



WHOLESALE ENERGY RISK MANAGEMENT:

2014 COMPLIANCE REVIEW

DECEMBER 10, 2014

Seattle City Light Internal Audit

TODAY'S PRESENTATION

Why we did this audit?

What was our audit approach?

What did we find?

Recommendations

WHY WE DID THIS AUDIT

To provide the City Council assurance that the wholesale activities entrusted to City Light are being carried out with proper diligence and meet the annual compliance and reporting requirements per:

- Seattle City Light's Wholesale Energy Risk Management Policy Section 3.9
- Seattle Municipal Code Section 21.49.130.

Previously, City Light engaged Deloitte. In August 2014, City Council allowed City Light's Internal Audit team to:

- Conduct the annual audit, and
- Engage external auditors every three years.

AUDIT SCOPE & OBJECTIVES

Determine whether City Light implemented all the prevalent practices recommended in Deloitte's 2012 report.

Evaluate operational compliance with City Light's Wholesale Energy Risk Management Policy and Procedures including:

- Adherence to policies and procedures;
- Energy Transaction & Risk Management (TRM) system automated controls; and
- 2013 energy transaction control testing.

Identify opportunities for improvement in the existing policies, procedures and controls.

SUMMARY OF THE RESULTS

2012 Audit Follow Up

We noted that City Light has implemented 94% of the prevalent industry practices recommended in Deloitte's 2012 report.

Compliance Testing

We assessed City Light adherence to the Wholesale Energy Risk Management Policy and Procedures (including management reporting, monitoring activities, model validation, and exceedance of risk limits):

- 4 exceptions of non-compliance;
- No exceptions of access and controls for Energy Transaction & Risk Management (TRM) system ; and
- No exceptions of 2013 energy transaction control testing.

Opportunities for Improvement

We noted 3 areas for improvement in the existing policies, procedures and controls.

WHAT WE FOUND - 2012 AUDIT FOLLOW UP

In January 2012, Deloitte evaluated the City Light Risk Policy compared to 145 industry prevalent practices.

Management Actions:

- ✓ All identified gap recommendations implemented
- ✓ Current practices are now 94% consistent with prevalent industry practices
- ✓ 3% Management is still considering if they will implement the improvement
- ✓ 3% Management disagrees that the practice is applicable to the environment



WHAT WE FOUND- COMPLIANCE TESTING

Adherence to Policy & Procedures

The audit assessed adherence to more than 30 risk policies/ or procedures.

Result:

Our evaluation resulted in 4 exceptions of non-compliance to the processes and controls as documented in the Risk Policy and Procedures.

- The Risk Oversight Division could only provide telephone recording testing documentation for 3 of the 4 quarters in 2013.
- The Risk Oversight Division only documented model validation testing on 3 of the 5 models identified in the Risk Policy.
- The model validation process is not described in detail in the Risk Procedure Manual.
- Required weekly reporting changed to bi-monthly in August of 2013.

WHAT WE FOUND – COMPLIANCE TESTING

Energy Transaction & Risk Management System Testing

The audit reviewed access and automated controls for the TRM stamping functions which documents trade authorization, review, settlement, invoicing and payment.

Result:

Our evaluation resulted in no exceptions to the processes and controls as documented in the Risk Policy and Procedures.

WHAT WE FOUND- COMPLIANCE TESTING

Trade Transaction Testing

The audit reviewed 30 trades for process and controls compliance. Samples were selected from the spot and forward markets which included transactions from each trade desk (e.g. Real time, Day ahead, Prompt, Balance of the month, and Forward).

Each individual trade was traced from the trade desk to the general ledger.



Result:

Our evaluation resulted in no transaction exceptions to the processes and controls as documented in the Risk Policy and Procedures.

WHAT WE FOUND- OPPORTUNITIES FOR IMPROVEMENT

Compliance testing

Adherence to Policy & Procedures

- Overall the policy could be improved to provide broad guidance verses prescriptive details.

Energy Transaction & Risk Management System Testing

- Limit the stamp access to only those that need the access.

Trade Transaction Testing

- Move the approval documentation into an electronic repository.

RECOMMENDATION AND MANAGEMENT RESPONSE

Management agreed with all audit recommendations and developed seven action plans to address the findings and opportunities for improvement.

Status of Seven Management Action Plans

Compliance testing

- 2 action plans have been completed.
- 2 remaining action plans on target for completion by 3/15/2014.

Opportunities for Improvement

- 3 action plans have been completed.



Questions?