

# Agenda Report

June 20, 2016

**TO:** Honorable Mayor and City Council

**FROM:** Water and Power Department

**SUBJECT: AUTHORIZATION TO ENTER INTO A CONTRACT WITH BURNS & MCDONNELL COMPANY, INC. TO CONDUCT AN ASSESSMENT OF THE ENERGY PORTFOLIO RISK MANAGEMENT PROGRAM FOR THE WATER AND POWER DEPARTMENT FOR AN AMOUNT NOT TO EXCEED \$139,150**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed contract is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3); and
2. Authorize the Interim City Manager to enter into a contract, without competitive bidding pursuant to City Charter 1002(F), contracts for professional or unique services, with Burns & McDonnell Company, Inc. ("Burns & McDonnell") to conduct an independent compliance assessment of the Water and Power Department's energy portfolio risk management program for an amount not to exceed \$139,150 which includes the base contract amount of \$126,500 and a contingency of \$12,650 to accommodate any necessary change orders.

## **BACKGROUND:**

The Pasadena Water and Power Department ("PWP") has and maintains an Energy and Credit Risk Management Policy ("Policy") which was adopted by the City Council on October 20, 2014. The Policy governs PWP's activities in the wholesale energy and natural gas markets and establishes guidelines for PWP to manage its energy portfolio risks. The primary objective of the Policy is to limit the financial risks associated with procuring and optimizing the energy portfolio used to meet retail electric demands. The energy portfolio consists of physical assets such as power plants, transmission lines, fixed and variable priced supply contracts and energy resources of varying maturities. Other objectives are to guide energy and natural gas activities to ensure stable and competitive rates and confirm that the total energy portfolio exposure is limited to the

size of the energy reserve funds, which is about two months of average energy cost. A copy of the Policy is included in this report as Attachment A.

Under the Policy compliance and monitoring requirements, the Risk Management Committee ("RMC") which is the management oversight body defined in the Policy is required to retain an independent consulting firm, with the concurrence of the City Finance Director, at least once every two years to conduct an independent compliance assessment of PWP's energy portfolio risk management program. This is the first compliance assessment that will be conducted following the adoption of the Policy and it will include an evaluation of the effectiveness of mandated controls and a thorough review of the Policy and procedural and controls documentation. The assessment will verify that stated objectives are carried out and that internal controls are in place for processes to comply with the Policy. It will also cover fraud risk and identify any recent changes in industry best practices that may warrant program revisions.

Upon completion of the assessment and receipt of the Consultant's report, the RMC will review any recommended changes or enhancements to the Energy and Credit Risk Management program. The RMC will also make a recommendation to the City Council on the adequacy of the Policy and necessary changes to the Policy, if needed.

#### **REQUEST FOR PROPOSAL AND PROPOSAL EVALUATION**

On March 25, 2016, a Request for Proposal ("RFP") was posted on the City's PlanetBids Vendor Portal for professional services to conduct an independent compliance assessment of PWP's energy portfolio risk management program. Thirty-two prospective proposers downloaded the RFP and five firms responded to the proposal by the deadline of April 28, 2016. Of the five firms that submitted proposals, the following two qualified energy consulting firms were deemed responsive proposers:

- |                      |                 |
|----------------------|-----------------|
| 1. Burns & McDonnell | Pasadena, CA    |
| 2. KPMG LLP          | Los Angeles, CA |

The proposals were evaluated by a panel of PWP staff based on the specific criteria stated in the RFP including: ability of the firm to effectively perform the tasks outlined in the RFP, qualifications of specific individuals assigned to the project, fee to complete the work within schedule, record of success by the firm, specific method and techniques, and whether the firm was a local Pasadena business or small/micro business. The review panel awarded the highest score to Burns & McDonnell as follows:

<b>Evaluation Criteria</b>	<b>Burns &amp; McDonnell (Pasadena, CA)</b>	<b>KPMG LLP (Los Angeles, CA)</b>
Qualifications of Firm	19	20
Qualifications of Assigned Individuals	20	22
Fee	18	9
Record of Success on Similar Work	8	8
Specific Method and Techniques	8	9
Local Pasadena Business	5	0
Small Micro Business	0	0
<b>Total Points</b>	<b>78</b>	<b>68</b>

Burns & McDonnell demonstrated a good understanding of all the issues that were addressed in the RFP. Burns & McDonnell also has recent similar experience in performing comprehensive compliance assessments, as well as developing and implementing mitigation measures for comparable electric utilities. It is recommended that Burns & McDonnell be awarded the contract to conduct an independent compliance assessment of PWP's energy portfolio risk management program. The proposed contract with Burns & McDonnell fully complies with the competitive selection process and is for a not to exceed amount of \$139,150. The project is expected to be completed in about sixty calendar days following execution of the contract. In 2012, Burns & McDonnell was awarded a contract to provide a comprehensive electric cost of service and rate design study for an amount not to exceed \$121,550. Burns & McDonnell is headquartered in Kansas City, Missouri with a local office in Pasadena, California. The contract will be managed by staff in the PWP Finance and Administration Division.

**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

**ENVIRONMENTAL ANALYSIS:**

The proposed contract for professional services to conduct an independent compliance assessment of PWP's energy portfolio risk management program is exempt from CEQA Guidelines Section 15061(b)(3). This contract is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to the provisions of CEQA.

**FISCAL IMPACT:**

The proposed contract price is \$139,150. This amount includes the contract base price of \$126,500 and ten percent (10%) contingency in the amount of \$12,650 to accommodate any necessary changes in the scope of work. Funding for this action will be addressed by the utilization of fiscal year 2017 budgeted appropriations in account 42009230 - 811400. It is anticipated that the cost will be spent in fiscal year 2017.

The following table presents a contract summary:

Contract Base Price	\$126,500
Contingency	\$12,650
<b>Total Fiscal Impact</b>	<b>\$139,150</b>

The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



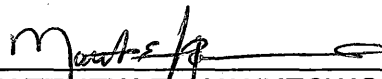
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