DWP NC MOU Oversight Committee Meeting

December 6, 2025

Pass-through Cost Adjustment Factors

- Also called pass-throughs or pass-through rates
- Components of an overall rate that are established by a formula
- Defined by rate ordinances
  - Expenditures qualified to recover under each of the pass-throughs
  - Calculation Methodology
  - Calculation Formula
- Recover costs associated with specific programs which are mandated or expenditures that LADWP cannot control, such as:
  - Fuel for Generation
  - Purchased Power
  - Water Quality Program
  - Purchased Water, etc.
- Calculated periodically in accordance with the rate ordinances
  - Water – semi-annually or annually
  - Power – quarterly or annually
- True-up mechanism - if actual expenditures are higher than estimated, the pass-through adjustment factor will be adjusted in the following period to compensate for the shortfall; if actual expenditures are less than estimated, it will be reduced as a result.

Pass-through Rate Driver

- Pass-through Rate Driver
  - Expenditures
    - Forward looking estimated 12-month expenditures
    - LADWP Board Approval is required for inclusion in the pass-through rate calculation
- What Other Factors Affect the Pass-through Rates
  - Sales
  - Cash Funding Level of qualified capital expenditures
    - Financial Metrics to Ensure Access to Financial Market and Lower Borrowing Cost
    - Appropriate Debt Leverage (recommended by former OPA)

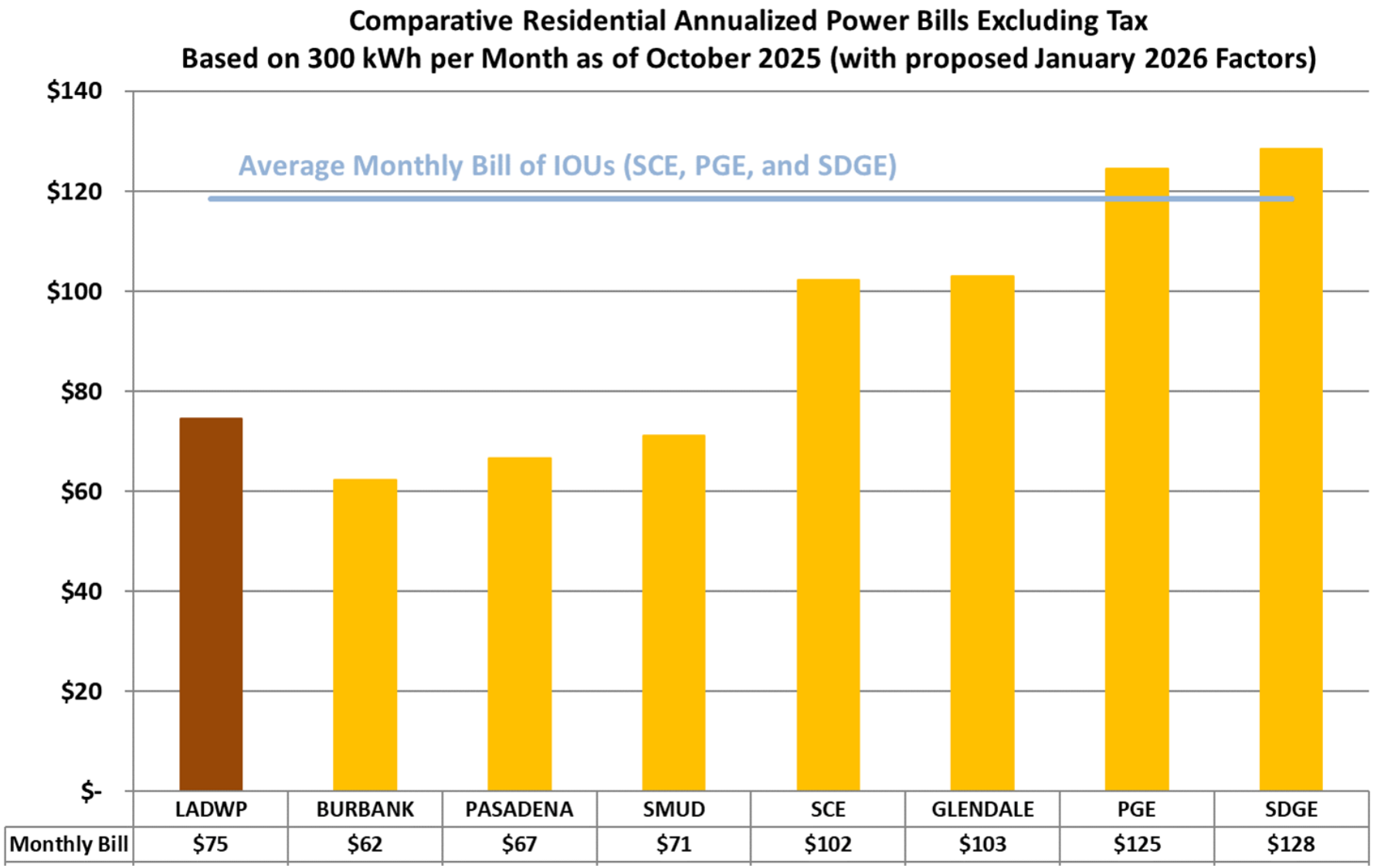
Benefits of Pass-throughs

- To account for fluctuating costs and protect financial stability, for example, natural gas fuel prices, can fluctuate dramatically
- To meet policy mandates and regulations
- To avoid unpredictable and large rate adjustments, without pass-through mechanisms, LADWP would need to incorporate volatile costs into regular rate action and rate changes could end up being large and infrequent, causing rate shock for customers
- To smooth rate changes, pass-throughs make rate changes gradual and predictable, reducing large sudden price hikes

Pass-through Adjustment Factors - Power

Pass-Through Adjustment Factors	Cost Recovering	Units	Oct 1, 2025 thru Dec 31, 2025	
2008 Electric Rate Ordinance				
Energy Cost Adjustment Factor (ECAF)	Recovers fuel, purchased power expense, and demand-side management costs	$/kWh	0.05690	Frozen
Electric Subsidy Adjustment Factor (ESAF)	Recovers cost of Lifeline, Low-Income, Enterprise Zone, Disaster Recovery, Lighting and Traffic Control billing subsidies, including administrative cost	$/kWh	0.00147	Frozen
Electric Subsidy Adjustment Factor (ESAF) - Demand		$/kW	0.46000	Frozen
Reliability Cost Adjustment Factor (RCAF)	Recovers distribution and transmission operation and maintenance expenses for $290M. Debt service of distribution and transmission capital expenditures for $320M			
Residential Service		$/kWh	0.00300	Frozen
General Service (Demand)		$/kW	0.96000	Frozen
2016 Incremental Rate Ordinance				
Variable Energy Adjustment Factor (VEAF)	Recovers non-renewable fuel and purchased power expense, legal settlement, and energy efficiency savings	$/kWh	0.00744	
Capped Renewable Portfolio Standard Energy Adjustment Factor (CRPSEAF)	Recovers directly owned Renewable Portfolio Standard (RPS) projects costs such as depreciation, interest, operation and maintenance, and energy efficiency debt service	$/kWh	0.01868	
Variable Renewable Portfolio Standard Energy Adjustment Factor (VRPSEAF)	Recovers procurement of indirectly and non-owned purchased Renewable Portfolio Standard (RPS) generation and transmission projects	$/kWh	0.03208	
Incremental Reliability Cost Adjustment Factor (IRCAF)	Recovers distribution and transmission operation and maintenance expenses exceeding $290M. Debt service of distribution and transmission capital expenditures exceeding $320M.			
Residential Service		$/kWh	0.05505	
General Service		$/kWh	0.04652	
General Service (Demand)		$/kW	2.97000	

Bill Comparison with Peer Utilities - Power



Energy Service Selected Financial Data and Statistics

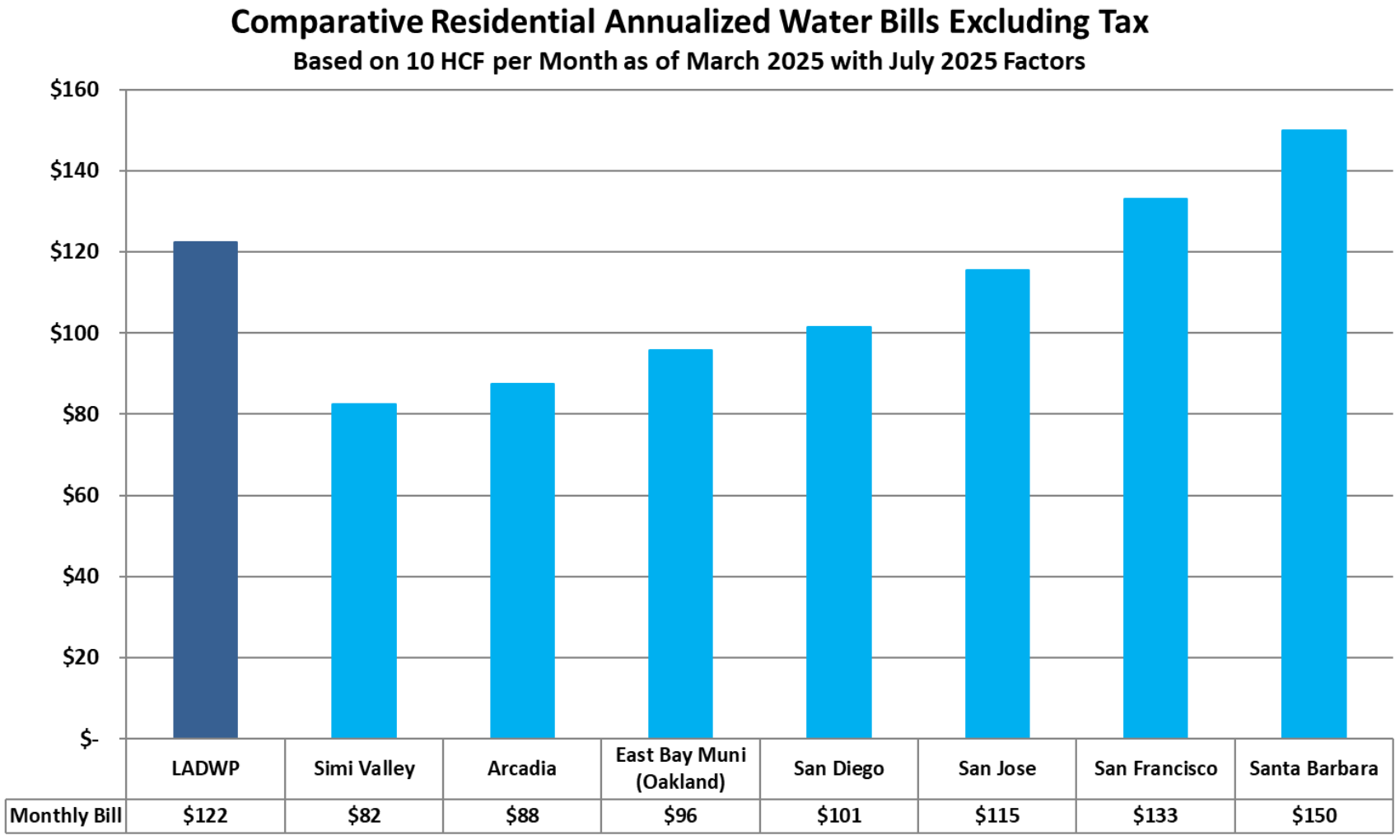
	FY 2025	FY 2024	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Operations												
Average Revenue per kWh Sold (in cents)												
Residential	25.7	23.7	22.2	22.2	20.9	18.9	18.8	17.4	16.2	15.1	14.1	13.3
Commercial and Industrial	23.7	21.8	20.5	19.8	18.9	16.9	17.5	16.0	15.2	14.5	14.0	14.2
Energy production (billions in kWh)												
Total generation	15.7	16.4	17.2	17.2	17.3	17.9	16.9	14.0	14.6	14.4	15.0	15.4
Purchases	10.0	8.9	9.1	9.4	9.0	7.3	9.0	12.3	12.2	13.1	12.9	12.8
Total production	25.7	25.3	26.3	26.6	26.3	25.2	25.9	26.3	26.8	27.5	27.9	28.2
PSRP Capital ($ in M)	1,015	785	571	578	619	627	577	533	408	336	318	256
PSRP O&M ($ in M)	677	628	554	476	444	421	410	375	344	299	305	284

Note:
PSRP capital expenditures exceeding $320 million, and O&M expense exceeding $290 million, are recovered through pass-through factors.

Pass-through Adjustment Factors - Water

Pass-Through Billing Factors	Cost Recovering	Units	Jul 1, 2025 - Dec 31, 2025
Water Supply Cost Adjustment Factor (WSCAF)	Recovers costs incurred for the following sources of water:		
Tier 1 - Basic Use	**LAA (Los Angeles Aqueduct)**: Includes depreciation, interest (or equivalent), operations & maintenance (O&M), and property taxes.	$/HCF	2.301
Tier 2 - Efficient Use	**Purchased Water (PW)**: Covers the full cost of water delivered to LADWP, including services from suppliers.	$/HCF	4.012
Tier 3 - High Use	**Groundwater (GW)**: Includes depreciation, interest (or equivalent), and O&M for in-city booster pumping.	$/HCF	4.012
Tier 4 - Excessive Use	**Recycled Water (RW)**: Encompasses purchase and production costs, capital expenditures, O&M, stormwater capture, aquifer recharge, and debt service for infrastructure. **Water Conservation (WC)**: Covers customer assistance, incentives, installation	$/HCF	4.745
Water Quality Improvement Adjustment Factor (WQIAF)	Recover costs incurred for capital projects, operations & maintenance, and debt service aimed at improving water quality citywide, including treatment, filtration, monitoring, and infrastructure upgrades to meet regulatory standards and ensure the safety and reliability of the water system.	$/HCF	2.443
Owens Valley Regulatory Adjustment Factor (OVRAF)	Recovers costs incurred for capital expenditures, operating and maintenance expense, and debt service associated with infrastructure and related facilities, which are a part of the Owens Lake Dust Mitigation Program, the Lower Owens River Project, and the Owens Lake Master Project.	$/HCF	0.545
Water Infrastructure Adjustment Factor (WIAF)	Recovers costs incurred for capital expenditures and debt service associated with construction, which are associated specifically with infrastructure investments to maintain and improve the reliability of the water distribution system	$/HCF	2.900
Water Expense Stabilization Adjustment Factor (WESAF)	Recovers any shortage between the target determined by the Chief Financial Officer for the Water System Expense Stabilization Fund and the fund's balance in order to stabilize rates in unforeseen events impacting the water service delivery and expense for legal and court costs or any judgement or settlement. Current target for the Water System's Expense Stabilization Fund is set for $50M.	$/HCF	0.043
Low-Income Subsidy Adjustment Factor (LISAF)	Recovers the cost of subsidy credits provided to lifeline and low-income customers	$/HCF	N/A
Base Rate Revenue Target Adjustment Factor (BRRTAF)	Recovers any shortage in revenue from base rates or credits back any excess collection of revenue from Base Rates due to variation in water sales from projections.		
Schedule A - Singe Dwelling Unit Residential		$/HCF	1.814
Schedule B - Multi-Dwelling Unit Residential		$/HCF	0.773
Schedule Other - Commercial, Industrial, and Governmental		$/HCF	0.110

Bill Comparison with Peer Utilities



	LADWP	Simi Valley	Arcadia	East Bay Muni (Oakland)	San Diego	San Jose	San Francisco	Santa Barbara
Monthly Bill	$122	$82	$88	$96	$101	$115	$133	$150

Pass-throughs Transparency

- Understand the Ordinance:
  - Qualified expenditures
  - Calculation Methodology and Formula
- Board Package
  - Only LADWP Board Approve of Expenditures can be included in the calculation
  - 12-month estimated expenditures are detailed in the Board package for Review.
- Office of Public Accountability Review since 2012
- Proposition 218 Public Notification Requirements:
  - Mandatory 45-day mailing notice to all customers before a public hearing regarding the change in rates
  - Bill insert at least 30 days for pass-throughs before effective
- LADWP Website

Office of Public Accountability Reviews

- Fiscal Years 2018-19 and 2019-20
  - Reduce Power System capital Reliability Program budget
  - Reduce base rate revenue target by 2% for fiscal years 2018-19 and 2019-20
- Fiscal Year 2021-22
  - Recommended $300 million of additional funding due to anticipated inflation growth of close to 7%
  - DWP needs to fully utilize the rate flexibility it was granted in the 2016 rates
- Fiscal Year 2022-23
  - Ongoing uncertainties in Operations, Finance, and Economics. Notes supply chain disruptions and high inflation. Calls for rate review.
- Fiscal Year 2023-24
  - Supported the approval of the budget and changes in rate recovery from base to pass through for certain costs. Calls for rate review
- Fiscal Year 2024-2025
  - Recommend to the Board to request $1.5 million in utility tax be returned to fund low-income customers

Sample Pass-through Calculation - Water

WATER SUPPLY COST ADJUSTMENT FACTOR
FOR JULY THROUGH DECEMBER 2025

Ord. Ref.				
	Estimated Expenditures for Each of the Water Supply Sources for the 12-month Period commencing July 1, 2025			Source
Sec.3.F.2.(a)	Los Angeles Aqueduct		$109,593,296	Schedule A
Sec.3.F.2.(b)	Purchased Water		$245,712,500	Schedule A
Sec.3.F.2.(c)	Groundwater		$101,113,979	Schedule A
Sec.3.F.2.(d)	Recycled Water		$25,153,525	Schedule A
Sec.3.F.2.(e)	Water Conservation		$31,095,251 *	Schedule A
	Adjustment Account Ending Balance as of December 31, 2024		($3,984,643)	
Sec.3.F.3.	Estimated Production Units (in HCF) of Water Supply Sources for the 12-month Period commencing July 1, 2025			
	Los Angeles Aqueduct		79,795,872	
	Purchased Water		63,620,996	
	Groundwater		35,230,827	
	Recycled Water		5,381,005	
	Water Conservation (Total Sales excluding Schedule D)		180,744,647	
	Over/Under Balance (Total Sales excluding Schedule D)		180,744,647	
	Unit Price for Each of the Water Supply Sources ($/HCF)			
Sec.3.F.3.(a)	Los Angeles Aqueduct		$ 1.373	
Sec.3.F.3.(b)	Purchased Water		$ 3.862	
Sec.3.F.3.(c)	Groundwater		$ 2.870	
Sec.3.F.3.(d)	Recycled Water		$ 4.675	
Sec.3.F.3.(f)	Water Conservation (Total Sales excluding Schedule D)		$ 0.172 **	
Sec.3.F.3.(g)	Over/Under Balance (Total Sales excluding Schedule D)		$ (0.022)	
Sec.3.F.4.	Sources of Supply starting from Least Expensive to Most Expensive (S1 to S4)			
	S1 = LA Aqueduct	43.361%	$ 1.373	
	S2 = Groundwater	19.144%	$ 2.870	
	S3 = Purchased Water	34.571%	$ 3.862 ***	
	S4 = Recycled Water	2.924%	$ 4.675	
Sec.3.F.5.	Customer Usage (Sales) by Tier, excluding Schedule D			
	Tier 1	74.163%	134,045,530	
	Tier 2	16.601%	30,005,219 ***	
	Tier 3	5.997%	10,838,855	
	Tier 4	3.239%	5,855,042	
Sec.3.F.5.	Water Supply Cost Adjustment Factor for each Tier before Water Conservation and Over/Under Balance			
	Tier 1 = (43.361%/74.163%*1.373) + (19.144%/74.163%*2.870) + (11.658%/74.163%*3.862)		$ 2.151	
	Tier 2 = (16.601%/16.601%*3.862)		$ 3.862	
	Tier 3 = (5.997%/5.997%*3.862)		$ 3.862	
	Tier 4 = (0.315%/3.239%*3.862) + (2.924%/3.239%*4.675)		$ 4.595	
Sec.3.F.5.	Water Supply Cost Adjustment Factor for Each Tier			
	Tier 1		**$2.301**	
	Tier 2		**$4.012**	
	Tier 3		**$4.012**	
	Tier 4		**$4.745**	

Sample Pass-through Calculation - Power

Attachment B

Schedule A

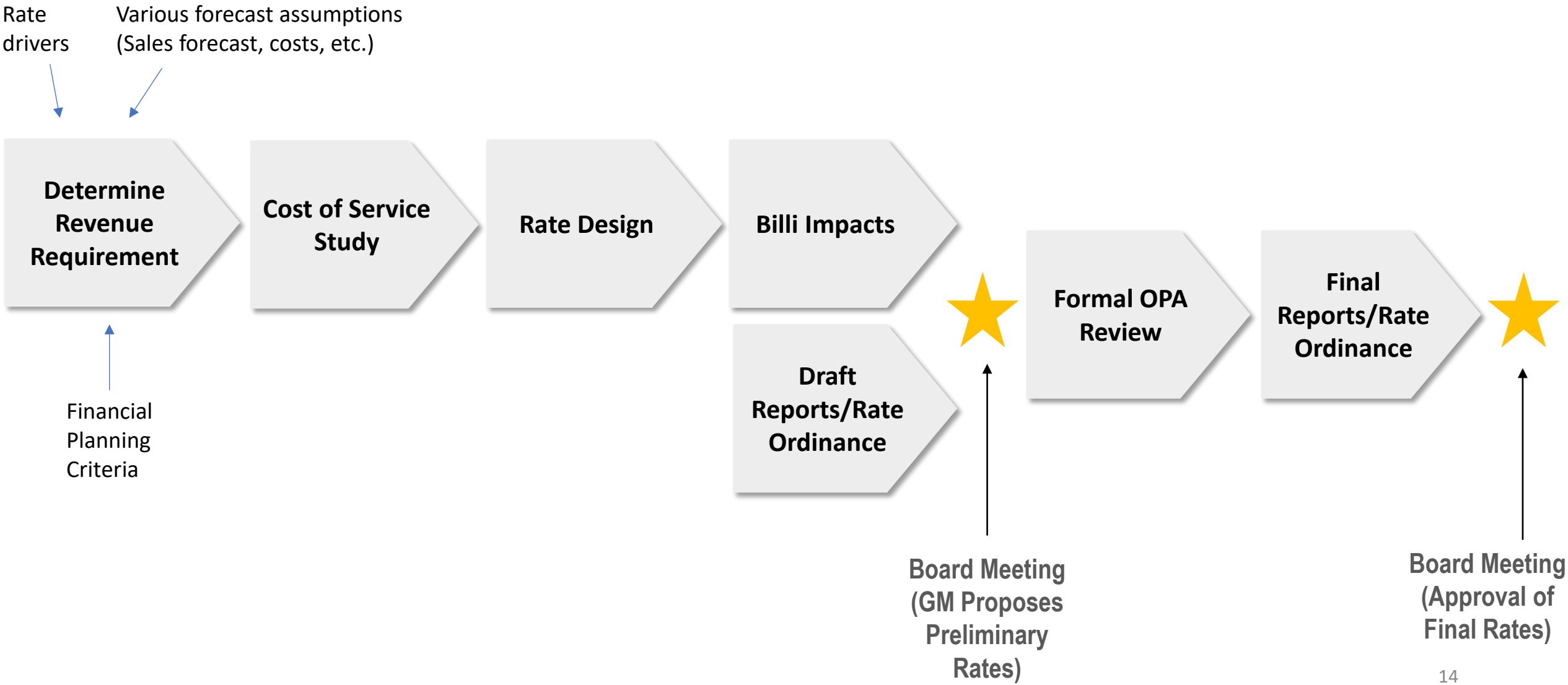
Energy Cost Adjustment Factors
(Capped and Incremental)
Calculation Summary Sheet
2nd Quarter of FY 2025-2026

2. Capped Renewable Portfolio Standard Energy Adjustment Factor (CRPSEAF)

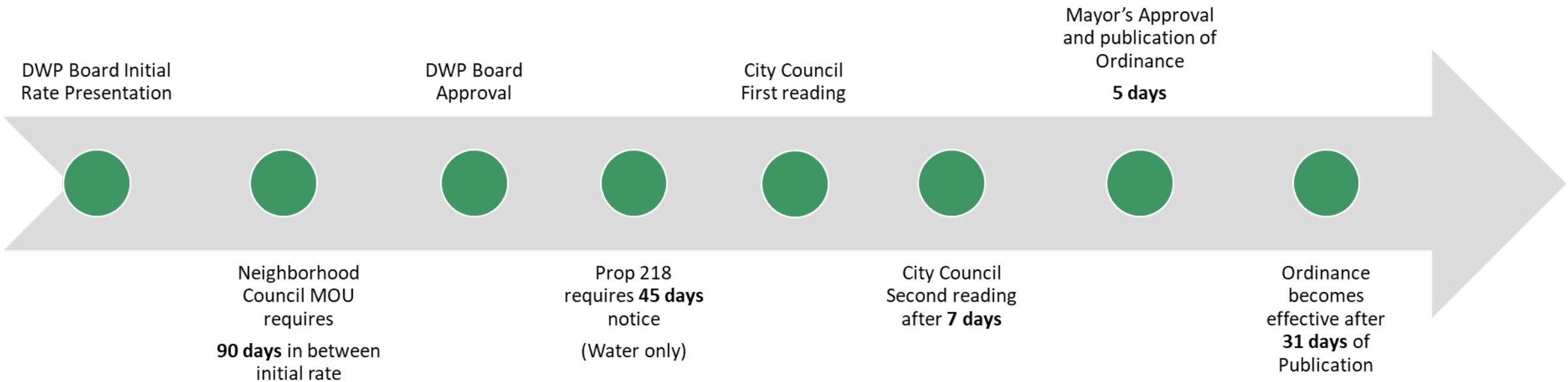
Estimated Expenses for the 12-Month Period Commencing October 1, 2025:

(a)	Depreciation Expense (Directly-Owned RPS)	$	82,344,306
	Interest Expense (Directly-Owned RPS)		123,748,723
	Operating and Maintenance Expense (Directly-Owned RPS)		128,354,075
(b)	Renewable PPAs (Fixed Portion of Indirectly-Owned RPS)		131,505,000
(c)	Energy Efficiency Capitalized Debt Service		140,068,709
(d)	City Transfer (8%)		48,481,665
(e)	Estimated Balance in the CRPSEA Account as of June 30, 2025		(23,525,362)
	Grand Total	**$**	**630,977,115**
(f)	**Estimated Retail Energy Sales (kWh)** (Less: Sales to Other City Departments under Schedules LS-1 and TC)		**20,966,755,689**
	Capped RPS Energy Adjustment Factor per kWh	**$**	**0.03009**
(g)	Less: Funding by Capped ECAF and Base Rate Contribution Factor		(0.00979)
(h)	**Calculated Capped RPS Energy Adjustment Factor**	**$**	**0.02030**
(i)	Less: City Transfer (8%) from CRPSEAF per kWh	$	(0.00162)
(j)	**Capped RPS Energy Adjustment Factor per kWh Billed to Customer**	**$**	**0.01868**

Rate Action/Review Process



Rate Action/Review Process



Rate Action Process Steps

- Prepare a rates budget to determine the estimated cost of what needs to be done. These are usually the rate drivers.
- Prepare financial plan (rate case) to recover costs over estimated sales to determine annual revenue requirements and rate increases.
- Hire outside expert to prepare a cost of service study to determine rate percentage changes to customer classes
- Design rates. What will be recovered through fixed charges, base rates and passthrough rates.
- Calculate bill impacts for different levels of usage so customers can understand impact of rate request.
- Work with City Attorney to draft ordinance changes
- Present rate package to the Board to begin outreach process. Item cannot come back to the Board for approval for 90 days to allow for stakeholder input per LADWP/Neighborhood Council MOU.

Rate Action Approval Steps

- After 90 days Board to hear rate action for approval
- Office of Public Accountability will provide their report and recommendations
- Once approval is received from Board notices are mailed to customers allowing 45 days notice for Water rate changes per Prop 218. Item is forwarded to the Energy Environment, River and Environmental Justice Committee for hearing and a recommendation to forward to the full Council for approval.
- Council will hear item and require one or two readings for approval
- Mayor signs Council approved rate ordinances
- Approval process takes approximately 220 days

Why Rate Action/ Rate Increases Are Needed

- Meet legal mandates
- Replace aging infrastructure and ensure system reliability
- Environmental stewardship
- Debt service
- Maintain financial stability and strong credit ratings
- Inflation

Maintain a regular rate cycle is a healthy and responsible way for the utility and our customers.

Rate Action Delay

- Rate action is a formal process, and the schedule need to coordinated among DWP leadership, Board, and City Leadership
- During the interim rate review of last rate action, recommended by the OPA and adopted by LADWP Board to have a regular rate review every 4 years. In addition, OPA also recommended and LADWP implemented:
    - Reduced Power Base Rate Revenue Target by 2% for FY18/19 and FY19/20
    - A power budget with a Power System Reliability Program (PSRP) capital expenditure no higher than $587 million in FY2019/20
- Delay of Rate Action
    - Covid Pandemic
    - New City Leadership
    - Rate Need for LASAN sewer and refuse
- Cost of Service and Rate Consulting Service contract was approved by the Board on November 18, 2025
- Review next rate action schedule

LA100

ACHIEVING 100% RENEWABLE ENERGY IN LOS ANGELES

LA DWP

Rate Impact Analysis Presentation

Ann Santilli
Chief Financial Officer
Los Angeles Department of Water and Power
May 15, 2025

Assumptions for Rate Impact Analysis

Budgeted and Incremental costs to achieve LA100 Plan goals

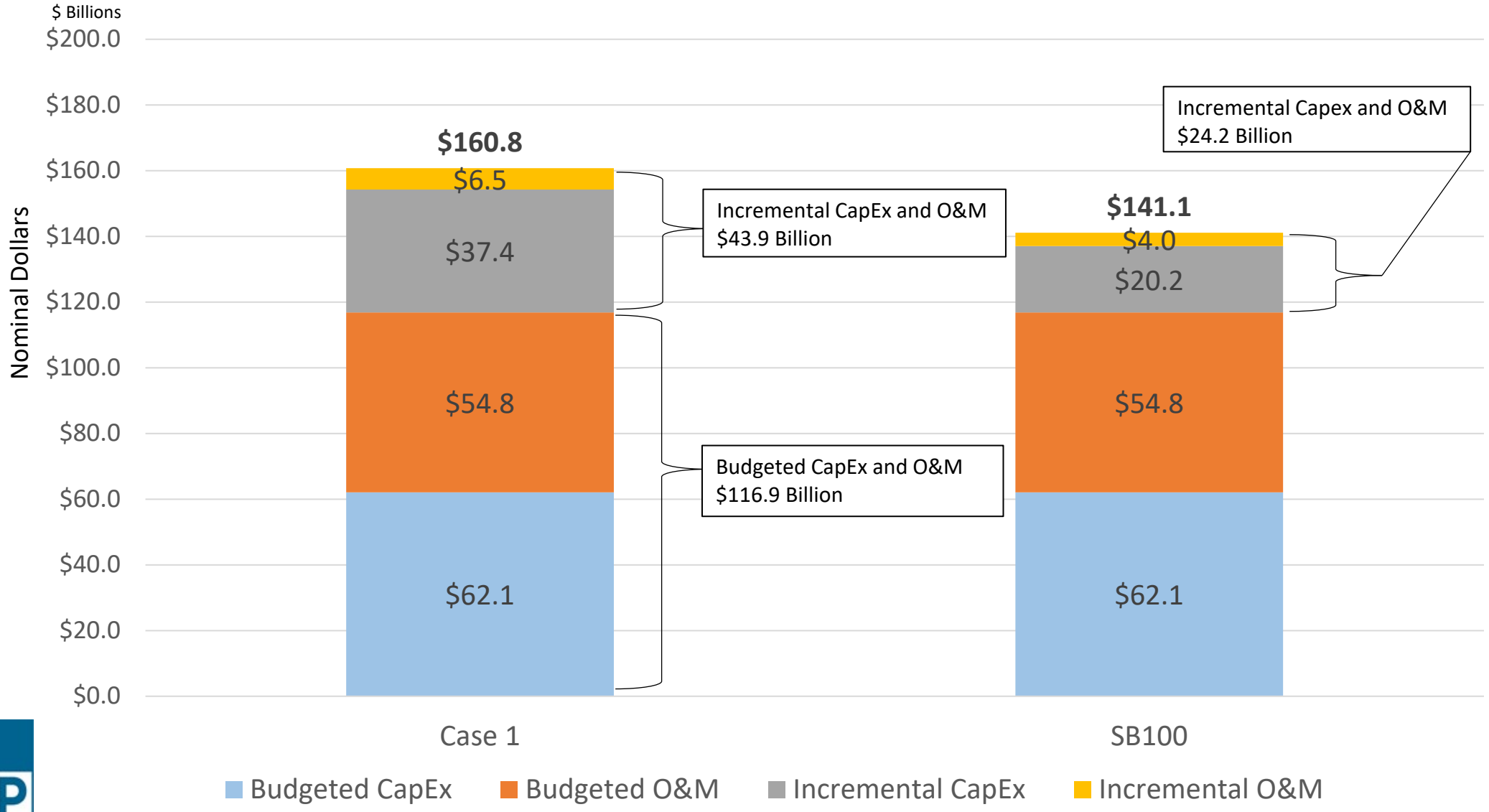
- Capital Expenditures (CapEx) and Operations & Maintenance Expenses (O&M)
- Staffing requirements
- Energy Efficiency
- Electrification, etc.

Net Energy Metering (NEM)

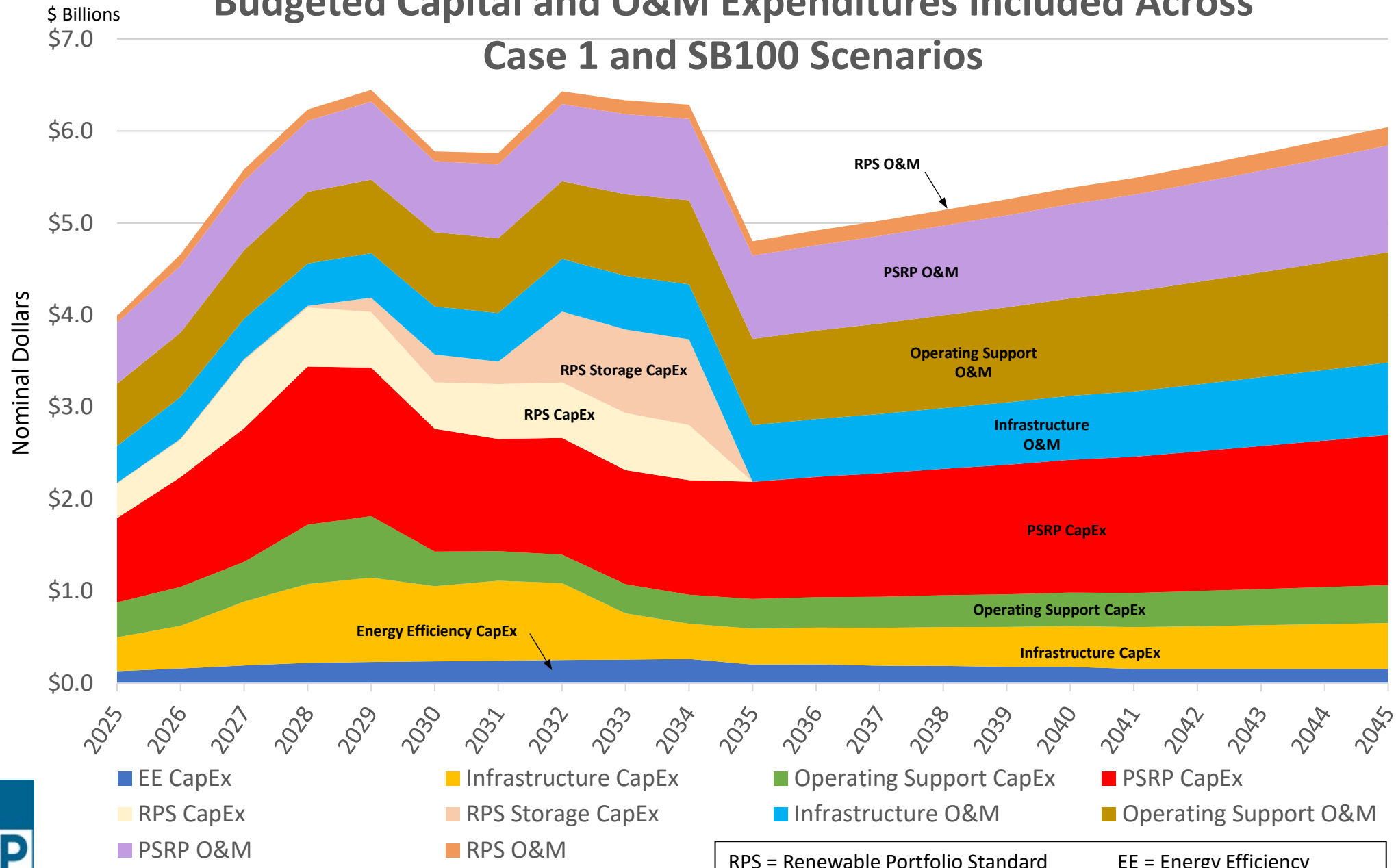
- Assume 12% of retail load supplied by NEM solar customers – expect 50% of NEM solar to be excess to grid
- Customer NEM costs/credits are based on current rate structure

Retail Load based on LADWP 2023 Retail Electric Sales and Demand Forecast with adjustments

LA100 Plan Scenarios - Estimated Capital and O&M Expenditures FY2025-FY2045

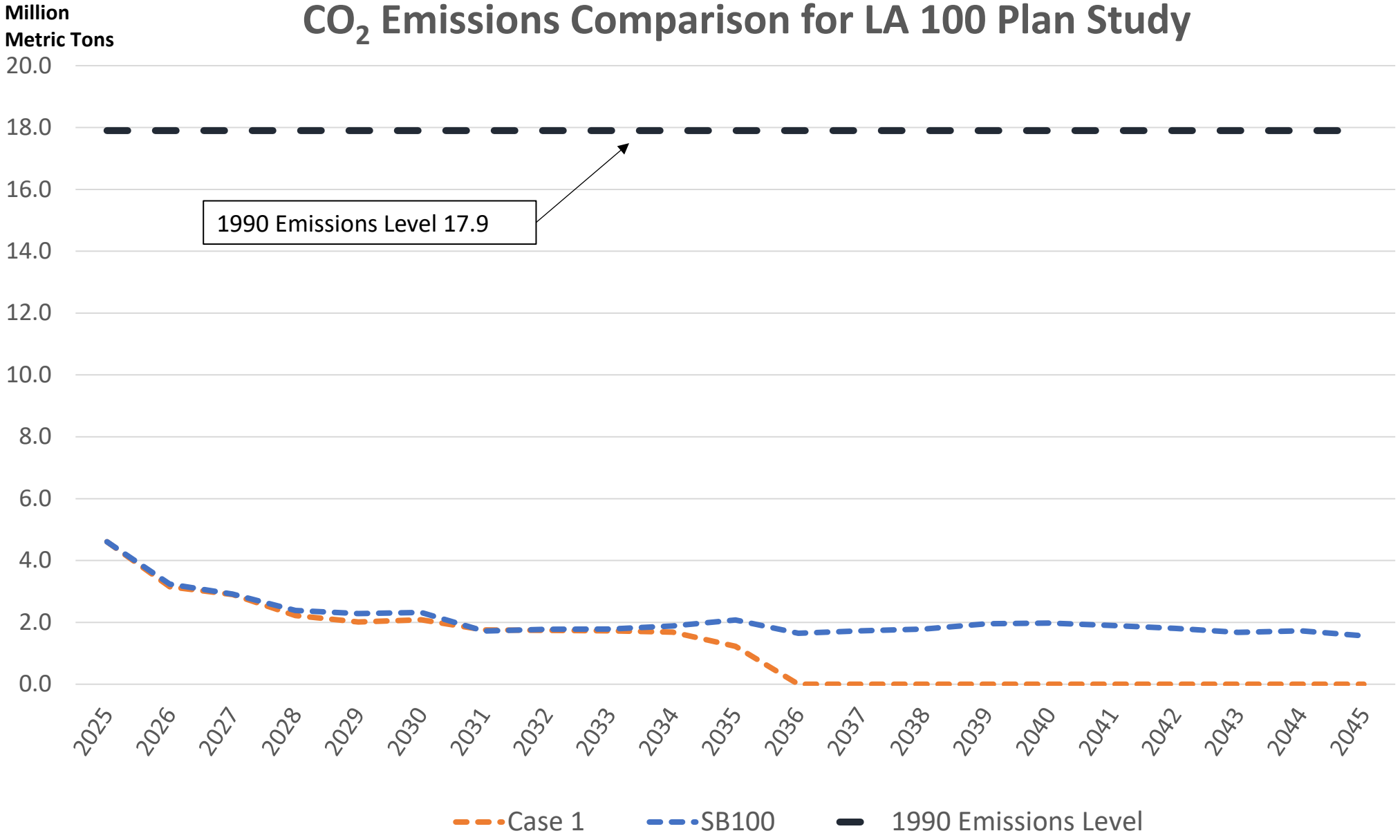


Budgeted Capital and O&M Expenditures Included Across Case 1 and SB100 Scenarios

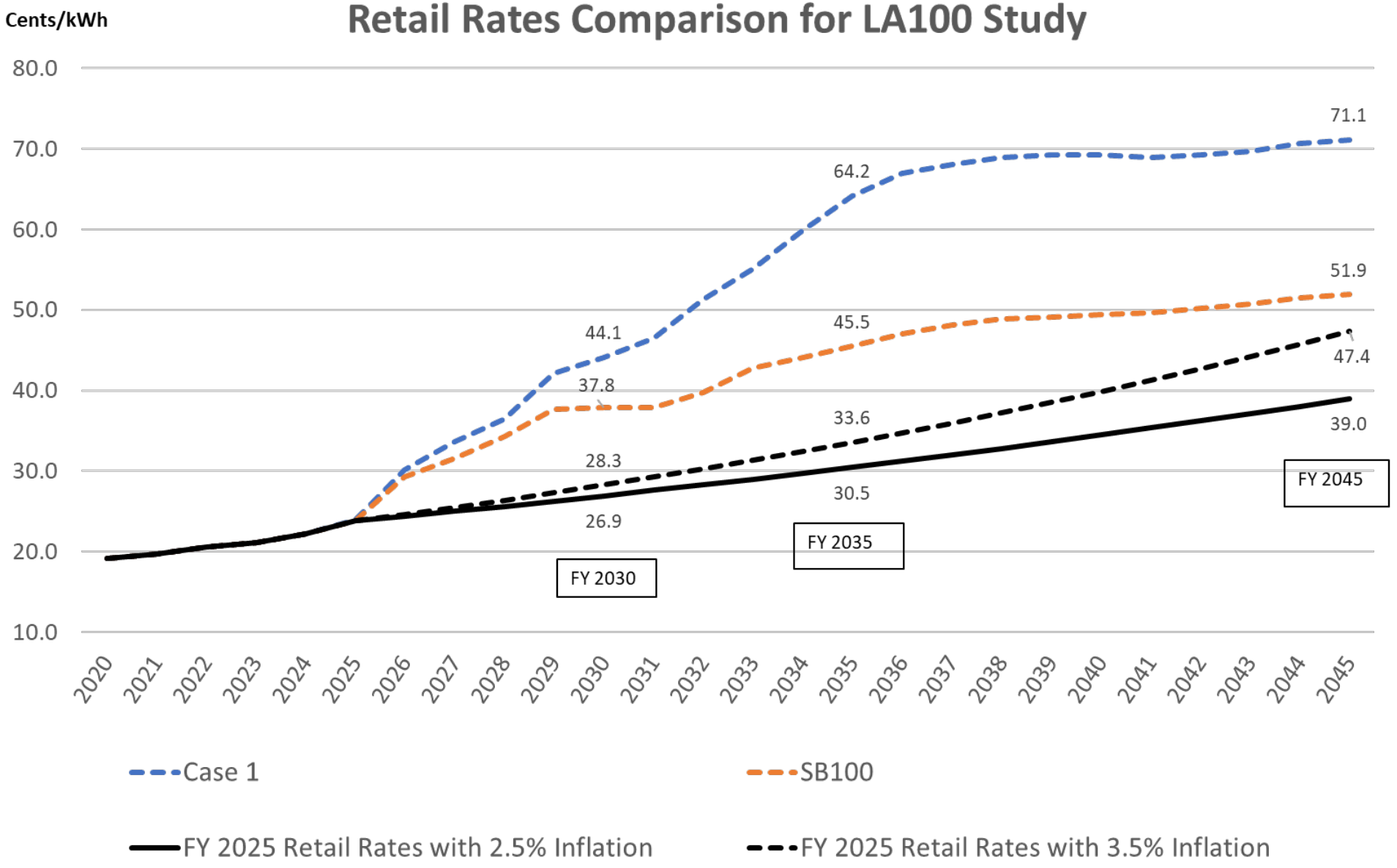


RPS = Renewable Portfolio Standard EE = Energy Efficiency
PSRP = Power System Reliability Program

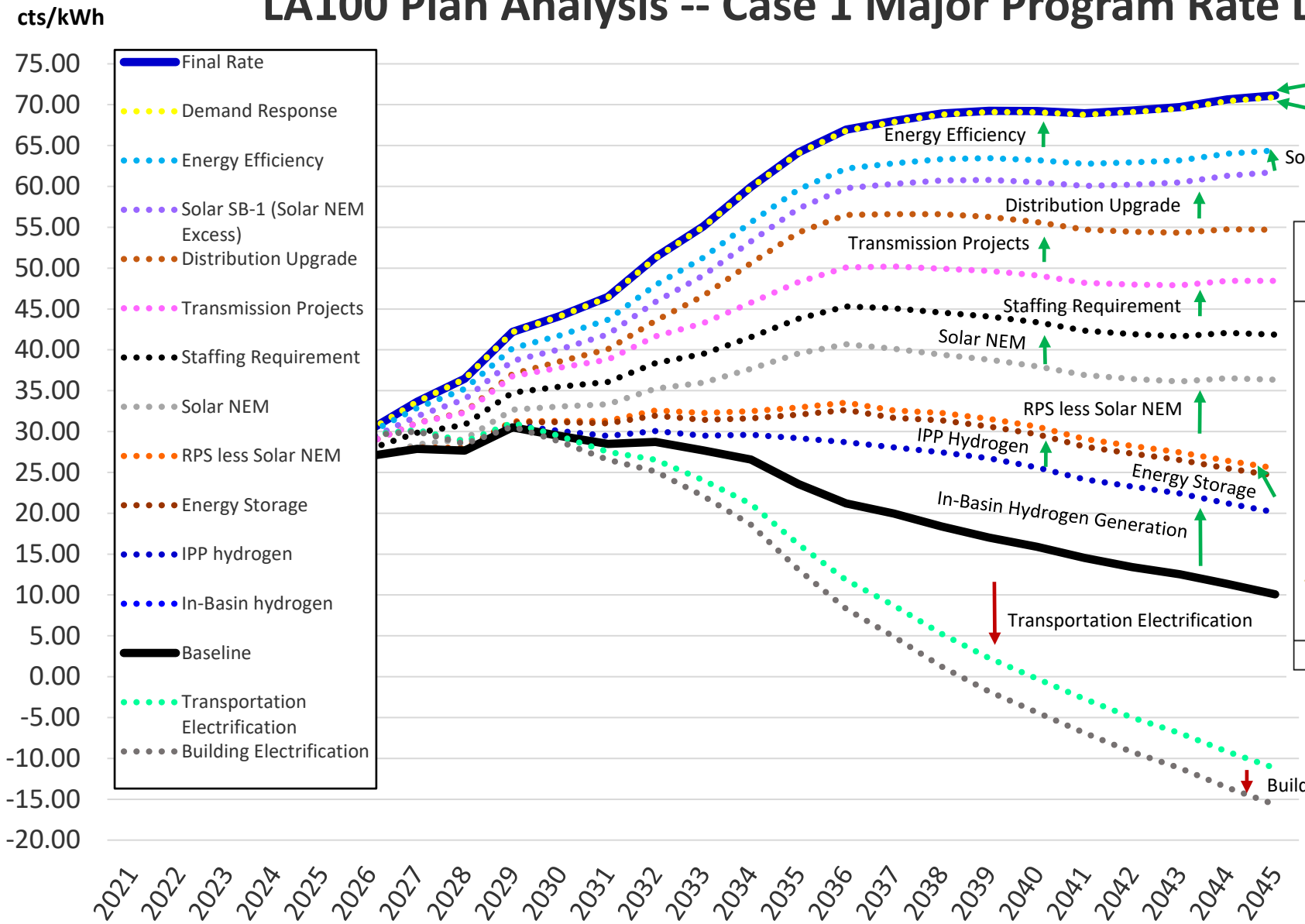
CO_2 Emissions Comparison for LA 100 Plan Study



2024 LA 100 Plan

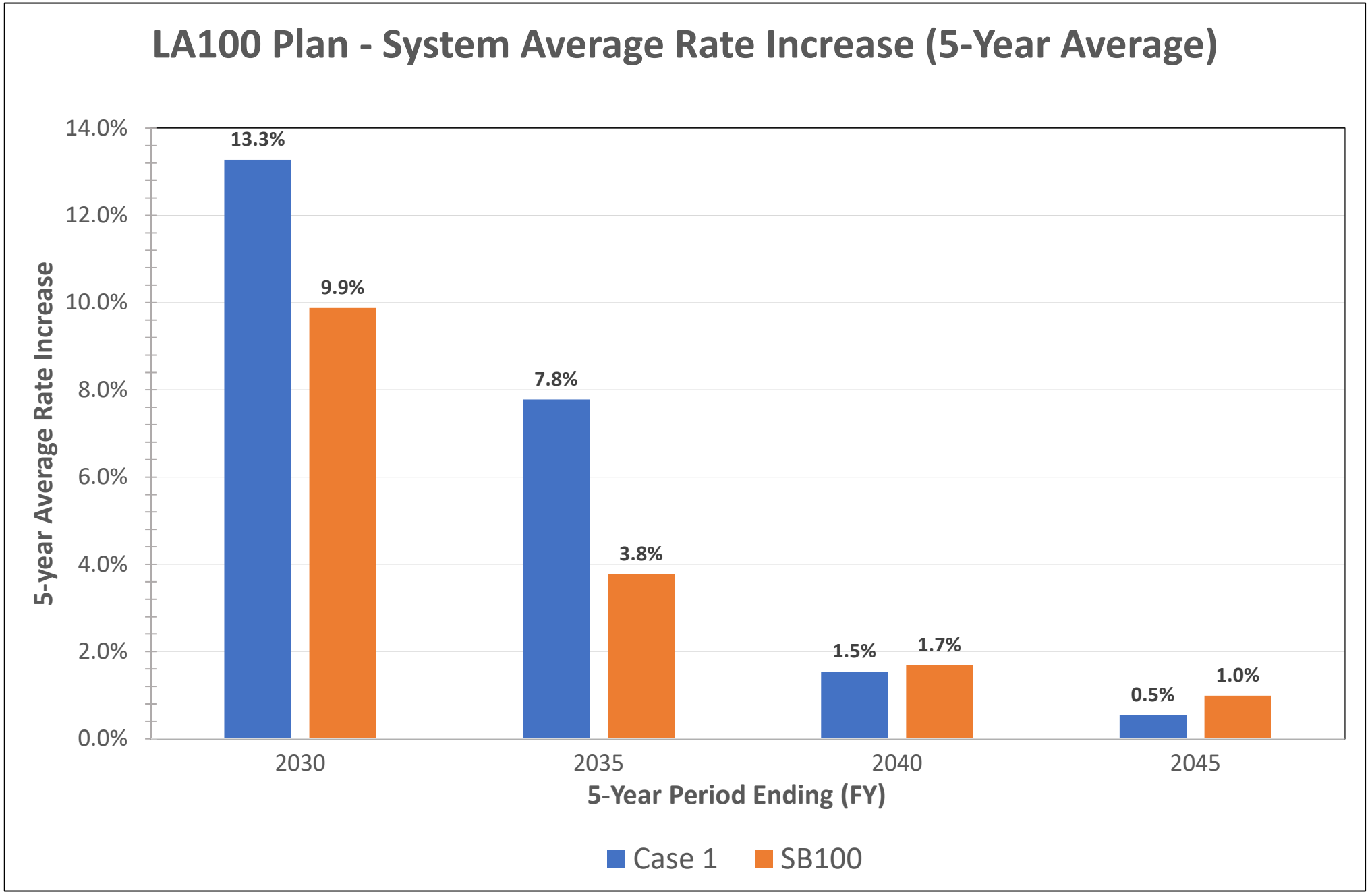


LA100 Plan Analysis -- Case 1 Major Program Rate Drivers



Rate Impact in Cts/kWh	Avg from 2025 to 2045	Rate Impact at 2045	% of Overall Rate at 2045
Demand Response	0.11	0.23	0.3%
Energy Efficiency	3.96	6.50	9.1%
Solar SB-1 (Solar NEM Excess)	2.06	2.65	3.7%
Distribution Upgrade	3.30	7.05	9.9%
Transmission Projects	3.96	6.27	8.8%
Staffing Requirement	4.00	6.56	9.2%
Solar NEM	3.78	5.54	7.8%
RPS less Solar NEM	5.08	10.82	15.2%
Energy Storage	0.63	0.92	1.3%
IPP hydrogen	2.49	4.49	6.3%
In-Basin hydrogen	5.09	10.02	14.1%
Transportation Electrification	-8.31	-21.27	-29.9%
Building Electrification	-2.51	-4.47	-6.3%
Baseline	0.00	0.00	0.0%
Sum of Program Items	23.65	35.31	49.6%

LA100 Plan - System Average Rate Increase (5-Year Average)



Conclusions

Early investments will trigger increased rates within the first 10 years but stabilize after that.

Electrification offers an opportunity to increase retail load and drive rates lower

Among the scenarios, rate analysis reveals a range between 51.9 cts/kWh and 71.1 cts/kWh in fiscal year 2045.

LA100 Funding Support

- Funded through rates (base and pass-through)
- We use pass-through to provide funding as allowed in the rate ordinances
- Any estimated qualifying expenditures for approved projects shall be approved by LADWP Board to recover under pass-through rate
- OPA Independent Review
- Actively seeking any external support, grant funding, etc.
- Increase load to lower rates
- Financial Services work with Power System and Communication Group to present financial rate impact analysis

LA DWP Los Angeles Department of Water & Power