



**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Financial Statements and
Required Supplementary Information

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

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Independent Auditors' Report

The Board of Water and Power Commissioners
Department of Water and Power
City of Los Angeles:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Los Angeles' Department of Water and Power's Power Revenue Fund (Power System), an enterprise fund of the City of Los Angeles, California, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Power System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Power System as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matters

As discussed in Note 1a, the financial statements present only the Power System and do not purport to, and do not, present fairly the financial position of the City of Los Angeles, California, as of June 30, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, effective July 1, 2013, the Power System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis and required supplementary information on pages 3–14 and pages 79–83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2015 on our consideration of the Power System’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Power System’s internal control over financial reporting and compliance.

KPMG LLP

Irvine, California
December 23, 2015

**LOS ANGELES DEPARTMENT OF WATER AND POWER
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Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

The following discussion and analysis of the financial performance of the City of Los Angeles' (the City) Department of Water and Power's (the Department) Power Revenue Fund (the Power System) provides an overview of the financial activities for the fiscal years ended June 30, 2015 and 2014. Descriptions and other details pertaining to the Power System are included in the notes to the financial statements. This discussion and analysis should be read in conjunction with the Power System's financial statements, which begin on page 15.

Using this Financial Report

This annual financial report consists of the Power System's financial statements and required supplementary information and reflects the self-supporting activities of the Power System that are funded primarily through the sale of energy, transmission, and distribution services to the public it serves.

Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows

The financial statements provide an indication of the Power System's financial health. The statements of net position include all of the Power System's assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, as well as an indication about which assets can be utilized for general purposes and which assets are restricted as a result of bond covenants and other commitments. The statements of revenues, expenses, and changes in net position report all of the revenues and expenses during the time periods indicated. The statements of cash flows report the cash provided by and used in operating activities, as well as other cash sources and uses, such as investment income and cash payments for bond principal and capital additions and betterments.

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The following table summarizes the financial condition and changes in net position of the Power System as of and for the fiscal years ended June 30, 2015, 2014, and 2013:

**Table 1 – Condensed Schedule of Assets, Deferred Outflows, Liabilities,
Deferred inflows, and Net Position**

(Amounts in millions)

Assets and Deferred Outflows	June 30		
	2015	2014 (as restated)	2013*
Utility plant, net	\$ 9,926	9,213	8,621
Restricted investments	642	641	634
Other noncurrent assets	3,078	3,495	2,523
Current assets	2,446	2,264	1,960
Deferred outflows	619	335	98
	\$ 16,711	15,948	13,836
Liabilities, Deferred Inflows, and Net Position			
Long-term debt, net of current portion	\$ 8,568	7,937	7,526
Other long-term liabilities	962	1,318	177
Current liabilities	898	891	836
Deferred inflows	867	423	138
	11,295	10,569	8,677
Fund net position:			
Net investment in capital assets	1,235	1,268	1,325
Restricted	1,582	1,562	1,554
Unrestricted	2,599	2,549	2,280
	5,416	5,379	5,159
Total net position	\$ 16,711	15,948	13,836

* – 2013 data was not restated for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, as the data necessary to restate was not available.

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Table 2 – Condensed Schedule of Revenues, Expenses, and Changes in Net Position

(Amounts in millions)

	Year ended June 30		
	2015	2014 restated	2013
Operating revenues:			
Residential	\$ 1,034	1,043	1,020
Commercial and industrial	2,201	2,233	2,062
Sales for resale	94	43	68
Other	8	1	13
Total operating revenues	<u>3,337</u>	<u>3,320</u>	<u>3,163</u>
Operating expenses:			
Fuel for generation and purchased power	(1,400)	(1,414)	(1,342)
Maintenance and other operating expenses	(1,045)	(950)	(925)
Depreciation and amortization	(496)	(466)	(418)
Total operating expenses	<u>(2,941)</u>	<u>(2,830)</u>	<u>(2,685)</u>
Operating income	<u>396</u>	<u>490</u>	<u>478</u>
Nonoperating revenues (expenses):			
Investment income	50	58	46
Federal bond subsidies	33	33	34
Other nonoperating revenue and expenses, net	17	21	20
Debt expense, net	(260)	(259)	(244)
Total nonoperating expense	<u>(160)</u>	<u>(147)</u>	<u>(144)</u>
Income before capital contributions and transfers	236	343	334
Capital contributions	67	45	47
Transfers to the reserve fund of the City of Los Angeles	(266)	(253)	(247)
Increase in net position	37	135	134
Beginning balance, as previously reported	5,379	5,159	5,025
Effect of change in accounting for pensions	—	85	—
Beginning balance of net position, as restated	<u>5,379</u>	<u>5,244</u>	<u>5,025</u>
Ending balance of net position	<u>\$ 5,416</u>	<u>5,379</u>	<u>5,159</u>

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Assets

Utility Plant

During fiscal years 2015 and 2014, the Power System capitalized \$720 million and \$719 million of additions, respectively, including transfers from construction work in progress to utility plant in service. Of the \$720 million, \$385 million, or 53%, is related to distribution plant assets and mostly attributable to the Power Reliability Program (PRP) to improve distribution system reliability including replacement of aging poles, crossarms, cables, station equipment, and transformers. Other distribution system additions included construction of new business line facilities and customized customer station designs. In addition, \$183 million, or 25%, is related to generation plant assets including upgrade and overhaul of generator turbines at the upper/middle/control gorges, Haynes capital purchase of spare parts, Haynes repowering of units 11–16, and Scattergood unit 2 turbine overhaul. In addition, \$151 million, or 21%, is mostly related to general plant and transmission plant assets including fleet purchase of transportation and construction equipment, additions to the Customer Information System replacement project, upgrade of oil depot, and replacement of circuit breakers at Castaic Power Plant. Of the \$719 million during fiscal year 2014, \$373 million, or 52%, is related to distribution plant assets and mostly attributable to the PRP to improve distribution system reliability including replacement of aging poles, crossarms, cables, station equipment, and transformers. Other distribution system additions included construction of new Distribution Station 144 and installations of new business line facilities. In addition, \$182 million, or 25%, is related to general plant assets including replacement of the Customer Information System, new digital mobile radio system, server/system implementation, fleet purchases, and fiber optic network installations. In addition, \$159 million, or 22%, is mostly related to generation plant assets including Castaic Modernization for Unit 1 and upgrade of main generating units, repowering Haynes Generating Station Units 5 and 6, installing electrical auxiliary boilers for Haynes Unit 8, overhaul of auxiliary systems at Scattergood Generating Station Unit 1, and installation of solar system on City property.

Construction work in progress increased by \$485 million in fiscal year 2015 and increased by \$352 million in fiscal year 2014. The 2015 increases are mostly attributable to capitalization of generation system and transmission system assets including repowering of Scattergood Generating Station Unit 3, constructing 15 miles of Scattergood 230kv underground cable, constructing 65 miles of Barren Ridge to Haskell switching station 230kv transmission line, building a collector station for Beacon solar generation, and constructing a new Haskell Canyon switching station. Also, some increases in 2015 are mostly attributable to capitalization of generation system assets including repowering of Scattergood Generating Station Unit 3, constructing Scattergood 230kv underground cable, Owens Valley Upper/Middle/Control Gorge generator upgrades, and improvements at Haynes Generating Station.

Additional information regarding the Power System's utility plant assets can be found in note 4 to the accompanying financial statements.

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The tables that follow summarize the generating resources available to the Department as of June 30, 2015. These resources include those owned by the Department (either solely or jointly with other utilities) as well as resources available through long-term purchase agreements. Generating station capacity is measured in megawatts (MWs).

Table 3 – Department-owned Generation Facilities

Type of fuel	Notional amount (number of facilities)	Number of units	Net maximum capability (MWs)	Net dependable capability (MWs)
Natural gas	4 ⁽¹⁾	26	3,450	3,373
Large hydro	1	7 ⁽²⁾	1,247	1,175
Renewables	39	208 ⁽³⁾	432 ⁽⁴⁾	198
Subtotal	44	241	5,129	4,746
CDWR	—	—	(120) ⁽⁵⁾	(44)
Total	44	241	5,009	4,702

- (1) Consists of the following generating stations: Harbor Station, Haynes Station, Scattergood Station, and Valley Station.
- (2) The Castaic Plant is re-rated at 1,1175 MWs, but is capable of generating 1,247 MWs for short periods if sufficient flow-through water schedules are received.
- (3) The Department-owned renewable resources in service include the Los Angeles Aqueduct, Owens Valley, and Owens Gorge small hydro units that qualify under the Department's renewable resource definition. Also included are microturbine units at the Lopez Canyon Landfill and Department-built photovoltaic solar installations, the Pine Tree Wind Project, Linden Wind Farm, and a local small hydro plant. Not included in the counts are the units that were upgraded at the Castaic Plant. Also not included are the two Scattergood gas-fueled units that partially burn digester gas in which the output related to the digester gas also qualifies under the Department's renewable resource definition.
- (4) Included are the 16 MWs of renewable energy generated at the Scattergood Station by burning digester gas from the Hyperion Treatment Plant.
- (5) Energy payable to the California Department of Water Resources (CDWR) for energy generated at the Castaic Plant. This amount varies weekly up to maximum of 120 MWs.

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Table 4 – Jointly Owned and Contracted Facilities

Type	Number of facilities	Net maximum capability (MWs)	Net dependable capability (MWs)
Large hydro	1	491	390 ⁽¹⁾
Nuclear	1	387	380 ⁽²⁾
Coal	2	1,679	1,679 ⁽³⁾
Natural gas	1	532	480
Renewables/DG	16,695 ⁽⁴⁾	1,230	345
Total	<u>16,700</u>	<u>4,319</u>	<u>3,274</u>

- (1) The Department's Hoover Plant contract entitlement is 25.16% of the Hoover total contingent capacity of 1,951 MWs. Current reduced lake level has reduced available capacity to about 390 MWs annual average.
- (2) The Department's Palo Verde Nuclear Generating Station (PVNGS) entitlement is 9.66% of the maximum net plant capability of 4,003 MWs.
- (3) The Department's current Intermountain Power Project (IPP) Station entitlement is 66.79% of the maximum net plant capability of 1,800 MWs. A portion of the IPP entitlement is subject to variable recall. The Department's Navajo Station entitlement is 21.20% of the maximum net plant capability of 2,250 MWs.
- (4) The Department's contracted renewable resources in service include units at several landfill sites in the Los Angeles area; biogas fuel purchases outside of California; local hydro unit; wind farms in Wyoming, Oregon, Utah, and Washington; customer solar photovoltaic installations locally; and customer distributed generation (DG) units located in Los Angeles also provide energy resources.

Liabilities and Net Position

Long-Term Debt

As of June 30, 2015, the Power System's total outstanding long-term debt balance was approximately \$8.798 billion. The increase of \$633 million over the prior year's balance resulted from the sale of \$1.398 billion in Power System revenue bonds plus \$221.6 million in issue premiums, offset by scheduled maturities of \$110.9 million, defeasance of \$807.5 million in Power System revenue bonds, and \$67.5 million in net amortized premiums and discounts.

As of June 30, 2014, the Power System's total outstanding long-term debt balance was approximately \$8.165 billion. The increase of \$390 million over the prior year's balance resulted from the sale of \$522 million in Power System revenue bonds plus \$44.4 million in issue premiums, offset by scheduled maturities of \$132.4 million and \$44.7 million in net amortized premiums and discounts.

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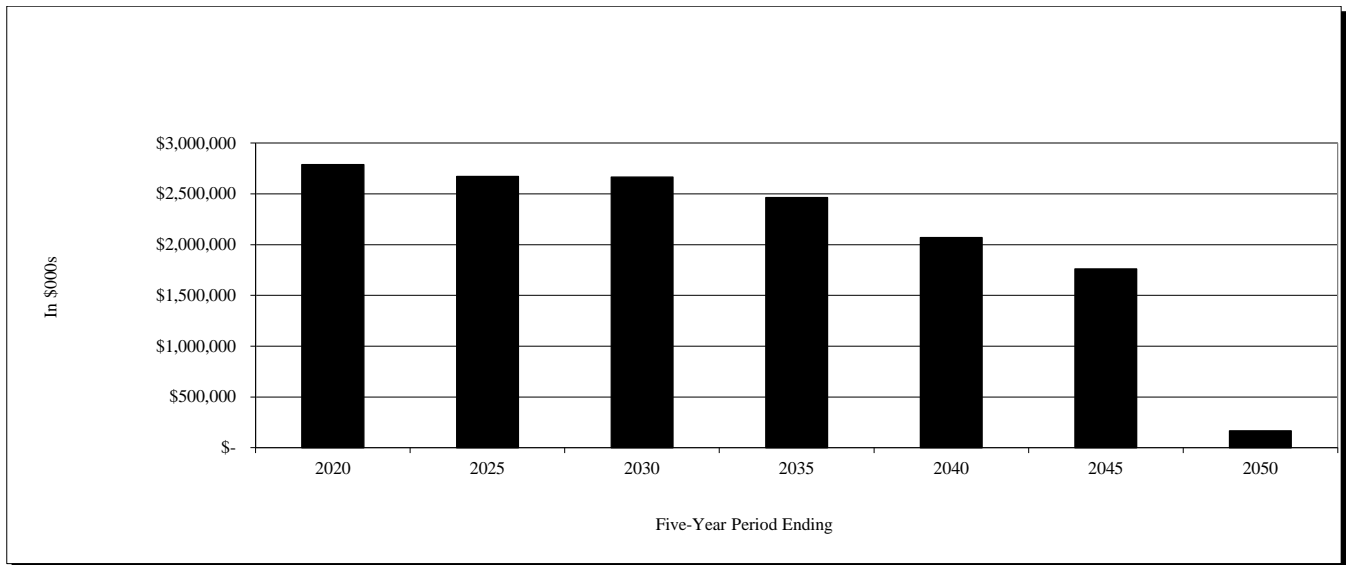
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Outstanding principal, plus scheduled interest as of June 30, 2015, is scheduled to mature as shown in the chart below:

Chart: Debt Service Requirements



In addition, the Power System had \$500.0 million and \$496.8 million on deposit in funds restricted for the use of debt reduction as of June 30, 2015 and 2014, respectively.

In August 2015, Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings affirmed the Power System's bond rating of AA-, Aa3, and AA-, respectively, due to the Power System's broad revenue stream and a competitive power supply portfolio that has historically provided competitive retail electricity rates and evident strategic focus on positioning the utility to improve system reliability while meeting state mandated greenhouse emission rules and renewable energy standards. Additional information regarding the Power System's long-term debt can be found in note 10 to the financial statements.

Current Assets

During fiscal year 2014, current assets increased \$182 million. Cash and cash equivalents, unrestricted, increased \$331 million due to reimbursements from the construction fund for capital expenditures; cash and cash equivalents, restricted, increased \$28 million due to higher semiannual debt service payments (\$18 million) and funds set aside to increase the balance of the self-insurance fund (\$10 million); and cash collateral received from securities lending increased \$9 million. The current portion of long-term notes receivable increased \$17 million and materials and services and prepayments increased by \$3 million, offset by a \$114 million decrease in the current portion of under recovered costs and a \$36 million decrease in a receivable, due from the City of Los Angeles' Department of Water and Power's Water Revenue Fund (Water System) for materials and services. Accrued unbilled revenue decreased \$4 million.

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During fiscal year 2014, current assets decreased \$304 million. Cash and cash equivalents increased \$178 million due to reimbursements from the construction fund for capital expenditures; the current portion of underrecovered costs increased \$87 million; a receivable, due from the City of Los Angeles' Department of Water and Power's Water Revenue Fund (Water System) for materials and services, increased \$16 million; and prepayments and other current assets increased by \$25 million, offset by a \$4 million decrease in customer and other accounts receivables and a \$4 million decrease in the current portion of long-term notes receivable.

Other Noncurrent Assets and Deferred Outflows

During fiscal year 2015, other noncurrent assets decreased \$417 million primarily due to a decrease of \$256 million in the regulatory asset for pension due to amortization, which is calculated as the difference between the Power System's contributions to the retirement plan and the pension expense for the year; \$108 million decrease in restricted cash and cash equivalents for construction purposes; \$83 million decrease in long-term notes receivable due to maturities; and a \$29 million decrease in underrecovered costs due to the allowable recovery of legacy unrecovered energy and power reliability costs. These decreases were offset by a \$57 million increase in certain regulatory assets due to greater customer participation in the Departments' Solar Incentive and Energy Efficiency programs and an increase of \$1 million in the postemployment asset due to higher funding than actuarially required contributions.

During fiscal year 2014, other noncurrent assets increased \$1.2 billion primarily due to the adoption of GASB No. 68, *Accounting and Financial Reporting for Pensions*. A regulatory asset for pension costs in the amount of \$1.45 billion was recorded. A decrease of \$254 million of restricted cash and cash equivalents for construction purposes, \$67 million decrease in long-term notes receivable due to maturities, and a \$29 million decrease in underrecovered costs were offset by a \$113 million increase in regulatory assets due to greater customer participation in the Departments' Solar Incentive and Energy Efficiency programs, an increase of \$16 million in the postemployment asset due to higher funding than actuarially required contributions, and a \$6 million increase in restricted investments.

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Changes in Net Position

Operating Revenues

The operating revenues of the Power System are generated from wholesale and retail customers. There are four major customer categories of retail revenue. These categories include residential, commercial, industrial, and other, which includes public street lighting. Table 5 summarizes the percentage contribution of retail revenues from each customer segment in fiscal years 2015 and 2014:

Table 5 – Revenue and Percentage of Revenue by Customer Class

(Amounts in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Type of customer:						
Residential	\$ 1,034,127	32%	\$ 1,042,641	32%	\$ 1,019,656	33%
Commercial	1,939,870	60	1,964,465	60	1,826,307	59
Industrial	261,254	8	268,413	8	235,330	8
Other	7,845	—	1,492	—	13,445	—
	\$ 3,243,096	100%	\$ 3,277,011	100%	\$ 3,094,738	100%

While commercial customers consume the most electricity, residential customers represent the largest customer class. As of June 30, 2015 and 2014, the Power System had approximately 1.5 million customers. As shown in Table 6, 1.4 million or 91% of total customers were in the residential customer class in fiscal years 2015 and 2014.

Table 6 – Number of Customers and Percentage of Customers by Customer Class

(Amounts in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Number	Percentage	Number	Percentage	Number	Percentage
Type of customer:						
Residential	1,363	91%	1,368	91%	1,338	91%
Commercial	113	8	117	8	121	8
Industrial	10	1	11	1	12	1
Other	7	—	7	—	8	—
	1,493	100%	1,503	100%	1,479	100%

Fiscal Year 2015

Retail revenues decreased \$34 million from fiscal year 2014. The decrease in retail revenue was mainly due to lower consumption during the year. Consumption of electricity decreased approximately 587 million kWhs year over year.

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Fiscal Year 2014

Retail revenues increased \$182 million from fiscal year 2013. The increase in retail revenue was mainly due to an average rate increase of 9%, which includes a 6% increase in the Incremental Energy Cost Adjustment Factor (IECAF) defined as such on page 25. The IECAF in June 2013 was \$0.05854 cents/kWh and increased to \$0.06200 cents/kWh in June 2014.

Operating Expenses

Fuel for generation and purchased power are two of the largest expenses that the Power System incurs each fiscal year. Fuel for generation expense includes the cost of fuel that is used to generate energy. The majority of fuel costs include the cost of natural gas, coal, and nuclear fuel.

Purchased power expense includes the cost of buying power on the open market and paying the current portion of the Power System's purchased power contracts. Under these purchase power contracts, the Department has an entitlement to the energy that is produced at various generating stations and an entitlement to the use of various transmission facilities. Most of these contracts require the Department to pay for these services regardless of whether the energy or transmission is used. These types of contracts are referred to as "take-or-pay" contracts.

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5% sinking-fund method based on estimated service lives. The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years.

The table below summarizes the Power System's operating expenses during fiscal years 2015 and 2014:

Table 7 – Operating Expenses and Percentage of Expense by Type of Expense

(Amounts in thousands)

	Fiscal year 2015		Fiscal year 2014		Fiscal year 2013	
	Expense	Percentage	Expense	Percentage	Expense	Percentage
Type of expense:						
Fuel for generation	\$ 377,343	13%	\$ 436,643	15%	\$ 446,450	17%
Purchased power	1,022,271	35	977,187	35	895,092	33
Other operating expenses	720,066	24	654,809	23	623,033	23
Maintenance	325,378	11	295,218	10	301,674	11
Depreciation and amortization	496,188	17	466,526	17	428,485	16
	<u>\$ 2,941,246</u>	<u>100%</u>	<u>\$ 2,830,383</u>	<u>100%</u>	<u>\$ 2,694,734</u>	<u>100%</u>

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Fiscal Year 2015

Fiscal year 2015 operating expenses were \$111 million higher as compared to fiscal year 2014, driven primarily by a \$45 million increase in purchased power costs, a \$65 million increase in other operating expenses, a \$30 million increase in maintenance expenses, and a \$30 million increase in depreciation and amortization expense, and offset by \$59 million decrease in fuel for generation costs.

The \$45 million increase in purchased power costs can be primarily attributed to a full year of energy from the Apex Power and Copper Mountain Solar 3 projects. The \$30 million increase in depreciation and amortization expense is primarily due to capital additions to distribution plant, as well as additional amortization expense from the regulatory assets. The \$65 million increase in other operating expenses is due to higher transmission (\$8 million) due to an increase in safety and training costs and other operating costs; customer accounting (\$17 million) due to an increase in staffing costs and costs associated with the customer billing system; administrative and general (\$23 million) due to an increase in insurance costs, injuries and damages, and miscellaneous general expenses; distribution (\$15 million) due to an increase in safety and training costs and other distribution costs; and marketing (\$4 million), offset by lower other production expense (\$6 million).

The \$30 million increase in maintenance expense was mainly due to higher maintenance costs associated with production plant (\$22 million), distribution plant (\$6 million), and transmission plant (\$3 million) capital assets.

Fiscal Year 2014

Fiscal year 2014 operating expenses were \$146 million higher as compared to fiscal year 2013, driven primarily by a \$82 million increase in purchased power costs, a \$48 million increase in depreciation and amortization expense, and a \$32 million increase in other operating expenses, offset by lower fuel for generation costs and maintenance expenses.

The \$82 million increase in purchased power costs can be primarily attributed to a higher volume of economy purchases year over year and energy from the Apex power project. The \$48 million increase in depreciation and amortization expense is primarily due to capital improvements in production plant, as well as additional amortization expense from the regulatory assets. The \$32 million increase in other operating expenses is due to higher other production (\$15 million), transmission (\$4 million), customer accounting (\$4 million), administrative and general (\$6 million), distribution (\$1 million), and marketing (\$1 million) expenses.

The decrease in maintenance expense was mainly due to lower maintenance costs associated with production plant (\$6 million) and transmission plant (\$5 million) capital assets offset by an increase in maintenance costs for production plant – hydraulic (\$2 million) and distribution plant (\$1 million) capital assets.

Nonoperating Revenues and Expenses

Fiscal Year 2015

The major nonoperating activities of the Power System for fiscal year 2015 included the transfer of \$266 million to the City's General Fund, interest income earned on investments of \$50 million, \$33 million in federal bond subsidies, and \$261 million in debt expenses.

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The transfer to the City is based on 8% of the previous year's operating revenues. Operating revenues for fiscal year 2014 were \$3.32 billion, which generated a city transfer of \$266 million.

The \$8 million decrease in investment income is due mainly to lower revenue earned on the long-term notes receivable and changes in market values of investments.

The \$21 million increase in interest on debt is mainly due to the interest expense for new money bonds issued during the fiscal year offset by higher capitalized interest Allowance For Use During Construction (AFUDC) of \$20 million year over year due to major Construction Work In Progress (CWIP) projects.

The \$22 million increase in capital contributions is mainly due to funds received from the federal government, the city of Los Angeles, and customers.

Fiscal Year 2014

The major nonoperating activities of the Power System for fiscal year 2014 included the transfer of \$253 million to the City's General Fund, interest income earned on investments of \$58 million, \$33 million in federal bond subsidies, and \$259 million in debt expenses.

The transfer to the City is based on 8% of the previous year's operating revenues. Operating revenues for fiscal year 2013 were \$3.162 billion, which generated a city transfer of \$253 million.

The \$12 million increase in investment income is due mainly to changes in market values of investments.

The \$16 million increase in debt expenses is mainly due to the interest expense for new money bonds issued during the fiscal year offset by lower capitalized interest (AFUDC) year over year due to the transfer of major CWIP projects to utility plant accounts.

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Statements of Net Position

June 30, 2015 and 2014
(Amounts in thousands)

	2015	Restated 2014
Assets and Deferred Outflows		
Noncurrent assets:		
Utility plant:		
Generation	\$ 5,495,985	5,313,866
Transmission	1,135,172	1,095,472
Distribution	7,416,426	7,031,862
General	1,649,586	1,541,640
Total	15,697,169	14,982,840
Accumulated depreciation	(7,760,357)	(7,298,042)
Total	7,936,812	7,684,798
Construction work in progress	1,720,822	1,235,945
Nuclear fuel, at amortized cost	39,469	42,931
Natural gas field, net	228,797	248,923
Total	9,925,900	9,212,597
Restricted investments	641,521	640,094
Cash and cash equivalents - restricted	85,272	193,701
Long-term notes and other receivables, net of current portion	620,125	703,576
Underrecovered costs	215,585	244,712
Regulatory assets – other	549,105	492,104
Regulatory assets – pension	938,205	1,193,971
Net postemployment asset	669,892	668,451
Total noncurrent assets	13,645,605	13,349,206
Current assets:		
Cash and cash equivalents – unrestricted	1,106,651	775,890
Cash and cash equivalents – restricted	441,682	414,072
Cash collateral received from securities lending transactions	10,680	1,419
Customer and other accounts receivable, net of \$114,000 and \$90,000 allowance for losses for 2015 and 2014, respectively	351,977	402,494
Current portion of long-term notes receivable	87,242	69,838
Current portion of underrecovered costs	—	114,290
Due from Water System	3,899	40,314
Accrued unbilled revenue	171,242	175,162
Materials and fuel	165,564	163,484
Prepayments and other current assets	107,263	106,850
Total current assets	2,446,200	2,263,813
Total assets	16,091,805	15,613,019
Deferred outflows on derivative instruments	43,244	48,517
Deferred outflows on debt refunding	30,199	26,796
Deferred outflows – pension	287,599	—
Deferred outflows – pension contributions made after measurement date	258,603	260,077
Total deferred outflows	619,645	335,390
Total assets and deferred outflows	\$ 16,711,450	15,948,409

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Statements of Net Position

June 30, 2015 and 2014
(Amounts in thousands)

	2015	Restated 2014
Net Position, Liabilities, and Deferred Inflows		
Net position:		
Net investment in capital assets	\$ 1,235,431	1,268,339
Restricted:		
Debt service	616,042	606,509
Capital projects	129,347	126,521
Other postemployment benefits	669,892	668,451
Other purposes	165,937	160,508
Unrestricted	2,599,126	2,548,846
Total net position	\$ 5,415,775	5,379,174
Long-term debt, net of current portion	8,568,281	7,937,180
Other noncurrent liabilities:		
Accrued liabilities	3,607	5,327
Accrued workers' compensation claims	54,508	56,650
Derivative instrument liabilities	43,244	48,517
Net pension liability	860,748	1,207,513
Total other noncurrent liabilities	962,107	1,318,007
Current liabilities:		
Current portion of long-term debt	230,165	227,575
Accounts payable and accrued expenses	339,997	394,150
Accrued interest	170,896	159,647
Accrued employee expenses	115,159	107,939
Overrecovered energy cost	31,343	—
Obligations under securities lending transactions	10,680	1,419
Total current liabilities	898,240	890,730
Total liabilities	10,428,628	10,145,917
Deferred inflows on debt refunding	7,495	—
Deferred inflow - pension	682,995	246,535
Deferred inflow from regulated business activities	176,557	176,783
Total deferred inflows	867,047	423,318
Total liabilities, and deferred inflows	\$ 11,295,675	10,569,235

See accompanying notes to financial statements

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014
(Amounts in thousands)

	2015	2014
Operating revenues:		
Residential	\$ 1,034,127	1,042,641
Commercial and industrial	2,201,124	2,232,878
Sales for resale	93,867	42,809
Other	32,696	59,383
Uncollectible accounts	(24,851)	(57,891)
Total operating revenues	3,336,963	3,319,820
Operating expenses:		
Fuel for generation	377,343	436,643
Purchased power	1,022,271	977,187
Maintenance and other operating expenses	1,045,444	950,027
Depreciation and amortization	496,188	466,526
Total operating expenses	2,941,246	2,830,383
Operating income	395,717	489,437
Nonoperating revenues:		
Investment income	50,348	58,099
Federal bond subsidies	33,328	33,417
Other nonoperating income	19,094	23,033
Total nonoperating income	102,770	114,549
Other nonoperating expenses	(2,604)	(2,513)
Total nonoperating revenues	100,166	112,036
Debt expenses:		
Interest on debt	298,794	277,848
Allowance for funds used during construction	(38,110)	(18,636)
Total debt expenses	260,684	259,212
Income before capital contributions and transfers	235,199	342,261
Capital contributions	66,988	45,239
Transfers to reserve fund of the City of Los Angeles	(265,586)	(253,000)
Increase in net position	36,601	134,500
Net position:		
Beginning of year, as previously reported	5,379,174	5,159,140
Effect of accounting for adoption of GASB Statement No.68	—	85,534
Beginning of year, as restated	5,379,174	5,244,674
End of year	\$ 5,415,775	5,379,174

See accompanying notes to financial statements

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Statements of Cash Flows

Years ended June 30, 2015 and 2014
(Amounts in thousands)

	2015	2014
Cash flows from operating activities:		
Cash receipts:		
Cash receipts from customers	\$ 3,658,234	3,353,723
Cash receipts from customers for other agency services	636,357	601,332
Cash receipts from interfund services provided	644,338	589,327
Cash disbursements:		
Cash payments to employees	(605,291)	(548,956)
Cash payments to suppliers	(1,721,316)	(1,668,524)
Cash payments for interfund services used	(773,758)	(733,801)
Cash payments to other agencies for fees collected	(639,346)	(603,596)
Other operating cash payments	(37,598)	(46,748)
Net cash provided by operating activities	1,161,620	942,757
Cash flows from noncapital financing activities:		
Payments to the reserve fund of the City of Los Angeles	(265,586)	(253,000)
Interest paid on noncapital revenue bonds	(167)	(233)
Net cash used in noncapital financing activities	(265,753)	(253,233)
Cash flows from capital and related financing activities:		
Additions to plant and equipment, net	(1,207,813)	(1,112,681)
Capital contributions	63,624	65,485
Principal payments and maturities on long-term debt	(110,943)	(132,382)
Proceeds from issuance of bonds and revenue certificates	793,661	566,419
Debt interest payments	(332,314)	(303,394)
Federal bond subsidies	33,328	33,417
Net cash used in capital and related financing activities	(760,457)	(883,136)
Cash flows from investing activities:		
Purchases of investment securities	(950,597)	(698,514)
Sales and maturities of investment securities	949,621	697,696
Proceeds from notes receivable	83,451	66,919
Investment income	32,057	51,096
Net cash provided by investing activities	114,532	117,197
Net increase (decrease) in cash and cash equivalents	249,942	(76,415)
Cash and cash equivalents:		
Cash and cash equivalents at July 1 (including \$607,773 and \$862,553 reported in restricted accounts, respectively)	1,383,663	1,460,078
Cash and cash equivalents at June 30 (including \$526,954 and \$607,773 reported in restricted accounts, respectively)	\$ 1,633,605	1,383,663

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Statements of Cash Flows

Years ended June 30, 2015 and 2014
(Amounts in thousands)

	2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 395,717	489,437
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	496,188	466,526
Depletion expense	20,035	23,564
Amortization of nuclear fuel	13,621	13,934
Provision for losses on customer and other accounts receivables	24,851	57,891
Changes in assets and liabilities:		
Customer and other accounts receivable	29,466	(76,621)
Accrued unbilled revenue	3,920	473
Underrecovered costs	29,127	29,127
Current portion underrecovered costs	114,290	(87,072)
Materials and fuel	(2,080)	(396)
Regulatory assets	198,765	4,784
Due from Water System	36,415	(16,254)
Deferred outflows	(280,852)	(9,172)
Accounts payable and accrued expenses	(51,378)	96,211
Overrecovered energy cost	31,343	—
Net pension liability	(346,765)	(355,499)
Deferred inflows	436,234	284,995
Net other postemployment benefit asset	(1,441)	(16,012)
Prepayments and other	14,164	36,841
Net cash provided by operating activities	\$ 1,161,620	942,757

Supplemental disclosure of noncash capital and relating financing activities:

During the year ended June 30, 2015, the Power System issued capital bonds to refund previously issued debt. The \$822.75 million of proceeds were deposited immediately into an irrevocable trust for the defeasance of \$807.49 million of debt. The net gain on refunding, after the write-off of previously recorded unamortized discounts, resulted in \$0.11 million, which will be amortized over the debt repayment period.

During fiscal year ended June 30, 2014, the Power System did not refund any capital bonds.

See accompanying notes to financial statements

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

The Department of Water and Power of the City of Los Angeles (the Department) exists as a separate proprietary department of the City of Los Angeles (the City) under and by virtue of the City Charter enacted in 1925 and as revised effective July 2000. The Department's Power Revenue Fund (the Power System) is responsible for the generation, transmission, and distribution of electric power for sale in the City. The Power System is operated as an enterprise fund of the City.

(a) Method of Accounting

The accounting records of the Power System are maintained in accordance with U.S. generally accepted accounting principles (GAAP) for governmental entities. The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The Power System is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

The financial statements of the Power System are intended to present the net position, and the changes in net position and cash flows, of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of the Power System. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with GAAP.

The Department's rates are determined by the Board of Water and Power Commissioners (the Board) and are subject to review and approval by the Los Angeles City Council (City Council). As a regulated enterprise, the Department follows the regulatory accounting criteria set forth in GASB Codification (GASB Statement No. 62), which requires that the effects of the rate-making process be recorded in the financial statements. Such effects primarily concern the time at which various items enter into the determination of changes in net position. Accordingly, the Power System records various regulatory assets and liabilities to reflect the Board's actions and with City Council approval. Regulatory liabilities are recorded as deferred inflows and regulatory assets are included as regulatory assets and unrecovered costs in the statement of net position. Management believes that the Power System meets the criteria for continued application, but will continue to evaluate its applicability based on changes in the regulatory and competitive environment (see notes 3 and 14(d)(i)).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Utility Plant

The costs of additions to utility plant and replacements of retired units of property are capitalized. Costs include labor, materials, an allowance for funds used during construction (AFUDC), and allocated indirect charges, such as engineering, supervision, transportation and construction

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Notes to Financial Statements

June 30, 2015 and 2014

equipment, retirement plan contributions, healthcare costs, and certain administrative and general expenses. The costs of maintenance, repairs, and minor replacements are charged to the appropriate operations and maintenance expense accounts.

(d) Intangibles

The Department follows GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB Statement No. 51), which requires that an intangible asset be recognized in the statement of net position only if it is considered identifiable. Additionally, it establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets are not capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria are expensed as incurred. The capitalized amounts are included in general utility plant on the statement of net position.

(e) Impairment of Long-Lived Assets

The Department follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB Statement No. 42). Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Under GASB Statement No. 42, impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the cause of the diminished service utility of the capital asset.

(f) Depreciation and Amortization

Depreciation expense is computed using the straight-line method based on service lives for all projects completed after July 1, 1973, and for all office and shop structures, related furniture and equipment, and transportation and construction equipment. Depreciation for facilities completed prior to July 1, 1973 is computed using the 5.0% sinking-fund method based on estimated service lives. The Department uses the composite method of depreciation and, therefore, groups assets into composite groups for purposes of calculating depreciation expense. Estimated service lives range from 5 to 75 years. Amortization expense for computer software is computed using the straight-line method over 5 to 15 years. Depreciation and amortization expense as a percentage of average depreciable utility plant in service was 3.1% and 3.2% for fiscal years 2015 and 2014, respectively.

(g) Nuclear Decommissioning

The Department owns a 5.70% direct ownership interest in the Palo Verde Nuclear Generating Station (PVNGS). In addition, through its participation in the Southern California Public Power Authority (SCPPA), the Department is party to a contract for an additional 3.95% of the output of PVNGS. Nuclear decommissioning costs associated with the Power System's output entitlement are included in purchased power expense (see note 6).

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Notes to Financial Statements

June 30, 2015 and 2014

Decommissioning of PVNGS is expected to commence subsequent to the year 2044, since the Nuclear Regulatory Commission (the NRC) approved a request for license extension in April 2011. As of April 28, 2014, all of the owners of PVNGS have executed the amendment to the participation agreement to extend the term of the agreement to cover the license extension of PVNGS. The total cost to decommission the Power System's direct ownership interest in PVNGS is estimated to be \$137 million in 2013 dollars. This estimate is based on an updated site-specific study prepared by an independent consultant in 2013. As of June 30, 2015 and 2014, the Power System has recorded \$148.9 million and \$146.1 million, respectively, to accumulated depreciation to provide for the decommissioning liability.

Prior to December 1999, the Power System reserved \$70.2 million in accordance with the PVNGS participation agreement and NRC requirements. During fiscal year 2000, the Department suspended contributing additional amounts to the reserve funds, as management believes that contributions made, combined with reinvested earnings, will be sufficient to fully fund the Department's share of decommissioning costs. The Department will continue to reinvest its investment income into the decommissioning reserves. The balance in the decommissioning funds increased in fiscal year 2015 by \$2.8 million, after increasing by \$3.9 million in fiscal year 2014. Decommissioning funds, which are included in restricted investments, totaled \$129.3 million and \$126.5 million as of June 30, 2015 and 2014 (at fair value), respectively. The Department's current accounting policy recognizes any realized and unrealized investment earnings from nuclear decommissioning reserves as a component of accumulated depreciation.

(h) Nuclear Fuel

Nuclear fuel is amortized and charged to fuel for generation on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. Under the provisions of the Nuclear Waste Policy Act of 1982, the federal government assesses each utility with nuclear operations, including the Power System, \$1 per megawatt hour of nuclear generation. The Power System includes this charge as a current year expense in fuel for generation. See note 14 for discussion of spent nuclear fuel disposal.

(i) Natural Gas Field

In July 2005, the Power System acquired approximately a 74.5% ownership interest in gas properties located in Pinedale, Wyoming. The Power System uses the successful-efforts method of accounting for its investment in gas-producing properties. Costs to acquire the mineral interest in gas-producing properties, to drill and equip exploratory wells that find proven reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proven reserves are expensed. Capitalized costs of gas-producing properties are depleted by the unit-of-production method based on the estimated future production of the proven wells.

Depletion expense related to the gas field is recorded as a component of fuel for generation expense. During fiscal years 2015 and 2014, the Power System recorded \$20.0 million and \$23.6 million of depletion expense, respectively.

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Notes to Financial Statements

June 30, 2015 and 2014

(j) Cash and Cash Equivalents

As provided for by the State of California Government Code (the Code), the Power System's cash is deposited with the City Treasurer in the City's general investment pool for the purpose of maximizing interest earnings through pooled investment activities. Cash and cash equivalents in the City's general investment pool are reported at fair value and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position. Interest earned on such pooled investments is allocated to the participating funds based on each fund's average daily cash balance during the allocation period. The City Treasurer invests available funds of the City and its independent operating departments on a combined basis. The Power System classifies all cash and cash equivalents that are restricted either by creditors, the Board, or by law as restricted cash and cash equivalents in the statement of net position. The Power System considers its portion of pooled investments in the City's pool to be cash and cash equivalents and the unspent construction funds as long-term restricted cash as cash equivalents.

At June 30, 2015 and 2014, restricted cash and cash equivalents include the following (amounts in thousands):

	June 30	
	2015	2014
Bond redemption and interest funds	\$ 287,880	270,273
Self-insurance fund	153,802	143,799
Cash and cash equivalents – current portion	441,682	414,072
Construction funds – classified as long-term restricted cash	85,272	193,701
Total restricted cash and cash equivalents	\$ 526,954	607,773

(k) Materials and Fuel

Materials and supplies are recorded at average cost. Fuel is recorded at lower of cost or market, on an average-cost basis.

(l) Accrued Unbilled Revenue

Accrued unbilled revenue is the receivable for estimated energy sales during the period for which service has been provided but the customer has not been billed.

(m) Restricted Investments

Restricted investments include primarily commercial paper, U.S. government and governmental agency securities, and corporate bonds. Investments are reported at fair value and changes in unrealized gains and losses are recorded in the statements of revenues, expenses, and changes in net position except for Nuclear Decommissioning Funds. The stated fair value of investments is generally based on published market prices or quotations from major investment dealers (see note 7).

**LOS ANGELES DEPARTMENT OF WATER AND POWER
POWER SYSTEM**

Notes to Financial Statements

June 30, 2015 and 2014

(n) Accrued Employee Expenses

Accrued employee expenses include accrued payroll and an estimated liability for vacation leave, sick leave, and compensatory time, which is accrued when employees earn the rights to the benefits. Below is a schedule of accrued employee expenses as of June 30, 2015 and 2014 (amounts in thousands):

	June 30	
	2015	2014
Type of expenses:		
Accrued payroll	\$ 36,398	30,957
Accrued vacation	50,348	49,583
Accrued sick leave	11,895	11,835
Compensatory time	16,518	15,564
Total	\$ 115,159	107,939

(o) Debt Expenses

Debt premiums and discounts are capitalized and amortized to interest expense using the effective-interest method over the lives of the related debt issues. Gains and losses on refundings related to bonds redeemed by proceeds from the issuance of new bonds are amortized to interest expense using the effective-interest method over the shorter of the life of the new bonds or the remaining term of the bonds refunded.

(p) Accrued Workers' Compensation Claims

Liabilities for unpaid workers' compensation claims are recorded at their net present value (see note 13).

(q) Customer Deposits

Customer deposits represent deposits collected from customers upon opening of new accounts. These deposits are obtained when the customer does not have a previously established credit history with the Department. Original deposits plus interest are paid to the customer once a satisfactory payment history is maintained, generally after one to three years.

The Department's Water Revenue Fund (Water System) is responsible for collection, maintenance, and refunding of these deposits for all the Department customers, including those of the Power System. As such, the Water System's statement of net position includes a deposit liability of \$137.9 million and \$113.3 million as of June 30, 2015 and 2014, respectively, for all customer deposits collected. In the event that the Water System defaults on refunds of such deposits, the Power System would be required to pay amounts it owes its customers.

(r) Revenues

The Power System's rates are established by a rate ordinance set by the Board of Water and Power Commissioners based on the Board's powers and duties established in Section 676 of the City Charter.

**LOS ANGELES DEPARTMENT OF WATER AND POWER
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Notes to Financial Statements

June 30, 2015 and 2014

The Power System recognizes energy costs in the period incurred and accrues for estimated energy sold but not yet billed.

Through a set of rate ordinances, the Power System bills its revenue through fixed and pass-through factors. As of November 11, 2012, pass-through factors consist of Capped Energy Cost Adjustment Factor (CECAF), Variable Energy Adjustment Factor (VEAF), Variable Renewable Portfolio Standard Energy Adjustment Factor (VRPSEAF), Capped Renewable Portfolio Standard Energy Adjustment Factor (CRPSEAF), Reliability Cost Adjustment Factor (RCAF), Incremental Reliability Cost Adjustment Factor (IRCAF), and Energy Subsidy Adjustment Factor (ESAF).

On October 1, 2006, the Energy Cost Adjustment Factor (ECAAF) and now known as the CECAF was unfrozen from its 2.94 cents/kWh charge. This change allows the Power System to increase or decrease the factor on a quarterly basis to adjust for fuel and purchased power expenses incurred in the production of energy. On November 10, 2012, CECAF has reached 5.69 cents/kWh and is once again frozen (or capped) by the City Council. To continue to recover fuel and purchased power expenses, the City Council enacted the VEAF, VRPSEAF, and CRPSEAF, which are aggregately known as the Incremental Energy Cost Adjustment Factors (IECAFs) to supplement the CECAF that is capped. The VEAF is used to recover nonrenewable energy expenses; the VRPSEAF is used to recover variable renewable energy expenses; and the CRPSEAF is used to recover fixed renewable energy expenses (i.e., debt service and Operating and Maintenance).

On May 1, 2008, the RCAF was established to recover expenses incurred on Power System reliability related work and was set at 0.1 cents/kWh for residential customers or 0.32 cents/kWh for commercial customers. The RCAF reached its maximum allowable limit of 0.3 cents/kWh for residential customers and 0.96 cents/kWh for commercial customers in fiscal year 2010–2011. To allow further recovery of reliability related expenses, the City Council established the IRCAF on November 11, 2012. Currently, the IRCAF is a fixed pass-through predetermined for fiscal years 2013–2014 and 2014–2015.

On November 11, 2012, a pass-through factor, Base Rate Revenue Target Adjustment Factor (BRRTAF) was established by the City Council to adjust base revenue collection (non-pass-through revenue) to reach its annual target. This action will decouple the risks to the Department on retail load sales, which are dependent on economic health or weather-driven events. Effectively, the Department is assured its revenue requirement to operate the Power System.

On April 1, 1998, the ESAF was frozen and continued to be frozen at 0.147 cents/kWh for residential customers and 0.46 cents/kWh for commercial customers.

As of June 30, 2015 and 2014, the amount of underrecovered costs, including the CECAF and the RCAF was \$215.6 million and \$244.7 million, respectively. The balances for the CECAF and the RCAF are recorded as noncurrent assets in the statement of net position. As of June 30, 2015, the amount of overrecovered costs, including the VEAF, VRPSEAF, CRPSEAF, and the BRRTAF was \$31.3 million. The balances for the VEAF, VRPSEAF, CRPSEAF, and the BRRTAF are recorded as current liabilities in the statement of net position.

**LOS ANGELES DEPARTMENT OF WATER AND POWER
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Notes to Financial Statements

June 30, 2015 and 2014

(s) ***Capital Contributions***

Capital contributions and other grants received by the Department for constructing utility plant and other activities are recognized when all applicable eligibility requirements, including time requirements, are met.

(t) ***Allowance for Funds Used during Construction (AFUDC)***

An AFUDC charge represents the cost of borrowed funds used for the construction of utility plant. Capitalized AFUDC is included as part of the cost of utility plant and as a reduction of interest expenses. As of June 30, 2015 and 2014, the average AFUDC rates were 3.8% and 4.0%, respectively.

(u) ***Use of Restricted and Unrestrictive Resources***

The Power System's policy is to use unrestricted resources prior to restricted resources to meet expenses to the extent that it is prudent from an operational perspective. Once it is not prudent, restricted resources will be utilized to meet intended obligations.

(v) ***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water and Power Employees' Retirement Fund (the Fund or Plan) and additions to/deductions from the Fund's fiduciary net position have been determined on the same basis as they are reported by Fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(2) Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension Plans - an amendment of GASB Statement No. 27* (GASB No. 68). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined-benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68* (GASB Statement No. 71). The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. The Power System adopted

**LOS ANGELES DEPARTMENT OF WATER AND POWER
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Notes to Financial Statements

June 30, 2015 and 2014

the provision of Statements Nos. 68 and 71, effective July 1, 2013, and accordingly, net position was restated as follows as of July 1, 2013 (amounts in thousands):

Net position, as previously reported	\$	5,159,140
Effect of change in accounting for pensions:		
Pension obligation		(1,563,012)
Deferred outflows		250,905
Amounts previously reported as net pension liability		85,534
Recognition of regulatory asset related to pensions		1,312,107
Net position, as restated	\$	<u><u>5,244,674</u></u>

(a) GASB Statement No. 70

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB Statement No. 70). This statement establishes standards for financial guarantees that are nonexchange transactions extended or received by state or local government. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specific conditions. The Power System implemented this statement in fiscal year 2014. This statement has no material impact on the Power System's financial statements.

(b) GASB Statement No. 72

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72). This statement addresses accounting and fair value reporting issues related to fair value measurements by clarifying the definition of fair value, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. This statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. This statement is effective for financial statements for years beginning after June 15, 2015. The Power System is currently evaluating the effects the adoption of this statement will have on the financial statements.

(c) GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for years beginning after June 15, 2017. The Power System is currently evaluating the effects the adoption of this statement will have on the financial statements

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(3) Regulatory Matters

(a) *Federal Energy Legislation of 2005*

On August 8, 2005, the Energy Policy Act of 2005 (EP Act) was enacted, the first comprehensive energy legislation in over a decade. One of the most significant provisions of the EP Act empowers the Federal Energy Regulatory Commission (FERC) to certify an Electric Reliability Organization (ERO) to improve the reliability of the nation's "bulk power system" through mandatory and enforceable electric reliability standards (in contrast to the long-standing voluntary system). The definition of "bulk power system" does not include facilities used in the local distribution of electric energy. The ERO is to file any proposed reliability standard or modification with FERC. "Reliability standards" are a set of criteria and requirements relating to the reliable operation of the bulk power system. Such a standard includes requirements for the operation of existing transmission facilities or the design of planned additions or modifications (to the extent necessary) to provide for reliable operation. It does not include, and the ERO may not impose, any requirement to enlarge existing or to construct new transmission or generation facilities. All users, owners, and operators of the bulk-power system are required to comply with the electric reliability standards. The ERO may impose a penalty on a user, owner, or operator for violating a reliability standard, and FERC may order compliance with such a standard and impose a penalty if it finds that a user, owner, or operator is about to engage in an act that would violate a reliability standard.

Based on the EP Act authority vested upon the FERC, the FERC approved the North American Electric Reliability Corporation (NERC) as the ERO. Currently, there are more than 100 mandatory NERC and Western Electricity Coordinating Council (WECC) reliability standards, all of which are subject to penalties ranging from \$1,000 to \$1,000,000, depending on the impact of the violation to reliability and other factors. The Department has implemented a NERC/WECC Reliability Standards Compliance Program to proactively prevent, monitor, and stop potential violations to these standards.

The Department currently believes it complies with the mandatory NERC/WECC Reliability Standards.

(b) *Cybersecurity*

Congress and the White House have been working to address the nation's cybersecurity concerns for a number of years. The last few years, the White House and the Senate Democrats have supported a comprehensive regulatory approach that defines critical infrastructure and regulates cybersecurity through the Department of Homeland Security. Senate Republicans have sought to address concerns through voluntary actions. Senate did not get the necessary support of 60 Senators to consider a comprehensive legislative approach twice in 2012.

On November 22, 2013, the FERC issued Order 791, approving Version 5 of Critical Infrastructure Protection (CIP) NERC Reliability Standards. CIP Version 5 classifies the Bulk Electric System (BES) Cyber Systems into Low, Medium, and High categories, unlike its Version 3 predecessor, which only required Critical Assets to comply with standards. The tiered classification and new "bright line" approach of Version 5 brings all BES facilities and most operational systems within its scope and ensures coverage under at least some requirements. Despite significant expansion of systems that are

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in scope for NERC CIP Version 5, there is still room for improvement. Before official enforcement date for Version 5 in 2016, NERC has already begun revisions of its standard development for CIP Version 6 and Version 7.

The Department currently believes it complies with current cybersecurity NERC Reliability Standards.

(c) ***Final Rule on Transmission Planning and Cost Allocation – FERC Order No. 1000 (RM10-23-000)***

On July 21, 2011, the FERC issued its order on transmission planning and cost allocation (Order 1000). On May 17, 2012, FERC issued Order 1000-A, stating that nonjurisdictional entities (such as the Department) must formally enroll in a transmission planning region before it can be assessed costs under the regional cost allocation methodology. FERC also stated that nonjurisdictional entities must have a right to withdraw and avoiding cost allocations from the region.

However, Order 1000 and 1000A contain language that would significantly broaden FERC’s authority to allocate transmission costs. FERC takes the unprecedented position that transmission costs may be allocated to entities in the absence of a contract or service relationship.

Most jurisdictional transmission providers filed their compliance filings to amend their tariffs to include a regional planning process in October 2012. FERC has recently issued orders with findings that many of the compliance filings in planning regions did not meet the requirements of Order 1000 with respect to cost allocation. The Department as a nonjurisdictional entity was not required to make a filing.

The Final Rule urges, but does not require, government-owned utilities such as the Department and cooperative utilities to participate in regional transmission planning and cost allocation. FERC indicates that if “nonjurisdictional” transmission owners do not comply with Order No. 1000, they may not meet reciprocity requirements and, thus, may have access to third-party transmission services limited.

Even though Order 1000 does not require nonpublic Transmission operators to enroll in a region, the Department decided to enroll in WestConnect as a Coordinated Transmission Owner (CTO) because it may benefit from the regional planning process that can identify transmission regional needs. A board package for the enrollment of WestConnect was put together and was presented in the November board meeting.

(d) ***Dodd-Frank Wall Street Reform and Consumer Protection Act***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed into law. Dodd-Frank was enacted to minimize systemic risk to the U.S. financial system, in part by establishing new rules related to swaps and other derivatives.

- First, Dodd-Frank generally requires that parties to swap transactions provide collateral for their swaps. This “margining” requirement means that a party to a swap must set aside cash or other collateral to secure its obligations under the swap.

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- Second, Dodd-Frank generally requires that swap transactions be conducted or “cleared” through financial intermediaries. This clearing requirement means that parties generally cannot enter into a swap that is customized to the needs of the parties, as is typically the case for public power and other electric utilities. Dodd-Frank did, however, provide exceptions to both the margining and clearing requirements for “end users” that are using swaps to hedge commercial risks.
- Third, Dodd-Frank is to impose reporting requirements on swap transactions, including additional reporting for end-user transactions.
- Finally, Dodd-Frank imposed additional limitations on swaps with “special entities,” including public power and other governmental entities, to ensure that these special entities are being properly advised and dealt with fairly in consummating swap transactions. These rules require that swap counterparty ensure that a special entity has an independent swap advisor and impose on the advisor a duty to act in the best interests of the special entity.

The Commodity Futures Trading Commission (CFTC) finalized a swap dealer definition exempting entities doing less than \$3 billion (\$8 billion during a transition period) in swaps from being regulated as a “swap dealer” and has further exempted transactions done between not-for-profit utilities from being considered swaps. The initial swap dealer definition also included a \$25 million subthreshold over a 12-month period for entities doing business with “special entities.”

Various organizations representing the “special entities” requested the CFTC to exclude government-owned utilities’ swap transactions related to utility operations from counting toward the \$25 million de minimis threshold and be subjected to the overall \$3 billion threshold. The CFTC considered the request for special entities and amended the rules to now be consistent with threshold definitions similar to investor-owned utilities.

There is a proposed legislation (H.R.1038: Public Power Risk Management Act of 2013) that provides that the CFTC, in making a determination to exempt swap dealing activities below a de minimis threshold, cannot treat a utility operations-related swap with a utility special entity any differently than a utility operations-related swap with an entity that is not a special entity.

The overall impact of these CFTC rulings on the Department cannot be predicted at this time.

(e) SB-350 Clean Energy and Reduction Act of 2015

On April 2011, SBX1-2 was signed into law by Governor Brown requiring that all retail sellers of electricity serve 33 percent of their load with renewable energy by 2020. In his 2015 State of the State Address, Governor Brown announced new energy goals that would extend state clean energy policy beyond 2020. Governor Brown proposed 50 percent of California’s electricity to come from renewable energy resources, to double the energy efficiency savings in electricity and natural gas by 2030, and to expand and promote transportation electrification. On October 7, 2015, the “Clean Energy and Pollution Reduction Act of 2015” (SB-350) was signed into law ensuring that California remain a global leader on climate change. SB-350 is intended to bring many important benefits to California, which included stimulating investment in green technologies in the state, creating tens of thousands of

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new jobs, improving local air quality, promoting energy independence, and reducing greenhouse gas emissions.

The Department expects to meet the new goals set by SB-350. Furthermore, the Department plans to develop various scenario to enable the Department to comply with Governor Brown's proposed 50 percent initiative.

(4) Utility Plant

The Power System had the following activities in utility plant during fiscal year 2015 (amounts in thousands):

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Nondepreciable utility plant:					
Land and land rights	\$ 197,104	—	(118)	—	196,986
Construction work in progress	1,235,945	622,065	—	(137,188)	1,720,822
Nuclear fuel	42,931	10,159	(13,621)	—	39,469
Natural gas field	248,923	—	(20,126)	—	228,797
Total nondepreciable utility plant	<u>1,724,903</u>	<u>632,224</u>	<u>(33,865)</u>	<u>(137,188)</u>	<u>2,186,074</u>
Depreciable utility plant:					
Generation	5,245,359	101,375	(1,270)	82,134	5,427,598
Transmission	1,015,364	28,153	(117)	11,663	1,055,063
Distribution	6,989,145	360,170	(254)	24,648	7,373,709
General	1,535,868	92,886	(3,683)	18,743	1,643,814
Total depreciable utility plant	<u>14,785,736</u>	<u>582,584</u>	<u>(5,324)</u>	<u>137,188</u>	<u>15,500,184</u>
Accumulated depreciation:					
Generation	(2,853,528)	(146,686)	1,270	—	(2,998,944)
Transmission	(443,992)	(28,600)	117	—	(472,475)
Distribution	(3,139,166)	(239,892)	254	—	(3,378,804)
General	(861,356)	(52,462)	3,683	—	(910,135)
Total accumulated depreciation	<u>(7,298,042)</u>	<u>(467,640)</u>	<u>5,324</u>	<u>—</u>	<u>(7,760,358)</u>
Total utility plant, net	<u>\$ 9,212,597</u>	<u>747,168</u>	<u>(33,865)</u>	<u>—</u>	<u>9,925,900</u>

Depreciation and amortization expense during fiscal year 2015 was \$496.2 million.

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The Power System had the following activities in utility plant during fiscal year 2014 (amounts in thousands):

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements and disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Nondepreciable utility plant:					
Land and land rights	\$ 197,405	44	(345)	—	197,104
Construction work in progress	884,378	622,824	—	(271,257)	1,235,945
Nuclear fuel	44,686	12,179	(13,934)	—	42,931
Natural gas field	272,158	330	(23,565)	—	248,923
Total nondepreciable utility plant	<u>1,398,627</u>	<u>635,377</u>	<u>(37,844)</u>	<u>(271,257)</u>	<u>1,724,903</u>
Depreciable utility plant:					
Generation	5,089,796	59,903	(3,401)	99,061	5,245,359
Transmission	1,009,771	13,829	(157)	(8,079)	1,015,364
Distribution	6,616,751	297,675	(219)	74,938	6,989,145
General	1,359,434	76,771	(5,674)	105,337	1,535,868
Total depreciable utility plant	<u>14,075,752</u>	<u>448,178</u>	<u>(9,451)</u>	<u>271,257</u>	<u>14,785,736</u>
Accumulated depreciation:					
Generation	(2,711,487)	(145,442)	3,401	—	(2,853,528)
Transmission	(416,441)	(27,708)	157	—	(443,992)
Distribution	(2,908,894)	(230,491)	219	—	(3,139,166)
General	(816,767)	(50,263)	5,674	—	(861,356)
Total accumulated depreciation	<u>(6,853,589)</u>	<u>(453,904)</u>	<u>9,451</u>	<u>—</u>	<u>(7,298,042)</u>
Total utility plant, net	<u>\$ 8,620,790</u>	<u>629,651</u>	<u>(37,844)</u>	<u>—</u>	<u>9,212,597</u>

Depreciation and amortization expense during fiscal year 2014 was \$466.5 million.

(5) Jointly Owned Utility Plant

The Power System has direct interests in several electric generating stations and transmission systems, which are jointly owned with other utilities. As of June 30, 2015 and 2014, utility plant includes the following

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amounts related to the Power System's ownership interest in each jointly owned utility plant (amounts in thousands, except as indicated):

	Ownership interest	Share of capacity (MWs)	Utility plant in service June 30, 2015		Utility plant in service June 30, 2014	
			Cost	Accumulated depreciation	Cost	Accumulated depreciation
Palo Verde Nuclear Generating Station	5.7%	224	\$ 592,420	383,107	581,271	367,042
Navajo Generating Station	21.2	477	352,163	322,561	349,781	320,216
Mohave Generating Station	10.0	—	65,564	57,852	65,550	57,852
Pacific Intertie DC Transmission Line	40.0	1,240	185,796	67,623	183,253	63,072
Other transmission systems	—	Various	101,520	60,619	96,144	57,571
			<u>\$ 1,297,463</u>	<u>891,762</u>	<u>1,275,999</u>	<u>865,753</u>

The Power System will incur certain minimal operating costs related to the jointly owned facilities regardless of the amount or its ability to take delivery of its share of energy generated. The Power System's proportionate share of the operating costs of the joint plants is included in the corresponding categories of operating expenses.

(6) Purchased Power Commitments

As of June 30, 2015, the Power System has entered into a number of energy and transmission service contracts, which involve substantial commitments as follows (dollar amounts in thousands):

	Agency	Agency share	The Power System's interest in agency's share		
			Interest	Capacity (MWs)	Outstanding commitment**
Intermountain Power Project	IPA	100.0%	70.6%	1,271	\$ 816,787
Palo Verde Nuclear Generating Station	SCPPA	5.9	67.0	151	24,207
Mead-Adelanto Project	SCPPA	68.0	35.7	313	38,836
Mead-Phoenix Project	SCPPA	17.8–22.4	24.8	148	8,227
Southern Transmission System	SCPPA	100.0	59.5	1,429	393,131
Milford I Wind	SCPPA	100.0	92.5	188	189,805
Windy Point	SCPPA	100.0	92.4	262*	412,820
Linden Wind Energy	SCPPA	100.0	90.0	50*	112,950
Milford II Wind	SCPPA	100.0	95.1	102*	135,893
Apex Power Project	SCPPA	100.0	100	531	318,860

*Power System will receive 100%, unless City of Glendale exercises its option to repurchase any of its contract output entitlement share.

**Portion of purchased power commitment based upon related agency's bond principal not including interest requirements.

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IPA – The Intermountain Power Agency (IPA) is an agency of the State of Utah established to own, acquire, construct, operate, maintain, and repair the Intermountain Power Project (IPP). The Power System serves as the project manager and operating agent of IPP.

SCPPA – The Southern California Public Power Authority is a California Joint Powers Agency that finances the construction or acquisition of generation, transmission, and renewable energy projects.

The above agreements require the Power System to make certain minimum payments, which are based primarily upon debt service requirements. In addition to average annual fixed charges of approximately \$302 million during each of the next five years, the Power System is required to pay for operating and maintenance costs related to actual deliveries of energy under these agreements (averaging approximately \$607 million annually during each of the next five years). The Power System made total payments under these agreements of approximately \$892 million and \$827 million in fiscal years 2015 and 2014, respectively. These agreements are scheduled to expire from 2027 to 2040.

The Power System earned fees under the IPP project manager and operating agent agreements totaling \$27.9 million and \$24.1 million in fiscal years 2015 and 2014, respectively.

(a) Long-Term Notes Receivable

Under the terms of its purchase power agreement with IPA, the Department is charged for its output entitlements based on its share of IPA's costs, including debt service. During fiscal year 2000, the Department restructured a portion of this obligation by transferring \$1.11 billion to IPA in exchange for long-term notes receivable. The funds transferred were obtained from the debt reduction funds and through the issuance of new variable rate debentures (see notes 7 and 10). IPA used the proceeds from these transactions to defease and to tender bonds with par values of approximately \$618 million and \$611 million, respectively.

On September 7, 2000, the Department paid \$187 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of \$198 million.

On July 20, 2005, the Department paid \$97 million to IPA in exchange for additional long-term notes receivable. IPA used the proceeds to defease bonds with a face value of \$92 million.

The IPA notes are subordinate to all of IPA's publicly held debt obligations. The Power System's future payments to IPA will be partially offset by interest payments and principal maturities from the subordinated notes receivable. The net IPA notes receivable balance totaled \$707 million and \$773 million as of June 30, 2015 and 2014, respectively.

The IPA notes pay interest and principal monthly and mature on July 1, 2023. The interest rates range from 4.1% to 5.9%, subject to adjustments related to IPA bond refundings.

(b) Energy Entitlement

The Department has a contract through 2017 with the U.S. Department of Energy for the purchase of available energy generated at the Hoover Power Plant. The Department's contractual share of contingent capacity at Hoover is 491 MW (maximum rated capability). The cost of power

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(approximately 455 MW of capacity and 599,000 MWH of energy) purchased under this contract, including the Lower Colorado River Basin Development Fund Contribution Charge, was approximately \$14.5 million and \$17.3 million as of June 30, 2015 and 2014, respectively.

On December 20, 2011, the President signed H.R. 470, the Hoover Power Allocation Act of 2011, into law. The legislation reallocates, for 50 more years, power from the Hoover Dam Power Plant to existing contractors while creating an additional pool of 5% power for new entrants.

The Department has a contract through 2026 with SCPPA for the purchase of available energy generated at the Pebble Springs Wind Project located in Gilliam County, Oregon. The Power System's share of capacity at Pebble Springs is approximately 69 MWs (maximum capacity). The cost of power purchased under this contract was \$12.4 million and \$18.5 million as of June 30, 2015 and 2014, respectively.

(c) *Electricity Swap and Forward Contracts*

In order to obtain the highest market value on energy that is sold into the wholesale market, the Department monitors the sales price of energy, which varies based on which hub the energy is to be delivered. There are three primary hubs within the Department's transmission region: Palo Verde, California Oregon Border, and Mead. The Department enters into various locational swap transactions with other electric utilities in order to effectively utilize its transmission capacity and to achieve the most economical exchange of energy purchased and sold.

The Department procures renewable energy resources located remotely. These resources provide intermittent and limited source of energy and these resources are not directly connected to the Department's transmission system. In order to receive firm renewable energy, the Department entered into a green-for-green energy exchange with the same or different Renewable Energy Credit source.

The Department enters into power and natural gas forward contracts in order to meet the electricity requirements to serve its customers. To assist the Department in achieving its Renewable Portfolio Standards (RPS) goal of 20%, some of the forward purchases made are renewable energy and biomethane gas.

The Department does not enter into swap and forward transactions for trading purposes. All of these transactions are intended to be used in the Department's normal course of operations. The Department is exposed to risk of nonperformance if the counterparties default or if the swap agreements are terminated.

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As of June 30, 2015, the Power System had the following Electricity Swap and Forward Contracts, which are not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

<u>Description</u>	<u>Notional amount (total contract quantities)</u>	<u>Contract price range dollar per unit</u>	<u>First effective date</u>	<u>Last termination date</u>	<u>Fair value</u>	<u>Cash received at inception</u>
Electricity swaps:						
Purchases	176,640 mWh	\$ 30.58–40.72	07/01/15	12/31/15	\$ (1,157)	—
Sales	176,640 mWh	33.58–43.72	07/01/15	12/31/15	1,819	—
Call Options						
Sales	92,400 mWh	\$Ht Rate x SoCal	07/01/15	09/30/15	\$ 408	\$ 190
Forward contracts:						
Electricity	776,560 mWh	\$ 31.00–80.00	07/01/15	10/31/16	\$ (26,313)	—
Natural gas	27,857,500 MMBtu	2.89–10.85	07/01/15	10/31/21	(114,073)	—

As of June 30, 2014, the Power System had the following Electricity Swap and Forward Contracts, which are not recorded in the Power System's financial statements based on the criteria in GASB Statement No. 53 (amounts in thousands):

<u>Description</u>	<u>Notional amount (total contract quantities)</u>	<u>Contract price range dollar per unit</u>	<u>First effective date</u>	<u>Last termination date</u>	<u>Fair value</u>	<u>Cash paid at inception</u>
Electricity swaps:						
Purchases	284,960 mWh	\$ 42.50–51.50	07/01/14	12/31/14	\$ (12,991)	—
Sales	284,960 mWh	45.00–55.00	07/01/14	12/31/14	13,874	—
Forward contracts:						
Electricity	676,157 mWh	\$ 38.35–65.00	07/01/14	06/30/15	\$ 1,731	—
Natural gas	35,973,600 MMBtu	4.33–10.85	07/01/14	10/31/21	(162,738)	—

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(7) Cash, Cash Equivalents, and Investments

(a) Restricted and Other Investments

A summary of the Power System's restricted and other investments is as follows (amounts in thousands):

	June 30	
	2015	2014
Restricted and other investments:		
Restricted investments:		
Debt Reduction Funds	\$ 500,017	496,841
Nuclear Decommissioning Funds	129,347	126,521
Natural Gas Fund	216	292
Hazardous Waste Treatment Fund	2,217	2,204
SCPPA Palo Verde investment	9,724	14,236
Total restricted investments	\$ 641,521	640,094

The Power System also has \$10.7 million and \$1.4 million of cash collateral received from securities lending transactions in the City's securities lending program as of June 30, 2015 and 2014, respectively (see notes 7(b) and 8).

All restricted and other investments are to be used for a specific purpose as follows:

i. Debt Reduction Funds

The debt reduction funds were established during fiscal year 1997 to provide for the payment of principal and interest on long-term debt obligations and purchased power obligations arising from the Department's participation in IPP and SCPPA (see note 6). The Department has transferred funds from purchased power precollections into these funds. Funds from operations may also be transferred by management as funds become available.

ii. Nuclear Decommissioning Funds

Nuclear decommissioning funds will be used to pay the Department's share of decommissioning PVNGS at the end of its useful life (see note 1).

iii. Natural Gas Fund

The natural gas fund was established to serve as a depository to pay for costs and to post margin or collateral in connection with contracts for the purchase and delivery of financial transactions for natural gas. These transactions are entered into to stabilize the natural gas portion of the Department's fuel for generation costs.

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iv. Hazardous Waste Treatment Storage and Disposal Fund

The hazardous waste treatment storage and disposal fund was established to provide financial assurance for closure of the Main Street treatment and disposal facility.

v. SCPPA Palo Verde Investment

The SCPPA Palo Verde investment is a fixed-rate investment held by SCPPA to be drawn down over the next two years to pay for purchased power obligations arising from the Department's participation in the SCPPA Palo Verde project. The fixed interest rate is 4.97% and the maturity date is June 25, 2017.

As of June 30, 2015, the Power System's restricted investments and their maturities are as follows (amounts in thousands):

Investment type	Fair value	Investment maturities				
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years	Over 5 years
U.S. government securities	\$ 5,005	—	—	5,005	—	—
U.S. agencies	289,155	4,447	—	120,320	123,706	40,682
Medium-term corporate notes	125,860	6,130	3,840	36,399	79,491	—
Commercial paper	77,726	32,749	24,996	19,981	—	—
Certificates of deposit	21,001	6,000	10,001	5,000	—	—
California local agency bonds	27,100	3,375	5,740	5,727	12,258	—
California state bonds	21,422	—	—	14,907	6,515	—
Other state bonds	47,519	5,000	4,552	12,253	25,714	—
Bankers' acceptances	300	—	300	—	—	—
Money market funds	16,709	16,709	—	—	—	—
SCPPA Palo Verde investment	9,724	—	—	—	9,724	—
	<u>\$ 641,521</u>	<u>74,410</u>	<u>49,429</u>	<u>219,592</u>	<u>257,408</u>	<u>40,682</u>

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As of June 30, 2014, the Power System's restricted investments and their maturities are as follows (amounts in thousands):

Investment type	Fair value	Investment maturities				
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years	Over 5 years
U.S. government securities	\$ 5,001	—	—	—	5,001	—
U.S. agencies	322,519	—	—	55,966	209,977	56,576
Medium-term corporate notes	113,687	262	—	31,990	81,435	—
Commercial paper	54,748	49,749	4,999	—	—	—
Certificates of deposit	11,001	1,000	—	10,001	—	—
California local agency bonds	28,901	—	8,189	3,635	17,077	—
California state bonds	17,636	—	—	3,478	14,158	—
Other state bonds	55,487	—	596	6,004	48,887	—
Bankers' acceptances	260	—	260	—	—	—
Money market funds	16,618	16,618	—	—	—	—
SCPPA Palo Verde investment	14,236	—	—	—	14,236	—
	<u>\$ 640,094</u>	<u>67,629</u>	<u>14,044</u>	<u>111,074</u>	<u>390,771</u>	<u>56,576</u>

Interest Rate Risk: The Department's investment policy limits the maturity of its investments to a maximum of 30 years for U.S. government and U.S. government agency securities; 5 years for medium-term corporate notes, California local agency obligations, California state obligations, and other state obligations; 270 days for commercial paper; 397 days for certificates of deposit; and 180 days for bankers' acceptances.

Credit Risk: Under its investment policy and the Code, the Department is subject to the prudent investor standard of care in managing all aspects of its portfolios. The prudent investor standard requires that the Department "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and in familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The U.S. government agency securities in the portfolio consist of securities issued by government-sponsored enterprises, which are not explicitly guaranteed by the U.S. government. Of the U.S. government agency securities in the portfolio as of June 30, 2015, \$281,809,203 (97%) was rated with either the highest or second highest possible credit ratings by the Nationally Recognized Statistical Rating Organizations (NRSROs) that rated them and \$7,345,461 (3%) was not rated. Of the U.S. government agency securities in the portfolio as of June 30, 2014, \$315,164,889 (98%) was rated with either the highest or second highest possible credit ratings by the NRSROs that rated them and \$7,353,673 (2%) was not rated.

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The Department's investment policy specifies that medium-term corporate notes must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power System's investments in corporate notes as of June 30, 2015, \$5,088,865 (4%) was rated in the category of AAA, \$63,151,049 (50%) was rated in the category of AA, and \$57,491,795 (46%) was rated in the category of A by at least one NRSRO. The remaining \$128,455 (less than 1%) of investments in corporate notes was not rated. Of the Power System's investments in corporate notes as of June 30, 2014, \$3,014,835 (3%) was rated in the category of AAA, \$63,948,291 (56%) was rated in the category of AA, and \$46,462,252 (41%) was rated in the category of A by at least one NRSRO. The remaining \$261,455 (less than 1%) of investments in corporate notes was not rated.

The Department's investment policy specifies that commercial paper must be of the highest ranking or of the highest letter and number rating as provided for by at least two NRSROs. As of June 30, 2015 and 2014, all of the Power System's investments in commercial paper were rated with at least the highest letter and number rating as provided by at least two NRSROs.

The Department's investment policy provides that negotiable certificates of deposit must be of the highest ranking or letter and number rating as provided for by at least two NRSROs and that for nonnegotiable certificates of deposit, the full amount of principal and interest is insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration. As of June 30, 2015, the Power System's investments in certificates of deposits included \$20,001,170 of negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs and \$1,000,000 of nonnegotiable certificates of deposit fully insured by the FDIC. As of June 30, 2014, the Power System's investments in certificates of deposits included \$10,000,550 of negotiable certificates of deposit with at least the highest letter and number rating as provided by at least two NRSROs and \$1,000,000 of nonnegotiable certificates of deposit fully insured by the FDIC.

The Department's investment policy specifies that California local agency obligations, which include municipal commercial paper, must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power System's investments in California local agency bonds as of June 30, 2015, \$1,375,000 (5%) was rated in the category of AAA; \$23,681,297 (87%) was rated in the category of AA; \$2,043,950 (8%) was rated in the category of A. Of the Power System's investments in California local agency bonds as of June 30, 2014, \$25,842,130 (89%) was rated in the category of AA; \$2,060,050 (7%) was rated in the category of A; and \$999,260 (4%) was rated with the highest short-term letter and number rating as provided by at least one NRSRO.

The Department's investment policy specifies that State of California obligations must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power System's investments in State of California obligations as of June 30, 2015, \$3,643,316 (17%) was rated in the category of AAA and \$17,779,027 (83%) was rated in the category of AA by at least one NRSRO. Of the Power System's investments in State of California obligations as of June 30, 2014, \$3,643,456 (21%) was rated in the category of AAA and \$13,992,573 (79%) was rated in the category of AA by at least one NRSRO.

The Department's investment policy specifies that obligations of other states in addition to California must be rated in a rating category of "A" or its equivalent or better by a NRSRO. Of the Power

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System's investments in other state obligations as of June 30, 2015, \$17,845,705 (38%) was rated in the category of AAA, \$29,181,265 (61%) was rated in the category of AA, and \$492,617 (1%) was rated in the category of A by at least one NRSRO. Of the Power System's investments in other state obligations as of June 30, 2014, \$21,963,990 (39%) was rated in the category of AAA, \$32,522,446 (59%) was rated in the category of AA, and \$1,000,520 (2%) was rated in the category of A by at least one NRSRO.

The Department's investment policy specifies that banker's acceptances must be of the highest ranking or letter and number rating as provided for by at least two NRSROs. As of June 30, 2015 and 2014, all of the Power System's investments in banker's acceptances were rated with at least the highest letter and number rating as provided by three NRSROs.

The Department's investment policy specifies that money market funds may be purchased as allowed under the Code, which requires that the fund must have either (1) attained the highest ranking or highest letter and numerical rating provided by not less than two NRSROs or (2) retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience in managing money market mutual funds with assets under management in excess of \$500 million. As of June 30, 2015 and 2014, each of the money market funds in the portfolio had the highest possible ratings by at least two NRSROs.

Concentration of Credit Risk: The Department's investment policy specifies that there is no percentage limitation on the amount that can be invested in U.S. government agency securities, except that a maximum of 30% of the cost value of the portfolio may be invested in the securities of any single U.S. government agency issuer.

Of the Power System's total investments as of June 30, 2015, \$124,165,202 (19%) was invested in securities issued by the Federal Home Loan Bank, \$73,806,433 (12%) was invested in securities issued by the Federal Home Loan Mortgage Corporation, and \$67,743,647 (11%) was invested in securities issued by the Federal National Mortgage Association.

Of the Power System's total investments as of June 30, 2014, \$105,810,853 (17%) was invested in securities issued by the Federal Home Loan Mortgage Corporation, \$98,248,817 (15%) was invested in securities issued by the Federal Home Loan Bank, and \$97,438,516 (15%) was invested in securities issued by the Federal National Mortgage Association.

(b) Pooled Investments

The Power System's cash, cash equivalents, and its collateral value of the City's securities lending program (SLP) are included within the City Treasury's general and special investment pool (the Pool). As of June 30, 2015 and 2014, the Power System's share of the City's general and special investment pool was \$1,644,285,000 and \$1,385,082,000, which represents approximately 17.9% and 15.9% of the Pool, respectively.

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Special pool participants include

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the City, Airports, DWP, Harbor, Sewer, and MICLEA. Interest earned on pooled investments is allocated to and recorded in certain participating funds, as authorized by the Council and permitted by the City Charter and the California Government Code, based on each fund's average daily deposit balance. Unless allocation provisions are specifically stipulated in City ordinance, Council action, or funding source, interest earned on certain funds are allocated to and recorded in the General Fund. Investments in the City Treasury are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost.

Pursuant to California Government Code Section 53607 (State Code) and the Council File No. 94-2160, the City Treasury shall render to the Council a statement of investment policy (the Policy) annually. Council File No. 11-1740 was adopted on February 12, 2014, as the City's investment policy. This Policy shall remain in effect until the Council and the Mayor approve a subsequent revision. The Policy governs the City's pooled investment practices. The Policy addresses soundness of financial institutions in which the City Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53638, 16340 and 16429.1. The City Treasury further reports that the current policy allows for the purchase of investments with maturities up to thirty (30) years.

At June 30, 2015, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Type of Investments	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days to 5 Years	Over 5 Years
U.S. Treasury Notes	\$ 4,713,956	—	—	—	4,682,761	31,195
U.S. Agencies Securities	1,334,694	171,585	75,705	345,657	724,212	17,535
Medium Term Notes	1,645,006	40,001	—	202,001	1,403,004	—
Commercial Paper	1,302,850	939,479	261,856	101,515	—	—
Municipal Bonds	42,496	—	—	—	42,496	—
Supranational Coupons	73,074	7,844	—	—	65,230	—
Short Term Investment Funds	1,678	1,678	—	—	—	—
Securities Lending Short-Term Repurchase Agreement	59,190	59,190	—	—	—	—
Total General and Special Pools	\$ 9,172,944	1,219,777	337,561	649,173	6,917,703	48,730

Interest Rate Risk. The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium term notes, CD placement service, negotiable certificates of deposit, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California

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Obligations, California Local Agency Obligations, and U.S. Agencies (U.S. government sponsored enterprises) securities. The City's \$1.3 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$316.2 million, Federal National Mortgage Association (Fannie Mae) - \$582.5 million, Federal Home Loan Mortgage Corporation (Freddie Mac) - \$317.6 million, Federal Farm Credit Bank - \$42.1 million, Federal Agriculture Mortgage Corporation - \$56.1 million and Tennessee Valley Authority - \$20.2 million. Of the City's \$1.3 billion investments in U.S. Agencies securities, \$799.5 million were rated "AA+" by S&P and "Aaa" by Moody's; \$535.2 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's).

Medium term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term notes must have at least an "A" rating at the time of purchase. The City's \$1.6 billion investments in medium term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, one issuer of \$25.1 million medium term notes were downgraded to "BBB+" by S&P and "Baa1" by Moody's, one issuer of \$8.1 million medium term notes was downgraded to "BBB+" by S&P and "Baa2" by Moody's, one issuer of \$8.1 million medium term notes was downgraded to "A-" by S&P and "Baa1" by Moody's, one issuer of \$5.0 million medium term notes was downgraded to "A-1" by S&P and "Baa2" by Moody's and one issuer of \$7.0 million medium term notes was downgraded to "BBB+" by S&P and "A3" by Moody's. Of the City's \$1.6 billion investments in medium term notes, one issuer of \$25.0 million was not rated by S&P but rated "A3" by Moody's.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. The City's \$1.3 billion investments in commercial paper were rated "A-1+/A-1" by S&P and "P-1/P-2" by Moody's.

Municipal bonds have no minimum rating requirement. The City's \$42.5 million investments in municipal bonds were rated "AA/A+" by S&P and "Aa2/Aa3" by Moody's.

Investments in supranational coupons must have a minimum of "AA" rating. This investment was not included in the Policy effective February, 2014, but were authorized for purchase by state municipalities upon revisions made to California Code Section 53601 effective January, 2015. The City's investments in supranational coupons of \$65.2 million were rated "AAA" by S&P and "Aaa" by Moody's. Investments of \$7.8 million were rated "A1+" by S&P and "P1" by Moody's. These short-term securities are backed by the full faith of the issuing entity which is rated AAA/Aaa.

Concentration of Credit Risk. The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. Treasury and government agencies. The City's pooled investments comply with these requirements.

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GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2015, \$582.5 million (6%) was invested in securities issued by Federal National Mortgage Association.

The following table identifies the investment types that are authorized by the Policy as of June 30, 2015:

Authorized Investment Type	Maximum Maturity A	Specified Percentage of Portfolio B	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years*	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years*	None	None
Bankers' Acceptances	180 days	40% *C	None
Commercial Paper - Selected Agencies *D	270 days	25% of the agency's money E	"A-1A if long-term "A" without regard to modifiers. F
Commercial Paper - Others Agencies *G	270 days	40% of the agency's money H	"A-1A if long-term "A" without regard to modifiers. F
Negotiable Certificates of Deposits	5 years	30% I	None
CD Placement Service	5 years	30% I	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending	92 days J	20%	None K
Medium-Term Notes *L	5 years	30%	"A" Rating"
Mutual Funds and Money Market Mutual Funds	N/A	20% M	Multiple O, P
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating Q
Bank/Time Deposits	5 years	None	None
County Pooled Investments Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple R
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund S	N/A	None	None

* Represents where the City's investment policy is more restrictive than the California Government Code. The Sources used are Sections 16340, 16429.1, 53601, 53601.8, 53635, 53635.2 and 53638. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.

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Other restrictions on investments are summarized as follows:

- A. Section 53601 provides that the maximum term or any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceeds this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- B. Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.
- C. No more than 30 percent of the agency's money may be in bankers' acceptances of anyone commercial bank.
- D. "Select Agencies" are defined as a "city, a district' or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- E. No more than 10 percent of agency's money may be invested in any one issuer's commercial paper.
- F. Issuing corporation must be organized and operating within the U.S. and have assets in excess of \$500,000,000.
- G. "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies." above.
- H. No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
- I. No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8 and 5360 I (i) combined.
- J. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- K. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The local agency must have held the securities used for the agreements for at least 30 days.
- L. "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations

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organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S.”

- M. No more than 10 percent invested in anyone mutual fund.
- N. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years’ experience investing in instruments authorized by Sections 53601 and 53635.
- O. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years’ experience investing in money market instruments with assets under management in excess of \$500 million.
- P. Issuer must have an “A” rating or better for the issuer’s debt as provided by a nationally recognized rating agency.
- Q. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years’ experience investing in instruments authorized by Section 53601, subdivisions (a) to (0).
- R. Local entities can deposit between \$200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account (PMIA).

At June 30, 2014, the investments held in the City Treasury’s General and Special Investment Pool Programs and their maturities are as follows (in thousands):

Investment type	Amount	Investment Maturities				
		1 to 30 Days	31 to 60 Days	61 to 365 Days	366 Days To 5 Years	Over 5 Years
U.S. Treasury bills	\$ 248,766	248,746	—	20	—	—
U.S. Treasury notes	4,121,579	—	—	—	4,085,830	35,749
U.S. Sponsored Agency Issues	1,915,548	606,056	213,475	352,807	730,202	13,008
Medium-term notes	1,443,640	—	—	191,976	1,231,654	20,010
Commercial paper	904,407	867,252	26,998	10,157	—	—
Municipal bonds	30,207	—	—	—	30,207	—
Certificates of deposit	7,000	—	—	7,000	—	—
Short-term investment funds	5,609	5,609	—	—	—	—
Securities lending short-term collateral investment pool	11,425	11,425	—	—	—	—
Total general and special pool \$	<u>8,688,181</u>	<u>1,739,088</u>	<u>240,473</u>	<u>561,960</u>	<u>6,077,893</u>	<u>68,767</u>

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Interest Rate Risk: The Policy limits the maturity of its investments to five years for the U.S. Treasury and government agency securities, medium-term notes, CD placement service, negotiable certificate of deposits, collateralized bank deposits, mortgage pass-through securities, and bank/time deposits; one year for repurchase agreements; 270 days for commercial paper; 180 days for bankers' acceptances; and 92 days for reverse repurchase agreements. The Policy also allows City funds with longer-term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk: The Policy establishes minimum credit ratings requirement for investments. There is no credit quality requirement for local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies (U.S. government sponsored enterprises) securities. The City's \$1.9 billion investments in U.S. government sponsored enterprises consist of securities issued by the Federal Home Loan Bank – \$896.7 million, Federal National Mortgage Association – \$675.8 million, Federal Home Loan Mortgage Corporation – \$279.7 million, Federal Farm Credit Bank – \$17.3 million, and Tennessee Valley Authority – \$46.2 million. Of the City's \$1.9 billion investments in U.S. Sponsored Agencies securities, \$798.3 million were rated "AA+" by S&P and "Aaa" by Moody's; \$1,117.3 million were not rated individually by S&P nor Moody's (issuers of these securities are rated "AA+/A-1+" by S&P and "Aaa/P-1" by Moody's).

Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes must have at least an "A" rating. The City's \$1.4 billion investments in medium-term notes consist of securities issued by banks and corporations that comply with these requirements and were rated "A" or better by S&P and "A3" or better by Moody's. Subsequent to purchase, two issuers of \$38.7 million medium-term notes were downgraded to "A-1" by S&P and "Baa1" by Moody's and one issuer of \$7.0 million medium-term notes was downgraded to "BBB+" by S&P and "A3" by Moody's.

Commercial paper issues must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporation must be organized and operating within the United States and have assets in excess of \$500.0 million. The City's \$904.4 million investments in commercial paper were rated "A-1+/A-1" by S&P and "P-1" by Moody's.

Municipal bonds have no minimum rating requirement. The City's \$30.2 million investments in municipal bonds were rated "AA/A" by S&P and "Aa2/Aa3" by Moody's.

The issuers of the certificates of deposit were not rated.

Concentration of Credit Risk: The Policy does not allow more than 40% of its investment portfolio be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium-term notes, 20% in mutual funds, money market mutual funds and mortgage pass-through securities. The Policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in

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the U.S. government agencies. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2014, \$896.7 million (10%) was invested in securities issued by Federal Home Loan Bank, and \$675.8 million (8%) was invested in securities issued by Federal National Mortgage Association.

(8) Securities Lending Transactions

The Power System participates in an SLP. As of June 30, 2015 and 2014, amounts held in the City of Los Angeles Program are as follows (collateral amounts in thousands):

Program	June 30	
	2015	2014
City of Los Angeles Program	\$ 10,680	1,419

General Investment Pool Program

The Power System participates in the City's SLP through the pooled investment fund. The Department recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. Securities lending is permitted and limited under provisions of California Government Code Section 53601. The Council approved the Securities Lending Program (the SLP) on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) is available for lending. The City loans out U.S. Treasury and U.S. agencies securities, i.e. Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Agricultural Mortgage Corporation (Farmer Mac), Federal Farm Credit Bank and Tennessee Valley Authority. The City receives cash as collateral on the loaned securities, which is reinvested in securities permitted under the Policy. In addition, the City receives securities as collateral on loaned securities, which the City has no ability to pledge or sell without borrower default. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand,

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term loans have a maximum life of 60 days. Earnings from securities lending accrue to the Pool and are allocated on a pro-rata basis to all Pool participants.

During the fiscal year 2015, collateralizations on all loaned securities were compliant with the required 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the fiscal year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(9) Derivative Instruments

In June 2008, GASB issued GASB Statement No. 53. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and its significant terms and risks. The Power System implemented GASB Statement No. 53 in the 2010 fiscal year.

In accordance with GASB Statement No. 53, the Power System records the fair value of its hedging derivative instruments, financial natural gas hedges, on the statement of net position. As of June 30, 2015 and 2014, the fair values of the financial natural gas hedges were approximately \$43.2 million and approximately \$48.3 million, respectively.

(a) Financial Natural Gas Hedges

The Department enters into natural gas hedging contracts in order to stabilize the cost of gas needed to produce electricity to serve its customers. It is designed to cap gas prices over a portion of the forecasted gas requirements.

The Department does not speculate when entering into financial transactions. Financial hedges are variable to fixed-rate swaps and are layered by volumetric averaging. The Department is exposed to financial settlement risk if the counterparties default and/or the agreements are terminated. The Department did not receive any payments at the inception of any swap transaction.

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As of June 30, 2015, the Power System's financial natural gas hedges by fiscal year are the following (fair value in thousands):

<u>Derivative description</u>	<u>Notional amount (Total contract quantities*)</u>	<u>Contract price range dollar per unit</u>	<u>First effective date</u>	<u>Last termination date</u>	<u>Fair value</u>
Financial natural gas:					
FY 2015–16	4,488,000	\$ 6.42–9.85	07/01/15	06/30/16	\$ (21,020)
FY 2016–17	3,197,500	6.61–9.83	07/01/16	06/30/17	(14,210)
FY 2017–18	<u>2,190,000</u>	6.76–7.14	07/01/17	06/30/18	<u>(8,014)</u>
Total	<u>9,875,500</u>	\$ 6.37–9.85	07/01/13	06/30/18	<u>\$ (43,244)</u>

* Contract quantities in MMBtu – Million British Thermal Units

As of June 30, 2014, the Power System's financial natural gas hedges by fiscal year are the following (amounts in thousands):

<u>Derivative description</u>	<u>Notional amount (Total contract quantities*)</u>	<u>Contract price range dollar per unit</u>	<u>First effective date</u>	<u>Last termination date</u>	<u>Fair value</u>
Financial natural gas:					
FY 2014–15	5,384,500	\$ 6.37–9.38	07/01/14	06/30/15	\$ (16,366)
FY 2015–16	4,488,000	6.42–9.85	07/01/15	06/30/16	(15,647)
FY 2016–17	3,197,500	6.61–9.83	07/01/16	06/30/17	(10,831)
FY 2017–18	<u>2,190,000</u>	6.76–7.14	07/01/17	06/30/18	<u>(5,673)</u>
Total	<u>15,260,000</u>	\$ 6.37–9.85	07/01/13	06/30/18	<u>\$ (48,517)</u>

* Contract quantities in MMBtu – Million British Thermal Units

The fair value of the natural gas hedges decreased by \$5.08 million during the year ended June 30, 2015 and is reported as a liability and is offset by a deferred outflow on the statement of net position. All fair values were estimated using forward market prices available from broker quotes and exchanges.

(b) Credit Risk

The Power System is exposed to credit risk related to nonperformance by its wholesale counterparties under the terms of contractual agreements. In order to limit the risk of counterparty default, the Department has implemented a Wholesale Marketing Counterparty Evaluation Policy, which was amended and renamed as Counterparty Evaluation Credit Policy (the Counterparty Policy), and was

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approved by the Board on May 6, 2008. Under the new policy, the scope has been expanded beyond physical power to include transmission, physical natural gas, and financial natural gas. Also, the credit limit structure has been categorized into short-term and long-term structures where the short-term structure is applicable to transactions with terms of up to 18 months and the long-term structure to cover transactions beyond 18 months.

The Policy includes provisions to limit risk including the assignment of internal credit ratings to all Department's counterparties based on counterparty and/or debt ratings; the use of expected default frequency equivalent credit rating for short-term transactions; the requirement for credit enhancements (including advance payments, irrevocable letters of credit, escrow trust accounts, and parent company guarantees) for counterparties that do not meet an acceptable level of risk; and the use of standardized agreements, which allow for the netting of positive and negative exposures associated with a single counterparty.

As of June 30, 2015, the 10 financial natural gas hedge counterparties were rated by Moody's as follows: two at Aa3, one at Aa2, two at A3, two at A2, two at A1, and one WR. The counterparties were rated by S&P as follows: two at AA-, one at A+, four at A, and three at A-. As of June 30, 2014, the 10 financial natural gas hedge counterparties were rated by Moody's as follows: three at Aa3, four at A2, one at Baa1, one at Baa2, and one WR. The counterparties were rated by S&P as follows: two at AA-, one at A+, five at A, and two at A-.

Based on the International Swap Dealers Association agreements, the Department or the counterparty may be required to post collateral to support the financial natural gas hedges subject to credit risk in the form of cash, negotiable debt instruments (other than interest-only and principal-only securities), or eligible letters of credit. Collateral posted is held by a custodian. As of June 30, 2015 and 2014, the fair values of the financial natural gas hedges are within the credit limits and collateral posting was not required.

(c) Basis Risk

The Department is exposed to basis risk between the financial natural gas hedges, which are settled monthly at NW Rocky Mountains Index, and the hedged gas deliveries, which are daily spot purchases at Kern River, Opal prices. However, these pricing points are in the same region and are highly correlated.

(d) Termination Risk

The Power System or its counterparties may terminate the contractual agreements if the other party fails to perform under the terms of the contract. No termination events have occurred and there are no out-of-the-ordinary termination events contained in contractual documents.

(10) Long-Term Debt

Long-term debt outstanding as of June 30, 2015 and 2014 consists of revenue bonds and refunding revenue bonds due serially in varying annual amounts as follows (amounts in thousands):

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<u>Bond issues</u>	<u>Date of issue</u>	<u>Effective-interest rate %</u>	<u>Fiscal year of last scheduled maturity</u>	<u>Principal outstanding</u>	
				<u>2015</u>	<u>2014</u>
Issue of 2001, Series B	06/05/01	Variable	2035	\$ 580,800	580,800
Issue of 2001, Series C1	11/15/01	4.788	2017	1,972	2,008
Issue of 2002, Series A	08/22/02	Variable	2036	388,500	388,500
Issue of 2002, Series C2	11/22/02	4.375	2018	5,291	5,403
Issue of 2004, Series C3	04/07/04	4.298	2020	4,486	7,147
Issue of 2005, Series A1	12/28/05	4.700	2041	25,000	530,285
Issue of 2005, Series A2	12/28/05	4.700	2031	—	315,195
Issue of 2006, Series C4	03/01/06	4.040	2017	5,010	5,149
Issue of 2007, Series A1	10/18/07	4.659	2040	320,020	330,630
Issue of 2007, Series A2	10/18/07	4.638	2033	191,125	191,125
Issue of 2008, Series A1	11/25/08	5.583	2039	200,000	200,000
Issue of 2008, Series A2	11/25/08	5.039	2033	326,045	330,880
Issue of 2009, Series A	02/19/09	4.773	2040	117,055	119,425
Issue of 2009, Series B	06/02/09	4.563	2025	172,125	172,125
Issue of 2010, Series A	06/02/10	3.898	2041	616,000	616,000
Issue of 2010, Series B	06/02/10	3.015	2023	33,190	38,675
Issue of 2010, Series C	08/25/10	2.188	2028	139,775	139,775
Issue of 2010, Series D	12/02/10	4.342	2046	760,200	760,200
Issue of 2011, Series A	06/30/11	2.715	2023	507,100	564,430
Issue of 2012, Series A	10/25/12	2.936	2036	100,355	104,075
Issue of 2012, Series B	10/25/12	4.164	2044	350,000	350,000
Issue of 2012, Series C	10/25/12	0.958	2016	300,000	300,000
Issue of 2013, Series A	04/02/13	2.504	2032	515,925	526,570
Issue of 2013, Series B	06/04/13	3.347	2033	452,145	452,145
Issue of 2013, Series C	06/04/13	4.441	2038	27,855	27,855
Issue of 2014, Series A	05/06/14	Variable	2039	200,000	200,000
Issue of 2014, Series B	06/10/14	4.008	2044	322,000	322,000
Issue of 2014, Series C	08/05/14	2.912	2030	198,750	—
Issue of 2014, Series D	10/23/14	3.785	2045	450,000	—
Issue of 2014, Series E	01/08/15	3.833	2045	229,000	—
Issue of 2015, Series A	04/16/15	3.636	2041	520,280	—
Total principal amount				8,060,004	7,580,397
Revenue certificates				200,000	200,000
Unamortized premiums and discounts				538,442	384,358
Debt due within one year (including current portion of variable rate debt)				(230,165) ⁽¹⁾	(227,575)
				<u>\$ 8,568,281</u>	<u>7,937,180</u>

⁽¹⁾ On August 4, 2015, the Board of Water and Power Commissioners adopted Resolution No. 4893 which authorized the issuance of \$300 million of fixed-rate, tax-exempt Power System Revenue Bonds, 2015 Series B ("Power 2015 B Bonds") for the purpose of providing funds to refund all of the outstanding Power 2012 C Bonds. The Power 2015 B Bonds were closed on September 15, 2015 and amounts related to Power 2012 C Bond originally due within one year have been removed from debt due within one year in the table above.

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Revenue bonds generally are callable 10 years after issuance. The Department has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that the Power Systems' net income, as defined, will be sufficient to pay certain amounts of future annual bond interest and of future annual aggregate bond interest and principal maturities. Revenue bonds and refunding bonds are collateralized by the future revenues of the Power System.

(a) Long-Term Debt Activity

The Power System had the following activity in long-term debt for the fiscal years ended June 30, 2015, and 2014 (amounts in thousands):

	<u>Balance, July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2015</u>	<u>Current portion</u>
Long-term debt:					
Bonds	\$ 7,964,755	1,619,620	(985,929)	8,598,446	210,165
Revenue certificates	200,000	—	—	200,000	20,000
Total	<u>\$ 8,164,755</u>	<u>1,619,620</u>	<u>(985,929)</u>	<u>8,798,446</u>	<u>230,165</u>

	<u>Balance, July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2014</u>	<u>Current portion</u>
Long-term debt:					
Bonds	\$ 7,574,509	567,341	(177,095)	7,964,755	207,575
Revenue certificates	200,000	—	—	200,000	20,000
Total	<u>\$ 7,774,509</u>	<u>567,341</u>	<u>(177,095)</u>	<u>8,164,755</u>	<u>227,575</u>

(b) New Issuances

i. Fiscal Year 2015

In August 2014, the Power System issued \$198.75 million of Power System Revenue Bonds, 2014 Series C. The net proceeds of \$235.41 million, including a \$36.66 million issue premium net of underwriter's discount, were used to refund a portion of the Power System Revenue Bonds, 2005 Series A, Subseries A1, amounting to \$27.0 million, and Subseries A2, amounting to \$197.6 million. The transaction resulted in a net present value savings of \$28.13 million and a net loss for accounting purposes of \$7.47 million, which was capitalized and is being amortized over the life of the new bonds.

In October 2014, the Power System issued \$450 million of Power System Revenue Bonds, 2014 Series D. The net proceeds of \$526.04 million, including a \$76.04 million issue premium net of

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underwriter's discount, were deposited into the construction fund to be used for capital improvements.

In January 2015, the Power System issued \$229 million of Power System Revenue Bonds, 2014 Series E. The net proceeds of \$267.62 million, including a \$38.62 million issue premium net of underwriter's discount, were deposited into the construction fund to be used for capital improvements.

Lastly, in April 2015, the Power System issued \$520.28 million of Power System Revenue Bonds, 2015 Series A. The net proceeds of \$587.34 million, including a \$67.06 million issue premium net of underwriter's discount, were used to refund a portion of the Power System Revenue Bonds, 2005 Series A, Subseries A1, amounting to \$465.29 million, and all of the \$117.60 million outstanding Power System Revenue Bonds, 2005 Series A, Subseries A 2. The transaction resulted in a net present value savings of \$100.63 million and a net gain for accounting purposes of \$7.58 million, which was capitalized and is being amortized over the life of the new bonds.

ii. Fiscal Year 2014

In May 2014, the Power System issued \$200 million of variable rate Power System Revenue Bonds, 2014 Series A under a Direct Purchase structure. The net proceeds of \$200 million were deposited into the construction fund to be used for capital improvements.

In June 2014, the Power System issued \$322 million of Power System Revenue Bonds, 2014 Series B. The net proceeds of \$366.42 million, including a \$44.42 million issue premium net of underwriter's discount, were deposited into the construction fund to be used for capital improvements.

(c) ***Outstanding Debt Defeased***

The Power System defeased certain revenue bonds in current and prior years by placing cash or the proceeds of new revenue bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Power System's financial statements.

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At June 30, 2015, the following revenue bonds outstanding are considered defeased (amounts in thousands):

Bond issues	Principal outstanding
Second issue of 1993	\$ 6,555
Refunding issue of 1994	8,610
Issue of 1994	4,370
Issue of 2005 Series A, Subseries A 1	347,285
Issue of 2005 Series A, Subseries A 2	315,195
	\$ 682,015

(d) Variable Rate Bonds

In May 2014, the Power System entered into a Continuing Covenant Agreement (CCA) with Wells Fargo Bank whereby the former will sell to the latter \$200 million of Power System Revenue Bonds, 2014 Series A, in an index-floating rate mode under a Direct Purchase structure. The bonds will pay interest at a fixed spread of 20 basis points (0.20%) above the Securities Industry and Financial Markets Association (SIFMA) Index for the initial three-year term. At the end of the three-year term, the Power System would have the option to either renegotiate and renew a new index floating rate term with Wells Fargo or another bank or convert the bonds to another mode, such as a fixed-rate mode or a traditional variable rate mode that utilizes a standby agreement. Under the terms of the CCA, the Power System has the option to call the bonds at par any time after one year with a 30-day notice.

As of June 30, 2015 and 2014, the Power System had \$1.169 billion in variable rate bonds. The variable rate bonds currently bear interest at weekly and daily rates ranging from 0.01% to 0.28% as of June 30, 2015 and 0.01% to 0.26% as of June 30, 2014. The Power System can elect to change the interest rate period of the bonds with certain limitations. The bondholders have the right to tender the bonds to the tender agent on any business day with seven days' prior notice. The Power System has entered into standby and line-of-credit agreements with a syndicate of commercial banks in an initial amount of \$580.8 million and \$388.5 million to provide liquidity for the variable rate bonds. The extended standby agreements expire in February 2016 for the \$206 million, February 2017 for the \$106 million, and February 2018 for the \$268.8 million for a total of \$580.8 million; and in June 2017 for the \$388.5 million.

Under the agreements, the \$580.8 million variable rate bonds will bear interest that is payable quarterly at the greatest of (a) the Prime Rate plus 1.00%; (b) the Federal Funds Rate plus 2.00%; and (c) 7.50%, while the \$388.5 million variable rate bonds will bear interest that is payable quarterly at the greatest of (a) the Prime Rate plus 2.00%; (b) the Federal Funds Rate plus 2.00%; (c) the Daily One-Month LIBOR plus 0.5%; and (d) 7.50%. The unpaid principal of each liquidity advance made by the liquidity provider is payable in 10 equal semiannual installments 90 days immediately following the related liquidity advance. At its discretion, the Power System has the ability to convert the outstanding bonds to fixed-rate obligations, which cannot be tendered by the bondholders.

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The variable rate bonds have been classified as long term in the statement of net position as the liquidity facilities give the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements has been included in the current portion of long-term debt and was \$96.3 million at both June 30, 2015 and 2014.

(e) Revenue Certificates

As of June 30, 2015 and 2014, the Power System has outstanding \$200 million of commercial paper bearing interest at an average rate of 0.08%. The commercial paper matures not more than 270 days from the date of issuance.

The Department entered into a letter-of-credit and reimbursement agreement (the Agreement) with a commercial bank in the amount of \$200 million to provide liquidity and credit support for the Department's commercial paper program. The agreement secures the payment when due of the principal and interest on commercial paper issued on or after July 1, 2013. Drawings on the agreement will represent advances to the Department and will bear interest that is payable monthly at the highest of (a) the Prime Rate plus 1.00%, (b) Federal Funds Rate plus 2.00%, (c) the Daily One-Month LIBOR plus 3.00%, and (d) 7.00%. The unpaid principal of each advance is payable in 10 equal semiannual installments, commencing on the date six months after the advance. The Agreement terminates on July 1, 2016.

The revenue certificates have been classified as long-term debt in the statement of net position as the Agreement gives the Power System the ability to refinance on a long-term basis and the Power System intends to either renew the Agreement or exercise its option to draw on the Agreement. The portion that would be due in the next fiscal year in the event that the outstanding revenue certificates were advanced by the commercial bank under the Agreement has been included in the current portion of long-term debt and was \$20 million at both June 30, 2015 and 2014.

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(f) *Scheduled Principal Maturities and Interest*

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

	<u>Principal</u>	<u>Interest and amortization</u>
Fiscal year(s) ending June 30:		
2016	\$ 113,235	311,254
2017	104,210	316,713
2018	141,924	320,573
2019	164,682	319,622
2020	195,359	313,665
2021–2025	1,169,911	1,461,175
2026–2030	1,461,493	1,212,917
2031–2035	1,587,730	916,633
2036–2040	1,423,220	619,265
2041–2045	1,532,640	218,196
2046–2050	165,600	—
Total requirements	<u>\$ 8,060,004</u>	<u>6,010,013</u>

Interest and amortization are net of \$515.74 million of unamortized discount/premium and gain/loss due to issuances of new and refunding bonds.

The maturity schedule presented above reflects the scheduled debt service requirements for all of the Power System's long-term debt. The schedule is presented assuming that the tender options on the variable rate bonds, as discussed on the previous page, will not be exercised and that the full amount of the revenue certificates will be renewed. Should the bondholders exercise the tender options and the Power System convert all of the revenue certificates under the line of credit, the Power System would be required to redeem the \$1,369.3 million in variable rate bonds and revenue certificates outstanding over the next six years, as follows: \$116.93 million in fiscal year 2016, \$433.86 million in fiscal year 2017, \$233.86 million in fiscal year 2018, \$233.86 million in each of the fiscal years 2019 through 2020, and \$116.93 million in fiscal year 2021. Accordingly, the statements of net position recognize the possibility of the exercise of the tender options and reflect the \$116.93 million that could be due in fiscal year 2016 as a current portion of long-term debt payable. Interest and amortization include interest requirements for variable rate bonds. Variable debt interest rate in effect at June 30, 2015 averages 0.110%.

(11) Retirement Plan

(a) *Plan Description*

The Department has a funded contributory retirement plan covering substantially all of its employees. The Water and Power Employees' Retirement Fund (the Fund or Plan) operates as a single-employer defined benefit plan to provide pension benefits to eligible department employees. The Retirement

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Fund's assets are held in a special trust fund of the City. Plan benefits are generally based on years of service, age at retirement, and the employee's highest 12 consecutive months of salary before retirement. Active participants who joined the Plan on or after June 1, 1984 are required to contribute 6% of their annual covered payroll. Participants who joined the Plan prior to June 1, 1984 contribute an amount based upon an entry-age percentage rate. A new Tier 2 was added to the Plan and applies to members hired on or after January 1, 2014. Tier 2 plan participants are required to contribute 10% of their salary and plan benefits are based on a three-year final average salary period.

Under the provisions of the City Charter, the Retirement Board of Administration (the "Retirement Board") has the responsibility and authority to administer the Plan and to invest its assets. The Retirement Board members serve as trustees and must act in the exclusive interest of the Plan's members and beneficiaries. The Retirement Board has seven members: one member of the Retirement Board of Water and Power Commissioners, the General Manager, the Chief Accounting Employee, three employee members who are elected for three-year terms by active members of the Plan, and one retiree who is appointed by the Board of Water and Power Commissioners for a three-year term.

Plan amendments must be approved by both the Retirement Board and the Board. The Plan issues separately available financial statements on an annual basis. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 North Hope, Room 357, Los Angeles, California 90012.

(b) Benefits Provided

The Plan provides retirement benefits to eligible employees. Most employees of the Los Angeles Department of Water and Power become members of the Plan effective on the first day of biweekly payroll following employment or immediately following transfer from another city department. Members employed prior to January 1, 2014 are designated as Tier 1 and those hired on or after January 1, 2014 are designated as Tier 2 (unless a specific exemption applies to employee providing a right to Tier 1 status).

Tier 1 members are eligible to retire once they attain the age of 60 with 5 or more years of service or at age 55 with 10 or more years of service credit acquired in the last 12 years prior to retirement. A Tier 1 member with 30 years of service is eligible to retire regardless of age. Tier 2 members are eligible to retire once they attain the age of 60 with 10 or more years of service or at any age with 30 years of service. For both tiers, combined years of service between the Plan and LACERS is used to determine retirement eligibility and at least 5 years must be actual employment at the Department or City (not purchased). For both tiers, members receiving Permanent Total Disability benefits may retire regardless of age. For Tier 1, to be eligible for a Formula Pension, the employee must have worked or been paid disability four of the last five years immediately preceding eligibility to retire or while eligible to retire.

The Formula Pension benefit the member will receive is based upon age at retirement, monthly average salary base, and years of retirement service credit. The Tier 1 Formula Pension is equal to 2.1% times years of service credit times monthly average salary base. In addition, members retiring after attaining age 55 with 30 years of service credit receive an increase in the benefit factor from 2.1% to 2.3%. A reduced early retirement benefit is paid for those members attaining age 55 with 10 years of service or

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any age (under 55) with 30 years of service. The reduction is 1.5% for each year of retirement age between 60 and 55 and 3.0% for each year of retirement before age 55.

Under Tier 2, there are various benefit factors that apply as shown below:

- 2.0% at age 55 with 30 years of service credit
- 1.5% at age 60 with 10 years of service credit
- 2.0% at age 63 with 10 years of service credit
- 2.1% at age 63 with 30 years of service credit

Reduced early retirement benefits are still available at any age (under 55) with 30 years of service and the reduction factors are the same as Tier 1. Note that these reduction factors continue to include the reduction from age 60 to 55 and from 55 to age at retirement.

For Tier 1 members, the maximum monthly retirement allowance is 100% of monthly average salary base. For Tier 2 members, the maximum monthly retirement allowance is 80% of monthly average salary base. Under Tier 1, pension benefits are calculated based on the highest average salary earned during a 12-month period. Under Tier 2, pension benefits are calculated based on the average salary earned during a 36-month period.

The member may elect the full allowance or choose an optional retirement allowance. The full allowance provides the highest monthly benefit and up to a 50% continuance to an eligible surviving spouse or domestic partner. There are five optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the full allowance in order to allow the member the ability to provide various benefits to a surviving spouse, domestic partner, or named beneficiary.

(c) Plan Membership

At June 30, 2014, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	8,739
Vested terminated members entitled to, but not yet receiving benefits	1,484
Active members	<u>8,960</u>
Total	<u><u>19,183</u></u>

(d) Contributions

The Department contributes \$1.10 for each \$1.00 contributed by participants plus an actuarially determined annual required contribution (ARC) as determined by the Plan's independent actuary. The required contributions are allocated between the Power System and the Water System based on the current year labor costs.

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Employer contribution rates are adopted annually based upon recommendations received from the Plan's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2014 (based on the July 1, 2013 valuation) was 47.30% of compensation. The average member contribution rate as of June 30, 2014 (based on the July 1, 2013 valuation) was 6.66% of compensation. Most Tier 1 members contribute at 6% of compensation and all Tier 2 members contribute at 10% of compensation.

(e) Actuarial assumptions

The Department's net pension liability as of June 30, 2015 and June 30, 2014 was determined by actuarial valuations as of July 1, 2014 and July 1, 2013, respectively. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an experience study for the period from July 1, 2009 through June 30, 2012 and are the same assumptions used in July 1, 2014 funding actuarial valuation for the Plan. The following assumptions were applied to all periods included in the measurement for the July 1, 2014 and 2013 actuarial valuations:

<u>Actuarial Assumptions</u>	<u>2014</u>	<u>2013</u>
Inflation	3.25%	3.50%
Salary increases	4.75% to 10.00%	5.35% to 10.50%
Investment rate of return	7.50%	7.75%
Cost of living adjustments	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)
Mortality	Healthy: RP-2000 Combined Mortality Table set back one year projected to 2030 with Scale AA	Healthy: RP-2000 Combined Mortality Table set back two years for males and one year for females

(f) Discount Rate

The discount rates used to measure the pension liability were 7.50% and 7.75% as of June 30, 2015 and June 30, 2014, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability at June 30, 2015 and June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns,

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net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset proportionate share, adding expected inflation and subtracting expected investment expenses. The target allocation and projected best estimates of arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	33%	6.13%
Developed International Equity	21%	7.00%
Fixed Income	24%	0.77%
Real Estate	5%	4.90%
Real Return	6%	2.85%
Private Equity	5%	9.00%
Covered Calls	5%	4.88%
Cash and Cash Equivalents	1%	0.00%
Total	100%	

(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Department as of June 30, 2015, calculated using the discount rate of 7.50%, as well as what the Department's pension liability would be if it were calculated using a discount rate that is one/ percentage point lower (6.50%) or one/ percentage point higher (8.50%) than the current rate (amounts in thousands):

<u>Net Pension Liability</u>	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
June 30, 2015	\$ 1,815,375	860,748	59,098

(h) Changes in the Net Pension Liability

At June 30, 2015 and 2014, the pension liability was measured as of June 30, 2014 and 2013, respectively, and determined based upon the results of the actuarial valuations as of July 1, 2014 and July 1, 2013, respectively. The Retirement Fund's fiduciary net position and the pension liability were valued as of the measurement date and are not adjusted or rolled forward to June 30, 2015 and June 30, 2014, respectively. Below are the Power System's proportionate share of the Department's changes in

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the components of the total pension liability, Plan fiduciary net position and the net pension liability for the measurement periods (amounts in thousands).

Total pension liability	June 30	
	2015	2014
Beginning total pension liability	\$ 6,806,659	6,541,919
Service cost	130,580	128,078
Interest	528,452	498,469
Differences between expected and actual experience	(103,987)	(66,121)
Changes of assumptions	354,290	—
Benefit payments, including refunds of member contributions	(312,590)	(295,686)
Ending total pension liability	<u>\$ 7,403,404</u>	<u>6,806,659</u>

Fiduciary net position	June 30	
	2015	2014
Beginning fiduciary net position	\$ 5,599,146	4,978,907
Contributions	311,134	298,333
Net investment income	947,812	620,112
Benefit payments, including refunds of member contributions	(312,590)	(295,686)
Administrative	(2,846)	(2,520)
Ending fiduciary net position	<u>\$ 6,542,656</u>	<u>5,599,146</u>

Net pension liability	June 30	
	2015	2014
Beginning net pension liability	\$ 1,207,513	1,563,012
Pension expense	62,172	141,941
Employer contributions	(260,077)	(250,905)
New net deferred inflows/outflows	(209,860)	(246,535)
Recognition of prior deferred inflows/outflows	61,000	—
Ending net pension liability	<u>\$ 860,748</u>	<u>1,207,513</u>

(i) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report.

(j) Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources

At June 30, 2015 and 2014, the Power System has reported deferred outflow of resources of \$287,599 and \$0, and deferred inflow of resources of \$682,995 and \$246,535, respectively. The below table

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summarizes the deferred inflow of resource and deferred outflow of resources at June 30, 2015 and 2014 (amounts in thousands).

<u>Deferred Outflow of Resources</u>	June 30	
	<u>2015</u>	<u>2014</u>
Changes in proportion and differences between entity contributions and proportionate share of contributions	\$ 1,400	—
Changes of assumptions and other inputs	286,199	—
Total deferred outflow of resources	<u>\$ 287,599</u>	<u>—</u>

<u>Deferred Inflow of Resources</u>	June 30	
	<u>2015</u>	<u>2014</u>
Changes in proportion and differences between entity contributions and proportionate share of contributions	\$ 4,311	5,641
Net difference between projected and actual earnings on pension plan investments	553,659	187,392
Difference between expected and actual experience in the total pension liability	125,025	53,502
Total deferred inflow of resources	<u>\$ 682,995</u>	<u>246,535</u>

In addition to the deferred outflows noted above, there are also \$258,603 and \$260,077 of deferred outflows related to pension contributions made after the measurement date as of June 30, 2015 and 2014, respectively. These deferred outflows of resources are recognized as a reduction of the net pension liability in the subsequent fiscal year. The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows (amounts in thousands):

	June 30	
	<u>2015</u>	<u>2014</u>
2015	—	(60,797)
2016	(114,861)	(60,797)
2017	(114,861)	(60,797)
2018	(114,861)	(60,797)
2019	(57,223)	(3,347)
2020	6,410	—
Total	<u>(395,396)</u>	<u>(246,535)</u>

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(k) Pension Regulatory Asset

In connection with the recognition of the net pension liability under GASB 68, the Power System established a regulatory asset in the amount of \$1,563,012, equal to the net pension liability reported at July 1, 2013. The pension regulatory asset is expected to be amortized over a period not to exceed 15 years. Amortization of the regulatory asset totaled \$255,766 and \$369,041 for the years ended June 30, 2015 and 2014, respectively.

(12) Other Postemployment Benefit (Healthcare) Plan

(a) Plan Description

The Department provides certain other postemployment benefits (OPEB), such as medical and dental plans, to active and retired employees and their dependents. The healthcare plan is administered by the Department. The Retirement Board and the Board have the authority to approve provisions and obligations. Eligibility for benefits for retired employees is dependent on a combination of age and service of the participants pursuant to a predetermined formula. Any changes to these provisions must be approved by the Retirement Board and the Board. The total number of active and retired Department participants entitled to receive benefits was approximately 16,792 and 16,491 for the fiscal years ended June 30, 2015 and 2014, respectively.

The health plan is a single-employer defined benefit plan. During fiscal year 2007, the Retiree Health Benefits Fund (the Fund) was created to fund the postemployment benefits of the Department. The Fund is administered as a trust and has its own financial statements. Such financial statements can be obtained from the Department of Water and Power Retirement Office, 111 North Hope, Room 357, Los Angeles, California 90012.

(b) Funding Policy

The Department pays a monthly maximum subsidy of \$1,802 for medical and dental premiums depending on the employee's work location and benefits earned. Participants choosing plans with a cost in excess of the subsidy they are entitled to are required to pay the difference.

Although no formal funding policy has been established for the future benefits to be provided under this plan, the Department has made significant contributions into the Fund during previous years. In fiscal year 2015, the Department paid \$73.3 million in retiree medical premiums. In fiscal year 2014, the Department paid \$74.6 million in retiree medical premiums. No additional transfers to the Fund were made in fiscal years 2015 and 2014. The Power System's portion of retiree medical premium payments was \$47.8 million and \$50.7 million for 2015 and 2014, respectively. The remaining portion was paid by the Water System.

(c) Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) is calculated based on the employer ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a

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level of funding that, if paid on an ongoing basis, is projected to cover normal cost under each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the net OPEB asset (amounts in thousands):

	Year ended June 30	
	2015	2014
Annual required contribution	\$ 73,354	60,676
Interest on net OPEB asset	(75,980)	(76,461)
Adjustment to annual required contribution	70,776	66,869
Annual OPEB costs	68,150	51,084
Department contributions made	(73,343)	(74,625)
Change in net OPEB asset	(5,193)	(23,541)
Net OPEB asset – beginning of year	(978,231)	(954,690)
Net OPEB asset – end of year	\$ (983,424)	(978,231)

The following table shows the components of the Power System's share in annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the net OPEB asset (amounts in thousands):

	Year ended June 30	
	2015	2014
Annual required contribution	\$ 49,880	41,259
Interest on net OPEB asset	(51,666)	(51,993)
Adjustment to annual required contribution	48,128	45,471
Annual OPEB costs	46,342	34,737
Department contributions made	(47,783)	(50,749)
Change in net OPEB asset	(1,441)	(16,012)
Net OPEB asset – beginning of year	(668,451)	(652,439)
Net OPEB asset – end of year	\$ (669,892)	(668,451)

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The Department's annual OPEB cost, the percentage of ARC contributed to the Plan, and the net postemployment asset for fiscal years 2015, 2014, and 2013 were as follows (amounts in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual OPEB cost	\$ 68,150	51,084	38,311
Percentage of OPEB costs contributed	108%	146%	180%
Net postemployment asset at end of year	\$ 983,424	978,231	954,690

The Power System's share in the annual OPEB cost, the percentage of ARC contributed to the Plan, and the net retirement asset for fiscal years 2015, 2014, and 2013 were as follows (amounts in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual OPEB cost	\$ 46,342	34,737	26,051
Percentage of OPEB costs contributed	103%	146%	180%
Net postemployment asset at end of year	\$ 669,892	668,451	652,439

(d) Funded Status and Funding Progress Based on Latest Actuarial Study

On October 30, 2015, the latest actuarial study as of July 1, 2015 was completed for fiscal year 2015. As of July 1, 2015, the Department's actuarial value of assets was \$1.64 billion and AAL for benefits was \$1.96 billion, resulting in a UAAL of \$0.32 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$920 million, and the ratio of the UAAL to the covered payroll was 35%.

As of July 1, 2014, the Department's actuarial value of assets was \$1.49 billion and AAL for benefits was \$1.95 billion, resulting in a UAAL of \$0.46 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$900 million, and the ratio of the UAAL to the covered payroll was 51%.

As of July 1, 2013, the Department's actuarial value of assets was \$1.33 billion and AAL for benefits was \$1.74 billion, resulting in a UAAL of \$0.41 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$900 million, and the ratio of the UAAL to the covered payroll was 46%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined

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regarding the funded status of the Plan and ARCs of the Department are subject to continual revision as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information, presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(e) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the Department and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Department and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in AAL and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include 7.50% discount rate, which represents the expected long-term return on plan assets, and an annual healthcare cost trend rate of 6.75% initially, reduced by decrements to an ultimate rate of 5.00% over seven years. Both rates include a 3.25% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a closed 30-year period with 20 years remaining.

In the July 1, 2014 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include 7.50% discount rate, which represents the expected long-term return on plan assets, and an annual healthcare cost trend rate of 7.00% initially, reduced by decrements to an ultimate rate of 5.00% over seven years. Both rates include a 3.25% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a closed 30-year period with 21 years remaining.

In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include 7.75% discount rate, which represents the expected long-term return on plan assets, and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements to an ultimate rate of 5.00% over seven years. Both rates include a 3.50% inflation assumption. The actuarial value of assets was determined using techniques that spread UAAL being amortized as a level percentage of projected payroll over a closed 30-year period with 22 years remaining.

(f) Healthcare Reform Legislation

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. One key provision of the PPACA is the assessment of the excise tax on high-cost plans (Cadillac Plans) beginning in 2018. Under this act, a 40% excise tax applies to plans with costs exceeding certain annual thresholds for non-Medicare retirees aged 55–64 (\$11,850 for single coverage; \$30,950 for family coverage). For all other retirees, the thresholds in 2018 are \$10,200 for single coverage and \$27,500 for family coverage. Significant uncertainties exist regarding the impact of the excise tax on high-cost plans without further regulatory guidance. Management estimated the potential impact of this tax on the liability is based on unadjusted thresholds and assuming the tax is shared between the Department

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and its participants in the same way that the current costs are shared. The estimated impact of the 40% excise tax provision on high-cost plans beginning in 2018, under the healthcare reform, is reflected in all actuarial valuation reports after July 1, 2010.

(g) Death and Disability Benefits

The Power System's allocated share of death and disability benefit plan costs and administrative expenses totaled \$20.7 million and \$19.4 million for fiscal years 2015, and 2014, respectively.

(13) Other Long-Term Liabilities and Deferred Inflows

(a) Other Long-Term Liabilities and Deferred Inflows

The Power System has the following other long-term liabilities and deferred inflows (amounts in thousands):

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Current portion
Accrued liabilities	\$ 5,327	—	(1,720)	3,607	—
Deferred inflows:					
Rate stabilization	174,001	—	—	174,001	—
Other	2,782	—	(226)	2,556	—
	<u>\$ 176,783</u>	<u>—</u>	<u>(226)</u>	<u>176,557</u>	<u>—</u>
Accrued workers' compensation claims	\$ 56,650	—	(2,142)	54,508	—
Derivative instrument liabilities	\$ 48,517	—	(5,273)	43,244	—

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current portion
Accrued liabilities	\$ 7,047	—	(1,720)	5,327	—
Deferred inflows:					
Purchased power	18,069	—	(18,069)	—	—
Rate stabilization	117,443	56,558	—	174,001	—
Other	2,811	—	(29)	2,782	—
	<u>\$ 138,323</u>	<u>56,558</u>	<u>(18,098)</u>	<u>176,783</u>	<u>—</u>
Accrued workers' compensation claims	\$ 52,221	4,429	—	56,650	—
Derivative instrument liabilities	\$ 67,275	—	(18,758)	48,517	—

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(b) *Deferred Inflows from Regulated Business Activities*

The Department has deferred inflows that are related to revenues collected from customers, but have not been earned. These funds are deferred and recognized as costs related to these deferrals are incurred.

i. Purchased Power Deferrals

During fiscal year 2006, the Board approved the suspension of deferring precollected purchased power costs and the reversal of the precollected purchased power costs recorded in prior years. The amount reversed is the cost of energy from IPP less the amount designated in rates for out-of-market purchased power costs. The reversal of the deferred credit is credited to retail sales. During fiscal year 2014, the Power System reversed \$18.1 million related to precollected purchased power costs. At June 30, 2015 and 2014, \$0 and \$18.1 million, respectively, remain as part of deferred inflows related to precollected purchased power costs.

ii. Rate Stabilization Account

In April 2008, the City Council approved an amendment to the electric rate ordinance, which required the balance of the Rate Stabilization Account to be maintained separately from the Energy Cost Adjustment Account. The ordinance also directed that the deferred amount within the Energy Cost Adjustment Account be the beginning balance of the Rate Stabilization Account. As of June 30, 2015 and 2014, the balance in the Rate Stabilization Fund was \$174 million.

(c) *Accrued Workers' Compensation Claims*

Liabilities for unpaid workers' compensation claims are recorded at their present value when they are probable of occurrence and the amount can be reasonably estimated. The liability is actuarially determined, based on an estimate of the present value of the claims outstanding and an amount for claim events incurred but not reported based upon the Department's loss experience, less the amount of claims and settlements paid to date. The discount rate used to calculate this liability at its present value was 4% at June 30, 2015 and 2014. The Department has third-party insurance coverage for workers' compensation claims in excess of \$1 million.

Overall indicated reserves for workers' compensation claims, for both the Water System and the Power System, undiscounted, have decreased from \$100 million as of June 30, 2014 to \$95 million as of June 30, 2015. The decrease is mainly attributable to a decrease in the number of cases filed at the Department. Workers' compensation claims typically take longer than one year to settle and close out. The entire discounted liability is shown as long-term in the statement of net position as of June 30, 2015 and 2014.

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Changes in the Department's undiscounted liability since June 30, 2013 are summarized as follows (amounts in thousands):

		June 30		
		2015	2014	2013
Balance at beginning of year	\$	99,519	90,894	74,300
Current year claims and changes in estimates		26,727	33,945	37,561
Payments applied		(30,867)	(25,320)	(20,967)
Balance at end of year	\$	<u>95,379</u>	<u>99,519</u>	<u>90,894</u>

The Power System's portion of the discounted reserves as of June 30, 2015 and 2014 is \$54.5 million and \$56.7 million, respectively.

(14) Commitments and Contingencies

(a) Transfers to the Reserve Fund of the City of Los Angeles

Under the provisions of the City Charter, the Power System transfers funds at its discretion to the reserve fund of the City. Pursuant to covenants contained in the bond indentures, the transfers may not be in excess of the increase in net position before transfers to the reserve fund of the City of the prior fiscal year. Such payments are not in lieu of taxes and are recorded as a transfer in the statements of revenues, expenses, and changes in net position.

The Department authorized total transfers of \$266 million and \$253 million in fiscal years 2015 and 2014, respectively, from the Power System to the reserve fund of the City.

(b) PVNGS Matters

As a joint project participant in PVNGS, the Department has certain commitments with respect to nuclear spent fuel and waste disposal. Under the Nuclear Policy Act, the Department of Energy (DOE) was to develop facilities necessary for the storage and disposal of spent fuel and to have the first such facility in operation by 1998; however, the development of the repository designated at Yucca Mountain in the state of Nevada was postponed indefinitely for political reasons after DOE spent billions of dollars conducting feasibility studies. A Blue Ribbon Committee was formed by the federal government to look into other alternatives for nuclear waste disposal. In 2012, the committee submitted a final list of recommendations, which include prompt efforts to develop a new geological disposal facility and one or more consolidated storage facilities, and early preparation for eventual large-scale transport of spent fuel to storage and disposal facilities.

Capacity in existing fuel storage pools at PVNGS was exhausted in 2003. A Dry Cask Storage Facility (also called the Independent Spent Fuel Storage Installation, ISFSI) was built and completed in 2003 at a total cost of \$33.9 million (about \$1.9 million for the Department). The facility has the capacity to store all the spent fuel generated by the plant until the end of its life in 2027. With the current operating license extension granted by the Nuclear Regulatory Commission, PVNGS is allowed to

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operate until 2047. The Dry Cask Storage Facility will be expanded as needed to accommodate additional spent fuel until it is removed by DOE. As of June 30, 2015, 129 dry casks, each containing 24 spent fuel assemblies, have been stored. In addition, beginning in 2016, PVNGS is expected to use the newly designed “Magnastor” casks that contain 36 spent fuel assemblies, allowing the dry cask storage facility to accept more spent fuel.

The Department accrues for current nuclear fuel storage costs as a component of fuel expense as the fuel is used. The Department’s share of spent nuclear fuel costs related to its indirect interest in PVNGS is included in purchased power expense.

Because of the DOE’s inability to provide a disposal site, the PVNGS operating agent filed damages actions against the DOE to recover costs incurred by the PVNGS participants. A settlement was reached in August 2010 in the amount of \$30.2 million from DOE, of which \$1.7 million is the Department’s share of the settlement that covers costs incurred up to 2006. In June 2015, the Department received a payment in the amount of \$2.4 million for its share of settlement with DOE. Additional cost recovery is being pursued for the period post-2006.

The Price Anderson Act (the Act) requires that all utilities with nuclear generating facilities share in payment for claims resulting from a nuclear incident. Participants in PVNGS currently insure potential claims and liability through commercial insurance with a \$375 million limit; the remainder of the potential liability is covered by the industry-wide retrospective assessment program provided under the Act. This program limits assessments to a maximum of \$118 million per reactor for each licensee for each nuclear incident occurring at any nuclear reactor in the United States; payments under the program are limited to \$18 million per reactor, per incident, per year. Based on the Department’s 5.70% direct interest, the Department would be responsible for a maximum assessment of \$20 million per incident for all three units, limited to payments of \$3 million per incident annually.

The NRC guidelines require improved security in immediate areas surrounding the reactor buildings. PVNGS has enlarged the protected area with the inclusion of an outage support facility, a new warehouse, a minor vehicle maintenance facility, and a fuel depot to reduce vehicular traffic in and out of the protected area. While some of these facilities have already been constructed and are currently in service, the estimated cost for the remaining facilities is approximately \$1.1 million to the Department.

Other major capital projects that are currently in progress include the cybersecurity upgrade, digital upgrade of the Generrex generator excitation system, the life extension of the Water Reclamation Facility’s clarifiers, the spray pond concrete replacement, the Nuclear Administrative and Technical Manual replacement, and the construction of the Learning Center-In Processing facility. These, along with other regulatory plant modifications, are currently estimated at \$235 million in 2014, which translates to approximately \$13.4 million for the Department. Also anticipated in the long-range plan are \$224 million (\$12.7 million for the Department) worth of capital projects, which include the cooling tower life extension long-range plan; upgrades to the high-pressure turbines and electrohydraulic controls; and the replacement of the reactor coolant pumps, Control Element Drive Mechanism Control System (CEDMCS), plant cooling water pipelines, and the Site Work Management System (SWMS).

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In response to the nuclear event in Fukushima, Japan, the NRC has required PVNGS to increase the redundancy in its power supply to emergency cooling systems, reinforce its spent fuel pool, accelerate the transfer of spent fuel from the pool to the dry cask storage, and add pipelines and associated equipment necessary for supplying additional cooling water to the reactors. To date, the station has purchased additional diesel generators, pumps, and fire trucks and has also accelerated the movement of its spent fuel casks to the ISFSI. In addition to these, Palo Verde has allotted approximately \$82 million (approximately \$4.7 million for the Department) for Fukushima initiatives, which include fuel building modifications, an emergency equipment storage facility, temporary power connections, seismic and flood hazards validation, and corresponding mitigating strategies, among several others. All Fukushima-upgrade-related activities are expected to be complete by end of 2016. Additional NRC-mandated requirements are anticipated, but the costs associated with these future projects are unknown at this time.

(c) ***Environmental Matters***

Numerous environmental laws and regulations affect the Power System's facilities and operations. The Department monitors its compliance with laws and regulations and reviews its remediation obligations on an ongoing basis. The following topics highlight some of the major environmental compliance issues affecting the Power System:

i. Air Quality – Nitrogen Oxide (NO_x) Emissions

The Power System's generating station facilities are subject to the Regional Clean Air Incentives Market (RECLAIM) NO_x emission reduction program adopted by the South Coast Air Quality Management District (SCAQMD). In accordance with this program, SCAQMD established annual NO_x allocations for RECLAIM NO_x facilities based on historical emissions and type of emission sources operated. These allocations are in the form of RECLAIM trading emission credits (RTCs). Facilities that exceed their allocations may buy RTCs from other companies that have emissions below their allocations. The Department has a program of installing emission controls and purchasing RTCs, as necessary, to meet its emission requirements.

As a result of the installation of NO_x control equipment and the repowering of existing units, the Department has sufficient RTCs to meet its native load requirements for normal operations.

ii. Air Quality – Greenhouse Gas Emissions

In September 2006, the state of California adopted two new laws designed to reduce greenhouse gas (GHG) emissions in California. The first, Assembly Bill 32, the California Global Warming Solutions Act of 2006, requires the California Air Resources Board (ARB) to develop regulations to reduce statewide GHG emissions back to 1990 levels by 2020. In 2007, the ARB established California's 1990 GHG emissions baseline and developed a mandatory reporting regulation to require California sources to report their GHG emissions annually starting with 2008 data. In December 2008, the ARB adopted its Initial AB 32 Climate Change Scoping Plan, which serves as California's blueprint for reducing GHG emissions.

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The Initial Scoping Plan includes the following emission reduction measures applicable to the electricity sector: (1) increase renewable energy to 33%, (2) expand energy efficiency programs, (3) reduce SF6 emissions from gas insulated electrical switchgear, and (4) establish a GHG cap-and-trade program. The cap-and-trade program sets a statewide cap on GHG emissions beginning in January 2013, with the cap declining two to three percent per year from 2013 to 2020. The cap-and-trade program covers GHG emissions from all electricity generated in California or imported from other states, in-state industrial, and manufacturing facilities, as well as natural gas and transportation fuels consumed in California.

In May 2014, ARB adopted the First Update to the AB 32 Scoping Plan, which describes process made to meet the near-term objectives of AB 32 and establishes California's climate change priorities and activities over the next several years. It also states activities and issues facing California as it develops an integrated framework for achieving climate goals and federal clean air standards in California beyond 2020.

The second bill adopted by the state of California is designed to reduce greenhouse gas emissions from the generation of electricity consumed in California. Senate Bill 1368 requires the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC) to establish a greenhouse gas emissions performance standard and implement regulations governing long-term financial commitments in base load generation made by load serving entities (LSEs) including publicly owned electric utilities (POUs). These regulations are intended to prohibit any California LSE from entering into or renewing a long-term financial commitment with a base load generating resource that exceeds the greenhouse gas emissions performance standard, currently set at 1,100 pounds carbon dioxide per megawatt hour of electricity generated. This means that when existing contracts with high-emitting generating resources expire, those resources will be replaced by lower emitting generating resources that comply with the greenhouse gas emissions performance standard.

At the federal level, several legislative bills have been proposed or introduced, but none have passed Congress. However, the United States Environmental Protection Agency (EPA) adopted its Prevention of Significant Deterioration (PSD) and Title V Greenhouse Gas Tailoring Rule in June 2010, which established a phased timetable for implementing Clean Air Act permitting requirements for GHG emissions from new and modified major stationary sources. In June 2014, the U.S. Supreme Court held that the Clean Air Act does not permit EPA to adopt an interpretation of the Act requiring a source to obtain a PSD or Title V operating permit on the sole basis of its potential GHG emissions. The court also held that EPA reasonably interpreted the Clean Air Act to require sources that would need permits based on their emission of conventional pollutants to comply with Best Available Control Technology GHG requirements. The Power System's in-basin repowering projects would be subject to the permitting requirements under EPA's Tailoring Rule. Also, any new GHG requirements will be incorporated in the Power System's generating stations' Title V operating permits when the permits are renewed.

In addition to the PSD permit program, EPA is also in the process of developing a GHG regulatory program under the New Source Performance Standards (NSPS) provisions of the

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Clean Air Act. On December 23, 2010, the EPA entered a settlement agreement and agreed to issue NSPS and emissions guidelines for GHG emissions from new and modified fossil-fuel-fired electric generating units (EGUs). On April 13, 2012, the EPA published in the Federal Register its proposed rule for GHG NSPS for new EGUs. EPA received over 2.5 million comments, the most ever for a proposed EPA rule.

On June 25, 2013, President Obama announced initiatives addressing climate change. In his announcement, he directed EPA to repropose GHG emission standards for new EGUs by September 20, 2013. He also directed EPA to propose guidelines for existing EGUs by June 2014 and finalize them a year later.

EPA released the reproposed standards on September 20, 2013 and proposed to set an emission's limit of 1,100 pounds of CO₂ per megawatt-hour (MWh) of electricity generated by new coal-fired EGUs and an emission limit of either 1,000 or 1,100 lb/MWh (depending on size) for new natural gas-fired EGUs. Written comments were due to EPA on May 9, 2014. The Department cannot predict the outcome of this rulemaking.

On June 18, 2014, EPA's proposed Clean Power Plan for reducing CO₂ from existing power plants was published in the Federal Register. The proposal requires each state with fossil-fuel-fired generation to meet state-specific rate-based (lb/MWh) CO₂ emission goals by 2030 as well as an interim reduction target, which is an average emission rate required to be met over the period 2020 to 2029. The proposal also allows states to convert their emission rate goals to a mass-based limit (tons CO₂/year) and provides guidelines for states to follow in developing plans to achieve the state-specific goals. Clean Air Act Section 111(d) provides states with the primary responsibility and authority to establish and implement performance standards for existing sources and states will have broad discretion to develop their plans. The Department cannot predict how the guidelines will impact its operations at this time.

iii. EPA Coal Combustion Residuals Proposed Rules

On June 21, 2010, the U.S. Environmental Protection Agency (EPA) proposed to establish federal standards to regulate coal combustion residuals (coal ash). The two options being considered are to designate coal ash as either hazardous or nonhazardous. The hazardous waste proposal would phase out the disposal of ash in wet storage ponds. The nonhazardous designation would set federal guidelines for state disposal that require the installation of additional liners on new wet storage pond. Both options set new requirements for storing and monitoring the waste in dry landfills.

On April 17, 2015, the EPA promulgated the final coal combustion residuals (CCR) rule. The rule regulates CCR as a nonhazardous waste under Subtitle D of RCRA and became effective on October 19, 2015. The rule is self-implementing; it does not require regulated facilities to obtain permits and therefore cannot be enforced by EPA. The rule's only compliance mechanism is for a state or citizen group to bring a RCRA citizen suit in federal district court.

The rule is applicable to all coal fired power plants operating as of the effective date. Upon analysis of the new CCR rule requirements, the IPP may not meet the design criteria required

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for surface impoundments and identified four options to meet the compliance requirements. The IPP is considering two of those options to meet operational needs. One option would require the IPP to close surface impoundments by 2023 and to construct a system to manage bottom ash. The other option would be to cease operations of the coal-fired boilers no later than 2028 and switch to another fuel source for generation. The IPP has until 2018 to make a final decision on which option they will choose. The cost of compliance for the two options is estimated to range from \$48 million to \$85 million.

The IPP is on schedule to meet all interim compliance requirements for the new CCR including those that went into effect October 19, 2015 which include:

- Set up public website and posting CCR operating records
- Develop new groundwater monitoring wells, sampling plans and begin quarterly sampling
- Develop and implement fugitive dust monitoring plan

iv. Power Plant Once-through Cooling Water Systems

Once-through cooling (OTC) is the process where water is drawn from a source, pumped through equipment to provide cooling, and then discharged. Some type of cooling process is necessary for nearly every type of traditional electrical generating station, and the OTC process is utilized by many electrical generating stations located next to large bodies of water. Typically, the water used for cooling is not chemically changed in the process although its temperature is increased.

Due to the Second Circuit Court's decision to remand most of the EPA's 316(b) Rule finalized in July 2004, EPA suspended this rule and drafted a new rule that was signed by EPA on May 16, 2014, a pre-published version was released on May 19, 2014. The final rule was published in the Federal Register on August 15, 2014, and became effective on October 14, 2014. The new rule requirements applies to cooling water intake structures for all existing power generating facilities that withdraw more than 2 million gallons per day of water from waters of the United States and use at least 25% of the water they withdraw exclusively for cooling purposes. Under this rule, an owner or operator of an existing facility will be able to choose from seven different compliance options for impingement mortality (IM): Option 1 – operate a closed-cycle recirculating system; Option 2 – reduce the maximum design through screen velocity not to exceed 0.5 feet per second (fps) during minimum source water levels; Option 3 – demonstrate actual through screen velocity is less than or equal to 0.5 fps under all ambient conditions; Option 4 – Have an existing (minimum 800 feet offshore) velocity cap; Option 5 – install modified traveling water screens and optimize performance in a two-year study; Option 6 – integrated technologies, practices, and operational measures that are optimized in a two-year study; Option 7 – demonstrate that impingement mortality is reduced to no more than 24% annually based on monthly monitoring. In addition to these options, compliance requirements can be waived by the permitting director if it can be demonstrated that (1) impingement is de minimis, (2) if the capacity utilization rate is less than 8% averaged over a 24-month contiguous period, and (3) if the intake is located on a manmade lake or reservoir and the fishery is managed

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(but does not include any federal threatened and endangered species or critical habitat). For entrainment mortality, the rule requires entrainment studies and evaluation of entrainment technologies (including closed-cycle cooling, fine mesh/narrow slot screens, grey and reused water) as well as environmental impacts and benefits. Determination of compliance is by the permitting authority and could result in retrofitting to closed-cycle cooling. The compliance schedule for both IM and Entrainment is on a case-by-case, site-specific basis, determined by the permitting authority. The Department's compliance for IM and E and schedule has already been determined by its permitting authority, the State Water Resource Control Board, which is to eliminate the use of OTC by 2029 with closed-cycle cooling. The Department is evaluating if there are any other potential impacts of the rule on its facilities.

During the absence of the EPA's 316(b) Rule, the California State Water Resources Control Board (State Board) decided to move forward and adopt its own statewide 316(b) Policy on May 4, 2010. The 316(b) Policy became effective on October 1, 2010. This policy requires the Department's coastal power plants to reduce OTC by 93%-equivalent to wet cooling towers using seawater. This is referred to as the Track 1 compliance path. If the Track 1 compliance path is found to be infeasible, with concurrence from the State Board, a Track 2 compliance path can be pursued, which requires that the cooling water intake structure (CWIS) achieve an IM/E reduction level of 90% of the Track 1 compliance standard or 83.7% on a unit-by-unit basis. The Department has made a decision to pursue the Track 1 compliance path, in order to comply with the 316(b) Policy and completely eliminate the use of OTC. The Department was successful in having the 316(b) Policy amended to extend the compliance dates, for six out of the nine remaining OTC units, to 2024 for Scattergood and 2029 for Haynes and Harbor. The other three OTC units have already or are still on schedule to be repowered with eliminating OTC by December 31, 2015. The Amendment to the 316(b) Policy was adopted on July 19, 2011. The Amendment required the Department to submit additional information responsive to the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS) resolution by December 31, 2012 in order for the State Board to decide whether or not modifications to the 2029 compliance dates were warranted. The additional information required by SACCWIS was submitted by the Department and the State Board did not make any modifications to the Department's 2029 compliance dates. Furthermore, the amendment requires implementation of interim measures; these measures include a proposal to study new and/or viable existing technologies to reduce IM and E. The proposal must be submitted to the State Board no later than December 31, 2015. Upon approval of the proposal, the interim measures must be in place no later than December 31, 2020. These interim measures will include the funding of a mitigation project or the use of screens or an equivalent alternative measure at each OTC unit or intake until the facility is in full compliance. On November 4, 2014, the Department submitted proposals for each Haynes and Harbor generating stations and is awaiting a response back from the State Board. The Scattergood generating station proposal will be submitted by December 31, 2015 as required.

In addition, other regulatory changes have been made that could significantly impact operations at the Haynes and Harbor generating stations. The Regional Water Quality Control Board reclassified the body of water that the OTC water is discharged to an enclosed bay for the Harbor

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generating station, and sent a letter of intent to reclassify the receiving water body of water as an estuary for the Haynes generating station discharge. Even though the Haynes generating station will be repowering existing units, should there be a reclassification for the water body discharges at the Haynes generating station, there will be requirements that cannot be met with its existing cooling or future repowered configuration. The Department is in the process of working with the Regional Board on a resolution to this issue.

v. **Pollution and Remediation Obligations**

The Department follows GASB Statement No. 49, Accounting and Financial Reporting for Pollution and Remediation Obligations (GASB Statement No. 49). This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The Power System's obligations were approximately \$25.1 million and \$25.6 million as of June 30, 2015 and 2014, respectively.

(d) Litigation

i. **Capital Facilities Fee Claims**

In June 2007, the Department received a tentative decision in favor of the state and a number of local government agencies that are electric customers of the Department that claimed that the Department has rates that include a capital facilities' charge that violates the state's statute. However, in October 2008, the Department settled the case and recorded the \$160 million settlement amount. Additionally, as permitted by the regulatory accounting criteria set forth per the GASB Codification (GASB Statement No. 62), the Board approved to defer all potential costs associated with the resolution of this litigation and establish a corresponding long-term deferred asset to be recovered through future revenues over a period of up to 10 years, if necessary.

ii. **Other**

A number of claims and suits are also pending against the Department for alleged damages to persons and property and for other alleged liabilities arising out of its operations. In the opinion of management, any ultimate liability, which may arise from these actions, is not expected to materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2015.

(e) Risk Management

The Power System is subject to certain business risks common to the utility industry. The majority of these risks are mitigated by external insurance coverage obtained by the Power System. For other significant business risks, however, the Power System has elected to self-insure. Management believes

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that exposure to loss arising out of self-insured business risks will not materially impact the Power System's financial position, results of operations, or cash flows as of June 30, 2015.

(f) Credit Risk

Financial instruments, which potentially expose the Power System to concentrations of credit risk, consist primarily of retail and wholesale receivables. The Power System's retail customer base is concentrated among commercial, industrial, residential, and governmental customers located within the City. Although the Power System is directly affected by the City's economy, management does not believe significant credit risk exists at June 30, 2014, except as provided in the allowance for losses. The Power System manages its credit exposure by requiring credit enhancements from certain customers and through procedures designed to identify and monitor credit risk.

(g) Subsequent Events

In October 2015, the Power System issued \$268.59 million of fixed-rate, tax-exempt Power System Revenue Bonds, 2015 Series B. The net proceeds of \$300 million, including a \$31.41 million issue premium net of underwriter's discount, were used to refund all of the \$300 million outstanding Power System Revenue Bonds, 2012 Series C (the "Refunded Bonds"). The transaction resulted in a net gain for accounting purposes of \$2.79 million, which was deferred and is being amortized over the life of the Refunded Bonds.

On October 20, 2015, the Board of Water and Power Commissioners approved Resolution No. 4900 which authorized LADWP to establish and maintain up to a combined \$500 million Revolving Line of Credit for both the Water and Power Systems. On November 17, 2015, the Board authorized the execution of a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association (Wells Fargo) of up to \$300 million. On December 17, 2015, the Department entered into a RCA with Wells Fargo in the principal amount not-to-exceed \$300 million. Under the RCA, which expires on December 14, 2018, amounts due may be paid by the Department at any time at its option. The Department expects to pay principal amounts due under the RCA from proceeds of subsequent borrowings.

On December 1, 2015, the Board of Water and Power Commissioners approved a resolution authorizing the adoption of an ordinance by the Los Angeles City Council to transfer money from the Power Revenue Fund to the Reserve Fund of the City of Los Angeles during Fiscal Year 2015/16 in the amount of \$266,957,000. City Council approval by ordinance is required.

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Required Supplementary Information

June 30, 2015 and 2014
(Unaudited)

Pension Plan - Schedule of Changes in the Power System's Net Pension Liability and Related Ratios

Last 10 Fiscal Years

(Amounts in thousands other than percentages)

	Measurement Date of June 30	
	2014	2013
Total pension liability		
Service cost	\$ 130,580	128,078
Interest	528,452	498,469
Differences between expected and actual experience	(103,987)	(66,121)
Changes of assumptions	354,290	—
Benefit payments, including refunds of employee contributions	(312,590)	(295,686)
Net change in total pension liability	596,745	264,740
Total pension liability – beginning	6,806,659	6,541,919
Total pension liability – ending (a)	\$ 7,403,404	6,806,659
Plan fiduciary net position		
Contributions – employer	\$ 262,384	251,382
Contributions – employee	48,750	46,951
Net investment income	947,812	620,112
Benefit payments, including refunds of employee contributions	(312,590)	(295,686)
Administrative expenses	(2,846)	(2,520)
Net change in plan fiduciary net position	943,510	620,239
Plan fiduciary net position – beginning	5,599,146	4,978,907
Plan fiduciary net position – ending (b)	\$ 6,542,656	5,599,146
Power system's net pension liability (a)-(b)	\$ 860,748	1,207,513
Plan fiduciary net position as a percentage of total pension liability	88.4%	82.3%
Covered-employee payroll	\$ 554,731	551,159
Net pension liability as a percentage of covered-employee payroll	155.2%	219.1%

The Power System implemented GASB Statement No. 68 effective July 1, 2013, therefore, no information is available for the measurement periods prior to June 30, 2013.

See independent auditors' report and accompanying notes to schedule of changes in Power System's net position liability and related ratios.

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Required Supplementary Information

June 30, 2015 and 2014
(Unaudited)

Notes to Schedule and Changes in Power System's Net Position Liability and Related Ratios

Changes of assumptions: The following is a summary of the changes in assumptions.

	June 30	
	2014	2013
Actuarial assumptions:		
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Projected salary increases	4.75% to 10.00%	5.35% to 10.50%

See accompanying independent auditors' report.

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Required Supplementary Information

June 30, 2015 and 2014
(Unaudited)

Schedule of Department Contributions

Last 10 Fiscal Years

(Amounts in thousands other than percentages)

<u>June 30</u>	<u>Actuarially Determined Contributions</u>	<u>Contributions in Relation to the Actuarially Determined Contributions</u>	<u>Contributions Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
2015	\$ 455,683	376,902	78,781	900,126	41.87%
2014	387,824	384,266	3,558	819,924	46.87%
2013	376,668	368,426	8,242	817,421	45.07%
2012	336,875	321,689	15,186	805,607	39.93%
2011	304,432	286,699	17,733	791,760	36.21%
2010	200,579	201,035	(456)	767,912	26.18%
2009	141,292	145,941	(4,649)	696,704	20.95%
2008	134,651	141,862	(7,211)	623,675	22.75%
2007	110,269	101,556	8,713	574,316	17.68%
2006	80,785	75,490	5,295	554,840	13.61%

See independent auditors' report and accompanying notes to schedule of Department contributions.

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Notes to Schedule of Department Contributions:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar amortization
Remaining amortization period	The July 1, 2004 Unfunded Actuarial Accrued Liability is amortized over a 15-year period commencing July 1, 2004. Any subsequent changes in Unfunded Actuarial Accrued Liability are amortized over separate 15-year periods effective with that valuation.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market returns and the expected returns on a market value basis, and is recognized over a five-year period. As directed by the Retirement Office, the actuarial valuation of assets may be reduced by an amount classified as a nonvaluation reserve.

	June 30, 2014	June 30, 2013
Actuarial assumptions:		
Investment rate of return	7.50%	7.75%
Inflation rate	3.25%	3.50%
Real across the board salary increase	0.75%	0.75%
Project salary increase*	4.75% to 10.00%	5.35% to 10.50%
Cost of living adjustments	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)	3.00% (actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1, 2.00% maximum for Tier 2)
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table with ages set back one year projected to 2030 with Scale AA	Healthy: RP-2000 Combined Healthy Mortality Table set back two years for males and one year for females
Other assumptions	Same as those used in the July 1, 2014 funding actuarial valuation	Same as those used in the July 1, 2013 funding actuarial valuation
Other information	All members hired on or after January 1, 2014 enter Tier 2.	

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Required Supplementary Information

June 30, 2015 and 2014
(Unaudited)

Postemployment Healthcare Plan – Schedule of Funding Progress

The following schedule provides information about the Department’s overall progress made in accumulating sufficient assets to pay benefits when due, prior to allocations to the Water System and the Power System (amounts in thousands):

<u>Actuarial valuation date July 1</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
2015	\$ 1,637,578	1,956,230	318,652	84%	\$ 920,781	35%
2014	\$ 1,485,140	1,947,912	462,772	76%	\$ 900,126	51%
2013	\$ 1,332,136	1,743,727	411,591	76%	\$ 900,254	46%

See accompanying independent auditors’ report.