


OFFICE OF PUBLIC ACCOUNTABILITY

Date: May 16, 2016

To: The Board of the Department of Water & Power 

From: Frederick H. Pickel, Ph.D., Executive Director/Ratepayer Advocate

Subject: Recommendations of the OPA on DWP Fiscal Year 2016-2017 Budget,
May 17 Agenda Items 25 and 26

Recommendation

OPA recommends that the Department of Water & Power Board of Commissioners approve the Fiscal Year 2016-2017 budget (FY16/17), as submitted. DWP should report quarterly on achieving this planned budget, especially the expansion of labor spending versus contracting for capital projects.

Caveats

The proposed budget includes \$169,151,000 more in labor costs than the recently approved rates estimated.¹ This is a 10% increase for FY16/17 rather than the 0.82% per year growth planned for in the five years in rates. This level of labor expenditure exceeds that planned for 2020-2021. While DWP advises that this amount of additional funding will not impact the rates, several contingencies must occur for this goal to be met.

- First, DWP must not rely on a balance sheet item of “unrecovered costs” or “regulatory assets” to smooth these additional labor costs into future rates. To do so could trigger double digit rate increases in DWP’s mid-term rates.
- Second, DWP must convert labor costs and construction work in progress into infrastructure that can, using accounting rules, be booked as a capital item and placed in utility property, plant, and equipment, to a far greater extent than in recent years, including the current FY15/16 year.
- Third, DWP must gain additional agility in hiring and procurement through the present governance review. DWP is constrained in many ways from deploying capital at this accelerated pace.

DWP management faces challenging constraints in executing the plan it publicly explained involved more contracting. It faces delays of labor mediation, the poor prospect of mediation outcomes, and the long contracting period that would be added to those up-front delays. OPA

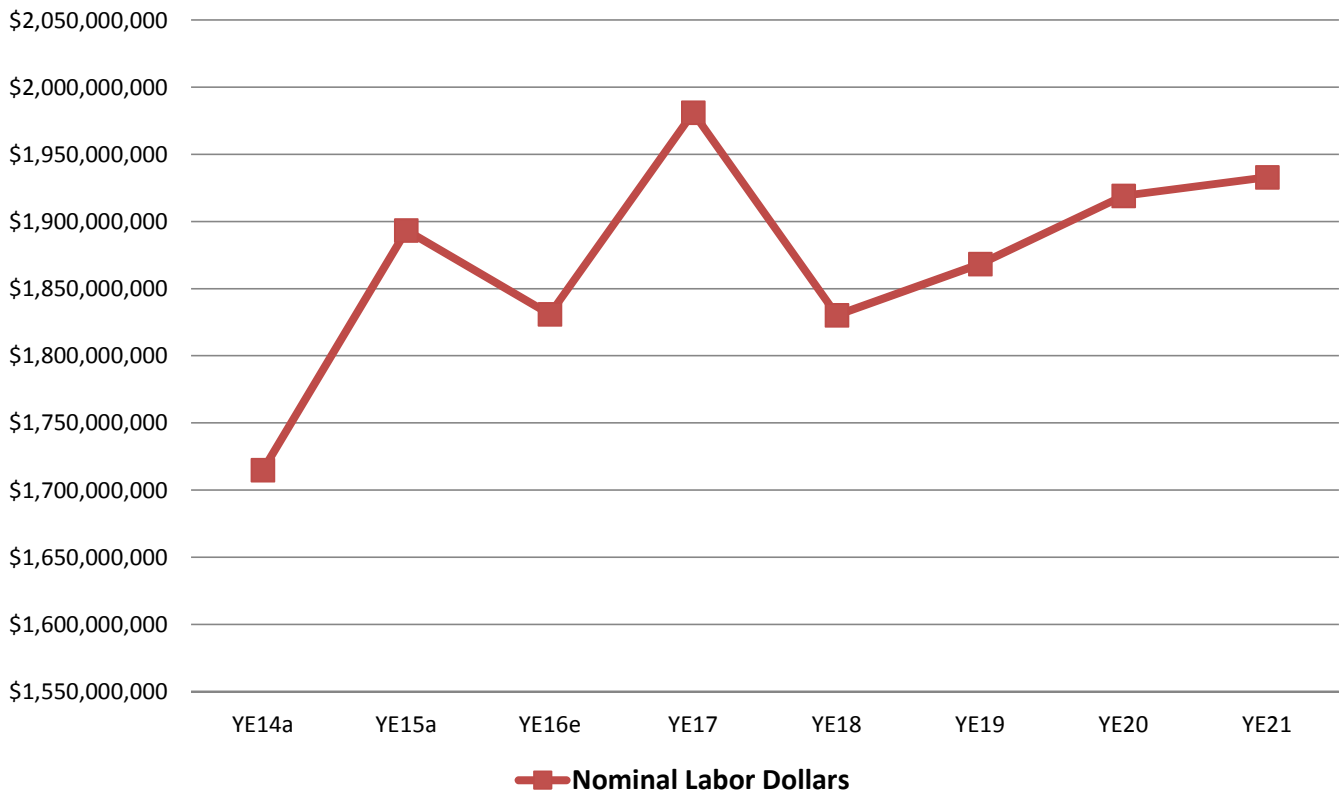
¹ The attached charts show the long-term trends in labor costs.

concur that *at least* 18 months of delay in construction, in addition to over \$500 million of delay in the current year, are an unacceptably high and likely result of the current framework for procurement. Similarly, hiring may not be able to exceed retirements, and the management needs more flexibility to try and optimize the internal and external human resources.

OPA also recommends DWP and OPA continue to work on utility benchmarks and labor productivity, in addition to due process and public discussion of governance that are ongoing at this time.

cc: The Honorable Eric Garcetti, Mayor
Marcie Edwards, General Manager, Department of Water and Power

Budgeted: Wages, Health, Retirement



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