



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____


BOARD APPROVAL LETTER



JEFFERY L. PELTOLA
Chief Financial Officer



MARTIN L. ADAMS
Senior Assistant General Manager
Water System



MARCIE L. EDWARDS
General Manager

DATE: October 2, 2015

SUBJECT: Water Revenue Adjustment Factor (WRAF)
Effective January 1, 2016 through December 31, 2016

SUMMARY

In the face of this historic and prolonged drought, our customers successfully reduced water consumption by 10 percent in FY 14/15 as compared to the original forecast in the financial plan. As a result of these efforts, our customers saved 24.4 million HCF (hundred cubic feet). This is equivalent to the amount of water used by roughly 170,000 households for a year.

Our water rates are 100 percent volumetric with no fixed charges, which incentivizes water conservation. As a result, the Department's revenue was also reduced by \$110.7 million below the forecasted amount. However, the Water Rate Ordinance (Ordinance) permits the application of a WRAF that enables LADWP to receive a minimum annual level of base rate revenue of \$379.9 million for continued financial stability. The actual base rate revenue for FY 14/15 was \$322.7 million. Therefore, the Ordinance allows, subject to Board approval, the Department to recover the \$57.2 million required to bring the base rate revenues up to the minimum level. Even after including the revenue from the proposed WRAF, our water customers in total would save \$53.5 million compared to the revenue called for in the Approved FY 14/15 Water Financial Plan.

In addition, as a result of the conservation efforts, the usage for an average single-dwelling unit residential customer decreased from 12 HCF in FY 13/14 to 10 HCF in FY 14/15. Therefore, the average monthly bill including application of the proposed WRAF would be approximately \$3.26 lower than the average monthly bill for FY 13/14.

FY 14/15	Actual	Approved Water System Financial Plan	Variance	%
Consumption (million HCF)	217.2	241.6	(24.4)	-10%
Revenue without WRAF (\$M)	\$1,077.3	\$1,188.0	(\$110.7)	-9%
Revenue with WRAF (\$M)	\$1,134.5	\$1,188.0	(\$53.6)	-5%

The proposed WRAF of \$0.18 per HCF, subject to the Board's approval, will be added to all First and Second Tier rates customers, other than those on Schedules D and F, effective January 1, 2016.

Base revenue is the total revenue billed for water consumed by LADWP's retail customers, excluding revenue billed from the Water Procurement Adjustment, Water Quality Improvement Adjustment, Low-Income Subsidy Adjustment, Water Security Adjustment, Water Revenue Adjustment, and Owens Valley Regulatory Adjustment.

RECOMMENDATION

It is recommended that the Board adopt the attached Resolution determining the WRAF for the year commencing January 1, 2016, to recover \$57.2 million.

FINANCIAL INFORMATION

The WRAF is calculated annually and would become effective on January 1. It is applied to all First and Second Tier rates in the Ordinance, excluding Schedules D and F, as outlined in the Ordinance.

The WRAF is a mechanism which assures a minimum level of revenue from base rates for the operation of the Water System. The WRAF was established in the Ordinance in 1993 and ensures that the fixed costs for transporting and distributing water are recovered. In order to meet the water supply needs of the City of Los Angeles ratepayers, LADWP has urged customers to reduce nonessential water use and continuously promotes water conservation measures. The most recent conservation effort, Executive Directive No. 5 (ED-5), was issued on October 14, 2014, by the Mayor and calls for a 20 percent reduction of potable water per capita by 2017. As a result of the public's strong response to ED-5, conservation efforts also had a direct effect on the Water System's total sales. Comparing FY 14/15 to the Approved Financial Plan, total consumption was 10 percent (24.4 million HCF) lower resulting in \$110.7 million less revenue. See table below.

As a result of lower sales, the annual minimum revenue target as defined in General Provision H of the Ordinance was unmet. Implementing the WRAF would enable the Water System to continue to fund its infrastructure replacement

program which, under the current rate structure, is solely dependent on funding from base revenue or bond funding. The table below illustrates that, even if the WRAF is implemented, an average single-dwelling unit residential customer who conserves will still be paying \$3.26 lower than the monthly average bill for FY 13/14.

Average Single-Dwelling Unit Residential Customer				
Fiscal Year (FY)	Tier 1 (HCF)	Tier 1 Rate (\$/HCF)	Average Monthly Bill	Savings Compared to FY13/14 Average Monthly Bill
FY 13/14	12	\$4.57	\$54.79	-
FY 14/15 without WRAF	10	\$4.97	\$49.73	\$5.06
FY 14/15 with WRAF	10	\$5.15	\$51.53	\$3.26

It is critical to the key financial metrics of the Water System that the additional revenue associated with the proposed WRAF be recovered. A key requirement to continuing to issue low-cost debt is that the Water System maintains a minimum metric of 1.25 for the Additional Bond Test (ABT) called for in the Master Bond Resolution for FY 15/16. The ABT is defined as modified net income divided by maximum debt service. The ABT without the WRAF in FY 15/16 is 1.12 and, the ABT with the WRAF in FY 15/16 is 1.30.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Attachment A

RESOLUTION NO. _____

WHEREAS, Water Rate Ordinance No. 170435, as amended by Ordinance Nos. 171639, 173017, 175964, 177968, 179802, and 182047, (Ordinance) allows for the application of a Water Revenue Adjustment Factor (WRAF) to recover any shortage in revenue due to variation in water sales; and

WHEREAS, the Water System identifies a \$57.2 million shortage in actual revenue under this Ordinance and \$379.9 million as the minimum revenue target for the Fiscal Year 2015; and

WHEREAS, the recovery of such shortage in revenue will result in a WRAF of \$0.18 per billing unit.

NOW, THEREFORE, BE IT RESOLVED that the Board approves and directs that the WRAF of \$0.18 per billing unit be effective from January 1, 2016, through December 31, 2016, to recover the shortage in revenue as allowed by the Ordinance. The Chief Financial Officer has the authority to direct that the factor be invoked if deemed necessary.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held

Secretary

APPROVED AS TO FORM AND LEGALITY
MICHAEL N. FEUER, CITY ATTORNEY

OCT 02 2015

BY Brian E. Stewart
BRIAN E. STEWART
DEPUTY CITY ATTORNEY

**WATER REVENUE ADJUSTMENT FACTOR
FOR JANUARY THROUGH DECEMBER 2016**

(Ordinance No. 170435, as amended by Ordinance Numbers 171639, 173017, 175964, 177968, 179802 and 182047)

Annual Revenue Target for fiscal year ended June 30, 2014	\$379,933,628
Adjustment to annual revenue target for increase in commodity charge under Section 2.A.3.a. during fiscal year 2015	0.00%
Annual Revenue Target for fiscal year 2015	379,933,628
Less: Total base rate revenue from fiscal year 2015	<u>322,758,703</u>
Revenue shortfall	57,174,925
Plus: Prior Year Water Revenue Adjustment Account Balance	<u>(655,318)</u>
(a) Water Revenue Adjustment Account Balance	\$56,519,607
<i>*Per Section 3.H.3.a. of the Ordinance, in no event shall the ending adjustment account balance be less than zero.</i>	
(b) Estimated water sales (in units of 100 cubic feet) to all Los Angeles customers, excluding Schedules D and F, for the twelve-month period ending December 31, 2016	218,291,141
(c) Water Revenue Adjustment Factor [(a) / (b)] **	<div style="border: 1px solid black; padding: 2px;">\$0.259</div>
(d) Adjustment due to the \$0.18 per BU limitation	\$0.079
WRAF due to \$0.18 per BU limitation	<div style="border: 3px double black; padding: 2px;">\$0.180</div>

**Per Section 3.H.5.a., the WRAF shall not exceed \$0.18 unless the Board of Water and Power Commissioners adopts a resolution finding that an increased factor is financially required.

Water Revenue Adjustment Factor for prior years:

January 1 to December 31, 2014	\$0.000
January 1 to December 31, 2013	\$0.000
January 1 to December 31, 2012	\$0.076
January 1 to December 31, 2011	\$0.097
January 1 to December 31, 2010	\$0.063