

Report #2022-09

# 2022-09 PLEASANT VALLEY POWER PURCHASE AGREEMENT AUDIT 2022.06.28

NUMBER OF RECOMMENDATIONS



*City of Glendale  
Internal Audit*

06.28.2022



# Contents:

A. Overview..... 3

B. Action Plan and Target Completion Dates..... 4

C. Background ..... 5

D. Objective, Scope and Methodology ..... 5

E. Observations, Recommendations, & Management Responses Matrix..... 6

Appendix 1: Definitions of Priority Rankings and Value-Added Categories..... 10

**Distribution List:**

- For action: David Davis, Utility Finance Manager  
Alina Morshidian, Power Contracts Manager  
Chie Valdez, Integrated Resource Planning Administrator
- For information: Jason Bradford, Director of Finance & Information Technology  
Roubik Golanian, City Manager  
Craig Kuennen, Assistant General Manager/Business Services  
Michelle Nall, Utility Business System Support Administrator  
John Takhtalian, Deputy City Manager  
Howard Wong, Energy Risk Manager  
Mark Young, General Manager GWP  
Audit Committee  
City Council

**Acknowledgment**

*We would like to thank staff from Glendale Water & Power for the support and assistance provided to us throughout this project.*

For questions regarding the contents of this report, please contact the lead auditor, Natalie Minami-Valdivia, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at [InternalAudit@glendaleca.gov](mailto:InternalAudit@glendaleca.gov)

This report is also available online at <http://www.glendaleca.gov>

## A. Overview

### Key Outcomes

The City of Glendale (City) executed a power purchase agreement with PPM Energy, Inc. to purchase 6.94% of the energy generated by a project with 80 wind turbines that have a combined capacity of 144 MW. This contract was effective as of October 6, 2006 and is due to expire on July 1, 2022. Internal Audit reviewed the applicable contract and found that the invoices and renewable energy credits received were generally accurate with seven improvement opportunities identified related to monitoring compliance with the agreement terms, reviewing and approving invoices, and reconciling the renewable energy credits. Although the contract is expiring soon, the controls recommended will benefit other similar existing and future contract administration.

### Impact Dashboard

This table summarizes the applicable value-added categories (total 20) for the seven recommendations based on their priority rankings.<sup>1</sup>

	Value Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
<b>Priority 1</b> <b>0</b>	0	0	0	0
<b>Priority 2</b> <b>6</b>	5	1	6	6
<b>Priority 3</b> <b>1</b>	0	0	1	1

<sup>1</sup> Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

## B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
<b>Priority 2</b>		
1.	Improve the City's monthly invoice review process by requesting that all documents required to support the invoice information are provided. <i>Value added:</i> <a href="#">Compliance</a> , <a href="#">Cost Reduction</a> , <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
2.	Work with the third-party vendor to improve its invoice review process by including recalculation of the monthly index averages, submission of supporting documentation for each monthly true-up calculation, and creation of a separate line item for each contract required invoice calculation. <i>Value added:</i> <a href="#">Compliance</a> , <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
3.	Improve contract administration by documenting and monitoring administrative procedures and key contract terms. <i>Value added:</i> <a href="#">Compliance</a> , <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
4.	Determine and document the timeframe that renewable energy credits should be reviewed. <i>Value added:</i> <a href="#">Compliance</a> , <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
5.	Ensure consistency and operations continuity by training and cross-training employees to administer the contract and review monthly invoices. <i>Value added:</i> <a href="#">Compliance</a> , <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
6.	Establish and maintain a list of the computers that have a loaded OATI energy industry software certificate. <i>Value added:</i> <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022
<b>Priority 3</b>		
7	Ensure that City contacts are updated in a timely manner. <i>Value added:</i> <a href="#">Efficiency</a> , <a href="#">Risk Reduction</a>	12/31/2022

## C. Background

The City executed the Pleasant Valley Power Purchase Agreement with PPM Energy, Inc. to purchase 6.94% of the energy generated by a project with 80 wind turbines that have a combined capacity of 144 MW. This contract was effective as of October 6, 2006 and is due to expire on July 1, 2022. PPM Energy changed its name to Iberdrola Renewables Inc. in 2008. This particular contract is administered by Avangrid Renewables, LLC which is a part of the Iberdrola Group. The administration this agreement is under the Power Management Services Division and the Business Services Division – Utility Finance Section of the City’s Glendale Water & Power Department (GWP). GWP has contracted with a third-party vendor to perform real-time trading and the settlements process.

## D. Objective, Scope and Methodology

The objective of this audit is to determine whether adequate controls are in place to ensure compliance with the Pleasant Valley Power Purchase Agreement, focusing on the agreement terms and related renewable energy credits.

The scope of the audit covers primarily the Pleasant Valley Power Purchase Agreement invoices for the period of January 1, 2021 to December 31, 2021.

In order to accomplish the audit objective, Internal Audit performed the following:

- Interviewed City and third-party vendor personnel regarding the Pleasant Valley Power Purchase Agreement administration, settlement, and renewable energy credits processes.
- Reviewed the Pleasant Valley Power Purchase Agreement and amendments.
- Conducted detailed testing of the contract related invoices, including monthly true-up and rejected schedule calculations, and renewable energy credits.

As a result of these audit procedures performed, seven observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

## E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
<b>1.</b>	<b>Invoice Accuracy and Completeness</b>		
<b>Priority 2</b>	<p>Based upon testwork performed on the 12 invoices for power delivered between January 1, 2021 and December 31, 2021, the following discrepancies were noted:</p> <ul style="list-style-type: none"> <li>a. 1 of 2 months with rejected schedules had a \$981.60 credit that was not applied against a future invoice. Instead, a credit memo was issued, but it was not processed in the City’s financial system.</li> <li>b. 12 monthly true-up calculations and supporting documents were not provided to GWP for review.</li> <li>c. 8 monthly true-ups were not invoiced in the following month in accordance with the contract terms.</li> <li>d. 5 monthly true-ups contained errors related to the calculation of the average monthly ICE Day Ahead Palo-Verde index rate and three omitted end of day MWhs that resulted in a small variance.</li> </ul>	<p>GWP perform the following:</p> <ul style="list-style-type: none"> <li>a. Process the \$981.60 March 2021 rejected schedule credit issued by Avangrid.</li> <li>b. Request the third-party vendor to forward Avangrid's monthly true-up and rejected schedules calculations with the appropriate supporting documentation.</li> <li>c. Notify the third-party vendor when a monthly true-up is not included within a monthly invoice for follow-up and establish a method to track invoice discrepancies and their resolution.</li> <li>d. Work with the third-party vendor to create a reconciliation worksheet that includes the average ICE PV Peak and Off-Peak rate calculations and periodically request Avangrid’s meter reading data to agree to Avangrid's monthly true-up calculations and supporting documents.</li> </ul>	<p>Agree and will implement by December 31, 2022.</p> <ul style="list-style-type: none"> <li>a. (Implemented) The \$981.60 March 2021 rejected schedule was invoiced to Avangrid on April 22, 2022, and a wire payment was received on April 29, 2022.</li> <li>d. (Partially implemented) The third-party vendor has added the calculation for the average ICE PV Peak and Off-Peak rates to their settlement calculation verification worksheet.</li> </ul>

Ref	Observation	Recommendation	Management Response
<b>2. Invoice Review Process</b>			
<b>Priority 2</b>	<p>Based upon a walkthrough of the invoice review process, the following deficiencies were noted:</p> <ul style="list-style-type: none"> <li>a. Monthly True Ups were inaccurately denoted as "N/A" in 8 of the Sales and Purchases reports provided by the third-party vendor and were not corrected until November 2021.</li> <li>b. The Sales and Purchases report does not separately identify the status of each required invoice calculation component. As a result, GWP was unable to easily identify the outstanding credit due for the rejected schedule.</li> <li>c. The March 2021 Rejected MW line item was not added to the Sales and Purchases report template and not verified until July 1, 2021. The Sales and Purchases report was thought to have been completed as of the April 12, 2021 verification date and reconciled without exception.</li> </ul>	<p>GWP perform the following:</p> <ul style="list-style-type: none"> <li>a. Request all supporting documentation for any contract required calculations, whether or not a monthly true-up is applicable.</li> <li>b. Request the third-party vendor to report each contract required calculation separately within their Sales and Purchases report.</li> <li>c. Establish a process to identify and review all new verifications added to the final Sales and Purchases report, such as filtering the 'verify date' that is greater than the last report provided.</li> </ul>	<p>Agree and will implement by December 31, 2022.</p>

Ref	Observation	Recommendation	Management Response
<b>3. Contract Administration and Compliance</b>			
<b>Priority 2</b>	<p>Based upon interviews with GWP staff and testwork performed, the following was noted:</p> <ul style="list-style-type: none"> <li>a. Management approved procedures governing the Pleasant Valley Power Purchase Agreement settlement review and contract administration do not exist.</li> <li>b. The City is not providing its financial statements on or before January 31 of each year and has not requested annual meter accuracy test results to verify that Avangrid's meters are accurate within one-half percent in accordance with the agreement terms.</li> </ul>	<p>GWP management perform the following:</p> <ul style="list-style-type: none"> <li>a. Document contract administration procedures for each long-term power purchase agreement. These procedures should include monthly settlement review, with a list of the documents required to properly review the accuracy of all invoice components (i.e. monthly true-up calculations and rejected schedules) and a log to document and track discrepancies identified, communicated, and resolved. These procedures should be reviewed and updated on a periodic basis.</li> <li>b. Create a checklist of items to be provided by or received from each power provider, such as requesting for annual meter accuracy test results.</li> </ul>	<p>Agree and will implement by December 31, 2022.</p> <p>GWP will add the creation of the individual long-term power purchase contract procedures and checklist to the existing general contract administration procedure.</p>



Ref	Observation	Recommendation	Management Response
<b>4. Renewable Energy Credits</b>			
Priority 2	GWP staff does not validate the accuracy of the renewable credits for Pleasant Valley upon receipt.	GWP review the agreements to determine the timeframe that renewable energy credits should be reviewed and documented within the contract checklist.	Agree and will implement by December 31, 2022.
<b>5. Training/Cross-Training</b>			
Priority 2	Staff has not been trained or cross-trained on the methodology used to recalculate and verify the accuracy of the monthly Pleasant Valley Power Purchase Agreement invoices prior to approving them for payments.	GWP management provide training/cross training to employees to ensure that power purchase invoices are accurate and complete prior to approval for payment.	Agree and will implement by December 31, 2022.
<b>6. User Access Controls</b>			
Priority 2	A list of computers that have an Open Access Technology International, Inc. (OATI) certificate loaded does not currently exist. <sup>2</sup>	GWP management work with Information Technology to establish and maintain a list of the computers that have a loaded OATI energy industry software certificate.	Agree and will implement by December 31, 2022.
<b>7. City Contacts</b>			
Priority 3	Based upon a review of the monthly invoices and supporting documentation, it was noted that invoices were incorrectly addressed to a GWP employee that separated from the City in 2005.	GWP management establish a procedure to ensure that the City contacts are updated in a timely manner to reduce the risk of misdirected correspondence.	Agree and will implement by December 31, 2022.

<sup>2</sup> OATI is a North America energy industry software that is used for energy trading, transmission, congestion, compliance, and smart energy solutions.

## Appendix 1: Definitions of Priority Rankings and Value-Added Categories

### Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

### Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.