



## INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD  
Power Resources Division

*Rely on us.*

TO: Commissioners Simpson, Farmer, Brown, Menegat and Cassidy

FROM: Megan Capper, ETRM Project Manager

October 1, 2008

RE: Board Backgrounder – ETRM Software Implementation Project

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### ISSUE STATEMENT

Should EWEB staff move forward with the purchase and implementation of a new Energy Trading and Risk Management System (ETRM) software package?

### BACKGROUND

Since 2005 EWEB's external auditors have identified areas for improvement for Power Trading and Risk Management operational efficiencies, internal controls, and security over the current trade capture and scheduling software from Global Energy Decisions (GED). Energy trading and risk management software (ETRM) is a critical component for Power Trading; both auditors and users have found GED software functionality inadequate to support current power trading and risk management business practices. The GED software is at the end of its life from a technology perspective, and also lacks important risk controls and security/access recommended by our external auditors. GED was installed at EWEB more than 10 years ago and has since been purchased by two different vendors. An upgrade to our existing product would involve an outdated version of an older generation GED product which is no longer supported or a complete implementation of GED's new product offering (Monaco) similar to what we are currently doing. (Note: GED participated in the RFP process and was not selected as a finalist.)

The selection of a software vendor was accomplished in two phases:

Phase 1 - Requirements Identification - January 2006 to January 2007

Phase 2 - Vendor RFP Evaluations - February 2007 to April 2008

The purpose of the requirements identification phase was to determine whether a system was available that would meet EWEB's power trading and risk management needs. Staff solicited vendors to respond to a Request for Information (RFI) and invited four of those vendors to give product demonstrations. At the end of this phase we were able to define and refine the initial EWEB business requirements in preparation for a Request for Proposal (RFP).

EWEB issued an RFP in December 2006 and proposals were received in February 2007. After a lengthy evaluation process and demonstrations by the top two ranked vendors, Allegro Development (Allegro) was determined to be the highest-ranked proposer.

Staff selected Allegro software to replace our current GED software for the following reasons:

- functionality best meets our business requirements,
- facilitates and streamlines our workflow processes,
- provides an intuitive and consistent interface which aids users in utilizing the system in the most effective manner,
- technology platform and highly configurable nature of the product provides EWEB technical staff the ability to fine tune and leverage the full potential of the new software even after the initial implementation to keep pace with new and changing business requirements.
- software cost, annual license fees, implementation, infrastructure and maintenance costs were comparable if not lower than our alternatives.
- provides EWEB with the flexibility and functionality required in a more complex post-2011 BPA contract environment.

## **DISCUSSION**

After the ETRM selection team chose Allegro in April 2008, we moved into contract negotiations. During the year and a half process EWEB had obtained a good understanding of the complexities involved in procuring software in such a dynamic industry. With that in mind, we selected an experienced consultant from ACME Consulting with utility industry expertise to assist us in negotiating the contract.

As part of our negotiations for a time and materials contract with Allegro Development, staff wanted to further refine our budget and timeline estimates for implementation services. As a result EWEB hosted Allegro staff on site at the end of May to develop a joint project plan.

At the conclusion of the project planning process the project team felt they had made the correct software selection but had developed some uncertainty regarding Allegro implementation services. EWEB staff subsequently contacted ten references and solicited feedback on the Allegro software product and their implementation services. For the most part, the references confirmed that they were happy with the Allegro software but had numerous issues with Allegro's implementation services. We routinely heard about extensive cost and schedule overruns as well as inexperienced staff and frequent turnover due to their rapid industry growth.

References did, however, highly recommend using The Structure Group, a partner of Allegro Development that provides implementation services for Allegro software. Once EWEB considered using The Structure Group's software implementation services, we were pleased to discover the following:

- Structure has access to Allegro resources experienced in the electronic NERC tagging and transmission reservation interface,
- Structure staff assigned to EWEB would have extensive experience both the utility industry and the implementation the Allegro software,
- Structure could meet EWEB's required start date and timeline,
- Structure's proposed fixed bid was more competitive than the offer Allegro provided EWEB.

After much research we made the following decisions:

- 1) Procure the software from Allegro,
- 2) Pursue a fixed bid from The Structure Group.

## Contracts For Approval

### Allegro Development Software Contract

- \$522,128 cost of software and \$104,426 per year for the next five years for maintenance and support. 20% holdback due year from contract execution or go live plus 30 days and no material defects.
- License fee for additional concurrent users is \$34,500 per user for 18 months from contract execution. After 18 months, per user fee increases 10% per year.

### The Structure Group Implementation Services Contract

- \$1,630,000 fixed fee 8 month implementation including travel & expenses and user documentation. Payments based on successful completion of specified milestones.
- Includes three Structure resources, one full time Allegro resource and access to experienced Allegro staff when integrating with OATI (transmission) tagging.

### ACME Business Consulting Contract

- Contract for ETRM industry expert David Kelleher. Provides third party perspective on implementation on an as needed basis. \$225/hour.
- To date we have spent \$13,000 on his services to provide support during contract negotiation. Staff is proposing an additional \$50,000 in implementation assistance as needed.

## Forecasted Project Costs

ETRM COST	22504 CAPITAL ESTIMATE	15166 O & M ESTIMATE	TOTAL PROJECT ESTIMATE
Allegro License & support	522,128	208,852	730,980
Structure Implementation	1,461,700	168,300	1,630,000
Add'l Hardware and Software	165,000	45,000	210,000
EWEB internal staff	467,874	129,284	597,158
Consultants	50,000		50,000
Capital Overhead	133,260		133,260
<b>TOTAL</b>	<b>2,799,962</b>	<b>551,436</b>	<b>3,351,398</b>

The estimates outlined above are from our negotiated contracts for software, licensing and implementation. Additional software and hardware needs have been scoped and estimated accordingly. It is our intent for these costs to represent a comprehensive forecast of costs through implementation in mid-2009.

To put this expenditure proposal in perspective, in 2007, EWEB had about \$80 million power sales for resale and \$110 million in purchased power. With an ETRM total project estimate of \$3.3

million, that is just shy of 2% of one year's annual activity that flows through the system.

## Capital Plan

The ETRM software implementation is part of the Capital Plan approved by the Board on September 2, 2008.

### Current Approved Capital Budget (Sept 2, 2008)

2008 Capital Budget	\$2,149,279
less adjustment	<u>- 800,000</u>
Total 2008	\$1,349,279

2009 Capital Plan	\$ 140,000
plus adjustment	<u>+\$1,600,000</u>
Total 2009	\$1,740,000

**Total Project \$3,089,279**

As you can see, the current project estimate for capital is about \$300,000 less than the amount included in the Capital Plan.

## BOARD OPTIONS

Staff believes the Board has three alternatives.

1. Approve the contracts so that EWEB staff can begin project implementation.
2. Direct staff to look at other alternatives.
3. Stay with the current GED ETRM software.

## RECOMMENDATION

Staff recommend that the Board do the following:

1. Approve the Allegro Software Contract
2. Approve The Structure Group Services Contract
3. Approve ACME Business Consulting Contract

## SUGGESTED MOTIONS

1. I move that Eugene Water & Electric Board approve the Allegro Software Contract in the amount of \$1,044,258.
2. I move that Eugene Water & Electric Board approve The Structure Group Services Contract in the amount of \$1,630,000.
3. I move that Eugene Water & Electric Board approve ACME Business Consulting Contract in the amount of \$50,000.

If you have questions, please contact me at 484-2411 ext. 3370 or [megan.capper@eweb.org](mailto:megan.capper@eweb.org) or Dick Varner at 484-2411 ext. 3299 or [dick.varner@eweb.org](mailto:dick.varner@eweb.org).

## **ATTACHMENT 1 – ETRM SELECTION APPROACH**

To date the replacement of our current ETRM system has taken several phases:

### **Phase I – Requirements Identification –January 2006 to January 2007**

- Request For Information (RFI) Completed
- Internal Staff Requirements Survey
- Requirements Documentation Completed

### **Phase II – Vendor Recommendation –February 2007 to April 2008**

- Request for Proposal (RFP)
- On Site Demonstrations
- Vendor Reference Visitations

### **Phase I – Requirements Identification**

The purpose of the Energy Trading and Risk Management (ETRM) Phase I was to determine whether a system was available to meet EWEB's Power Trading and Risk Management needs.

In August 2006, EWEB staff surveyed the market and sought opinions from subject matter experts (SME's) to put together a list of potential vendors that could provide EWEB an ETRM system. Staff developed a vendor list of about 70 vendors and short-listed it to an estimated 16 vendors by research and counterparty recommendations. In accordance with EWEB purchasing policy, we coordinated efforts with an appointed EWEB Purchasing Analyst for the project to solicit vendors to respond to the Request for Information (RFI). The purpose of the RFI was to update our knowledge base of system functionality that is available for an Energy Trading and Risk Management (ETRM) system. There were 11 vendors that responded to the RFI.

In late September 2006 we invited four of the vendors to EWEB to give product demonstrations. The ETRM team was able to define and refine the initial EWEB business requirements in accordance to the established project scope as a result of the demonstrations and began working with the Purchasing Analyst to put together a Request for Proposal.

### **Phase II – Vendor Selection**

EWEB released a Request for Proposal for an Energy Trading Risk Management System (ETRM) in December of 2006 and received Proposals February 2007. The RFP was a Multi-Step Sealed Proposal (in accordance with ORS 279B.060 and EWEB Rule 3-0232). Multi-step sealed proposals is a phased procurement process. We solicited un-priced technical proposals in the initial phase, then determined if the proposals received were technically qualified in subsequent phases.

EWEB received six proposals from the following vendors:

- Allegro Development
- Triple Point Technologies
- OpenLink Financial
- Global

- New Energy
- OATI

**Step 1** was the Mandatory Requirements and was considered a pass/fail step. If a vendor didn't meet the requirements they would not have been considered. All of the Proposers passed the Mandatory Requirements.

**Step 2** was the Evaluation/Scorable Criteria step. The evaluation began in March 2007 and lasted through July 2007. This Step had a total possible point value of 970. The evaluation committee determined that there were three candidates that were clearly breaking away from the group of six and would move to the next steps. These three would be considered the "competitive range" moving forward and were:

- Allegro Development
- Triple Point Technologies
- OpenLink Financial

These three proposers were now considered to be on equal footing moving forward. The final selection would be made at the conclusion of step 5 considering the combined scoring of steps 3, 4, and 5 (1000 points possible).

The Notification of Competitive Range was sent September 5, 2007 to the top three highest ranked proposers along with clarification of the next Steps and the total possible points for those steps.

**Step 3** was the Reference Checks/Site Visits (Total Points -150). EWEB sent staff to visit proposer's clients to validate and confirm the claims made in the proposals during November and December 2007.

**Step 4** was System Pricing (Total Points – 250). In January 2008, EWEB asked Proposers to present the configuration and associated costs for their proposed software solution no later than February 11, 2008.

After evaluating the pricing in Step 4, there was a natural break in the scoring and OpenLink Financial was removed from consideration. The remaining vendors were Triple Point and Allegro Development. Triple Point had the highest score at the conclusion of Step 4.

**Step 5** the final step, was Interviews/Scripted User Demos (Total Points – 600). The vendors were asked to come on-site and provide EWEB an opportunity to run test transactions through their systems and answer any other technical questions during March and April 2008. At the conclusion of this step, it was clear that Allegro Development's software was the system of choice of the evaluation committee.

## **ATTACHMENT 2 – ETRM INTERNAL STAFFING**

### **Scope**

The implementation team is charged with delivering the Allegro Energy Trading and Risk Management (ETRM) system to replace and improve upon functionality utilized within the current Henwood Schedule Management software. Existing interfaces with Energy Management Control System (EMCS) will also be replaced. Additional functionality will be implemented in the areas of risk management, risk controls, workflow management and integration with NERC tagging software. Functionality that increases the cost or schedule will only be undertaken if there is an amendment to the project scope approved by the ETRM Steering Committee.

### **Steering Committee**

Dick Helgeson – Executive Sponsor  
Dick Varner- Project Sponsor  
Patty Boyle  
Terry Bequette  
Jim Origliosso

### **Core Team – Resources dedicated to ensure the success of ETRM**

Megan Capper – Project Manager  
Eric Hiaasen – MidTerm/Position Mgmt  
Kevin Cardoza – Real Time  
Patty Brown-Gierga – IT  
Katrina Starr – Short Term

### **Subject Matter Experts – The Core Team will serve as the SMEs for their area of expertise**

Bert Dunn – Budget Reporting/Book Configuration/OPM  
Susan Eicher – Accounting  
Michelle Martin – Power Credit  
Anna Wade – Power Contracts  
Mary Wilde – Settlements  
Ida Sajor– ETRM Selection  
Teresa Nugent – Transmission/Control Area Check Out  
Pam Poitra – Tagging

### **IT Subject Matter Experts**

Stan Oberst – Scada Interface  
Mark Ellister/Ed Penn – Senior Security Specialist  
Aaron Foster/Jim Demmers- Network Specialist  
Kelly Thompson – Internal Applications Development  
Cynthia/Bill/Kim – Database Administration

# Eugene Water & Electric Board Consent Calendar Request

Date: September 29, 2008

Staff Contact: Megan Capper Ext. 3370

## For Contract Awards, Renewals and Increases:

Project or Job Number: Job No. 15166, PSC No. 1969

Project or Job Name: ETRM Implementation Consulting Svcs

Vendor's Name: ACME Business Consulting

Original Contract Amount: \$50,000

Additional \$ Previously Approved: \$                     

**Amount this Request:** **\$50,000**

Cumulative Amount: \$50,000  
(Including this request)

Method of Solicitation: Exemption  
(Formal bid, informal quote, RFP, exemption, other)

Means of Advertisement: N/A  
(Applies to Solicitation)

Results of Solicitation: N/A

If applicable, basis for exemption: EWEB Rule 6-0270 Personal Services

Term of Agreement: **October 8, 2008 – December 31, 2009**

Option to Renew? Yes, up to 5 years maximum.

### Action:

Contract Award  
 Contract Renewal  
 Contract Increase  
 Other

### Agreement Covers:

Goods  
 Services  
 Personal Services  
 Public Works

### Form of Agreement:

Single Purchase  
 Price Agreement  
 PSC/SC  
 Construction Contract  
 IGA  
 Other

### Funding Source:

Budget  
 Reserves  
 New Revenue  
 Bonding  
 Other

BUYER: QF

The Board is being asked to approve a new contract with **ACME Business Consulting** for consulting services to be provided during the implementation of the ETRM software solution.

Staff utilized ACME's consultation services under a separate contract prior to the intended acquisition of the ETRM Software. This consultant has had first-hand experience in the acquisition and implementation of ETRM Software and has been able to share that experience with EWEB staff. ACME assisted EWEB Staff in developing negotiation and contract strategy and provided perspective on industry standards and contract terms.

Staff would like to continue to utilize ACME during the implementation phase of the Allegro ETRM project as needed. If approved, ACME will consult with Staff on the implementation process and help identify potential risks along the way. Staff believes that ACME's experience in ETRM implementation will continue to provide benefit to EWEB.

Staff requests Board approve award of a contract with **ACME Business Consulting** for Consultation during the ETRM Software Implementation. Funds for this work were budgeted in 2008 and 2009.



**SIGNATURES:**

Project Coordinator: \_\_\_\_\_

Supervisor: \_\_\_\_\_

Purchasing Manager: \_\_\_\_\_

Division Director: \_\_\_\_\_

General Manager: \_\_\_\_\_

Board Approval Date: \_\_\_\_\_

Secretary/Assistant Secretary verification: \_\_\_\_\_



maintenance and support for the first five years (\$522,130 or \$104,426 annually). In addition, the maintenance and support fee was negotiated by staff to not exceed 5% annually after the fifth year of the perpetual license.

Staff requests Board approve the purchase of an Energy Trading Risk Management Software Solution (ETRM Software) and software maintenance and support with Allegro Development Corporation. Funds for this purchase were budgeted in 2008 and will be budgeted annually.

**SIGNATURES:**

Project Coordinator: \_\_\_\_\_

Supervisor: \_\_\_\_\_

Purchasing Manager: \_\_\_\_\_

Division Director: \_\_\_\_\_

General Manager: \_\_\_\_\_

Board Approval Date: \_\_\_\_\_

Secretary/Assistant Secretary verification: \_\_\_\_\_

# Eugene Water & Electric Board Consent Calendar Request

Date: September 29, 2008

Staff Contact: Megan Capper Ext. 3370

## For Contract Awards, Renewals and Increases:

Project or Job Number: Job No. 015166, PSC No. 1963

Project or Job Name: Energy Trading Risk Management Software  
Implementation Services

Vendor's Name: Structure Consulting Group, LLC

Original Contract Amount: \$1,630,000

Additional \$ Previously Approved: \$                     

**Amount this Request:** **\$1,630,000**

Cumulative Amount: \$1,630,000  
(Including this request)

Method of Solicitation: Exemption  
(Formal bid, informal quote, RFP, exemption, other)

Means of Advertisement: N/A  
(Applies to Solicitation)

Results of Solicitation: N/A

If applicable, basis for exemption: EWEB Rule 3-0275 Sole Source

Term of Agreement: **October 8, 2008 – December 31, 2009**

Option to Renew? Yes, up to 5 years maximum.

<b>Action:</b>
<input checked="" type="checkbox"/> Contract Award
<input type="checkbox"/> Contract Renewal
<input type="checkbox"/> Contract Increase
<input type="checkbox"/> Other

<b>Agreement Covers:</b>
<input type="checkbox"/> Goods
<input type="checkbox"/> Services
<input checked="" type="checkbox"/> Personal Services
<input type="checkbox"/> Public Works

<b>Form of Agreement:</b>
<input type="checkbox"/> Single Purchase
<input type="checkbox"/> Price Agreement
<input checked="" type="checkbox"/> PSC/SC
<input type="checkbox"/> Construction Contract
<input type="checkbox"/> IGA
<input type="checkbox"/> Other

<b>Funding Source:</b>
<input checked="" type="checkbox"/> Budget
<input type="checkbox"/> Reserves
<input type="checkbox"/> New Revenue
<input type="checkbox"/> Bonding
<input type="checkbox"/> Other

BUYER: QF

The Board is being asked to approve a new contract with **Structure Consulting Group, LLC** for implementation services related to the Energy Trading Risk Management (ETRM) software solution. *(see backgrounder for more detail)*

During the evaluation of the Allegro ETRM software, it became apparent that the software provider selected was the best software solution for the Utility. Allegro, however, could not meet all of EWEB's requirements for implementation of the software solution. Structure Consulting Group, a respected and knowledgeable service provider for Allegro ETRM software implementation, agreed to perform the implementation in the time required and under the best contractual terms to EWEB. Therefore, Staff has negotiated a contract with the software manufacturer, Allegro, for the purchase of the software and has negotiated a contract with Structure for the Implementation.

Staff has selected Structure Group based on references from other utilities that have recently implemented ETRM software products. References praised Structure on their knowledge and experience and stated that, they believe, the success of their programs was due to Structure's expertise.

The Board is being asked to approve a new contract with **Structure Consulting Group, LLC** for implementation services related to the Energy Trading Risk Management (ETRM) software solution. Funds for these services were budgeted for 2008 and 2009.

**SIGNATURES:**

Project Coordinator: \_\_\_\_\_

Supervisor: \_\_\_\_\_

Purchasing Manager: \_\_\_\_\_

Division Director: \_\_\_\_\_

General Manager: \_\_\_\_\_

Board Approval Date: \_\_\_\_\_

Secretary/Assistant Secretary verification: \_\_\_\_\_