

LOS ANGELES NEIGHBORHOOD COUNCILS/LADWP  
MEMORANDUM OF UNDERSTANDING OVERSIGHT COMMITTEE

LETTER OF RESOLUTION  
RESPONSES FOR PROPOSED DWP RATE ACTIONS FOR 2008-2010

September 3, 2007

Notification

The Intra-City Memorandum of Understanding states that DWP will provide notification and supporting documents to the Neighborhood Councils 120 days before the proposed rate action is submitted to the Board [Section 2.10.2 (ii)].

**THE OSC DOES NOT RECOMMEND ANY WATER and POWER BASE RATE INCREASES, RELIABILITY OR DEFERRED MAINTENANCE ADJUSTMENTS, SURCHARGES OR PASS THROUGH INCREASES AT THIS TIME BECAUSE IT HAS NOT BEEN GIVEN THE FULL 120 DAY NOTIFICATION AS PROVIDED IN THE MOU; FURTHER, THE OSC RECOMMENDS THAT THE NEIGHBORHOOD COUNCILS SUPPORT THAT THE 120 DAY NC REVIEW PERIOD SHOULD BEGIN UPON THE DATE OF THE FIRST HURON PRESENTATION, AUGUST 18, 2007.**

Proposed Rate Increases

Attached is the Executive Board assessment of the DWP proposed rate actions, as published in City Watch.

City Transfer

During the past ten years approximately \$2 Billion has been transferred from the DWP to the City's General Fund. This year the transfer will be approximately \$215 Million. DWP's financial condition is now such that the Department's proposed bond issuance is, in part, for the purpose of enabling the transfer. This is noted in the July 30, 2007 Huron Consulting Group report. The concept of the transfer is based upon DWP having "excess funds" from operations, not from long-term borrowing.

**THE OSC RECOMMENDS THAT ANY TRANSFER TO THE CITY BE BASED UPON DWP HAVING EXCESS OPERATING FUNDS , AND THAT IN NO EVENT SHOULD DWP BONDS BE USED, DIRECTLY OR INDIRECTLY, TO ENABLE THE CITY TRANSFER.**

Workforce Planning System

The Barrington-Wellesley Group, Inc., and its successor, the Huron Consulting Group, in several independent studies over a period of years, has criticized the DWP for not having a Department-wide Workforce Planning System. With labor costs approaching \$1 Billion per year great savings can be achieved. A mere 10% workforce productivity increase represents \$100 Million per year that could be applied to infrastructure improvements.

**THE OSC RECOMMENDS THAT THE DWP IMPLEMENT A DEPARTMENT-WIDE WORKFORCE PLANNING SYSTEM AS ELABORATED UPON IN VARIOUS CURRENT AND PAST INDEPENDENT CONSULTING STUDIES.**

Labor Costs

DWP employee salaries are 15% - 40% above comparable classifications in other City departments; likewise, DWP salaries are 15% - 40% over those for comparable electrical craft positions in other public and private utilities.

**THE OSC OPPOSES THE DEPARTMENT'S POLICY OF PAYING WAGES SIGNICANTLY IN EXCESS OF PREVAILING MARKET RATES.**

In each of the past two years, overtime has been approximately 19% of base labor costs. The goal of the Department is to reduce these costs to 10% through better management controls and the addition of staff.

**THE OSC RECOMMENDS THAT THE DWP REDUCE OVERTIME LABOR COSTS TO LESS THAN 10% AS HURON CONSULTING INDICATES IS COMMON IN OTHER UTILITIES.**

Rate Payers' Advocate

The OSC envisions a hired consultant who is completely independent of DWP and the City political process, and who can provide continuity and institutional memory for the Neighborhood Councils.

**THE OSC RECOMMENDS THE HIRING OF A RATE PAYERS' ADVOCATE, AT CITY EXPENSE, TO PROVIDE ADVICE AND COUNSEL IN FURTHERANCE OF THE AIMS OF THE INTRA-CITY MEMORANDUM OF UNDERSTANDING BETWEEN CERTIFIED NEIGHBORHOOD COUNCILS AND LOS ANGELES DEPARTMENT OF WATER AND POWER.**

From City Watch 9/1/07

<http://www.citywatchla.com/content/view/661/75/>

## DWP Rate Actions - There is More than Meets the Eye

By Jack Humphreville



On June 5, 2007, in conjunction with the adoption of the budget, DWP proposed the following rate actions for POWER and WATER.

### POWER RATE ACTIONS

The POWER Rate Action anticipates additional revenues of \$33,000,000 beginning January 1, 2008 (\$66,000,000 on an annualized basis) and an additional \$75,000,000 for each of the fiscal years beginning on July 1, 2008 and July 1, 2009. Approximately 70% of the increase is associated with an increase in the Base Rates while 30% is associated with the UNCAPPED Power Reliability Surcharge.

These increases are characterized as a 2.9% annualized increase on January 1, 2008, 2.9% on July 1, 2008 and 2.7% for 2009.

However, this characterization does not represent the extent of the rate increases.

For the fiscal year beginning July 1, 2009, rate increases associated with the Base Rate and Power Reliability Surcharge are expected to total about \$216,000,000, an increase of about 14% over an 18 month period. These increases are also subject to the 10% Municipal Tax, another \$21,600,000, pushing the increase to over 15%.

	2008	2009	2010	Total
Base Rate Revenues	\$ 1,572	\$ 1,569	\$ 1,569	
Base Rate Increase	\$ 48	\$ 53	\$ 53	\$ 154
Power Reliability Surcharge	\$ 18	\$ 22	\$ 22	\$ 62
Total	\$ 66	\$ 75	\$ 75	\$ 216
% Increase	4.2%	4.8%	4.8%	13.7%

Furthermore, the Rate Action does not take into consideration the increased rates associated with the Energy Cost Adjustment ("ECA") since these expenses are a "pass through component." For the three years beginning July 1, 2007, ECA revenues increase from \$725,000,000 to \$1,104,000,000, an increase of \$379,000,000, or 52%, or about 15% per year. This increase is also subject to the 10% municipal tax, another \$37,900,000.

	2007	2008	2009	2010	Total
Energy Cost Adjustment	\$ 725	\$ 804	\$ 954	\$ 1,104	
Increase		\$ 79	\$ 150	\$ 150	379
% Increase		10.9%	18.7%	15.7%	52.3%

#### WATER RATE ACTION

The WATER Rate Action anticipates increases in the Base Rate of \$23,000,000 and \$24,600,000 for the two fiscal years beginning July 1, 2008. This has been characterized as an increase of 3.1% on July 1, 2008 and 3.1% on July 1, 2009.

However, since Base Rate Revenues represent about 63% of revenues (excluding purchased water), the proposed rate increases are 6.7% and 6.6% a year, which amount to almost 14% when compounded over the two year period.

	2008	2009	2010	Total
Base Rate	\$ 342.9	\$ 371.5	\$ 400.0	
Increase		\$ 23.0	\$ 24.6	\$ 47.6
% Increase		6.7%	6.6%	13.9%

The "Pass Through Components" for Demand Side Management, Water Reclamation, Water Quality, and Water Security (and to a lesser extent, Owens Valley, Water Rights, and Low Income Subsidy) total about \$215,000,000 for the two years, adding about 55% to the Base Rate.

#### APPROVAL PROCESS

The Rate Actions will be considered by the Board of Water and Power Commissioners in early October. If approved by the Board, the proposals would require the review and approval by Council Committee on Energy and the Environment (Perry, Garcetti, Greuel, LaBonge, Cardenas), then the full City Council, and is subject to the veto by the Mayor.

The OSC is preparing its recommendations regarding not only the Rate Action, but other matters regarding DWP, including labor issues (outsourcing and relative compensation levels v other city workers and other utilities), the transfer to the City's General Fund of \$216,000,000, deferred maintenance, and the implementation of 2005 recommendations by Huron Consulting.

Unfortunately, the OSC has not received important information on a timely basis, including Huron's Revenue Requirements Study which was received in mid August, not June 5 when the Rate Action was proposed. The Neighborhood Councils will need to put the Rate Action on its September agenda. (Jack Humphreville serves on the NC/DWP MOU Oversight Committee.)