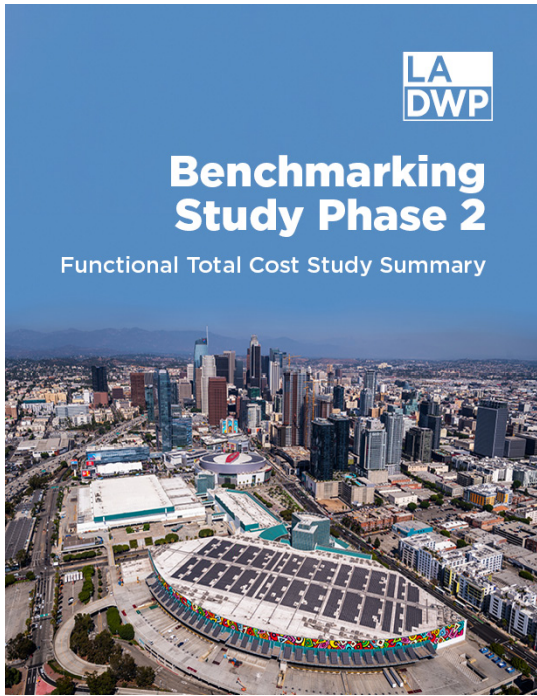




Benchmarking Study Shows LADWP Ranks High Among Peers for Infrastructure Investment

Ratepayer Advocate, LADWP Release 'Functional Total Cost Study' Comparing Labor and Non-Labor Costs to Peer Utilities

By Carol Tucker



LADWP is executing one of the largest infrastructure initiatives in the utility industry and compares favorably with its peers on cost effectiveness across a number of water and power functions, according to the findings of a new benchmarking study issued by LADWP and the Office of Public Accountability–Ratepayer Advocate (RPA).

The Department ranked in the top quartile for investing in modernizing both water and power infrastructure, such as mainlines and trunk lines, power poles, circuits and transformers, according to the Functional Total Cost Study, presented in August to the LADWP Board of Water and Power Commissioners.

“LADWP is 100% funded by the revenue we collect from our customers, and we continuously strive to deliver on our mission and achieve our goals cost-effectively,” said Martin L. Adams, General Manager and Chief Engineer. “The Functional Total Cost Study will guide our path forward as we transform our water and energy resources, improve water and power operations, and create more opportunities to better serve our customers.”

The public independent analysis, prepared by Oliver Wyman for the RPA with support from LADWP, is the second of a three-phase benchmarking program aimed at “peeling back the onion” to identify the areas with greatest opportunities for improvement and efficiency. The benchmarking program sets LADWP on a path toward modernization in a way that is cost effective and best serves customers.

The Functional Total Cost Study evaluated total labor, staffing and non-labor costs for key functions within the power and water systems, as well as customer service, human resources, information technology, purchasing, executive management and

other areas that support the entire Department. The study used industry data to benchmark LADWP in comparison with investor-owned utilities (IOUs) and publicly-owned utilities (POUs) on a wide range of performance metrics.

The study found that LADWP achieved good results in a unique and challenging environment. LADWP operates a large, complex municipal water and power utility in a city with major challenges, including housing density, record-setting traffic congestion, rapid population growth, and strong stakeholder interests, the study said. Among LADWP's unique challenges is the City Charter requirement to use internal labor to operate, maintain and upgrade water and electric infrastructure. The study found that using internal labor creates some cost challenges but also produces benefits.

In looking at operations and maintenance (O&M) costs, the study concluded that LADWP has reasonably controlled the growth of power and water O&M expenses over the long-term. The Power System's total controllable O&M expenses rank about in the median, while the Water System's O&M expenses are somewhat above the median.

In addition, the report noted that LADWP continues to maintain competitive water and power rates, reflected on customer bills, when compared to California peer utilities.

The study found that LADWP has one of the most aggressive power capital programs in the industry. Compared to both IOUs and POUs, LADWP's spending is in the 1st quartile at \$735 per electric customer, reflecting the utility's heavy investment in replacing and transforming its aging infrastructure. High spending in capital programs is viewed positively in the industry as investment in replacing aging infrastructure, according to the study.

Similarly, LADWP's Water System is "on a strong path to continue to invest and build for the future," the study stated. "Water's capital total spending is, and historically has been, near the highest among both IOU and POU peers, reflecting our continued focus on replacing aging infrastructure." Water capital spending ranked in the 1st quartile at \$665 per water customer.

LADWP has worked diligently to meet its own, and court-mandated customer service metrics, the study said. Call answer times have dramatically improved during the period evaluated in the study. LADWP has also continued to invest in branch offices, unlike other utilities, in an effort to be part of the local community and be more accessible to its customers.

However, the benchmarking results showed that total customer service costs are higher than peer utilities. Achieving better customer service could be addressed through hiring more staff, better resource management, and better use of automation.

Through benchmarking LADWP with peer utilities, the study found significant opportunities for improvement, and offered 17 key recommendations for controlling costs while removing obstacles toward modernization. With support of the RPA, LADWP identified five recommendations for initial focus.

“We recognized the value of all the recommendations but we knew the number was too large and broad to tackle all at once,” Adams said. “We believe the initial five key focus areas will make the biggest difference in meeting our goals and achieving the biggest benefits for ratepayers.”

These include understanding and addressing challenges in power distribution, resolving issues in human resources, increasing investment in information technology, better aligning and developing management, and offering an improved value proposition for attracting and retaining senior, mid- and first-line managers.

The benchmarking study compared LADWP with 26 public utilities in California and large power and water utilities in other states, as well as 24 private investor-owned utilities. The utilities selected were considered the most comparable to LADWP in terms of customer density, cost of living and labor, and the labor environment.

View a Report Summary to learn more:

 [2020 Benchmarking Study Phase 2 Summary](#)

View the full report at the [Office of Public Accountability](#)