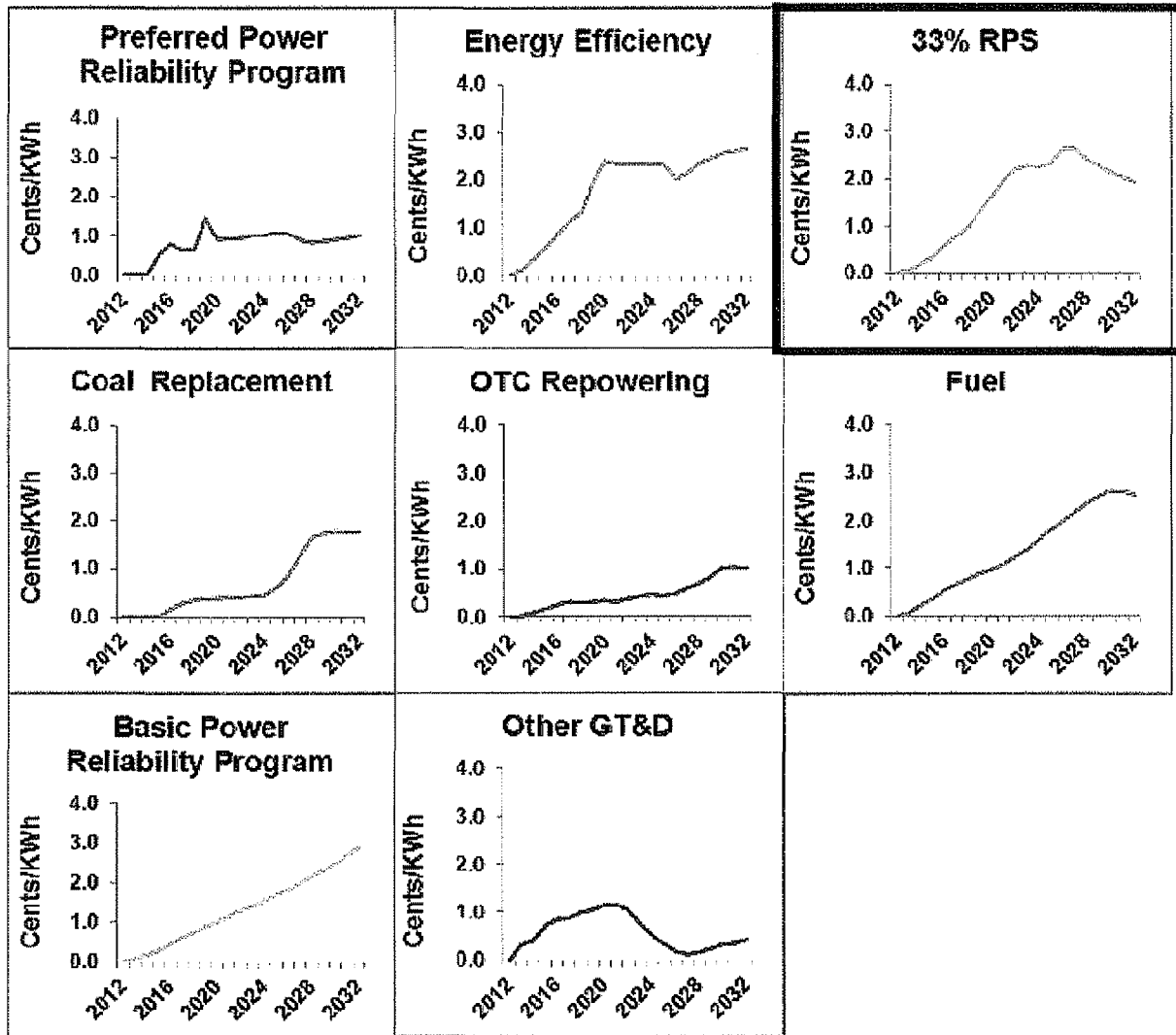


Figure ES-7. Retail electric rate contributions breakdown, based on the 2012-13 budget forecast (Case 5).

Figure ES-8 shows the total retail rate impact after combining all of the program components. One can draw the conclusion that rising fuel costs and complying with various regulatory requirements are the primary drivers of the growth in rates.

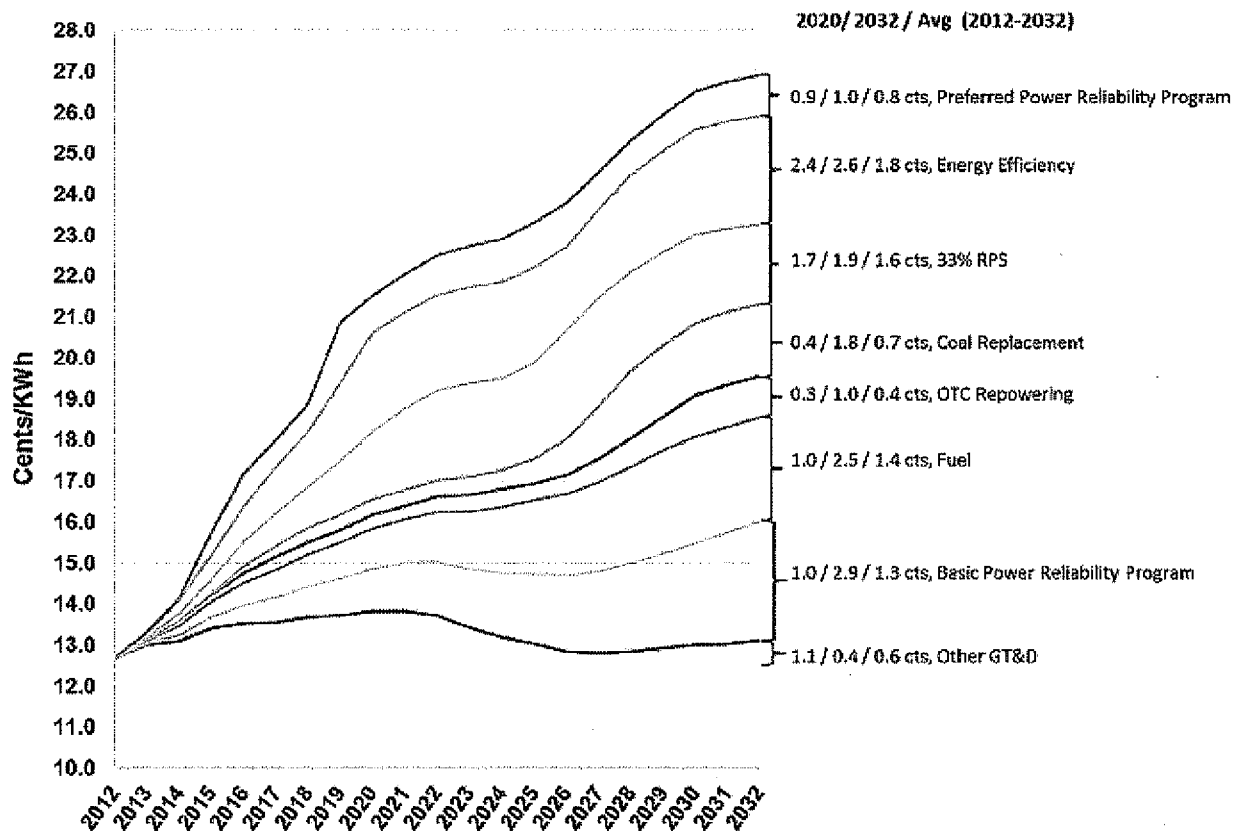


Figure ES-8. Total retail electric rate composite by fiscal year, based on the 2012-13 budget forecast (Case 5).

A few observations from Figures ES-7 and ES-8 can be made regarding the RPS and EE programs. Firstly, the influence of the RPS program on rates increases substantially through 2020 after the RPS percentage of sales reaches 33 percent and the RPS component of rates begins to decline as fuel savings increases over time with escalating fuel prices. In 2027, the RPS component of rates increases as new renewable projects are added to replace expiring PPA agreements and then the RPS component of rates resumes a downward trend due to fuel savings.

Secondly, the EE program component of rates increases over time as program incentive payments and net revenue loss attributable to the EE program are recovered. Like RPS, EE has savings beyond 2020 due to fuel savings. Thirdly, general inflation in fuel costs and GT&D costs represents a significant growth in rates.

Magnitude of potential rate impact: Status report will not affect rates, but implementing the RPS program has a moderate impact on rate increases, as illustrated in the above charts.

INDEX OF APPENDICES

APPENDIX 1: *Additional Detail for Responses to Specific Recommendations*

APPENDIX 2: *Renewable Portfolio Standard Project Update August 2013*

APPENDIX 3: *Semi-Annual Report on Los Angeles Department of Water and Power Energy Efficiency Programs*

APPENDIX 1 - Additional Detail for Responses to Specific Recommendations

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

WATER SYSTEM EXTERNAL FUNDING ACQUISITION EFFORTS

Safe Drinking Water State Revolving Fund

- Execution of five Funding Agreements with the California Department of Public Health (CDPH) worth \$204,754,664 in Safe Drinking Water State Revolving Fund loans to finance the planning and construction of water quality improvement projects (WQIP) required for compliance with Federal and State water quality regulations. Three of the Funding Agreements will support the planning of the following projects:

Elysian Reservoir Water WQIP	\$ 500,000
Los Angeles Reservoir WQIP – Ultraviolet Treatment Process	\$ 500,000
Upper Stone Canyon WQIP	\$ 500,000
Total	\$1,500,000

These loans are at zero percent interest rate and payable over five years.

Two of the Funding Agreements will support the construction of the following projects:

River Supply Conduit Lower Reach, Units 5 and 6	\$102,281,674
River Supply Conduit Lower Reach, Unit 7	\$100,972,990
Total	\$203,254,664

These loans are at zero percent interest rate and payable over 30 years.

To date, LADWP has been awarded a total of \$671.4 million in grants and loans from the Safe Drinking Water State Revolving Fund, including \$35 million in grants through the American Recovery and Reinvestment Act (ARRA) of 2009.

- CDPH has informed the Water System that it has qualified for an additional \$2 million in ARRA funding. Staff will be working with CDPH to take the necessary steps to receive the additional funding. The funds will be applied to the City Trunk Line South Unit 2 project.

Proposition 50 Grants

LADWP has entered into a funding agreement from the CDPH providing for a maximum grant of \$10 million under the Safe Drinking Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50). The grant will help fund construction of the Metropolitan Water District (MWD) LA-29 and LA-30 interconnections. These interconnections will provide emergency water service to the western side of the LADWP water system in the event of a water supply disruption at the Los Angeles Reservoir and/or Stone Canyon Reservoir Complex. To date, LADWP has received a total of \$1,498,906.77 in Proposition 50 grant funding reimbursements.

Integrated Regional Water Management Plan Grant

Through LADWP's participation in the Greater Los Angeles County Region's Integrated Regional Water Management Plan (IRWMP), LADWP received IRWMP grants for two projects from the California Department of Water Resources totaling \$5.5 million. The two projects that received funding were the Tujunga Spreading Grounds Enhancement Project, which received a grant of \$3.0 million, and the Central Los Angeles County – Regional Water Recycling Program, which received a grant of \$2.5 million

Proposition 84 Grant

The California Department of Water Resources recommended an award of \$2.0 million through the Proposition 84 Stormwater Grant Program for the LADWP's Laurel Canyon Boulevard Green Street Project. The Project will be completed in partnership with the Department of Public Works, Bureaus of Sanitation and Street Services, and will collect runoff from an 83-acre drainage area for infiltration to the San Fernando Groundwater Basin. The Project will provide water quality and supply benefits, alleviate local flooding, and provide educational opportunities on environmental stewardship to local residents, including students at the adjacent middle school. The funding agreement is expected to be received in late November and should be negotiated and was recently approved by the Board of Water and Power Commissioners.

APPENDIX 2: *Renewable Portfolio Standard Project Update July 2013*