



RESOLUTION NO. \_\_\_\_\_

**BOARD LETTER APPROVAL**

*Ann M. Santilli*  
Ann M. Santilli (Sep 26, 2024 15:26 PDT)

**ANN M. SANTILLI**  
Chief Financial Officer

**JANISSE QUIÑONES**  
Chief Executive Officer and Chief Engineer

**DATE:** September 26, 2024

**SUBJECT:** Authorization to Increase the Incremental Rate Stabilization Account Target From \$180 Million to \$220 Million; to Increase the Current Incremental Rate Stabilization Account Balance From \$180 Million to \$220 Million; and to Restrict \$40 Million in Cash to Match the Incremental Rate Stabilization Account

**SUMMARY**

The attached Resolution authorizes LADWP to increase the Incremental Rate Stabilization Account (Stabilization Account) target to \$220 million from \$180 million, to increase the current balance of the Stabilization Account by \$40 million to \$220 million, and to increase the restricted cash account by \$40 million to match the Stabilization Account.

City Council approval is not required.

**RECOMMENDATION**

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached Resolution authorizing the increase of the Stabilization Account target to \$220 million from \$180 million, the increase of the current balance of the Stabilization Account by \$40 million to \$220 million, and the increase of the restricted cash account by \$40 million to \$220 million to match the Stabilization Account.

**ALTERNATIVES CONSIDERED**

The alternative to not increasing the Stabilization Account is to leave the balance intact. This alternative is not recommended. The Stabilization Account is a deferred revenue account that helps LADWP to ensure financial stability. The primary intent of the Stabilization Account is to provide a financial mechanism to ensure that LADWP meets its targeted financial metrics, primarily full obligation coverage, capitalization ratio, and net income.

Following the results of the LA100 Study, the City Council of the City of Los Angeles (City) established an accelerated goal for all of the City's electricity to come from zero-carbon energy by 2035. LADWP has prepared a plan to pursue this goal. Therefore, LADWP anticipates an increase in funding needs and rates to support this tremendous effort going forward. Considering base rates have remained at the same level since July 2019, LADWP should increase the balance of the Stabilization Account so that it can utilize this deferred revenue to meet financial metrics and minimize future rate impacts while still working toward improving infrastructure reliability and meeting regulatory mandates.

## **FINANCIAL INFORMATION**

LADWP created the Stabilization Account to help ensure financial metrics are met. Given LADWP's expected financial needs, including those associated with a zero-carbon energy goal and continued improvement of infrastructure to maintain reliability, among other considerations, deferring \$40 million of revenue from fiscal year 2023-24 to reduce the anticipated future rate impact is recommended.

## **BACKGROUND**

The Stabilization Account is an account that was established as part of the 2012 Incremental Electric Rate Ordinance to help LADWP ensure financial stability and continues in the 2016 Incremental Electric Rate Ordinance No. 184133. When surplus revenues were available, they were deposited into this deferred revenue account and then were available to withdraw later, if needed. The Stabilization Account is a form of a "rainy day fund". In times of financial stress (such as when there are shortfalls of revenue or higher expenses including extraordinary expenses such as storm or disaster response costs), these deferred revenues can be withdrawn and applied to the income statement in that year. The primary intent of the Stabilization Account is to provide a financial mechanism to ensure that LADWP meets its targeted financial metrics, primarily full obligation coverage, capitalization ratio, and net income.

In October 2017, the Board adopted Resolution No. 018-057 setting the Stabilization Account Target at \$100 million (down from \$174 million) and authorized and directed the Chief Financial Officer of the Department to set aside and restrict \$100 million in cash to match the balance of the Stabilization Account.

In December 2020, the Board adopted Resolution No. 021-096 setting the Stabilization Account Target at \$140 million and authorized and directed the Chief Financial Officer of the Department to restrict \$40 million of unrestricted cash to fund the Stabilization Account so that the ending balance is \$140 million.

In October 2021, the Board adopted Resolution No. 022-070 setting the Stabilization Account Target at \$180 million and authorized and directed the Chief Financial Officer

of the Department to restrict \$40 million of unrestricted cash to fund the Stabilization Account so that the ending balance is \$180 million

As LADWP reviews its revenue collected for fiscal year 2023-24 and spending plans for the near future, increasing the Stabilization Account to smooth potential rate increases over the period and ensure financial metrics are met is a prudent step to serve customers and continue to work toward LADWP's reliability and environmental goals.

### **ENVIRONMENTAL DETERMINATION**

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the approval of an increased Stabilization Account target is not an action subject to CEQA.

### **CITY ATTORNEY**

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

### **ATTACHMENT**

- Resolution