

ENERGY AND ENVIRONMENT COMMITTEE REPORT relative to the status of the Los Angeles Department of Water and Power's (LADWP) revenue collection for the current fiscal year and Power Reliability and Water Infrastructure Programs.

Recommendations for Council action:

1. REQUEST the LADWP to report within 30 days regarding the following:
 - a. The latest finding of the LADWP's internal Customer Information System (CIS) assessment/audit including "systems performance."
 - b. Improved customer help-line and stabilized "call-back" feature.
 - c. Increased outreach of the electronic bill payment option and related electronic/automatic services that improve customer convenience.
2. REQUEST the LADWP and INSTRUCT the City Administrative Officer (CAO), Chief Legislative Analyst, Bureau of Sanitation, Personnel Department and the Ratepayer Advocate to continue to meet regularly to address the CIS, billing/revenue collection and to report monthly on its progress.

Fiscal Impact Statement: The CAO reports that the proposed recommendations as contained in its March 19, 2014 report, attached to the Council file, will not have a direct fiscal impact on the City's General Fund. The status update contained in its report on the LADWP's revenue collections and billing system highlights a potential deferred revenue impact of \$9 million to \$12 million from the City's Electricity User's Tax and approximately \$61 million (combined) related to the City's Sewer Service Charges and Solid Waste Fees for the current fiscal year. As improvements are made to the LADWP's billing system and collection remedies exercised, the potential gap in deferred revenue may partially decrease.

Community Impact Statement: None submitted.

(Budget and Finance Committee waived consideration of the above matter)

Summary:

On February 19, 2014, the Energy and Environment Committee considered a Motion (Fuentes - Krekorian) relative to the status of the LADWP's revenue collection for the current fiscal year and Power Reliability and Water Infrastructure Programs. According to the Motion, the LADWP recently reported that power system collections are \$200 million below anticipated levels, citing delays in billing and collections associated with the implementation of its new CIS.

The LADWP also reported that its power system capital spending is \$322 million under budget and its operating expenses are \$45 million under budget. This under spending, combined with its cash reserves, will enable the LADWP to absorb the current reduction in revenue collections, according to the department. The LADWP power system annually transfers eight percent of its gross operating revenue from the prior fiscal year to the City of Los Angeles Reserve Fund.

In Fiscal Year 2013-14, the LADWP transfer amounts to \$253 million. Given the significant contribution that the LADWP transfer and other revenue sources make to the City's Reserve Fund, reductions in the LADWP power system revenue collection could have an impact on the City's finances. In addition, while the LADWP may be able to absorb the reduced revenue collection due to under spending, the slow down in capital spending could impact the utility's ability to meet Charter and legislative requirements.

In 2012, the LADWP implemented a two-year rate hike that increased rates by 11.1 percent. This rate increase was intended, in part, to support the replacement of its aging infrastructure and projects needed to meet state-mandated renewable energy requirements. The Power System Capital Budget for fiscal year 2013-14 is more than \$1.5 billion, a significant portion of which is contracted out. After consideration and having provided an opportunity for public comment, the Committee moved to continue the matter pending receipt of a fuller report from the CAO.

Subsequently, on March 19, 2014, the Committee considered a March 19, 2014 CAO report in response to the above Motion. Specifically, the CAO and the LADWP are reporting on the status of the LADWP's:

- a. Revenue collection for fiscal year (2013/2014), including projections for the remaining portion of said year.
- b. Potential impacts to the City's Reserve Fund from lower-than-expected revenue collections on the annual transfer and the Utility User Tax (see Council File Motion No. 14-0161).

In addition, the CAO performed a cursory review of the Department of Public Works, Bureau of Sanitation's revenue impact on its Sewer Service Charge and Solid Waste Fee receipts since both revenue sources are billed and collected through the LADWP since 1972 and 1983, respectively.

In September 2013, the LADWP unveiled its Customer Care and Billing (CC&B) System to replace an existing 40 year old customer billing and related systems. This initiative to replace the CC&B System, according to the LADWP, was a "massive and complex task" that resulted in "too many [customers]. ..experience[ing] problems [such as]: bad estimates, improperly drafted accounts, and in some cases, no bills at all. However, the LADWP reports that more than "95% of [its] customers are currently experiencing no problems with their bills."

Nevertheless, as of the City's Mid-Year Financial Status Report for Fiscal Year 2013-2014 (Council File No. 13-0600), the City is experiencing a delayed or deferred revenue collections projected at approximately \$10.4 million for Electrical Users Tax, an unknown amount for Solid Waste Fees, and approximately \$50 million for Sewer Service Charges as of January 2014. By February 2014, approximately 65,000 customers in aggregate have been affected and have not received a bill since the implementation of the CC&B System. The LADWP indicates that it is making progress and in early March 2014 released a message to its customers providing them an update of the problem, including notice that the number of customers affected decreased to approximately 60,000. Furthermore, certain measures have been implemented or are in progress to improve the LADWP's customer experience and fix the problem resulting from its new CC&B System.

After consideration and having provided an opportunity for public comment, the Committee moved to continue the matter. Subsequently, this matter was again considered on May 7, 2014 and once again continued. Finally, on August 27, 2014, the Committee considered this matter further and

after further consideration and having provided an opportunity for public comment, the Committee moved to make the recommendations as detailed above. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ENERGY AND ENVIRONMENT COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
FUENTES:	YES
BLUMENFIELD:	YES
LABONGE:	YES
HUIZAR:	ABSENT
KORETZ:	ABSENT
ARL	
8/27/14	

-NOT OFFICIAL UNTIL COUNCIL ACTS-