

Agenda Report

June 1, 2020

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 RENEW THE MAINTENANCE AGREEMENT AND PURCHASE ADDITIONAL MODULES OF THE PREVIOUSLY PURCHASED AND IMPLEMENTED ENERGY TRADING, SCHEDULING AND SETTLEMENT SOFTWARE SYSTEM.**

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the contract with Power Settlements Consulting and Software, LLC ("Power Settlements") is not a project subject to the California Environmental Quality Act (CEQA) pursuant to Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required;
- 2) Authorize the City Manager to enter into a contract with Power Settlements for Energy Trading and Risk Management ("ETRM") software system currently used for trade capture, risk management, credit control, scheduling, and settlement of power and natural gas transactions, validate California Independent System Operator ("CAISO") transactions in an amount not to exceed \$2,453,458 for an initial three-year term plus five one-year extensions, for a maximum total contract term of eight years; competitive bidding is not required pursuant to the City Charter Selection 1002(F), contracts for professional or unique services; and
- 3) Grant the proposed Power Settlements contract an exemption from the competitive selection process; pursuant to Pasadena Municipal Code Section 4.08.049(B), contracts for which the City's best interests are served.

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”) conducts transactions with various counterparties for energy and fuel. The Energy Settlements group (“back office”) validates contract specifics such as price, quantity, and delivery point of all transactions, and to validate CAISO transactions. Each market transaction is evaluated by Risk Management staff (“middle office”) to determine credit worthiness of counterparties, assess overall portfolio risk, and ensure adherence to all policies and procedural controls. A customized software program such as ETRM is necessary to perform these complex functions efficiently and retain records to ensure compliance with PWP’s risk management policy.

Power Settlements owns and manages the ETRM system currently used by PWP for trade capture, risk management, credit control, scheduling, and settlement of power and natural gas transactions. The initial contract #21325 for the software began in 2013. The current contract will expire in March 2021.

Considering PWP’s experience with the quality and competitive pricing of Power Settlements software, and after an informal review of the limited available competing products – all of which would involve significant customization and training costs – staff recommends that the City Council authorize the City Manager to renew the contract with Power Settlements for the ETRM software system without a formal competitive selection process. PWP is satisfied with the system. Renewing the contract with Power Settlements would allow the avoidance of a new system implementation cost of about \$820,000, and save significant staff time. The proposed contract includes software maintenance, support, and customization intended to keep the software current as the energy industry and markets continue to evolve.

Power Settlements is a reputable and well-established vendor that currently provides similar software services to 17 CAISO members and six CAISO Energy Imbalance Market participants.

BACKGROUND:

PWP began using the financial settlements module of the ETRM system in 2009. In 2013, PWP expanded the use of ETRM for trade capture, risk management, credit control, and scheduling of power and natural gas transactions.

To date, more than 1,700 hours have been invested to customize and improve the software with PWP-specific functionality. Over the years, Power Settlements has been responsive to the needs of PWP and provided satisfactory customization and support services.

PWP also considered the expense and time relative to implementation costs for a new system during the evaluation. Previous one-time implementation costs for the software licenses totaled \$685,000, along with internal personnel costs of \$128,270. Similar

costs at a minimum, along with adjustments for inflation, would be incurred to implement a different software system. A change would also require considerable dedication of information technology staff and resources, which will likely pull personnel from the ongoing Customer Information System (“CIS”) project. Therefore, renewing the existing contract with Power Settlements would avoid these costs, which were budgeted in the CIP.

Two of our utility neighbors, Riverside Public Utilities (“Riverside”) and Vernon Public Utilities (“Vernon”), also use Power Settlements for various trading and settlement functions. Pricing from the most recent request for proposal received by Vernon in late 2018 shows that PWP’s current pricing is within 2% of Vernon’s when comparing similar software modules. Vernon also selected and contracted with Power Settlements as it was the lowest cost for required functionality. The current contract with Power Settlements is also for a maximum eight-year term with a total not-to-exceed amount of \$2,425,801. To renew the contract, staff is seeking authority for a not-to-exceed amount of \$2,453,548 for an initial term of three years, plus five optional one-year extensions, totaling a maximum of eight years. A comparison between the services provided under the existing contract and those proposed are shown in Table 1.

Table 1
Current Contract vs Renewal Contract

	Initial 8 Year Contract Total	8 Year Renewal Total
Software Licenses	685,000	0
Current Modules Maintenance Fees	1,460,801	1,572,253
Optional Bidding Module		296,863
Optional Etag Module &, Delivery & Position Mgmt Module		104,432
Optional Hosted Software Services Fees		200,000
Optional Reporting Development Service	280,000	280,000
Maximum potential cost	2,425,801	2,453,548

Staff is proposing the following services and key terms under the renewed contract with Power Settlements:

- 1) Software Services Fee for the entire eight-year contract term not to exceed a total of \$1,572,253. The annual fee is fixed for the initial three years and escalates by 3% annually thereafter. This also includes a \$24,000 legacy customer credit.
- 2) The optional ability to purchase three additional modules which can reduce manual input and increase accuracy by automating manual functions. These modules can also increase productivity by enhancing data analysis capabilities with additional functionality, which was not previously available. These modules will be available at a not-to-exceed cost range of \$104,431 to \$296,863.

- 3) Hosting Environment Software Service Fees associated with an option for off-site hosting of the software and associated database backups, antivirus updates, and operating system updates on the hosted environment not to exceed \$200,000 for the term of the contract. Hosted applications are deployed easily compared to conventional software, as they require no upfront installation and have minimal integration requirements. This will save Pasadena the cost of hardware, memory, and operating system licenses for the three different servers which are currently necessary to support the software.
- 4) An optional service for customized report development within PWP's existing data warehouse on an "as needed" basis at an hourly rate of \$100/hour, not to exceed \$280,000 for the term of the contract.
- 5) The renewal would include a legacy customer discount of \$10,000 per year.
- 6) The City has a unilateral right to terminate the contract with 180 days' notice.

It is in the best interest of the City to renew a contract with Power Settlements for the ETRM software system due to the savings associated with cost, reduced need for staff resources, and more importantly, continuity of operations. Lastly, PWP is not aware of any local vendors that provide this type of specialty software.

COUNCIL POLICY CONSIDERATION:

The recommended action is consistent with the City Council's goals to maintain fiscal responsibility and stability. This recommended action will allow trade capture, risk management, credit control, scheduling, and settlement of power and natural gas transactions, which secures an integrated system to support front, middle, and back office functions.

ENVIRONMENTAL ANALYSIS:

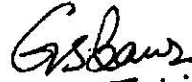
The action proposed herein is not subject to the California Environmental Quality Act (CEQA) in accordance with Section 21065 and State CEQA Guidelines Sections 15060 (c)(2), 15060 (c)(3), and 15378. The procurement of software systems and their maintenance are continuing administrative and maintenance activity (e.g., purchasing of supplies). This action would not cause either a direct physical change or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA as defined in Sections 21065 and 15378, and no environmental document is required.

FISCAL IMPACT:

The total cost of this action for the initial three-year term and up to five one-year optional extensions shall not exceed \$2,453,548 for a maximum total contract term of eight years. It is anticipated that for the first three years, \$293,000 will be spent annually beginning in Fiscal Year 2021, and approximately \$315,000 annually for the five optional years. Funding for this action will be addressed by the utilization of existing and future appropriations in Power Operating Fund 401 (account 44405570-811400).

The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



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