

## Review of Inter-Affiliate Technology Cost Allocations Related to EnVision

Gazifère Inc.

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# 1. Introduction

## 1.1 Background

In the 1999-2000 rate case, the Régie de l'énergie du Québec (Régie) directed Gazifère Inc. (Gazifère) to demonstrate (in the next rate case) that it acquired services needed in a manner that meets the requirements of the Régie for inter-affiliate transactions. To that end, Gazifère engaged Deloitte to review the information technology costs that Gazifère receives from Enbridge Inc. (Enbridge, or EI) and its affiliates, namely Enbridge Gas Distribution Inc. (EGD) and Enbridge Commercial Services (ECS), and render an opinion as to the extent that these services meet the requirements of the Régie for inter-affiliate transactions as reflected in decision D-2000-48 Section 3.2.1, namely:

- That the services are necessary; and,
- That the services were acquired at the lowest cost.

On March 29, 2000 the Régie issued decision D-2000-48 on the Gazifère 1999-2000 rate case approving the targeted operating and maintenance (O&M) expenses performance based regulation (PBR) mechanism for a period of three years: 1999-2000, 2000-2001, and 2001-2002. Gazifère later obtained two extensions without rebasing. This mechanism ended on September 30, 2004, and Gazifère is now required to rebase for the 2004-2005 rate case year.

Deloitte undertook a review ("the Initial Review") and submitted a report ("the Initial Report") entitled "Review of Inter-Affiliate Technology Cost Allocations". The report was submitted to the Régie on October 22, 2004.<sup>1</sup> The scope of the Initial Review and report included the following information technology services:

**Table 1: Scope of Review of Initial Deloitte Inter-Affiliate Technology Cost Allocation Study**

Service Provider	Service	2005 Charges as Filed
EGD	Desktop Services	\$ 115,200
EGD	Network Services	\$ 17,500
EGD	Application Support	\$50,300
ECS	Capital charge for Enterprise Financial System (EFS)	\$100,577
EI	EFS Application Support	\$101,583
<b>Total</b>		<b>\$385,160</b>

At the time that the Initial Review was conducted, efforts were underway at EGD to implement a Work and Asset Management System ("WAMS") and supporting processes as part of a broader solution called "EnVision". One of the objectives of the EnVision solution was to replace the numerous legacy systems that supported the work and asset management processes. The intention was to include Gazifère in the initial roll out of WAMS and, as such, Gazifère participated during the design and implementation phase of the work and asset management portion of the EnVision solution which went live in October of 2004.

Although Gazifère was aware that additional inter-affiliate charges from EGD in regards to EnVision would be forthcoming, the details of the charge and method of allocation had not yet been finalized while the Initial Review was underway. It was therefore decided not to include the charges within the scope of the Initial Review. The Régie was informed by Gazifère that additional charges related to EnVision would be forthcoming.

<sup>1</sup> See GI-4, Document 7.4, 3537-2004

The charges for the Gazifère portion of the EnVision related costs have now been determined and Deloitte has been asked to also evaluate whether the inter-affiliate charge for the service(s) provided by EGD meet the requirements of the Régie.

## **1.2 Objective and Scope of the EnVision Review**

The objective of the EnVision review was to evaluate and report on whether the Régie requirements, as reflected in decision D-2000-48 and as set out in the evaluation criteria which were developed as part of the Initial Review, have been met with regard to the Inter-Affiliate EnVision cost allocation that Gazifère receives from its affiliate service provider, EGD.

The scope of the review is limited to the \$132,833 annual charge from EGD to Gazifère for the use of the EnVision solution.

In performing the review, Deloitte did not undertake any external benchmarking initiative for the purpose of establishing or validating prices.

## **1.3 Overview of Approach**

As part of our review of the EnVision charge, Deloitte has:

- Employed evaluation principles and criteria which were developed as part of the Initial Review. The evaluation criteria were developed based on a review of regulatory principles, precedence, costing principles and industry practice and were tailored to the requirements of the Régie.
- Incorporated the structure of the detailed analysis used in the Initial Review and report.
- Reviewed documentation and supporting schedules and data regarding the EnVision solution and the allocation mechanism used by EGD, the service provider, to charge Gazifère, the service recipient.
- Conducted interviews with the employees and management from both EGD and Gazifère who were responsible for the design and implementation of EnVision, the negotiation of the EnVision contract with Accenture (current EnVision application service provider), the development of the charge and supporting service level agreement (SLA) that is being developed by EGD to charge Gazifère, and who could speak to issues regarding the cost allocations.

## **1.4 Consultants Appointed**

The review was completed by a team of Deloitte consulting practitioners under the direction of Mr Andre Pienaar, a partner of the firm. Both Mr. Pienaar and Mr. Dave Walker, a senior manager with Deloitte, were part of the core team that produced the Initial Report.

## **1.5 Qualification of Opinion**

In completing the review, Deloitte relied on data and information provided by Gazifère and EGD, who retain responsibility for the accuracy of all data provided for analysis. Deloitte did not audit any data gathered, perform a detailed examination of underlying transactions, validate any underlying source records or verify the accuracy of any data provided for inclusion in the final report or any templates and models prepared during the project. Deloitte has relied solely on the representation of the staff, management and executive of Gazifère and EGD as to the accuracy and completeness of data provided for the review.

# 2. Principles and Evaluation Criteria

## 2.1 Overview

As mentioned in the previous section, the evaluation principles and criteria developed as part of the Initial Review were used to assess the charge to Gazifère for the use of the EnVision system. The following section provides a summary of some of the key principles and evaluation criteria that were used as part of the current study. The principles and evaluation criteria are further detailed in the Initial Report in sections 2 and 3 respectively.

## 2.2 Key Principles Employed in the Review

The following is a summary of the key principles employed in Deloitte's evaluation:

- It is common for utilities to receive charges from an affiliate (supported by the Régie).
- Where market prices are unavailable, cost based charges are acceptable (supported by the Régie).
- Cost based charges should reflect fully loaded costs including a fair return (supported by the Régie).
- If they are to be recovered, inter-corporate charges must be prudently incurred (supported by the Régie).
- The Ontario Energy Board (OEB) has set out criteria for evaluating the justifiability of corporate charges, commonly referred to as the "3 prong test", namely incurrence, allocation, and benefit.
- The Régie has established a set of criteria similar to that of the OEB, summarized as follows:
  - **Necessary Services**  
The recipient has an obligation to ensure that the services provided are necessary.
  - **Required Charges**  
The cost of the service represents only those charges that are required to provide the service, and are charged in a manner that is reflective of cost causality.
  - **Just and Reasonable Costs**  
Services must be rendered at a cost that is deemed to be just and reasonable, that is delivered in the most economical way possible.

## 2.3 Evaluation Criteria

The EnVision cost allocation was reviewed against the following criteria, which we have drawn from in our interpretation of the broader requirements underlying the Régie decisions and also evidenced in the precedents set by other Canadian regulators (e.g. OEB "three prong test") which were reviewed as part of the initial study. In order to facilitate relevant conclusions, the detailed analysis in section 3 of this report has been structured in alignment with the criteria. The criteria are as follows:

- **Service Descriptions**  
In order to understand the nature and extent of the service provided, are the service recipients at Gazifère provided with sufficient information, including type of service, quantity and quality of service, and description of pricing or cost allocation mechanisms used?
- **Necessary Services**  
Are the services provided to Gazifère necessary for Gazifère to effectively serve its ratepayers?
- **Required Charges**  
Does Gazifère's share of the costs incurred represent only those costs required to provide the service to Gazifère? Have the costs been allocated in a manner that is reflective of cost causality?
- **Just and Reasonable Costs**  
Are the charges reflective of costs that are just and reasonable in the context of the services provided? Have the services been delivered in the most economical way possible?

# 3. Detailed Analysis of EnVision Costs

## 3.1 Structure of Analysis

This section presents the findings and opinions resulting from Deloitte's review of the EGD allocation of EnVision costs to Gazifère.

The analysis and opinions have been structured around the following four categories:

- Service descriptions;
- Necessary services;
- Required charges; and,
- Just and reasonable pricing.

A review of each of these categories follows:

## 3.2 Service Descriptions

EGD charges Gazifère for the use of one component of the EnVision solution (namely, WAMS).

### Overview of EnVision Solution:

The original intention was for EGD to develop and maintain a Distribution Plant Work and Asset Management System (DPWAMS) to replace 39 legacy systems. Gazifère actively used 24 of the legacy systems.

The original DPWAMS approach was later abandoned and replaced with a broader solution entitled EnVision.

A key difference of this broader solution is that, rather than being developed and maintained in-house by EGD, the system would be hosted and maintained by an Application Service Provider (ASP). The ASP ultimately selected was Accenture. Only EGD and Gazifère are currently using the EnVision solution.

Once fully developed, the four core components of EnVision will be:

- **Component 1:** Design and implementation of a Work and Asset Management Solution (WAMS)
- **Component 2:** Design and implementation of the Field Force Transformation (FFT) Solution
- **Component 3:** Operations of information technology associated with WAMS and FFT Solutions
- **Component 4:** Provision of Management Assistance, primarily focused on operations of the EGD Work Management Centre, resulting in business and efficiency improvements

The WAMS component went live at both EGD and Gazifère in October of 2004. Implementation of FFT is scheduled to begin in the fall of 2005 at EGD. The timing of the implementation of FFT at Gazifère has not yet been determined.

A more detailed description of the four components of EnVision follows:

- **Component 1: Design and Implementation of Work and Asset Management Solution (WAMS)**

Component 1 of the EnVision solution includes the design and implementation of WAMS which is comprised of two fully integrated systems:

- STORMS for work management; and,
- PMTS for asset management.

The system provides Gazifère with the functionality needed to optimize the management of units of work and to facilitate the effective management of plant assets. Although EGD originally intended to replace 39 legacy systems only 33 were actually decommissioned by EGD on the go-live date of October 2004.

Support to Accenture for the design and implementation (e.g. assistance with system development, integration testing, training and support) were provided by both EGD and Gazifère resources. Gazifère dedicated one full time resource to the project and provided input from managers and staff as required. One of the objectives of Gazifère participating in the design and implementation was to ensure that the system met their requirements.

Accenture is limited to recovering their investment in the development and implementation of the solution by way of the charges for usage of the system (i.e. services rendered under component 3, described below). The contract between EGD and Accenture for use of the system is for 10 years. The contract may be cancelled and the system repatriated by EGD at any time. There is currently no formal service level agreement between EGD and Gazifère. (Note: Deloitte was not provided access to the Services Agreement between Accenture and EGD dated April 1, 2003. As such, Deloitte had to rely on management representation for any information regarding the contract terms and conditions, including the charges from Accenture to EGD related to EnVision).

**Charge to Gazifère:**

There was no separately identifiable charge to EGD or Gazifère from Accenture for this phase of the work.

- **Component 2: Design and Implementation of Field Force Transformation Solution (FFT)**

Component 2 of the EnVision solution includes the implementation of a wireless network and supporting devices that will allow field personnel to interact directly with the WAMS system. This functionality will enable employees and contractors to receive and complete work electronically in the field.

Gazifère is participating in the design of this component of the solution. It is expected that the initial implementation will be performed by way of a pilot project within EGD in the fall of 2005. The timing of the implementation of FFT at Gazifère has not yet been determined.

**Charge to Gazifère:**

Gazifère is not expecting to be charged for the design and implementation of the FFT solution.

- **Component 3: Operations of Information Technology Associated with the WAMS and FFT Solutions**

## WAMS (STORMS and PMTS):

The WAMS portion of component 3 includes three subcomponents:

- Use of WAMS;
- Maintenance of WAMS; and,
- Use and maintenance of the elements that make up the full system (such as interfaces, security and helpdesks).

Accenture, who hosts and maintains WAMS, acts as the single point of contact for service management.

## FFT:

Since the FFT solution has not yet been implemented there are no on-going usage or maintenance activities related to this solution at present.

It is expected that discussions related to an appropriate charge for the use of the FFT solution would be explored when the Gazifère portion of FFT is implemented.

### ***Charge to Gazifère:***

Gazifère receives a charge for the usage and maintenance of WAMS from EGD. It is the only one of the four components of EnVision for which Gazifère currently receives a charge from EGD.

- **Component 4: Provision of Management Assistance (primarily focused on operations of the EGD Work Management Centre)**

Component 4 of the EnVision solution is focused on improving the day-to-day operation of the EGD Work Management Centre and preparing the organization for the transition to WAMS and FFT. More specifically, Management Assistance is comprised of a number of projects that are undertaken in order to enable process improvements and the development of leading edge tools (e.g. development of a new forecasting tool). The types of projects will vary depending on business needs and priorities.

Gazifère could benefit indirectly from the process and systems improvements enabled through the management assistance program (e.g. improvements to the processes and systems used directly by Gazifère or by its affiliate, EGD, to render services for Gazifère). There is no mechanism currently in place to identify the specific functionality from the various management assistance initiatives that may impact Gazifère and therefore it is difficult to identify and quantify any resulting benefits which may accrue to Gazifère.

### ***Charge to Gazifère:***

The benefits to Gazifère of the improvements that currently result from the management assistance component cannot be quantified and at the time do not appear material. As such, Gazifère is not charged for this component

## **Summary EnVision Component Charges:**

In summary, the only component of the EnVision solution for which Gazifère receives a charge from EGD is for the usage and maintenance of Information Technology associated with WAMS (component 3).

## **Service Level Agreement**

While there is a Services Agreement between Accenture and EGD related to EnVision, there is currently no formal SLA in place between EGD and Gazifère for the use and maintenance of WAMS.

Efforts are underway to develop an appropriate SLA to support the services and the corresponding charges from EGD to Gazifère. It is estimated that this agreement will be completed by the end of February 2005.

The charge for the use of the system is invoiced to EGD by Accenture on a monthly basis. We are informed that the monthly charges are based on an agreed upon annual charge as described in the contract. The monthly charge is derived by dividing the annual contract charge by twelve months. EGD in turn charges Gazifère a monthly fee for their use of the system which is based on the average number of Gazifère customers relative to the average number of EGD customers (see calculation in section 3.4 below) There were no Accenture invoices available for Deloitte to review.

There is also a gain sharing agreement between EGD and Accenture that is related to the use of EnVision. If agreed upon benefits are achieved through the use of the system, Accenture may receive additional fees from EGD. Given the level of complexity involved in incorporating this mechanism in the SLA and charges from EGD to Gazifère, EGD has decided not to charge any of the additional fees to Gazifère. The fees related to the gain sharing, which are at risk by Accenture, are \$7.8 million during the life of the contract.

### **Deloitte Opinion**

We believe that it would be good business practice, and in conformance with accepted regulatory precedent for a signed SLA between EGD and Gazifère to be put in place for the EnVision related services. The SLA should contain, at a minimum, a description of the service(s) provided, the service levels and the quantity of service, the amount of the charge and the basis for the charge to ensure that the recipient, Gazifère, is able to understand the nature and extent of the charge for the services.

However, it is our opinion that the current non existence of the SLA should not invalidate the charge, given:

- the commitment of EGD and Gazifère to develop an SLA in the near future;
- the fact that Gazifère had a dedicated full time resource in the design and implementation phase of EnVision should provide Gazifère with an understanding of the nature and extent of the service; and,
- that EGD will provide a representative of Gazifère with access to the Services Agreement between Accenture and EGD to scrutinize in order to determine the extent of the charges related to the services and service levels provided by Accenture.

### **3.3 Necessary Services**

The work and asset management system is a mission critical application that Gazifère requires in order to provide services to its customers. The development, maintenance and support of the system require access to resources with specialized skill sets and knowledge. If access to the resources provided by the service provider were not available, Gazifère would have to maintain such a system by themselves and develop the necessary skills internally to support their own use of the application. Alternatively, they would have to obtain access to a similar system and support from another service provider.

In OEB Decision RP-2003-0203, an agreement to settle with respect to EnVision Costs and Benefits was reached between the OEB, EGD and the various intervenors. As part of this agreement, the intervenors accepted that the EnVision Project was a prudent undertaking given the need to replace existing legacy systems and improve upon overall work processes:

*Intervenors accept that the EnVision Project is prudent because the Company has justified the need to replace its existing legacy systems and improve upon its overall work management processes.<sup>2</sup>*

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<sup>2</sup> OEB; RP 2003-0203; Enbridge Gas Distribution Inc.; June 14, 2004; Exhibit N1, Tab 1, Schedule 1 (p.26)

### Deloitte Opinion

We believe the services that Gazifère receives from Accenture, through their affiliate relationship with EGD are necessary.

### 3.4 Required Charges

#### Gazifère Cost Related to the Use of EnVision

As mentioned in section 3.2 above, Gazifère is only charged for the use and maintenance of WAMS (component 3). We have been informed by both EGD and Gazifère that Gazifère uses virtually all of the functionality of the WAMS solution and as such is charged by EGD for a pro-rata share of the total Accenture charge related to the operation of WAMS.

The portion of the annual \$9.5 million charge from Accenture related to the operations of WAMS is \$7.9 million as determined in Table 2 below:

**Table 2: Charges Related to Operations of WAMS**

	2005 Charges
Total Annual EnVision Costs	\$ 9,500,000
Less: Management Assistance Component	(\$ 1,600,000)
Charges Related to Operations of WAMS	\$ 7,900,000

The breakdown of the \$7.9 million related to WAMS is illustrated in Table 3 below:

**Table 3: Breakdown of WAMS Charges**

Cost Components	Accenture Charges	% Breakdown of Charges
Use of WAMS	\$ 3,000,000	38.0%
Maintenance of WAMS	\$ 4,000,000	50.6%
Use and Maintenance of the Elements of the System (interfaces, security, helpdesk)	\$ 900,000	11.4%
<b>Total</b>	<b>\$ 7,900,000</b>	<b>100.0%</b>

EGD does not include any overhead or mark-up on the Accenture costs in order to compensate EGD for any effort and expense related to developing and managing the SLA or the service provider (Accenture), nor for the costs of the invoicing between EGD and Gazifère.

#### Method of Allocation Between EGD and Gazifère

The allocator used to calculate the portion of the \$7.9 million that EGD charges to Gazifère for the WAMS is based on the number of customers served by EGD and Gazifère. An average cost per customer is calculated by dividing the \$7.9 million cost of the service (numerator) by the total number of both EGD and Gazifère customers (denominator). The resulting customer unit cost is then applied to the number of Gazifère customers in order to obtain an annual charge.

In 2005, 1.68% or \$132,833 of the total \$7.9 million WAMS cost was allocated to Gazifère using this approach as calculated in Table 4 below:

**Table 4: Gazifère Portion of WAMS EnVision Charge**

	2005 Charges
Charges Related to Operations of WAMS	\$ 7,900,000
Total EGD and Gazifère Customers <sup>(A)</sup>	1,748,161
Cost per customer <sup>(B)</sup>	\$ 4.52
Allocated Cost to Gazifère <sup>(C)</sup>	\$ 132,833
Gazifère Portion of WAMS EnVision Charge <sup>(D)</sup>	1.68%

<sup>(A)</sup> EGD customers: 1,718,767  
Gazifère customers: 29,394  
Total customers: 1,748,161

Source: The average number of customers for EGD and Gazifère was provided by Gazifère in October of 2004 based on the average number of bills projected for 2005.

<sup>(B)</sup> Cost per customer:  $\$7,900,000/1,748,161=\$4.52$

<sup>(C)</sup>  $\$4.52*29,394= \$132,833$

<sup>(D)</sup>  $\$132,833/\$7,900,000= 1.68\%$

In selecting the number of customers as the allocator, it was felt by both EGD and Gazifère that this metric was the most efficient and least subjective way of allocating costs and that it was reflective of causality. Both EGD and Gazifère agreed that there was no material difference in the use and maintenance of the system that could be attributed to a particular type of customer (i.e. residential, commercial and industrial) and therefore the average number of customers was deemed appropriate.

Several other alternative methods of allocation were explored but were not selected because it was felt that they would not improve upon the fairness and causality of the allocation obtained through the use of the customer allocator. It was felt that these alternatives would result in more effort to calculate and explain and that some would require the use of subjective adjustments to the data. Alternate allocators explored by EGD and Gazifère include the following:

**Length of Pipe:** The use of the length of pipe as an allocator was explored but it was believed to be problematic because EGD and Gazifère have different network structures. EGD services communities that are geographically dispersed and requires a larger investment in mains in order to connect the various communities to the network whereas Gazifère's customers are more centrally located. It was felt that an adjustment would have to be made to the length of pipe to account for this difference in order to arrive at a ratio that was comparable between EGD and Gazifère (i.e. an "apples to apples" comparison). The use of the length of pipeline as an allocator, without the adjustments for the mains, would result in a charge of \$171,280 as calculated in Table 5. This represents an incremental cost of \$38,447 to Gazifère than would be the case if using the number of customers allocator ( $\$171,280 - \$132,833 = \$38,447$ ).

**Table 5: Gazifère portion of WAMS Allocation using length of pipeline**

	2005 Charges
Charges Related to Operations of WAMS	\$ 7,900,000
Total Length of EGD and Gazifère Pipeline <sup>(A)</sup>	32,194
Cost per kilometre of pipeline <sup>(B)</sup>	\$ 245.39
Allocated Cost to Gazifère <sup>(C)</sup>	\$ 171,280
Gazifère Portion of WAMS EnVision Charge <sup>(D)</sup>	2.17%

(A) Length of EGD pipeline: 31,496 Km  
Length of Gazifère pipeline: 698 Km  
Total length of pipeline: 32,194 Km  
Source: EGD

(B) Cost per kilometre of pipeline:  $\$7,900,000/32,194 = \$245.39$

(C)  $\$245.39 * 698 = \$171,280$

(D)  $\$171,280 / \$7,900,000 = 2.17\%$

In addition it was considered that the number of customers drove the development and maintenance of the pipeline infrastructure and was deemed a more suitable proxy for reflecting the effort involved in the use and maintenance of WAMS.

**Number of Work Orders:** The number of work orders was also considered as a potential allocator. Work orders seemed like a logical allocator for the work management component. The link between work orders and the asset management component, however, was not as obvious. The number of work orders was not as readily available as the number of customers and the cost related to the work and asset management components of WAMS were not easily separated given the integrated nature of the system. Since it was felt that the number of customers was a driver for the number of work orders and that customers could be used as a logical and causal basis of allocation for both the work and asset management components of the system, the work order option was not adopted.

**Value of Assets:** Another potential allocator that was discussed with EGD and Gazifère as part of this study was the use of asset value to allocate the WAMS charges. Several issues were identified with this option. The EGD assets are much older than those of Gazifère and as such have been more fully depreciated. Allocations based on asset value would result in a larger allocation to Gazifère than should be the case unless the assets are adjusted to more accurately reflect market value. Any adjustment to the assets would be subjective and more complex and as such makes this option less appealing. It was not felt that this option would reflect a stronger basis of causality than the number of customers.

#### **Deloitte Opinion**

We believe that the current allocation method has a satisfactory basis in causality. In addition, it implies that if an additional affiliate were to commence usage of WAMS at any stage in the future, the charge to Gazifère would be reduced to the extent that any fixed component of the current charge would be spread across a greater number of customers. Only those costs required to provide the service to Gazifère are included in the charge.

### 3.5 Just and Reasonable Pricing

#### Overview:

Gazifère's participation in EnVision provides it with an integrated, industry specific, scalable, end-to-end solution that has been tailored during the design phase to meet some of the specific needs of Gazifère. The maintenance of this solution and ongoing support that is provided by Accenture eliminates the need for Gazifère to maintain the systems and skill sets necessary to support this type of application. The service levels provided by Accenture to EGD, which Gazifère also benefits in, are reflective of those available to a larger organization and would be more difficult for Gazifère to negotiate on an independent basis with another service provider, given Gazifère's size.

#### Ongoing System Maintenance and Support:

If Gazifère had not participated in the EnVision solution they would be required to maintain the 33 legacy systems related to the WAMS functionality that EGD was supporting and has now decommissioned. The integrated nature of the legacy WAMS systems requires that all 33 relevant legacy systems be maintained in order for the system to function as designed and not only the 24 that Gazifère was using at the time. The annual cost to maintain the legacy systems in the past was approximately \$4 million. Although there would probably be a decrease in the level of system maintenance and support that would result once EGD no longer used the system (i.e. the number of work orders and assets maintained on the system would be drastically reduced with the elimination of the EGD transactions and assets) there would probably still be more effort required than what is currently being charged to Gazifère for the use of EnVision.

When analysing the cost from EGD to Gazifère for the use of the WAMS component of EnVision it should be noted that the charges from EGD to Gazifère for maintaining the legacy systems that have been replaced by EnVision, namely ORM, will no longer be charged. In addition, the CDF system was also retired as a result of the EnVision implementation. The annual charges to Gazifère from EGD for the ORM and CDF systems were \$26,475 and \$2,704 respectively. The resulting incremental cost to Gazifère for EnVision is therefore \$103,654. ( $\$132,833 - \$26,475 - \$2,704$ ).<sup>3</sup>

In the Initial Report developed by Deloitte, the date for which application services support would be terminated for ORM and CDF had not been determined. Subsequent to the issuance of that report, the ORM and CDF systems were decommissioned on the October 2004 go live date.

#### Market Based Pricing:

Although a "fully burdened" cost has been accepted by regulators, including the Régie, as a means to support the pricing of inter-affiliate transactions, a market price is preferred if available. Several alternatives for determining a market price for an inter-affiliate transaction have been identified including the use of a request for proposal (RFP) from arms-length service providers as well as the use of a market price benchmarking study.

In the case of EnVision, EGD used an RFP process to select the implementation partner and service provider.

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<sup>3</sup> See Exhibit GI-4, Document 7.5, 3537-2004

### **EGD RFP Process:**

EGD describes the formal Request for Proposal (RFP) that was undertaken to select an application service provider to implement and maintain the EnVision solution in OEB RP-2002-0133. After review of the RFP responses and based on selection criteria that included leadership in the work and asset management systems field, demonstrated abilities in functional, business and technical knowledge related to these systems and utility industry experience, EGD selected Accenture.

*... The Company believes that in choosing a partner with Accenture's credentials, it has significantly reduced the implementation risk associated with the self-development strategy, while maintaining its original timelines, and meeting the business needs of Enbridge of ensuring safety and reliability, and increasing productivity and operational excellence.<sup>4</sup>*

### **Acceptance of EnVision Charges by the OEB:**

The costs and benefits associated with EnVision were accepted by the OEB subject to specific conditions which included an agreement by EGD to hire an independent consultant to conduct an assessment of the project as indicated in OEB decision RP-2003-0203.

*... Accordingly, parties see the value in and the need for an independent assessment of the project. Parties accept the projected costs and benefits for the Test Year subject to the following conditions:*

*1. The company will retain an independent consultant to assess the overall project costs to determine whether the fee levels and fee structure with Accenture are appropriate relative to the services and value being provided. In the context of this review the consultant will benchmark the services and costs described in the Services Agreement between Enbridge Gas Distribution Inc. and Accenture Inc. against the market. The consultant will also be asked to assess the Benefits Realization Plan and the Gain Sharing Agreement between Accenture and the Company. The terms of reference for the consultant's review will be developed jointly with intervenors. The results of the review will be provided in EGD's next rate proceeding.<sup>5</sup>*

At the time of our study, these reports had not yet been completed.

### **Other Benefits to Gazifère from the Use of the EnVision System:**

Gazifère expects to obtain several benefits from the use of EnVision. These benefits are partly the result of the end-to-end functionality and the integrated nature of the system. It is expected that these benefits will begin to be realized once the initial learning curve and post implementation activities required to stabilize the system are completed.

The expected benefits include the following:

#### **Improved Productivity:**

The WAMS component of EnVision is an integrated system that covers the end-to-end work and asset management processes. As such, users are able to more effectively schedule work in a way that optimizes the use of both Gazifère and contractor resources. Increased efficiency in the use of Gazifère employees should result in less use of the more expensive contractor resources. Increased efficiencies in scheduling the work of contractors should reduce the amount of time that the contractors will work and thus reduce Gazifère expenses accordingly. The information available in the system can also be used to develop performance measures related to productivity in order to set targets and monitor that benefits resulting from these performance targets are being achieved.

<sup>4</sup> OEB; [RP-2003-0133](#); Enbridge Gas Distribution Inc.; February 4, 2003; Exhibit A6, Tab 7, Schedule 3 (p.5)

<sup>5</sup> OEB; [RP-2003-0203](#); Enbridge Gas Distribution Inc.; June 14, 2004; Exhibit N1, Tab 1, Schedule 1 (p.26)

***Enhanced Quality and Timeliness of Decision Making Information:***

The EnVision system has been integrated with other functional systems within Gazifère (e.g. interfaces with the customer service system and the financial system) which results in more timely information, improved quality of data and less effort in manual manipulation of the data between systems.

Another benefit of EnVision is the additional integration between the WAMS and other EGD processes. Gazifère relies on EGD to perform most of their engineering work. The information used to enable this and other processes between EGD and Gazifère is therefore available in a more timely manner and requires less manual intervention.

***Increased Ability to Meet Customer Commitments:***

Improvements in the ability to forecast and schedule work should result in an enhanced ability to meet customer commitments. Once again, performance measures can be put in place to monitor this very important process.

***Improved Employee Job Satisfaction:***

The integrated nature of the system allows users to spend less time on data entry and manipulation and more time on more value added activities thus increasing value to the company and the ratepayers by enhancing employee satisfaction and productivity.

***Deloitte Opinion***

It is our opinion that:

- an integrated solution similar to that of the WAMS component of EnVision would be difficult to obtain from an alternative service provider at a lower cost;
- the cost of maintaining the numerous legacy systems by Gazifère on a stand-alone basis would also be prohibitive;
- a company the size of Gazifère would not be able to benefit from a robust system such as WAMS and the quality of the support services which they receive should they attempt to develop or obtain these services on their own; and,
- Gazifère benefits from the advanced functionality, integration with EGD and scalability.

The fact that the OEB has indicated conditional acceptance of the EnVision project costs and benefits for the test year should provide further support for the Régie as to the merits of EnVision to the Gazifère rate payers.

We therefore believe that Gazifère is receiving a service at a cost which is fair and reasonable.

## 4. Summary and Conclusion

We believe that the charge for EnVision is necessary, that the basis of allocation (while there may be other alternatives) has a basis in causality, and that the price paid for the service is reasonable.

As mentioned in our introduction, Gazifère requested Deloitte to develop an Initial Report evaluating whether the Régie requirements, as reflected in their recent decisions, have been met with regard to a number of information technology related Inter-Affiliate cost allocations that Gazifère receives from its affiliates including Enbridge Gas Distribution (EGD).

In our Initial Report, Deloitte interpreted the Régie decisions and developed the following four evaluation criteria against which, given the information that was provided to us, we evaluated the "in-scope" services provided to Gazifère. We have used the same criteria to evaluate the EnVision charges to Gazifère from EGD. The criteria and our opinion are as follows:

- **Service Descriptions**

*Are the service recipients at Gazifère provided with sufficient information in order to understand the nature and extent of the service provided? (type, quantity and quality of service and description of pricing or cost allocation mechanisms used)*

We believe that it would be good business practice, and in conformance with accepted regulatory precedent for a signed SLA between EGD and Gazifère to be put in place for the EnVision related services. (A commitment to put a Service Agreement in place by the end of February 2005 has been made by EGD and Gazifère) However, the fact that Gazifère had a dedicated full time resource on the EnVision project to assist in the design and implementation phase provides Gazifère with an understanding of the nature and extent of the service. EGD will provide a representative of Gazifère with access to the Services Agreement between Accenture and EGD to scrutinize in order to provide Gazifère with an understanding of the nature and extent of the charge related to the services and service levels provided by Accenture.

- **Necessary Services**

*Are the services provided to Gazifère necessary for Gazifère to effectively serve its ratepayers?*

The services that Gazifère receives from Accenture for the use and maintenance of WAMS, through Gazifère's affiliate relationship with EGD, are necessary for Gazifère to effectively serve its ratepayers.

- **Required Charges**

*Do the charges (i.e. Gazifère's share of the costs incurred) represent only those costs that are required to provide the service to Gazifère? i.e. have the costs been allocated in a manner that is reflective of cost causality?*

The current allocation method has a satisfactory basis in causality. Only those costs required to provide the service to Gazifère are included in the charge.

- **Just and Reasonable Costs**

*Are the charges reflective of costs that are just and reasonable in the context of the services provided? Have the services been delivered in the most economical way possible?*

We believe that Gazifère is receiving a service at a cost which is fair and reasonable given the added scale benefits which it could not achieve on a stand alone basis and given that the cost to Gazifère to maintain the legacy systems themselves would prove onerous.

# Appendix A: Resumes

# Andre Pienaar

## Summary

Andre Pienaar is a partner with Deloitte Inc., and has practised as a consultant with the firm for 17 years. Andre was originally a partner in Deloitte's South African practice before immigrating to Canada in 1992. He has provided Strategy and Operations consulting services across a broad range of industries in multiple countries over his career. In recent years, Andre has concentrated his consulting activities on the services provided by Deloitte to Chief Financial Officers and their direct reports.

He has directed and worked on a full range of financial operations improvement and performance measurement engagements including costing, and cost monitoring studies in regulated industries.

## Education / Professional Qualifications

- Bachelor of Commerce – University of the Witwatersrand RSA.
- Bachelor of Accounting– University of the Witwatersrand RSA.
- Chartered Accountant (South Africa).
- Certified Management Consultant (Canada).

## Key Clients

Mr. Pienaar's major clients include:

- **South Africa:** The Atomic Energy Board, The Department of Mineral and Energy Affairs , Iscor (iron and Steel) Corporation, the National Energy Council, Ministry of Economics and Tourism.
- **United Kingdom:** The Department of Water Affairs.
- **Germany:** Bayer Corp.
- **USA:** SBC Communications, Learjet, Monsanto, Pharmacia Corp., Textron Inc.
- **Canada:** Bell Canada, Enbridge, Compaq Canada, Ministry of Tourism, Ministry of Finance.

## Selected Assignments

- Acted as the project partner on the "Independent Evaluation of the Corporate Cost Allocation Methodology" (CAM) of Enbridge Inc. The project was undertaken under a mandate issued by EGD under the direction and jurisdiction of the OEB. The focus of the review was on the services provided and the costs allocated to EGD and included a review of whether the allocations met the "three-pronged test" (cost incurrence, cost causality and cost/benefit. The review included a review of the Intercorporate Services Agreement, proposed revisions to the methodology and the provided recommendations relating the cost allocation amounts and,
- Directed the establishment of a regulatory monitoring mechanism and on-going annual review of the Oil Industry on behalf of the National Energy Council in South Africa. The mechanism required annual benchmarking of the financial performance and cost allocations across all the corporations participating in the Oil Industry, as well as the annual modeling of the effects of regulated price changes.

### **Selected Assignments (Cont'd)**

- Directed the review of a complex industry proposal to the Minister of Mineral and Energy Affairs to deregulate a significant component of the Oil Industry and monitor the segmented profits of only the manufacturing segment of the industry. Accounting for the cost allocations of the retail/distribution segment remained separate, and strict regulatory control of the price of petroleum at the retail outlet was maintained.
- Lead a study for the Ministry of Economics and Tourism to evaluate the cost allocations and build-up of export prices for the price and quota regulated Rock Lobster Industry in South Africa.
- Lead a stream of cost reduction activity related to the costing and outsourcing of non-core activities for the Atomic Energy Board in South Africa.
- Lead the consulting stream of an investigation into all aspects of privatising a major state owned entity, which produced and marketed 70% of South Africa's iron and steel.
- Participated as a member of the team that advised on the deregulation of the Water Authorities in the UK.
- Lead various economic evaluation and contractor evaluation projects for the Ministry of Tourism and for the Ministry of Finance in Ontario.
- Conducted a series of privatisation projects for the Bophuthatswana Parks Board which involved commercialising operations and establishing on going monitoring mechanisms over operations.
- Participated in the leadership of a multimillion dollar project to enhance the effectiveness and efficiency of financial operations of the largest telecommunications provider in Canada. The project involved the redesign and implementation of new processes, systems, and organisation infrastructure.
- Lead a project for a large technology manufacturer and distributor in Canada which established a strategic plan and improved selected finance processes across the organisation.
- Participated in the leadership of a project for a global pharmaceutical manufacturer and distributor to centralize financial transaction processing into a pan European Shared services centre.
- Redesigned the long term planning processes to reduce the overall planning cycle for an integrated Energy company in Canada.
- Participated in the leadership of a Finance Transformation project for a large aerospace and technology company in the USA. The project focussed on the development of a shared services centre and the implementation of enterprise-wide technologies for financial processes.

# Dave Walker

## Summary

Dave is a Senior Manager with Deloitte Inc., and has practiced as a consultant with the firm for 9 years. He has experience in various industries, including Energy (Gas Distribution), Financial Services (Insurance, Investment Management, Treasury & Fund Services and Retail Banking), Aerospace, Consumer Business, Retail, Telecommunications and Manufacturing. Areas of specialization and project experience include:

- Development and implementation of close to a dozen Activity Based Costing (ABC) methodologies and models;
- Reviews of cost allocations related to inter-affiliate transactions (Enbridge Gas Distribution Inc and Gazifère Inc.);
- Development of product and customer profitability models; and,
- Design of driver-based planning approaches.

## Education / Professional Qualifications

- Bachelor of Business Administration – Concordia University (Montreal).
- Master of Business Administration (MBA) – Concordia University (Montreal).
- Certified Management Accountant (CMA)

## Key Clients

Mr. Walker's major clients include:

- Energy: Enbridge Gas Distribution Inc and Gazifère Inc.
- Financial Services: JPMorgan Chase, Manulife, Standard Life, National Australia Bank, Prudential, TD Canada Trust, Bank of Tokyo Mitsubishi and CDP Capital
- Other: Alcan Inc., Canadian Broadcasting Corporation, AMEC, Philip Morris USA, Canada Post

## Selected Assignments

- Managed the project team that performed the Initial Study on the "Review of Inter-Affiliate Technology Cost Allocations" for Gazifère that was submitted to the Régie de l'énergie du Québec in October 2004.
- Conducted an independent assessment of the corporate and shared services cost allocations to Enbridge Gas Distribution from its parent Enbridge Inc. The review included an external benchmarking study of cost allocation practices in the regulated utility industry, interviews with management at both the parent and affiliate in order to collect supporting data for the allocations, an assessment of the company's allocation methodology and the data, information and service level agreements supporting the allocations, and research on Canadian utility regulatory precedents related to inter- affiliate cost allocations. A detailed report highlighting assessment recommendations was prepared and submitted to the Ontario Energy Board (OEB) in April 2004.

### **Selected Assignments (Cont'd)**

- Developed an Activity Based Costing model covering the organization's Custody, Fund Accounting and Administration, Securities Lending, Benefits Payments, Pension Accounting and Customer Service operations. The project team consisted of 12 resources from Deloitte and the client and covered operations in the U.S, Europe and Asia. The unit cost information is being integrated with the cost-to-serve model for costing new business and as a feed to the customer profitability system. Process and activity information is also being used to prioritize six sigma initiatives and monitor cost reduction and efficiency improvement opportunities.
- Managed the international team that developed an Activity-Based Costing model covering the organization's funds transfer operations. The project team consisted of 10 resources from Deloitte and the client and covered operations in the U.S and Europe. The unit cost information is being integrated with the customer profitability system.
- Led a project to re-organize the Finance department of a large engineering and construction organization. The end-state design included centralized transaction processing and improved financial support at the business unit and corporate level.
- Conducted a benchmarking study of costing processes and best practices in the television production industry. Reviewed the program costing practices of a major Canadian-based television broadcaster
- Developed a costing methodology to be used in the spare parts group of a major aerospace organization. The methodology was used to cost their products at a parts level. The project involved using a cost driver approach to allocate overhead costs to the various products versus the traditional sales-based allocation method that was being used at the time. The insights gained in this exercise were used by management in pricing their products, forecasting resource needs and gaining a more accurate view of the profitability of their current sales mix.
- Developed a Strategic Cost Management system. The project covered a cohesive set of integrated cross-functional processes that reflected the operations of the entire organization. Process and activity costs were generated and used to understand cost behavior and to identify re-engineering opportunities. Nineteen major product/service groups were also costed, providing management with the information needed to make strategic and pricing decisions.
- Conducted a review of the operations of the Attorney in Fact (AIFO) operations of a foreign insurance company working in Canada. Analyzed the role of the AIFO and supporting requirements, processes and information needs and identified improvement opportunities. As part of the analysis, developed a model to analyze the time spent by employees performing key activities in the organization.

### **Selected Assignments (Cont'd)**

- Led the team that developed a prototype ABC model in the Savings and Retirement Services (SRS) Division at one of the largest insurance companies operating in Canada. The objective of the 12-14 week project was to demonstrate the uses and limitations of ABC and ABM.
- Reviewed the budget and cost allocation practices used by the information technology infrastructure group of a large Canadian chartered bank. The group wanted to develop a chargeback mechanism that would provide their internal customers with more visibility into the cost of their services and a better understanding of the impact that consumption of those services would have on financial performance.

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