City of Santa Clara

City Auditor's Office

Power Purchase Agreement Audit

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Executive Summary

Purpose of the Audit

Baker Tilly US, LLP (Baker Tilly) provides internal audit services to the City of Santa Clara (the City) and has conducted a Power Purchase Agreement (PPA) Audit based on the signed Statement of Work SOW No. 2023-03 prepared in accordance with the 2023-2024 audit plan approved by the Audit Committee of the City. The objectives of this audit were to:

1) Evaluate the process of assessing and entering into power purchase agreements.
2) Evaluate the effectiveness of internal controls over management of power purchase agreements.

Report Highlights

Finding 1: Evaluation and Selection (page 10)

The SVP was not able to provide adequate support for four of the sampled PPAs to demonstrate that a supplier and product were evaluated against specific criteria important to the SVP before entering into the PPA because the documents were no longer available as the PPAs were entered into several years ago.

Management should develop a formal evaluation and selection process for all potential PPAs. All evaluation documents should be maintained for transparency, in accordance with the City's record retention policy.

Finding 2: Contract Administration and Management (page 11)

Based on the interviews with the SVP team, it was found that there was no standard process for administering and managing PPAs. Out of six PPAs reviewed, five PPAs entered into were drafted by developers or JPAs. According to the SVP management, the SVP team is currently in the process of standardizing the PPA process and contract template.

Management should continue to standardize the PPA process and contract template and complete the implementation. Once a comprehensive PPA template is completed, the instructions for creating a draft PPA from a template and finalizing it with appropriate review and approvals should be documented. If using a supplier provided agreement, a detailed review should be performed using a checklist of all City requirements to ensure all requirements are included. Additionally, the SVP should implement a formal supplier performance monitoring procedure in which suppliers are periodically assessed for compliance and overall performance.

Finding 3: Invoice Verification and Payment (page 13)

Our discussions with the SVP team revealed the following:

- For one of our sampled invoices, the supporting documents for the payment approval did not demonstrate how the discrepancy between the SVP's tracking sheets and the independent system operator's reports were resolved properly.
- For NCPA invoices, there is no written communication from the Division Manager of Settlement to the Division Manager of the SVP Resources Group indicating that the settlement portion has been validated prior to payment.

SVP should implement a standardized process for reconciling and approving invoices for payment.

Finding 4: Reporting (page 14)

Although the RPS report is reviewed by another individual prior to submission, the review is not formally documented.

The Assistant Director (or another qualified individual) should review and approve all required reports prior to submission to the California Energy Commission to prevent inaccurate reporting and to ensure all state requirements are met. The review should be evidenced in writing (signature).

Introduction

Objective

The objectives of this review were to:

1) Evaluate the process of assessing and entering into power purchase agreements.
2) Evaluate the effectiveness of internal controls over management of power purchase agreements.

Background

Silicon Valley Power (SVP)

The SVP is the City's electric utility department and provides electricity to City residents and businesses. The City's website states, "SVP provides power to 59,518 customers at rates 43 to 63 percent below neighboring communities. SVP is the only full-service, vertically integrated publicly owned utility in Silicon Valley owning generation, transmission, and distribution assets." The SVP is recognized as a Smart Energy Provider from the American Public Power Association, as well as by the Environmental Protection Agency (EPA) for its Green Power program, which is included on the nation-wide Green Power Communities List.

California Policy

In 1996, the Electric Utility Industry Restructuring Act (Assembly Bill 1890) created the California Independent System Operator (CAISO) that has the responsibility to maintain overall electricity system reliability. The CAISO controls and operates the state's transmission system to schedule delivery of electric power supplies, ensuring all standards for transmission service are met, and allows market participants to buy, sell, and transmit electricity. The CAISO makes various market and operations data/reports available. SVP is a metered subsystem in the CAISO and must participate in the CAISO energy market.

The State of California has set requirements to reduce greenhouse gas emissions 40% below 1990 levels by 2030, with utilities increasing their procurement of renewable energy resources to 50% by 2030. Senate Bill (SB) 100, passed in 2021, requires eligible renewable energy resources and zero-carbon resources to supply 60% of retail electricity sales by 2030 and 100% by 2045. SB 100 also required the Energy Commission (CEC), Public Utilities Commission (CPUC) and Air Resources Board (CARB) to use programs under existing laws to achieve 100 percent clean electricity and issue a joint policy report on SB 100 by 2021 and every four years thereafter. The SVP is required to disclose the mix of energy sources used to provide electricity service during the previous calendar year[1]. The SVP also reports its compliance with Renewables Portfolio Standard (RPS)[2] requirements.

SVP Power Purchase Agreements (PPAs)

Renewable energy can be purchased directly from a renewable electricity generator under a long-term PPA that is a contract used to execute and document the terms of the purchase between a customer, such as a city or utility, and a seller, such as an existing developer of an energy project. The ways SVP enters into PPA's include the following:

1. Formal RFP by buyer
2. Formal RFP by seller
3. Direct proposal between counterparties
4. Participation in a regulated program (i.e. WAPA/PURPA)

An RFP is recommended for PPAs[3] to clearly define objectives and requirements and to receive competitive bids.

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[1] The Power Content Label (PCL) is an annual report required under the CEC's Power Source Disclosure program.

[2] The CEC administers the RPS program that is a significant initiative aimed at advancing renewable energy adoption.

[3] U.S. Department of Energy, "Guide to Purchasing Green Power", page 6-10, https://www.epa.gov/sites/default/files/2018-08/documents/guide-purchasing-green-power-6.pdf

Under long-term power purchase agreements, SVP purchases wholesale electric power through its participation in joint power agencies[4] (NCPA[5] and MSR PPA[6]), from various members of the Western System Power Pool (WSPP)[7], from the Western Area Power Administration (WAPA)[8], and other sources to provide the City's electric utility customers with reliable electricity.

At the time this audit was commenced, the SVP had the following twenty-six (26) active PPAs to purchase power generated from a renewable or carbon neutral source.

PPA Supplier or Project	Fuel	Capacity (MWs)	Procurement Method
Ameresco Vasco	Landfill Gas	4.3	SVP issued RFP
Central 40	Solar	40	No RFP
Friant Dam 1	Hydro	25	SVP responded to RFP
Friant Dam 2 - Quinten Luallen	Hydro	8	SVP responded to RFP
Rosamond One	Solar	20	No RFP
Sand Bar	Hydro	16.2	SVP responded to RFP
Ameresco Manteca	Landfill Gas	4.2	SVP issued RFP
G2 Energy Ostrom Road	Landfill Gas	1.6	No RFP
TriDam Beardsley	Hydro	11.5	SVP responded to RFP
TriDam Donnells	Hydro	72	SVP responded to RFP
TriDam Tulloch	Hydro	25.9	SVP responded to RFP
Big Horn 1	Wind	105	No RFP,JPA-MSR PPA
Big Horn 2	Wind	17	No RFP,JPA-MSR PPA
WAPA Base	Hydro	varies	SVP responded to federal hydro program
Manzana Wind LLC	Wind	50	No RFP
Manzana Wind LLC	Wind	50	No RFP
Olcese Water District	Hydro	14	SVP responded to RFP
Tioga Tasman	Solar	0.38976	No RFP
Lafayette	Landfill Gas	0.75	City's Street Department issued RFP
Aquamarine Westside	Solar	75	No RFP
South Feather Water and Power	Hydro	25	NCPA issued RFP

[4] A joint power agency (JPA) is an organization formed by multiple public entities or municipalities to collaborate on power generation, distribution, and related services. Refer to Note 6 and Note 9 of the SVP Financial Statements for the year ended June 30, 2023.

[5] The Northern California Power Agency (NCPA)'s membership consists of sixteen publicly owned entities. https://www.ncpa.com/

[6] The M-S-R Public Power Agency (MSR PPA) consist of the Modesto Irrigation District, the City of Santa Clara, and the City of Redding, California. https://msrpower.org/about-us/

[7] The WSPP Inc.is an organization of electric wholesale market entities and gives the exclusive use of its standardized power agreement to over 275 WSPP members. https://www.wspp.org/pages/Overview.aspx

[8] The Western Area Power Administration (WAPA) sells power to more than 684 firm and non-firm wholesale power customers. https://www.wapa.gov/

South Feather Water and Power	Hydro	7	NCPA issued RFP
South Feather Water and Power	Hydro	8	NCPA issued RFP
South Feather Water and Power	Hydro	38	NCPA issued RFP
Camp Far West Hydro	Hydro	6.8	RFP, JPA-NCPA
Rooney Ranch/Sandhill A&B	Wind	TBD (50-80)	SVP issued RFP

The six PPAs selected for review consist of the following:

- Ameresco Vasco – Landfill Gas (Contract Start Date: February 22, 2014)
- Central 40 – Solar (January 1, 2021)
- Big Horn 1 – Wind, JPA (October 1, 2006)
- Aquamarine Westside – Solar (August 20, 2021)
- South Feather Water & Power – Hydro, JPA (December 19, 2021)
- Camp Far West – Hydro, JPA (April 21, 2022)

Management of PPAs

The management of a PPA involves several key entities working together to ensure successful implementation and compliance:

- Buyer (Offtaker - utility company, corporation, or government entity) manages the financial aspects, contractual obligations, and compliance with the terms of the agreement. SVP has two generation portfolios, a set of resources that SVP schedules as a market participant and NCPA schedules the remaining resources into the CAISO market.
- Seller (Developer/Generator – independent power producer or a renewable energy project developer) manages the construction, operation, and maintenance of the project.
- Regulatory Agencies oversee compliance with state or national regulations related to renewable energy procurement and may review and approve PPAs to ensure alignment with policy goals.
- Independent System Operator (ISO) manages the transmission grid, operates the energy markets, and ensures reliable electricity delivery.

Supplier invoice payment process

A brief description of the typical non-NCPA/JPA PPA invoice process is as follows:

- The CAISO produces market settlements and bills/pays SVP based on results.
- The SVP receives invoice/payment based on previous day's activities and coordinates with the Resources Scheduling Day Ahead and Real-Time desks to confirm settlements process.
- Internal spreadsheets as well as third-party software is used to validate invoices.
- The SVP uses ZEMA[9] software model to calculate expected invoice amount and compares to PPA invoice.
- The Principal Power Analyst approves all non-NCPA/JPA PPA invoices.

The invoices for the PPAs entered into through NCPA (NCPA PPAs) are processed differently as described below:

[9] ZEMA is market data management solution developed by ZEMA Global Data Corporation (Formerly ZE PowerGroup Inc.).

- NCPA manages settlement, invoicing, and reconciliation with CAISO as well as the PPA vendor.
- The Division Manager of the SVP Resources Group approves the invoice.
- The Division Manager of Settlement reconciles the NCPA All Resources Bill to ensure accuracy of PPA portion.
- If any discrepancy is found, the Division Manager of Settlement works with NCPA directly to resolve any issues. Any errors agreed upon by NCPA and SVP Settlement are then credited/debited in a future ARB.

During the FY2022 risk assessment conducted for an audit planning purpose, Baker Tilly rated the power purchase agreements as high risk based on inherent risks such as noncompliance with the agreement requirements and inaccurate supplier invoices.

To assess the internal controls over the PPA management to mitigate risks, Baker Tilly reviewed three (3) operational areas of PPAs: procurement, contract management, and payment.

Scope

The scope of this engagement includes interviews and document reviews regarding the internal controls over management of the SVP's active PPAs as of August 2023 and associated supplier invoices received during fiscal year 2023.

Methodology

To achieve the audit objectives, Baker Tilly performed the following procedures.

- Gathered information to understand the environment under review including review of policies and procedures, PPAs, and reports.
- Conducted interviews with key process owners and management including Division Managers of the Settlements and Resources Groups, Risk Manager, City Attorney, Resource Analyst, and Accounting Clerk.
- Assessed risks and identified controls in place based on process walkthroughs and review of policy documents.
- Performed testing of key controls around energy procurement/contracting, contract management, and invoice processing.
    - Judgmentally selected six (6) PPAs, based on the American Institute of Certified Public Accountants (AICPA) small sampling guidance, for detailed control testing to include a variety of resource types (solar, wind, hydro) as well as selecting PPAs that were entered into through different means (through an RFP, through project developer outreach, and with a JPA).
    - For the selected six PPAs, tested all supplier invoices for three months (December 2022, March 2023, and June 2023).
- Identified gaps in controls and recommendations for improvements.

Organizational Strengths

During this audit activity, we observed certain strengths of SVP. Key strengths include the following:

- The City employs a structured Front Office / Back Office / Middle Office structure for all its energy transactions to ensure that the different aspects of the transaction process are carried out by independent parts of the organization and that there are internal controls and oversight in place.

- The City has been actively procuring renewable power for several years, and over that time City staff, SVP, and City Attorney has developed expertise with the PPA solicitation, negotiation, and management process.

Baker Tilly greatly appreciates the support of the SVP Resources Division, Settlement Division, and Risk Management Division in conducting this audit activity.

Thank you!

Detailed Analysis

To evaluate SVP's control environment, Baker Tilly created a Risk and Controls Matrix (RCM) based on documentation reviews and stakeholder interviews. The RCM was created to document known risks and mitigation practices based on the SVP's processes and internal controls currently in place and identify opportunities and improvement areas. The RCM was created with the emphasis on the three focus areas that include procurement, contract management, and payment. The matrix documents risks that cover each of the focused operational areas. In addition, the RCM was used to plan the testing for this audit by identifying the risks associated with the current PPA processes, controls in place, and control gaps.

Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control or Gap
1	Reporting	Needs Assessment	Over or under purchase of renewable energy	An inaccurate needs assessment can result in the overstatement or understatement of needs resulting in either an over-commitment or under-commitment outlined in contracts.	C1	An Integrated Resources Plan is created every 5 years to forecast load resources and is approved by the Board.
2	Reporting	Mandatory Reporting	Required reporting is not completed	Reports may not be submitted resulting in non-compliance with state requirements.	C2	The Resource Analyst tracks the report requirements and attests to the accuracy of the report.
3	Reporting	Mandatory Reporting	Required reporting is not completed	Reports may not be submitted resulting in non-compliance with state requirements.	C3	Management monitors compliance with submission requirements by tracking an established Key Performance Measure.
4	Reporting	Mandatory Reporting	Inaccurate reports are submitted	Unapproved reports may be submitted which could cause inaccurate reporting.	C4	The RPS and PCL reports are reviewed for accuracy prior to submission to the CEC.
5	Contract Administration	RFP Development	Weak/Inaccurate RFP	An RFP is issued that is not adequately vetted and developed with the review and validation of specifications the City needs to be achieved.	Gap	There is not currently a formally documented RFP development process to ensure all required specifications are included.
6	Contract Administration	RFP Development	Unapproved RFP	An Unapproved RFP is distributed without validation of legal and performance specifications.	Gap	There is not currently a formal RFP approval process including documentation of approvals.
7	Contract Administration	Evaluation	Unreliable or Noncompliant Supplier	The city may enter into contracts with unreliable or noncompliant energy providers.	C5	The City Attorney approves the PPA during negotiations and reviews that CEQA requirements are met.
8	Contract Administration	Evaluation	Improper evaluation of suppliers	Outdated supplier evaluation criteria and weights are used leading to the selection of an unqualified supplier.	C6	Evaluation criteria and weights are developed/decided based on each RFP.

Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control or Gap
9	Contract Administration	Evaluation	Improper evaluation of suppliers	Projects proposed by Developers are not evaluated leading to the selection of an unviable project.	C7	An evaluation tool is used to evaluate all potential projects for viability.
10	Contract Administration	Evaluation	Financially unqualified supplier	Supplier financial and credit clearance not completed, and financially unviable supplier is chosen to provide services.	C8	Energy Risk Manager completes financial/credit evaluation.
11	Contract Administration	Contract Execution	Unapproved PPA executed	Supplier PPA executed without proper review and approval(s).	C9	City Attorney and City Manager approve all PPAs before execution. City Council approval is required for PPAs over $250,000.
12	Contract Management	Contractual Guarantees	Noncompliance to contractual development timelines	Projects are delayed due to noncompliance with contractual development timelines.	C10	The lead PPA negotiator monitors the contract milestones using a Project Tracker.
13	Contract Management	Contractual Guarantees	Unsatisfied Commercial Operations Deadline (COD) criteria	Commercial Operations Deadline criteria are not met prior to Commercial Operations commencement.	C11	The City Attorney verifies that requirements are included in the PPA before execution.
14	Contract Management	Contractual Generation Guarantees	Supplier noncompliance with generation requirements	Suppliers do not meet generation requirements.	C12	Performance assurances are placed in contracts to ensure generation requirements are met.
15	Contract Management	General	Unacceptable environmental impacts/changes in law and regulations	Suppliers are unable to meet environmental legal and/or environmental changes and requirements.	C13	If supplier is out of compliance, the CEC will not accept it and WREGIS will not allow a REC to be generated. Payment will be withheld for invalid RECs or non-compliance.
16	Contract Management	General	Enforceability of contracts	Weak legal constraints do not allow for feasible contract enforcement.	C14	Use and application of appropriate legal clause and constraints to support City objectives.
17	Contract Management	General	Severe weather event	The potential risk of severe weather events causing disruption in service and meeting contractual obligations.	C15	There are related contract assurances in place in the PPAs.
18	Contract Management	General	Project Delays	Delay in completion of project due to equipment delays or project startup delays in development resulting in the City not obtaining the power needed based on projected timeline.	C16	There are financial penalties and assurances language in the PPAs.

Risk Ref.	Process	Sub-Process	Risk	Risk Description	Control #	Control or Gap
19	Contract Management	REC-Renewable Energy Credit	Generation totals do not match REC quantities	Invoice totals do not match REC quantities transferred by suppliers.	C17	Generation data is tracked from supplier invoices. REC quantities are reconciled to generation totals from invoices.
20	Payment	Verification of Charges	Inaccurate payments	The CAISO invoice is not accurate leading to inaccurate billings and payments.	C18	The Power Accountant receives MWh from CAISO and confirms amount with counterparty before receiving the invoice.
21	Payment	Verification of Charges	Inaccurate payments	The invoice is not accurate leading to inaccurate billings and payments.	C19	The Division Manager ensures the ZEMA model output matches the supplier invoice and approves payment.
22	Payment	Verification of Charges	Unauthorized payments	Unauthorized payments are made.	C20	Payment packages are sent to back-office management for review and approval before payment processing by Accounts Clerk.
23	Payment	Verification of Charges	Inaccurate rates are charged	Rates that are not in accordance with the contract rates are charged and paid.	Gap	There is not currently a rate review process that occurs upon invoice payment.
24	Payment	Supplier payments	Duplicate/over payments	Duplicate/over-payments are made.	C21	There is a system control that prevents duplicate payments being made on the same invoice.
25	Process Monitoring	Internal Review	Noncompliance with internal policies	Management is not in compliance with internal risk management policies.	Gap	There is no current process for periodic review of management's compliance with internal policies.

Audit Results

Finding 1: Evaluation and Selection Process

Out of six PPAs reviewed, one was entered into through an RFP issued by SVP, two were entered into through an RFP issued by the JPA, and three had no RFPs because developers (sellers/suppliers) approached the SVP or JPAs directly. The SVP was not able to provide adequate support for four of the sampled PPAs to demonstrate that a supplier and product were evaluated against specific criteria important to the SVP before entering into the PPA. According to the Resource Analyst, the SVP's practice is to create and use evaluation criteria for each PPA project, however, the evaluation documents for these four PPAs are no longer available due to the selected PPAs being entered into several years ago.

Per discussion with Santa Clara management, the City Attorney reviews and approves all PPA terms and conditions during negotiations including reviewing that California Environmental Quality Act (CEQA) requirements are met. There is no formal documentation of this review.

The SVP policy[10] requires analyzing the financial impact of contracts and ensuring all other parties to contracts are financially sound, qualified, and capable of performance. The policy also requires keeping complete records[11].

The RFP process necessitates the SVP to define the objectives and requirements for a purchase and enables the SVP to receive competitive bids to be evaluated against specific criteria. Without solicitation, the SVP cannot ensure that a PPA helps the SVP achieve its goals at an optimum level.

Recommendation

Management should develop a formal evaluation and selection process for all potential PPAs. All evaluation documents, including financial credit evaluations, should be maintained for transparency in accordance with the City's record retention policy.

Management should address the following, among others, in order to align with best practices[12,13]:

- The SVP should implement a standardized RFP development process for a PPA to ensure all required specifications are clearly defined in an RFP and used to evaluate bids received.
- A formal RFP policy for PPAs should be created detailing guidelines to determine the requirements to be included and identifying the individuals who need to approve the RFP before issuance (City Attorney, Risk Manager, City Manager, etc.).
- The process for PPAs procured through non-solicitation should also be formally established and include methods for evaluation, selection, and approval of a supplier.
- Potential suppliers should be vetted for reliability and compliance with relevant laws and regulations to prevent entering into agreements with unreliable or nonconforming suppliers.
- The approved PPA procurement policies should be periodically reviewed and updated, as necessary.

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[10] [1] and [2] of the Section 6.8 Electric Contract Administration, SVP Market Risk Management Regulations [As Revised by Risk Oversight Committee, October 23, 2012]

[11] [3] of the Section 5.0 Internal Controls, SVP Market Risk Management Regulations [As Revised by Risk Oversight Committee, October 23, 2012]

[12] U.S. Department of Energy, "Green Power Purchasing Steps", https://www.epa.gov/green-power-markets/green-power-purchasing-steps

[13] National Association of State Procurement Officials, "State & Local Government Procurement: A Practical Guide", https://county.milwaukee.gov/files/county/administrative-services/Procurement/PagesfromNASPOStateandLocalProcurementGuideCh1-10.pdf

Management Response

Responsible Department(s): Resources

Action Plan:

A procedural guideline for evaluating potential PPA's will be developed and stored on a network drive. This guideline should be flexible enough to accommodate the uniqueness of projects and proposals while applying meaningful controls to ensure an effective balance.

Currently, the Resources department has baseline evaluation templates (excel models) that are used to evaluate the economic value of PPA proposals. However, these are not stored in a formal location and the updates to them occur from time to time which could cause confusion. SVP will establish an internal SharePoint site or similar tool that will serve as a resource database for PPA templates, guidelines, and related documents. Additionally, a file repository will be established for each PPA that includes all supporting documentation.

City Code section 2.105.090 gives enterprise funds like electric and water the exception to the City's centralized procurement for electrical power. The market for PPAs is dynamic and fast-moving. As such, there are various methods for entering into PPAs, and Management believes that there are significant internal controls for PPA procurement and payment in place, which can be enhanced as per Baker Tilly's recommendations. Additionally, it is important to note that the document from EPA referenced in the recommendation as best practices for green power purchasing steps are geared towards retail purchasers such as commercial/industrial/corporate electricity customers. Projects at the wholesale electric utility level require different considerations when being evaluated for procurement. They are more difficult to commodify due to the unique value proposition of where they are electrically located, the technologies involved, the status of its site control, interconnection, environmental permitting, etc. The different statuses also mean projects can be available to the market at different times, therefore, if an RFP happens to launch outside of a high value project's availability, SVP could end up missing out on that opportunity. For example, SVP has launched 2 renewable energy RFP's through its Joint Powers Agency, NCPA, and the resulting bids were less favorable than some of the offers presented by project owners outside of the timing of those RFP's. Because of this, it is important to maintain the flexibility to use the most effective and appropriate procurement path for any given situation.

Estimated Completion Date: December 2024[14]

Finding 2: Contract Administration and Management

Based on the interviews with the SVP team, it was found that there was no standard process for administering and managing power purchase agreements. Out of six PPAs reviewed, five PPAs entered into were drafted by the developers or JPAs. According to the SVP management, the SVP team has been working with the City Attorney's Office to standardize the PPA process and contract template. The SVP policy[15] requires ensuring that contracts are written properly. While suppliers may often initiate the initial draft of the PPA, buyers can benefit from developing their own PPA template for the following reasons:

- Customization – With a tailored template, buyers can ensure it aligns precisely with their organizational requirements.
- Efficiency – An in-house template streamlines process by avoiding starting from scratch each time and saves time and effort.
- Control – Buyers maintain control over the language, clauses, and provisions and emphasize critical aspects such as pricing structures and risk allocation.
- Consistency – Standardized terms and conditions ensures consistency across PPAs and enhance clarity.

[14] Please note that the internal audit has not yet verified the completion of the corrective actions. Verification will be conducted during the follow-up audit on all corrective actions outlined in this report.

[15] [3] of the Section 6.8 Electric Contract Administration, SVP Market Risk Management Regulations [As Revised by Risk Oversight Committee, October 23, 2012]

- Legal Review – Buyers' legal teams can review and refine the template to ensure compliance with regulations and best practices.

Additionally, a formal process is not in place to monitor suppliers' compliance with the requirements in the PPAs.

Recommendation

Management should continue to standardize the PPA process and contract template and complete the implementation. Once a comprehensive PPA template is completed, the instructions for creating a draft PPA from a template and finalizing it with appropriate review and approvals should be documented. The SVP should strive to use their drafted PPA template rather than the supplier provided agreement to ensure all required information is included while avoiding the additional time needed to review and approve all the terms and conditions in the supplier provided agreement. This will also help ensure consistency in managing PPAs. If using a supplier provided agreement, a detailed review should be performed using a checklist of all City requirements to ensure all requirements are included.

Additionally, the SVP should implement a formal supplier performance monitoring procedure in which suppliers are periodically assessed for compliance and overall performance, including ensuring the suppliers are in compliance with the following:

- Development timelines
- Commercial operations deadline criteria
- Generation requirements
- Environmental and legal requirements

Detailed reviews of specific PPAs, suppliers, or issues should be conducted on as needed basis. Each PPA should be reviewed in detail periodically to ensure alignment with the City's goals and strategies and changing market conditions.

Management Response

Responsible Department(s): Resources

Action Plan:

As noted, Management is in the process of creating standard forms to build off as starting negotiation points for future PPA's. While it is not practical to have a standard PPA that can be ready for all types of projects, SVP will prepare a power purchase agreement in consultation with the City Attorney's Office prior to release of an RFP. In the event SVP elects to purchase or sell renewable energy, renewable energy credits, or resource adequacy through a Western System Power Pool (WSPP) confirmation, SVP shall use a template confirmation which has been approved by the City Attorney's Office. In some cases, when practical, counterparty's template will be used subject to SVP staff and City Attorney's Office review.

Management will direct staff to maintain a summary of all PPA's that inventory key commercial terms. This will serve as a useful guide to refer to for consideration when negotiating future PPA's.

For SVP's future targeted RFP's for PPA's, management will design and establish upfront criteria for the targeted type(s) of resources before launch and develop a standard form PPA as the starting form for negotiations.

After a PPA is signed, the overall management of the different components is delegated to the responsible business teams. At present, the utility does not have a dedicated position responsible for management of executed PPAs. Given the number of PPA's (see table in Intro section) and the limited number of staff available, creating a position in the Middle Office team, like other electric utilities, may benefit the Front Office team, the

Back Office team, and overall PPA management. Currently, the City is undertaking an organizational assessment of SVP by an outside consulting firm. The purpose of the study is to review and make recommendations to enhance the organizational and staffing structure of the enterprise.

Estimated Completion Date: December 2025

Finding 3: Invoice Verification and Payment

For non-JPA/NCPA invoices, the SVP utilizes invoice tracking spreadsheets to reconcile the generation and rates billed to them with the CAISO reports. Our testing revealed that one of our sampled invoices did not match the CAISO report. According to the Settlements Group Division Manager, the CAISO report had an error which has since been corrected. However, there was no explanation in the supporting documents for the payment approval as to how it was determined that the CAISO report, not the invoice, included an error. The SVP policy[16] requires wholesale purchases to be verified for payment. It also requires that trade transaction confirmation documents prepared by the supplier agree to the SVP's own records and that exceptions be investigated.

For NCPA invoices, the Division Manager of Settlement reconciles the NCPA All Resources Bill to ensure accuracy of the PPA portion of the invoice and the Division Manager of the SVP Resources Group approves the invoice for payment. There is no written communication from the Division Manager of Settlement to the Division Manager of the SVP Resources Group indicating that the settlement portion has been validated prior to payment.

Recommendation

Management should implement a formalized process to validate supplier invoices and rate calculations completed by NCPA. Verifications performed by SVP should be completed before payments to ensure accurate payments.

A standardized process for reconciling and approving invoices for payment should include the following:

- Reconciliation of generation and dollar amounts with CAISO reports, utilizing an invoice tracking sheet for all PPAs.
- Review of reconciliation performed including evidence of review (signature).
- Verification of the rates invoiced with the approved contracted rate.
- Formal approval process with signature on invoices.

Management Response

Responsible Department(s): Resources and Settlements

Action Plan:

- CASIO Settlement of PPAs – A CAISO process procedure has been documented and is currently in place as of June 2024.
- NCPA Settlement of PPAs – A SNCL NCPA Settlement Procedure has been created as of June 2024.

Estimated Completion Date: June 2024[14]

[16] [2] and [4] of the Section 6.5 Power Trading Division (Back Office), SVP Market Risk Management Regulations [As Revised by Risk Oversight Committee, October 23, 2012]

Finding 4: Reporting

The RPS is one of California's key programs for advancing renewable energy. The program sets continuously escalating renewable energy procurement requirements for the state's load-serving entities. The RPS requires generation to be procured from RPS-certified facilities. The RPS compliance report is filed annually through the CEC online portal and is attested to by the Resource Analyst. Per SVP management, the RPS reporting process for the data cannot be reviewed prior to submission because the numbers are directly sent from WECC's WREGIS system to CEC for verification. The narrative section of the report is reviewed by a separate individual prior to submission, however, there is no formal documentation of this review.

The SVP policy[17] requires internal controls such as segregation of duties and accurate reporting to be integrated into all activities of the business.

The purpose of an independent review is to ensure that the information presented in the report is valid, complete, and free from errors or biases. By having an independent reviewer verify the accuracy of the report, the SVP can enhance accountability, compliance, and confidence in the reported data.

Recommendation

The Assistant Director (or another qualified individual) should review and approve all required reports prior to submission to the California Energy Commission to prevent inaccurate reporting and to ensure all state requirements are met. The review should be evidenced in writing (signature).

Management Response

Responsible Department(s): Resources

Action Plan:

Management concurs with Recommendation 4 and will enact the following step to ensure accountability:

- SVP will have an Assistant Director, Sr. Division Manager, Division Manager, or Program Manager review the annual data in the RPS portal and be the Verification Attestant electronic signatory as the final step in the portal submittal process. This will ensure a final check and balance.

Additionally, it is important to note that the RPS compliance report data that is validated for the RPS is also validated through the CEC's Power Source Disclosure Program (PSD) and all RECs are generated and transferred through from WECCS's WREGIS system. The PSD has three levels of attestation. REC retirements are sent to the CEC through an independent WREGIS verification process, and then SVP reports category compliance on a separate CEC RPS web portal. In addition, SVP must submit all PPA agreements to the CEC for approval and adherence to the RPS requirements. SVP does a formal review of the RPS Narrative document. Because of these redundancies and cross-checks, it is not efficient to have an additional reviewer duplicate the efforts of the original compiler, however, as noted above, it makes sense to have a higher-level employee sign off to ensure the analyst has completed the steps required to move through the process.

Per Finding #4, SVP will enact the following step to ensure accountability:

SVP will have an Assistant Director, Sr. Division Manager, Division Manager, or Program Manager review the annual data in the RPS portal and be the Verification Attestant electronic signatory as the final step in the portal submittal process and. This will ensure a final check and balance.

Estimated Completion Date: July 2024[14]

[17] Section 5.0 Internal Controls, SVP Market Risk Management Regulations [As Revised by Risk Oversight Committee, October 23, 2012]