



Department of Water and Power City of Los Angeles



Winter Budget Workshop
January 30, 2010

Power System

Fiscal Year 2009/10 Financial Plan & Budget



Key Financial Goals

Maintain “AA” Credit Ratings

Loss of “AA” Bond Rating could cost the Power Fund \$44M per year in incremental Debt Service (\$220M over the next 5 years).

Maintain Debt Service Coverage at 2.25 Times

Maintain a Minimum Operating Cash Target of \$300 Million

Maintain Net Income sufficient to ensure stable City Transfers



FY 09/10 Board of Water and Power Commissioners Approved Power Financial Plan Summary (Rate Actions Not City Council Approved)

Recommended Budget Case					
Base Revenue Inc %	0.0%	0.0%	6.9%	3.8%	3.8%
Base Revenue Inc (\$M)	0	0	248	145	158

FISCAL YEAR ENDING JUNE 30

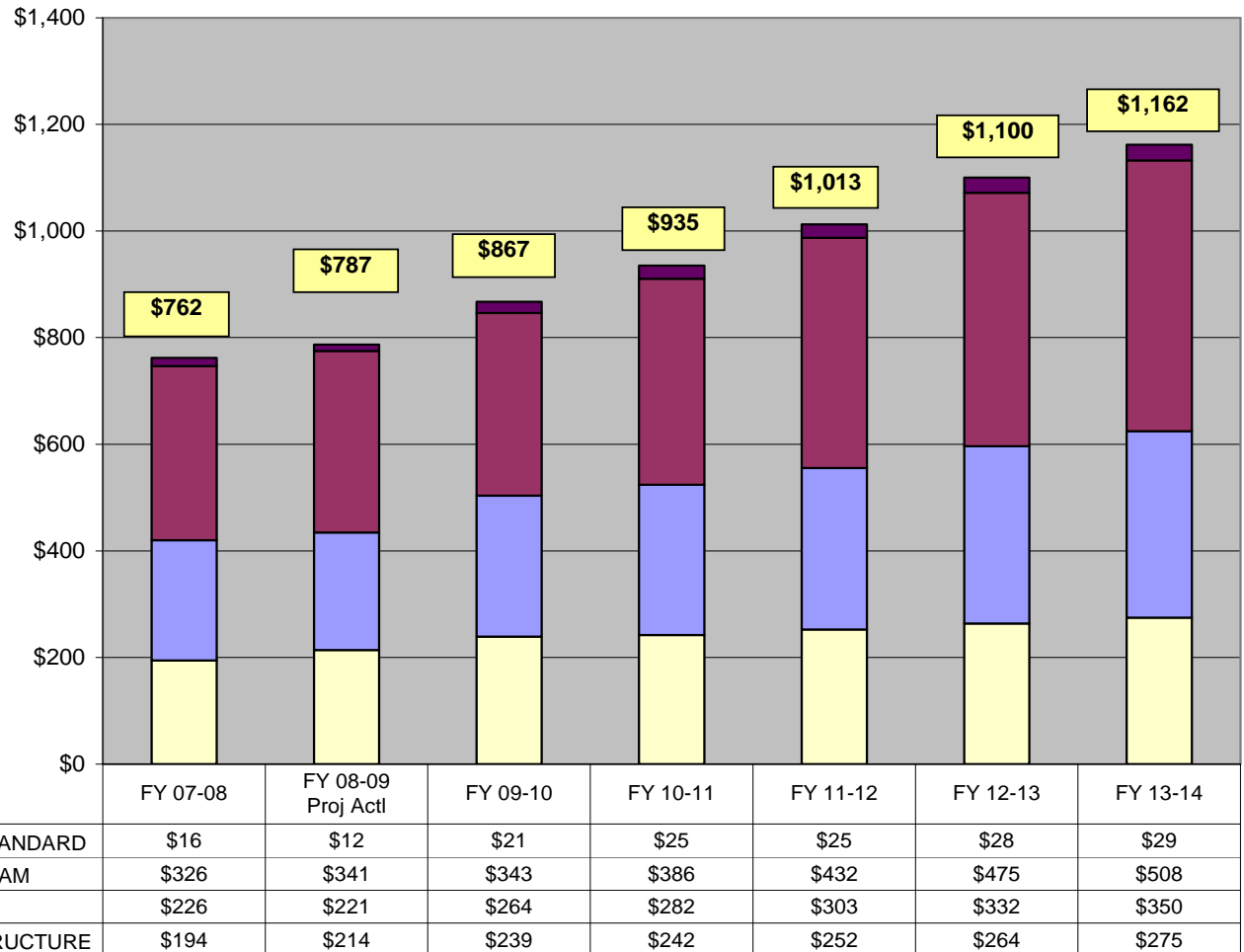
	June (Final)	Current*	FORECAST				
			2008	2009	2010	2011	2012
1. Retail Sales (GWh)	24,617	24,410	24,016	24,209	24,549	24,850	25,275
Adj. For DSM (GWh)		0	(150)	(440)	(708)	(961)	(1,246)
Adj. For Solar (GWh)	0	0	(6)	(16)	(30)	(48)	(71)
Net Retail Sales(GWh)	24,617	24,410	23,859	23,753	23,811	23,841	23,959
2. Operating Revenue:							
Base Rate	1,634	1,613	1,594	1,589	1,593	1,844	1,999
Base Rate Revenue Increases	0	(0)	0	0	248	145	158
Energy Cost Adjustment	827	1,028	1,449	1,632	1,653	1,700	1,773
Reliability Costs Adjustment	3	48	70	72	96	120	145
Street Lighting & Special Contract	38	31	31	34	34	35	36
Total Retail Revenue	2,502	2,721	3,145	3,326	3,624	3,843	4,110
Wholesale Sales (Gen. & Trans.)	105	74	54	56	62	62	64
Deferred Revenue	173	101	77	179	134	165	169
Others	2	5	24	38	51	65	64
Total Operating Revenue	2,782	2,901	3,299	3,599	3,871	4,136	4,408
3. Borrowing	654	550	424	967	1,110	893	737
4. Capital Expenditures	595	768	942	1,187	1,398	1,165	1,135
5. Operation & Maintenance Expenses	774	814	867	935	1,013	1,100	1,162
6. Public Benefits	15	22	39	39	41	42	43
Total Expenditures	1,384	1,604	1,848	2,161	2,451	2,307	2,340
7. Net Income	322	407	456	434	488	570	693
8. Transfer to City	182	223	232	264	288	310	331
Income after City Transfer	140	185	224	170	200	261	362
9. Financial Ratios:							
Debt Service Coverage (cur/cur)	3.1	2.93	2.76	2.20	2.25	2.25	2.38
Additional Bond Test (prev/max)	2.1	2.1	2.3	2.2	2.1	2.1	2.2
Capitalization Factor	52%	52.9%	53.1%	55.8%	58.3%	59.5%	59.6%
10. Average Rate (\$/MWh)							
Residential	\$107	\$118	\$137	\$145	\$158	\$167	\$177
Small Business (A-1)	\$119	\$131	\$151	\$159	\$174	\$185	\$197
Med. Business (A-2)	\$109	\$120	\$140	\$148	\$161	\$171	\$182
Large Business (A - 3)	\$93	\$104	\$124	\$132	\$143	\$151	\$161
System Average	\$102	\$112	\$133	\$141	\$153	\$162	\$172



Power Fund Operation & Maintenance Program

O&M
w/o FUEL &
Purchased Energy,
Public Benefits &
DSM
(In \$ Millions)

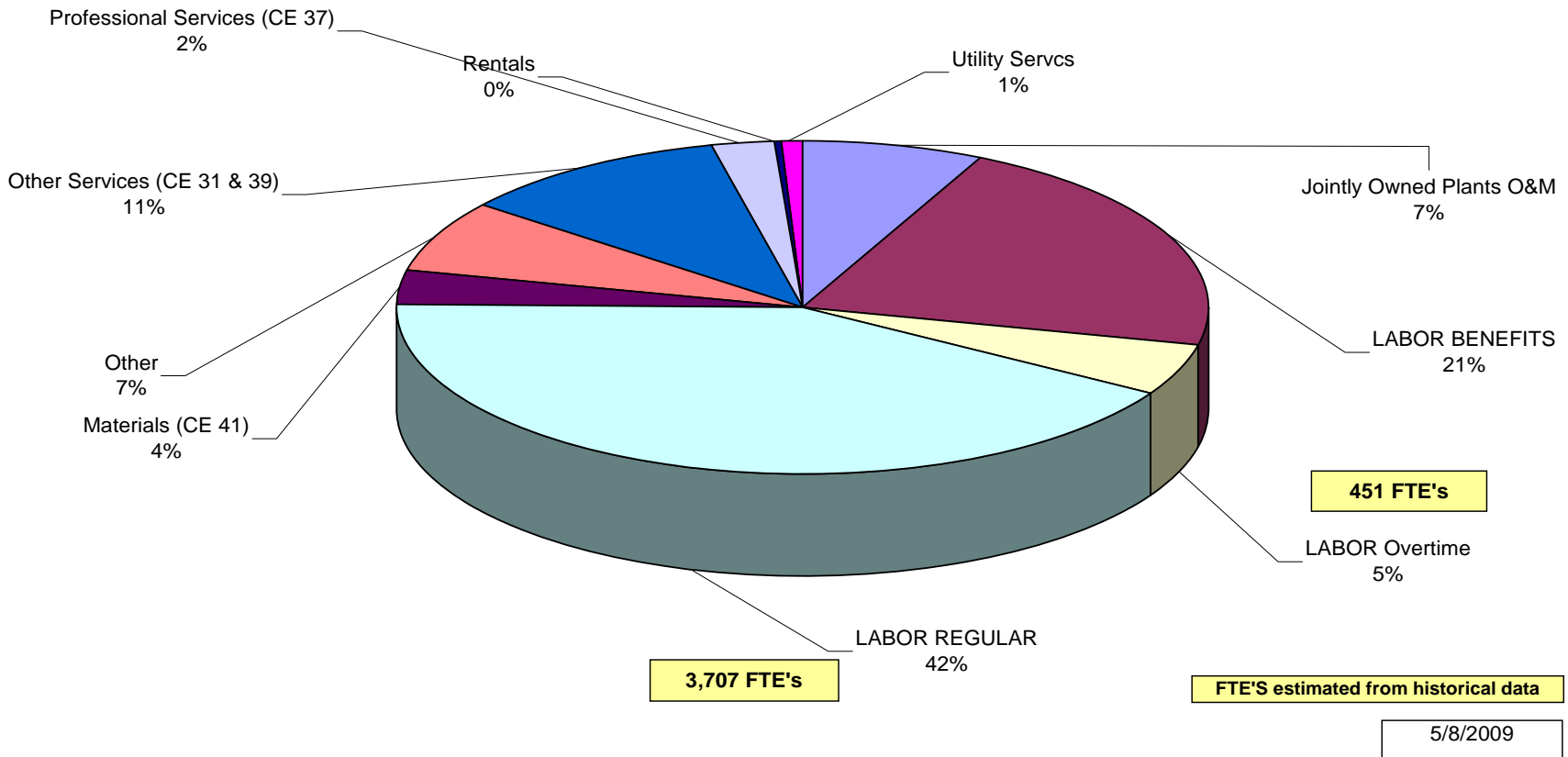
5/8/2009



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Composition of the Power Fund's O&M Budget Fiscal Year 2009/10

PROPOSED BUDGET - \$867 Million

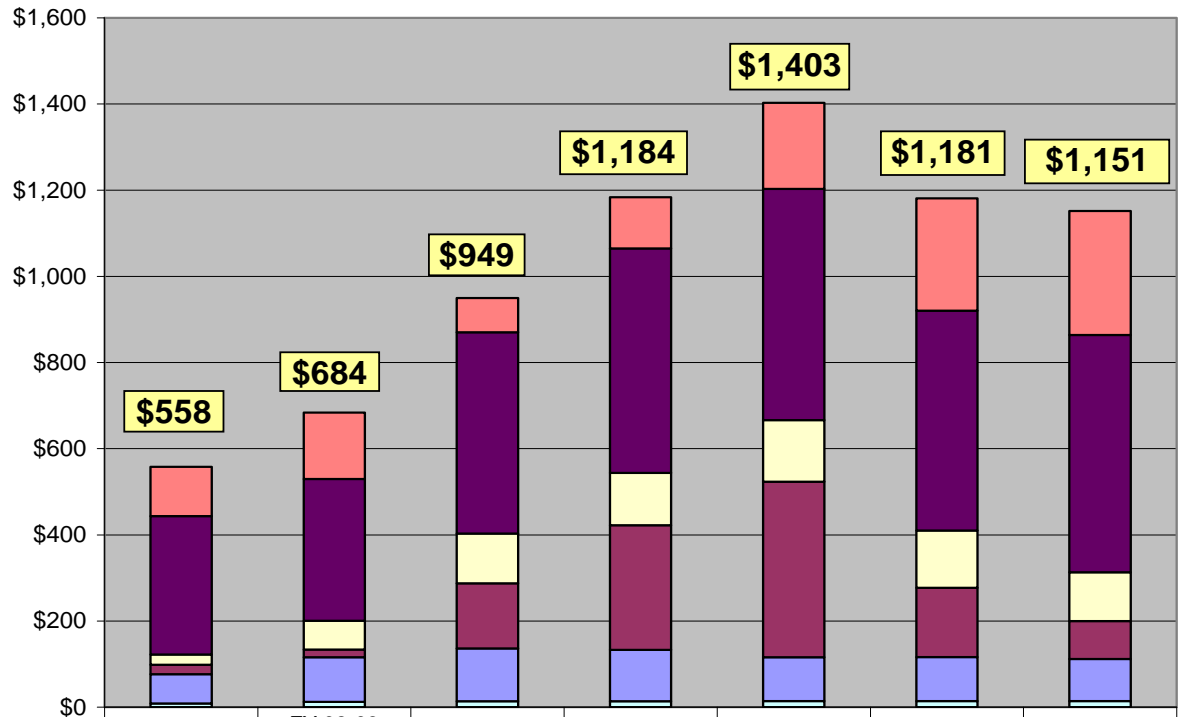


*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Power Fund Capital Improvement Program

CAPITAL
w/o
Public Benefits &
DSM
(in \$ Millions)

5/8/2009



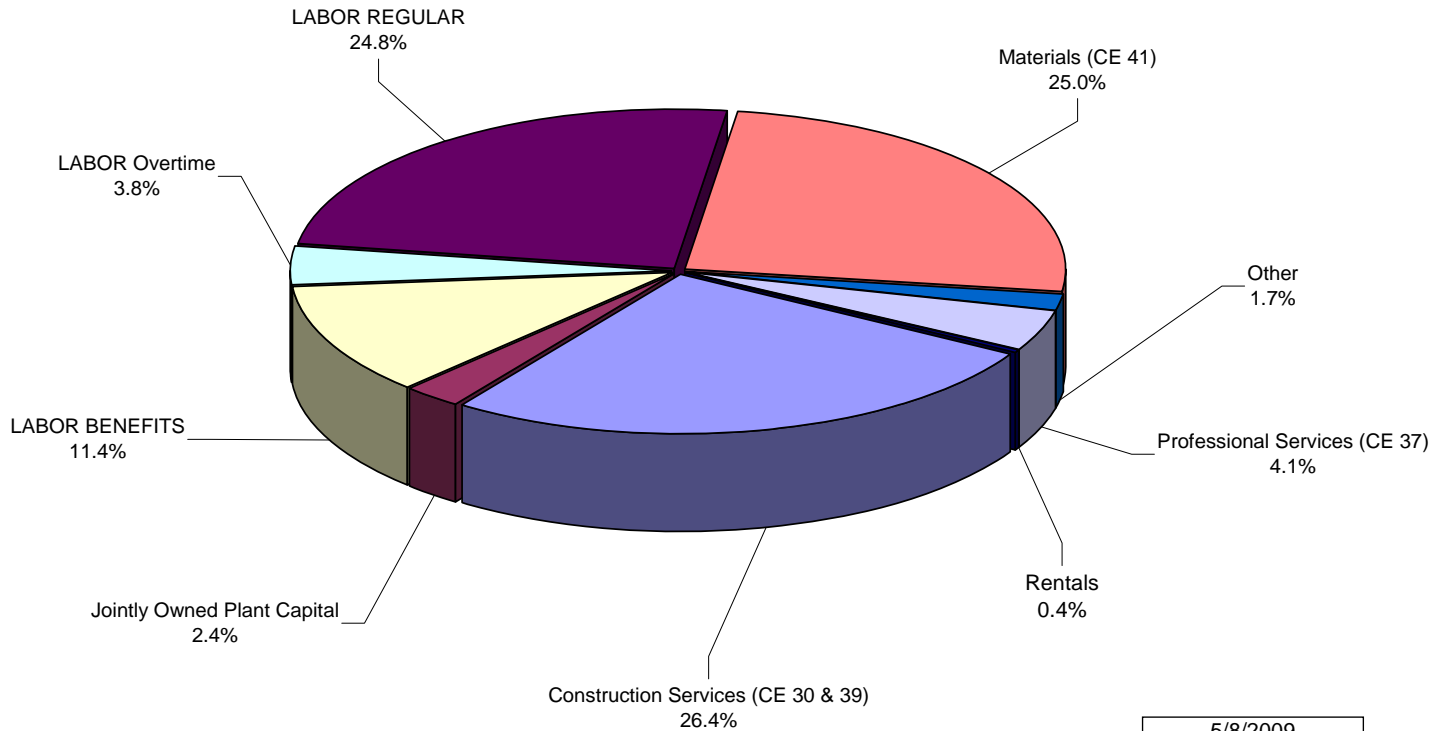
	FY 07-08	FY 08-09 Proj Actl	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
CAPITAL RENEWABLE PORTFOLIO STANDARD	\$114	\$154	\$79	\$119	\$200	\$261	\$288
CAPITAL POWER RELIABILITY PROGRAM	\$321	\$329	\$467	\$521	\$537	\$510	\$550
CAPITAL POWER FUNDED JOINT	\$24	\$67	\$115	\$122	\$143	\$133	\$113
CAPITAL INTEGRATED RESOURCE PLAN	\$22	\$18	\$151	\$289	\$407	\$161	\$88
CAPITAL GENERATION AND INFRASTRUCTURE	\$68	\$103	\$123	\$120	\$102	\$102	\$97
CAPITAL GAS	\$8	\$13	\$13	\$14	\$14	\$14	\$14



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Composition of the Power Fund's Capital Budget Fiscal Year 2009/10

PROPOSED BUDGET - \$949 Million



5/8/2009



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Power Load Forecast

APRIL 2009 FORECAST (GWH)						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Gross Retail Sales	24,591	24,016	24,209	24,549	24,850	25,275
DSM	0	(150)	(440)	(708)	(961)	(1,246)
Solar Rooftop	0	(6)	(16)	(30)	(48)	(71)
Net Retail Sales	24,591	23,859	23,753	23,811	23,841	23,959

OCTOBER 2008 FORECAST (GWH)						
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Gross Retail Sales	24,544	24,497	24,682	24,989	25,389	25,827
DSM	0	(150)	(440)	(708)	(961)	(1,246)
Solar Rooftop	0	(6)	(16)	(30)	(48)	(71)
Net Retail Sales	24,544	24,340	24,226	24,251	24,381	24,511

CHANGE BETWEEN TWO FORECASTS						
Change in Gross Retail Sales (GWH)	47	(481)	(473)	(440)	(539)	(552)
% Change in Gross Retail Sales	0.2%	-2.0%	-1.9%	-1.8%	-2.1%	-2.1%
Change in Net Retail Sales (GWH)	47	(481)	(473)	(440)	(539)	(552)
% Change in Net Retail Sales	0.2%	-2.0%	-2.0%	-1.8%	-2.2%	-2.3%



Water System

Fiscal Year 2009/10 Financial Plan & Budget



Key Financial Goals

- ❑ Maintain “AA” Credit Ratings
- ❑ Maintain Debt Service Coverage at 2.0 Times
- ❑ Maintain a Minimum Operating Cash Target of \$200 Million



FY 09/10 Board of Water and Power Commissioners Approved Water Financial Plan Summary (Rate Actions Not City Council Approved)

Base Case *Budget v May8 2009*

Base Rev Inc %			0.0%	3.4%	3.4%	3.4%
Rev from Adj Cap Inc %			5.4%	5.1%	0.4%	0.2%
Base Rev Inc (M\$)			0.0	37.2	40.6	42.5
Rev from Adj Cap Inc (M\$)			54.1	56.3	5.2	2.2

	Actual	Current *	Forecast					Total
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
1 . Sales (Million HCF)	265.8	261.8	244.6	251.0	266.1	267.5	268.5	1,297.6
2 . Revenue:								
a . Base Rates	336.0	353.5	416.0	391.4	426.1	481.3	539.6	2,254.4
b . WPA - Purchased Water & In-City Pumping	221.3	232.6	259.7	269.9	320.1	336.8	349.2	1,535.8
c . WPA - DSM & Reclaimed Wtr.	19.5	57.7	63.3	72.4	113.4	125.9	116.0	490.9
d . Water Security	42.1	53.6	59.7	64.0	68.7	81.0	75.7	349.1
e . Water Quality	71.6	63.2	49.0	104.1	162.9	167.9	170.0	653.9
f . Water Revenue	0.0	0.0	2.3	0.0	0.0	0.0	0.0	2.3
g . Owens Valley Regulatory	23.4	25.1	26.7	27.9	26.1	26.4	27.4	134.4
h . Low Income Subsidy	12.9	14.8	14.7	15.9	15.9	15.9	15.9	78.3
i . Water Rights Revenue	13.5	8.3	7.1	10.8	15.0	16.1	17.4	66.3
l . Other Operating Revenue	3.8	0.0	0.4	-0.1	-0.2	-0.7	-0.9	-1.5
Total Operating Revenue	744.0	808.8	898.9	956.3	1,148.0	1,250.7	1,310.2	5,564.0
System Average Rate (\$/HCF)	2.68	2.98	3.81	3.96	4.31	4.57	4.81	
3 . Operation & Maintenance Expenses								
Water Quality	32.9	36.8	46.9	51.4	54.1	59.3	62.4	274.2
Water Reclamation	7.1	12.0	14.2	12.4	24.6	29.9	19.5	100.5
In-City Pumping	24.7	29.0	33.2	36.7	38.9	41.9	44.1	194.8
Water Security	29.8	35.5	31.2	33.6	37.0	40.3	42.4	184.5
Owens Valley/LORP	26.8	24.1	25.4	27.3	29.6	30.9	33.1	146.3
Regular	196.2	210.8	210.3	213.5	223.4	243.8	256.0	1,147.0
Total O & M Expenses	317.4	348.2	361.2	374.9	407.7	446.1	457.4	2,047.3
Purchased Water Expenses		194.2	214.2	220.4	266.0	278.8	288.5	1,267.9
Demand Side Management Expenses		19.6	25.5	26.9	25.0	20.8	21.8	120.1
4 . Capital Expenditures:								
DSM	0.0	1.5	1.9	1.0	0.1	0.1	0.1	3.3
Water Quality	86.7	124.2	196.1	286.4	372.5	312.4	156.9	1,324.3
Water Reclamation	6.0	15.7	18.7	28.7	58.2	69.1	69.0	243.7
Water Security	9.4	15.5	25.6	27.3	28.4	36.9	29.8	148.0
Infrastructure	125.9	190.8	274.4	258.5	236.0	256.9	339.4	1,365.1
Capital Expenditures, Net	228.0	347.7	516.7	602.0	695.2	675.4	595.2	3,084.5
Contributions In Aid of Construction		27.4	24.2	31.2	38.6	42.3	51.3	187.5
Gross Capital Expenditures		375.2	540.8	633.2	733.8	717.7	646.5	3,272.0
5 . Total Borrowing	35	150	470	520	514	473	378	2,356
6 . Net Income	98.2	87.9	125.4	129.9	221.2	249.2	252.7	978.3
7 . Transfer to City	33.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
8 . Financial Ratios								
Debt Service Coverage (cur/cur)		1.84	2.33	2.18	2.28	2.16	2.01	
Capitalization Ratio		0.50	0.53	0.56	0.57	0.58	0.58	
Addtn'l Bond Test Ratio: (prev / max)								
Debt Service Coverage		1.91	1.58	1.63	1.57	1.88	1.94	

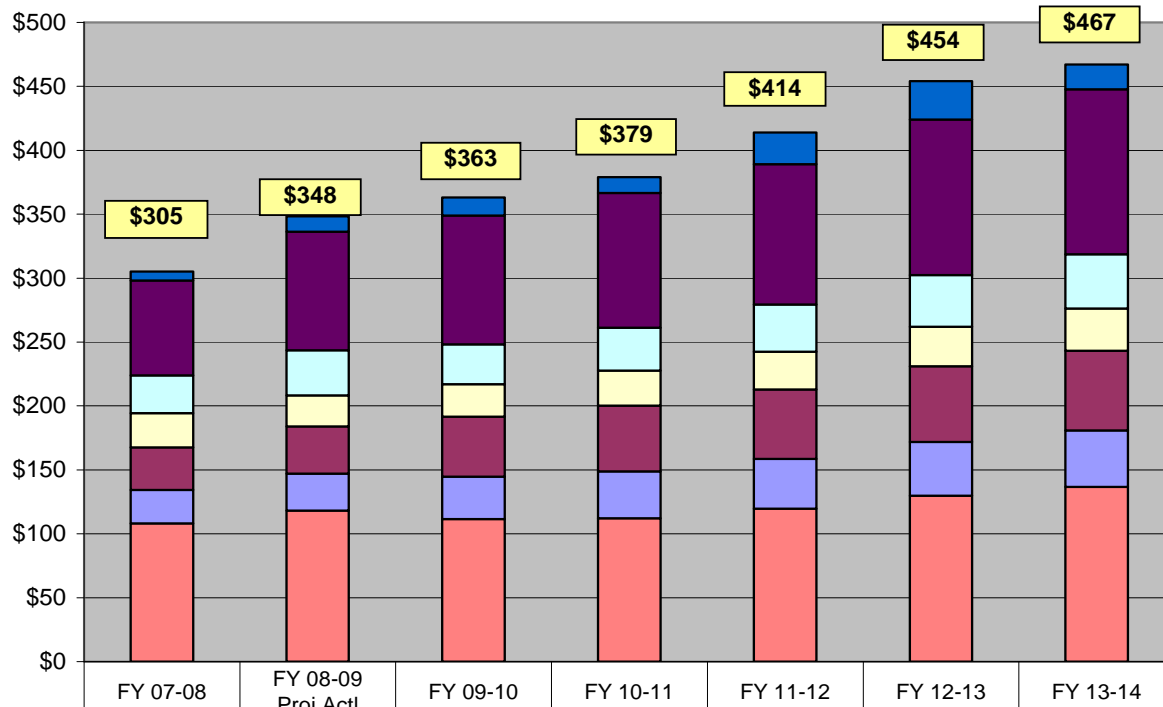
*Current FY reflects actuals through March 2009



Water Fund Operation & Maintenance Program

O&M
w/o Purchased Water &
DSM
(In \$ Millions)

5/8/2009



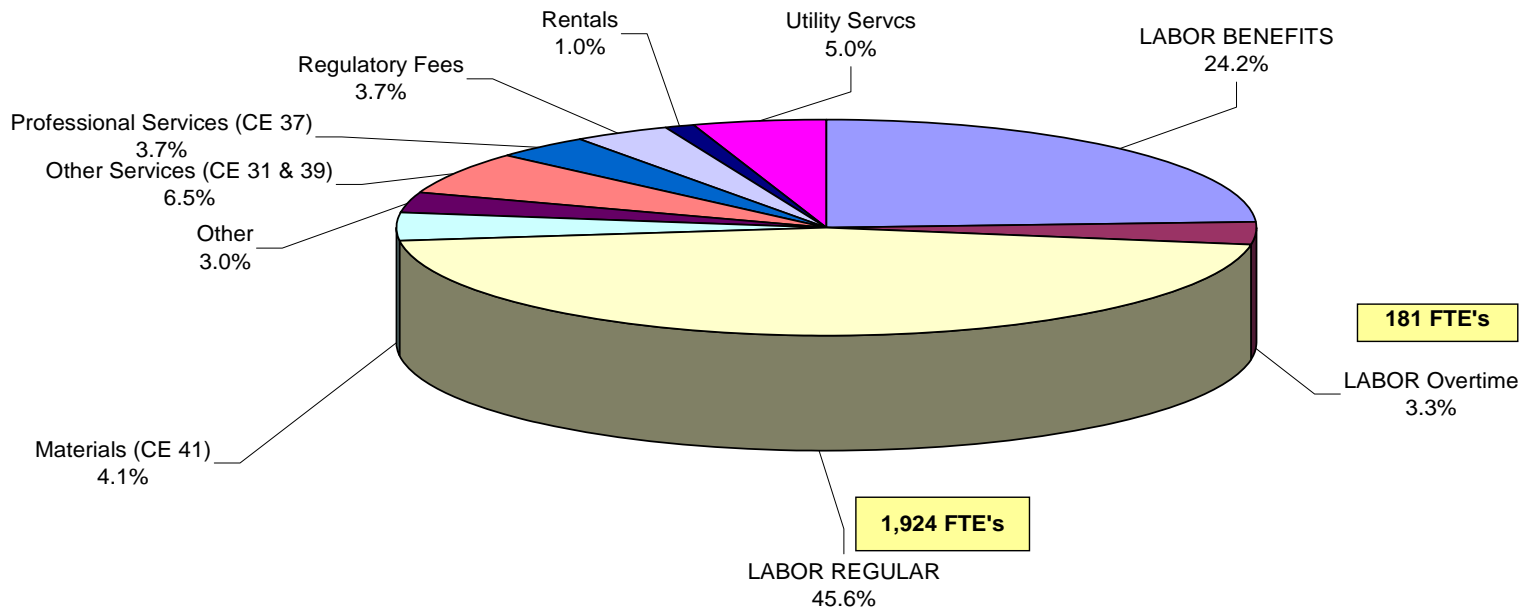
	FY 07-08	FY 08-09 Proj Actl	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
■ WATER RECYCLING O&M	\$7	\$12	\$14	\$12	\$25	\$30	\$19
■ WATER FUNDED JOINT	\$74	\$93	\$101	\$105	\$110	\$122	\$129
□ SECURITY	\$30	\$35	\$31	\$34	\$37	\$40	\$42
□ OWENS VALLEY REGULATORY ADJUSTMENT FACTOR	\$27	\$24	\$25	\$27	\$30	\$31	\$33
■ WATER QUALITY O&M	\$33	\$37	\$47	\$51	\$54	\$59	\$62
■ IN CITY PUMPING	\$26	\$29	\$33	\$37	\$39	\$42	\$44
■ WATER INFRASTRUCTURE	\$108	\$118	\$112	\$112	\$120	\$130	\$137



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Composition of the Water Fund's O&M Budget Fiscal Year 2009/10

PROPOSED BUDGET - \$363 Million



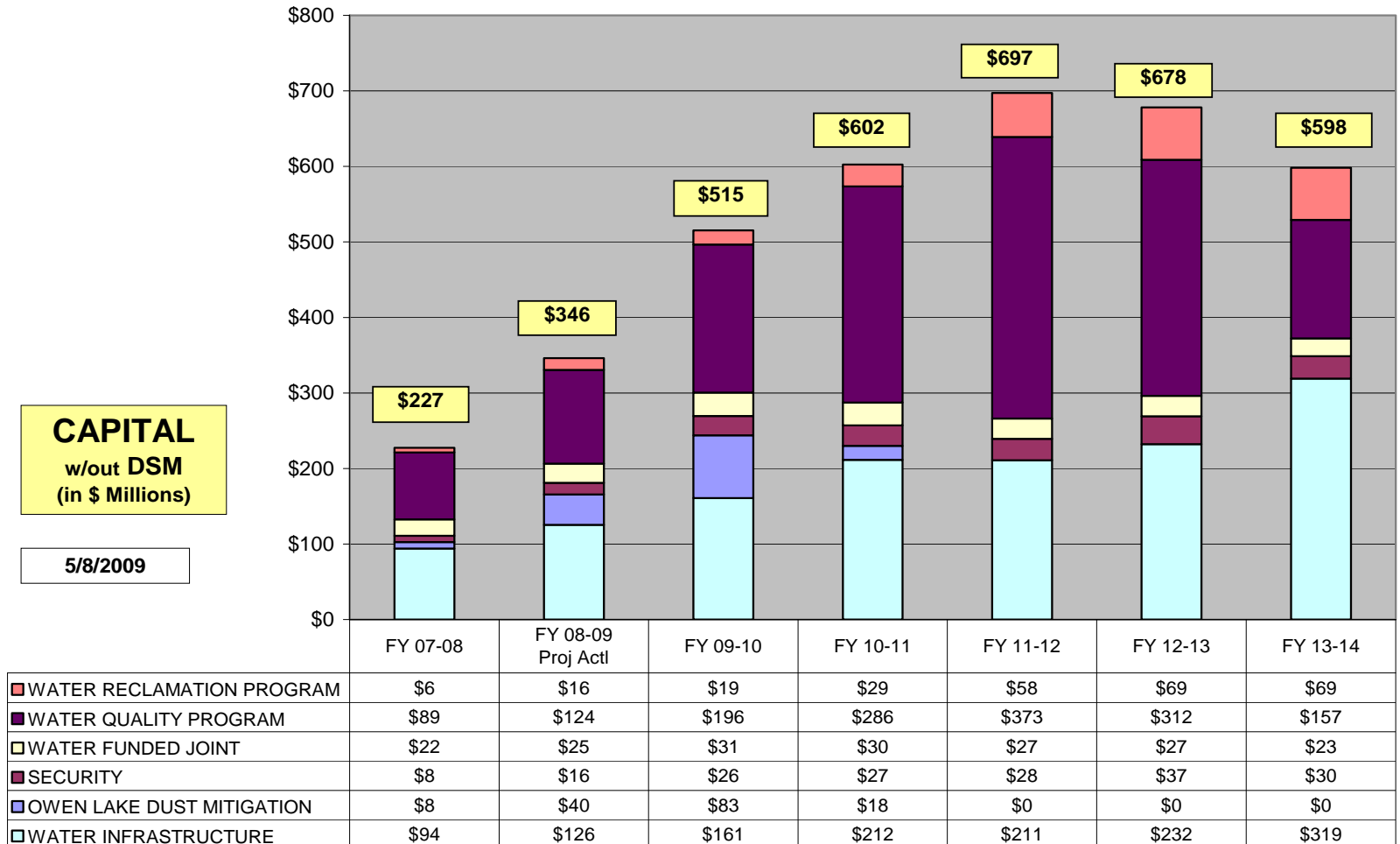
FTE'S estimated from historical data

5/8/2009



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

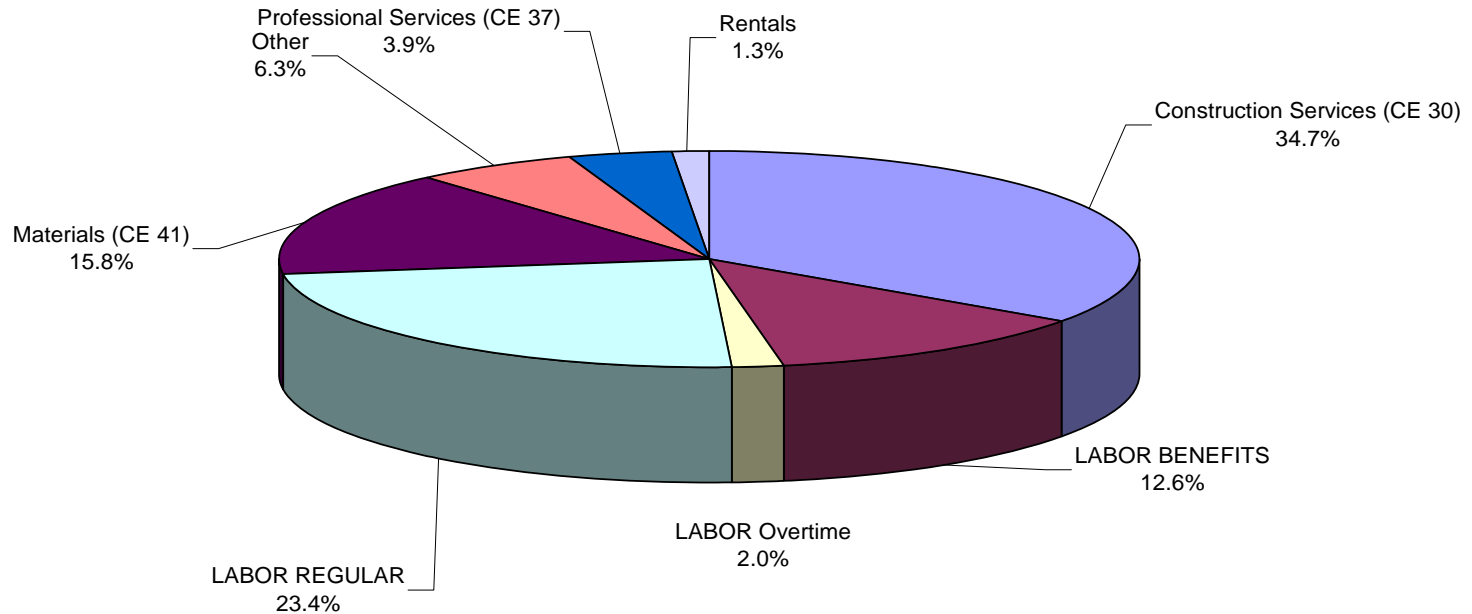
Water Fund Capital Improvement Program



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Composition of the Water Fund's Capital Budget Fiscal Year 2009/10

PROPOSED BUDGET - \$515 Million



5/8/2009



*Based on return of market value on assets of -25% (FY 08-09) for Retirement Contributions

Key Factors Included in the Financial Plan

- ❑ Increased Purchased Water Costs
- ❑ Updated Water Demand forecast to account for the water supply allocation from MWD and water conservation
- ❑ Added Water Procurement Adjustments to Tier 2 Customers



Water Load Forecast

LOS ANGELES DEPARTMENT OF WATER AND POWER PURCHASED WATER COST 5-YEAR FORECAST FISCAL YEAR (JULY-JUNE) BASIS

Water sales based on 12% conservation of 277.8 Million Hundred Cubic Feet (MHCf) for 2009-10 and 6% conservation of normal demand for 2010-11, 2011-14 normal conditions

Projected Volumes, in Acre-Feet (AF)	LAA Delivery Based on Current Snowpack	Projected LAA Delivery Based on Average Hydrology	Projected LAA Delivery Based on Average Hydrology	Projected LAA Delivery Based on Average Hydrology	Projected LAA Delivery Based on Average Hydrology
	2009-10 (12% cons)	2010-11 (6% cons)	2011-12	2012-13	2013-14
Water Demand	673,500	647,000	652,000	657,000	662,000
Planned Conservation Savings	4,039	5,666	7,307	8,948	11,564
Extraordinary Conservation	76,781	33,154			
Demand Post Conservation	593,000	608,000	645,000	648,000	650,000
Los Angeles Aqueduct	165,861	210,000	210,000	210,000	210,000
Local Groundwater	71,337	70,000	70,000	70,000	70,000
Recycled Water	8,750	9,250	9,650	15,350	19,350
Metropolitan Water District	346,732	318,930	355,043	352,702	351,086
Total Supplies	592,680	608,180	644,693	648,052	650,436
Non-revenue Water (5.25%)	31,116	31,929	33,846	34,023	34,148
Water Sales (AF)	561,564	576,251	610,846	614,029	616,288
Water Sales (MHCf)	244.6	251.0	266.1	267.5	268.5



Water Rate Restructuring

- ❑ **The following rate changes are included in the current financial plan or will contribute to the proposed rate increases.**
 - **Modify Second Tier water rates to fully include water procurement costs in the rate to encourage conservation on a year-round basis and stabilize the Second Tier base rates.**
 - **Establish the commodity charge as 80 percent of the total First Tier billing rate for potable water (including adjustments).**
 - **Revise the Water Quality Adjustment cap requirements as current limitations of the cap are not sufficient to recover regulatory required project costs.**
 - **Revise Water Procurement Adjustment factor to encourage water conservation and fully recognize the results of demand-side management programs.**



Water Rate Restructuring

- ❑ LADWP management is committed to proceeding with a strategy to make revisions to the water rate structure by June 2010.

- ❑ Most of the following recommended objectives to restructure water rates are designed to be revenue neutral and encourage conservation include but are limited to the following:
 - Establish a Third Tier rate based on the marginal cost of recycled water.
 - Utilize climate based conservation data to make adjustments in current First Tier usage blocks.
 - Increase low income and lifeline subsidies.
 - Modify Water Shortage Year Rates.



COST CUTTING

- ❑ LADWP recently conducted a more in-depth review of Water and Power Funded expenditures to further eliminate non-essential costs, streamline operations, and increase operational efficiencies.

The objective was to trim costs to the absolute minimum, if not directly related to the 20% RPS by 2010 or Water and Power System infrastructure goals.

- ❑ This resulted in the following reductions to the Power Fund:
[All cost cutting reductions are over the 5-year period from FY 2009/10 thru FY 2013/14]
 - o Reprioritized Renewable Energy Projects & Purchases, \$154 million
 - o Reduced Power Fund Capital Expenditures, \$745 million
 - o Reduced Water Fund Capital Expenditures, \$164 million
 - o Decreased Labor Costs, \$270 million
 - o Eliminated Off Balance Sheet Debt, \$600 million



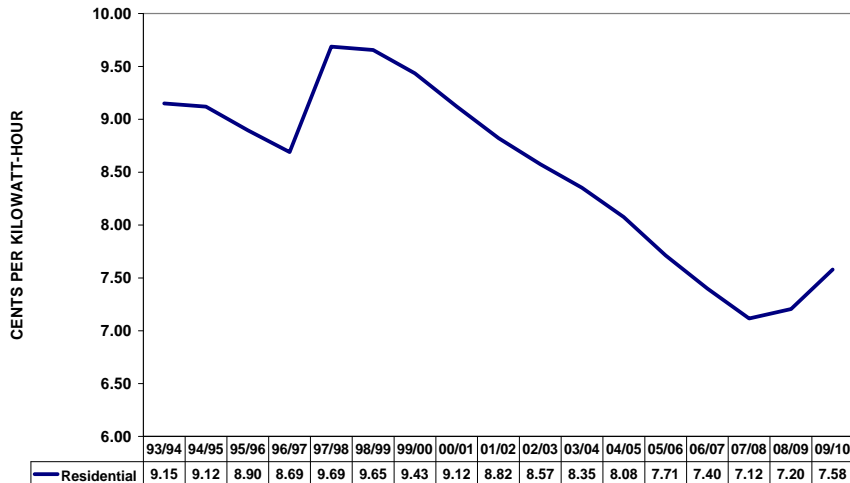
RESIDENTIAL/COMMERCIAL ENERGY PRICES (CPI ADJUSTED)

FACT: LADWP has had only 3 base electric base rate increases in last 18 years:

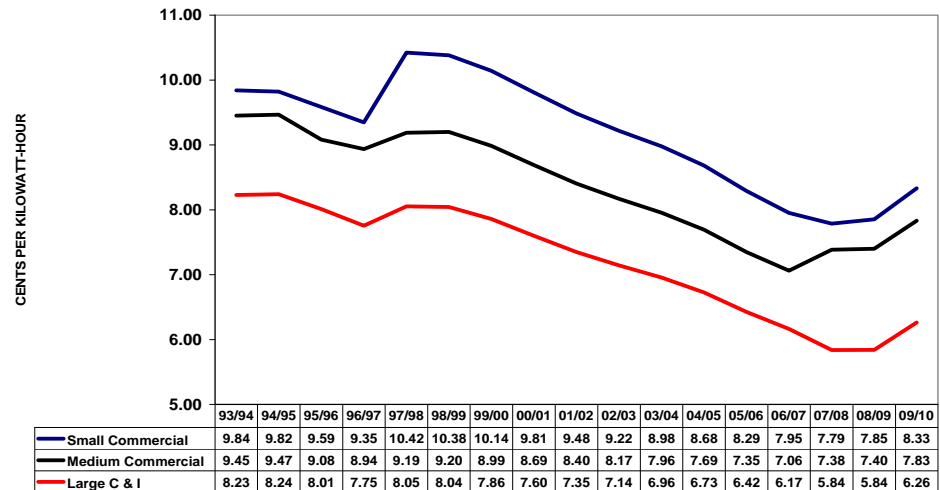
- 1993
- 2006
- 2008

FACT: LADWP Residential & Commercial Electric Rates have decreased since 1993 relative to Inflation

RESIDENTIAL ENERGY PRICES
ADJUSTED FOR INFLATION
TO FISCAL YEAR 1993/1994 RESIDENTIAL RATES



COMMERCIAL ENERGY PRICES
ADJUSTED FOR INFLATION
TO FISCAL YEAR 1993/1994 COMMERCIAL RATES



LADWP BUDGET PROCESS

FISCAL YEAR 2010/11

- ❑ 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.
- ❑ This budget process will ensure that all expenditures are absolutely essential to core issues, streamlining operations, and enhancing operational efficiencies of the LADWP.



LADWP BUDGET PROCESS

FISCAL YEAR 2010/11

- ❑ On January 5, 2010, the Board of Water and Power Commissioners 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.



LADWP BUDGET PROCESS

FISCAL YEAR 2010/11

❑ 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.



LADWP BUDGET PROCESS

FISCAL YEAR 2010/11

- 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 include carbon emissions, climate change, and most importantly, reduce the cost of energy production in the long run.
- While many of these programs will add additional costs, LADWP management/staff must utilize creative and cost-effective ways to incorporate these programs into our plan to minimize the impact to our ratepayers.



FY 2010-2011 BUDGET SCHEDULE

January 29, 2010

- Divisions complete their proposed budgets for the FY 2010-2011 Budget with proposed expenditures through FY 2014-2015.

February 9 and 12, 2010

- 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

- 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.

February 22, 2010 through February 26, 2010

- Executive Capital Review Follow-up Meetings.



FY 2010-2011 BUDGET SCHEDULE

March 1, 2010 through March 12, 2010

- The Senior AGMs will present an overview of their respective O&M budgets to the GM and COO.

March 15, 2010 through March 19, 2010

- Financial Plan Overview.

March 22, 2010 through March 26, 2010

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

April 20, 2010

- Each Major System will present their proposed budget to the Board.

May 18, 2010

- The Board will formally approve the Budget.





Department of Water and Power City of Los Angeles



Winter Budget Workshop
January 30, 2010

Thank You for Attending.