

Los Angeles



Department of Water & Power

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General Manager

April 23, 2014

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

Attention: Councilmember Paul Krekorian
Chair, Budget and Finance Committee

Councilmember Felipe Fuentes
Chair, Energy and Environment Committee

Honorable Members:

Subject: Fiscal Year (FY) 2014-2015 Los Angeles Department of Water and
Power (LADWP) Budget Transmittal

In response to Councilmember Krekorian's April 3, 2014, letter and in regards to the upcoming hearings for the Mayor's Proposed Budget, I respectfully submit these written comments relative to the FY 2014-2015 budget for the LADWP.

In accordance with the City Charter Section 684 (as amended by Measure J adopted in March 2011), the LADWP submitted its Preliminary Budget for FY 2014-2015 to the Los Angeles City Council (Council) and the Mayor. This budget proposal was developed over many months and included the funding that was believed necessary to responsibly serve our customers, meet legal/regulatory requirements and address aged infrastructure. It reflected an additional emphasis on cost control that reduced spending levels from those planned for earlier in 2013. However, this Preliminary Budget for FY 2014-2015 still assumed spending levels that would have required Council-approved rate adjustments for both the Water and Power Revenue Funds.

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

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I noted in the transmittal letter for the Preliminary Budget to the Chief Administrative Officer that I would be conducting a thorough review of the budget to determine if LADWP could provide expected levels of customer service and maintain progress on meeting legal/regulatory mandates, while avoiding the need for a Council-approved rate action for FY 2014-2015. Pass-through rates would continue to adjust for, in part, uncontrollable costs, such as fuel and purchased power, as well as the need to purchase substantially more water from the Metropolitan Water District, as a result of the current drought.

I am pleased to report that we believe those objectives can be met, and the final budget we will present to the LADWP Board in May will not assume a rate action for FY 2014-2015. Council-approved rate actions for the Water and Power funds would instead be deferred until FY 2015-2016. At the same time, in the development of the final budget for FY 2014-2015, we will ensure continued progress towards the priorities that the Council and Mayor have conveyed, including improving customer service; maintaining and updating infrastructure to ensure reliability; achieving high environmental goals; and most significantly rebuilding customer confidence and restoring pride in the agency.

The final budget will also continue progress on the specific programs that are transforming LADWP's water and power supplies, and ensuring the infrastructure to deliver the supplies is reliable, as noted below. The numbers presented below are the current outlook for the final budget which would be subject to LADWP Board approval in May.

Power Revenue Fund

The total Power Revenue Fund Receipts and Appropriations budget for FY 2014-2015 reflects critical investments for compliance with regulatory mandates and the transition to a more sustainable power supply, increased funding to address aging infrastructure, and additional resources to improve service to customers. The budget provides \$903.1 million for the power supply replacement program including \$277.6 million for repowering of Scattergood and for the modernization of the Castaic Power Plant, and \$625.5 million in funding to continue the transition towards achieving 33 percent of power from renewable sources. The budget also provides \$649.8 million to replace aging infrastructure necessary to maintain reliability. The Customer Opportunity program will allow customers to take greater control of their energy futures through sizable funding for the Energy Efficiency program (\$101.6 million), Utility Solar Incentives (\$35.1 million), as well as Feed-in Tariff and Rebates (\$6.7 million).

Water Revenue Fund

The total Water Revenue Fund Receipts and Appropriations budget for FY 2014-2015 reflects critical investments to improve drinking water quality, replace aging infrastructure, reduce our reliance on imported water and meet regulatory mandates particularly in the

Owens Valley. The budget provides \$170.5 million for water quality capital projects to comply with Federal and State water quality standards. Investment of \$380 million is proposed to rebuild our water infrastructure for reliability, including funding for distribution mainlines, pump stations, reservoirs, meters and services. The proposed budget provides \$154.1 million in funding investments to reduce reliance on imported water through long-term water supply and remediation programs as set out in the 2010 Urban Water Management Plan. The proposed budget provides \$181.4 million in funding for Owens Valley Regulatory Compliance.

Estimated General Fund Revenues

In addition to reliable low-cost utility services, the LADWP provides the City of Los Angeles with ongoing financial support through the collection and remittance of Utility Users Tax – Electricity (UUT) revenues and the Power Revenue Transfer. Based on the sales forecast for FY 2014-2015, the UUT for next fiscal year is estimated to be \$350 million within a range of \$330 to \$355 million. This estimate reflects continuing work to stabilize the customer information and billing system, anticipated improvement in the collections rate and recognition that some FY 2013-2014 revenues may be collected in FY 2014-2015. For the Power Revenue Transfer, the estimate for FY 2014-2015 is \$261 million and is based on the outlook for the FY 2013-2014 at this time.

LADWP Reform

Reliable and responsive service is foundational. LADWP will improve the customer experience by prioritizing resources to reduce customer wait times, reduce the number of estimated billings and provide customers with more convenient payment and self-serve options. We will strive to reduce turn-around time for electrical and water design plans and other interactions with LADWP, such as solar system connections.

We will increase agency transparency and accountability through increased use of performance measurements and benchmarking. We will strive to keep rates competitive through cost control and efficiency improvement efforts, while making needed infrastructure investments. We will strive for the highest standards of environmental stewardship and sustainability. We will work toward restoring pride in LADWP as not only the largest, but the best-run municipal utility in the country.

In conclusion, the LADWP is looking forward to working closely with the Council, Mayor Garcetti, and the Office of Public Accountability/Ratepayer Advocate, as we finalize a FY 2014-2015 budget that is fiscally responsible, with the resources required to provide the citizens of the City of Los Angeles with quality and reliable water and power now and into the future.

The Honorable City Council
Page 4
April 23, 2014

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

Sincerely,



Marcie L. Edwards
General Manager

PL:nmg/ap

c: The Honorable Mitchell Englander, Vice-Chair, Budget and Finance Committee
The Honorable Paul Koretz, Member, Budget and Finance Committee
The Honorable Bob Blumenfield, Member, Budget and Finance Committee
The Honorable Mike Bonin, Member, Budget and Finance Committee
Ms. Erika Pulst, Legislative Assistant, Budget and Finance Committee

The Honorable Bob Blumenfield, Vice-Chair, Energy and Environment Committee
The Honorable Tom LaBonge, Member, Energy and Environment Committee
The Honorable Jose Huizar, Member, Energy and Environment Committee
The Honorable Paul Koretz, Member, Energy and Environment Committee
✓ Mr. Adam Lid, Legislative Assistant, Energy and Environment Committee

Mr. Doane Liu, Deputy Mayor
Mr. Rick Cole, Deputy Mayor
Mr. Miguel A. Santana, City Administrative Officer
Mr. Gerry F. Miller, Chief Legislative Analyst
Board of Water and Power Commissioners
Mr. Philip Leiber
Ms. Winifred J. Yancy