



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Materials Management

CM: Todd Hileman

DATE: October 10, 2017

SUBJECT

Consider adoption of an ordinance of the City of Denton, Texas authorizing the approval of a second amendment to a contract between the City of Denton and Deloitte & Touche, LLP to perform a Fiscal Year 2017-18 benchmark analysis and risk assessment of the City of Denton Energy Maintenance Organization (EMO) in the amount of \$145,000, amending the contract approved by Purchasing staff on May 25, 2017 in the amount of \$26,000 and a First Amendment approved by the City Manager on July 25, 2017 in the amount of \$60,000; providing for the expenditure of funds therefor; and providing an effective date (File 6469—providing for an additional expenditure amount not-to-exceed \$145,000, with the total contract amount not-to-exceed \$231,000).

FILE INFORMATION

Staff contracted with Deloitte and Touche LLP (“Deloitte” or “D&T”) to perform an independent assessment of the estimated savings and model of the Energy Management Organization, an in-house division of Denton Municipal Electric that was created in 2014 to manage the utility’s electric supply portfolio and perform all required scheduling, regulatory, and settlement activities. A goal of implementing the EMO was to achieve cost savings compared to outsourcing the function to a third party, as had been done previously.

Deloitte performed a retrospective assessment of the savings calculations and model used by the EMO for FY2015 and FY2016. Deloitte presented their findings to the Public Utilities Board on September 11, 2017 and to the City Council on September 12, 2017. Below is a brief summary of the findings that were presented:

- The model validation and calculation re-performance identified only small differences in the cost savings as reported by DME and re-performed independently by D&T.
- The two main drivers in the cost savings are (1) the heat rate and (2) the ancillary services cost. Both were quoted by the previous outsourced counterparty.
 - There are two elements of the heat rate that when further analyzed result in a reduction in savings of between \$6 and \$7 million per year. At an initial estimate of \$12 to \$13 million of savings per year, that results in a revised savings of approximately \$6 million per year. The two elements are:
 - Using an around-the-clock heat rate vs. an on-peak heat rate
 - Using a thorough historical analysis rather than relying on a single data point
 - The ancillary services and QSE costs account for more than \$3 million per year in cost savings when compared to the actual ancillary services and QSE cost incurred by the EMO.

- D&T reviewed the EMO costs and identified some potential costs that may not have been considered during the creation, implementation and operation of the EMO, including governance costs, costs due to potential personnel gaps, and data, license, software and systems costs.

Based on D&T's retrospective analysis and assessment of the EMO Model, D&T recommended next steps for a second phase of work to perform the following tasks:

- **FY2017 Benchmark Analysis:** Consider performing an analysis of alternative benchmark calculations to be used in the cost savings calculation. This should be undertaken prior to the calculation of the estimated FY2017 cost savings.
- **EMO Risk Assessment:** Consider having an independent assessment of the EMO's current and future capabilities required to support the EMO's mission, energy management and risk management activities.

At the direction of the PUB and City Council, staff requested a quote from Deloitte. A proposed scope of work for the FY2017 Benchmark Analysis and EMO Risk Assessment from Deloitte is attached as Exhibit A to the Ordinance.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

On September 25, 2017, the Public Utilities Board recommended approval to forward this item to the City Council for consideration.

September 12, 2017 – Deloitte presented their assessment of the cost savings model for the EMO for FY2015 and FY2016 at the September 12, 2017 City Council meeting.

September 11, 2017 – Deloitte presented their assessment of the cost savings model for the EMO for FY2015 and FY2016 at the September 11, 2017 Public Utilities Board meeting.

RECOMMENDATION

Staff recommends approval of a second amendment to the professional services agreement with Deloitte & Touche, LLP in an amount not-to-exceed \$145,000 for a total contract award not-to-exceed \$231,000.

PRINCIPAL PLACE OF BUSINESS

Deloitte & Touche, LLP
Parsippany, NJ

ESTIMATED SCHEDULE OF PROJECT

It is estimated that the services described in the scope of work could take approximately six (6) weeks to accomplish. The agreement is planned for consideration at the October 10, 2017 City Council meeting. Deloitte expects that they could begin work the following week.

FISCAL INFORMATION

These services will be funded from CMO Professional Services account 103001.7879.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence

Related Goal: 2.3 Promote superior utility services and facilities

EXHIBITS

Exhibit 1: Agenda Information Sheet

Exhibit 2: Original Agreement With Amendment 1

Exhibit 3: Public Utilities Board Minutes

Exhibit 4: Ordinance

Exhibit 5: Second Amendment

Respectfully submitted:
Karen Smith, 349-8436
Purchasing Manager

For information concerning this acquisition, contact: Sarah Kuechler at 349-8356.