



ANTONIO R. VILLARAIGOSA  
MAYOR

March 29, 2006

Mary D. Nichols  
President  
Board of Water and Power Commissioners  
Los Angeles Department of Water and Power  
111 North Hope Street  
Los Angeles, CA 90012

Dear Commissioner Nichols:

The recently completed Barrington Wellesley Group's independent revenue requirements study of the Department of Water and Power (LADWP) has highlighted some significant issues that the Board of Water and Power Commission (Board) should address. However, before the Board finalizes any revenue actions, you should take all necessary steps to mitigate impacts on LADWP's customers.

The following cost related issues should be thoroughly assessed by the Board:

Expense reductions

- Evaluate all options for cost containment
- Examine all revenue reduction opportunities

Employee costs

- Consider the efficiency of current workforce deployment including overtime costs
- Explore the costs and potential feasibility of contracting out certain services
- Consider limitations on all non-essential hiring

Assets

- Evaluate the revenue benefits of all landhold agreements including leases
- Maximize the value of all surplus real and personal property
- Assess all existing capacities and opportunities for new revenue



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Contracts

- Evaluate not renewing special retail contracts for large customers that receive electrical service at discounted rates
- Scrutinize for costs savings all contracts for non-essential services
- Audit existing contracts to ensure compliance and cost-saving efficiencies

The abovementioned list is by no means exhaustive. I encourage the Board to closely scrutinize all of the Department's operations as part of this process to realign the cost and rate structure for both energy and water. The Board must view these options recognizing that LADWP must continue to provide reliable power and water service to Los Angeles.

Sincerely,



ANTONIO R. VILLARAIGOSA  
Mayor

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cc: The Honorable Members of the City Council  
The Honorable Rockard J. Delgadillo  
The Honorable Laura N. Chick  
Commissioner H. David Nahai  
Commissioner Nikolas Patsaouras  
Commissioner Edith Ramirez  
Commissioner Forescee Hogan-Rowles  
General Manager Ronald F. Deaton