



# Memo

**To:** Public Utilities Board  
**From:** Bryan Langley, Deputy City Manager  
**Date:** July 24, 2017  
**Re:** Deloitte Scope of Work for Energy Management Organization

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The Energy Management Organization (EMO) in Denton Municipal Electric (DME) is responsible for purchasing power and administering Denton's power supply functions. This organization was created in 2014, and has been very successful in accomplishing cost savings for the Denton rate payers. Denton staff estimates that the EMO has saved approximately \$13 million annually compared to what Denton would have spent by contracting for EMO functions through a power management contract. Staff is proposing to use a consulting firm, Deloitte, to verify these savings and identify the best methods to calculate savings going forward. The scope of work for these tasks is attached as Exhibit A. This ACM update is being provided for informational purposes, and staff will be glad to provide additional details to the Public Utilities Board upon request.

## Exhibit A

### STATEMENT OF WORK, DRAFTED: June 21, 2017

This Statement of Work is to confirm the engagement of Deloitte & Touche LLP (“Consultant” or “we” or “our”) to provide City of Denton (the “Owner” or “you”) with model and cost validation services<sup>1</sup> (the “Services”). The engagement is subject to the terms of the Professional Services Agreement for Denton Municipal Electric (“DME”) Energy Management Operations Analysis (“EMO”) (designated by Client as File 6469) to which this Exhibit A is attached and made a part thereof.

### SCOPE, APPROACH, AND ASSUMPTIONS

The nature of the Services that the Consultant is to perform for the Owner is to perform an assessment and validation<sup>1</sup> of the cost saving model used by Denton Municipal Electric (“DME”) to support the operations of the Energy Management Operations (“EMO”) group (the “Model”). The scope of work will focus on the inputs and calculations in the model, as well as the process in place at Owner to support its use of the model. Consultant will provide Owner with a retrospective assessment for FY 2015 and FY 2016.

Consultant’s approach for this engagement is as follows:

**1. Retrospective Assessment FY 2015 (10/01/2014 – 09/30/2015) and FY 2016 (10/01/2015 – 09/30/2016):**

- Assess the model used by Owner in FY 2015 and FY 2016 including the model's inputs, exclusions, and assumptions based on the following as applicable:
  - Inputs may include the following, but are not limited to:
    - Congestion Revenue Rights (“CRR”) costs
    - Day Ahead Market (“DAM”) prices
    - DAM Point-to-Point (“PTP”) purchase
    - Real Time Market (“RTM”) prices
    - RTM PTP purchases
    - RTM Congestion Cost
    - DME ancillary service Costs
    - Bilateral contracts for power
    - Broker fees for exchange traded contracts
    - Financial swap transactions

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<sup>1</sup> For purposes of the model validation and other services described herein, terms such as validate, test, verify, review, and confirm refer to assessment activities performed based on objectives, a framework and assumptions as agreed to with the Owner. These activities will not include detailed testing of data elements and controls, can be inherently subjective and are based on Consultant’s current understanding of facts, circumstances and regulatory expectations. Other professionals may perform procedures concerning the same information or data, and reach different findings than Consultant for a variety of reasons, including the possibilities that additional or different information or data might be provided to them that was not provided to Consultant, that they might perform different procedures than did Consultant, or that professional judgments concerning complex, unusual, or poorly documented transactions may differ.

**This document and any attachments thereto may contain information that is confidential, commercially-sensitive, proprietary, and/or public power utility competitive and financial information in accordance with the provisions of Texas Government Code, Section 552.101, 552.104, 552.110 and/or 552.133, and may be protected from required public disclosure.**

- Exclusions may include, but are not limited to, the following:
  - Electric Reliability Council of Texas (“ERCOT”) CRRs
  - Select counterparties costs
  - Renewable Energy Credits (REC)
  - Landfill
- Assess the appropriateness of inputs and assumptions for the model, including information received from the model based on the Consultant’s understanding and knowledge of the inputs and assumptions associated with ERCOT and establishment of an energy management organization
- Assess the appropriateness of key exclusions based on the Consultant’s understanding and knowledge of the inputs and assumptions associated with ERCOT and establishment of an energy management organization
- For observable inputs (such as market data), a comparison of selected data to an independent source of the market data, where available
- For unobservable inputs (such as assumptions), an assessment of the process by which the assumptions are developed and assessment of consistency with available related information (such as proxy information) as provided by Owner
- Assess the accuracy and completeness of the final FY 2015 and 2016 savings calculations based on the following as applicable:
  - Analyze the NRG quoted heat rate used in the FY 2015 and 2016 cost savings calculations by comparing it to available market data as provided by Owner
  - Recalculate the FY 2015 and FY 2016 year-end summaries using supporting documentation such as counterparties invoices, CRR Auction costs, and ERCOT statements to the extent that statements are available, which will be provided by the Owner
  - Research and analyze resulting differences between the Owner’s FY 2015 and FY 2016 savings calculations and the recalculations performed by Consultant

## **ACKNOWLEDGMENTS AND AGREEMENTS**

- Substantial and meaningful involvement of key stakeholders in the risk assessment and risk identification process of the Company is critical to the success of this engagement. The Company shall be responsible for ensuring that the identified Company personnel actively participate in both the planning and execution of this engagement.
- The Services will not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, the Public Company Accounting Oversight Board, or other regulatory body and, therefore, we will not express an opinion or any other form of assurance as a result of performing the Services.
- Consultant will not make any management decisions, perform any management functions, or assume any management responsibilities.

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- Observable inputs such as market data shall be provided by the by the Owner or agreed with Owner for use in the assessment

The Services will be performed in accordance with the Statement on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA).

## **DELIVERABLES**

The following deliverables will be produced during the course of this engagement:

- I. Prepare a report of the results of our assessment of the FY 2015 & FY 2016 cost savings to include the following elements:
  1. Executive summary
  2. Procedures performed
  3. Results of recalculations performed

## **TIMETABLE**

Based on our experience delivering similar engagements, we believe that the services described can be provided in approximately three (3) weeks.

## **ENGAGEMENT FEES**

The estimated fees for this engagement are estimated not to exceed \$60,000 inclusive of travel, based on the following rates and approximately 231 hours:

<b>Resource Level</b>	<b>Hourly Rate</b>
Partner, Principal, Managing Director	\$445
Senior Manager	\$415
Manager	\$380
Senior Consultant	\$330
Consultant	\$280
US India Senior Consultant	\$91

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