



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL



JEFFERY L. PELTOLA
Chief Financial Officer



DAVID H. WRIGHT
Chief Operating Officer



MICHAEL S. WEBSTER
Executive Director – Power System
Engineering and Technical Services



MARCIE L. EDWARDS
General Manager

DATE: February 29, 2016

SUBJECT: Transmittal of Preliminary Fiscal Year 2016-2017 Los Angeles Department of Water and Power Budget to the Los Angeles City Council – Power Revenue Fund Receipts and Appropriations Budget and Associated Schedules

SUMMARY

Submitted for the Board of Water and Power Commissioners (Board) approval is a Resolution that authorizes the Los Angeles Department of Water and Power (LADWP) to transmit the preliminary Fiscal Year (FY) 2016-17 LADWP Power Revenue Fund Receipts and Appropriations budget and associated schedules to the Los Angeles City Council (Council), as required by City Charter Section 684. Estimated appropriations for FY 2016-17 total \$5.05 billion or \$4.47 billion, net of receipts from the Water System, contributions in aid of construction, individuals, and companies and other miscellaneous sources.

Work on the FY 2016-17 budget commenced in September 2015, and will continue to be refined over the next two months leading towards a final budget by May 31. The preliminary budget presented herein includes a Board approved five-year rate action with a 3.86 percent system average annual rate increase, inclusive of base rate and pass-through rate adjustment factors (energy and reliability cost adjustment factors), requiring Mayor and City Council approval. Pass-through rates would continue to adjust for, in part, variable and uncontrollable costs such as fuel and purchased power costs, as well as dedicated and increased investment in infrastructure reliability.

The LADWP continues to emphasize cost control and fiscal discipline while current benchmarking efforts and use of performance metrics will ensure cost efficiency and accountability. The preliminary budget supports continued progress towards the Mayor's

priorities for LADWP, including rebuilding customer confidence; improving customer service; setting an example for integrity and transparency; maintaining and updating infrastructure; achieving high environmental goals; and restoring pride in the agency. FY 2016-17 funding priorities reflect a number of existing and continued challenges, including:

- Continued investment in rebuilding local power plants
- Transitioning to cleaner resources for more sustainable energy supplies
- Maintaining power system reliability by replacing aging infrastructure
- Investing in customer opportunity programs (i.e., energy efficiency, solar incentives, demand response, and feed-in tariff programs)
- Supporting the local economy through job creation

This preliminary budget transmittal contains the following documents:

- Cover letter to the City Administrative Officer (CAO)
- LADWP Goals and Objectives for FY 2016-2017
- Preliminary Power Revenue Fund Receipts and Appropriations
- Power Revenue Fund Capital Improvement Program
- Power Revenue Fund Salaries and Authorized Number of Positions (based on Annual Personnel Resolution)
- Preliminary Retirement, Disability, and Death Benefit Insurance Plan
- Federal and State Grant Funding Estimates
- Preliminary Budget Presentation

City Council approval is not required.

RECOMMENDATION

It is recommended that the Board adopt the attached Resolution authorizing the transmittal of the preliminary FY 2016-17 LADWP Power Revenue Fund Receipts and Appropriations budget and associated schedules to the Council with the understanding that the LADWP will submit to the Board changes from this preliminary budget through the final budget by May 31.

FINANCIAL INFORMATION

The Power Revenue Fund Preliminary Budget incorporates expenditures for the Power System, including the share of expenditures associated with the Joint System and Water Revenue Fund that support Power System functions. Estimated appropriations for FY 2016-17 total \$5.05 billion. Net of receipts from the Water System, contributions in aid of construction, individuals, and companies and other miscellaneous sources, appropriations are \$4.47 billion.

BACKGROUND

LADWP faces continuing challenges to comply with mandates, upgrade aging infrastructure to maintain reliability, and provide customer with opportunities to reduce or control their energy bills. This preliminary FY 2016-17 budget provides funding for key programs as detailed below.

Mandated Power Supply Replacement: \$831 million

The Power System is undergoing a major transformation of its energy supplies that requires replacing a vast majority of its power generation to meet various State and Federal mandates, including replacing LADWP's coastal gas-fired plants to eliminate ocean water cooling of power plants, and to reduce our reliance on fossil fuels and lessen greenhouse gas emissions in response to the mandates of Senate Bill (SB) 1368 and Assembly Bill (AB) 32. Funding for these initiatives includes:

- Capital, \$282 million
 - Local Power Plants, \$23 million
 - Renewable Portfolio Standard, \$259 million

- O&M, \$549 million
 - Renewable Fuel and Purchased Power, \$510 million
 - Renewable Portfolio Standard, \$39 million

Rebuild for Reliability: \$804 million

The budget provides for \$485 million in capital and \$319 million in operating and maintenance (O&M) expenditures to replace aging Power System infrastructure necessary to maintain system reliability and to take replacement cycles to recommended levels to reduce the frequency and duration of costly power system outages. This funding will be used strategically to reduce poor performing circuits that contribute to customer outages, upgrade and replace aging transformers, substation equipment, utility poles, and overhead and underground cables that are still in service well beyond their expected service lives.

Expand Customer Opportunities Program: \$238 million

The budget includes funding to enable customers to have greater control over their bills through energy efficiency, solar incentives, and demand response programs. These programs also allow LADWP to comply with State mandates for energy efficiency (AB 2021) and for utility investment in the solar rooftop photovoltaic rebates (SB 1) and a renewable energy feed-in tariff program (SB 1332 successor to SB 32) as follows:

- Capital, \$206 million
 - Customer Solar Incentives, \$28.4 million
 - Energy Efficiency, \$169.3 million
 - Demand Response, \$8.4 million

- O&M, \$32 million
 - Energy Payments (from Fuel and Purchased Power Budget) and Feed-in Tariff Administration, \$32.3 million

The need for funding to address customer service issues has been identified and will be prioritized and refined in the coming weeks to enable the Customer Service Division to:

- Stabilize and leverage new Customer Information System to drive a better customer experience
- Improve bill remittance by providing customers with more convenient payment and self-serve options
- Prepare systems and processes to drive Operational Efficiencies.

CITY ATTORNEY

The City Attorney has reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Cover letter to the City Administrative Officer (CAO)
- LADWP Goals and Objectives for FY 2016-2017
- Preliminary Power Revenue Fund Receipts and Appropriations
- Power Revenue Fund Capital Improvement Program
- Power Revenue Fund Salaries and Authorized Number of Positions (based on Annual Personnel Resolution)
- Preliminary Retirement, Disability, and Death Benefit Insurance Plan
- Federal and State Grant Funding Estimates
- Preliminary Budget Presentation