

# Agenda Report

May 24, 2004

**To:** City Council  
Through Municipal Services Committee

**From:** City Manager

**Subject:** Authorization to enter into contract with Czarnecki-Yester Consulting Group, LLC for services to assist with ISO settlement charge calculations and auditing.

## **RECOMMENDATION:**

It is recommended that the City Council:

- 1) Authorize the City Manager to enter into a contract with Czarnecki-Yester Consulting Group, LLC (CYCG) without competitive bidding for services to perform ISO settlement charge calculations and auditing in an amount not to exceed \$147,650. Competitive bidding is not required pursuant to City Charter Section 1002(F), Contracts for professional or unique services; and,
- 2) Grant this contract an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, pursuant to P.M.C. Section 4.08.049(b), contracts for which the City's best interests are served.

## **BACKGROUND:**

In doing business transactions with the California Independent System Operator (ISO), Pasadena Water and Power (PWP) purchases and sells energy, capacity, and related services from and to the ISO. These transactions are charged or credited to PWP on an hourly or sub-hourly basis for every day in a process called "settlement," which involves hundreds of "charge types" and over fifteen thousand data records every day. Historically, PWP has verified only a handful of these charges due to the extraordinary complexity of the computations, data management, and staff resources involved.

Although PWP has planned and budgeted for procurement and installation of software designed specifically for ISO settlements, a number of factors ranging from cost, demands on PWP staff, and continuous changes in the ISO's settlement process have thus far inhibited implementing a feasible and cost effective software solution. PWP estimates that implementation of in-house software would cost approximately \$150,000-200,000 for equipment, software configuration, and licensing, plus an additional \$50,000-80,000 per year in software maintenance fees. Additionally, maintaining the system and processing of data would consume additional PWP staff time.

Current and pending ISO settlement related challenges have increased the need for more complete and accurate computation of ISO settlement charges by PWP. Some of the challenges now confronting PWP include:

- **Amendment 51** (which is also known as the Preparatory Rerun) is the ISO's initiative to process all known settlement adjustments and market corrections in their entirety, prior to initiating any work on the FERC refund proceedings. The ISO has made adjustments to 30 months of data through October 2000, is completely recalculating 10 months of data ending June 2001, and has had to rerun most of these calculations a number of times due to calculation and data errors in their systems;
- The **FERC refund proceeding**, which will begin shortly after the completion of the Preparatory Rerun processing, will apply honored disputes and reallocate payments and charges among all market participants, based on mitigated capacity and energy prices. PWP has approximately \$20 million at stake in this process, with refund calculations potentially in the range of \$5-7 million;
- The ISO is now introducing its Market Design 2002 (MD2002) initiative, which will impose significant changes in the way Pasadena will process its ISO settlement transactions. PWP expects that a major overhaul of the settlement process and related software will be required in October of this year, and again late 2005.

In response to these challenges, PWP is currently evaluating alternative approaches to the problem of ISO settlements, including outsourcing of the data management and computations. This will provide a flexible, reliable, and cost-effective business solution that will not only handle current settlement requirements but also provide the adaptability to respond to these and other market changes as they arise.

PWP has identified one vendor that provides cost-effective ISO settlements services. CYCG is an energy and system consulting firm specializing in back-office operations. Having been directly involved with the ISO and Power Exchange markets since their inception, CYCG has extensive experience in settlement processing. CYCG provides similar services to a variety of other ISO Scheduling Coordinators, and has developed numerous business processes, tools, and software applications for processing, analyzing, and reporting the financial transactions that arise in the California wholesale energy markets, including tools for handling the ISO Preparatory Rerun settlement transactions. Because they provide services to a number of clients using the same software system and over 10,000 daily data records are common for all clients, CYCG is able to achieve economies of scale in performing these services that PWP could not achieve on its own.

Significantly, CYCG has already demonstrated their ability to assist PWP in performing most complex ISO settlements calculations, test ISO settlement statements for errors and provide summary reports, and provide timely estimates of pending ISO charges for accounting purposes using PWP's data.

CYCG has proposed the following scope of work and budget for various tasks related to on-going ISO settlements and refund/rerun activities, including:

Service Item	Estimated Budget
Initial and MD02 Settlement Setup	\$27,150
FY2005 Routine Settlement Services	\$78,000
FERC Rerun, Refund, and Settlements	\$35,000
Project closeout and data transfer	\$7,500
Total for FY2005	\$147,650

Under the proposed contract, PWP will not incur costs higher than self-performing this work. The setup fees are significantly less than those associated with implementing in-house software. The FY2005 Routine Settlement Services will be provided at a cost that is similar to the annual maintenance fees associated with implementing in-house settlements software. Pending this one year trial of services, PWP may realize on-going savings by continuing the contract in future years with Council authorization.


The costs associated with FERC Rerun, refund, and settlement activities are necessary to protect PWP's interests, prepare for FERC testimony and filings, and may result in substantial savings if errors are found and corrected.

Agenda Report  
Contract for ISO Settlement Services  
May 24, 2004  
Page 4

**FISCAL IMPACT**

Funds are available for these expenditures in the FY2005 operating budget charge number 401-8114-841500-0557, which is budgeted to pay for ISO settlement and scheduling software annual maintenance fees and 401-8115-841000-0923 for FERC related activities.

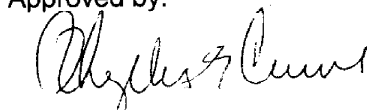
Prepared by:

  
ERIC R. KLINKNER  
Director, Power Supply

Respectfully submitted,

  
CYNTHIA J. KURTZ  
City Manager

Approved by:

  
PHYLLIS E. CURRIE  
General Manager