

**Attachment 4 - Independent Assessment of the Energy Portfolio Program
Summary of Recommendations**

Criteria #	Recommendation	Risk Rating	Management Response	Target Date	Responsible Group(s)	Status	Actions taken to date @ of December 2017
R1	Resolutions may need to be reviewed and possibly reissued, updated, or altered based on changes energy markets, supply conditions, or the natural evolution of municipalities over time. Resolution updates may follow 5 or 10 year cycles or as otherwise needed.	Medium	Management will recommend that the Energy and Credit Risk Management Policy be amended to include a requirement that authorizing resolutions be reviewed every three years. This will occur by 12/31/2017.	1. 12/31/17 - Make recommendation to the MSC and the City Council	Middle Office	Completed	Management is recommending that the Authorizing Resolutions be reviewed at least every three years or as may be deemed necessary by PWP. This recommendation is reflected in the revised Policy and included in the memo to the MSC and in the agenda report to the City Council on the proposed changes to the Policy.
R2	Recordkeeping may be improved to ensure that specific files are retained with respect to both potential infractions and/or exceptions. Aside from an individual user's directory or email servers(s), a secure common directory for senior management, may be used to provide line-of-sight over emergent issues.	Medium	By December 1, 2017, the Energy and Credit Risk Manager along with PWP IT will create a separate and secure folder for senior management for potential infractions and/or exceptions. All staff with access to the secured folder will be trained on its usage prior to implementation.	1. 12/31/17 - Create a separate and secure folder for potential infractions and/or exceptions	IT Group / Middle Office	90% Complete	PWP IT Group has created a separate and secured folder for infractions and exceptions relating to the energy portfolio risk management program. PWP IT Group worked with the Middle Office to complete the protocol for the secured folder which covers access to the folder, permission and administrative rights, naming convention and restrictions on email communication of confidential documents in the secured folder. Training will be provided to users in the first quarter of 2018.
R3	Consider developing interactive / dynamic on-line training modules with knowledge confirmation and/or testing programs. Training may be delivered annually through incremental and/or interactive basis.	Medium	Starting with the training on energy portfolio policy and procedures planned for the third quarter of 2017, management will enhance the training curriculum to include interactive modules and/or testing programs.	1. Third quarter of 2017	Middle Office	Completed	Both the August 10, 2017 training and the August 31, 2017 make-up training on the energy portfolio policy and procedures that was provided to employees involved in the energy portfolio risk management program included interactive modules and testing programs. In addition, training attendees and additional Power Plant and Power Dispatch staff completed an on-line anti-market manipulation training.
R4	Best practice managing compliance functions generally includes a stand-alone role, at the enterprise level, overseeing multiple frameworks of regulatory, statutory, and/or issues of contract conformance. Stand-alone functions, separate from committees, tend to enhance the need for independence and improve day-to-day monitoring. PWP should consider enhancing existing internal compliance roles to include issues of trading, power supply, and/or energy markets.	High	Management recognizes the need to have sufficient oversight of contract conformance but does not agree with the recommendation to have a stand-alone role perform this function. Further, Pasadena's contract conformance and day-to-day activities are monitored by ACES Power Marketing (third party contractor) because it provides daily real-time energy and fuel transactions on behalf of PWP. The RMC monthly meetings are also attended by the City's Internal Audit Manager and the Director of Finance. Management believes that the compliance functions and management oversight provided by the Energy and Credit Risk Management Committee and the Middle Office is adequate and effective, and that the relative size of PWP's activities does not warrant an additional FTE for extra compliance duties. To strengthen the current energy portfolio risk governance structure and bolster management of compliance activities, Management will update the procedures document and add miscellaneous compliance duties identified in the finding to the role of the AGM of Finance, Administration and Customer Service, and the AGM and Deputy Chief by October 1, 2017.	1. 10/1/17 - Complete update of the energy trading, risk and settlements procedures and controls manual to reflect expanded compliance roles.	Middle Office / PWP Senior Management	90% Complete	The Middle Office has updated the energy trading, risk and settlements procedures and controls manual and added miscellaneous compliance duties to the responsibilities of the AGM Finance, Administration and Customer Service and the Deputy Chief General Manager. The revised manual will be submitted to the RMC and GM for approval in the first quarter of 2018.

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R5	Senior Management may wish to increase communications with staff members in the form of periodic emails, newsletters, or organizational meetings. Additional high-level communications from senior leadership with respect to risk may serve to keep awareness high.	High	Beginning in July 2017, senior management will increase communications with staff regarding the energy and credit risk management program during routinely scheduled staff meetings and via emails and newsletters. The first quarterly newsletter will be published in January 2018. Senior management will also provide additional communications to staff during the next scheduled training on energy portfolio risk management policy and procedures.	1. July 2017 - Increase communications on energy risk management. 2. January 2017 - Publish newsletter on risk management	Middle Office / PWP Senior Management	70% Complete	PWP senior management has started to increase communications on the energy and credit risk management program. The AGM for Finance and Administration communicated the importance of energy portfolio risk management at the August training on energy portfolio risk policy. Senior management also communicated same at the PWP strategic planning session on August 11, 2017. Middle Office will work with senior management to develop pertinent communication materials and enhance communications. A newsletter on risk management will be published in the first quarter of 2018.
R6	The compliance monitoring responsibility is covered and sufficient as stated in the policy. As a function, though, PWP may wish to consider aligning compliance at an enterprise level with existing similar functions. If PWP has an existing compliance officer, routine and internal monitoring, of adherence to relevant risk management policies and procedures may be included in their job scope. While the Middle Office as compliance leader does meet basic tests for independence further separation may enhance the need to adhere to program policies and procedures.	High	Management recognizes the need to have sufficient oversight of contract performance but does not agree with the recommendation to have a stand-alone role. Further, Pasadena's contract performance and day-to-day activities are monitored by ACES Power Marketing (third party contractor) because it provides daily real-time energy and fuel transactions on behalf of PWP. The RMC monthly meetings are also attended by the City's Internal Audit Manager and the Director of Finance. Management believes that the compliance functions and management oversight provided by the Energy and Credit Risk Management Committee and the Middle Office is adequate and effective, and that the relative size of PWP activities does not warrant for an additional FTE for extra compliance duties. To strengthen the current energy portfolio risk governance structure and bolster management of compliance activities, Management will update the procedures document and add miscellaneous compliance duties identified in the finding to the role of the AGM Finance, Administration and Customer Service, and the AGM and Deputy Chief General Manager by October 1, 2017.	1. 10/1/17 - Complete update of the energy trading, risk and settlements procedures and controls manual to reflect expanded compliance roles.	Middle Office / PWP Senior Management	90% Complete	The Middle Office has updated the energy trading, risk and settlements procedures and controls manual and added miscellaneous compliance duties to the responsibilities of the AGM Finance, Administration and Customer Service and the Deputy Chief General Manager. The revised manual will be submitted to the RMC and GM for approval in the first quarter of 2018.
R7	Risk and credit analysis is performed manually via Microsoft Excel. It may be advantageous for PWP to create standardized and/or automated reports for risk analysis. This may include enhancing the existing ETRM system. While the existing processes are effectively meeting the needs of the policy, additional efficiencies may be gained through some level of automation. These efficiencies may allow for Middle Office leadership to perform other higher value tasks.	High	Management recognizes the value of using standardized reports and automated analyses whenever feasible, but does not agree that the current process is deficient. Management agrees to perform a risk assessment of the current reporting and tools by December 31, 2017. The assessment will determine the availability and feasibility of using reports generated by the ETRM system which will be implemented in the 3rd fiscal quarter of FY2018 as appropriate. The current risk is further mitigated by the credit analysis services provided by ACES. PWP's third party contractor. To further mitigate the current risk, the Assistant General Manager for Finance & Administration will perform additional review of all proposed counterparties with credit applications greater than \$1 million.	1. Third quarter of 2017 - Evaluate the feasibility of using the ETRM system to generate required reports. 2. 12/31/2017 - Complete risk assessment of the current reporting and tools.	Middle Office	80% Complete	The Middle Office has completed risk assessment of the current reporting and tools. The Middle Office is working with the Front Office and the ETRM system provider to evaluate the use of reports from the ETRM system, and to automate risk analysis as appropriate. This task is scheduled to be completed in the first quarter of 2018.

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R8, R9 & R10	Settlement processes should be evaluated for efficiency and documented accordingly. Existing work efforts lack clear documentation.	Medium	Management agrees with the recommendation and will direct the Settlements Manager to update existing documentation of back office procedures by October 1, 2017. The Settlements Manager will also create new documentation as needed regarding how disputes with the CAISO are filed and resolved, including triggers for filing a dispute. The documentation will include how potential losses/gains are determined. The new documentation will be created by December 31, 2017.	<ol style="list-style-type: none"> 10/1/17 - Complete update of existing back office procedures. 12/31/2017 - Create new back office documentation on dispute resolutions with the CAISO. 	Settlements Group	Completed	The Settlements Group has completed the procedures documents for CAISO settlements validation and dispute, and natural gas tracking and settlement activities in the ETRM.
R11	Credit evaluation procedures should be considered as part of a continuous improvement program. Periodically, it is recommended, PWP benchmark credit practices regionally and nationally.	High	Management believes that the current credit evaluation process and methodology which includes benchmarking to industry ratios is comprehensive and effective. To further enhance the credit evaluation process, Management will review the procedures document for enhancement opportunities in the third quarter of 2017.	<ol style="list-style-type: none"> Third quarter of 2017 	Middle Office	90% Complete	The Middle Office has completed its review of the counterparty credit evaluation procedures manual for enhancement opportunities. The Middle Office plans to submit a revised counterparty credit evaluation procedures manual to the RMC and General Manager for approval in the first quarter of 2018.