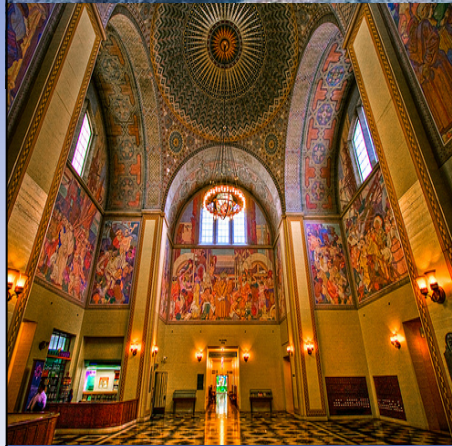




**Comments
on DWP
Proposed Final
FY 22-23
Budget**

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

May 10, 2022



OPA Comments on DWP Proposed Final Budget

- ❑ DWP facing new, greater uncertainties
- ❑ Policy and industry changes require more investment in power, water, and support infrastructure
- ❑ Questions on last year, this year, and next year
- ❑ Recommendations



On-going Uncertainties in Operations, Finance, and Economics

- ❑ Economic uncertainties driven by pandemic and geopolitics
- ❑ Operational challenges created by supply chain issues and utility industry changes
- ❑ Major impacts on:
 - fuel prices,
 - interest rates and inflation,
 - equipment availability, and
 - customer EV, conservation, and behind-the-meter solar choices.



Policy, Industry, and Under-Investment

- ❑ Climate change imperatives are recommending 20-year investments of \$60 to \$90 billion or more
- ❑ Water supplies are at risk from drought, worsened by climate change, with alternatives costing over \$20 billion
- ❑ Low income and life-line rate discounts are unchanged in an era of increased need
- ❑ Deferred investment in IT systems along with distribution and transmission systems in both water and power
 - 2016 rate case proposed rates to cover minimum necessary
 - We are not achieving some goals set in the 2016 rate case
 - ✓ Combined transmission and distribution water distribution capital plans are lagging 2015 rate case plans.
 - ✓ Power System Reliability Program capital spending is at rate case goals. Efforts to reduce unit costs in distribution replacements have not been as successful as hoped, so total pole replacements are below early expectations.
 - ✓ IT investment lags needs.



How does the Proposed Final Budget Help?

- How successful were we in stepping up planned spending in FY2021/22 versus FY2020/21? How well do we do in increasing spending?
- How well have we done in stepping up spending versus the Approved Budget for FY2021/22?
 - The Approved FY2021/22 budget included an increase of \$300 million in compensation costs, illustrated in the Funded Headcount on slide 4 of the Proposed Final FY2022/23 presentation (in appendix here).
- Can we accomplish the goals in the FY2022/23 budget?
- How much more is needed to achieve infrastructure and policy goals?



Proposed Final Budget Overview

	How big a step-up is Proposed Final FY2022/23 vs Actual FY2020/21 (2 years)? How much is Re-Estimate FY2021/22 vs. Actual FY2020/21			How is performance in Re-Estimate FY2021/22 vs. Approved FY2021/22? How big a step-up is Proposed Final FY2022/23 vs. FY2021/22 Approved?			How big a step-up is Proposed Final FY2022/23 vs. Re-Estimate FY2021/22?		
System/Organization	FY 2020/21 Actual	FY2022/23 Proposed Final vs. Actual FY 2020/21	FY2021/22 Re-Estimate vs. Actual FY 2020/21	FY 2021/22 Approved	FY2021/22 Re-Estimate vs. Approved FY2021/22	FY2022/23 Proposed Final vs. Approved FY2021/22	FY 2021/22 Re-Estimate	FY2022/23 Proposed Final vs. Re-Estimate FY2021/22	FY 2022/23 Proposed Final Budget
Power System*	\$ 3,278	9.1%	3.1%	\$ 3,639	-7.2%	-1.7%	\$ 3,378	5.9%	\$ 3,578
Water System	\$ 1,077	16.6%	9.5%	\$ 1,080	9.2%	16.2%	\$ 1,180	6.4%	\$ 1,256
Joint System -Total	\$ 2,604	18.7%	6.1%	\$ 3,126	-11.7%	-1.1%	\$ 2,761	12.0%	\$ 3,092
Total - LADWP	\$ 6,959	13.9%	5.2%	\$ 7,846	-6.7%	1.0%	\$ 7,319	8.3%	\$ 7,925

*Power System includes Fleet Services

What can they do?

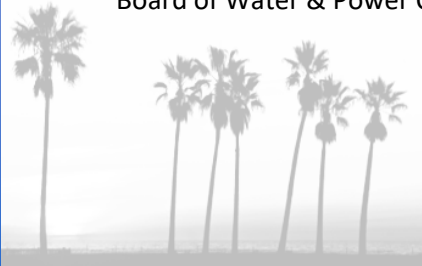
How did they do?

Can they do it?

\$ in millions, combined capital and O&M budget

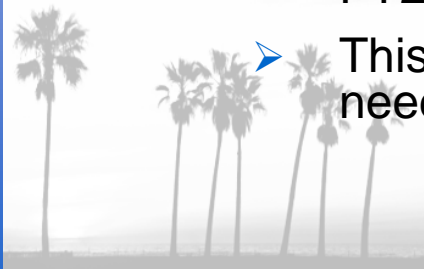
Source for budgets: LADWP FY 2022-23 Proposed Final Budget presentation,

Board of Water & Power Commissioner Meeting, May 10, 2022, Slide #3



Challenges in the Proposed Final Budget Assumptions

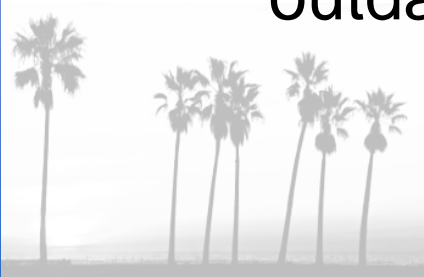
- ❑ Current inflation for the 12 months ending April 1 is now estimated at 8.0% using the GDP Implicit Price Deflator.
 - The proposed final budget assumes much lower cost escalation
- ❑ Fuel prices are up sharply
 - DWP has fuel needs mostly hedged
- ❑ Power investment is all cash funded, with no “new money” issues planned in FY2022/23.
 - Relying 100% on “pay-go” is unusual
- ❑ The goal of maintaining the current system average rate in power is probably unattainable given inflation and energy prices
 - 20.4 cents/kWh last budget, 20.7 cents/kWh estimated actual for FY2021/22, and 20.8 cents/kWh for proposed 2022/23 budget year.
 - This comes at a cost of reduced O&M and capital investment needed for maintaining and enhancing the system.



Challenges, Part 2

- ❑ The DWP proposed budget attempts to thread the narrow path with what might be possible
 - This is given constraints on rates, in this uncertain period, but about 67% of water and 50% of power costs are pass-throughs.
 - Spending is likely to be less than budgeted in key areas.

- ❑ DWP existing rates are now significantly outdated, especially in power



Recommendations

- ❑ By January, DWP should report back on FY2021/22 final actual versus budget performance.
 - Deferred investment in power transmission and distribution typically starts creating problems in 5 to 8 years.
 - Increased customer adoption of EV's and home solar may accelerate this risk.
 - DWP should also report back on a plan for achieving increased investment in the key water and power transmission and distribution infrastructure with policy goals.
- ❑ By February, DWP should report back on the financial requirements for achieving these investment goals and trade-offs necessary for achieving these goals.



APPENDIX



Receipts & Appropriations

	Water			Power			Combined
	DWP			DWP			
	final	up or down	% change	final	up or down	% change	
Sales	194.1 mHCF	-12.1	-6%	20,635 GWH	-835	-4%	
Labor	\$745.5M	-\$66.2M	-8%	\$1672.5M	-\$111.6M	-6%	-7%
Capital, carrying cost	\$369.4M	\$56.4M	15%	\$804.1M	\$42.4M	6%	9%
21-22 Debt ("new bonds")	\$439M			\$1298M			
System Average Rate	\$7.90/hcf	0.19	2.5%	20.8 c/kwh	0.1	0.5%	
Rates Jan '22 estimate	tbd			tbd			
Joint Division Labor	\$778.7M	\$49.2	7%	(this is included above)			

These are the percentage changes in the R&A data that the Board will be approving.

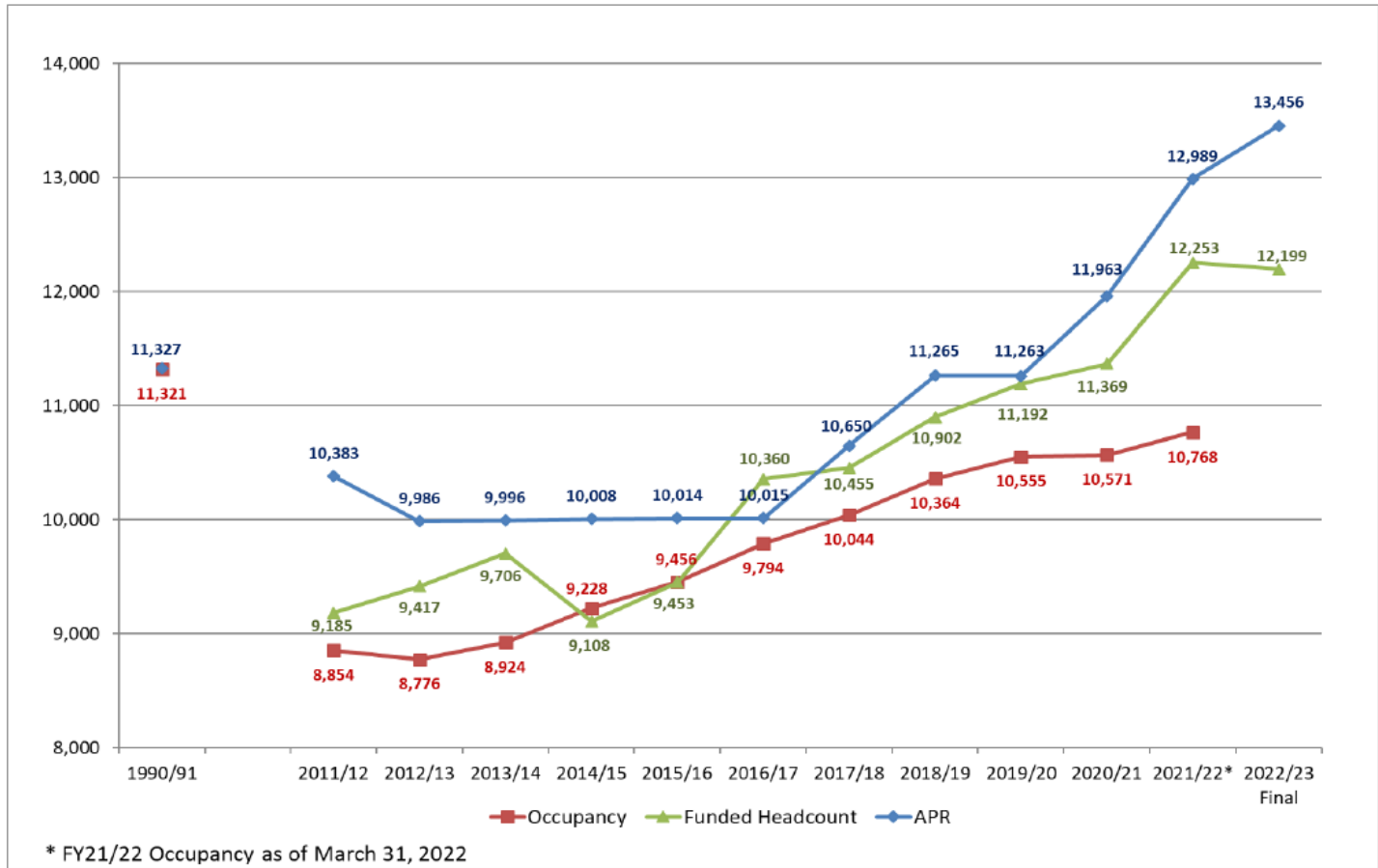
All upward changes are for capital carrying costs.

Labor costs are down.

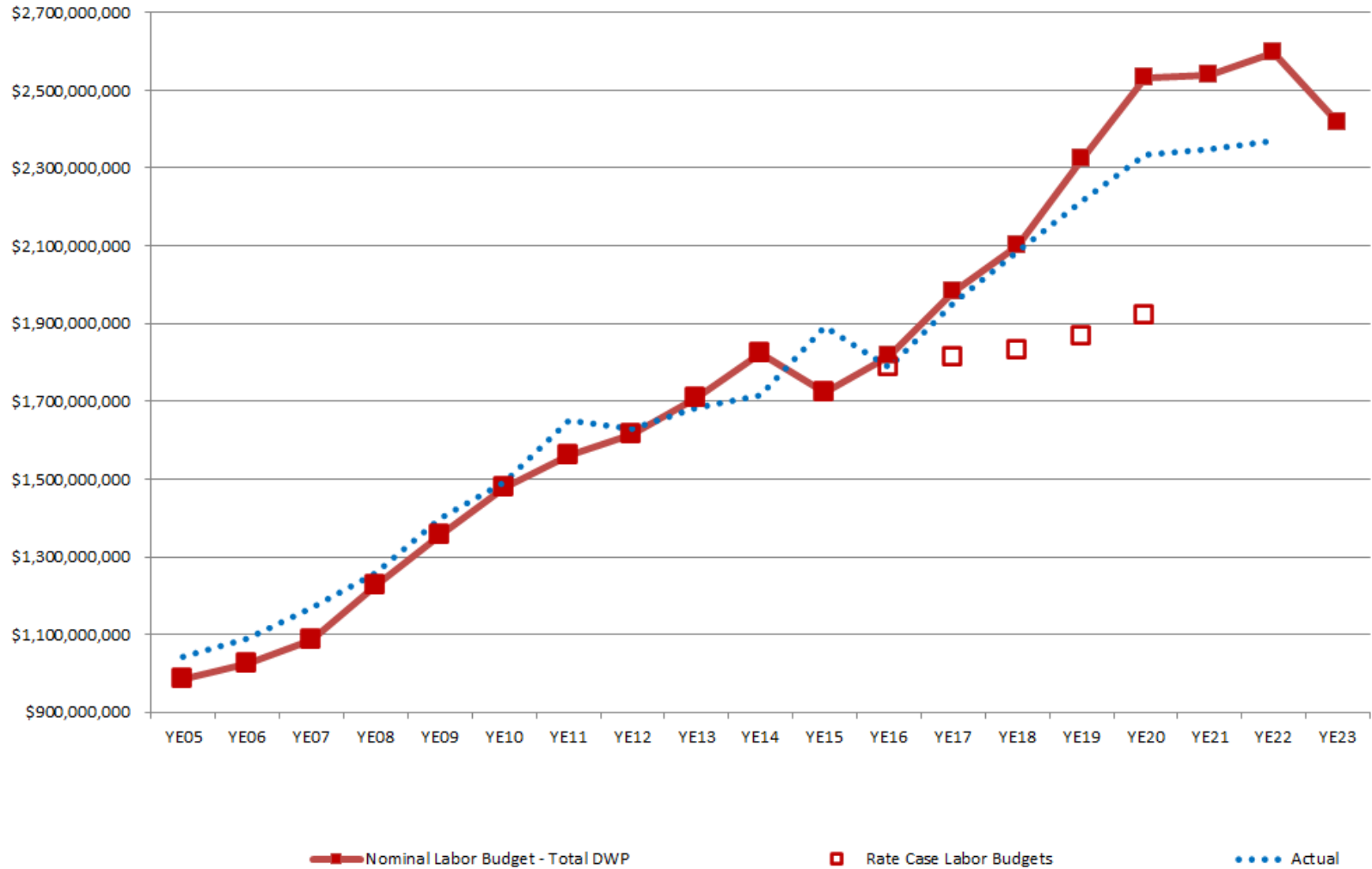


From LADWP presentation

LADWP Proposed Final APR & Occupancy Trend



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



**Figure 2: Annual Growth Rate for Nominal Labor Costs
Budgets, Rates, Actual**

