



MEMORANDUM

DATE: December 7, 2017
TO: Todd Hileman, City Manager
FROM: George Morrow, General Manager -- DME
SUBJECT: General Manager's Comments on Deloitte Report

Over the past several months, DME staff members have provided documentation and information to Deloitte to assist them in assessing DME's Energy Management Organization (EMO). A key objective of this exercise was to develop recommendations to enhance the effectiveness of the EMO business unit from a risk management standpoint. As General Manager of DME, I have reviewed Deloitte's report and recommendations in this regard and offer the following comments.

Deloitte's EMO assessment was comprehensive and professional. As I undertake my own assessment of the EMO operation, Deloitte's findings and recommendations will provide me with a roadmap for making early, high value enhancements to the EMO. It is my intention to implement all recommendations to the greatest extent possible and to report their status periodically to the City Manager and, per his direction, to the Public Utility Board and City Council.

From my discussions with the EMO leadership, I learned that many efforts are already underway to address key Deloitte findings and to prioritize future action items. On items we are not currently addressing, I will be working with staff to initiate such improvements as early as practicable.

One of Deloitte's more significant recommendations is to update DME's Risk Management Policy. In this regard, I plan to complete a Risk Management Policy update over the next sixty days and will seek PUB and City Council review and approval shortly thereafter. During this period, I also plan to work closely with Deloitte to develop a risk profile for the energy trading operation to ensure that DME has a market risk strategy consistent with a not-for-profit publicly owned electric utility.

Other high priority recommendations of the Deloitte review team relate to trade "capture", energy portfolio valuation, risk measurement/assessment and internal reporting. From all indications, the existing DME system used for this purpose is not capable of consistently performing these duties due to increased market/trade complexities. Staff has proposed an Energy Trading and Risk Management (ETRM) system replacement – Deloitte has also

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identified this item as a high priority. I am currently assessing the replacement ETRM system and will be making a recommendation on how to proceed forward shortly.

In conclusion, I want to thank the Deloitte and EMO teams for their hard work to advance DME's critical Energy Management Organization function. I was pleased with Deloitte's conclusion that no major flaws exist in the EMO operation that cannot be rectified. I hope to personally validate this conclusion from my own review of DME's power supply and market operations organization over the next several months.

I am looking forward to zealously overseeing the needed EMO improvements.

George F. Morrow
General Manager -- DME