Nodal Program Oversight Report 8

New Integrated Schedule and Budget Assessment

January 19, 2009

Scope and Approach

The objective of Nodal Market Oversight Report Number 8 is to provide an independent assessment of the new integrated schedule and associated budget. Specifically, Utilicast has been asked to provide an opinion on the following areas:

- Is the project schedule realistic and achievable given the tasks that need to be completed?
- Is the cost estimate reasonable based on the proposed workload?

The Utilicast project team, over a six week period, conducted a high level review of the Nodal Program including objectives, plan and budget to determine if ERCOT is better positioned to successfully implement the program given the new budget and schedule. To achieve this, the project team adopted the following approach:

- Confirmed the key program objectives
- Conducted a high level assessment of current state of the nodal program
- Selected a sample of three projects from the nodal program and conducted a more detailed assessment of each project's objectives, plan and budget
- Confirmed the findings and recommendations based on detailed project assessments

Findings

Review Area	Findings
What went wrong with the original schedule and budget?	• The original program was poorly estimated. • The controls in place for the original program were inadequate for the scale and complexity of the undertaking. • The Nodal Program is more complex than originally anticipated.
What is the current state of the Nodal Program and what work needs to be completed?	• ERCOT has made progress in implementing strong program controls. • There is clear ownership and accountability for the delivery of the Nodal Program at executive level. • The Program Management Office (PMO) has been restructured and has implemented project controls consistent with the complexity and scale of the program. • A Nodal Program Controllers Office has been established and cost tracking and variance analysis and reporting procedures have been implemented to improve budget transparency and improve financial reporting. • The Nodal Program has been able to make some notable progress such as generating Locational Marginal Pricing (LMPs) and conducting mock markets.
Is the new estimate a "good" estimate?	• The new Nodal Program budget of $660 million, which includes both direct and indirect costs (indirect costs include finance charges), is a reasonable "not to exceed" estimate. • The new cost-to-complete estimate may be excessive and additional optimization is possible.
Is the new schedule a "good" schedule?	• There are a number of risks that could impact the new Nodal Program schedule. These risks include: • Integration project has been identified as the highest risk to the overall Nodal Program schedule. • Scope changes may adversely impact the schedule. The Nodal Project requirements have not been finalized and locked down. • Lack of available data center space to expand the current IT infrastructure (environments). • Market Participants may extend the Early Delivery System (EDS) Process indefinitely and impact the go live schedule. • Key Nodal Program resources may be reassigned to zonal program work.

Recommendations

Review Area	Recommendations
Is the new estimate a "good" estimate?	1. The individual project budgets should be challenged in the following areas: a. Vendor contracts b. Contract staff c. Internal staff
Is the new schedule a "good" schedule?	1. Given the potential risks of the integration phase of the Nodal Program, this area should be reviewed in detail and be the subject of Oversight Committee Report 9. 2. Scope for the December 2010 release of the Nodal Program should be agreed and locked down with any proposed changes subject to a strict change control process. 3. No enhancements should be made to the zonal market applications or processes unless assessed as business critical. 4. There should be immediate investment in new data center capacity to accommodate the expansion of IT infrastructure required for the Nodal Program and continuation of zonal operations. 5. Given the risks of Market Participant not accepting "Go-live" criteria, this area should be subject to a detail review.