



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. 015 174  
MAR 17 2015

BOARD LETTER APPROVAL

  
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**PHILIP LEIBER**  
Chief Financial Officer

  
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**DAVID H. WIGGS**  
Chief Administrative Officer

  
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**DAVID H. WRIGHT**  
Senior Assistant General Manager -  
Power System

  
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**MARCIE L. EDWARDS**  
General Manager

**DATE:** March 3, 2015

**SUBJECT:** Transmittal of Preliminary Fiscal Year 2015-2016  
Los Angeles Department of Water and Power Budget to the  
Los Angeles City Council – Power Revenue Fund  
Receipts and Appropriations Budget and Associated Schedules

**SUMMARY**

Submitted for the Board of Water and Power Commissioners (Board) approval is a Resolution that authorizes the Los Angeles Department of Water and Power (LADWP) to transmit the preliminary Fiscal Year (FY) 2015-2016 LADWP Power Revenue Fund Receipts and Appropriations budget and associated schedules to the Los Angeles City Council (Council), as required by City Charter Section 684.

Work on the FY 2015-2016 budget commenced during 2014, and will continue over the next two months leading towards a final budget with a multi-year capital improvement plan by May 31. This preliminary budget is a reflection of where we as an agency would like to be next year with regards to investment in infrastructure and critical programs. The preliminary budget, which will continue to be updated and adjusted over the coming weeks, is reflective of a financial plan with additional power revenues, including base rate and other pass through adjustments, not yet approved by the Board of \$159 million for FY 2015-2016. The Department continues to work on a cost of service study and a multi-year financial plan and will report back to the Board on the proposed plan prior to the end of the current fiscal year.

The budget is based on the following core initiatives:

- Investing in system infrastructure and reliability.
- Increasing renewable energy and transitioning LA's power supply.
- Investing in customer service.
- Keeping rates competitive and staying accountable.

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The LADWP has exceeded efforts to control costs through a three-year Cost Reduction Plan saving over \$466.9M from FY 2011-2012 through FY 2013-2014, while achieving additional savings of \$456M over 4 years as a result of new labor contracts. The preliminary budget continues these cost control efforts through controlled Operations and Maintenance (O&M) expenditures and low cost financing for capital projects. Additionally, benchmarking efforts and the integration and use of performance metrics will ensure cost efficiency and accountability across all divisions within the organization.

Progress continues to be made on the Mayor's priorities for LADWP and additional funding and positions are included within the preliminary budget for rebuilding customer confidence; improving customer service; setting an example for integrity and transparency; maintaining and updating infrastructure; achieving high environmental goals; and restoring pride in the agency. Additional resources are also provided to continue investment in rebuilding local power plants, cleaner resources for more sustainable energy supplies, maintaining power system reliability by replacing aging infrastructure, investing in customer opportunity programs (i.e., energy efficiency, solar incentives, demand response, and feed-in tariff programs), while supporting the local economy through job creation.

Included in this preliminary transmittal, reflecting the current status of the budget, are the following documents:

- Preliminary LADWP Goals and Objectives for FY 2015-2016
- Preliminary Power Revenue Fund Receipts and Appropriations
- Power Revenue Fund Capital Improvement Program
- Power Revenue Fund Salaries and Authorized Number of Positions (based on Annual Personnel Resolution)
- Preliminary Retirement, Disability, and Death Benefit Insurance Plan
- Federal and State Grant Funding Estimates
- Preliminary Budget Presentation

City Council approval is not required.

### **RECOMMENDATION**

It is recommended that the Board of Water and Power Commissioners adopt the attached Resolution authorizing the transmittal of the preliminary FY 2015-2016 LADWP Power Revenue Fund Receipts and Appropriations budget and associated schedules to the Los Angeles City Council with the understanding that the LADWP will submit changes from this preliminary budget through the final budget by May 31st.

## **FINANCIAL INFORMATION**

The Power Revenue Fund Preliminary Budget incorporates expenditures for the Power System, including the share of expenditures associated with the Joint System and Water Revenue Fund that support Power System functions. Estimated appropriations for FY 2015-2016 total \$5.18 billion. Net of receipts from the Water System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, appropriations are \$4.56 billion.

## **BACKGROUND**

In October 2012, the Council approved a Power Revenue Fund rate action to increase base rates over two years, the first of which went into effect on November 11, 2012, and the second year change became effective July 1, 2013. The 2-year rate action totaling 11 percent brought system-wide average rates to 14.1 cents per kWh, which are still among the lowest in the State. The Power System has not had a base rate increase in 3 of the last 5 years.

LADWP faces continuing challenges to comply with mandates, upgrade aging infrastructure to maintain reliability, and offer customers additional ways to take control of their energy bills. This preliminary FY 2015-2016 budget provides funding for these key programs as detailed below.

### **Mandated Power Supply Replacement: \$846 million**

The Power System is undergoing a major transformation of its energy supplies that requires replacing a vast majority of its power generation to meet various State and Federal mandates, including replacing LADWP's coastal gas-fired plants to eliminate ocean water cooling of power plants, and to reduce our reliance on fossil fuels and lessen greenhouse gas emissions in response to the mandates of Senate Bill (SB) 1368 and Assembly Bill (AB) 32. Funding for these initiatives in the preliminary FY 2015-2016 budget include:

- Capital, \$436 million
  - Local Power Plants, \$92 million
  - Renewable Portfolio Standard, \$344 million
- O&M, \$410 million
  - Renewable Fuel and Purchased Power, \$381 million
  - Renewable Portfolio Standard, \$29 million

### **Rebuild for Reliability: \$815 million**

The budget provides for \$504 million in capital and \$311 million in O&M expenditures to replace aging Power System infrastructure necessary to maintain system reliability and

to take replacement cycles to recommended levels to avoid further deterioration in the frequency and duration of power system outages. This funding will be used strategically to reduce poor performing circuits that contribute to customer outages, upgrade and replace aging transformers, substation equipment, utility poles, and overhead and underground cables that are still in service well beyond their expected service lives.

*Expand Customer Opportunities Program: \$211 million*

The budget includes funding to enable customers to have greater control over their energy futures as well through energy efficiency, solar incentives, and demand response programs. These programs also allow LADWP to comply with State mandates for energy efficiency (AB 2021) and for utility investment in the solar rooftop photovoltaic rebates (SB 1) and a renewable energy feed-in tariff program (SB 1332 successor to SB 32) as follows:

- Capital, \$199 million
  - Customer Solar Incentives, \$48 million
  - Energy Efficiency, \$145 million
  - Demand Response, \$6 million
- O&M, \$12 million
  - Energy Payments (from Fuel and Purchased Power Budget) and Feed-in Tariff Administration, \$12 million

The need for funding to address urgent customer service issues will also be identified and prioritized in the coming weeks to enable the Customer Service Division to:

- Stabilize and leverage new Customer Information System to drive a better customer experience.
- Improve bill remittance by providing customers with more convenient payment and self-serve options.
- Prepare systems and processes to drive Operational Efficiencies.

**CITY ATTORNEY**

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

## **ATTACHMENTS**

- Resolution
- Preliminary LADWP Goals and Objectives for FY 2015-2016
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