

# 2008 Industrial, Economic, and Administrative Survey of the Los Angeles Department of Water & Power

Approach and Major Findings

February 5, 2009



# Agenda

Goal of Today's Meeting

Scene Setting

Approach to Leading the Survey

Success at the Department

Major Findings

Assessment of Strategic Issues

Assessment of Operational Issues

Recommendations

Meeting the Challenge

Concluding Thoughts

Q&A

## Goal of Today's Meeting

- Provide an overview of the Survey
- Describe our approach to conducting the Survey
- Present our major findings from the Survey
- Offer select recommendations to enable operational improvement

## Scene Setting

The Los Angeles Department of Water and Power (LADWP or Department) has for decades been recognized as one of the most unique and respected utilities in the United States

- While there are larger water utilities and larger power utilities, there is no other combined municipal water and power utility of comparable size
- The Department has over 8,500 employees who aim to provide low cost and reliable service to nearly 3.8 million customers. With 3,600 miles of transmission lines, over 7,000 miles of water mains, and 51 generating units, LADWP has a significant multi-commodity footprint in Southern California and the West

## The Department in History

LADWP has a long history of consistently strong financial performance and relatively low retail rates (exemplified by high credit ratings and few rate increases)

- The strong and stable revenue stream provided by the Department's customer base, combined with historically low-cost sources of power and water supply, has historically made the Department the envy of its regional peers
- The Department has clearly played a central part in the growth and prosperity of the City of Los Angeles; the Department has also met and overcome many challenges

*However, the Department is now at an unprecedented – and significantly challenging – point in its history*

# Survey Overview

The Survey focuses on two objectives:

## 1. Assessment of Strategic Issues:

- To evaluate the broad strategy framework within which the organization operates, the relevance of 2002 recommendations and progress to-date implementing those recommendations, and inventory and validate issues to which the LADWP must be responsive

## 2. Assessment of Operational Issues:

- To assess progress to-date implementing the recommended improvement plans, evaluate water and power operations versus various benchmarks, and finally assess the relationships the Department has that affect operations

## Approach to Leading the Survey

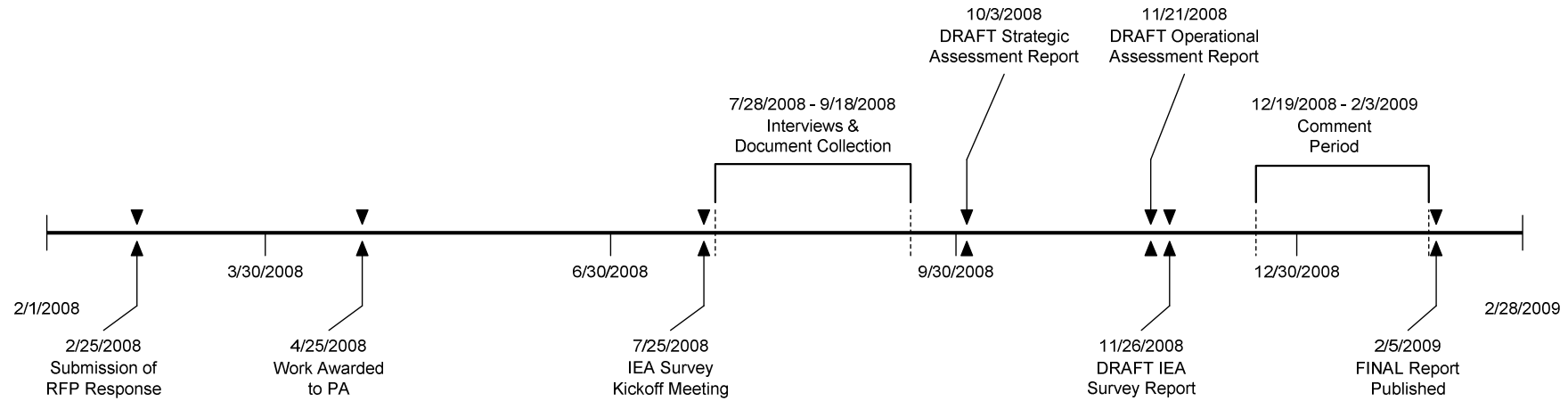
We believe the Industrial, Economic, and Administrative (IEA) Survey is an important effort that can help the Los Angeles Department of Water & Power (Department) assess critical challenges, evaluate performance, and specify methods of addressing those challenges

Successful execution of the Survey required in-depth insight into the Department's operations while maintaining effective communication and close coordination with stakeholders

We applied strong project management fundamentals to lead this effort, including:

- Clear project governance, and roles & responsibilities
- Development of detailed program plans and timelines
- Consistent feedback to all stakeholders
- Weekly update meetings/presentations to avoid “surprises”

## Project Timeline & Statistics



- From project kick-off to today's meeting, the Survey was completed in just over 6 months
- In total, we conducted over 90 interviews, and gathered and reviewed nearly 110 critical documents, which provided a comprehensive view into Department operations
- Interviews were conducted with Department staff and a variety of critical stakeholders, including representatives from the Board of Commissioners (Board), Mayor's Office, representatives from City Council, labor unions, the Department's largest customers, and Neighborhood Councils
- Documents were collected and reviewed from across the Department's three major Systems – Power, Water, and Joint System – and related agencies and organizations



## Success at the Department

Our analysis identified several success stories for the Department, including:

- The Department has a highly committed workforce that works diligently on behalf of LADWP and the customer
- An increased emphasis on public relations and community outreach
- Successful power infrastructure upgrades to increase reliability
- Actively pursuing water conservation and recycled water programs
- Taking a leadership position on renewable energy portfolio standards
- High water quality

# Major Findings

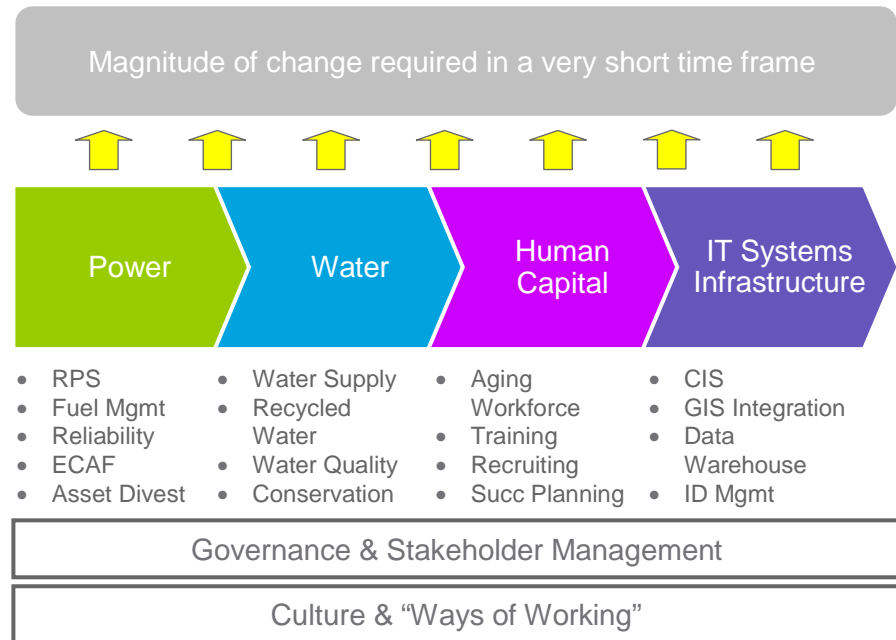
The Department is at a transformational point in its history, and faces a number of major challenges that require urgent attention in an extremely short time frame

On a macro basis, challenges in at least four major areas of the Department will drive strategic decisions that will affect the Department, the City, and the citizen / customer for decades to come

Addressing the magnitude of the change required in each of these sectors presents a significant challenge to management and the City

Successfully addressing any one of these challenges will require resiliency, flexibility, rapid and accurate decision-making, and a significant dedication of capital (time and financial)

The scale of these issues and the short time frame required to address them creates the most critical macro strategic issue for the Department – how to manage successfully through a transformation of epic proportion and achieve the Department’s Mission, Vision, Values, and Goals



## Assessment of Strategic Issues

Given this environment, whereby the Department is confronted with tremendous challenges that need to be rapidly evaluated and prioritized, the 2008 Assessment of Strategic Issues is extremely critical

The Assessment of Strategic Issues is comprised of two principle tasks:

1. Evaluate the relevance of 2002 recommendations and progress to-date implementing those recommendations (including enhancements to the broad strategy framework within which the organization operates)
2. Inventory and validate the current strategic issues to which the LADWP must be responsive

## Inter-related and Complex Challenges

The strategic issues facing the Department require urgent attention, prioritization, and difficult choices to be made. Prominent – and specific – examples of key challenges include:

- “Repowering” the asset portfolio (and the transformation of all related functions) to meet increasingly aggressive Renewable Portfolio Standards (RPS)
- Continuing to provide a reliable water supply during a period in which the reliability of its existing major supplies are diminished, while attempting to offset growing demands through aggressive conservation and pursuing a major recycled water supply
- Selection and successful implementation of multiple mission-critical IT systems that are currently extremely outdated and adversely impact day-to-day operations
- Active management of various “human capital” challenges to build a more flexible and resilient workforce (including training, succession planning, and recruitment)
- Resolution of supply chain and procurement inefficiencies that directly affect the reliable delivery of low cost service to customers

In combination, successfully resolving these challenges will require a transformation in the ways of working within the Department

## Assessment of Operational Issues

The Assessment of Operational Issues is comprised of two principle tasks:

1. Evaluate the operations of the Department versus industry benchmarks, best practices, and peer practices
2. Assess the relationships the Department has with critical stakeholders that affect operations.

## Summary of Benchmarking Results

The following are observations from the benchmarking effort:

- Data collection has been somewhat challenging; the Department does not have a tradition of effective data management for performance evaluation and benchmarking
- Where benchmarking has been possible, certain areas meet or exceed industry standard benchmark results and standards – examples include:
  - Compliance with basic health related standards for drinking water
  - One specific power system reliability measure is high relative to peers
  - Water system asset management findings are strong relative to the Department's peers
- However, other results suggest that the Department falls below industry peers and/or does not meet standard industry practice in a variety of areas – important examples include:
  - Integrated Resource Planning processes require significant enhancements
  - Customer water quality complaints are greater than the peer panel
  - Strategic planning processes are immature relative to peers

# Recommendations

Our analysis includes a large number of recommendations that we believe can move the Department forward to meet these challenges and improve performance in a number of key areas, including:

- Create a far more rigorous and detailed Integrated Resource Plan for the Power System that more fully lays out the economics and system impacts of the Department's evolving Power System
- Support and team with Metropolitan Water District (MWD) as it continues its leadership role in the development of the next generation of "The California Water Plan," using the City of Los Angeles' considerable statewide influence to drive the process toward a successful outcome
- Improve the readability and information provided in all Department bills
- Proactively identify "People, Process, Technology, and Governance" requirements related to potentially increased energy trading and commodity risk control requirements
- Revise management practices of the Energy Cost Adjustment Factor (ECAAF) to avoid the possibility of rate shocks
- Assess the merits of a consolidated enterprise-wide risk management function, charged with independently measuring, managing, and reporting the variety of risks that impact the achievement of Department-wide strategic objectives
- Develop a clear and well-defined IT system replacement roadmap, with schedules and estimated costs for replacing the aging applications portfolio
- Establish a single plan for budgeting, coordinating and communicating all Public Relations & Community Outreach activities

These recommendations, made in conjunction with programs that are already underway or planned for 2009 and beyond, can help increase the operational maturity of the Department

## Implementing the Recommendations

We believe that efforts to ensure that recommendations contained within this Survey are pursued – from program design to implementation – is absolutely critical

- Evidence from the 2002 IEA Survey reflects a lack of accountability for implementation of recommendations that emerged from that report
- In addition to fully vetting the various recommendations in the report, we believe a program management approach to implementation – including a quarterly update to the Joint Administrators and the Board on progress to-date – is imperative
- Failure to act on the recommendations included in the report will reduce the value of the 2008 Survey initiative, and slow progress to address strategic issues and enhance Department operations
- This – combined with a culture that has not historically embraced cost management or complex and consolidated project prioritization – further increases the complexity of current and future challenges



## Meeting the Challenge

The sheer complexity and scale of many of the issues identified in the course of this Survey and the short time frame required to address them is the most critical strategic issue for the Department: Stated simply, can the Department manage successfully through a transformation of epic proportion and position itself to achieve its Mission, Vision, Values, and Goals

- The City of Los Angeles is fortunate to have a large and deep pool of talented and dedicated staff with the ability to marshal the required resources to provide high-quality, cost-effective services
- However, the Mayor, the City Council, the Board, and the Department must be absolutely dedicated to developing, implementing, and solidifying a strategic planning process and increasing the analytical capabilities of DWP, while improving the Department's governance, with clear roles and responsibilities and reasonable limits of authority

*These are essential components for successfully navigating through this extremely challenging environment*

## Concluding Thoughts

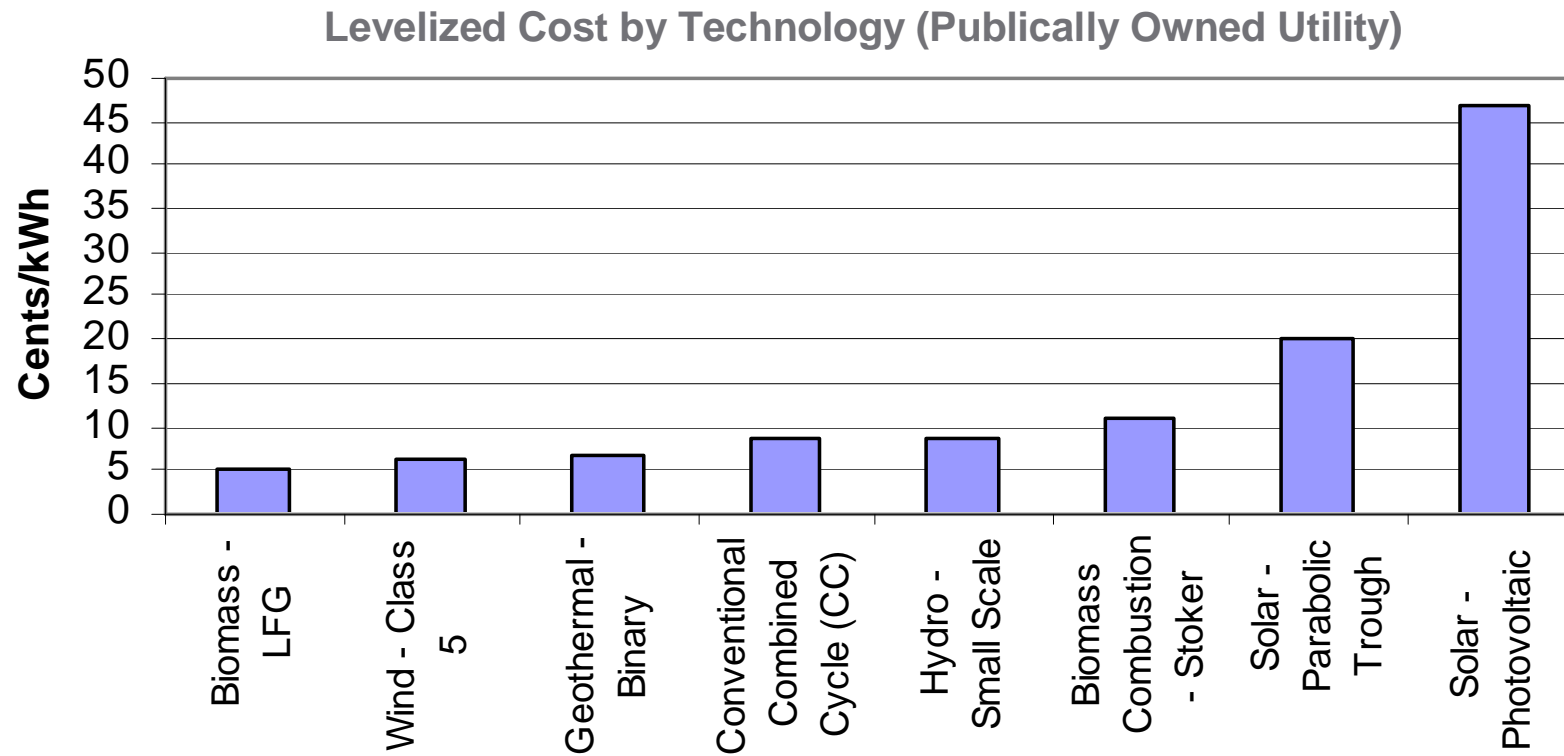
PA conducted an exhaustive and detailed review of the Department over a 6 month period that allowed us to develop deep insights into the issues and challenges facing the department

- The Department is at a transformational point in its history. How it deals with the critical issues we have discussed today will shape the future of Los Angeles and significantly impact the City's financial health
- PA stands by its rapid Solar Measure B Assessment and all of its findings, given the context it was intended for and the time allowed for the study
- We are experts in Energy Markets and Utility Operations, and have been in business for more than half a century led by consultant with 20 plus years in the energy business and California Energy Markets
- The IEA Study provides a focused platform for dealing with the Department's mission-critical issues. We believe addressing them in an integrated, focused and prioritized manner is essential
- Applying a Program Management Approach to implementation with oversight from and quarterly reports to the Joint Administrators and the Department's Board is strongly recommended
- Throughout this process PA has refrained from any public comment until today, as we believe this work is critical to the citizens of Los Angeles and needed to be unburdened from the politics surrounding Measure B and the Department in general. With the work complete and our findings now published we are happy to answer questions and provide information

# Q&A



# Levelized Cost by Technology



Source: California Energy Commission