

Budget Amendment Form

Amendment #9

General Information

Date: August 4, 2009

Project Name and No : #27589 Power Trading Capital

Job No and Name: #22504 ETRM Capital

Amendment for: Electric Major Capital Project

Category of Amendment (Check all that Apply):

Utility: Electric Water Steam
 Major Capital Project Capital O & M Labor & Benefits

Contact Information:

Name: Megan Capper- ext 3370

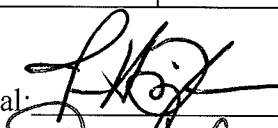
Description and justification for Budget Amendment:

In February 2008 EWEB began negotiating for a new Energy Trading and Risk Management (ETRM) system with Allegro and implementation contract with The Structure Group (Structure). On October 7, 2008 the Board of Commissioners approved these contracts. The 2009 capital budget included \$1,761,342. This budget was prepared before the detailed planning work was completed by EWEB and Structure and did not include any contingencies.

The ETRM project is now asking approval for an additional \$400,000 major capital budget amendment for the following items:

1. Additional Testing Requirements- \$200,000
2. Enhanced functionality and additional system interfaces - \$100,000
3. Additional internal labor - \$100,000

<i>Actual Expenditures thru</i> 6/30/2009	<i>Projected Year-End Expenditures</i>	<i>Amount Currently Budgeted</i>	<i>Additional Funds Needed</i>	<i>Funding Source (reserves, new revenue, bonding)</i>
\$840,763	\$2,161,342	\$1,761,342	400,000	Capital Reserves

Finance Director Approval:  General Manager Approval: _____

Division Director Approval:  Board Consent Date: _____

GM Assistant Secretary Approval: _____



INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD
Power Resources Division

Rely on us.

TO: Commissioners Farmer, Brown, Cassidy, Cunningham and Ernst

FROM: Megan Capper, ETRM Project Manager

July 28, 2009

RE: 2009 Major Capital Budget Amendment #9 and Contract Amendment for the ETRM Implementation Project

ISSUE STATEMENT

EWEB's Energy Trading and Risk Management (ETRM) project is expected to cost approximately \$400,000 more than the amount currently approved as a major capital project. \$300,000 of the increase is for additional work to be performed by The Structure Group under an existing contract. Continued work will require a budget amendment in the amount of \$400,000 increasing the size of the major capital project budget and a contract amendment in the amount of \$300,000.

BACKGROUND

In early 2006 management began the process of selecting new Energy Trading and Risk Management (ETRM) software. This software replaces the primary software supporting EWEB's power management operations including the risk management functions. In a typical year, EWEB processes over \$250 million in sales and purchases.

EWEB's procurement of an ETRM system began after EWEB's external auditors identified areas for improvement for Power Trading and Risk Management operational efficiencies, internal controls, and security over the current trade capture and schedule software from Global Energy Decisions (GED). The GED software is 11 years old and currently at the end of its life from a technology perspective and no longer vendor supported.

In December 2006 an RFP was issued for provision and implementation of a new ETRM system. Proposals were received in February 2007; and after a lengthy evaluation process Allegro was selected.

A contract was negotiated for the software purchase with Allegro Development and for software implementation with The Structure Group (Structure). The Structure implementation contract for \$1,630,000 was approved on October 7, 2008 by the Board of Commissioners.

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To date the ETRM implementation team has successfully identified ETRM requirements and configured the Allegro software to meet those requirements, and initiated user training. Within the next week we will enter the testing phase. Our expectation is to go-live on October 1, 2009 and be fully functional by December 31, 2009.

The 2009 Major Capital Project budget for ETRM was for \$1,761,340. This budget was prepared before detailed planning work was completed by EWEB and Structure and did not include any contingencies.

DISCUSSION

According to Board Policy EL1, executive management is required to propose a budget amendment when expenditures for an Electric Utility major capital project are expected to exceed or are actually expended in excess of the budgeted amount for that project by the lesser of 25%, or \$250,000.

EWEB Purchasing Policies require that the Board approve all changes to Board awarded contracts that cause the contract to exceed 125% of the last Board approved amount.

Current project estimates indicate the need for both a budget amendment based on increased capital expenditures of approximately \$400,000 and a contract amendment for that portion of the project increase (\$300,000 of the total \$400,000) that is for implementation services to be provided by Structure.

The components of the request break down as follows:

1. Configuration Validation - \$0
2. Enhanced Functionality and Additional Interfaces- \$100,000
3. Additional Testing - \$200,000
4. Additional Internal Labor - \$100,000

The total project cost authorized by the Board is about \$3.05 million (nearly \$1.29 million in 2008 and \$1.76 million in 2009). This budget amendment would represent about a 13 percent overall increase in total authorized project costs.

Configuration Validation

At the end of the configuration phase the vendor was not able to demonstrate to EWEB that our requirements were met. We worked with Structure to identify the gaps and agreed to extend the project schedule one month to optimally configure the system to meet EWEB's needs. EWEB successfully negotiated with Structure for them to assume this cost with no additional cost to EWEB.

Enhanced Functionality and Additional Interfaces

In the process of the configuration validation, users gained a more comprehensive understanding of the system capabilities and a better understanding of best practices. Increased thinking about the design of the system architecture as well as business processes and procedures led EWEB to add to our initial scope. Interfaces with the accounts receivable and accounts payable systems were originally outside the scope of the ETRM implementation project. As we further defined our system requirements and learned more about the software's functionality, it became clear we needed to add these interfaces in order to reduce our manual processes and further leverage the system capabilities. Another example of enhanced functionality is Allegro's account reporting capability. EWEB is deriving both our hedge accounting required by GASB and our contribution margin within the Allegro system eliminating a separate and manual system for tracking these measures as originally intended. The ETRM implementation team determined it was more cost effective and efficient to include these capabilities in our configuration phase as opposed to completing them after the system is implemented.

The additional cost of these requirements is \$100,000 and impacts both the 2009 Major Capital Project budget and the Structure contract.

Additional Testing Requirements

The original budget and contract were based on an eight month implementation. After project planning, scope definition, and industry research the ETRM team determined additional testing is required. The critical functionality as well as user requirements of the ETRM system led us to this decision. Our intent was to ensure that the configuration was valid and met EWEB requirements, and that EWEB staff had the opportunity to fully test their business and technical requirements. We wanted to work the issues with the consulting team on site and resolve the issues during our implementation phase. As a result we added four weeks to the timeline for testing. The cost of Structure resources for this is an additional \$200,000. This cost impacts both the 2009 Major Capital Project budget and the Structure contract.

Additional Internal Labor

The internal labor associated with the two additional months of work is about \$100,000. This includes a full time project manager and two full-time IT staff for the extra two months. It also includes significant staff involvement from the trading floor, fiscal services and accounting during the configuration validation work. EWEB's financial policies provide that internal labor costs associated with capital work are capitalized as part of the project cost. This is a reallocation of labor that would have otherwise been expensed under operations & maintenance. There is no net cost of this labor or additional FTE included. The \$100,000 impacts the 2009 Major Capital Project budget only.

STAFF RECOMMENDATION

The ETRM Project has gone quite well given the complexity of the work and the size of the project. Although the \$400,000 budget amendment requested on the August 4th board agenda does represent an overall project increase of 13%, a significant portion of the increase enhanced software functionality. Staff recommends the Board approve a budget amendment increasing the ETRM Major Capital Project budget by \$400,000. Staff further recommends the Board approve a \$300,000 contract amendment for the Structure Group. We believe budget and contract amendments will ensure a quality implementation that meets EWEB's requirements.

SUGGESTED MOTIONS

Normally a contract amendment for this amount would be on the consent agenda. Given that the budget amendment must be approved prior to the contract amendment we have placed in on the board agenda and recommend the following motions:

1. I move the Eugene Water & Electric Board approve Capital Budget Amendment #9 for the ETRM Implementation Project in the amount of \$400,000.
2. I move that the Eugene Water & Electric Board approve a contract amendment to The Structure Group Services contract in the amount of \$300,000.

If you have questions please contact me at 541.912.8944 or megan.capper@eweb.org.