

Agenda Report

January 28, 2013

To: Honorable Mayor and City Council

From: Water and Power Department

Subject: AUTHORIZATION TO ENTER INTO A CONTRACT WITH POWER SETTLEMENTS CONSULTING AND SOFTWARE, LLC TO PURCHASE AND IMPLEMENT AN ENERGY TRADING, SCHEDULING AND SETTLEMENT SOFTWARE SYSTEM.

RECOMMENDATION:

It is recommended that the City Council:

1. Find that contracting with Power Settlements Consulting and Software, LLC for the purchase and implementation of an energy trading, scheduling, and settlements software system is exempt from the California Environmental Quality Act ("CEQA") review pursuant to State CEQA Guidelines Section 15301 (Existing Facilities)
2. Authorize the City Manager to enter into a contract with Power Settlements Consulting and Software, LLC for:
 - A. One-time purchase of the SettleCore software system and implementation services for an amount not to exceed \$700,000;
 - B. Annual maintenance service of the SettleCore software system in an amount not to exceed \$200,000 per year for the initial 8 year term of the contract; and
 - C. Internal report customization services associated with the SettleCore software system based on contract hourly rates not to exceed \$35,000 per year for the initial 8 year term of the contract.

EXECUTIVE SUMMARY:

Pasadena Water and Power ("PWP") manages approximately \$100 million in transmission, energy, and natural gas fuel transactions annually. The Wholesale Operations group ("front office"), which is part of the Power Supply business unit, conducts transactions with various counterparties for energy and fuel. The Energy Settlements group ("back office"), which is part of the Finance and Administration

all transactions. Each market transaction is evaluated by Risk Management staff (“middle office”), which is also a part of the Finance and Administration business unit, to determine credit worthiness of counterparties, assess overall portfolio risk, and ensure adherence to all policies and procedural controls.

Nearly all of the energy transactions are scheduled through the California Independent System Operator (“CAISO”) who manages the transmission grid for a large portion of California, as well as other entities that manage PWP’s generation resources and transmission entitlements. The majority of the natural gas transactions are scheduled through an interface with the Southern California Gas Company (“SoCal Gas”). PWP must maintain systems and processes to accurately communicate hundreds of hourly transaction schedules to and from these agencies on a daily basis.

PWP’s current energy transaction “trade capture” software was initially procured in 1999 and no longer supports many of the necessary functions. As a result, PWP currently uses multiple software and spreadsheet systems to optimize and schedule energy and fuel transactions, facilitate settlements and accounting functions, assess counterparty credit and perform other risk management functions. Communication of transaction schedules with all other agencies is currently performed manually; and, estimates of CAISO charges and revenues are performed using a software product supplied and owned by Power Settlements Consulting and Software, LLC.

As the energy markets continue to evolve, PWP staff is increasingly required to develop separate technology tools to comply with analysis and reporting requirements. The use of multiple systems increases administrative burden and the probability of errors and reduces efficiency when performing, tracking, and reporting on energy and fuel related transactions.

The proposed contract will help consolidate most of the front office and back office functions into a single software application, and provide accurate information through consolidated reports and/or direct data interfaces to support the remaining energy scheduling and risk management functions. It includes software maintenance, support, and customization intended to keep the software current as the energy industry and markets continue to evolve.

BACKGROUND:

PWP utilizes multiple software applications and interfaces with multiple trading and scheduling platforms to optimize the City’s energy resources and fuel usage. Over a period of time, the current software vendors have gone through multiple mergers and acquisitions which have created inadequate software support, lack of contract continuity, and unsupported application interfaces and other technologies. The challenges are even more significant because of the ever-evolving CAISO operating practices and the resulting changes in its scheduling, settlement, and market data content.

PWP has transacted with the CAISO since 1999 and became a Participating Transmission Owner in January 2005 by turning over the scheduling of its transmission assets. The CAISO billing process is complex and requires data collection from several sources. In addition, the CAISO's implementation of Market Redesign and Technology Upgrade ("MRTU") had a significant impact on the procedures and software systems employed by PWP for managing energy resources and scheduling power.

The SettleCore software system is designed to manage the format of multiple data sources and increase access to data to allow detailed analysis of CAISO transactions. The SettleCore software system also provides estimates of complicated CAISO charges and revenues by comparing data from multiple sources to improve accuracy.

System Functionality and Business Improvements

The SettleCore software system will provide several essential functions for PWP:

1. Integrated solution for electricity, transmission, and natural gas trade capture, CAISO energy scheduling, counterparty credit management, energy settlements, and management reporting;
2. Complete integration with the CAISO's scheduling system, including uploading of bids, schedules and transactions, and automated downloading of the various CAISO data sources required by PWP;
3. Full energy settlements support including reports for counterparty settlements, estimates of CAISO charges and revenues used to verify the CAISO statements, and allocations for calculating the distribution of the CAISO settlement amounts to PWP's resources; and
4. Manages counterparty and per-transaction credit restrictions and enforces controls to meet the requirements of PWP's risk management policies.

These functions will increase the effectiveness of PWP's operations by providing:

- An auditable, integrated system to support front office, middle office, and back office functions;
- Automated processes to replace multiple separate and manual systems; and
- Improved detailed analytical management reports.

System Implementation and Maintenance

The proposed contract includes development of interfaces with PWP's current Supervisory Control and Data Acquisition ("SCADA") and energy risk management systems. These interfaces will provide reports and data to improve operations by quickly providing the results of energy trading and settlement activities on demand. This data is used to determine if the CAISO correctly calculated charges incurred and revenue generated through the California marketplace.

Project management services will be provided by PWP and Power Settlements' staff to ensure a successful transition from multiple information systems to an integrated application-based system. This collaboration will include:

1. Installing and configuring the software;
2. Identifying data sources and end users and developing a transition plan;
3. Training PWP business users and technical personnel on the new system;
4. Developing a Test Plan and testing the new software;
5. Developing reports as necessary; and
6. Managing cutover activities.

The energy transaction market changes continuously due to the integration of renewable resources, regulatory mandates and new technology. The SettleCore maintenance contract includes necessary program upgrades to manage future changes with scheduled maintenance.

Vendor Selection Process

In December 2011, PWP issued a request for proposals (“RFP”) for energy transaction, credit, and charge verification systems. A total of nine proposals were received. An analysis was performed on these nine vendors and Power Settlements Consulting and Software, LLC of Claremont, California provided the best overall value based on the criteria established in the RFP. Power Settlements’ SettleCore software received the highest ranking and is currently being used by municipal utilities, investor owned utilities, energy importers, and independent generators. The results of the RFP evaluation are summarized below:

Power Settlements	PCI	OATI	Ventyx	QuantRisk/SavNergy	OpenLink	Pioneer Solutions	Allegro	Triple Point
Claremont, CA	Norman, OK	Minneapolis, MN	Atlanta, GA	Fort Lauderdale, FL	Houston, TX	Denver, CO	Dallas, TX	Westport, CT
79	78	77	74	67	62	59	58	52

The full scoring matrix and detailed criteria are provided in Attachment I.

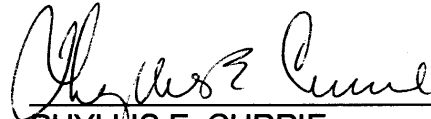
ENVIRONMENTAL ANALYSIS:

The project is exempt from CEQA review pursuant to State CEQA Guidelines Section 15301 (Existing Facilities). This exemption includes the maintenance, repair and operation relating to existing facilities, mechanical equipment, or structures where there is negligible or no expansion of the use. Section 15301(b) specifically identifies and allows for the categorical exemption from CEQA for maintenance work on existing publically owned facilities/utilities used to provide electric power that will not result in an increase in capacity or an expansion of the existing use.

FISCAL IMPACT:

Sufficient funds are available in FY2013 in Power Capital Fund 411, CIP # 3136, "Power System Scheduling System" in an amount of \$700,000 to cover costs for the software system purchase, interface, and implementation. Additional funds will be requested in subsequent budget years in CIP # 3193 "Energy Reporting System Upgrade" for an amount of up to \$35,000 per year for internal report customization services. Another \$200,000 per year will be requested in Power Operating Fund (Number 8114-401-841500-0557) in future budget years for annual maintenance services. Once the SettleCore software application is implemented, PWP will terminate software maintenance agreements for two existing systems totaling approximately \$84,000 per year. The net impact is an annual increase of approximately \$116,000 to \$151,000.

Respectfully submitted,

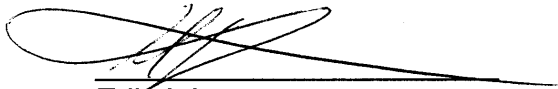


PHYLLIS E. CURRIE

General Manager

Water and Power Department

Prepared by:



Erik Johnson

Principal Power Dispatcher

Power Supply Business Unit

Concurred by:

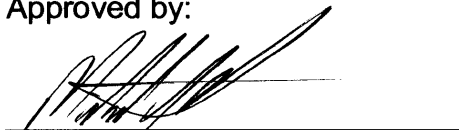


PHILLIP LECLAIR

Chief Information Technology Officer

Information Technology

Approved by:



MICHAEL J. BECK

City Manager