



Review of the 2015 DWP Water Rate Proposal for the DWP Board of Commissioners

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December 15, 2015

Corrected January 20, 2016

Summary of OPA's Water Rate Opinion

- ❑ Timeline on Water Rates and Reviews
- ❑ OPA's Review and Opinion
- ❑ Water Rates – a Challenge to Perform
- ❑ Performance Targets and Rate Adjustments:
Use 'em or lose 'em



Timeline on Water Rates & Reviews (1 of 2)

- ☐ Last Increase to Base Rate: 2009
- ☐ Water Quality Adjustments: Early 2012
- ☐ Base Rate proposal withdrawn: 2012
- ☐ OPA/DWP regular meetings: Mid-2013 to now
- ☐ Rate proposal put on hold: Early 2014
- ☐ Rate proposal reinitiated: July 2015



Timeline on Water Rates & Reviews (2 of 2)

- ☐ Draft report & Ordinance: August 2015
- ☐ Updated financial plan, rates & ordinance:
Published late November 2015
- ☐ Modified financial plan, rates & ordinance:
Through week of December 6
- ☐ OPA Review with Navigant report:
December 11



OPA's Review and Opinion

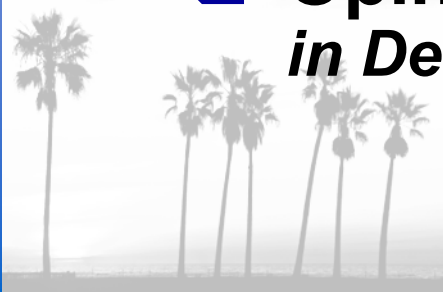
□ What is “Reasonableness?”

- Are rates equitable to the many competing interests?
- Are customer costs connected to the provision of reliable service?
- Are the allocation of the costs non-discriminatory?

□ OPA's Review

- Assisted by specialized national expert, Navigant
- Coordinated with many DPW staff & management meetings
- Included rate report, ordinance and financial plans
- To follow: reports on power and common issues (labor, etc.)

□ **Opinion: *LADWP's water rate proposal, as modified in December 2015, is just and reasonable.***

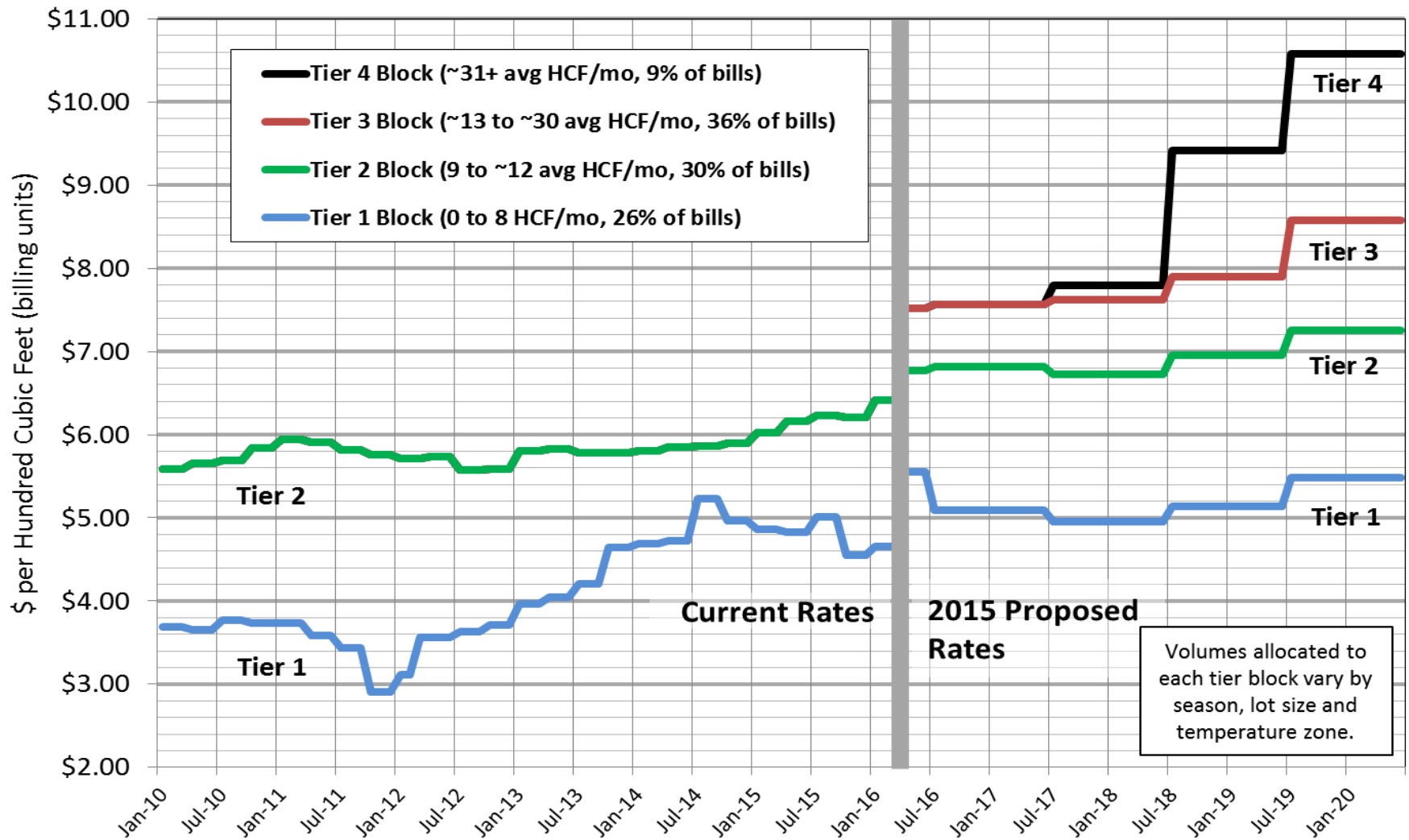


Water Rates -- Less Than is Needed, but a Challenge to Perform

- ❑ 4.7% annual rate increases
- ❑ 5.3% annual revenue growth: \$1.08 to \$1.41 billion over five years (Fiscal Years 2014/15 to 2019/20)
 - Slight growth in demands from current drought conditions
 - Capital project spending for aging infrastructure, local water supply and regulatory projects
 - Operating & maintenance costs including labor
 - Reductions to unfunded employee pension liability
- ❑ More pipeline replacements planned every year
 - But less than is needed to keep up with aging system
 - Key staffing may be inadequate for more project spending



Water Charges – Historical and Future Single-Dwelling Unit Residential Rates



Projected Water Billing Increases are Just and Reasonable

- ❑ OPA supports DWP's four rate tiers consistent with recent judicial findings
- ❑ Annual average increases over five years:
 - 4% per year for low use ~~and typical~~ single family residence (SFR)
 - 4% per year for budgeted multi-family bills
 - 7% per year for higher water SFR (not in Tier 4)
 - Large but necessary increase for public irrigation
- ❑ Projection based on a return to normal water supply condition with LAA flowing full



Revenues from Rate Adjustments: Use 'em or lose 'em

- ❑ Reductions to planned rate increases for unattained or unattainable spending levels
- ❑ Mechanisms for rate revisions when capital, operating costs, or demands vary from forecast
- ❑ Key performance targets and metrics reported to OPA, DWP Board, Council and Public to:
 - Better aligns forecasts and activities for more transparency
 - Hold DWP accountable



Discussion

