



Review of the 2015 LADWP Water Rate Proposal

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Summary of OPA's Rate Opinion

- ❑ Timeline on Water & Power Rates and Reviews
- ❑ OPA's Review and Opinion
- ❑ Continuing Challenge to Perform
- ❑ Performance Targets and Rate Adjustments:
“Use ‘em or lose ‘em”
- ❑ Increasing Transparency: Public Trust & Labor
- ❑ Recommendations



Timeline on Water & Power Rates & Reviews

- ❑ Last Increase to Base Rate: 2013 Power, 2009 Water
- ❑ Last rate review: 2012 for both Water & Power, Water withdrawn
- ❑ OPA/DWP regular meetings: Mid-2013 to present
- ❑ Rate proposal put on hold: Early 2014
- ❑ Discussion on 3 vs 5 year rate proposal: Late 2014
- ❑ Rate proposal re-initiated: July 2015
- ❑ DWP draft rates report: August 2015
- ❑ DWP draft ordinance: September 2015
- ❑ Updated financial plan, rates & ordinance: Published late Nov 2015
- ❑ Modified financial plan, rates & ordinance: Dec 6 Water, Dec 29 Power
- ❑ OPA Review with Navigant report: Dec 11 Water, Jan 15 Power
- ❑ DWP Board approved power rates: Dec 15 Water, Jan 19 Power



Recommendations

- ❑ OPA encourages approval of the proposed rates and ordinances.
- ❑ OPA seeks to propose labor metrics, in conjunction with DWP, to the Board by June 1, 2016.
- ❑ The Board should request the Department propose methods to provide the Joint Division budget control over its funded activities, to include potentially a transfer at the beginning and end of each budget year.
- ❑ DWP should immediately proceed with its planned second stage of benchmarking, and include to the extent practical the recommendations in Oliver Wyman's preliminary labor findings report and the Navigant report.
- ❑ DWP should at the earliest practicable time seek to increment its credit for low income, Lifeline, and physician authorized customers with an inflation adjustment.



OPA's Review and Opinion on Water Rates

- ❑ What is “Reasonableness?”
 - Are rates equitable to the many competing interests?
 - Are customer costs connected to the provision of reliable service?
 - Are the allocation of the costs non-discriminatory?
- ❑ OPA's Review
 - Assisted by specialized national expert, Navigant
 - Coordinated with many LADWP staff & management meetings
 - Included rate report, ordinance and financial plans
 - Improving transparency: labor, other issues
- ❑ **Opinion: *LADWP's water rate proposal, as modified in December 2015, is just and reasonable.***



Water Rates -- Less Than is Needed, but a Challenge to Perform

- ❑ 4.7% annual rate increases
- ❑ 5.3% annual revenue growth: \$1.08 to \$1.41 billion over five years (Fiscal Years 2014/15 to 2019/20)
 - Slight growth in demands from current drought conditions
 - Capital project spending for aging infrastructure, local water supply and regulatory projects
 - Operating & maintenance costs including labor
 - Reductions to unfunded employee pension liability
- ❑ More pipeline replacements planned every year
 - But less than is needed to keep up with aging system
 - Key staffing may be inadequate for more project spending

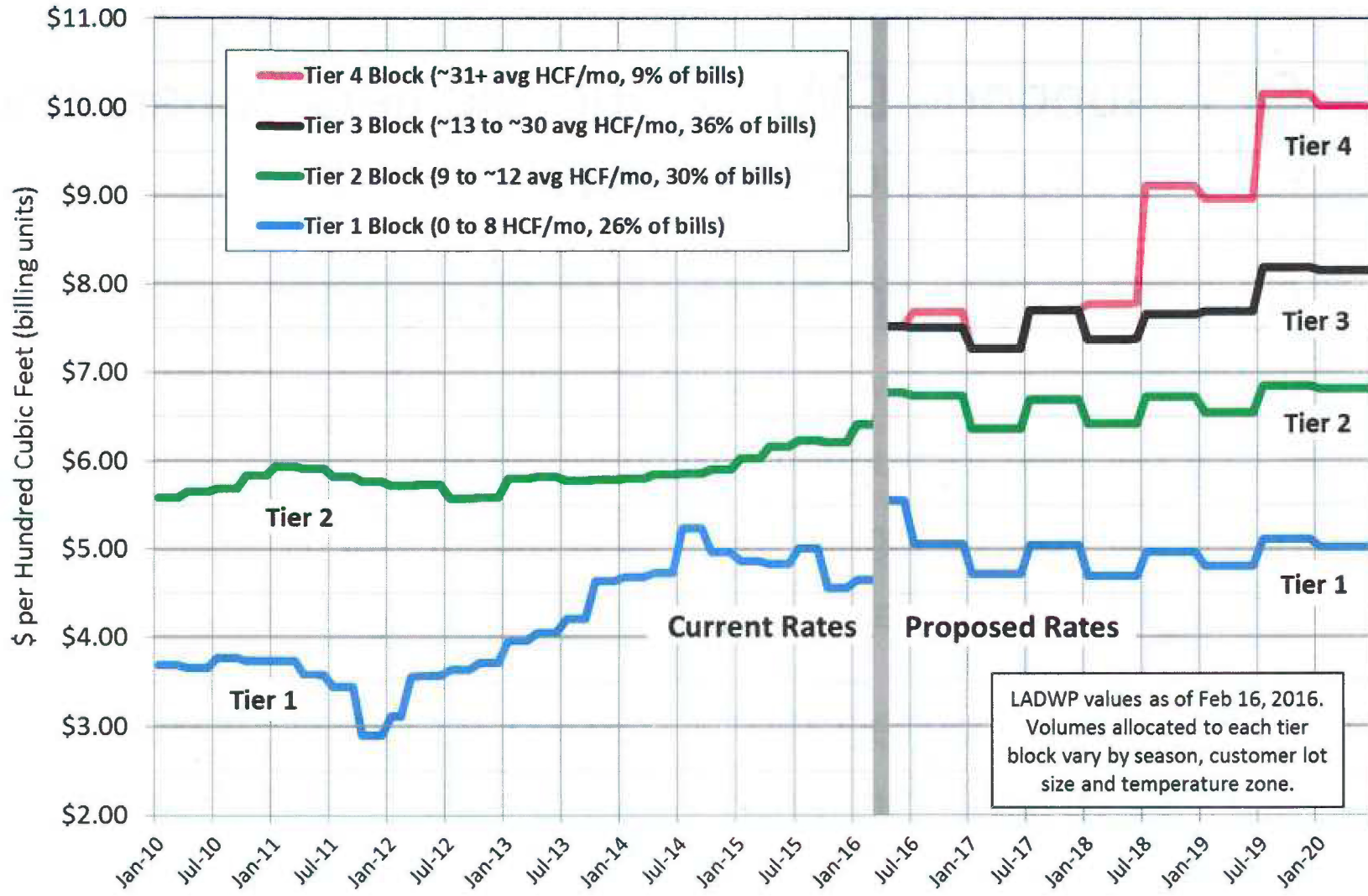


Projected Water Billing Increases are Just and Reasonable

- ❑ OPA supports DWP's four rate tiers consistent with recent judicial findings
- ❑ Annual avg increases over five years (as of Feb. 15) :
 - 2% per year for low use single family residence (SFR)
 - 2% per year for budgeted multi-family bills
 - 6% per year for higher water SFR (not in Tier 4)
 - Large but necessary increase for public irrigation
- ❑ Projection based on a return to normal water supply condition with LAA flowing full



Water Charges – Historical and Future Single-Dwelling Unit Residential Rates (as of Feb. 15)



Revenues from Water & Power Rate Adjustments: “Use ‘em or lose ‘em”

- ❑ Reductions to planned rate increases for unattained or unattainable spending levels
- ❑ Mechanisms for rate revisions when capital, operating costs, or demands vary from forecast
 - Metrics can be refined in 6 month review process
- ❑ Key performance targets and metrics reported to OPA, DWP Board, Council and Public to:
 - Better aligns forecasts and activities for more transparency
 - Hold DWP accountable



But where does the money go?

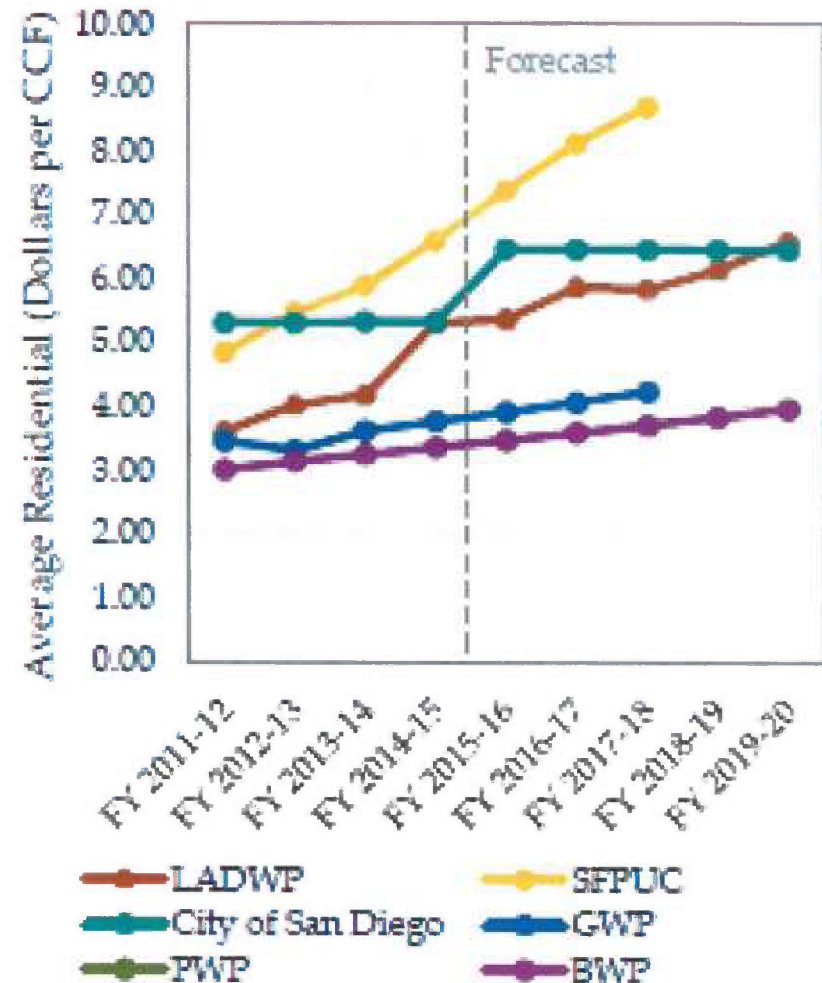
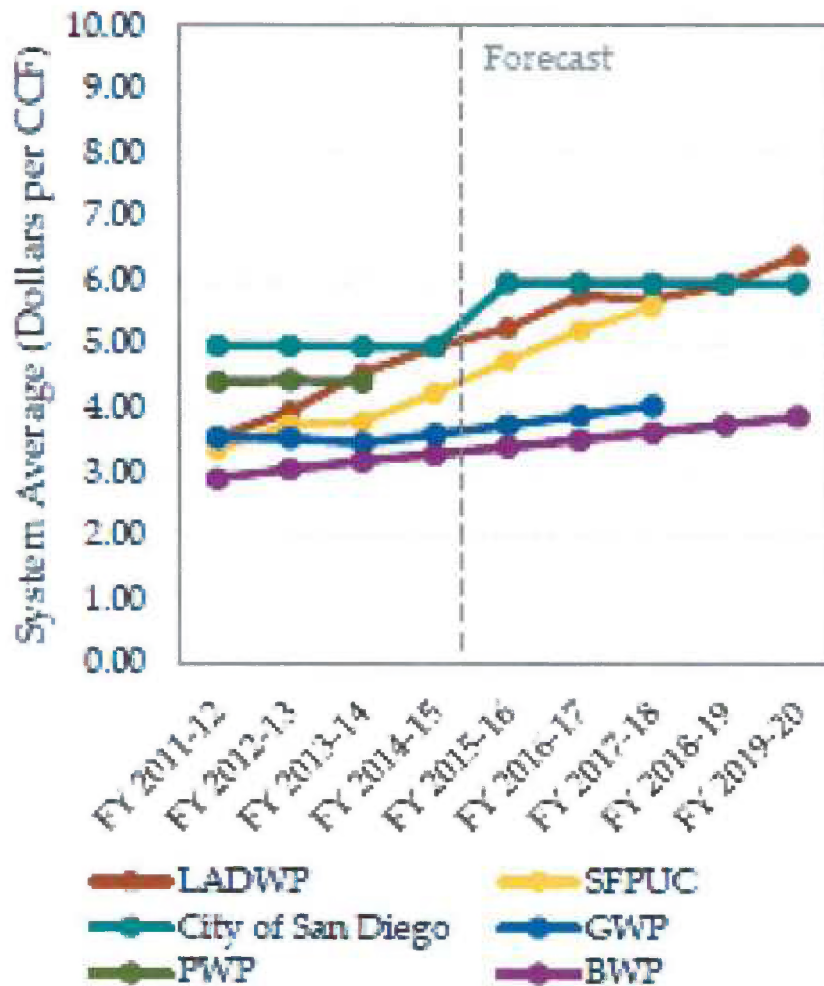
More transparency!

- ❑ Improving transparency, regular reporting
 - External relationships: \$10 million
 - City services: \$54-\$65 million
 - City Departments bill payments to DWP
 - Labor relations and outsourcing: Appendix B reports
 - Solar: Utility Built Solar and Community Solar
 - Training: \$130 million/year, nearly all inside
 - Labor costs, total compensation: stabilization, improvement, overtime: 75th percentile overall
 - Productivity: 75th percentile, counter industry trend



Rate Comparison by Navigant

Figure 3-35. System Average and Average Residential Retail Rates Comparison (FY 2011/12-FY 2019/20)



What Are OPA's Labor & Productivity Recommendations?

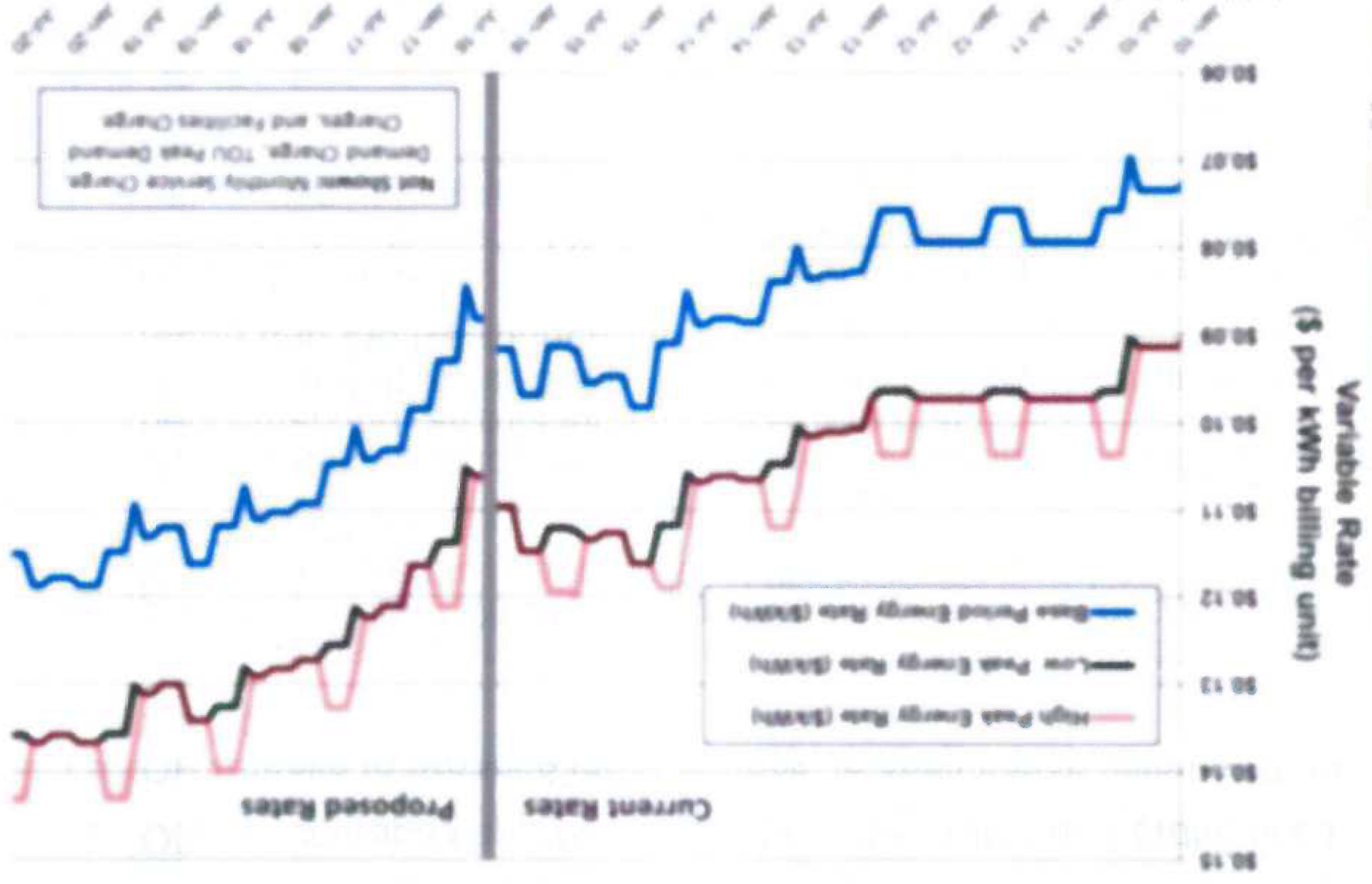
- DWP's plan will be very difficult to execute with these labor costs, absent changes.**
 - Participate in annual salary surveys and report regularly on results.
 - Immediately proceed with the next stage of benchmarking and include productivity analysis.
 - Goal: labor metrics before Board by June 1.
 - Goal: scope of work contracted in two weeks.
- Address drivers for overtime costs.
- Consider health care design changes, when the MOU permits.



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Discussion