Department of Water and Power City of Los Angeles

Los Angeles
2nd Regional Investors Conference
February 26-27, 2014
• Established more than 100 years ago and is the largest municipal utility in the United States

• Revenue-producing proprietary department of the City of Los Angeles that provides electric and water services to the second most populous city in the U.S. (Serving 3.8 million population)

• Power and Water Systems are separate and distinct and its operations are financed exclusively from sale of water and power, with no tax support

• Operating Revenues for FY2013:
  - Power System: $3.16 billion
  - Water System: $1.04 billion

• Significant capital funding raised through bond issuances

<table>
<thead>
<tr>
<th>Ratings by:</th>
<th>Moody's</th>
<th>Standard &amp; Poors</th>
<th>Fitch Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power System</td>
<td>Aa3</td>
<td>AA-</td>
<td>AA-</td>
</tr>
<tr>
<td>Water System</td>
<td>Aa2</td>
<td>AA</td>
<td>AA</td>
</tr>
</tbody>
</table>
Governance and New General Manager

- **General Manager**
  - Administers the affairs and operations of the Department
  - Marcie Edwards appointed as new GM

- **Energy and Environment Committee**
  - This City Council Committee has jurisdiction of matter concerning the Department

- **City Council**
  - Approves rates requests and selection of Board of Water & Power Commissioners and General Manager

- **Board of Water and Power Commissioners**
  - The five-member Board establishes policy for the Department and are appointed by the Mayor and confirmed by the City Council for five-year terms

- **Office of Public Accountability**
  - Executive Director is appointed by a citizens committee, subject to confirmation by the City Council and Mayor
  - Provides public, independent analysis to the Board and City Council
LADWP’s Transformation

Next Century Power

1. Power Supply Replacement Program
2. Power Reliability Program
3. Customer Opportunities Program

Next Century Water

1. Safe Drinking Water Program
2. Water Infrastructure Program
3. Local Water Supply and Remediation
4. Regulatory Compliance - Owens Valley

Improve Customer Service  Keep Rates Competitive  Increase Efficiency

Bold text: mandated program
LADWP’s Growing Capital Program is Focused on Meeting Regulatory Mandates and Addressing Aging Infrastructure

**Power Mandates**
- State-Mandated Green House Gas Reduction (AB 32)
- Eliminate Once-Through-Cooling of all Coastal Power Plants (Clean Water Act – 316b)
- Transition out of Coal Resources (SB 1368)
- Increase Renewable Resources: 20% - 2011-2013; 25% end of 2016; & 33% by end of 2020 (SB 2(1X))

**Water Mandates**
- Cover all Remaining Open Reservoirs (Long Term 2 Enhanced Surface Water Treatment Rule)
- Convert Chlorine to Chloramines (Stage 2 Disinfectants and Disinfection Byproducts Rule)
- Owens Valley Management (Clean Air Act)

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**Comparable 5-Year Capital Spending in Billions**

<table>
<thead>
<tr>
<th></th>
<th>2008-2012</th>
<th>2013-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power</strong></td>
<td>$4.2</td>
<td>$7.4</td>
</tr>
<tr>
<td><strong>Water</strong></td>
<td>$1.9</td>
<td>$3.9</td>
</tr>
</tbody>
</table>

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4
LADWP’s evolution will eliminate coal power production, increase renewable energy to at least 33%, and drive energy efficiency to at least 10% of power supplies. Power supplied by natural gas will play an increased role, and help balance intermittent resources.

*Note: percentages based on energy sales
Source: 2013 Power IRP
Power System Summary of Five-Year Capital Plan
($ in millions)

Summary of Capital Program For FY2014-18
$8,221

Power Supply Replacement:
- Integrated Resource Plan (IRP): $941, 11%
- Renewable Portfolio Standard (RPS): $2,019, 25%
- Customer Opportunity: Energy Efficiency: $834, 10%
- Power Reliability Program (PRP): $2,446, 30%
- Other Infrastructure Improvements: $1,540, 19%
- Integrated Support and Other Joint Services: $441, 5%

Total Power System Capital Plan: $8,221, 100%
### Revenues, Expenses, and Debt Service Coverage ($000)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$3,162,502</td>
<td>$3,081,680</td>
<td>$3,125,957</td>
<td>$3,235,193</td>
<td>$2,755,935</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>2,266,249</td>
<td>2,235,522</td>
<td>2,308,188</td>
<td>2,287,434</td>
<td>2,043,192</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$896,253</td>
<td>$846,158</td>
<td>$817,769</td>
<td>$947,759</td>
<td>$712,743</td>
</tr>
<tr>
<td>Other Income, AFUDC, Contributions</td>
<td>180,084</td>
<td>185,999</td>
<td>162,521</td>
<td>152,168</td>
<td>168,220</td>
</tr>
<tr>
<td>Change in Fund Net Assets</td>
<td>$1,076,337</td>
<td>$1,032,157</td>
<td>$980,290</td>
<td>$1,099,927</td>
<td>$880,963</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>$426,825</td>
<td>$343,093</td>
<td>$400,846</td>
<td>$309,349</td>
<td>$270,357</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>2.52x</td>
<td>3.01x</td>
<td>2.45x</td>
<td>3.56x</td>
<td>3.26x</td>
</tr>
<tr>
<td>Transfers to City</td>
<td>$246,534</td>
<td>$250,077</td>
<td>$258,815</td>
<td>$220,475</td>
<td>$222,506</td>
</tr>
<tr>
<td>Unrestricted Cash</td>
<td>597,525</td>
<td>417,895</td>
<td>561,414</td>
<td>423,855</td>
<td>444,676</td>
</tr>
<tr>
<td>Debt Reduction Trust Fund</td>
<td>490,325</td>
<td>490,444</td>
<td>485,609</td>
<td>529,338</td>
<td>547,282</td>
</tr>
<tr>
<td>Total Cash Balance</td>
<td>$1,087,850</td>
<td>$908,339</td>
<td>$1,047,023</td>
<td>$953,193</td>
<td>$991,958</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>175</td>
<td>148</td>
<td>166</td>
<td>152</td>
<td>177</td>
</tr>
<tr>
<td>Debt to Capitalization Ratio</td>
<td>60%</td>
<td>57%</td>
<td>57%</td>
<td>55%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Audited Financial Statements
Debt Profile as of December 31, 2013

Total Debt Outstanding $7.26 billion

Debt Characteristics
• No derivative products
• Extended SBPA's & Staggered expiration dates
Effect of Conservation
Water Use and Population

CITY OF LOS ANGELES
WATER USE AND POPULATION

Note: Population was updated with 2010 US Census data.
A Diversified Water Supply is a Priority for the Department

FY 2009-2013
(Average Total: 559,276 AFY)

- Local GW, 61,252, 11%
- Recycled, 7,255, 1%
- LA Aqueduct, 199,196, 36%
- MWD, 291,572, 52%

FY 2034-35 Forecast
(Projected Total: 710,800 AFY Normal Year)

- LA Aqueduct, 244,000, 33%
- Local GW, 110,405, 16%
- MWD, 168,027, 24%
- Stormwater, 25,000, 4%
- Transfers, 40,000, 6%
- Conserv’t’n, 64,368, 9%
- Recycled, 59,000, 8%

Consideration of accelerated plans to achieve these goals is also underway.
Summary of Capital Program ($ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Externally Financed</th>
<th>Internally Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>$193</td>
<td>$486</td>
</tr>
<tr>
<td>FY15</td>
<td>$404</td>
<td>$815</td>
</tr>
<tr>
<td>FY16</td>
<td>$162</td>
<td>$801</td>
</tr>
<tr>
<td>FY17</td>
<td>$152</td>
<td>$695</td>
</tr>
<tr>
<td>FY18</td>
<td>$175</td>
<td>$660</td>
</tr>
</tbody>
</table>

- **Local Water Supply Program** ($675m)
  - Recycled Water
  - Stormwater Capture
  - Customer Conservation Programs
  - Groundwater Cleanup & Management

- **Safe Drinking Water Program** ($1,454m)
  - Regulatory Compliance
  - Reservoir Covers & Bypasses
  - Trunkline Replacement

- **Water System Reliability Program** ($1,848m)
  - Replace aging pipeline and related infrastructure
## Water System Financial Performance

### Revenues, Expenses, and Debt Service Coverage ($000)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues</td>
<td>$1,042,228</td>
<td>$811,897</td>
<td>$756,605</td>
<td>$812,360</td>
<td>$783,964</td>
</tr>
<tr>
<td>Operating Expenses Excluding</td>
<td>672,462</td>
<td>544,824</td>
<td>540,041</td>
<td>584,382</td>
<td>581,587</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income before Depreciation</td>
<td>$369,766</td>
<td>$267,073</td>
<td>$216,564</td>
<td>$227,978</td>
<td>$202,377</td>
</tr>
<tr>
<td>Other Income, AFUDC, Contributions</td>
<td>49,482</td>
<td>64,012</td>
<td>75,165</td>
<td>45,841</td>
<td>41,204</td>
</tr>
<tr>
<td>Change in Fund Net Assets</td>
<td>$419,248</td>
<td>$331,085</td>
<td>$291,729</td>
<td>$273,819</td>
<td>$243,581</td>
</tr>
<tr>
<td>Total Debt Service on Bonds</td>
<td>$192,885</td>
<td>$178,468</td>
<td>$167,371</td>
<td>$134,106</td>
<td>$116,026</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio</td>
<td>2.17x</td>
<td>1.86x</td>
<td>1.74x</td>
<td>2.04x</td>
<td>2.10x</td>
</tr>
<tr>
<td>Unrestricted Cash Balance</td>
<td>$415,786</td>
<td>$296,725</td>
<td>$207,631</td>
<td>$170,685</td>
<td>$120,375</td>
</tr>
<tr>
<td>Water Expense Stabilization Fund</td>
<td>33,159</td>
<td>33,078</td>
<td>32,915</td>
<td>32,680</td>
<td>32,678</td>
</tr>
<tr>
<td>Total Cash Balance</td>
<td>$448,945</td>
<td>$329,803</td>
<td>$240,546</td>
<td>$203,365</td>
<td>$153,053</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>244</td>
<td>221</td>
<td>163</td>
<td>127</td>
<td>96</td>
</tr>
<tr>
<td>Debt to Capitalization Ratio</td>
<td>58%</td>
<td>57%</td>
<td>58%</td>
<td>54%</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Source: Audited Financial Statements*
Total Debt Outstanding = $3,887 million
(including $228.2 million State Loans)

Debt Characteristics

- No interest rate swaps
- No auction rate or insured floaters
- ~92% fixed/ ~8% variable mix
- Extended SBPA’s and staggered expiration dates
- Strong VRDO performance
The Water System is Well Positioned Going Forward

- **Large and Diverse Service Area**
  - Serves population of 3.8 million
  - California’s largest retail water supplier
  - 71% residential / 29% commercial/other

  - **Diversified Water Resources**
    - Diverse sources of water including Los Angeles Aqueduct that provides ~36% of total water supply

- **Strong Historical Financial Performance**
  - Conservative debt profile
  - Strong financial metrics

- **Competitive Rates**
  - Department’s rates are competitive
  - Demonstrated ability to raise rates to meet adopted goals
City of Los Angeles Downtown
Governor Brown declared California Drought emergency.

- State-wide snowpack at approximately 20% of normal for this time of year
- Asked for 20% conservation

LADWP’s Response

- Customers have continued to conserve
  - At the peak, Los Angeles reduced water use by 20% in the previous dry period starting 2007.
  - Customers continue to conserve over 17%
  - Conservation rates that cut Tier 1 allotments in 2009 continue.
- Water Conservation Ordinance continues
  - Prohibited uses to eliminate waste and increase awareness
  - Restrictions on out-door water use
- Increase awareness through Media campaign
- Programs to study customized water use reports to increase customer information and interactive web site for California Friendly landscapes.
- Long term focus on sustainable –local supplies
  - Storm Water Capture; Recycled Water; Groundwater Clean-up & Remediation
Rates and the Rate Setting Process

- Extent of Process Depends on type of rate change
  
  - Base rates and ordinance changes: require approval per process above
  
  - Pass through charges require Board approval only, or are automatic (purchased water). Pass-through cost recovery mechanisms recover:

<table>
<thead>
<tr>
<th>LADWP Proposal</th>
<th>Public Outreach</th>
<th>RPA Review</th>
<th>LADWP Board</th>
<th>Council Committee/Full Council</th>
<th>Mayor</th>
</tr>
</thead>
</table>

- 45% of power system revenues for:
  - Fuel and purchased power including renewable energy

- 57% of water system revenues for:
  - Purchased water
  - Water Quality
  - Owens Valley regulatory costs
  - Water Security

- Revenue decoupling mechanisms exist for Power and Water to protect utility finances from volume fluctuations.
Rates Remain Competitive

Comparative Residential Annualized Power Bills
Based on 500 kWh per Month as of June 2013

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Avg. Monthly Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>LADWP</td>
<td>$70.43</td>
</tr>
<tr>
<td>SCE</td>
<td>$96.22</td>
</tr>
<tr>
<td>SDG&amp;E</td>
<td>$86.67</td>
</tr>
<tr>
<td>Burbank</td>
<td>$74.79</td>
</tr>
<tr>
<td>Glendale</td>
<td>$71.66</td>
</tr>
<tr>
<td>Pasadena</td>
<td>$63.94</td>
</tr>
</tbody>
</table>

Comparative Residential Water Bills
Based on 12 HCF per Month as of June 2013

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Avg. Monthly Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Beach</td>
<td>$40.59</td>
</tr>
<tr>
<td>Pasadena</td>
<td>$41.83</td>
</tr>
<tr>
<td>Glendale</td>
<td>$43.92</td>
</tr>
<tr>
<td>East Bay Muni (Oakland)</td>
<td>$45.31</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$48.59</td>
</tr>
<tr>
<td>San Diego</td>
<td>$64.20</td>
</tr>
<tr>
<td>San Francisco</td>
<td>$66.40</td>
</tr>
<tr>
<td>Simi Valley (Golden State Water)</td>
<td>$69.93</td>
</tr>
</tbody>
</table>


Upcoming Financing Transactions

- **Power System**
  - $325 million APEX Project financing in March 2014 through SCPPA
    (50% tax exempt/50% taxable)
  - $522 million new money transaction anticipated in Spring 2014

- **Water System**
  - $300 million new money transaction anticipated in November/December 2014
## Bond Security Legal Protections

<table>
<thead>
<tr>
<th>Source of Payment. [Power or Water] Revenue Fund are separate funds established by Charter in the City Treasury under the control of Board of Commissioners. Includes all revenues from every source collected by the Department in connection with the possession, management and control of the [Power or Water] System</th>
<th>Power</th>
<th>Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate Covenant. Board will fix rates and charges, subject to the approval of the City Council, to provide revenues that together with other available funds shall be at least sufficient to pay debt service and operating and maintenance expenses. City Charter requires City Council to approve rates prescribed in the rate covenant</td>
<td>Power</td>
<td>Water</td>
</tr>
<tr>
<td>Additional Obligations. Adjusted Net Income for any 12 consecutive month period within the 18 consecutive months ending immediately prior to the issuance of such Additional Parity Obligations shall be at least 1.25 times the Maximum Annual Adjusted Debt Service on all Parity Obligations including proposed bonds</td>
<td>Power</td>
<td>Water</td>
</tr>
<tr>
<td>Transfer to the City. Require the consent of the Board of Commissioners and are at the Board’s discretion; may not exceed the net income of the prior fiscal year or reduce the Power System’s surplus to less than 1/3 of total indebtedness</td>
<td>Power</td>
<td>Water</td>
</tr>
</tbody>
</table>
• Diverse Power and Water Sources
• Continue Investing in Water and Power Systems for Future Reliability
• Meet or Exceed All Regulatory Commitments
  – Power: RPS, Carbon Reduction, Other Environmental
  – Water: Quality, Safety, Sustainability, Environmental
• Commitment to Financial Stability
• Maintain Competitive Retail Rates

Conclusion:
LADWP Remains Committed Meeting Operational Needs and Financial Goals