



CITY HALL
LOS ANGELES, CALIFORNIA 90012

March 29, 2006

The Honorable Members of the City Council
City Hall
Los Angeles, CA 90012

To the Members of the City Council:

Please find attached the independent Revenue Requirements Report for the Department of Water and Power (DWP) prepared at your direction (C.F. 05-0548). The Report was produced by the Barrington-Wellesley Group (BWG) through a contractual arrangement with our Offices. In Fiscal Year 2003-04, the Department of Water and Power requested a water rate increase. You ordered this study as a result of your experience in reviewing the rate increase request from the Department of Water and Power.

Please note that BWG believes that DWP:

- requires an increase in water revenues; and,
- requires a more effective method of addressing volatility in natural gas costs (such as the ability to pass through natural gas costs as other utilities are doing).

To avoid confusion, please note that this is a Revenue Requirements Report – not a financial or performance audit, not a rate study and not a benchmarking study. The purpose of this report is to obtain an independent opinion of the actual revenue required by DWP prior to the initiation of a discussion of rate actions. Therefore, changes in revenue and/or expenses presented in this report may not reflect a corresponding change in the water or power rates of individual or corporate customers. Changes in rates could occur at different levels for different customer classes.

Every attempt was made to ensure the independence of BWG from DWP. Information was provided by, and verified by, DWP. BWG was tasked with reviewing information, comparing it to other utilities and developing their own analysis and conclusions. In addition, we limited our interaction with BWG to clarification of information, formatting, contract compliance and the checking of logic. BWG was not directed in the formulation of conclusions and/or recommendations.

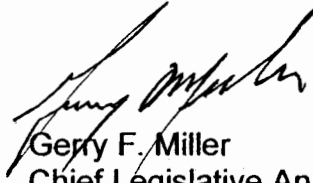
In compliance with the Council adopted revenue requirements process, this document is being made available to the City neighborhood councils and other stakeholders and will be posted on the City website. In addition, an opportunity will be provided for all

stakeholders to interact with BWG in the near future. The General Manager of DWP has had an opportunity to review this report and comment in writing. Those comments are included.

Sincerely,



William T Fujioka
City Administrative Officer



Gerry F. Miller
Chief Legislative Analyst

C: Honorable Mayor Antonio R. Villaraigosa