TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: OCTOBER 1, 2002

CMR:400:02

SUBJECT: ENERGY RISK MANAGEMENT POLICIES

RECOMMENDATION

The Utilities Advisory Commission and staff recommend that the City Council approve the proposed City of Palo Alto Utilities Energy Risk Management Policies.

BACKGROUND

The City Council approved Energy Risk Management Policies (Policies) on March 19, 2001 (CMR:103:01). The policies provide a broad overview of the general attitude of Palo Alto towards risk and risk management. This attitude is one of risk limitation and control, with financial health of the City and Utilities being high priorities. Prior to adoption by Council, the policies were included in the Interim Risk Management Policies and Procedures that have guided staff since November 19, 1999. These Interim Policies and Procedures were approved by the City Manager.

The City Auditor’s Office conducted an assessment of the Utility Risk Management Procedures between November 2001 and June 2002. The audit report reinforced outside consultant recommendations, and identified several specific recommendations for improving utilities risk management practices and communication of risk management issues with the UAC and City Council. The City Auditor presented results of the Utility Risk Management Procedures Audit at the July 10, 2002 UAC meeting.

The City Auditor’s Report recommends: “In conjunction with the Risk Oversight Committee (ROC) and the City Council, CPAU should (a) clearly define the roles, responsibilities, and scope of authorities for each oversight body in the risk management process including the ROC, the Utilities Advisory Commission, and the City Council,
and (b) establish formal policies and procedures commensurate with these oversight roles.”

The proposed Policies were developed by the ROC, and serve as the comprehensive document that addresses these recommendations. They incorporate previously approved Council policies and provide a coherent explanation of the City’s risk management program in a single document.

The proposed Policies contain the components that were previously approved by the Council, some proposed changes to those policies, and some new sections. These outlined in the attached UAC reports. The draft version presented to the UAC has been edited slightly for clarification and approved by the Risk Oversight Committee.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS

The UAC discussed the proposed Energy Risk Management Policies at its July 10, 2002 and August 7, 2002 meetings. At the August 7 meeting, the UAC unanimously recommended the proposed Energy Risk Management Policies.

POLICY IMPLICATIONS AND UTILITIES STRATEGIC PLAN

The proposed Energy Risk Management Policies are consistent with the Utilities Strategic Plan and its Key Strategies:

• Strategy 2: “Preserve a supply cost advantage compared to the market price” and a tactic supporting that strategy is “Manage exposure to energy commodity price risk.”
• Strategy 3: “Streamline and manage business processes to allow CPAU to work efficiently and cost-effectively.”
• Strategy 4: “Deliver products and services for competitive markets” notes the provision and delivery of customer valued commodity products.
• Strategy 6: “Maximize the General Fund transfers and maintain financial strength” lists the tactic, “Maintain stable transfers to the General Fund”, for which risk management is a key part of the implementation plan.

RESOURCE IMPACT

See Attachment D (UAC Report on the Energy Risk Management Policies) for resource impact. The risk of not approving the Energy Risk Management Policies at this time is that staff will continue under the existing Council approved policies and the Interim Risk Management Policies and Procedures. However, these are not necessarily consistent with current practice and with the recommendations of the City Auditor.
**TIMELINE**

**ATTACHMENTS**
C. Minutes from the July 10, 2002 UAC meeting
E. Minutes from the August 7, 2002 UAC meeting

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