



Los Angeles
Department of
Water & Power

City Council Motion 14-0161

LADWP's Revenue Collection and Customer Service Issues Update

Date: 8/27/14
Submitted in E&E Committee
Council File No: 13-1475-56 / 14-0161
Item No.: 182
Deputy: Adam R. Lid

Energy & Environment Committee Meeting
August 27, 2014



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Agenda

- **Overview**
- **LADWP's Revenue Collection Update**
- **Continued Improvements in Customer Service Metrics**
- **Status of the Capital Expenditure Program**
- **Anticipated Impact on Utility Users Tax Revenue and Transfers to the City Reserve Fund**
- **Conclusion**



Overview

- **September 2013: Replaced 40 year old Customer Information System**
 - New system to allow for needed functionality: (1) monthly billing; (2) net metering/solar customers; (3) transition to smart meters; (4) improved resolution of issues with first customer call.
- **Challenges**
 - Multiple commodities (water, power, sewer, trash); connections with multiple systems; multiple meter types to configure; complex rate structures; complex and lengthy hiring and training processes.
- **Issues Encountered**
 - Estimated bills / questions about accuracy;
 - High call volumes / customer wait times;
 - Delayed bills / collection efforts temporarily pulled back with potential to affect receivables and cash balances



- **Actions Taken**

- Increased staffing
- Addressed billing system issues
- Collection program for large customers in place
- Collection efforts recommenced for residential customers

- **Have Resulted in Progress...**

- Cash collections improved
- Bills now issued timely and accurate

- **But Work Remains**

- Call wait times remain too high
- Reduce outstanding receivables
- Continue to stabilize system

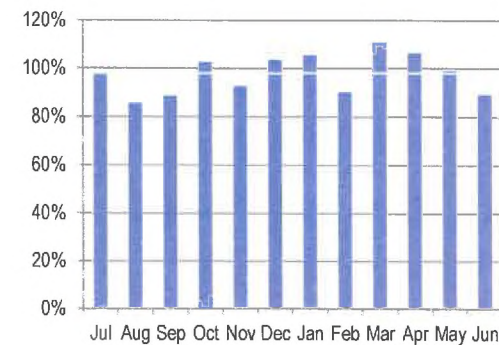
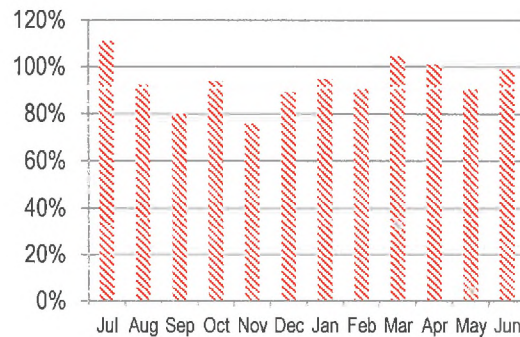


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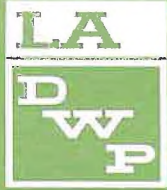
Electric and Water Collections Improved In Latter Portion of FY13/14

Collections were down the first half of the year but improved significantly after commencement of credit and collection action plan in February, with Electric collections up 7% and Water up 3%.

	<u>Electric</u>	<u>Water</u>
First 7 Months	91%	97%
Last 5 Months	98%	100%
Full Year	93.3%	97.9%



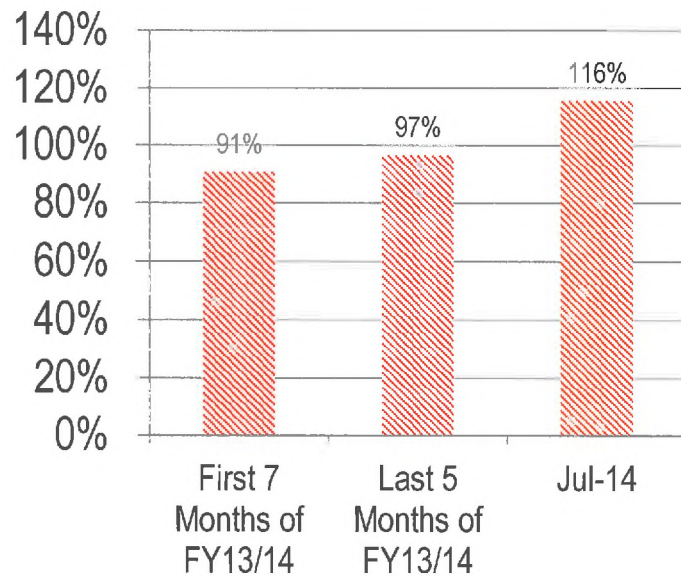
Electric collections at fiscal year end were 6.7%, or \$224 million short of \$3,369 million expected, while Water collections were 2.1% or \$23 million short of \$1,073 million expected. For all services, collections were at 94.2% of expectations. **These variances were manageable and Utility finances remain strong.**



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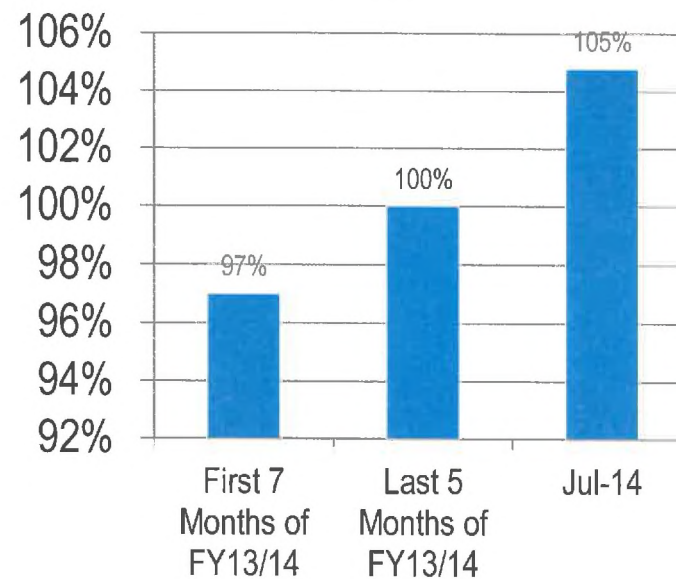
July Collections Continued The Improvement Trend

Electric



- Power was \$41 million (15.5%) over \$264 million budget

Water



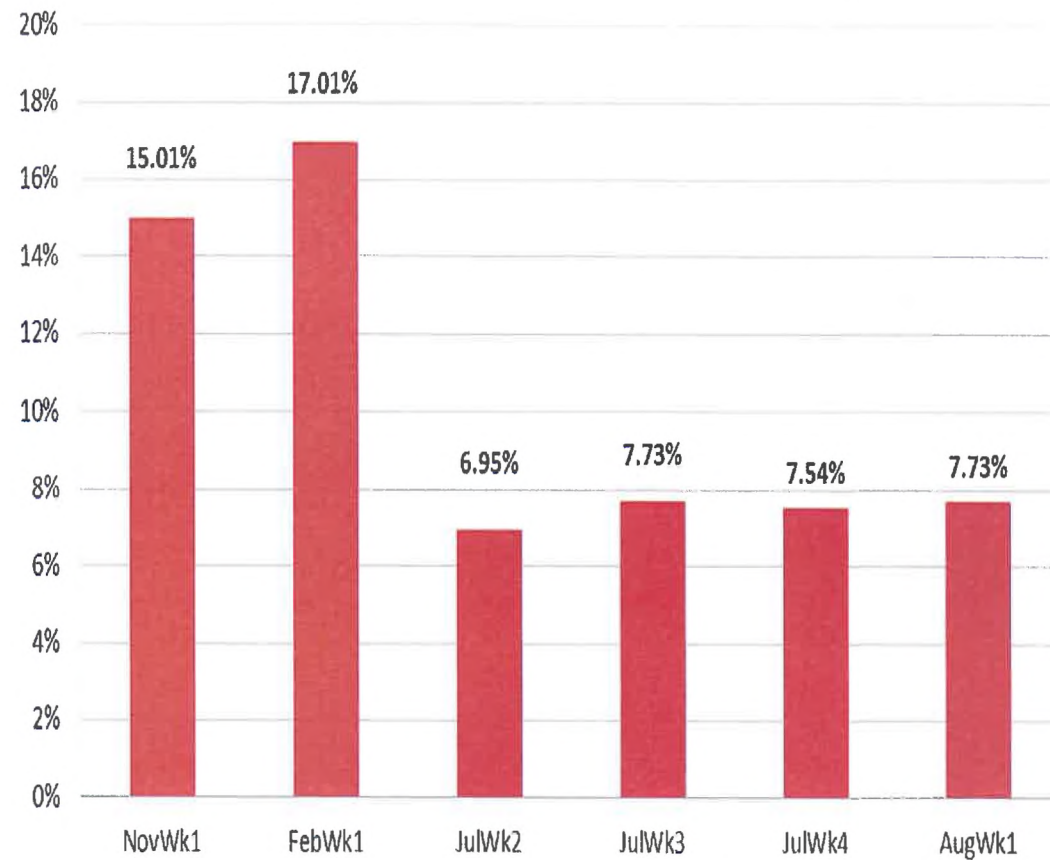
- Water was \$4.8 million (4.8%) over \$98.7 million budget



Fewer Estimated Bills

- Bills based on actual meter reads, rather than estimated reads, mean fewer billing questions and higher percentage of payment;
- Optimized quality control thresholds to allow an even higher percentage of actual meter reads -- expect 1% further drop in estimated bills starting August 2014; and
- No access meters account for 3-5% of estimated bills – installing RF meters so meter access is less an issue.

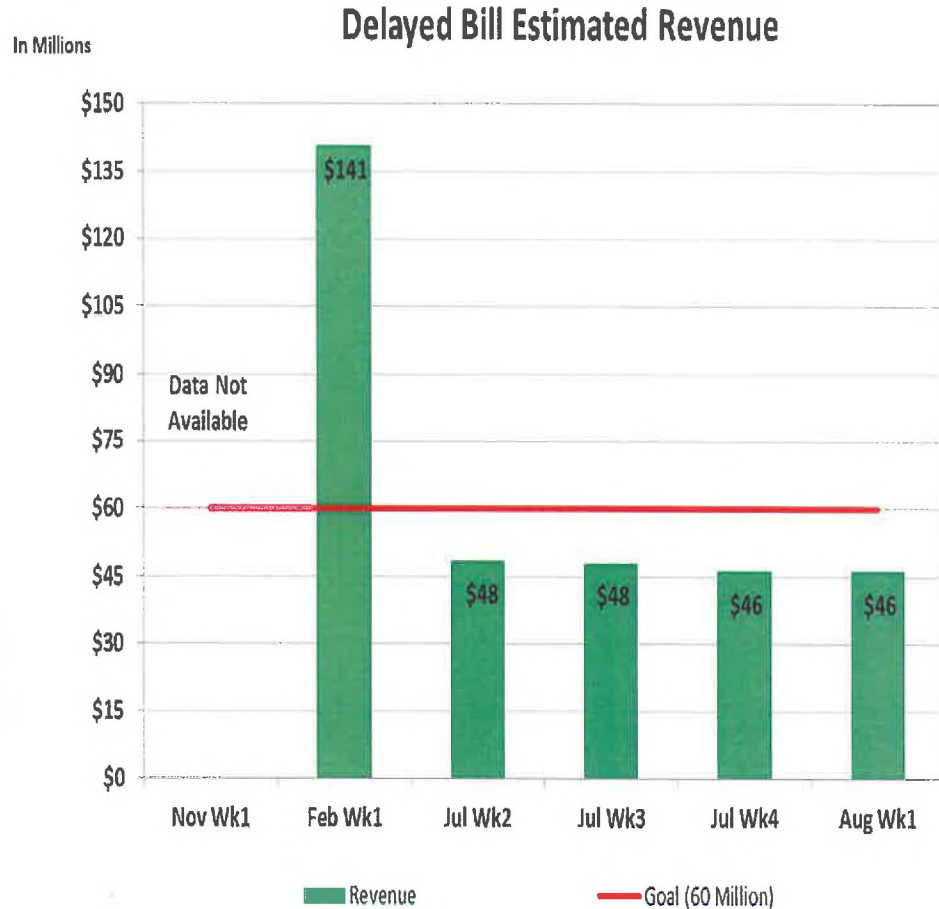
Percentage of Estimated Batch Billing





Delayed Bills Down Dramatically

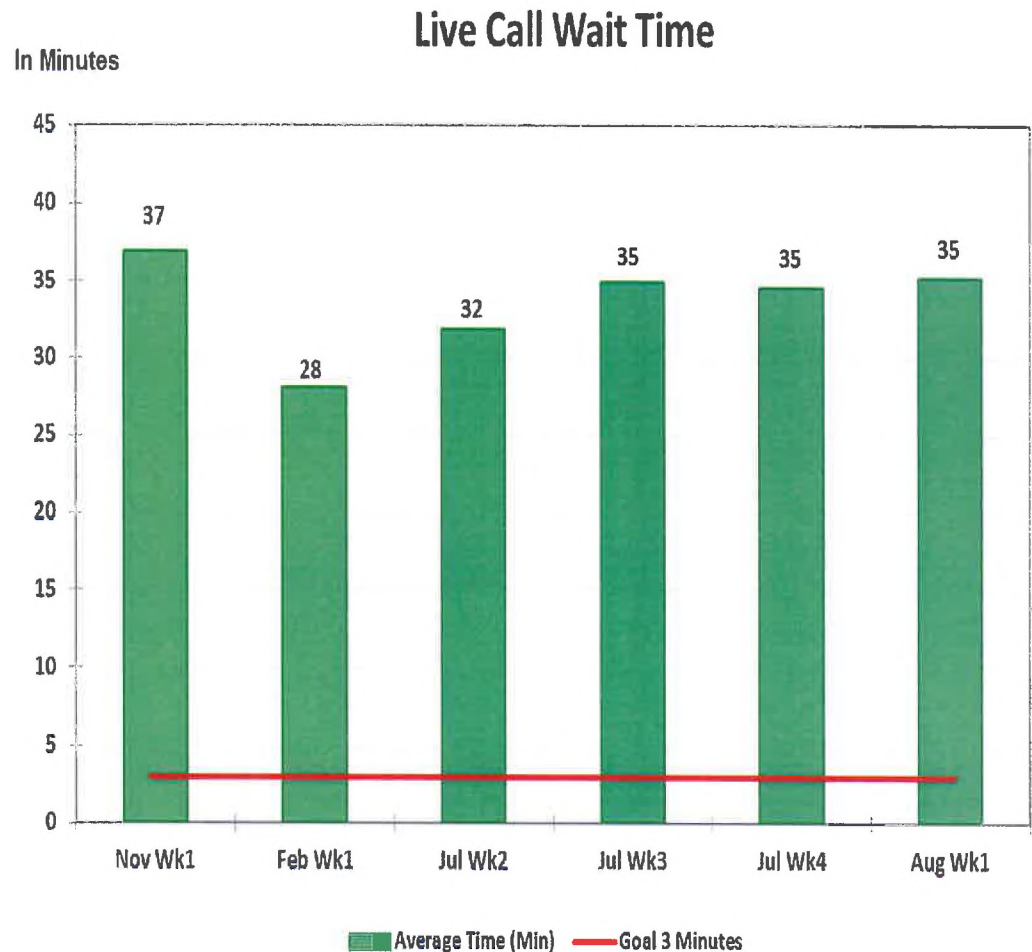
- Delayed bill defined as a bill that is produced outside normal three-day billing window;
- Utilities are always managing a net amount (inflow/outflow) of delayed bills generally in the 1% of revenue range;
- Delayed bill revenue now approximately 1% of LADWP revenues and 1.6% of accounts; and
- Goal is to work and clear delayed bill before next billing cycle.





Average Live Agent Customer Wait Times Remain High

- August/October Peak Season;
- Call volume and CSR counts consistent with prior periods;
- Average Handle Time (AHT) increased 40% from 2012 levels;
- Hiring additional CSR staff – Net 81 CSRs by March 2015 – 35% increase – expected wait times at 10-15 minutes; and
- Pursuing third-party Contact Center operational in early 2015 – expected wait times 5 minutes or less.
- Other internal changes being vetted to meet goal.

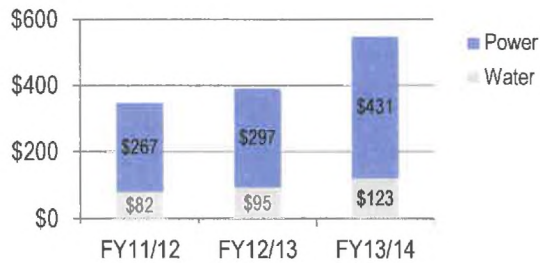




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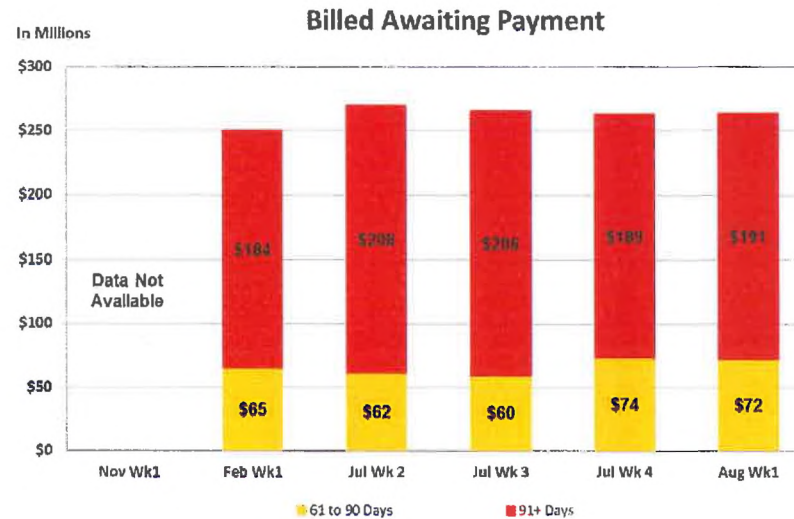
Customer Receivables Have Increased, But Are Manageable and Being Addressed

Gross Water and Power receivables up \$162M from Fiscal Year 2013



- Some increase is expected due to rate changes, higher purchased water and purchased power costs, etc.
- But slow payments are a major factor to be addressed.

For all commodities A/R over 60 and 90 days has remained high



- Collection efforts suspended for majority of FY13/14;
- Commercial and Multi-Residential restarted late in FY13/14;
- Residential collection process being feathered-in over the coming months;
- Payment Plans established to encourage payment;
- Adding capacity in Contact Center to manage collection related calls



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Residential Automated Collections Phase In Plan

Phase 2 – Residential Collections

Highlights

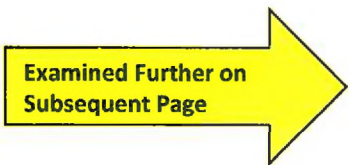
- Commercial and Industrial Accounts in normal Collections Process
- Residential Accounts continuing to be phased into the Collections Process
 - First Phase (June – July) Targeted 24,000 accounts and \$12.3 million
 - Second Phase (July – September) Targeting 6,500 accounts and \$33 million
 - Accelerate Customer Dialogue before Summer Bills Accumulate
 - Reduce Near-Term Impact on Contact Center



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DWP has Multiple Protections to Ensure Financial Stability Despite Delayed Collections

- Four factors have helped ensure DWP finances remain strong despite collection issues:
 1. Pass-through rates recover volatile expenses, including in part, bad debt expenses
 2. Revenue levels set to provide some cushion to absorb revenue and expenses variances (i.e. debt service coverage margins)
 3. Sizable cash reserves
 4. Under-spending of O&M and capital budgets during FY13/14
- These have helped ensure financial performance consistent with historic norms, despite the cash under-collection issue experienced in FY13/14.
- We also expect that financial contributions (power revenue transfer and utility user's tax) of LADWP to City will continue essentially unaffected.





Overall 2013/14 DWP Spending

Spending Fiscal Year through June 30th (preliminary)

\$ in millions over/(under) budget	FY 2013-14	
	Water	Power
Capital		
Budget	\$ 769	\$ 1,565
Actual/Forecast	<u>\$ 681</u>	<u>\$ 1,214</u>
Variance	\$ (88)	\$ (351)
Spending Rate	89%	78%
O&M		
Budget	\$ 443	\$ 1,013
Actual/Forecast	<u>\$ 416</u>	<u>\$ 910</u>
Variance	\$ (27)	\$ (103)
Spending Rate	94%	90%
Purchased Water, Fuel, and Purchased Power		
Budget	\$ 288	\$ 1,396
Actual/Forecast	<u>\$ 336</u>	<u>\$ 1,495</u>
Variance	\$ 48	\$ 99
Spending Rate	117%	107%
Net Spend over/(under)	\$ (67)	\$ (355)



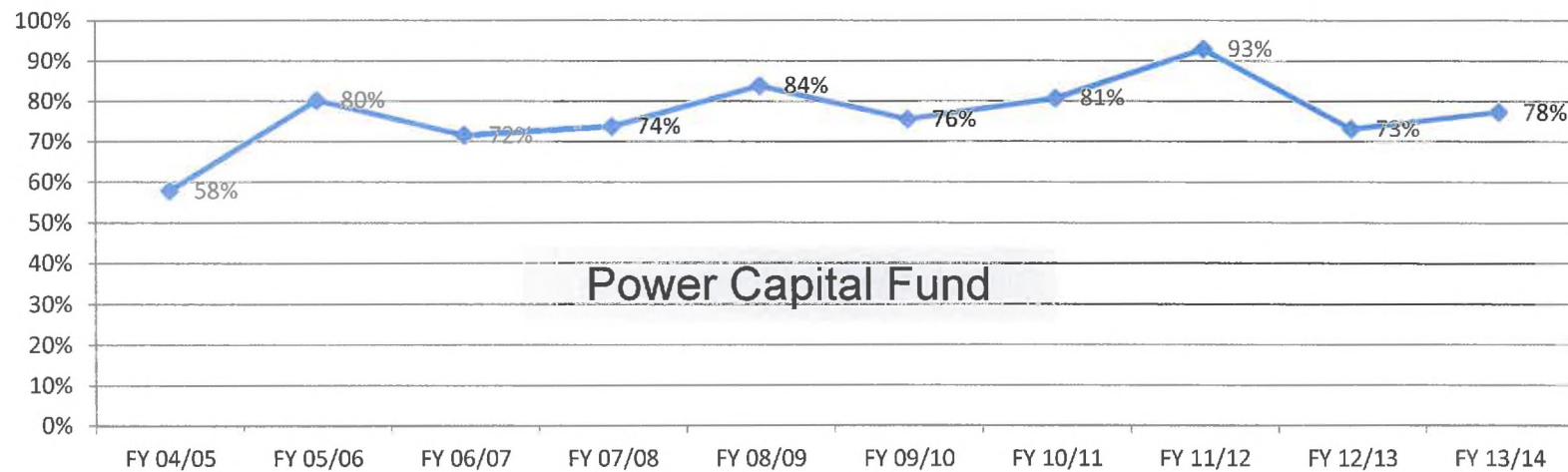
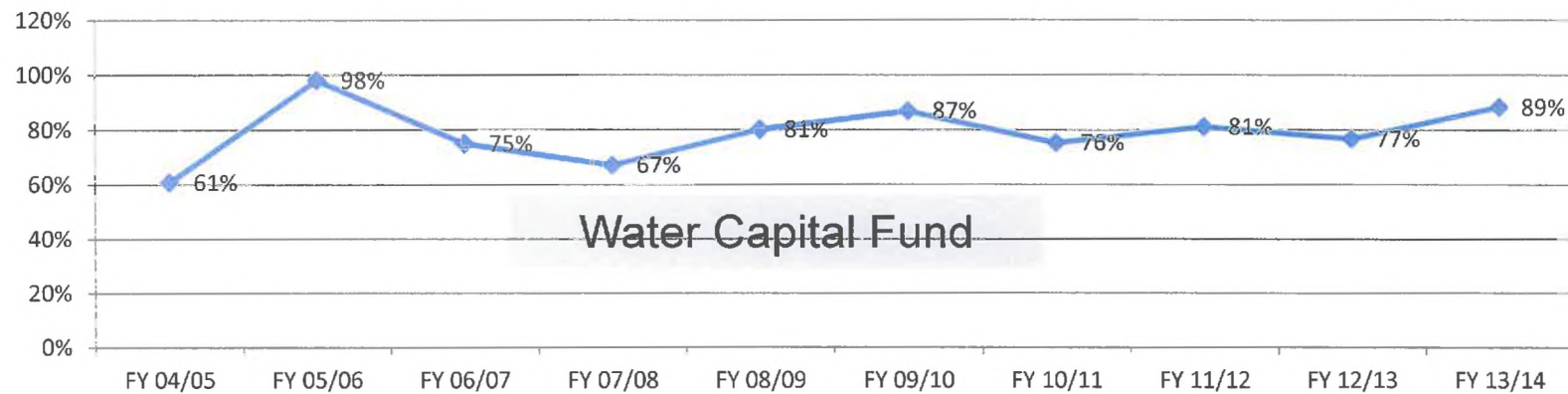


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10-year Capital Spending Activity

Fiscal Year Through June 2014

Shortfalls in Capital Spending are not uncommon among most Utilities. Below is the range of historical capital budget achievement for the LADWP that is on average approximately 21% under budget. FY13/14 is in the range of historical capital budget achievement.





FY13/14 Capital Spending Activity

Overall capital spending progress has been in line with historical experience, but progress by key program varies significantly due to factors discussed on the following pages.

POWER	FY13/14 Variance% Over/(Under)
Power Supply Replacement	(32%)
Repowering	(5%)
RPS	(62%)
Energy Efficiency	(44%)
Power Reliability Program	(19%)
WATER	FY13/14 Variance% Over/(Under)
Local Water Supply Program (Conservation, Reclamation, Water Supply)	(54%)
Safe Drinking Water Program	16%
Water Infrastructure Program	2%
Regulatory Compliance, Owens Valley	(32%)



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Capital Project Status: Power

Power System under-runs can primarily be attributed to contracting delays, constraints/backlogs, and the timing of payments.

- **Power Supply Replacement Program:**
 - Scattergood Generating Station Unit 3 Repower is on target for completion by end of 2015.
 - Renewable projects are on track:
 - Barren Ridge Renewable Transmission Project: Land acquisition and switching station construction has begun, with 230V transmission line construction scheduled for January 2015 commencement.
 - Beacon Solar Project: Infrastructure construction has started. 50MW Purchase Power Agreement approved by the DWP Board of Commissioners on June 3, 2014. Groundbreaking for major plant construction late July 2014. This utility scale solar project will spur development of 50MW of solar power within Los Angeles as part of LADWP's Feed-in-Tariff (FiT) Program boosting the local clean energy economy.
- **Power System Reliability Program:** Critical contracts for poles, cable, cross-arms, and transformers have experienced delays. The contract for underground distribution cable anticipated was approved by the DWP Board of Commissioners on August 5, 2014.
- **Customer Opportunities Program:**
 - EE achievement for FY 13/14 was 252 GWh saved. On track for 15% cumulative energy savings by 2020.



Capital Project Status: Water

Water System under-runs can primarily be attributed to timing of payments and prioritization of regulatory projects.

- **Safe Drinking Water/Water Quality:** Projects are on schedule. In May, a milestone was reached when LADWP completed conversion to a new disinfection process to allow us to meet regulations.
- **Water Infrastructure:** Currently in the process of hiring additional crews for the Mainline Replacement Program. Replacement footage continues to increase though not at the rate originally planned. There will be acceleration through summer.
- **Local Water Supply:** Recycled water projects are in the planning phase and expenditures are not straight lined. Water Conservation expenditures increased during early summer with increased effort in public outreach. Groundwater projects will increase as Water Quality projects are completed and brought on line.
- **Regulatory Compliance, Owens Valley:** Owens Lake Phase 7A started later than originally anticipated to resolve issues relating to culturally sensitive site. However, project has progressed on areas not affected by the artifacts.



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Impact of Under-Collections on City Finances

- DWP remitted \$331 million of UUT for FY13/14, which matched the latest budget estimate developed by the City for planning purposes for the FY14/15 budget process.
- DWP does not anticipate an impact on the City Transfer payment for FY14/15 (which is based on FY13/14 financial results).
 - City Transfer based on accrued revenues not cash collections
 - Preliminary financial information for FY13/14 indicates compliance with financial metrics and tests necessary to make transfer.



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Conclusion

- DWP has replaced aged systems with a new platform that will provide increased billing flexibility and improved customer services
- Have made substantial progress addressing transition issues and we are confident remaining issues will be resolved within the 18-24 month stabilization period seen in such transitions
- Improving customer service is the top priority of LADWP and will guide our actions through out this transition
- Collection variances are manageable and LADWP finances remain consistent with historic norms