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REPORT NO. R 1 6 - 0 0 4 6
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REPORT RE:

**DRAFT ORDINANCE APPROVING THE RATES
FIXED BY THE DEPARTMENT OF WATER AND POWER
FOR ELECTRICAL ENERGY DISTRIBUTED AND
SERVICE SUPPLIED BY SAID DEPARTMENT**

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Honorable Members:

This Office has prepared and now transmits for your consideration the enclosed draft ordinance, approved as to form and legality. The draft ordinance would replace the existing Incremental Electric Rate Ordinance Nos. 182273 and 182288. The rates of the draft ordinance would commence on the earlier of April 1, 2016, or the earliest possible effective date of the draft ordinance after April 1, 2016.

The draft ordinance, among other features, has five major aspects. First, starting July 1, 2016, the Incremental Reliability Cost Adjustment (IRCA), fixed in the existing applicable incremental electric rate ordinance, is now adjustable to match approved infrastructure reliability expenditures of the Power System Reliability Program. Second, a consumption-based tiered Power Access Charge for Schedule R-1 Rate A residential customers is being introduced. Third, a Business Promotion Service Rider is being introduced that offers temporary bill discounts for new load with not less than 100 kilowatts of demand from qualifying businesses that would receive service under General Service Schedules A2, A3 or A4. Fourth, the draft ordinance resumes use of a Base Rate Revenue Target Adjustment (BRRTA). Fifth, the draft ordinance requires

reporting by the City of Los Angeles (City) Department of Water and Power (Department) of key performance metrics, variation from targets and, if necessary, mitigation plans to the Board of Water and Power Commissioners (Board), Office of Public Accountability (OPA) and City Council (Council).

Summary of Key Features of the Draft Ordinance

Key features of the draft electric rate ordinance include the following:

- Similar to the charges of the existing Incremental Electric Rate Ordinance Nos. 182273 and 182288, the charges of the draft electric rate ordinance are in addition to the charges of corresponding rates prescribed in the existing Electric Rate Ordinance No. 168436, as amended. This layering of charges is why the draft electric rate ordinance is described as incremental.
- Starting July 1, 2016, the IRCA, fixed in the existing applicable incremental electric rate ordinance, is now adjustable to match approved infrastructure reliability expenditures of the Power System Reliability Program.
- Starting July 1, 2016, the General Service IRCA Factor shall have both kilowatt and kilowatt-hours components.
- A consumption-based tiered Power Access Charge for Schedule R-1 Rate A residential customers is being introduced. According to the Department, this will encourage the continued growth and sustainability of customer generation through appropriate price signals and obtain adequate cost recovery.
- The cap on the Capped Renewable Portfolio Standard Energy Adjustment is being removed.
- A Business Promotion Service Rider is being introduced that offers temporary bill discounts for new load with not less than 100 kilowatts of demand from qualifying businesses that would receive service under General Service Schedules A2, A3 or A4. The cumulative capacity of the participants receiving this service rider shall not exceed 80 megawatts. According to the Department, this service rider considers the availability of excess generation.
- Use of a BRRTA is resuming. The BRRTA is designed to recover a minimum level of base rate revenues. It would provide additional revenues when energy consumption is below forecast and return money to the Department's customers when energy consumption is above forecast. The related Base Rate Revenue Targets stated in the draft ordinance can be reduced when actual net wholesale revenue and contributions in aid of construction exceed the budgeted amounts.

- The draft ordinance requires reporting by the Department of key performance metrics, variation from targets and, if necessary, mitigation plans to the Board, OPA and Council.
- The Department and OPA shall conduct their own interim rate reviews. After receipt of the results of the interim rate review from the Department and the OPA, the Board shall by resolution take action to choose whether or not to order the Department to prepare possible revisions to the draft ordinance for consideration by the Board no later than June 30, 2019.
- Interim rate reviews by the Department and the OPA shall include calculation of revised base rate revenue targets for Fiscal Year 2018/19 and Fiscal Year 2019/20. If any of such calculated revised targets varies from the respective Base Rate Revenue Target stated in the draft ordinance, the Board may choose to increase or decrease the respective Base Rate Revenue Target stated in the ordinance to any degree not in excess of 2% of that stated target.

Summary of Ordinance Provisions

Charter Section 676(a) provides that rates for electric energy shall be fixed by the Board from time to time as necessary, subject to approval by the Council through ordinance. Approving this ordinance will establish the electric rates of the draft incremental electric rate ordinance as described above.

The existing Electric Rate Ordinance No. 168436, as amended, has maintained the same rate structure since 2008. The Department will continue to adopt an electric rate structure that preserves the 2008 rate structure and layers incremental charges on top of the applicable existing charges of the Electric Rate Ordinance No. 168436, as amended. The Department is applying the results of the recently conducted cost of service study and the impact of the new revenue requirements for electric service to only the draft incremental electric rate ordinance.

CEQA Findings

The approval of the rates in the draft ordinance is exempt from the requirements of the California Environmental Quality Act under the provisions of the Public Resources Code, Section 21080(b)(8). The proposed rates meet financial needs of the Department, including operating and capital expenses.

Council Rule 38 Referral

This draft ordinance has been approved in substantial form by the Board pursuant to Council Rule 38.

Outreach

The OPA was established to provide public independent analysis of Department actions as they relate to water and electric rates. The OPA has reviewed the draft electric rate ordinance and finds the related rate proposal to be just and reasonable.

To increase awareness of the proposed electric rates in the draft ordinance, the Department has held more than sixty public meetings.

If you have any questions regarding this matter, please contact Deputy City Attorney Brian E. Stewart at (213) 367-5115. He or another member of this Office will be present when you consider this matter to answer any questions you may have.

Very truly yours,

MICHAEL N. FEUER, City Attorney

By



DAVID MICHAELSON
Chief Assistant City Attorney

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Transmittal