



2011 RATES PROCESS

Special Briefing for Neighborhood Councils



The **water and power industry** is undergoing a **complete transformation.**



Much of power system change is **mandated by law or regulations**

33% renewable energy by 2020
SBX12

Transition out of coal
SB1368

Local solar power
Solar Incentives SB1,
Feed in Tariff SB32

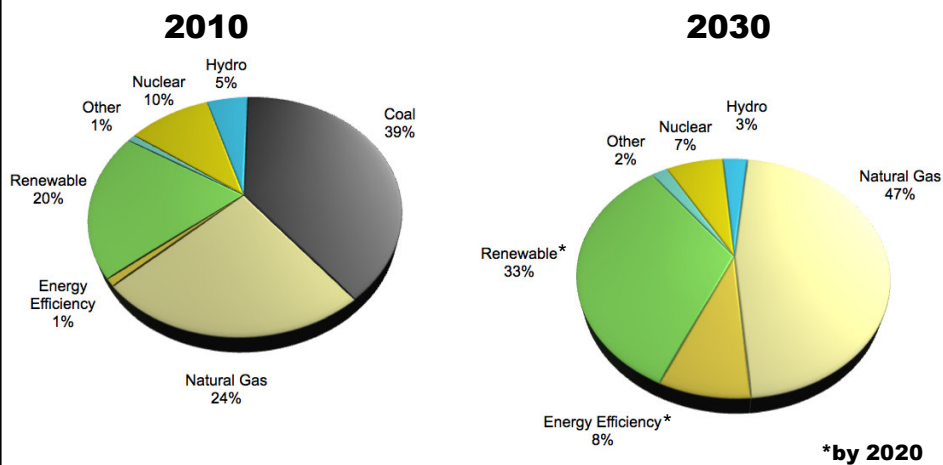
Greenhouse Gas Reduction
AB32

Once through Cooling
3 of 4 local LADWP power plants
use ocean water
State Water Quality Control Board

Reduce emissions
AQMD



Shift in Energy Supplies Today and in the Future



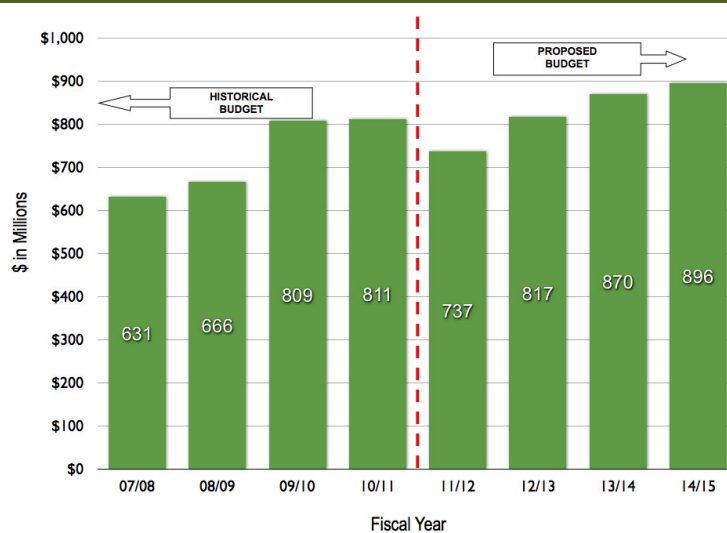
Our **power system** is getting older too.

With our current budget, we can replace our power poles once **every 145 years** and cables **every 160 years**.

This is not sustainable!



Power Reliability Program Budget Basic Needs



Basic business costs for our Power System are going to be higher too...

	<u>1st Year</u>	<u>3-Year Total</u>
Regulatory Mandates	\$53 M	\$337 M
Energy Efficiency	\$9 M	\$75 M
Solar Incentive Program	\$2 M	\$29 M
Solar Feed-in Tariff	\$3 M	\$9 M
Fuel Price	\$5 M	\$64 M
Maintaining Ability to Borrow	\$90 M	\$530 M
Inflation	\$40 M	\$129 M
Pensions	\$24 M	\$151 M
Reliability & Other Infrastructure	-\$115 M	-\$372 M
Net Total Additional Cost to Customers	\$111 M	\$952 M

Note: Revenue Requirements

7

Credit Rating

Why is LADWP's credit rating important to our customers?

LADWP has a major, multi-year capital improvement program. It cannot be funded without issuing debt (bonds).

A **drop in LADWP's credit rating increases costs** to our customers:

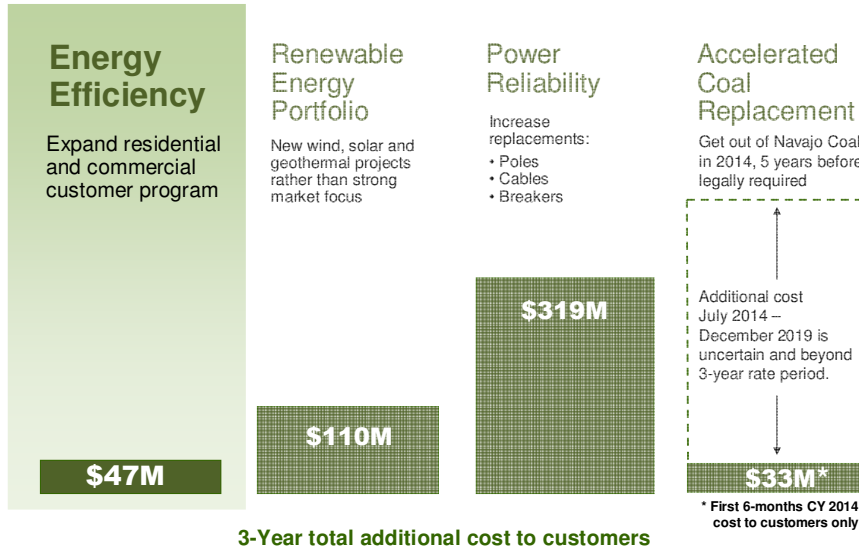
	Total Cost of Borrowing*	Annual Interest
Current Credit Rating	4.6%	\$453M
One-Notch Downgrade from Current	5.3%	\$526M
Difference	0.7%	\$73M
% increase in rates to pay for lower Credit Rating		1.8%

The \$73 million annual increase in costs buys our customers nothing – it is an extra cost that goes to the financial community. \$73 million is more than our entire annual Energy Efficiency budget. Keeping a strong credit rating is crucial.

*FY 10/11 Additional cost based on current outstanding debt only.

8

Strategic Power Investments



Energy Efficiency

Saving Energy Saves Money

By increasing investment in Energy Efficiency programs we will help more customers reduce their power bills and offset rate increases. Strategic energy efficiency investments will also help us reduce carbon emissions at a faster pace.

Basic vs. Strategic

		Basic Business Needs	Strategic Investment
Residential	Low Income Refrigerator Exchange	Continued	Increased
	Refrigerator Turn-In and Recycle	Reduced by 1/2	2.5x current budget
	Consumer Rebate Program	Continued	Increased
	Residential Lighting Program		New
Commercial	Refrigeration Program	Eliminated	Continued
	Commercial Lighting Efficiency Rebates	Reduced	Continued
	Custom Performance Program	Continued	Increased
	Chiller Efficiency Program	Continued	Increased
	New Construction Program	Continued	Increased
	Air Conditioner Replacement Program		New

Strategic Investment: Additional \$47 Million

3-Year total additional cost to customers

Rate Increase 0.3% each year

3-year annual average
Typical Residential (500 kWh)

Monthly Bill Impact \$0.20 more each year

3-year annual average
Typical Residential (500 kWh)

Renewable Energy Portfolio

We can comply with state law at a lower short-term cost by investing in biogas purchases, making ourselves vulnerable to future market price volatility, or we can steadily invest in a balanced mix of renewable energy to give us local control and better future cost certainty.

Basic vs. Strategic	Basic Business Needs	Strategic Investment
More Reliance on Market Purchases to maintain RPS level	✓	
New wind, solar and geothermal projects (115 MW)	Deferred	Included
Feed-in-Tariff Program (first 10MW of 75 MW program)	Included	Included
Adelanto Solar 10 MW	Included	Included
Pine Tree Solar 10 MW	Included	Included
SB-1 Solar Incentive Payments (70 MWs, \$180 M, over next 3 years)	Included	Included

Strategic Investment: Additional \$110 Million

3-Year total additional cost to customers

Rate Increase 0.8% each year
3-year annual average
Typical Residential (500 kWh)

Monthly Bill Impact \$0.56 more each year
3-year annual average
Typical Residential (500 kWh)

11

Power Reliability

Reactive or proactive?

It's a question of service. We can run our business with bare minimum funding for power reliability. Or we can choose to spend a little more and proactively replace the foundation of our system – poles, cables and breakers. If we delay, it will cost more to repair and replace later, with a decline in service quality.

Basic vs. Strategic		Basic Business Needs	Strategic Investment
Poles	Annual Replacement	2,100	5,000
	Replacement Cycle	145 years	60 years
Transformers	Annual Replacement	2,400	2,400
	Replacement Cycle	53 years	53 years
Crossarms	Annual Replacement	Failure Only	5,000
Underground Cables	Annual Replacement	27 miles	60 miles
	Replacement Cycle	160 years	72 years

Strategic Investment: Additional \$319 Million

3-Year total additional cost to customers

Rate Increase 1.1% each year
3-year annual average
Typical Residential (500 kWh)

Monthly Bill Impact \$0.86 more each year
3-year annual average
Typical Residential (500 kWh)

12

Accelerated Coal Replacement

LADWP plans to eliminate coal-generated power. The issue is timing.

Just as shifting to more renewable energy requires long-term planning and development, so does replacing coal power, which accounts for 39% of our total energy mix.

The issue we face is how quickly we choose to transition from coal, while maintaining reliability and keeping our rates as affordable as possible.

13

New regulations and mandates also are changing our Water System

No more open reservoirs

USEPA/CDPH
Long Term 2 Surface Water
Treatment Rule

Conversion from chlorine to chloramine

USEPA/CDPH
Stage 2 Disinfection By Products Rule

Owens Lake dust mitigation

Great Basin Unified Air
Pollution Control District

20% conservation & recycling by 2020

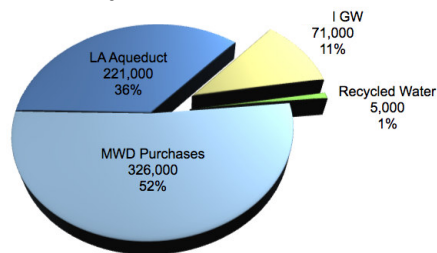
SBX7-7, Water Conservation
Act of 2009



14

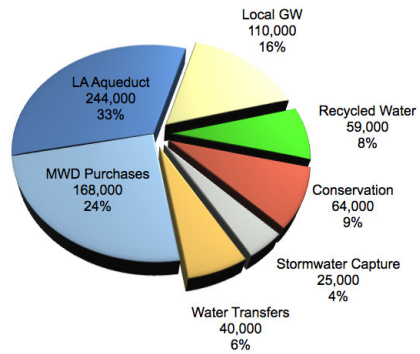
Shift in Water Supplies Today and in the Future

FY 2006 – 2010
Average Total: 622,000 AFY*



* Excludes 100,000 AFY of water conservation

FY 2034 – 2035
Projected Total: 647,000 AFY*
(plus 64,000 AFY new conservation = 711,000)



15

We have an aging water distribution system.

The average lifespan of a water main is less than 100 years.

About **700,000 feet of our pipes are older than 100 years.**

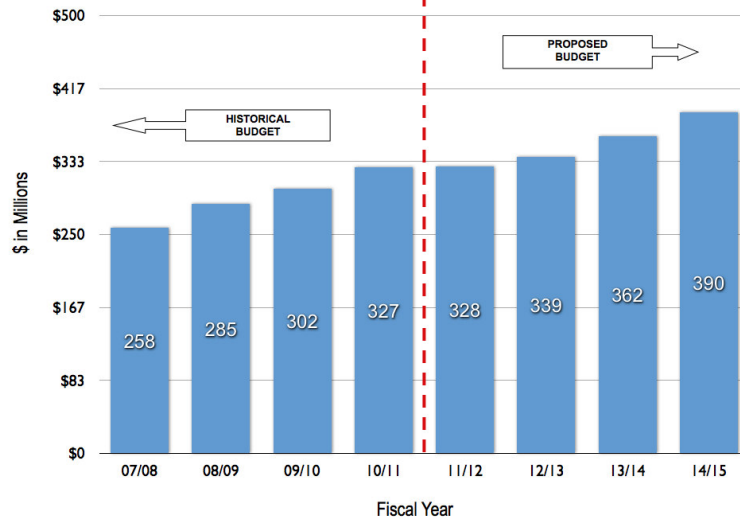
With our **current budget** we can **replace** our pipelines only once **every 340 years.**

This is not sustainable!



16

Water Reliability Program Budget Basic Needs



17

Basic business costs for our Water System are going to be higher

	<u>1st Year</u>	<u>3-Year Total</u>
Regulatory Mandates	\$4 M	\$38 M
Local Water Supply	\$5 M	\$21 M
Maintaining Ability to Borrow	\$58 M	\$181 M
Inflation	\$11 M	\$69 M
Pensions	\$10 M	\$69 M
Purchased Water	-\$10 M	\$64 M
Reliability & Other Investments	-\$15 M	-\$35 M
Water Conservation	-\$15 M	-\$47 M
Net Total Additional Cost to Customers	\$48 M	\$360 M

Note: Revenue Requirements

18

Strategic Water Investments

Pipeline & Related Infrastructure Replacement

Increase rate of replacements to once every 250 years vs. 400 years

\$37M

Local Water Supply

Expand recycled water & groundwater replenishment

Enhance stormwater capture

Increase groundwater cleanup

These programs grow over time.

\$30M

Water Conservation

Achieve goal of 22,000 AFY in new water conservation by 2020

Continue & enhance long-term conservation programs

\$16M

3-year total additional cost to customers

19

Water Reliability

Reactive or proactive?

It's a question of service. We can run our business with minimal funding for water reliability. Or we can choose to invest strategically to proactively replace our Water System's pipelines, tanks and pumping stations. If we delay, it will cost more to repair and replace later, and service quality will decline.

Basic vs. Strategic

	Annual Replacement	Replacement Cycle
Basic Business Needs		
Mainlines	95,000 Feet	400 Years
Strategic Investments		
Mainlines	150,000 Feet	250 Years

Strategic Investment: Additional \$37 Million

3-Year total additional cost to customers

Rate Increase 0.7% each year
3-year annual average
Typical Residential (12 HCF)

Monthly Bill Impact \$0.33 more each year
3-year annual average
Typical Residential (12 HCF)

20

Local Water Supply Development Projects

Basic Business Needs Limited development

Recycled Water

Recycled Water Master Plan
Harbor Recycled Water Project
Groundwater Replenishment Project is limited to preparing environmental documentation

Stormwater Capture

Woodman Avenue Stormwater Demo Project
Stormwater Capture Master Plan Preparation

Groundwater Cleanup

Groundwater System Improvement Study only
Monitoring Wells only

Strategic Investment Additions to base level investment

Recycled Water Additions

Expand Recycled Water Purple Pipe System (12 projects)
Start design of Groundwater Replenishment Recycled Water Project to recharge San Fernando Valley Basin

Stormwater Capture Additions

Tujunga Spreading Grounds Improvements
Rain-garden Installation/ Rebate program
North Valley Stormwater Capture Project

Groundwater Cleanup Additions

Begin planning and design of Groundwater System Improvements

21

Local Water Supply

Securing our water supply.

We are laying the foundation for our water future. By investing in a more reliable local water supply, we will gain more local control over water costs.

Funding puts us on a path to accomplish the following by 2035:

Basic vs. Strategic	Basic Business Needs	Strategic Investment
Recycled Water	18,000 AF	59,000 AF
Stormwater Capture	0 AF	25,000 AF
Groundwater Cleanup	16,000 AF	110,000 AF

Strategic Investment: Additional \$30 Million

3-Year total additional cost to customers

Rate Increase 0.5% each year

3-year annual average
Typical Residential (12 HCF)

Monthly Bill Impact \$0.22 more each year

3-year annual average
Typical Residential (12 HCF)

22

Water Conservation

Every drop counts.

Conservation helps us ensure that we have enough water for the future. We've successfully saved billions of gallons of water through effective water conservation programs and policies. These programs help us lock in larger, permanent water savings.

Basic vs. Strategic	Basic Business Needs	Strategic Investment
Residential Rebate Programs	Eliminated	Continued
Technical Assistance Programs	Eliminated	Continued
Commercial Rebate Program (Plumbing Fixtures)	Reduced*	Continued
Commercial Turf Rebate	Reduced*	Continued
City Park Retrofit Assistance	Reduced*	Continued

* compared to current fiscal year

Strategic Investment: Additional \$16 Million

3-Year total additional cost to customers

Rate Increase 0.4% each year

3-year annual average
Typical Residential (12 HCF)

Monthly Bill Impact \$0.20 more each year

3-year annual average
Typical Residential (12 HCF)

Budget Cuts

Previous year cuts: \$326 million

Renewable Energy Projects
Energy Efficiency
Water Capital, Operations & Maintenance

Cuts next 3 years: \$440 million

Hiring freeze and staff reductions
Reduced overtime
More efficient operations
Reduced capital expenditures



What is the necessary total rate change in 2011 for basic business needs?

	1 st year rate change Nov. 1 implementation	3-year avg. Increase	3-year total Increase
Total Water Rate Change	4.2%	5.1%	15.3%
Total Power Rate Change	6.0%	5.6%	16.8%

Note: System average rate. Actual rates may vary slightly based on actual consumption and customer type.

25

How much more will meeting our Basic Business Needs cost our residential customers each month?

3 year annual average monthly increase

	current bill	additional
Water		
Typical residential (12 HCF)	\$44.50	\$2.24
High-use single-family residential (24 HCF)	\$102.50	\$6.06
Small commercial (100 HCF)	\$392.00	\$21.20
Power		
Typical residential (500 kWh)	\$67.00	\$4.04
High-use single-family residential (1,500 kWh)	\$212.10	\$12.11
Small commercial (1,000 kWh)	\$136.40	\$8.63

Los Angeles Department of Water & Power

www.ladwp.com

CUSTOMER ACCESS NUMBER (CAN) 1234567890

ACCOUNT NUMBER 3196-54261-65667-00-3221-1-00

SERVICE FOR JOHN DOE, 1234 ANYWHERE ST.

BILL DATE Aug 22, 2010

AMOUNT DUE \$375.30

Los Angeles Department of Water & Power

www.ladwp.com

1-800-342-5397

DEFINITIONS

HCF - (Standard) Cubic Feet: The unit to which water meters measure usage. One HCF equals 7.48 gallons.

Rate Schedule - rates based on type of use, usage by the kind of meter and billing (customers and water users).

Temp Zone - These groupings of 10 codes, based on ground surface average temperatures (low, medium, or high), with a code in the factors that determine a customer's first tier water allocation. For a complete list of codes, visit www.ladwp.com.

Temp - One of the usage charges used in pricing method that provides incentives to conserve water. The first usage range (Tier 1) is based on the rate, temperature zone, and household size. Usage in the tier that is billed at the lowest rate. Any usage in the tier that is allocated to the higher rate (Tier 2) will be allocated to the higher rate. Tier 1 is allocated to the lowest usage tier. For more information, see www.ladwp.com.

Water Charges

BILLING PERIOD 6/18/10 - 6/18/10

DATE SCHEDULE A - Single Dwelling Unit Residential

NEXT SCHEDULED READ DATE 10/1/1710

TIER 1 ALLOCATION 12 HCF

METER NUMBER 12345678

Tier 1 Usage

TEMP ZONE High

CURRENT READ 3460

PREVIOUS READ 3440

12 HCF = \$3,748.18

Total Water Charge

Your Water Usage by Tier

For 1 Meter Payment \$1,169.64

Sanitation Charges

BILLING PERIOD 6/18/10 - 6/18/10

DATE SCHEDULE Residential

Sanitation Service Charge* 5 HCF x \$3.28

Low Income Sewer Surcharge \$16.25 x 0.0000

Solid Resources Fee (Team Fee)

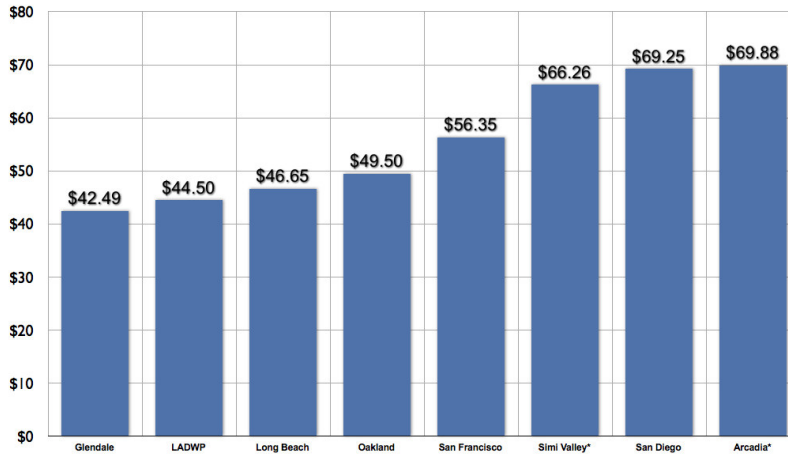
Total Sanitation Charge

*Low Income Sewer Charge (LISC) is based on your sewer based use (WUE) water use during the part of the meter when you are least likely to use water. City Water Commission Factor (CWCFC). To see how YOUR CWCFC will affect your bill, visit www.ladwp.com.

Free Home Composting Workshop & Bin Sale - Residents are encouraged to attend this free workshop and bin sale. For more information, visit www.ladwp.com.

26

Your **water rates** are among the lowest

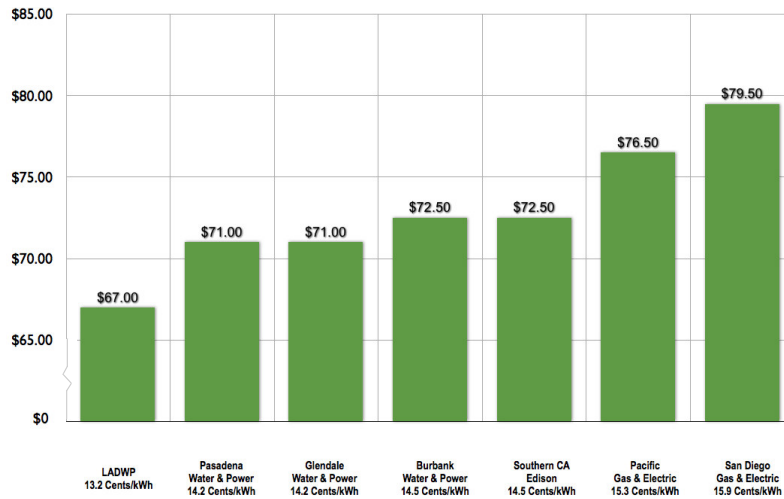


*Golden State Water (investor-owned utility)
 BU = billing unit = 748 gallons
 Data as of February 2011

Typical monthly residential bill 2010/11 (12HCF)

27

Your **power rates** are among the lowest too



Typical monthly residential bill 2010/11 (500 kWh)

28

Utilities across Southern California and the State are raising rates....



Vernon Raises Electricity Rates

First increase on July 1. The Vernon city council approved an initial 16 percent electricity rate increase over two phases, with a 5 percent increase for each of the three years following. The first increase of 8 percent becomes effective July 1, and another increase of 8 percent takes place on Jan. 1, 2012. The rate will increase 5 percent each year from 2012 to 2017.

MercuryNews.com 05/31/2011

Sunnyvale proposes utility rate increases beginning July

...18 percent increase in water rates, a 5.5 percent increase in wastewater and a 6 percent increase in solid waste and recycling.

THE PRESS-ENTERPRISE PE.com Jun 17, 2011

Norco City Council approves water rate increase

The basic water rate will increase about 46 percent over two years.



The Marin Municipal Water District board voted 4-1 Monday night to approve a 4 percent water rate increase, effective June.



Edison is requesting an initial revenue increase of \$828 million, or 7 percent, in 2012 and increases of \$194 million in 2013 and \$514 million in 2014.



PG&E seeks 6.4% rate increase in 2011



SDG&E requests rate hike Aug. 7, 2010

San Diego Gas & Electric Friday proposed a 7 percent rate increase over the next two years to pay for the results of the 2007 wildfires, technology improvements and what it says is an increased cost of doing business.

29

What do you want for L.A.'s water and energy future?

Los Angeles  Department of Water & Power



30