

CITY OF LOS ANGELES
DEPARTMENT OF WATER AND POWER
INTRADEPARTMENTAL CORRESPONDENCE

Date: January 29, 2010

To: Distribution

From: S. David Freeman *SPF*
Interim General Manager

Subject: 2010-2011 Budget and 5-Year Financial Plan

Distribution:

Richard M. Brown

Aram Benyamin

James B. McDaniel

Jeffery L. Peltola

Cecilia K. T. Weldon

Kathy J. Irish

Lorraine A. Paskett

Matthew M. Lampe

Wally Knox

Sangeeta Bhatia

Over the past year, the Los Angeles Department of Water and Power (LADWP) has made a significant effort to maintain its financial stability in the midst of this prolonged economic downturn. The development, communication and implementation of the Fiscal Year (FY) 2010-2011 Budget will be critical in our ability to maintain lower rates than our neighboring utilities. This year more than ever, it is essential that the LADWP develop a budget that ensures fiscal accountability and supports the strategic interests of the LADWP and the City of Los Angeles (City). As a result, this budget process will ensure that all expenditures are absolutely essential to core issues, streamlining operations, and enhancing operational efficiencies of the LADWP.

At a time when LADWP faces rising costs to achieve aggressive climate action goals, comply with stringent water quality requirements, upgrade and replace infrastructure, and meet other critical needs necessary to operate and maintain the largest municipal utility in the United States, maintaining our financial integrity is integral to our future success. However, as a result of current economic conditions in the City, the pressure to keep rate increases to a minimum will require significant sacrifice and fiscal discipline at all levels of the LADWP. Presently, we have suspended any new base rate increases for FY 2010-2011 and have made a significant effort to reduce costs to minimize future rate impacts to the LADWP ratepayers.

On January 5, 2010, the Board of Water and Power Commissioners (Board) approved an amendment of the FY 2009-2010 Budget that reduced capital expenditures by \$900 million over the five year budget planning horizon. The Board also approved a series of proposed operational savings and revenue enhancement initiatives that going forward will decrease costs and increase revenues. The FY 2010-2011 budget process will continue to focus on a comprehensive multi-year financial plan that builds on the approved reductions and the proposed initiatives to ensure that the financial requirements of both the Water and Power Systems are met. Specific objectives and financial planning criteria are:

- Maintain an electric rate advantage of 15 percent below Southern California Edison.
- Debt service coverage greater than 2.25 times for the Power System and 2.00 times for the Water System.
- Minimum cash target of \$300 million for the Power System and \$200 million for the Water System.
- Capitalization factor less than 60 percent for both the Power and Water Systems.

As the City endeavors to become the "Greenest Big City", the LADWP is planning to support the development of new green technologies and energy conservation initiatives through the enhancement of our economic development, electric vehicle, and energy efficiency programs. These programs will assist in addressing our environmental concerns that focus on reducing carbon emissions, while most importantly, reducing the cost of energy production in the long run. LADWP management/staff must utilize creative and cost-effective ways to incorporate these programs into our plan to minimize the impact to our ratepayers.

STRATEGIC OBJECTIVES

LADWP is in the process of developing a strategic plan that will include department, system, and division strategies to ensure our electric and water rates are competitive with neighboring utility companies. Each System and Division must prepare their budgets aligned with LADWP strategies, goals, and objectives. Currently, the "Draft" LADWP Strategic Plan is nearing completion and should be submitted to the Board for final approval within a few months. Therefore, it would be prudent to utilize the Draft version of the Strategic Plan as the guide for development of the budget.

The "Draft" LADWP Vision and Mission Statements are as follows:

- Vision: Building the nation's greenest and most efficient municipal utility.
- Mission: Providing clean, reliable water and power and excellent customer service in a safe, environmentally responsible and cost-effective manner.

CAPITAL BUDGET PLANNING

Capital expenditures will be budgeted in a ten-year planning window. Proposed capital expenditures should be aligned to capital targets. The capital budgeting process is as follows:

- Each System and autonomous organization will be required to present their capital program at a two-day meeting that will be held in the Executive Meeting Room 1514. The purpose of this meeting is to review all capital projects, including expenditures outside of the ten-year budget window. This is required because some projects started prior to the budget window and/or will be completed after the budget window and executive management should be provided with the big picture view of these capital plans. The draft (subject to change) schedule for presentations is as follows:
 - Day 1
 - 8:00AM to 11:00AM - Water System Capital Plan
 - 12:00PM to 3:00PM - Power System Capital Plan
 - 3:00PM to 4:00PM - Facility Management Plan (LADWP-wide)
 - Day 2
 - 8:00 AM to 10:00AM - Joint System Capital Plan
 - 10:00AM to 11:00AM - Information Technology Capital Plan
 - 11:00AM to 12:00PM - Smart Grid (Joint presentation)
 - 1:00PM to 2:00PM - Electric Vehicle Program
 - 2:00PM to 3:00PM - Sustainability*
 - 3:00PM to 4:00PM - Stimulus Funding

* Not in capital budget, but will be discussed at meeting.

- Capital plans should:
 - Be presented in categories (Infrastructure, Reliability, etc.) as determined by the System, Division, or Project Manager. All major project activity should be covered in the presentation. Small day-to-day projects may be omitted in the presentation, but should be submitted in writing as part of the overall plan.
 - Include prioritization of projects. All projects should be separated by category (economic, mandatory, discretionary) and then prioritized by cost effectiveness (present value, profitability, etc).
 - Provide details on how the projects have been structured to maximize current resources and minimizing the need for new resource requests. This should include labor balancing for the presenting organization for the 10-year capital plan budget window.
 - Integrated Support Services, Generation Services Division, and Supply Chain Services have the ability to provide resource requirement levels required to support these projects without increases.

- At the meeting, presenters will be required to present the following information for each project:
 - Project Scheduling (start and end date).
 - Budget status (over or under). For this presentation, the budget should be based upon the original budget set when the project was established, not what is in Integrated Budget Information System (IBIS). IBIS does not illustrate accurately budget over/under runs accurately over time. This status will give us a reference when determining the cost effectiveness of each project.
 - Performance status (ahead or behind schedule) should be established based upon the original date the project was started and the estimated completion date.
 - Each project should be in-line with the LADWP Strategic Priorities. Please indicate how each project fits into the LADWP Strategic Plan.
 - Each project should have a "Key Performance Metric" that best identifies how the success of the project may be measured. This could include productivity, reliability, cost per unit, earned value, budget variance, etc.
 - Revenue Enhancements or Operation & Maintenance (O&M) Cost Reductions.
 - Contingent projects (i.e. Generation project requires transmission at a future date).

RENEWABLES PORTFOLIO STANDARD (RPS) AND COAL FREE
STRATEGY BY 2020

- The Power System should prepare and present a separate RPS plan that addresses the goal of 40 percent renewable energy and the sale of our coal power production by 2020. This plan should be separate from the current budget plan and contain a comparison of a coal free strategy with a staying on coal strategy, so the overall effect on the financial plan can be determined. This plan will require a great deal of work over the coming month.
- The Budget Office will record all follow-up questions and action items addressed by executive management at the meeting. These questions and action items will be the basis for a follow-up executive meeting to discuss the overall LADWP capital program. Subsequent capital review meetings will only be scheduled for discrepancies that cannot be resolved at the follow-up executive meeting.
- Each Division will submit a final prioritized list of capital projects and the expected impact if the projects are either not funded or funded at a reduced level. All capital projects plans should be developed consistent with the *Capital Analysis Methodology* (Attachment 1).
- The Budget Office will compile the final prioritized list of projects for discussion at the General Manager (GM) final decision meeting.
- The GM will make the final decision regarding the capital projects to be submitted to the Board.
- The Board's budget hearings will include a summary review of the proposed capital plan and budget.

OPERATION AND MAINTENANCE BUDGET PLANNING

- The budget process implementation and review will include a ten-year planning window for O&M expenditures and capital expenditures. O&M expenditures will be reviewed to ensure the appropriate resources and maintenance levels are employed to operate and maintain the Water and Power Systems.
- Maintain or reduce O&M expenditures for the next four years at the level that was approved for each of the future fiscal years as part of the 2009-2010 FY Financial Plan, including the labor contract reductions as a result of the new Memorandum of Understanding.
- Maximize efficient use of resources.

- Implement information technology projects that will allow for the reassignment of staff from O&M activities to capital projects thereby reducing operation and maintenance expense and improving financial performance.
- Realize productivity increases from capital investments.
- Reduce overtime.
- Eliminate unnecessary or duplicate tasks.
- Implement Best Practices.
- Identify milestones of performance to be accomplished by units – what are we getting for our money spent.

LABOR BUDGETING

- Wage Base – Divisions will continue to budget labor based on a standard labor wage base for each civil service classification provided by the Budget Office. The wage base is based on the average actual salaries of all employees in the classification. Increases to the wage base (Memorandum of Understanding [MOU] terms and Consumer Price Index adjustments) will be calculated and provided by the Budget Office.
- Workload Indicators – Each Division will provide workload indicators for each functional item. Workload indicators should demonstrate a cost-per-unit for each function. Increases in the cost-per-unit should not exceed the rate of inflation. Workload indicators will be monitored by the Business Performance Management Office of the Budget, Rates and Planning Division per the performance management process recommended by Huron Consulting Services, Inc. and approved by the Board in the FY 2006-2007 Budget.
- Annual Personnel Resolution (APR) – Each Division will provide organization charts to the Budget Office based on the approved FY 2009-2010 APR and proposed FY 2010-2011 APR. The organization chart will indicate the number of employees assigned to each function and/or minor organization. Each Division may be required to justify existing staffing levels.
- Labor Budget – Labor budgets will be based on the full-time equivalent of 9,491 positions consistent with the approved 10,383 APR positions budgeted for FY 2009-2010 (Staffing Report - Attachment 2). Divisions will be able to hire to the APR level, subject to their funding amounts. Divisions are expected to manage labor to ensure that service priorities are met.

- Labor Composition – Divisions may request a change to the labor composition of their APR as follows:
 - There is no increase in the labor budget.
 - All changes between craft, administrative, technical or management must be approved by the Senior Assistant General Manager (AGM) with a copy of the approval provided to the Budget Office, Chief Operating Officer (COO) and GM. Changes should be consistent with lowering the cost of operations including, but not limited to, reducing administrative and other overhead costs.
- Requests for Additional Staff - LADWP instituted a hiring freeze of non-critical classes effective April 1, 2009. No new "non-critical class" positions should be requested and hiring has been limited to attrition (net zero) and to levels critical to maintain reliable water and power delivery, meet infrastructure goals, and adhere to regulatory requirements. Approval by the GM or COO is required for all new positions. New staff increases should be justified by:
 - Offsetting cost reductions or additional revenue increases above the approved FY 2009-2010 financial plan.
 - The additional tasks the requested staff will perform are for projects that are mandatory and the requestor has demonstrated that they are unable to reprioritize existing tasks to enable existing staff to perform the new tasks.
 - Identification of specific operational, financial and customer service impacts if the request for additional staff is not approved.
- Transfers of Budgeted Positions – All transfers of budgeted positions must be documented in writing with a Letter of Agreement (LOA). The LOA should include signature approval from the respective Division Managers, Senior AGM(s), and COO with a copy of the completed LOA to the Budget Office, COO, and GM. Any proposed transfers between GM and COO direct report organizations shall be submitted to the Budget Office for analysis and final approval by the COO and GM. Positions may not be loaned or frozen by one Division to another Division.
- Reorganization – Senior AGMs must submit reorganization plans to the Budget Office and COO for review and approval.

- Training – Each Division should capture training costs separately. Training costs should include labor hours, training fees and travel related (hotel, air, etc.) costs.
- Hiring – Each Division shall capture hiring costs separately. Hiring costs include all costs associated with the development of interview packages to making the final offer to the successful candidate.

OVERTIME LIMITATIONS

Overtime should not exceed 5 percent for non-line functions and 10 percent for critical line functions of the contributing major organization's regular labor budget. Minor organization's budgeted overtime should not exceed 10 percent of the contributing minor organization's regular labor budget even if the contributing major organization overtime is less than 10 percent.

Any organization with MOU agreements for overtime above this level must submit a letter to the COO acknowledging the minor organizations working overtime in excess of the authorized level. The Budget Office should be copied on this acknowledgement.

Any proposed contributing major organization labor overtime budget exceeding the authorized limits should be accompanied by a justification that includes:

- Alternatives to overtime.
- Review of vacant positions and the relationship of the vacant positions to the proposed level of overtime including a projection of overtime reductions as the positions are filled.

STRATEGIES TO REDUCE LABOR COSTS

- Consistency with existing MOU, Human Resources will collaborate with labor organizations to further explore voluntary reduction in work schedules, such as 72-hour bi-weekly work schedules, alternate work schedules, staffing reductions, and other cost-saving measures of mutual interest.
- Consistency with existing MOUs, collaborate with labor organizations to address labor costs. This includes streamlining operations to control costs of Civil Service exempt labor (daily rates) and exploring options associated with staffing 24/7 operations.

- Consistency with the existing MOUs, conduct cost/benefit analysis of contract services versus in-house employees. This proposal will encourage managers to continue performing cost/benefit analyses for both new and renewal contracts given the changing contributing factors in the economic environment.
- Focus training on targeted and required competencies to support succession planning.

PROFESSIONAL AND OUTSIDE SERVICES CONTRACTS

LADWP contracts should be in the best interest of the ratepayers. All Construction, O&M, Professional, and Outside Services contracts will be subject to a "zero base" review by the Senior AGMs, Budget Director, the COO, and the GM. In addition, all contracts under these cost elements may be reviewed at the Board's budget hearing. As part of the review process, the following information is required:

- Requested contract/budget amount (only approved contract amounts will be funded).
- The functional item where the contract will be funded.
- Vendor name, contract start date, end date and extension date, and contract amount if a contract has already been awarded.
- Tasks to be performed and deliverables.
- Justification as to why the task cannot be completed by current staff for either the same or less than the outside contractor.
- Alternatives to using a contractor.
- Variance explanations between approved estimate from FY 2009-2010 Budget cycle and proposed amounts in current budget cycle.
- Other relevant information.

In addition, any request for, or use of, an existing contract for Professional Services during FY 2009-2010 must be approved as part of the budget process.

EMPLOYEE TRAVEL

Travel budgets are to be reduced by 50 percent of the FY 2009-10 approved budget levels over the next two fiscal years. This may be accomplished by:

- Reducing employee participation in off-site workshops, conferences, and seminars.
- Increasing participation in teleconferences and Internet-based seminars and trainings.
- Limiting travel within the Western Region of the United States unless absolutely critical.
- Continuing to follow City Controller's guidelines on travel expenses and required documentation for reimbursement.

REVENUE ENHANCEMENT INITIATIVES

- Increase revenue through Energy Loss Revenue Recovery (reduction of 11 percent to 8 percent over the next 3 years) of \$15 million over the next four years. The anticipated goal is to reduce revenue loss through an effort that includes examining unbilled accounts, repairing or replacing broken meters, non-approved services with no meters (cut flats) and more effectively managing accounts in arrears.
- Increase real estate lease revenues by \$11 million over the next four years by more aggressively identifying and marketing LADWP properties.
- Increase revenue from wholesale trading activities, reserve sharing arrangements, and rule changes to provide more flexibility to the traders. This should increase revenues by at least \$20 million annually over the next four years.
- Increase revenue from demand meter installations to customers who do not have demand meters in accordance with the current rate ordinance. This effort is underway as over 30,000 demand meters have been installed and upon completion is expected to increase revenues by up to \$5 million annually and approximately \$17 million over the next five years.
- Monitor and apply for local, state and federal grants wherever appropriate.

STRATEGIES TO REDUCE COSTS AND IMPROVE OPERATIONAL EFFICIENCIES

The FY 2010-2011 Five-Year Budget Plan will be reviewed and analyzed to determine areas where costs may be reduced and operational efficiencies achieved. Savings may be achieved through:

Focusing on core utility work and eliminating or deferring projects

This will provide ancillary benefits, such as maintaining unregulated facilities for aesthetic purposes. For example, the Water System will continue to work with communities to identify and achieve mutually-acceptable solutions, with increased focus on cost effective solutions. Evaluation of approved projects, such as Upper Stone Canyon and Elysian Reservoirs is ongoing. These two projects are currently budgeted based on the "buried tank" option; however, a final decision as to how best to achieve the goals of the projects will not be made until completion and review of environmental and economic analyses. A change in the scope of these projects could result in significant savings.

Reduce memberships and sponsorships

Management should reduce and/or eliminate memberships and sponsorships that are not absolutely essential to our core business activities.

Streamlining RPS

LADWP currently has more miles of transmission lines than any other utility in the state. LADWP is "transmission rich" and has no justification to pursue the building of new transmission lines, unless these are deemed critical. Instead, to meet our City's renewable energy goals, LADWP will aggressively pursue renewable energy projects near existing transmission lines first.

LADWP has one of the most extensive transmission networks in the Western United States with lines stretching from Delta, Utah, and the four corners area in the east, to the California/Oregon Border in the North, and throughout the desert area between metropolitan Las Vegas and Los Angeles. To minimize the costs and associated risks of constructing new transmission lines for the delivery of renewable power, prioritizing of generation resources will be as follows:

1. Near existing LADWP lines with available capacity.
2. Near existing LADWP lines that are required to be upgraded to allow for these new generation resources.
3. Near existing LADWP lines that require additional transmission line(s) to be constructed next to the existing lines.

4. If none of the above is available, then a new LADWP transmission line will be constructed.

Improving Asset Management

Continue developing a comprehensive Asset Management Program to effectively plan and manage replacement of aging infrastructure including:

- Development and implementation of a Real Estate Strategic Plan that addresses office space needs and increases secondary land use revenue and consolidates facilities or provides for shared space with other City departments to the extent possible. This includes taking advantage of the depressed Real Estate market to own versus lease facilities required on a long-term basis.
- Continue to pursue sale of excess, obsolete, and damaged materials.
- Reducing disposal costs through increased diversion (recycling/composting yard waste) of materials from refuse stream to reduce disposal costs (tip fees).
- Development and implementation of a comprehensive Fleet Asset Management Plan:
 - Analyze Fleet vehicle use on:
 1. Vehicles that have retained beyond useful life; these vehicles will typically have a higher than average maintenance cost.
 2. Vehicles that are underutilized and whether increasing the use of those vehicles would allow LADWP to either reduce rentals or reduce the purchase of new vehicles.
 - Evaluate costs of aging Fleet infrastructure required to maintain and operate "green" vehicle and continue to "green" the Fleet to reduce fuel costs and comply with state and federal regulations.
 - Continue to eliminate unnecessary miles traveled and increase miles per gallon for fuel and maintenance savings.
- Continue to develop and implement a security plan that protects LADWP resources and infrastructure and complies with NERC/FERC, and to pursue grant funding and other funding opportunities to offset costs associated with required security measures and enhancements to protect critical infrastructure.

- Increase deployment of MAXIMO asset management application system-wide to enhance the capability of the Smart Grid to improve power reliability and lower costs or increase deployment of the existing Work Management Information System (WMIS) to better manage asset utilization. An analysis should be conducted to determine the most viable system for asset management and the other eliminated.

Paperless Operations

Continue transition to paperless operations by replacing printing/distribution of green-bar reports with on-line reports (include SCS paperless initiative beginning January 2010).

Review Open Access Transmission Contracts

Review all existing pre-order 888 long-term transmission contracts that LADWP provide services to others. Identify and revise the outdated language to conform with existing Western Electricity Coordinating Council and NERC rules. Revise rates, terms and conditions if necessary, to align with current services provided by LADWP. The scope of effort and benefits to the LADWP have not been quantified at this time.

Maximize Use of City Attorney

Utilize in-house experts in the City Attorney's Office to handle FERC-related legal issues.

Improve Coordination with City Departments to Reduce Construction Costs

Coordinate with various City departments on work occurring at the same time, (i.e. overhead to underground conversion along with storm drains, water mains, power system work, new sewers, etc). The new LADWP/Los Angeles Department of Public Works, Bureau of Engineering, MOU includes a provision, whereby either department may request that the other department include paid facilities for the requestor when major work is performed.

Utilize Pad-Mounted Transformers

Utilize Pad-Mounted Transformers in lieu of more expensive custom designed and built Customer Stations. Substitute 5,000 AMP customer stations (which is a more efficient way to arrange transformers, switchgear, and isolation equipment into a Customer/Industrial Station) with equivalently rated pad-mounted transformers. Savings achieved due to:

- One transformer is used instead of two for customer stations.
- Smaller foot print to accommodate the single transformer.
- Reduced component count due to a more simplified design.
- Less labor hours required to construct the facility and thus quicker installation time line.
- Reduced maintenance costs as a result of simplified layout.
- Open-Air Cable Trays incorporated in this design perform better and last longer than conduit-style designs of the Customer Station.

Maximize Hydropower Generation

Maximize power generation of existing Aqueduct hydropower plants by working with the Water System to adjust the flow schedules. This will displace need to purchase more expensive energy from the power grid.

Insurance and Risk Management

Continued review and simplification of the insurance and risk management process associated with contracts.

Information Technology Savings

Increased self-service reduces operating costs, which include labor, mailing and bill processing by continuing to improve Web-based customer services. Presently, LADWP customers can go online to manage routine customer requests. New online services include online bill pay, paperless billing, and self-service options. Self-service options enable customers to access their accounts, make requests, and even access information about a water or power outage. Savings are based on the number of transactions utilizing an automated system. Every time a bill does not have to be mailed there is a savings of \$.91 per bill. If 100,000 customers received an eBill, there would be an annual savings of \$546,000. Savings could also be realized in reduced labor to respond to customer calls, in-person customer transactions, and number of bills processed.

Training, Safety, Health and Emergency Response/Preparedness

- Consolidate various personnel training data bases into PeopleSoft (HRMS) to gain efficiency through a single data source.
- Continue working with the Joint Safety Institute and Joint Training Institute to provide skilled training that reduces workplace injuries and illnesses; and retool/retrain employees to gain necessary future skill sets, such as green fleet maintenance and green building technology/techniques.
- Continue to provide employees/supervisors/managers with training to mitigate Equal Employment Opportunity complaint investigation and litigation costs.
- Continue to update LADWP safety policies, procedures and manuals, including enhanced oversight of division injury and illness prevention programs.
- Continue to streamline the Federal Emergency Management Agency data collection and reimbursement process and pursue reimbursements based on a cost/benefit analysis.
- Continue to enhance and standardize the ergonomics program to minimize costs of ergonomic related injuries and ergonomic equipment/tools.

Supply Chain Savings

Continue to implement efficiencies and other changes to improve the supply chain process and reduce procurement costs. These include upgrading supply chain software, providing a variety of procurement vehicles with the appropriate dollar thresholds and approval levels, expanding the bidding pool through vendor outreach efforts, replacing frequent one-time purchases with price and time contracts, reducing inventories through more efficient restocking practices, and simplifying the procurement process.

Improve Inventory Management

- Advance competitive salvage sales of excess, obsolete, damaged or abandoned materials.
- Consolidate materials to save space and reduce inventory costs.
- Sell waste coal combustion by-products instead of transporting these to landfills and paying disposal costs.
- Ensure materials and services are available when needed to promote efficiency of work crews.

- Substitute hazardous chemicals used in operations with non-hazardous materials that do not require costly handling and disposal as recommended by the Hazardous Waste Minimization Plan.

FISCAL ACCOUNTABILITY

Each Senior AGM is responsible for accomplishing their capital and operations objectives and programs within the limits of their approved budget.

Monthly Cost/Budget Monitoring Review

Each Senior AGM shall review monthly budget versus actual expenditures. Variances operation and maintenance greater than or equal to \$100,000 or 15 percent for total directs or total services must be investigated. As a result of the investigation, each Senior AGM should prepare a variance justification analysis and proposed plan to bring the variance back into line with the budget. The analysis should be transmitted to the Budget Office with a copy to the COO and GM.

A Quarterly Capital Review Meeting will be held to discuss the Capital Budget and Capital Plan Performance to provide the COO and GM an update on the approved Capital Programs.

The Business Performance Management Group will prepare an analysis by Major System for review by the COO and GM no later than the last Friday of the month for the preceding month.

CAPTIAL TARGETS

Business cases will be required for each capital project proposed for FY 2010-2011 and must stay within the financial plan capital targets in the approved FY 2009-2010 Budget including the budget amendments and labor contract savings.

| | Dollars in Millions | | | | |
|-----------------------------------|---------------------|---------------|-----------------|---------------|---------------|
| | FY 2010/2011 | FY 2010/12 | FY 2011/2012 | FY 20012/13 | FY 20013/14 |
| Water System | | | | | |
| Pass Throughs | \$ 219 | \$ 294 | \$ 370 | \$ 395 | \$ 338 |
| Capital excluding Joint | \$ 207 | \$ 250 | \$ 168 | \$ 200 | \$ 218 |
| Total Water System Capital | \$ 426 | \$ 544 | \$ 538 | \$ 595 | \$ 556 |
| Power System | | | | | |
| RPS | \$ 71 | \$ 71 | \$ 91 | \$ 67 | \$ 53 |
| PRP | \$ 447 | \$ 515 | \$ 530 | \$ 503 | \$ 531 |
| IRP | \$ 151 | \$ 289 | \$ 407 | \$ 160 | \$ 77 |
| Capital excluding Joint | \$ 116 | \$ 81 | \$ 100 | \$ 93 | \$ 72 |
| Total Power System Capital | \$ 785 | \$ 956 | \$ 1,128 | \$ 823 | \$ 733 |
| Joint System | | | | | |
| Total Joint System Capital | \$ 166 | \$ 152 | \$ 167 | \$ 146 | \$ 135 |

RATES

Water rates shall remain within the revenue increases identified by the Board in the FY 2009-2010 Budget process including the approved budget amendments and labor contract savings:

| | Rate Projections | | | | |
|-------------|------------------|------------|--------------|-------------|-------------|
| | FY 2010/2011 | FY 2010/12 | FY 2011/2012 | FY 20012/13 | FY 20013/14 |
| Water Rates | 0% | 3% | 3% | 3% | TBD |
| Power Rates | 0% | 3% | 3% | 3% | TBD |

FY 2010-2011 BUDGET SCHEDULE AND COORDINATION

January 29, 2010

- Proposed Budgets - Divisions complete their proposed budgets for the FY 2010-2011 Budget with proposed expenditures through FY 2014-2015 and budget reviews with their Senior AGM. Budgets shall be guided by the approved financial plan approved as part of the FY 2009-2010 process.
- Workload Indicators – Divisions submit a list of proposed workload indicators to the Budget Office for review. The list should contain relevant metrics that can be used to assess performance and cost effectiveness.

- Organization Charts – Divisions will provide the Budget Office with an organization chart indicating the number of employees assigned to each function and/or minor organization.

February 9 and 12, 2010 (Preliminary)

- Capital Review – meetings with executive management to discuss overall capital plan, project schedules, key performances, and proposed budget estimates for all capital projects.

February 8, 2010 through February 19, 2010

- Budget Director Review Meetings – The Budget Director will review the proposed budget with each Division. These reviews cover all proposed expenditures to ensure that the proposed budgets are aligned with the LADWP's goals. Division budget review books must be submitted to the Budget Office at least one week prior to the scheduled budget reviews.

February 22, 2010 through February 26, 2010

- Executive Capital Review Follow-up Meetings.

March 1, 2010 through March 12, 2010

- GM and COO Budget Review Meetings – The Senior AGMs will present an overview of their respective budgets including a discussion of critical funding issues.

March 15, 2010 through March 19, 2010

- Financial Plan Overview.

March 22, 2010 through March 26, 2010

- GM Final Decisions – The GM and COO will resolve any outstanding issues in preparation for the budget hearings.

April 20, 2010

- Board Budget Hearings – Each Major System will present their proposed budget to the Board. The hearings will include a detailed review of proposed expenditures for contracts, staffing, and capital projects. The hearings will allow the Board to review and provide feedback on the proposed budgets, financial plans, and supporting expenditures.

May 18, 2010

- Final Approval of the Budget by the Board – The Board will formally approve the Budget. The "Financial Plans and Budgets" book is finalized incorporating any changes directed by the Board in the Budget Hearings.

BUDGET STAFF AND ASSIGNMENTS

The following Budget Office personnel will be coordinating the FY 2010-2011 Budget:

| | | |
|-------------------|---|---------|
| Gregory J. Black | Director - Budget, Rates, and Planning | X 74347 |
| Ben Truong | Budget and Financial Planning Manager | X70527 |
| Lisa Yin | City Attorney (Org 02) / GM Office (Org 04) / Econ Dev (Org 046) / Public Affairs (Org 06) / Corporate Purchasing (Org 08) / APR / Labor Target | X71641 |
| Adrian Cardenas | Power System (Orgs 7X, 39) | X78572 |
| Michael Kim | Environmental Affairs (Org 11) / Customer Svc (Org 17) / Water System (Org 4X) / Budget Reporting System | X72806 |
| Samantha Childers | FSO (Org 2X) / Services (Org 3X) / HR & Labor Relation (6X) / IBIS / IBSUP User Support | X73880 |
| Lucy Chou | ITS (Org 16) / APR Template Data Entry / User Access Authority to IBIS / IBSUP and Budget Reporting System/ Performance Report | X70549 |
| Bill Jung | IBIS / IBSUP / APR / Data Entry / User Support | X73567 |

GJB/BT:ap
Attachments

c/att: S. David Freeman
Raman Raj
Gregory J. Black
Ben Truong
Marianne Anz

Attachment 1

CAPITAL ANALYSIS METHODOLOGY: The following methodology shall be used for evaluating all proposed capital expenditures:

- Submit a business case for each capital project with a proposed budget (including the current year re-estimated budget) of \$1 million or more using the Business Case Access Application. This business case will evaluate each proposed project using Net Present Value (NPV) and discounted payback, with future cash flows discounted based on the risks present in each of the different environments. All generation and/or non-regulated projects will use a minimum discount rate of 12 percent (based on 100 percent equity capital structure); all distribution/transmission/water expenditures will use a minimum discount rate of 9%. Specific projects may have a risk-based premium added on a case-by-case basis. In the business case analysis, here are some guidelines that should be used for specific type of capital projects:
 - Mandatory / Regulatory Projects: Any Division proposing a capital project to comply with a regulatory requirement (such as water quality regulations) must identify the specific law, when that law was approved, and when the final compliance with that law is required. Alternative strategies for these projects and/or complying with these regulations shall be identified as well. The impacts for these alternatives shall be clearly outlined.
 - Reliability Related Projects: Any Division proposing a capital project that is related to improving system reliability must specifically identify reliability indices that will be improved by going forward with the proposed capital project. Each Division must also identify workload indicators for areas where there are a number of smaller projects (such as number of poles replaced) that make up the budget function. Additionally, the Chief Operating Officers will be expected to prioritize these projects for the CEO/GM approval to ensure that system reliability is maintained at the highest level
 - Customer Service Projects: Any Division proposing a capital project for customer services related area, connecting and/or supporting additional load growth shall specifically identify workload indicators that best quantify the level of work being proposed. These workload indicators should include a target cost per unit for supporting the identified load growth and how they would improve other metrics associated with these specific targets.
 - Discretionary Capital Projects: Each of these projects that are justified on an economic basis must also identify reimbursements, revenues, and implement cost savings in the future year O&M budgets.
- Prepare a Priority Listing of all capital projects at the system level (Power, Water, and Joint) and a Reduction Priority Listing for specific capital projects (using certain Direct Cost Element only). These lists will be used in the CEO/GM and COO budget reviews and the budget workshop for the Board.

*LADWP Approved 2009-10 APR By System/Division
as of 1/13/2010 10:21:40 AM*

| System Division | Approved 2009-10 FUND | Occupancy APR | 12/31/2009 | Hrlyng Level (APR - Occupy) |
|-------------------------------|--------------------------|------------------|------------|--------------------------------------|
| JOINT SYSTEM | | | | |
| 01 COMMISSION OFFICE | 4 | 4 | 4 | 0 |
| 02 OFFICE OF CITY ATTORNEY | 49 | 51 | 48 | 3 |
| 03 RETIREMENT PLAN OFFICE | 57 | 59 | 54 | 5 |
| 04 GENERAL MANAGER'S OFFICE | 44 | 45 | 39 | 6 |
| 06 PUBLIC AFFAIRS | 32 | 33 | 28 | 5 |
| 08 SUPPLY CHAIN MANAGEMENT | 341 | 356 | 346 | 10 |
| 11 ENVIRONMENTAL AFFAIRS | 54 | 56 | 52 | 4 |
| 16 INFORMATION TECH SERVICES | 479 | 498 | 451 | 47 |
| 17 CUSTOMER SERVICES BU | 1,246 | 1,289 | 1,220 | 69 |
| 21 FINANCIAL SVCS EXEC OFF | 8 | 6 | 6 | 0 |
| 22 ACCTG & FIN REPORTING | 109 | 114 | 109 | 5 |
| 25 FINANCE AND PLANNING | 30 | 30 | 28 | 2 |
| 26 INTERNAL AUDIT | 21 | 21 | 16 | 5 |
| 27 BUDGET, RATES AND PLANNING | 66 | 57 | 49 | 8 |
| 28 ENERGY EFFICIENCY | 52 | 54 | 42 | 12 |
| 31 BUSINESS SUPPORT SVCS | 35 | 36 | 32 | 4 |
| 33 LEED DSGN & COORD-JNT SYS | 7 | 9 | 8 | 1 |
| 35 SECURITY SERVICES | 322 | 338 | 285 | 53 |
| 36 REAL ESTATE | 23 | 24 | 23 | 1 |
| 37 FLEET SERVICES | 376 | 385 | 377 | 18 |
| 38 FAC MGMT, OPER & SUPP SVCS | 285 | 297 | 259 | 38 |
| 60 EMPLOYEE SERVICES DIV | 3 | 3 | 4 | -1 |
| 61 HUMAN RESOURCES | 103 | 107 | 109 | -2 |
| 65 EQUAL EMPLOYMNT OPPRTNTY | 13 | 14 | 11 | 3 |
| 66 LABOR RELATIONS | 19 | 20 | 19 | 1 |
| 69 CORPORATE SAFETY | 26 | 27 | 25 | 2 |
| JOINT SYSTEM TOTAL | 3,792 | 3,943 | 3,644 | 299 |
| POWER SYSTEM | | | | |
| 39 CTRAL REPAIR/FABRICATION | 224 | 236 | 220 | 16 |
| 70 POWER SYS EXECUTIVE | 54 | 65 | 56 | 9 |
| 71 RES PLNG, PROCUR & DEVL | 60 | 64 | 57 | 7 |
| 72 POWER SYSTEM PLANNING & DV | 41 | 44 | 43 | 1 |
| 74 POWER SYSTEM GENERATION | 624 | 726 | 616 | 110 |
| 76 PTD TRANS & DIST | 1,326 | 1,475 | 1,229 | 246 |
| 77 INTEGRATED SUPPORT SVCS | 1,002 | 1,093 | 915 | 178 |
| 78 POWER SYSTEM ENGRNG SRVCS | 453 | 482 | 454 | 28 |
| 79 SAFETY & TRAINING | 153 | 402 | 355 | 47 |
| POWER SYSTEM TOTAL | 3,937 | 4,587 | 3,945 | 642 |
| WATER SYSTEM | | | | |
| 41 WATER EXECUTIVE OFFICE | 21 | 22 | 34 | -12 |
| 42 WATER RESOURCES | 56 | 58 | 51 | 7 |
| 43 WATER ENGINEERING | 321 | 336 | 309 | 27 |
| 44 WATER DISTRIBUTION | 692 | 729 | 691 | 38 |
| 45 WATER OPERATIONS | 560 | 594 | 541 | 53 |
| 48 WATER QUALITY DIVISION | 112 | 114 | 103 | 11 |
| WATER SYSTEM TOTAL | 1,762 | 1,853 | 1,729 | 124 |
| LADWP TOTAL | 9,491 | 10,383 | 9,318 | 1,065 |