

October 27, 1998

To: Board of Directors (Water Planning and Resources Committee--Action)
(Organization and Personnel Committee--Action)

From: General Manager _____

Submitted by: Debra C. Man, Chief _____
Planning and Resources

Subject: Authorization to Execute an Agreement with Resource Management International, Inc. for \$400,000 for Consulting Services to assist Metropolitan in Protection of its Power Interests During the Continuing Restructuring of the Electric Utility Industry

RECOMMENDATION

It is recommended that the Board authorize the General Manager to enter into an agreement with Resource Management International, Inc. for an amount not to exceed \$400,000 for consulting services to assist Metropolitan in protection of its power interests as restructuring of the electric utility industry continues.

EXECUTIVE SUMMARY

This letter seeks the Board's authorization to enter into an agreement with Resource Management International, Inc. (RMI) for \$400,000 for specialized consulting services in the following areas related to Metropolitan's power resources: 1) preservation and protection of Metropolitan's existing entitlements, including power produced at Hoover and Parker Dam Power Plants; 2) continued analysis and development of proposals for reduction of power related costs associated with the State Water Project; and 3) protection of Metropolitan's interests during the continuing restructuring of the electric industry. RMI was selected under a competitive Request for Proposal process. The \$400,000 has been included in the annual budget for the 1998-99 fiscal year.

DETAILED REPORT

Resource Management International, Inc. (RMI) has served as Metropolitan's outside consultant on electric industry restructuring matters since issuance of the last Request for Proposal (RFP) in January 1996. Since that time, RMI has provided vital assistance to Metropolitan's efforts to protect its power interests in the wake of the dramatic restructuring of the electric utility industry.

With the assistance from this consultant agreement, staff has been proactively engaged in the electric restructuring effort and Metropolitan's ability to protect its interests has been enhanced.

Metropolitan has continued to work diligently with RMI, the California Department of Water Resources (DWR), the State Water Contractors, the California Municipal Utilities Association, and other entities to analyze issues for impact upon existing Colorado River Aqueduct and State Water Project (SWP) power contracts. The issues analyzed, which generally included development of technical comments, addressed new operating protocols and tariffs that were filed before the Federal Energy Regulatory Commission (FERC) for the California Independent System Operator (ISO) and Power Exchange (PX) Corporations. As a result of Metropolitan's successful lobbying efforts, Mr. Robert W. Schempp represents Metropolitan as a Governor on the PX Governing Board and Mr. Steven Kashiwada of DWR represents the interests of DWR and Metropolitan on the ISO Governing Board.

During fiscal year 1997-98 alone, Metropolitan submitted over 70 filings on restructuring issues including motions to intervene and protest, comments and memoranda analyzing FERC orders and other documents. RMI participated in the preparation and review of most of these filings.

Since the ISO and PX commenced operations on March 31, 1998, new and complex issues continue to be identified, evaluated and responded to appropriately by staff, RMI, and outside counsel. This is in addition to the issues previously identified but unresolved, which require the dedication of significant resources to argue Metropolitan's overarching interest in the protection of existing contractual rights and prevention of cost-shifting.

Metropolitan continues to require consulting expertise in the area of power resources as the electric industry adapts to restructuring. However, at the present rate of expenditure, the authorized amount of the current agreement will soon be reached. Because the last RFP was issued almost three years ago and the agreement has already been amended, staff decided to issue a new RFP. RMI was determined to be the best qualified of the three firms submitting responsive proposals. The RFP was distributed to over 15 consulting firms.

RMI's expertise is needed on a number of issues besides those referenced above. Currently, monthly ISO and PX charges are being reviewed. This will require rigorous analysis and investigation to assure all costs are clearly defined and appropriately charged to Metropolitan or DWR. Specialized expertise will also be required to assist Metropolitan in evaluating a successor ISO transmission access charge which could significantly and adversely affect Metropolitan and DWR.

Accordingly, to continue to assist staff with the electric restructuring effort, the Board's approval of an agreement with RMI in the amount of \$400,000 is requested. This amount is included in the Planning and Resources Department's budget for fiscal year 1998-99.

ACTIONS AND MILESTONES

- Under the General Manager's authority, Metropolitan has entered into consulting contracts in the past to protect Metropolitan's power interests.
- Metropolitan has completed an Request for Proposal (RFP) process that included distributing the RFP to over 15 consulting firms. Of the five responses received, three were complete and were evaluated; two other consulting firms,

PriceWaterhouseCoopers, LTD and R.J. Rudden and Associates, submitted letters declining to bid due to present workloads and existing client commitments.

- ❑ Of the three who supplied complete responses to the RFP, only Resource Management International, Inc. (RMI) supplied names of a Minority-Owned Business Enterprise and a Women-Owned Business Enterprise subcontractor. One other respondent supplied an MBE as a subcontractor on an as-needed basis.
- ❑ RMI was selected on the basis of its general expertise and familiarity with California electric industry restructuring issues, its extensive knowledge of Metropolitan's Colorado River Aqueduct and State Water Project power systems, and its favorable competitive pricing for consulting services.

CEQA COMPLIANCE/ENVIRONMENTAL DOCUMENTATION

This action is not a project under California Environmental Quality Act, and no environmental review or documentation is necessary for the Board to act on this request.

ATF:cl