

Memorandum

To: CAISO Board of Governors

From: Steve Berberich, Vice President of Corporate Services
Deborah A. LeVine, Director of Market Services and MRTU Program Manager

Date: August 29, 2008

Re: **Decision on MRTU Budget**

This memorandum requires Board action.

Executive Summary

Over the last few months, CAISO Management has accomplished a great deal in its preparation for MRTU going live, including delivery and implementation of final market functionality, consistent market running, and production runs of congestion revenue rights.

In December 2006, the Board approved a budget of \$189,223,000, assuming the increased functionality approved by FERC in September 2006, and a January 31, 2008 implementation date. Due to vendor delivery delays, functionality challenges and insufficient testing time, MRTU needs additional funds to continue.

Management is requesting an increase of \$8,277,000 to meet the additional one-year schedule delay, moving the implementation date to January 31, 2009. This would result in a revised budget of \$197.5 million. To allow for contingencies, Management also requests that the Board delegate to the CEO the ability to exceed the budget by up to \$2 million. This delegation is similar to that provided to the CEO in the standing delegation related to contracting authority, where the Board has delegated to the CEO the authority to exceed contract amounts approved by the Board by 20% or \$2 million, whichever is less. Management determined not to request any more than the anticipated increase of \$8.277 million but, needing room for some contingency to manage the unexpected, requests the authority for the CEO to exceed the budget if needed by a capped amount.

Management will update the Board at each Board meeting as to the current MRTU financial position. Management has determined that existing funds, together with proceeds of the June 2008 bond offering, will be sufficient to fund the requested increase.

Motion

Moved that the CAISO Board of Governors authorizes Management to proceed with executing MRTU in accordance with the revised budget; and

Moved that the CAISO Board of Governors acknowledges that the overall MRTU budget is increased to \$197.5 million and that \$189.223 million has already been authorized in previous approvals. Management is authorized to execute contracts and expenditures for the remaining \$8,277 million subject to the established protocols and procedures for budgeting, expenditure approvals and updating the Board on the progress and expenditures related to MRTU; and

Moved that the CAISO Board of Governors authorizes the Chief Executive Officer to exceed the revised budget by up to \$2 million above the \$197.5 million, as set forth in the memorandum dated August 29, 2008.

Background

CAISO has made tremendous strides preparing for MRTU in 2008, including:

- Completion of the annual allocation process and auction for 2008 congestion revenue rights, beginning the annual allocation process for 2009;
- Market base products – scheduling infrastructure business rules (SIBR), integrated forward market/real-time market (IFM/RTM), and the market quality system (MQS) – are running with their final functionality except for forbidden region functionality;
- Internal legacy systems are substantially completed and in market simulation;
- Settlement software (SaMC) is in simulation, producing daily settlement statements and monthly settlement statements and invoices;
- The MRTU tariff has been filed and is awaiting FERC approval;
- *Business Practice Manuals* are substantially complete; and
- Significant internal and external training is completed.

But 2008 has also seen a number of challenges, namely:

- Due to a delay in vendor deliveries and the need for numerous patches once we received initial delivery, we continued finding variances;
- We experienced challenges with sufficient environments and resources to cover a number of parallel efforts;

- Due to the complexity of vendor software, we needed additional vendor support; and
- Law and Economics Consulting Group's certification for locational marginal pricing grew more complex and scope was expanded in response to stakeholder concerns.

All of these issues have resulted in increased costs to the program budget and schedule slippage.

While the confidence in program schedule and budget has increased significantly since the previous Board approval, we are very close to the end, with final software testing, scenario execution, final variance fixes, and other residual work remaining.

Management will present additional information about the status of the MRTU program at the meeting.

MANAGEMENT RECOMMENDATION

Management recommends approval of the proposed increase of \$8,277,000 to meet the additional one-year schedule delay, moving the implementation date to January 31, 2009, resulting in a revised budget of \$197.5 million. To allow for contingencies, Management also requests that the Board delegate to the CEO the ability to exceed the budget by up to \$2 million.