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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

7-3

May 20, 1997

To: Board of Directors (Electric Industry Restructuring Ad Hoc Committee--Action)
 (Budget and Finance Committee--Action)
 (Organization and Personnel Committee--Action)

From: General Manager Glenn D. Meacham III

Submitted by: Debra A. Man Brian J. Thomas Jr
 Chief of Planning and Resources

Subject: Authorization to Amend the Resource Management International, Inc. Contract to Expend an Additional \$500,000 for Assisting Metropolitan in Protection of Its Power Interests During the Restructuring of the Electric Utility Industry

RECOMMENDATION

It is recommended that your Board authorize an amendment to Agreement No. 9286 between Metropolitan and Resource Management International, Inc. to increase expenditures under the Agreement by \$500,000, to a total of \$1 million, for the preservation and protection of Metropolitan's power interests during the restructuring of the electric utility industry. The amount has been included in the Annual Budget for fiscal year 1997-98.

EXECUTIVE SUMMARY

With the increased activities associated with the restructuring of the electric utility industry, this letter seeks your Board's authorization to amend Agreement No. 9286 with Resource Management International, Inc. to increase the expenditure level by an additional \$500,000 to continue to provide specialized expertise to Metropolitan during the restructuring of the electric utility industry. This increase results in a total contract expenditure amount of \$1,000,000. This amendment amount has been included in the Annual Budget for fiscal year 1997-98.

DETAILED REPORT

In September 1995 the Board approved, by Board Letter 7-4, the expenditure of up to \$500,000 (\$300,000 legal and \$200,000 technical) to fund hiring of law firms and a consultant to assist staff in protecting Metropolitan's power interests, and to specifically assist Metropolitan in evaluating the changes associated with the restructuring of the electric utility

industry. The General Manager's staff went through a Request for Proposal (RFP) process, selected Resource Management International, Inc. (RMI) as the successful candidate and executed a contract with RMI, which became effective on April 1, 1996. In September 1996 the Board approved, by Board Letter 7-8, an increase in the contract amount by \$300,000 to a maximum contract amount of \$500,000.

Metropolitan has continued to actively participate in the restructuring of the electric utility industry at both the state and federal level. The California Public Utilities Commission (CPUC) has continued its efforts to implement the independent system operator (ISO) and power exchange (PX) by January 1, 1998. Recent CPUC activities have included decisions on direct access and unbundling of rates, and workshops and discussions on consumer education, rates, and transition costs. The Federal Energy Regulatory Commission (FERC) received the Phase II Filing (Filing) on March 31, 1997 and issued an order on April 29, 1997 requesting clarification of the Filing and asked 90 questions for which answers are due on May 20, 1997. Comments on the Filing are due to FERC on June 6, 1997. Additionally, Metropolitan is extremely involved in the ISO/PX Trust Advisory Committee, and Mr. Robert W. Schempp has been appointed as a Governor on the PX Governing Board. Metropolitan has also partnered with the Governmental Entities^{1/}, the State Water Contractors, and the California Municipal Utility Association to further our interests and to broker consensus among other stakeholders.

RMI is an integral part of the Metropolitan team evaluating the restructuring effort. Specifically, RMI assists the team in: preparing comments to the CPUC and FERC; providing technical expertise in analyzing the proposed PX and ISO tariffs, associated documents, and proposals for mitigation of market power; evaluating proposals to revise the ISO and PX structure and protocols; and determining strategy for Metropolitan's response to various proposals and decisions. The team combines General Manager and General Counsel staff with RMI and legal consultants. RMI's technical expertise includes economics, strategic planning, utility practice, engineering, and project management skills.

The team anticipates increased activity in these endeavors as the January 1, 1998 implementation date nears. In Fiscal Year 1997-98 it is anticipated that FERC may hold technical conferences and/or hearings on the Filing and will issue orders allowing implementation of the ISO and PX by January 1, 1998. To continue assisting the General Manager in the restructuring effort, this proposed action would amend the RMI contract for this \$500,000 additional expenditure which is the budgeted amount for fiscal year 1997-98.

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^{1/} The Governmental Entities consist of the City and County of San Francisco, the California Department of Water and Power, the Western Area Power Administration and Metropolitan.