



Review of the 2015 LADWP Power Rate Proposal for the DWP Board of Commissioners

***Office of Public
Accountability /
Ratepayer Advocate,
City of Los Angeles
opa@LAcity.org
tel. 213-978-0220***

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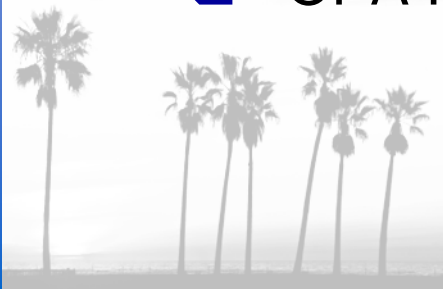
Summary of OPA's Rate Opinion

- ❑ Timeline on Power Rates and Reviews
- ❑ OPA's Review and Opinion
- ❑ Power Rates – Continuing Challenge to Perform
- ❑ Performance Targets and Rate Adjustments:
“Use ‘em or lose ‘em”
- ❑ Increasing Transparency: Public Trust
- ❑ Recommendations



Timeline on Power Rates & Reviews

- ❑ Last Increase to Base Rate: 2013
- ❑ OPA/DWP regular meetings: Mid-2013 to now
- ❑ Rate proposal put on hold: Early 2014
- ❑ Rate proposal reinitiated: July 2015
- ❑ Draft report: August 2015
- ❑ Draft ordinance: September 2015
- ❑ Updated financial plan, rates & ordinance: Published late Nov 2015
- ❑ Modified financial plan, rates & ordinance: December 29
- ❑ OPA Review of Navigant report: January 15



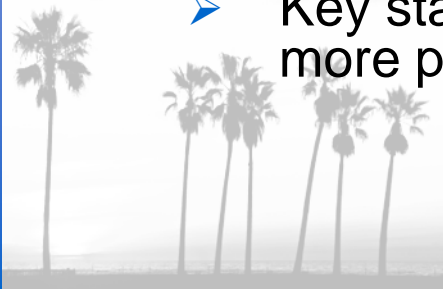
OPA's Review and Opinion

- ❑ 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 LADWP staff & management meetings
 - Included rate report, ordinance and financial plans
 - Improving transparency: labor, other issues
- ❑ **Opinion: *LADWP's power rate proposal, as modified in December 2015, is just and reasonable.***
 - January 12 board letter, released January 15, commercial rates differ slightly. OPA will work with DWP to report on reconciliation.



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

- ❑ 3.86% annual rate increases
- ❑ Annual revenue growth: \$3.45 to \$4.22 billion over five years (Fiscal Years 2014/15 to 2019/20)
 - Slight 1.6% growth in demands from current drought conditions
 - Capital project spending for aging infrastructure, upgrade LA coastal plants, energy efficiency, and renewables
 - Operating & maintenance costs including labor
 - Reductions to unfunded employee pension liability
- ❑ More infrastructure replacements and energy efficiency planned every year
 - But less than is needed to keep up with aging system
 - Key staffing and processes may continue to be inadequate for more project spending

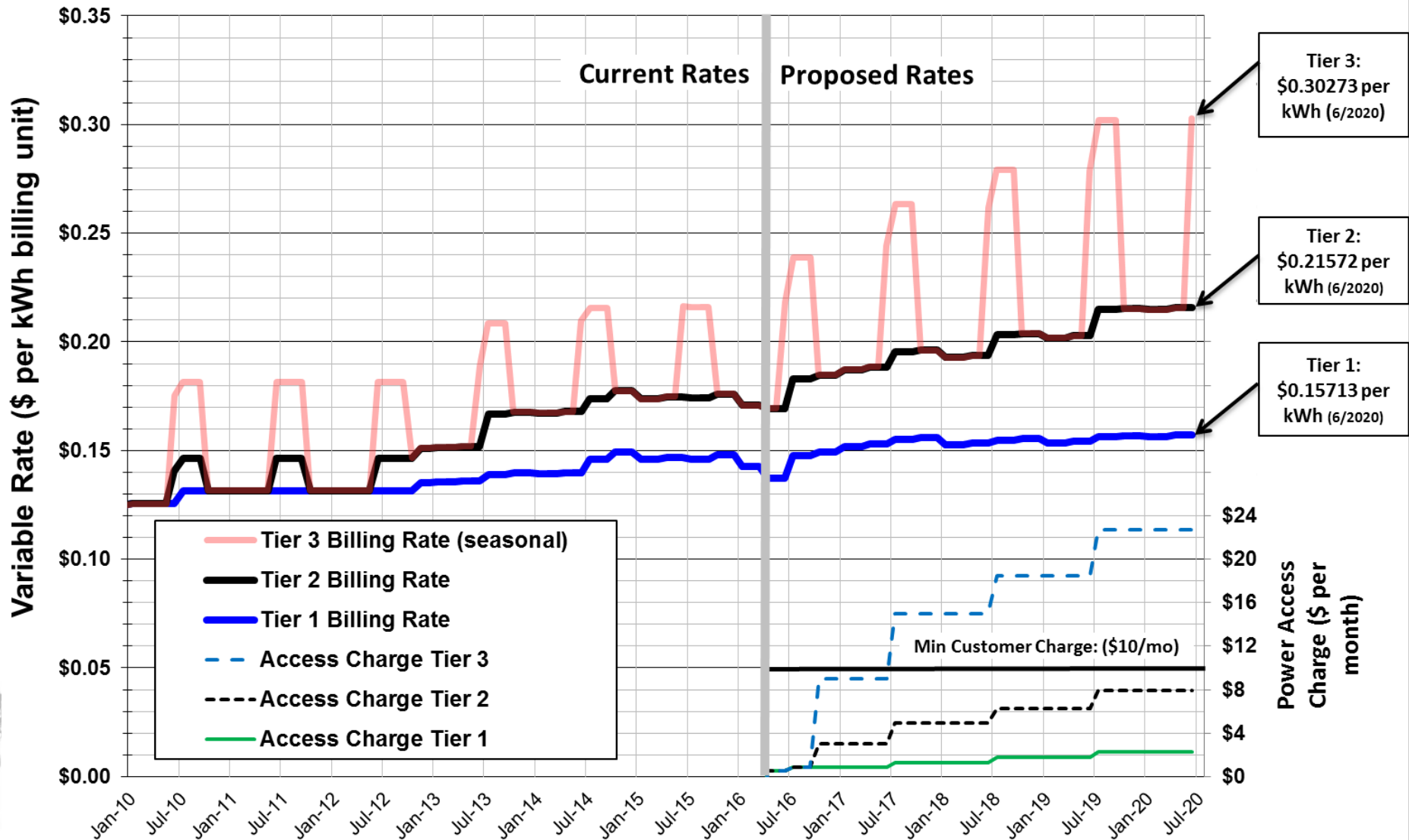


Projected Power Billing Increases are Just and Reasonable

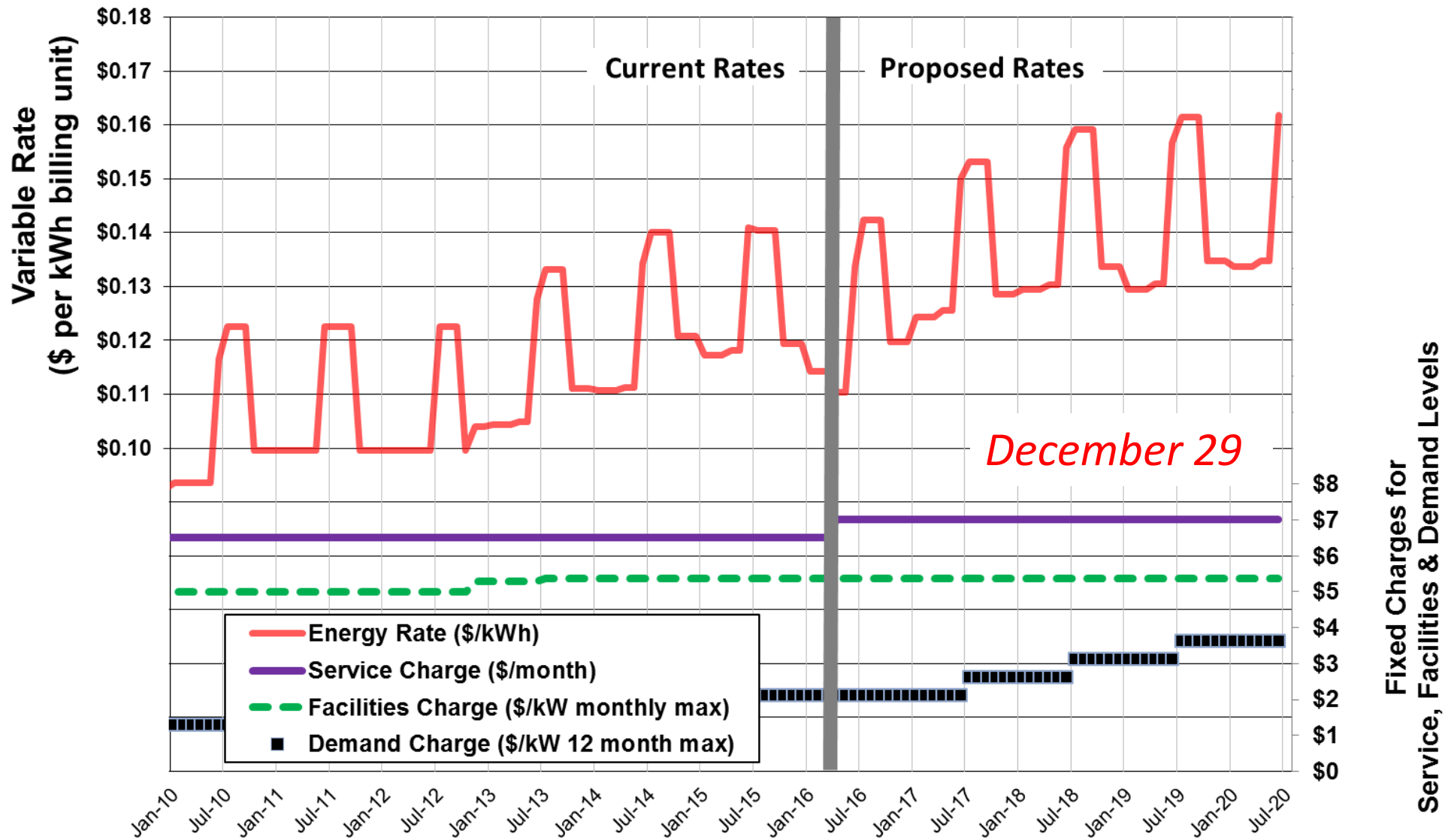
- ❑ OPA supports DWP's continued three rate tiers and the re-start of de-coupling
- ❑ Increases over five years:
 - \$6 per month cumulative increase for low use 350 kWh/ month single family residence (SFR) in cooler Zone 1 over 5 years
 - \$8 per month cumulative increase for 500 kWh/ month single family residence (SFR) in hotter Zone 2 over 5 years
 - \$12 per month cumulative increase for higher use 500 kWh/ month single family residence (SFR) in cooler Zone 1 over 5 years



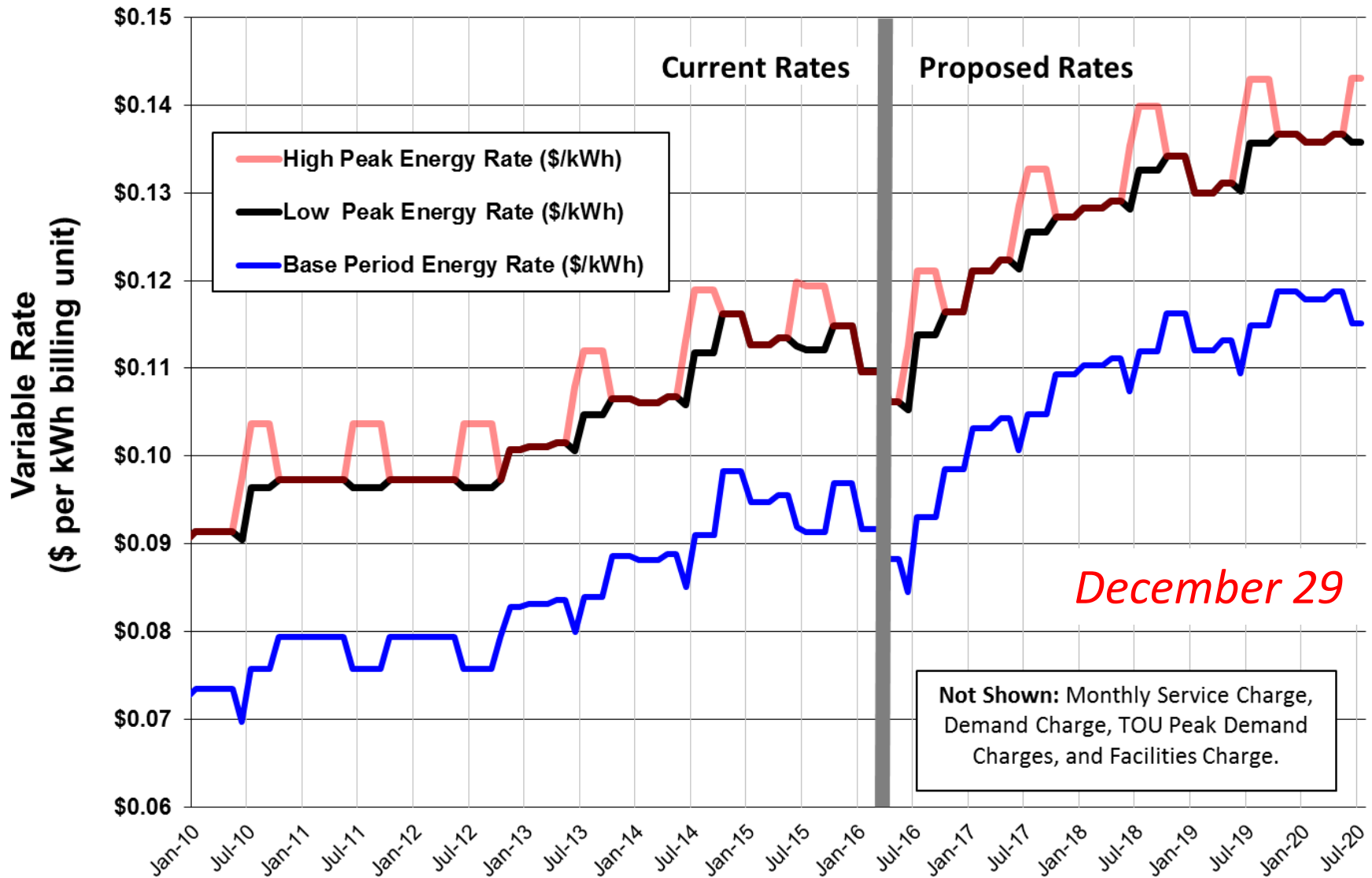
Power Charges – Historical & 2015 Proposed Schedule R-1 Residential Rates



Power Charges – Historical & 2015 Proposed Schedule A1-A Small Commercial Rates

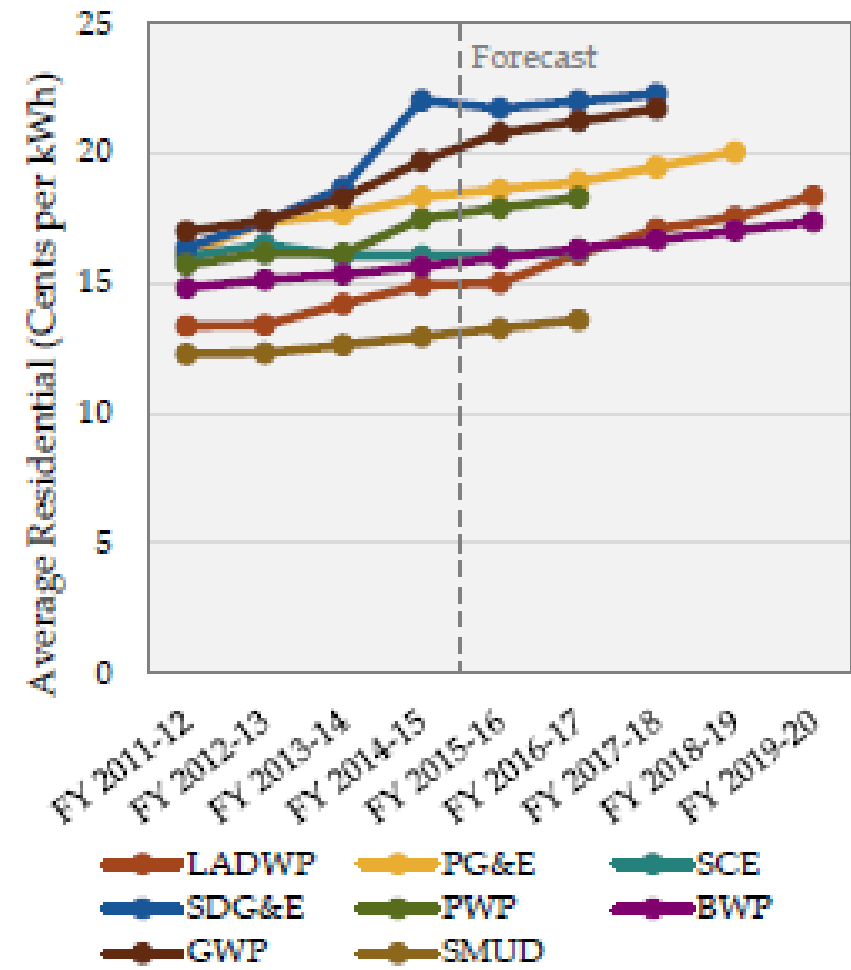
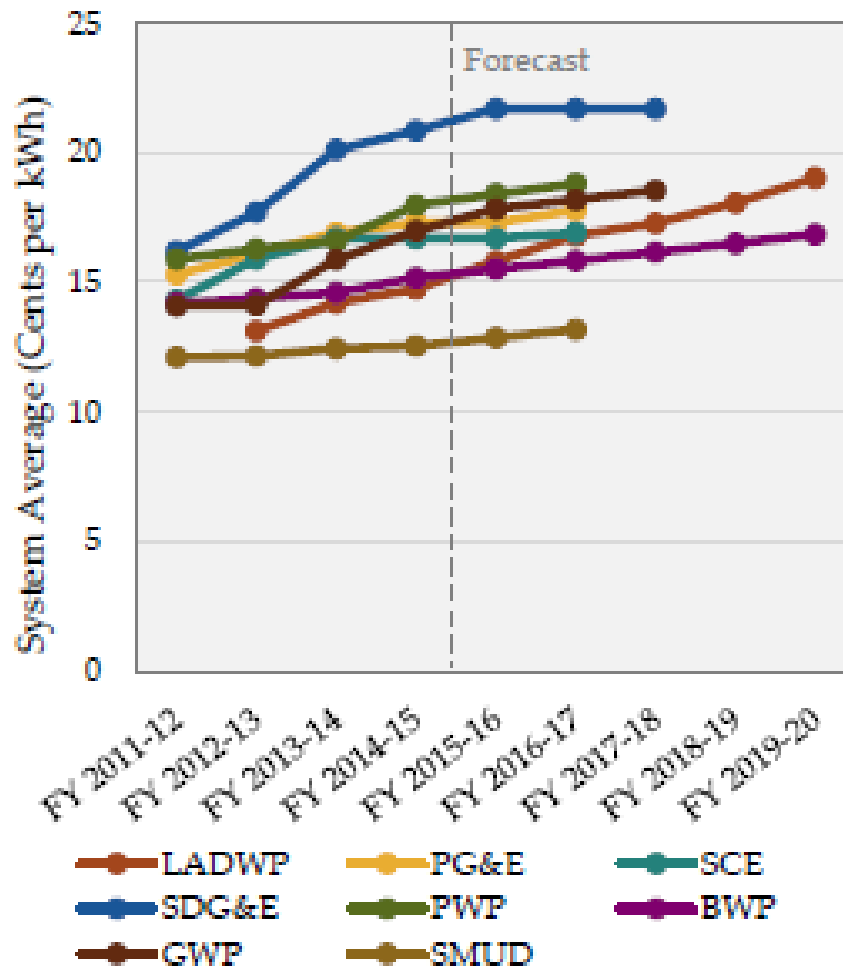


Power Charges – Historical & 2015 Proposed Sch. A-2B Medium Commercial Energy Rates



Rate Comparison by Navigant

Figure 3-42. System Average and Average Residential Retail Rates Comparison (2012-2020)



Revenues from Water & Power 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
 - Metrics can be refined in 6 month review process
- ❑ 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



But where does the money go?

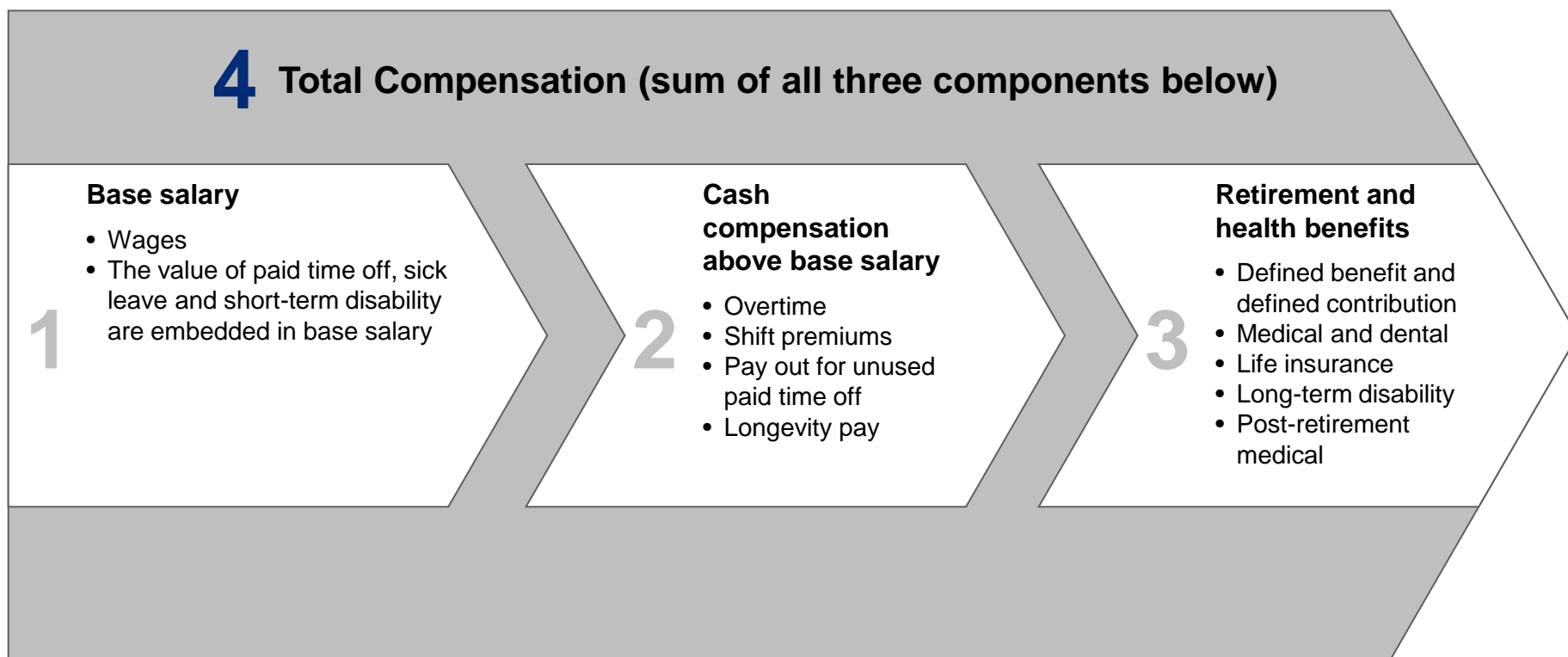
More transparency

- ❑ Labor costs, total compensation: stabilization, improvement, overtime
- ❑ Productivity
- ❑ Improving transparency, regular reporting
 - External relationships: \$10 million
 - City services: \$54-\$65 million
 - City Departments bill payments to DWP
 - Labor relations and outsourcing: Appendix B reports
 - Solar: Utility Built Solar and Community Solar
 - Training: \$130 million/year, nearly all inside



Components of total costs of compensation

Utilities increasingly look at all components of compensation together to develop strategies to attract and retain employees as well as better manage costs.



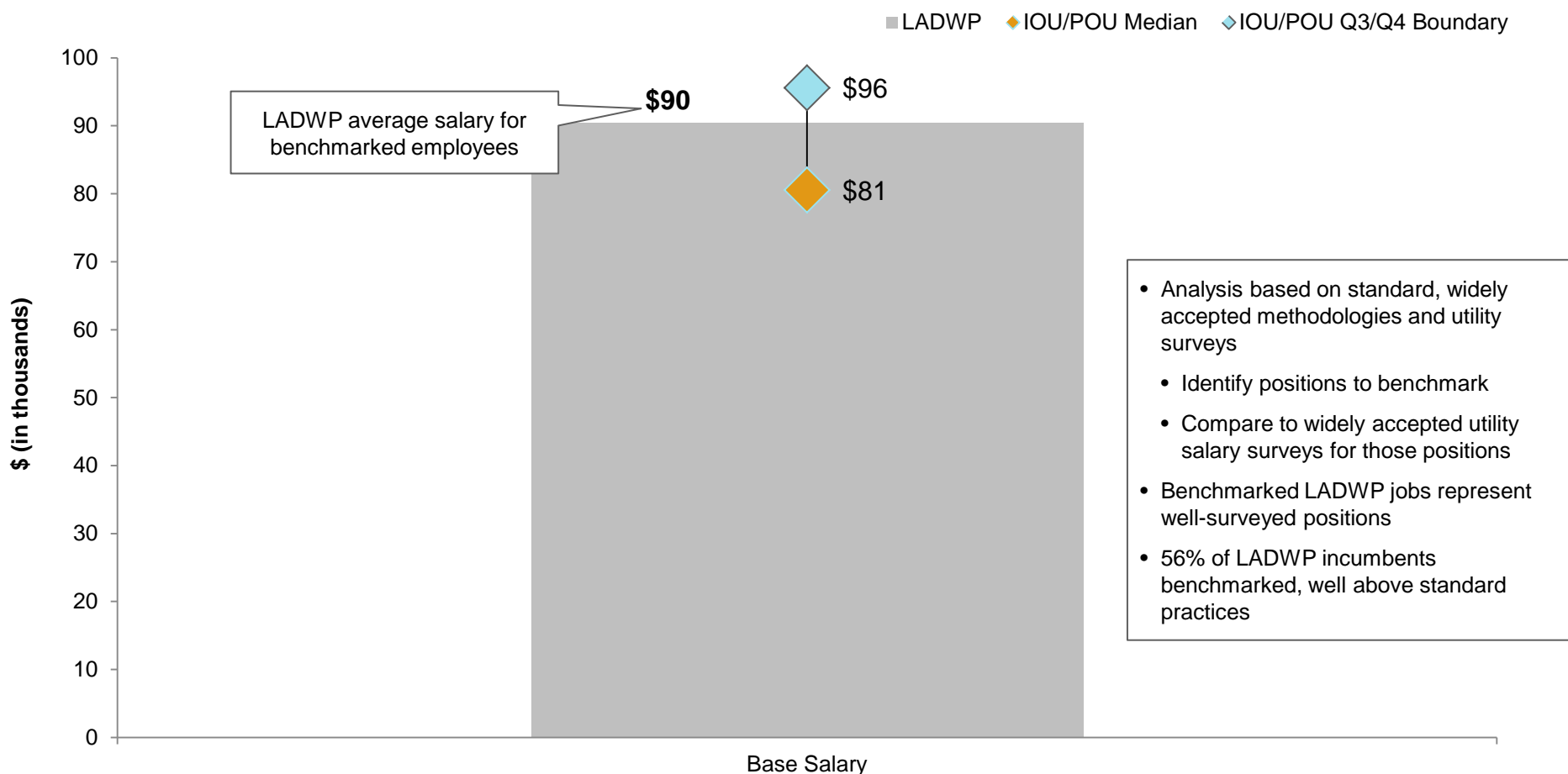
LADWP's compensation components were compared to other utilities on the basis of quartiles, where 1st quartile represents lowest cost and 4th quartile represents highest cost. Charts on the following slides show median and boundary point data between quartiles (e.g., between the 3rd and 4th quartiles.)

Base salary

Preliminary results suggest LADWP has an average base salary that falls in the 3rd quartile among both investor-owned (IOU) and publicly-owned utility (POU) peers.¹

Average employee base salary

Oct 2014-Sep 2015, LADWP vs peer organization, IOU and POU



1. Preliminary results based on market data and analysis subject to revision. Salary comparisons were obtained from widely accepted utility surveys as sourced below with over 1,000 utility company participants.

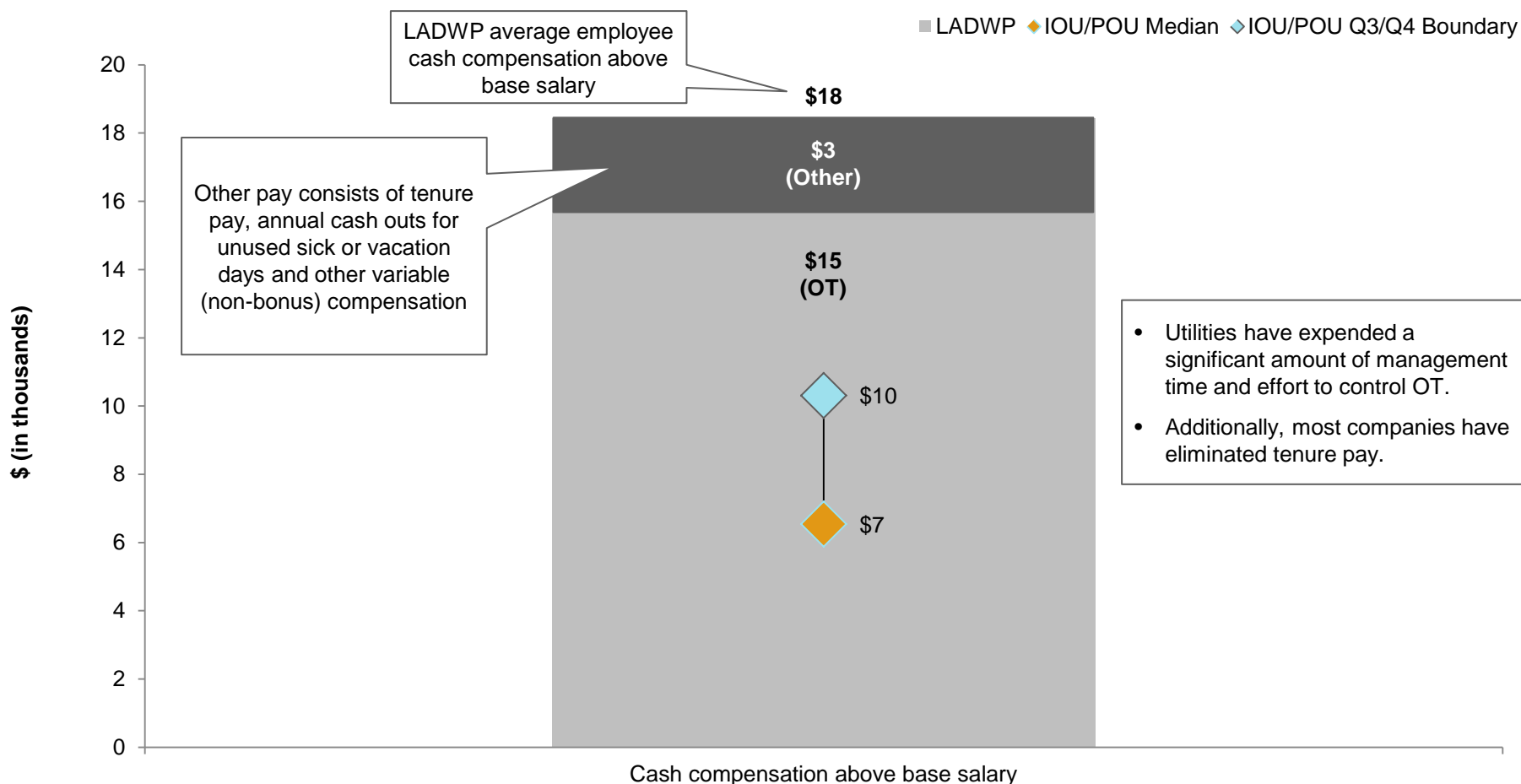
Source: LADWP; utility industry salary surveys from Mercer, Economic Research Institute, and American Water Works Association; Mercer analysis

Cash compensation above base salary

Preliminary results suggest that LADWP's cash compensation above base is in the 4th quartile, driven by higher overtime levels.¹

Cash compensation above base salary per employee

Oct 2014-Sep 2015, DWP vs peer organization, IOU and POU



1. Preliminary results based on market data and analysis subject to revision. Methodology was the same as for base salary. Salary comparisons were obtained from widely accepted utility surveys as sourced below with over 1,000 utility company participants.

Source: LADWP; utility industry salary surveys from Mercer, Economic Research Institute, and American Water Works Association; Mercer analysis

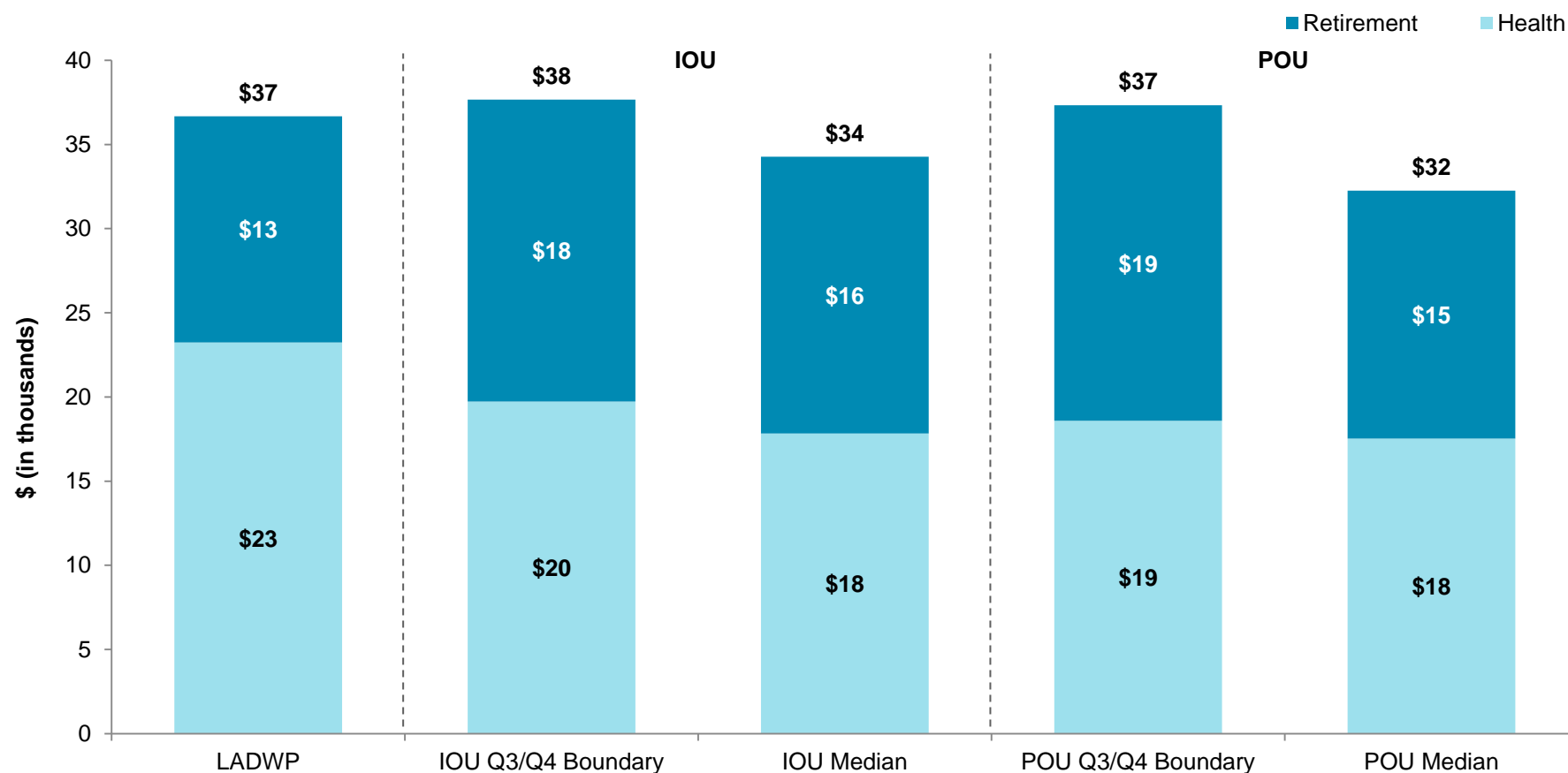
Retirement and health benefits costs

Taken together, LADWP has slightly above-average benefit costs; health benefit costs are above median while retirement costs are below median.

Total retirement and health benefit cost per employee

Oct 2014-Sep 2015, DWP vs peer organizations, IOU and POU

- Analysis based on commonly used retirement & benefit cost methodologies
- All benefits included; net employer-paid cost incorporated
- Costs established using consistent assumptions across LADWP and peers



Note: Long-term disability and life insurance costs included in Health benefits; due to rounding, the sum of parts may not add up to total. Cost of OPEBs shown in Appendix on Slide 18.

Comparisons were made against separate, agreed upon by stakeholders, panels of 19 investor-owned utilities (IOUs) and 11 publicly-owned utilities (POUs).

Source: LADWP, Mercer analysis of selected IOUs and POUs

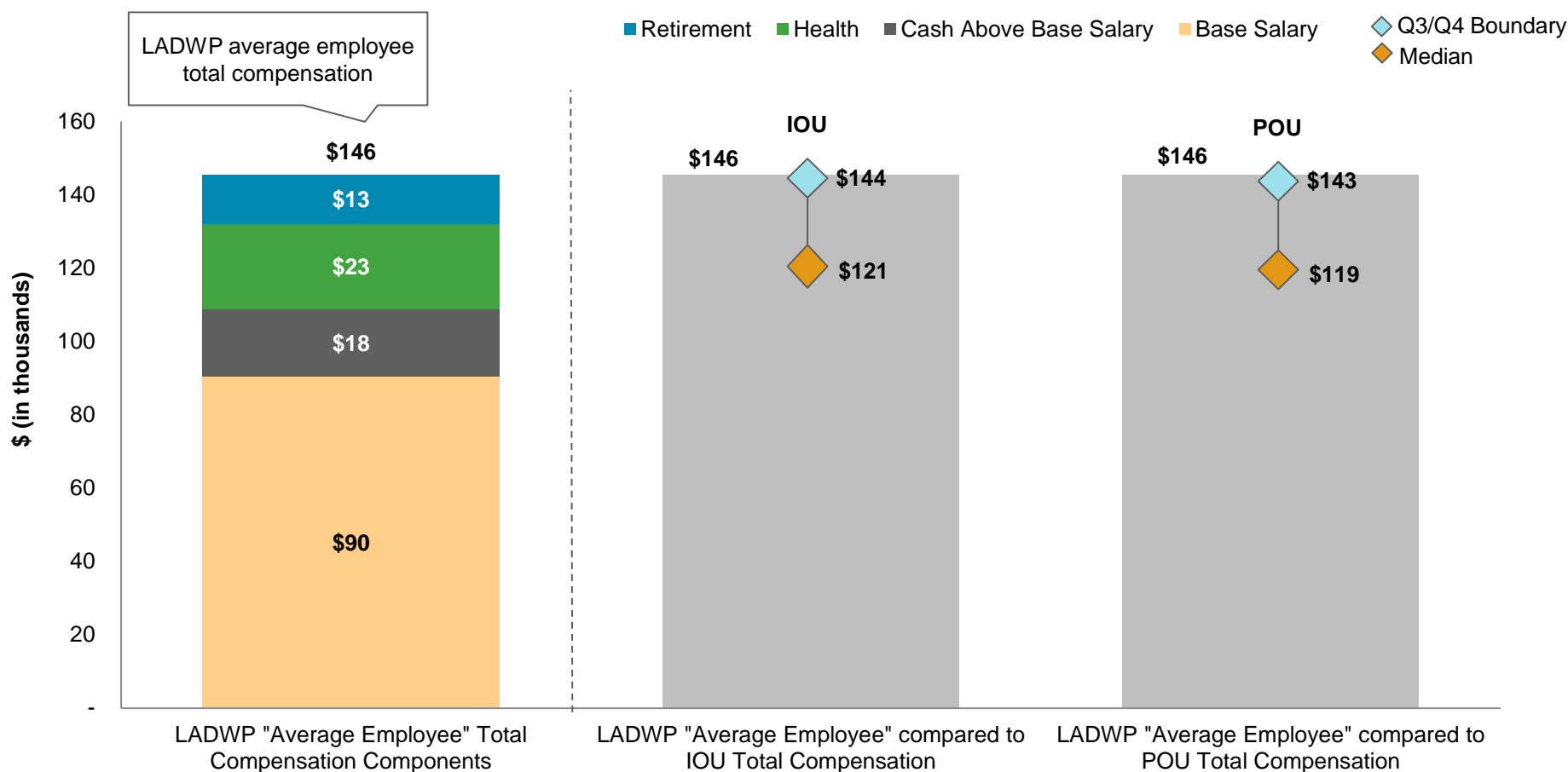
Total compensation costs

LADWP ranks in the lower 4th quartile against utilities driven by higher cash compensation above base salary and health benefits.

“Average” Employee Total Compensation¹

Oct 2014-Sep 2015, LADWP vs IOU and POU peers

Illustrative



1. Preliminary results based on market data and analysis subject to revision. Comparisons reflect the aggregate of Slides 7-9.

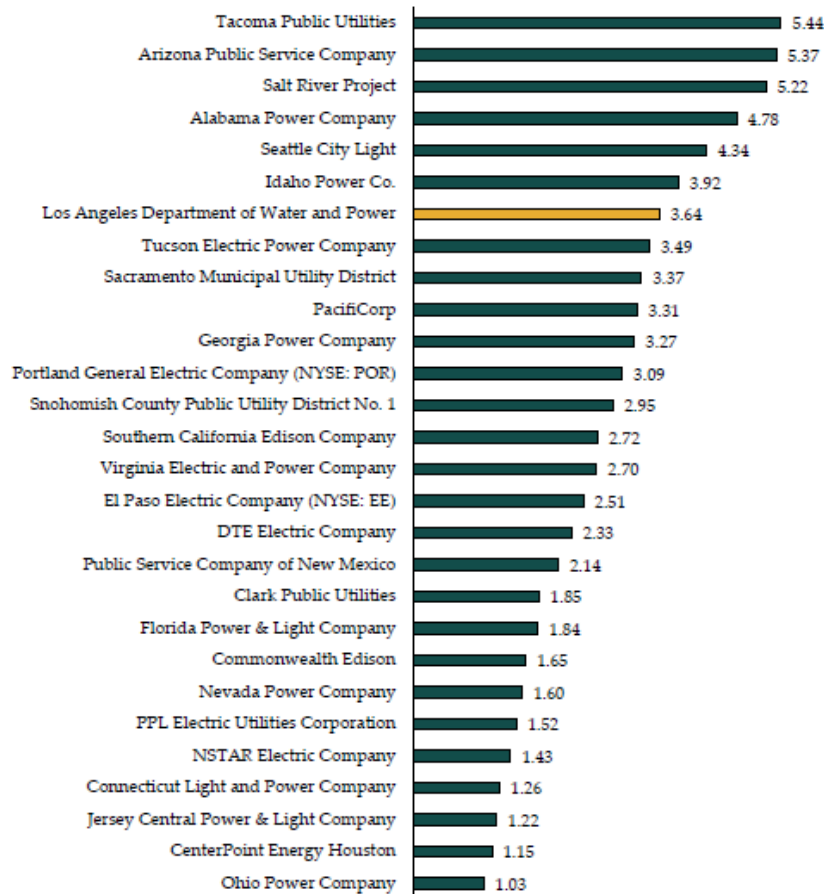
Note: Long-term disability and life insurance costs included in Health benefits; due to rounding, the sum of parts may not add up to total; base salary and cash above base salary not separated between IOUs and POUs due to data availability.

Source: LADWP, Mercer analysis of selected IOUs and POUs (salary surveys from CY2015)

Productivity

NAVIGANT

Figure 8-1. Employees per 1,000 Customers – Electric IOUs and POU's



Note: LADWP's peer panel utilities for which no data was available on SNL Financial were excluded.

Source: www.snl.com/Sectors/Energy/



Recommendations

- ❑ OPA encourages the Board to approve the proposed rates and Ordinance.
- ❑ OPA seeks to propose labor metrics, in conjunction with DWP, to the Board by June 1, 2016.
- ❑ The Board should request the Department propose methods to provide the Joint Division budget control over its funded activities, to include potentially a transfer at the beginning and end of each budget year.
- ❑ DWP should immediately proceed with its planned second stage of benchmarking, and include to the extent practical the recommendations in Oliver Wyman's preliminary labor findings report and the Navigant report.
- ❑ DWP should at the earliest practicable time seek to increment its credit for low income and Lifeline customers with an inflation adjustment.



Discussion

