

A. INCREMENTAL ELECTRIC RATE ORDINANCE COMPONENTS

This appendix provides details for the components of the Incremental Electric Rate Ordinance and the costs that each component is designed to recover.

Figure 1: LADWP Power System Proposed Rate Structure

Over/Under Collection	Yes	Variable Energy Adjustment (VEA)	<ul style="list-style-type: none"> Fuel costs (natural gas, coal, nuclear, hydro) Non-RPS Purchase Power Agreements Includes funds for "Base Rate Target Adjustment" 	Incremental Electric Rates Ordinance
	Yes	Variable Renewable Portfolio Standard Energy Adjustment (VRPSEA)	<ul style="list-style-type: none"> Above minimum RPS purchases & market purchases for regulatory requirements 	
	Yes	Capped Renewable Portfolio Standard Energy Adjustment (CRPSEA)	<ul style="list-style-type: none"> RPS O&M, RPS debt services & energy efficiency annual revenue requirement (regulatory asset) 	
	Yes	Capped Incremental Reliability Cost Adjustment (IRCA)	<ul style="list-style-type: none"> Additional funds to support the replacement/upgrade of Power System infrastructure (PSRP) 	
	Yes	Incremental Base	<ul style="list-style-type: none"> Rebuilding of in-basin power plants Base level of distribution/transmission costs A&G costs 	
		<ul style="list-style-type: none"> Energy Cost Adjustment (Fuel, RPS, DSM/EE, Revenue Transfer) Base Rate Reliability Cost Adjustment Electric Subsidy Adjustment 		"Capped" Ordinance as of November 3, 2010

Pass-through factors in the Incremental Electric Rate Ordinance adjusted on a quarterly basis

A.1 Variable Energy Adjustment (VEA) [uncapped]

Fuel: The fuel component will be comprised of variable costs of fuel for power generation. The fuel costs will consist of costs of natural gas, coal, nuclear, and other fuels used to generate power.

Power Purchase Agreements (non-RPS): This charge component will include costs of non-renewable electricity purchased from third-party generators on a bulk basis to supplement internal generation or when external generation is more cost effective. These purchases are contractual in nature through power purchase agreements and include agreements with the Intermountain Power Project, the Southern Transmission System, and the Palo Verde Nuclear Generating Station.

Economy Purchases (non-RPS): The Department continually evaluates whether it is more economical to generate power or make short-term wholesale purchases on the spot market. The cost of these "economy purchases" essentially displaces natural gas costs and will be passed through to customers as part of the variable energy adjustment in a similar fashion.

Legacy ECAF Under-Collection: The ECAF charge was unfrozen by an amendment to the Electric Rate Ordinance in 2006 but increases were capped at 0.1 cents per kWh per quarter, unless the

Board acts to increase the limit. The ECAF has been the method for passing through the costs of natural gas and other fuel costs to Department customers. As a result of the cap, since 2006, the Department has an under-collection. As of April 2015 it is roughly \$129.0 million, largely due to the cost of fuel. Through this charge component, the Department intends to collect the legacy under-collection over a ten-year period.

Base Rate Revenue Target Adjustment (Automatic Decoupling Fixed Cost Recovery Mechanism): The Department aggressively promotes a number of energy efficiency programs intended to reduce the amount and cost of energy usage by its customers. This charge component is intended to ensure that the Department will recover the needed base rate revenue without providing a financial disincentive for the Department's energy efficiency programs. The target base rate revenue, which is relatively fixed in relation to the volume of energy consumed, is based on forecasted energy consumption. This decoupling mechanism will provide a credit back to customers if sales exceed forecasted amounts. The base rate revenue target is set in the ordinance for each of the five years.

A.2 Variable Renewable Portfolio Standard Energy Adjustment (VRPSEA) [uncapped]

Purchases for Regulatory Requirements: This charge will recover some costs required to meet legally mandated RPS targets. The cost of market purchases for the RPS required to meet these targets is market driven and largely not controlled by the Department. This charge also includes the cost for the delivery of renewable power from sources in which the Department has an indirect financial ownership above and beyond debt service and O&M, including delivery of excess wind and/or solar power due to climate conditions.

A.3 Capped Renewable Portfolio Standard Energy Adjustment (CRPSEA)

RPS O&M and Debt Service Costs: This adjustment will recover O&M and debt service costs of sources directly and indirectly owned by the Department (including off balance sheet debt) for which the Department can meaningfully plan to meet legally mandated RPS targets that have been established.

Energy Efficiency Program Costs: This adjustment will recover costs to fund energy efficiency programs that have been established.

Three Years Projected Under-Collection: LADWP will develop a quarterly projection of future under-collections for the next three years. If any projected under-collection is greater than \$50.0 million but less than \$100.0 million, LADWP will provide a report to the Board and City Council to

communicate the under-collection. If any projected under-collection is \$100.0 million or greater, if deemed necessary, modified rates will also be fixed by the Board and then approved by ordinance.

A.4 Incremental Reliability Cost Adjustment (IRCA)

Power System Reliability Program: To ensure the continued reliability of the Power System, this adjustment will provide funding for the cash funded portion of capital expenditures for infrastructure replacements and upgrades associated with the PSRP expenditures above \$320 million (from Electric Rate Ordinance), as well as for ongoing O&M expenditures above \$290 million (from Electric Rate Ordinance).

The new IRCA will have the additional following characteristics.

- For years one (FY 2015-16) through year three (FY 2017-18), caps will be designed to allow unused funds to be applied to the second and/or third year of that range.
- Starting in year four, the increase cannot exceed \$0.002 per kWh annually.
- Separate Residential and General Service balancing accounts will be established. Projects (and associated spending) can be reallocated and reprioritized within fiscal years and between proximate fiscal years within the caps and subject to the following reporting requirements:
 - If the projected under-collection is greater than \$25.0 million and less than \$50.0 million, LADWP will report to the Board and Council to communicate the projected under-collection; and
 - If the projected under-collection is \$50.0 million or greater, modified rates shall, if deemed necessary, be fixed by the Board and then approved by an ordinance change.
- General Service IRCA factor will have both a kW and kWh component.

Legacy RCA Under-Collection: The previous RCA factor was established to recover operation, maintenance, and debt service costs of the Power System Reliability Program (PSRP). Current forecasts project the under-collection to reach \$89.0 million at the end of FY 2014-15. Within this new adjustment, LADWP will account for the legacy under-collection over a seven-year period.

A.5 Incremental Base Rates

These charges will recover costs of providing electric utility service that are increasing and not recovered by the above adjustment factors or base ordinance. These costs would include labor costs pursuant to union agreements, real estate costs, costs to rebuild and operate local power

plants, equipment costs, operation and maintenance costs, non-fuel expenditures for jointly-owned plants (Navajo Generating Station and Palo Verde Nuclear Generating Station), and other inflation-sensitive costs.

B. TEMPERATURE ZONES

This appendix provides the zip codes associated with the temperature zones in LADWP's territory for Residential customers.

Figure 1: Zone 1

Zone 1				
90004	90008	90009	90016	90018
90019	90024	90025	90027	90028
90034	90035	90036	90038	90043
90045	90046	90047	90048	90049
90056	90064	90066	90067	90068
90069	90077	90094	90210	90212
90230	90232	90245	90247	90248
90272	90275	90291	90292	90293
90402	90403	90405	90501	90502
90710	90717	90731	90732	90744

Figure 2: Zone 2 (Includes Owens Valley)

Zone 2 (Includes Owens Valley)				
90001	90002	90003	90005	90006
90007	90010	90011	90012	90013
90014	90015	90017	90020	90021
90023	90026	90029	90031	90032
90033	90037	90039	90041	90042
90044	90057	90058	90059	90061
90062	90063	90065	91040	91041
91042	91105	91205	91210	91214
91302	91303	91304	91305	91306
91307	91309	91311	91316	91324
91325	91326	91330	91331	91335
91340	91342	91343	91344	91345
91346	91352	91355	91356	91364
91367	91401	91402	91403	91405
91406	91411	91423	91436	91504
91505	91601	91602	91604	91605
91606	91607			