



**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**

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

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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.

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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.