

No DWP rate hike -- yet

Council orders outside audit of agency

By James Nash, Staff Writer

In a stinging rebuke to the Department of Water and Power, Los Angeles City Council members unanimously demanded on Tuesday an outside financial review of the utility before they will consider raising water rates by 18 percent.

The action derails the DWP's proposal for an 11 percent increase in residential water rates this year and a 7 percent increase in 2005 -- hikes Mayor James Hahn continues to support despite broad community opposition and the council's call for an independent audit of the utility's spending practices and revenue needs to improve security and water quality.

"Any water and power increase needs to be quantified and explained to us in terms we can understand," said Councilman Greig Smith, who proposed the outside review of DWP rate increases.

"It's time to change the culture of Water and Power."

The council's action came after the opposition to the rate increase rippled through the network of about 100 advisory neighborhood councils in Los Angeles. The groups, which were created under a 1999 charter amendment, complained that in its rush to get the rate increase passed, the DWP ignored neighborhood councils and the public at large.

Questions also were raised by the cost of the DWP's public relations efforts, sponsorships of the Dodgers and grants to community groups that run into the tens of millions of dollars a year.

"The Department of Water and Power has consistently circumvented that check (of neighborhood councils) and is attempting to do so now with threats, fear and outright lies," said Jim Alger, a Porter Ranch resident leading neighborhood council opposition.

DWP officials defended the proposed increase but accepted criticism that they had done a poor job marketing it to the public. And they backpedaled from earlier assertions that the council's failure to approve the rate increase soon would put the utility's bond rating in jeopardy, costing it millions of dollars in additional interest payments.

Frank Salas, the DWP's acting general manager, said the DWP has "several weeks, even months" before its bond rating is threatened.

"Obviously, the sooner the better, but we're willing to take all the time we need to convince the council members that what we're asking for is necessary," Salas said.

Smith said he does not know how long an outside financial review of the DWP might take. He said it's not certain whether the council would approve an 11 percent increase this year in the absence of a financial review, then tie any future rate hikes to such a study.

Hahn endorsed the rate increase shortly after the Board of Water and Power Commissioners -- a panel he appointed -- approved it last December but doesn't object to an in-depth study of the DWP's financial needs, spokeswoman Shannon Murphy said.

"He is in support of the council taking the time they need to collect all the necessary information. Mayor Hahn has reviewed it thoroughly and is supportive of the increase."

DWP officials say the 18 percent increase would cost residents an average of \$50 a year while generating \$65 million a year to pay off bonds. The DWP plans to borrow about \$1.5 billion in the next five years to replace aging pipes and equipment and to protect the water system against terrorism.

Peter Murphy, a director at Standard & Poor's in New York who specializes in municipal utilities, said a rate increase is necessary to pay off the bonds the DWP plans to issue.

"From a credit standpoint, they need to align their revenues with these long-term debt expenses. If the City Council is not passing rate increases of some sort, the ability to go forward on the capital plan is limited."

Opponents have seized on how the DWP, a monopoly, spends ratepayer money.

"The conversation we're having right now is not so much about the water rate increase," City Council President Alex Padilla said. "Ultimately, this is a credibility issue for the Department of Water and Power separately from the water rate increase."

Salas said the message sank in.

"We listened and we listened well," he said after nearly an hour of scolding by council members. "We look forward to discussing the issues with the council."

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