

DWP wants new rate hikes

Electric bill would rise alongside water fees

By Beth Barrett, Staff Writer
LA Daily News

Bolstered by a long-awaited independent revenue study, the Department of Water and Power will seek a new surcharge on electricity rates in addition to renewing its efforts to win approval of a two-year, 7.4 percent water rate hike, the Daily News learned Wednesday.

The renewed pressure for more revenue comes after city officials approved a controversial contract last summer with the DWP's union granting raises of up to 28 percent over five years and after Mayor Antonio Villaraigosa's appointees to the DWP vowed to block new rate hikes.

After the Daily News asked for the mayor's response to the DWP rate-hike plan, his office released to the media a letter from Villaraigosa to DWP commission president Mary Nichols asking the board to "take all necessary steps to mitigate impacts on LADWP's customers" before finalizing any hikes.

The DWP is seeking a natural-gas surcharge, which has been frozen for the past decade or so and would add an estimated \$1 to \$3 a month to the average ratepayer's electricity bill.

The average residential user who pays about \$25 a month for water would see about a \$1 per month increase with a 3.9 percent water-rate hike July 1, and a 3.5 percent hike July 1, 2007.

In a letter Wednesday to commissioners, DWP General Manager Ron Deaton defended the rate hikes as necessary to address increases in the cost of natural gas, water quality and infrastructure improvements, and Owens Valley dust mitigation and environmental restoration work.

In an interview, Deaton said that while the agency "isn't perfect" the additional revenue is needed to maintain the utility's "financial viability and reliability."

Deaton said soaring natural-gas prices this year forced the power side to absorb \$95 million in extra costs that it cannot afford to continue to absorb. The utility generates about 30 percent of its electricity from its L.A. Basin natural-gas fired power plants.

Criticism of the DWP proposal came quickly from neighborhood council representatives and DWP commissioners who questioned why ratepayers should shoulder the hikes in the wake of wasteful DWP spending.

DWP workers last year got a five-year contract with raises of up to 28 percent depending on inflation. The utility spent \$51 million in overtime during the last half of 2005; and DWP officials have authorized tens of millions of dollars in contracts without commission oversight.

"I have a real hard time to say any rate increase is OK when (DWP) is still transferring (nearly \$200 million this year) out of DWP," said Jim Alger, president of the Northridge West Neighborhood Council and a state Assembly candidate.

"I'm very cognizant of the ratepayers who can't afford it. The people of Los Angeles are getting squeezed from every single angle."

The \$360,000 study by Barrington-Wellesley Group Inc. was designed to give neighborhood councils more detailed revenue information as part of future rate-hike deliberations after the councils last year successfully blocked the utility's move for a 7 percent water-rate hike.

Deaton said the study included revenue savings and developing a "rigorous cost containment mindset."

While details of the study were not available, in his letter to commissioners Deaton summarized some of the findings and DWP efforts in response.

The study found revenue requirements on the power side can be cut by \$119 million over the next five years by reducing nonlabor expenses, implementing automated meter reading and eliminating discounted contract rates.

The study also estimated that revenue requirements on the water side can be reduced by \$20 million over the next five years, and Deaton said the utility is reviewing the cost-cutting identified in the study.

The study also recommended the utility "wring out" expenses by freezing or reducing approved expenses from all business units beginning with the fiscal 2006-07 budget. And it said the utility should mitigate the need for future rate hikes by investing in technology to reduce long-term costs and ensuring the most cost-effective sources of generation are used.

It also recommended installing "effective work force management practices to give the department the ability to right-size its work force." It said the utility does not have an effective, comprehensive manpower-planning system so it cannot determine whether its power operations side is adequately staffed.

And it said DWP should consider outsourcing noncore functions and investing in automation to reduce the number of full-time employees.

Deaton said the proposed water rate hikes would bring in about \$25 million annually, with the largest burden likely to fall on industrial-commercial users who have benefited from a cap.

Deaton said the report kicks off a 90-day evaluation period, including fashioning next year's budget and meeting with neighborhood council representatives.

The rate hikes also must be considered by DWP commissioners and the City Council.

"I don't believe there's fat," he said.

But Michael N. Cohen, a Reseda Neighborhood Council board member, said he wants to hear the department's rationale because it's difficult to square potential rate hikes against the utility's current spending.

"It doesn't make sense. I'm very much concerned," Cohen said.

DWP commissioners said the rate hike recommendations will have to withstand intense scrutiny.

Commissioner Nick Patsouras, who has spearheaded DWP's fiscal reform, said he's far from convinced the hikes are necessary, and that there are more cuts that can be made.

"Based on my tenure here, I believe it is not warranted," Patsouras said. "I don't accept that we cannot find \$25 million in this budget, that we have to raise water rates in July 2006."

Commission vice president David Nahai said the commission will closely review DWP's budget and said he has made it clear it will oppose any rate hike "unless we're certain all excessive spending has been cut from the budget."

"The budget hasn't yet been brought to us, and we will be going through it with a very fine-tooth comb in a manner that is unprecedented ... item by item.

"Once we're certain we've eradicated any spending abuses or inefficiencies in the system, if at that point there is no choice but to have a rate increase, then so be it."

Councilwoman Wendy Greuel voted against the DWP's last request for a water-rate hike because she said the utility did not know what was required to address its financial issues.

Greuel said Wednesday that she has not yet seen the new study.

"I look forward to seeing what it says and I look forward to the public process of it being discussed," she said. "I voted 'no' previously because what they had presented was unclear and this is an independent review so we'll see what it says."

Councilman Tony Cardenas, who opposed the 18 percent rate hike request, said the department still faces an uphill battle in justifying the rate increase.

"The way it stands now, I don't like what I see. I don't like some of the gray areas. Ratepayers need to know the details."

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