Date: May 25, 2023

To: Honorable Chair and Committee Members
   Energy and Environment Committee

From: Frederick H. Pickel, Ph.D., Executive Director, OPA

Subject: Office of Public Accountability / Ratepayer Advocate presentation reviewing LADWP FY 2023-24 Final Budget, CF 23-0366

Attached is the presentation made by the Office of Public Accountability / Ratepayer Advocate to the LADWP Board of Commissioners on May 23, 2023.

This presentation comments on the LADWP Final Budget for FY 2023-24.

cc: Kristen Pawling
    Rafael Prieto
    Blayne Sutton-Willis
    Jacqueline Wagner
    Doug Tripp
Comments on
DWP Proposed
Final FY 23-24
Budget

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May 23, 2023
Recommendations

- The OPA supports approval of the Fiscal Year 2023-24 LADWP proposed final budget (Agenda Items L.6 for Power and L.7 for Water)

- The OPA supports approval of changes in recovery method for certain Fiscal Year 2023-2024 expenditures from base rates to pass-through adjustment factors (Agenda Item L.4, “Pass-Through Factors”).
  - Additional overhead alignment work is in progress to spread more broadly those costs not caused by particular projects or programs. FSO and OPA plan to report back during this fiscal year and prior to execution.

- OPA recommends updating the forecast of rates in the financial plans as a part of the June, September, and November rate factor adjustments.
  - The Board may wish to add hiring “report backs” to this periodic adjustment procedure, so options and alternatives to increase pace are evaluated regularly.
Commentary

- The budget and Pass-Through factor changes, as proposed, are reasonable. There is, however, substantial uncertainty in the rate impacts of the budget and the revised Pass-Through recovery, with sales being one of the key uncertainties.

- The integration of the budget discussion combining all Systems with the elements of the LADWP strategic plan is a welcome addition.

- The budget sets some difficult spending goals, and LADWP has had challenges in stepping up staff and vendors quickly.

- Lack of a rate review since 2015/2016 is a fundamental financial, operational, governance, and transparency issue.
## Proposed Final FY 23-24 Budget:
### Last Year, This Year, Next Year

<table>
<thead>
<tr>
<th>System/Organization</th>
<th>FY2021/22 Actual, last year</th>
<th>FY2022/23 Re-Estimate vs. Actual FY2021/22, last year vs this year</th>
<th>FY2022/23 Approved, this year</th>
<th>FY2022/23 Re-Estimate vs. Approved FY2022/23, estimated actual vs. budget this year</th>
<th>FY2022/23 Re-Estimate of Actual, this year</th>
<th>FY2023/24 Proposed Final vs. Re-Estimate FY2022/23, this year vs. next year</th>
<th>FY2023/24 Proposed Final Budget, next year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power System*</td>
<td>$3,505</td>
<td>15.8%</td>
<td>$3,704</td>
<td>9.5%</td>
<td>$4,057</td>
<td>3.0%</td>
<td>$4,180</td>
</tr>
<tr>
<td>Water System</td>
<td>$1,262</td>
<td>-1.9%</td>
<td>$1,256</td>
<td>-1.3%</td>
<td>$1,239</td>
<td>-15.0%</td>
<td>$1,053</td>
</tr>
<tr>
<td>Joint System -Total</td>
<td>$2,632</td>
<td>9.4%</td>
<td>$2,966</td>
<td>-2.9%</td>
<td>$2,881</td>
<td>18.4%</td>
<td>$3,411</td>
</tr>
<tr>
<td>Total - LADWP</td>
<td>$7,399</td>
<td>10.5%</td>
<td>$7,925</td>
<td>3.2%</td>
<td>$8,176</td>
<td>5.7%</td>
<td>$8,644</td>
</tr>
</tbody>
</table>

### What can they do?  
**What are their goals for the upcoming fiscal years?**

### How are they doing?  
**How well are they performing against their goals?**

### Can they do it?  
**Do they have the resources to meet their goals?**

$ in millions, combined capital and O&M budget

Source for budgets: LADWP FY 2023-24 Proposed Final Budget presentation, Board of Water & Power Commissioner Meeting, May 23, 2023, Agenda Item I.1, Slide #24

* Power System includes Fleet Services and Efficiency Solutions (formerly under Joint System/External & Regulatory Affairs)
APPENDIX
OPA Comments on FY 23-24 DWP Budget and Pass-Through Changes, page 1 of 3

- **Power**
  - Qualitative risk to operations; long term goals partially funded, as are some “stretch” goals.
  - Relatively high risk from sales forecast. This can manifest in FY 25-26 via “decoupling” mechanism.
  - First year impact of certain reclassifications to Pass-Through costs is roughly 2.7% to 3.3%.
  - Rate impacts could be higher under some scenarios. System averages have been 6.5% recently (2016-2022).
Water

- Risk to operations from flooding; long term goals funded, except for $20B Operation NEXT project.

- Risk from purchased water forecast primarily about timing of extraordinary flows. (Decoupling mechanism from recent drought-level sales reduction in FYE23 will hit in January 2024 rate adjustment.)

- First year impact of certain reclassifications to Pass-Through costs is roughly 0.39% to 0.45%.

- Rate impacts could be higher under some scenarios. System averages have been 9.57% recently (2016-2022).
Joint
- Strategic projects may lack the boosted staffing that is triggered by an increased need for support, testing, knowledge transfer, and transitions.
- Deferred investment in core utility functions beyond utility plant is extensive, reducing service capability.
- A significant amount of specialized IT needs are under a variety of negatively impactful pressures, and may not be sufficiently offset by external vendors.

Combined
- The continued neglect of regular rate reviews impairs DWP in many ways.
- Revenue has lagged the growth in the City general fund.
- Continued reliance on the City for the pace of hiring reflected in the budget is likely to be disappointing.
## Incremental Estimate of Pass-Through Factor Changes, FYE24

### Water

<table>
<thead>
<tr>
<th>Capital</th>
<th>Planning Category</th>
<th>Rate Category</th>
<th>Planning Category</th>
<th>Rate Category</th>
<th>FY23/24</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Infrastructure Base</td>
<td>Base Rate</td>
<td>Water Quality</td>
<td>WQIA</td>
<td>$1,578,044</td>
<td>$8,033,654</td>
<td></td>
</tr>
<tr>
<td>Water Infrastructure Base</td>
<td>Base Rate</td>
<td>Water Infrastructure</td>
<td>WIA</td>
<td>$6,096,699</td>
<td>$6,800,217</td>
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<tr>
<td>Water Infrastructure Base</td>
<td>Base Rate</td>
<td>Water Supply</td>
<td>WSCA</td>
<td>$358,911</td>
<td>$7,362,573</td>
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</tr>
</tbody>
</table>

### O&M

| Water Infrastructure Base | Base Rate | Water Quality | WQIA | $5,836,179 |

### Power

<table>
<thead>
<tr>
<th>Capital</th>
<th>Planning Category</th>
<th>Rate Category</th>
<th>Planning Category</th>
<th>Rate Category</th>
<th>FY23/24</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Infrastructure</td>
<td>Base Rate</td>
<td>Power System Reliability Program (PSRP)</td>
<td>RCA/IRCA</td>
<td>$203,100,607</td>
<td>$125,290,08</td>
<td></td>
</tr>
<tr>
<td>Power Infrastructure</td>
<td>Base Rate</td>
<td>Renewable Program</td>
<td>CRPSEA</td>
<td>$51,040,894</td>
<td>$135,455,74</td>
<td></td>
</tr>
</tbody>
</table>

### O&M

| Power Infrastructure | Base Rate | Power System Reliability Program (PSRP) | RCA/IRCA | $68,414,806 | $153,245,65 |
| Power Infrastructure | Base Rate | Fuel and Purchased Power (F&PP) | ECA/VEA | $36,543,959 | $104,958,765 |

### Total

**Rev Req Change by FC Rate**

<table>
<thead>
<tr>
<th>8%</th>
<th>12%</th>
<th>19%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8,033,654</td>
<td>$6,478,871</td>
<td>$6,800,217</td>
</tr>
</tbody>
</table>

**% of FY 22-23 Re-Estimated Water Revenue**

| 0.39% | 0.41% | 0.45% |

**Rev Req Change by FC Rate**

<table>
<thead>
<tr>
<th>5%</th>
<th>5%</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$125,290,08</td>
<td>$135,455,74</td>
<td>$153,245,65</td>
</tr>
</tbody>
</table>

**% of FY 22-23 Re-Estimated Power Revenue**

| 2.7% | 2.9% | 3.3% |
City General Fund Compared to DWP Retail Revenue

- City General Fund
  2014-2022: 5.27% simple avg

- DWP Retail Revenue
  2014-2022: 5.08% simple avg
LABOR APPENDIX
Labor: With and Without Inflation
With Inflation ~ 2020 Actual Level

**Without**

**With**

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Figure 1: Salary & Wages, Health, Retirement
Nominal Budgets, Rates, Actual

Figure 4: Salary & Wages, Health, Retirement
Inflation Adjusted Budgets, Rates, Actual

2016-2024
Labor Growth Rates: insufficient for goals and objectives, with high risk to steady state ops
> Without Inflation: 5.6% Year over Year, budget-to-budget
> With Inflation: 3.1% Year over Year, budget-to-budget
> With current estimate of FYE23 and inflation: 6% Year over Year, “actual”-to-budget
DWP’s Labor Costs Are Reasonable
-------Likely More So With Time If Labor Market Remains Tight