

WATER QUALITY FACTOR PROPOSAL

Safe Drinking Water is LADWP Water System's #1 Priority

In coordination with the Los Angeles City Council, LADWP has placed on hold all of its pending water and power rate adjustments that were the subject of over 30 public presentations this past summer until the City Council has appointed a Rate Payer Advocate. The process of selecting a Rate Payer Advocate is moving forward. Many of LADWP's projects and programs have been deferred pending additional revenue that the rate adjustments will provide. Of all the required projects and programs, however, LADWP cannot defer its compliance with a longstanding drinking water quality standard compliance program.

DRINKING WATER QUALITY PROGRAM

To keep drinking water safe for customers, LADWP is required to meet strict water quality standards set by the United States Environmental Protection Agency (USEPA) and enforced by the California Department of Public Health (CDPH). As part of the continuous effort to improve drinking water quality, these standards have become more stringent, and require LADWP to invest in over 100 water quality improvement projects, the most significant of which require LADWP to cover, bypass or remove from service all 10 water reservoirs in the Los Angeles basin. Five reservoirs have been covered or bypassed and there are five more to go.

LADWP is currently in the midst of a multi-year compliance agreement with the USEPA & CDPH and has several mandated deadlines. Compliance with newer water quality regulations requires major investment in LADWP's water distribution system, including \$600 million in major new contracts that must be awarded in the next 12 months, and \$1.1 billion in capital costs over the next five years to comply with these standards.



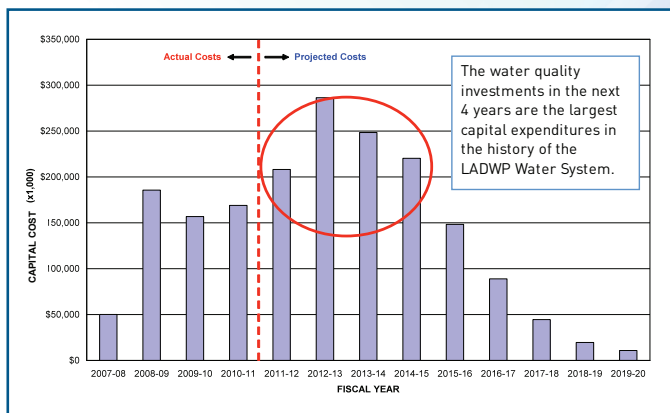
COMPLIANCE REQUIREMENTS

- Cover, bypass and/or build new reservoirs to replace the remaining five out of ten open reservoirs.
- Convert Los Angeles Reservoir to ultraviolet light treatment
- Convert & Reduce chemicals: chlorine to chloramine
- Complete more than 100 improvements from sanitary survey

Remaining Reservoirs	Compliance Deadlines
Silver Lake	Dec 2013
Ivanhoe	Nov 2014
Upper Stone Canyon	Aug 2015
Elysian	Jan 2017
Los Angeles	Mar 2022

CURRENT RATES WILL NOT SUPPORT UPCOMING COMPLIANCE COSTS

To meet compliance deadlines, LADWP must award nearly \$600 Million in project contracts in the next twelve months, beginning in December 2011. While the contracts will spread the cost over the next 5 to 7 years, LADWP must be prepared to fund projects set into motion through these contract awards. Current LADWP Water System revenues **are not enough** to fund the repayment of these upcoming mandatory compliance projects.



A UNIQUE OPPORTUNITY

LADWP water rates are comprised of various factors that fluctuate from quarter to quarter. The factors fund specific activities, including purchases of imported water; investments in water conservation, recycling, stormwater capture and water quality, among others. Largely due to better than normal snow melt and precipitation last season and reduced imported water purchases, overall water rates are temporarily going down significantly this fiscal year as compared to the prior year.

LADWP needs to continue collecting a fraction of this decrease to stay on track with critical water quality projects and has proposed a one-time, 35 cent increase in the Water Quality Factor to do so.

With the overall decrease in water rates this year, there is a **unique opportunity** to increase the Water Quality Factor while still keeping overall water rates lower than the previous year. To implement this small increase, the Board of Water and Power Commissioners must modify the current water rates ordinance to eliminate a six-cent quarterly cap and increase the Water Quality Factor by 35 cents per billing unit. This action requires subsequent approval from the Los Angeles City Council and Mayor through the adoption of an ordinance

IMPACT TO CUSTOMERS

With this action, water rates in FY 2011/12 would continue to be lower than the previous year (FY 2010/11). Assuming a return to a normal wet season this winter, water rates would increase approximately 3.2% in FY 2012/13 compared to FY 2010/11. All other water rate adjustment considerations will be reviewed as part of a more lengthy process including review by the Rate Payer Advocate, in early calendar year 2012. The following shows the change in rates from the FY 2010/11 starting point through FY 12/13 with the effect of the drinking water quality factor adjustment reflected.

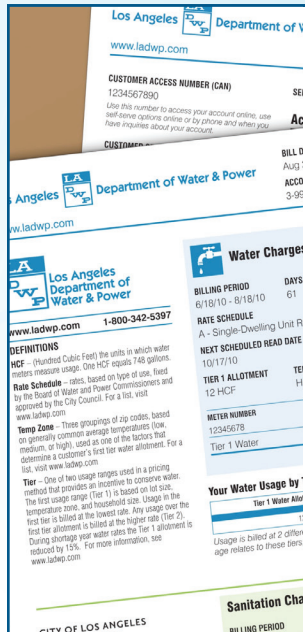
SCHEDULE

December 6, 2011: Board of Water and Power Commissioners will discuss and take action on the proposed change.

December – January 2012: Independent Third-Party Review of Water Quality Factor Increase

January 2012: Ratepayer Advocate Hired

January 25, 2012: Los Angeles City Council may discuss and take an action. In compliance with Proposition 218, LADWP water customers will receive notification advising of the proposed action.



AVERAGE MONTHLY BILL COMPARISONS

	FY 2010/11	FY 2011/12	FY 2012/13
System Average Rate per HCF	\$3.83	\$3.59	\$3.99
Typical Residential (12HCF)	\$ 44.47	\$ 40.30	\$ 45.91
Dollar amount change		\$ (4.18)	\$ 1.44
Percent Change		-9.4%	3.2%
High-use Single Family (24HCF)	\$ 96.63	\$ 89.69	\$ 99.50
Dollar amount change		\$ (6.94)	\$ 2.86
Percent Change		-7.2%	3.0%
Small Commercial (100HCF)	\$ 391.96	\$ 361.07	\$ 403.91
Dollar amount change		\$ (30.89)	\$ 11.95
Percent Change		-7.9%	3.0%