

March 15, 2016

Mr. Miguel A. Santana
City Administrative Officer
Room 1500, City Hall East
200 North Main Street
Los Angeles, CA 90012

Dear Mr. Santana:

Subject: Preliminary Fiscal Year (FY) 2016-2017 Los Angeles Department of
Water and Power (LADWP) Revenue Fund Budget Transmittal

Respectfully submitted for informational purposes is the LADWP Preliminary "Receipts and Appropriations" Budget for FY 2016-2017. The proposed budget is submitted in accordance with the City Charter Section 684 (as amended by Measure J adopted in March 2011) and sets forth the funding allocations necessary to responsibly serve all of our customers.

The enclosed Water and Power Revenue Fund preliminary Receipts and Appropriations budget for FY 2016-2017 (Preliminary Budget) provides funding for operational requirements, regulatory and other mandates, and increased levels of infrastructure investment. The LADWP continues to emphasize cost control and fiscal discipline across all programs and disciplines, with phase two benchmarking efforts and enhanced performance metrics reporting contributing to greater cost efficiency and accountability.

This preliminary budget, which will continue to be updated and adjusted over the coming weeks, reflects Water and Power Board of Commissioners (Board) approval of \$164 million and \$246 million in new revenues for Water and Power, respectively for FY 2016-2017. The additional revenues from the five-year rate action provide necessary funding for planned investments in water and power capital infrastructure, including acceleration of infrastructure reliability replacement cycles; continued compliance with regulatory mandates; and improved customer service levels. In addition, continued use of Board approved pass through adjustment factors will assist in recovery of costs associated with, in part, uncontrollable costs such as water, fuel and purchased power costs and infrastructure costs.

The budget is based on the following core initiatives:

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

Enclosed within for your review and informational purposes are the following documents:

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

Estimated General Fund Revenues

In addition to reliable, low-cost utility services, the LADWP provides the City of Los Angeles with ongoing financial support through the collection and remittance of Utility Users Tax – Electricity (UUT) revenues and the Power Revenue Transfer. Based on the sales forecast for FY 2016-2017, the UUT for next fiscal year is estimated to be \$382 million. For the Power Revenue Transfer, the estimate for FY 2016-2017 is \$291 million and is based on the outlook for the FY 2015-2016 fiscal year.

Power System

The total Power Revenue Fund Receipts and Appropriations budget for FY 2016-2017 is \$4.47 billion, net of receipts from the Water System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, and reflects critical investments for compliance with regulatory mandates related to the power supply and increased funding to address aging infrastructure. The budget provides \$831 million in FY 2016-2017 to continue the transition towards achieving 50 percent of power supply from renewable sources by 2030, as well as continuing to upgrade/replace units of two coastal power plants, Haynes Unit 1 & 2, and Scattergood Units 1, 2, and 3. The budget also provides \$804 million to replace aging infrastructure necessary to maintain system reliability, avoiding further deterioration and reducing the frequency and duration

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of power system outages. Other funding increases include expanding customer opportunity programs and facilitating greater customer control of their bills and energy sources, through Energy Efficiency funding (\$169 million), Customer Solar Incentives (\$28 million), Demand Response (\$8 million), as well as Energy payments and Feed-in Tariff (\$32 million).

Water System

The total Water Revenue Fund Receipts and Appropriations budget for FY 2016-2017 is \$1.93 billion, net of receipts from the Power System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, and reflects investment in local water supply projects to reduce our reliance on costly imported water and meet regulatory mandates, while continuing funding to improve drinking water quality and replace aging system infrastructure. The proposed budget provides \$233 million in funding to reduce reliance on imported water through investment in local water supply and conservation programs. The budget also provides \$419 million for water quality capital projects and operations and maintenance to comply with Federal and State water quality standards and other regulatory mandates. Further investment of \$464 million is made to rebuild our water infrastructure for reliability, including funding to address distribution mainlines, trunk lines, pump stations, pressure regulating stations, tanks, reservoirs, and meters and services.

Multi-year Financial Planning

The FY 2016-2017 budget is the second year of a multi-year effort to prepare the utility for the future and will address the challenges involved in evolving the power and water systems. The LADWP continues to update and refine multi-year financial plans for both the Water and Power Revenue Funds, with funding prioritized towards investment in critical infrastructure, increased system reliability and more sustainable water and energy supplies. Funding is also required to ensure that resource needs are met within our customer contact centers and meter routes, with focus on rebuilding customer confidence and expanding efforts to improve the customer experience with all LADWP operations and services. Lastly, through the efforts of the highly skilled and dedicated LADWP workforce, we will increase agency transparency and accountability through increased use of performance measurements and benchmarking, while improving productivity through increased use of technology and innovation.

In conclusion, the LADWP is looking forward to working closely with Mayor Garcetti, the Los Angeles City Council, Ratepayer Advocate, and your Office to finalize a FY 2016-2017 budget that is fiscally responsible and provides the resources required to provide the citizens of the City of Los Angeles with quality and reliable water and power, now and into the future.

Sincerely,

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Marcie L. Edwards
General Manager

NMG:mma/ap
Enclosures

c/encl: Board of Water and Power Commissioners
Richard M. Brown
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