

INDUSTRIAL, ECONOMIC, AND ADMINISTRATIVE SURVEY OF THE LADWP

JANUARY 20, 2016

SCOPE OF THE SURVEY

- The City Controller retained Navigant to lead the 2015 IEA Survey, a comprehensive review of the strategic and operational readiness of the organization to meet critical challenges and an evaluation of current operations against best practices.
- The primary focus areas were Water and Power Infrastructure, Joint Services Infrastructure, and Governance.
- Navigant interviewed more than 50 stakeholders including LADWP staff and executive leadership, City Management and elected officials, and the IBEW Local 18; reviewed hundreds of documents; conducted extensive peer research; and applied our prior experience with LADWP.

CHALLENGES FACING LADWP

External	Internal
Increasing regulatory requirements	Aging infrastructure for both power and water
Drought and climate change impacts	Large capital programs with a mixed record of implementation
Physical and cyber security threats	Urgent IT needs
Focus on the “customer experience”	Maintaining financial health and meeting targets

The governance structure: Challenges are internal to LADWP and external within the City. Issues have led to stakeholder dissatisfaction and pose a financial and operational risk to the organization.

- LADWP has made significant strides in its planning capabilities for Water and Power. It has improved its resource plans which reflect regulatory requirements and a commitment to system reliability.

POWER INFRASTRUCTURE

- *Critical Challenge:* Electric utilities including LADWP are entering a major transition period to meet increasingly stringent regulatory requirements for a cleaner power supply. This necessitates a balancing act between system reliability, cost, sustainability, and environmental stewardship.
- The 2014 IRP is a strong planning document. It addresses state and local mandates for reducing greenhouse gas emissions, repowering coastal plants, divesting from coal, meeting the 33% RPS by 2020, increasing local solar, and meeting the 15% energy efficiency goal by 2020.
- However, the Power System has struggled to implement some programs to meet ambitious goals. Challenges relate to:
 - Procurement and contracting
 - Project management
 - The hiring process
 - Moving financial resources between programs without adequate oversight and reporting
- Altogether, this poses a challenge for the City to balance policy and regulatory objectives against performance and productivity shortfalls that impact rates and other financial metrics.

WATER INFRASTRUCTURE

- *Critical Challenges:*
 - Aging infrastructure,
 - Maintaining regulatory compliance,
 - Reducing the reliance on purchased water,
 - Increasing local water supplies, and
 - Reducing per capita water consumption 20% by 2017.
- *Key Findings:*
 - Water supply, storage, and demand management strategies are sound.
 - Asset management strategies need to be finalized and documented given the extent of aging infrastructure.
 - Water infrastructure replacement rates are improving, but not quickly enough to ensure system reliability over the long term.
- *Recommendation:*
 - Ramp up infrastructure plans and related hiring/outsourcing if necessary.
 - Implement a broader outsourcing strategy.
 - Re-design procurement processes.

JOINT SERVICES INFRASTRUCTURE

- **Customer Service**
 - LADWP does not have a customer service focused culture, and needs to strengthen and diversify its mitigation plan for current CIS issues. Navigant benchmarked standard “customer touch point” metrics against peer utilities and found that LADWP performed in the 3rd and 4th quartile for most metrics in 2014.
- **Technology Infrastructure**
 - Large-scale project implementation issues are well known and continue to be a challenge. The Department also lacks an IT strategic plan.
 - Remaining IT programs perform well in most areas.
- **Security and Emergency Preparedness**
 - Security is progressing towards compliance with regulatory standards but is decentralized and de-prioritized within the Department. Navigant believes upper management should increase its focus in this area.
 - The emergency preparedness program has defined policies but routine training and consistent exercises are lacking. This program should be championed by senior management.
- **Economic Development and Community Outreach**
 - Program strategy, design, implementation, and monitoring should be strengthened for both functions.

GOVERNANCE

- Governance was not originally part of the scope but was added after numerous conversations with stakeholders made it clear that it should be included. Governance challenges relate to:

Decentralized City Authority	Multiple layers of governance lack adequate insight and authority into LADWP.
Inadequate Hiring Process	City Personnel processes prevent LADWP from being sufficiently responsive and nimble.
Lack of External Reporting, Transparency, and Trust	Failure to regularly and openly communicate with all stakeholders outside of rate requests.
Decentralized Internal Authority	Lack of controls related to finance, security, and emergency preparedness across LADWP.
Role of the OPA	Neither a fully independent advisor nor a regulator as it is currently operating.

GOVERNANCE

- Many of the short-term reporting and transparency issues are being addressed by LADWP in the proposed rate ordinances.
- In the IEA Survey, Navigant noted that there is no defined process at the Department for re-purposing funding on a program-by-program basis and that there appears to be no formal process to report key program financial milestones to leadership except when contracts go to the Board. Overall, there were inadequate internal financial controls.
 - This contributes to uncertainty around the ultimate use of potential funds from a rate increase.
 - Central financial controls should be re-established in the Financial Services Organization under the CFO.
- Without increased transparency through clear reporting, it will be difficult for LADWP to earn back the public trust and carry out its agenda, especially in rate actions.

GOVERNANCE

- Navigant recommends a defined process for governance reform.

Short-Term Recommendation

Tie financial and performance metrics to rates by ordinance.

Define and report a set of key metrics for each major program and initiative to decision makers on a specific schedule to inform annual rate adjustments.

Long-Term Recommendation

Form a committee to examine governance reforms for LADWP.

Council directs CLA/CAO to form a working committee to examine governance reforms for LADWP. Include the Energy and the Environment Committee, Mayor's office, CAO, CLA, Controller, City Attorney, OPA, LADWP Board and General Manager, and labor; set a task of reporting on findings to City Council and recommending a measure for the 2017 ballot.

WHAT'S NEXT?

- The review of LADWP's Water and Power Rate Proposal is underway by Navigant. Financial and performance metrics have been adopted by LADWP in the proposed rate ordinances. This should help improve transparency, communication, and accountability.
 - Productivity and efficiency challenges are being explored in this work.
- City Council may choose to introduce new motions related to the 2015 IEA Survey findings. A few examples include:
 - Direct the CLA to retain a consultant and form a governance reform committee per the long-term governance recommendation.
 - Direct the CLA to develop a formal procurement study for LADWP (Power and Water).
 - Direct the CLA to retain a consultant to work with LADWP and prepare a Corporate Security Plan, Technology Infrastructure Strategic Plan, etc., as recommended in the IEA Survey.



CONTACTS

ANDREW REA

Managing Director

213.670.2769

Andrew.Rea@Navigant.com

CHARLES TOOMAN

Director

303.728.2516

Charles.Tooman@Navigant.com