UNDERTAKING RESPONSE OF FIVE POINT PARTNERS

Undertaking No. JTC1.1:

a) To provide Five Point report listing areas where potential reductions were identified.

b) To provide Five Point report indicating what of those savings were realized.

Response:

a) Please see the attached Memorandum from Five Point Partners to Mike Mees dated November 17, 2010.

b) Please see the attached Memorandum from Five Points Partners to Robert Warren, Peter Thompson and Jay Shepherd, dated January 12, 2011.

Because ABSU's pricing was bundled, the list of areas where potential reductions were identified was based on certain assumptions. In addition, the list was prepared while EGD was negotiating with ABSU. By the time EGD chose to remove the items from its requirements list, ABSU's pricing for the targeted items had been reduced. As a result, the actual savings from removing certain cost items were slightly lower than estimated in the November 17, 2010 report.

FIVE POINT PARTNERS

Memorandum

To: Mike Mees, Director of Customer Care, Enbridge Gas Distribution

CC: Robert Warren, Peter Thompson, Jay Shepherd

From: Mario M. Bauer, Five Point Partners

Prepared by: Ashok Sundaram, EnerFocus Consulting Inc.

Date: November 17, 2010

Re: EGD Customer Care Outsourcing Initiative – Recommended Scope Reduction Items

---

EGD's Customer Care Service Agreement (CCSA) with Accenture Business Services for Utilities (ABSU) that commenced in 2007 will end on Mar/31/'12. EGD launched its Customer Care Delivery Strategy study in early 2010 to look at its options at the end of the current CCSA. The three main options are: 1) Renegotiate contract with ABSU, 2) Launch a full-blown RFP process and 3) Repatriate its customer care functionalities in-house. EGD also engaged EquaTerra to review its current CCSA for deficiencies and enhancements. Along with EquaTerra's suggestions, EGD added changes to scope of services, SLA additions and more stringent T&Cs as part of its requirements with the intent to improve flexibility, control and customer satisfaction. A sole-sourcing RFP was released to ABSU with a new set of requirements on Jul/5/'10. EGD then engaged the interveners group to endorse its approach for selecting the right option starting with the most logical one - contract extension with ABSU.

The original response from ABSU had a price quote that is 26% higher than the current CCSA. Since the RFP was released, EGD went through a few iterations of negotiations with ABSU during which, the requirements were revised to bring down the price while not sacrificing quality. EGD presented status of negotiations to the interveners at regular intervals. After reviewing EGD's presentations, on Sep/17/'10 the intervener group suggested an 'end outcome' for a total contract value of $421.02M. EGD released a counter-proposal to ABSU based on this suggestion (total contract value of $422.1M) and received a price proposal with a total contract value of $437.9M. EGD presented the outcome to the interveners on Oct/25/'10. Interveners instructed EGD to work with its consultants (FivePoint) to review areas for scope reduction that would further bring the total contract value closer to the suggested 'end outcome' (of $421.02M).

As part of this process, EGD submitted its initial stab at possible reduction in scope and service levels to FivePoint on Nov/4/'10. The included removal of town halls meetings, soft skills training and communication o f EGD policy and procedure changes not requiring training time.

FivePoint reviewed the various revisions of the following documents provided by EGD as part of the study:

- EGD Customer Care Delivery Strategy Final Deliverable
- EquaTerra's report on evaluation of the CCSA from 2007
- ABSU's contract proposal evaluation report by EquaTerra
- EGD's sole-sourcing RFP and every counter proposal after that
- ABSU' proposal and every addendum to the initial proposal including responses to EGD's counter proposal

FivePoint also interviewed the following departments/members to ensure that our study is in-depth and comprehensive:

- EGD customer care
- EGD Ombud's office
- ABSU
- Customer Care delivery strategy team
- EquaTerra
- EGD executive management

Following are the areas that FivePoint believes to be possible candidates for scope reduction. The intent is to reduce the price of this contract by removing scope while not compromising quality. Note that FivePoint was not part of the negotiations process between EGD and ABSU and hence we cannot suggest the exact price reduction associated with each of these elements. We have arrived at estimates based on various sources including EquaTerra's final report, CCSA addendums, ASBU proposal etc.

1. **Remove pre-paid consulting hours from this contract - Estimated savings: $6,727,600**
   As listed in Schedule 6.4 in the counter proposal, EGD has estimated person hours allotted to implement change orders at a rate of 8,000 hours/year – see breakdown below:

Hours for change orders	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*
Business Lead/Manager	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Senior Business Analyst	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Business Analyst	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Clerk/CSR	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total hour/year	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*	*8,000*

This is consistent with EGD's estimation of person hours (of 8,000/year) in the current CCSA. EGD has also included pre-paid consulting hours over and above what is required for change orders. Following is the breakdown as per our calculations:

Consulting hours by year	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Total*
Business Analyst - Hours (per year)	6,200	6,000	5,800	5,600	5,400	5,100	4,900	39,000
Business Analyst - Rate ($/hour)	$154	$160	$166	$173	$180	$187	$195	
Fees	$954,800	$960,000	$962,800	$968,800	$972,000	$953,700	$955,500	$6,727,600

The rates for these consulting hours were taken from ABSU's last proposal dated Oct/19/'10 off their on shore rate card. EGD has not defined the purpose or calculation details around this work hour estimation in its requirements. This is an incremental scope item and we believe it is inappropriate to include consulting hours as part of outsourcing costs of an operation. We recommend that this is taken out of the contract. According to EquaTerra, "mechanism for application, tracking, and reporting of these hours is vague and highly dependent upon utilization of lower skilled resources. Additionally, at least 2,000 hours must be used from the on Shore Sustainment Pool on an annual "use it or lose" basis."

2. **Assume annual EGD customer growth base to 1.75% – Estimated savings: $1,693,597**
While we reviewed the current CCSA, following are the forecast and the actual customer growth figures year over year:

Dates	*Apr/'07-Mar/'08*	*Apr/'08-Mar/'09*	*Apr/'09-Mar/'10*	*Apr/'10-Mar/'11*	*Apr/'11-Mar/'12*	*Options Years*	
Year	1	2	3	4	5	6	7
EGD Customers (Forecast)	1,831,283	1,878,004	1,925,562	1,973,575	2,021,587	2,069,600	2,121,203
Growth Rate (Forecast)		2.55%	2.53%	2.49%	2.43%	2.38%	2.49%
EGD Customers (Actual)	1846608	1885415	1916716	1949338	These are average for the whole year. Year 4 includes forecasts for future months		
Growth Rate (Actual)		2.10%	1.66%	1.70%			

Note that the total contract value for the 2007 CCSA is already baked into the current Incentive Regulation period. And consistently, the actual growth has been lower than the forecast in the contract. When we reviewed the actual rate of growth for years 2009 and 2010, they were lower than 1.75%. We are aware that EGD is currently taking the risk of cost over-runs should the actual customer growth is higher than the forecast. We recommend that EGD sets the future growth rates at 1.75% and should they incur growth higher than this, we recommend an option to true-up costs at the end of the IR period (in 2018). We believe this will address EGD's risk exposure due to uncertain customer growth patterns. Based on this assumption, following is our calculations which derives the above estimated savings:

Year	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
EGD Customer (Forecast)	1,972,685	2,009,631	2,048,300	2,088,470	2,130,149	2,173,220	2,216,726
Growth Rate (Forecast)		1.87%	1.92%	1.96%	2.00%	2.02%	2.00%
ABSU Unit Fees	$ 19.78	$ 19.64	$ 19.46	$ 19.39	$ 19.65	$ 20.25	$ 20.94
ABSU Total Fees	$ 39,019,709	$ 39,469,153	$ 39,859,918	$ 40,495,433	$ 41,857,428	$ 44,007,705	$ 46,418,242
Customer Growth (1.75%)	1,972,685	2,007,207	2,042,333	2,078,074	2,114,440	2,151,443	2,189,093
ABSU Total Fees	$ 39,019,709	$ 39,421,545	$ 39,743,802	$ 40,293,854	$ 41,548,751	$ 43,566,719	$ 45,839,611
Savings	$ -	$ 47,608	$ 116,116	$ 201,580	$ 308,677	$ 440,986	$ 578,631
							$ 1,693,597

3. **Removal of RACI for soft skills training, town hall meeting and communication o f EGD policy and procedure changes not requiring training time – Estimated Savings: $1,998,210**
EGD has already agreed to remove these items from the scope. The removal is consistent with EGD's approach where they don't prescribe how to complete the work rather measure the end results of the service provider. The end results are measured through the call quality service levels and first call resolution metrics. The savings is calculated based on estimates provided in EquaTerra's report (slide # 8; RACI 4.5.3, 4.5.5, 4.5.6, 4.5.7, 4.5.8, 4.5.9, 4.5.10)

4. **On Shoring QA functionality – Estimated Savings: $2,000,357**
   Note that this function was conducted on shore where the call centers are located until the beginning of 2010. As per the current CCSA, there is no provision in the contract for ABSU to move this off shore. Currently, this is being offered from ABSU's facility in Manila, Philippines. While ABSU claims that the consistency of rating Customer Service Representatives (CSRs) has been improved because of this move (neutrality of rating – the QA supervisors do not know the CSRs they are rating), EGD believes that the quality of the ratings will be improved if this is moved back to Canada. Following are FivePoint's observations:
   - ABSU moved this function to Manila without EGD's consent and hence can be viewed as a breach of contract
   - Since we are reviewing this contract as an extension and this was already part of the original CCSA from 2007 (and not considered as incremental scope item), EGD should not pay ABSU $2M to bring this back to Canada (if they opt to do so)
   - FivePoint do not see any perceivable increase in quality that can be proven by bringing this functionality back on shore
   - EquaTerra's report suggests that this is an area for savings

   FivePoint recommends that if EGD still opts to bring this back on shore, they should do so without incurring $2M – as this cannot be attributed to incremental scope and deemed included in the 2007 CCSA.

5. **Fax, Web-forms and eMail turn-around times – Estimated Savings: $0**
   This is one of the high cost incremental scope items introduced in the new contract. EGD has changed its service level to the highest band of what EquaTerra reported as market standard. There may be one or two elements that are higher than market norm but FivePoint believes this incremental scope when implemented, will eventually reduce the number of calls received at the call center. However, it is not clear whether ABSU will share savings due to decrease in calls attributed to this new service level back to EGD. We recommend that EGD implements this SLA.

6. **Estimated call turnaround times – Estimated Savings: Unknown**
   This is another high cost incremental scope item for this new contract. The proposed SLA level "30% of calls directly transferred to applicable contact centre supervisor, 40% of call backs performed within 24 hours, 100% of call backs performed within 48 hours of call back assignment" is not a benchmark. EGD believes that this will improve customer satisfaction but there is no proof whether this will indeed contribute to improvement of customer satisfaction and by how much. Note that EGD's strategy study suggests that current customer satisfaction index is hovering a little over 70% consistently for the last few years. We are not clear about following points:

- Does EGD have a mandate to improve its customer satisfaction higher than its current state and if so to what value
- What is the current % of calls that are directly transferred to applicable contact centre supervisor
- What is the impact to customer satisfaction if we change the SLA to "15% of calls directly transferred to applicable contact centre supervisor, 35% of call backs performed within 24 hours, 100% of call backs performed within 48 hours of call back assignment." What is the associated savings with this change

There is no 'silver-bullet approach to deciding the right level of SLA for this item – i.e. optimal balance between cost and customer service. And hence, it is challenging to infer if there is value in including this scope for a cost of approximately $3M. One option is to consider reducing the SLA level to bring the cost down by 50% (i.e. $1.5M)

7. **Removal of pricing for management of SLAs implemented for LVB customers – Savings: $1,683,509**
   EGD intends to bring back LVB billing, collections and call center operations back in house. There are new SLAs added specifically for LVB customers in the contract. It appears that that the pricing for this is approximately $1.69M. But it is not clearly documented in the contract that the fees are indeed attributed only to the additional SLAs for LVB customer base. It is recommended that EGD requests for clarity on pricing specifically for LVB SLA management. By doing so, should EGD bring LVB functionality in house, all of $1,683,509 can be realized as savings.

8. **SLA and scope changes due to requests from Ombud's office – Savings: $0**
   Since Jan/2010, the Ombud's role has been transitioned to a new Director within EGD. The perceived view is that customer satisfaction levels are deteriorating. ABSU's SLA metrics and Customer Care delivery strategy team's report suggest that customer satisfaction has been consistent for the last few years. There was a blip in this index through the summer of 2010 due to an operational shortcoming. Other than this change, every other element of EGD's customer care operations has remained constant (including the service provider). The changes put forth by the Ombud's office do not assure better customer satisfaction. This will merely be a 'trial and error' approach in tweaking call centre procedures with intent to improve customer experience. Since EGD customer care has diligently revised the Ombud's office requirements to a final list amounting to a small additional cost, we recommend that EGD implements these scope changes.

FivePoint believes these are the main areas where EGD can achieve savings by reducing the scope. Many of these estimates are based on information provided by EGD, ABSU, EquaTerra and FivePoint's analysis of the 2007 CCSA contract. Should you have any questions, please do not hesitate to contact us.

FIVE POINT
PARTNERS

Mario M. Bauer, Vice President
Five Point Partners
720.244.1183
mario.bauer@fivepoint.net

Memorandum

To: Robert Warren, Peter Thompson, Jay Shepherd

CC:

From: Mario M. Bauer, Five Point Partners

Prepared by: Ashok Sundaram, EnerFocus Consulting Inc.

Date: January 12, 2011

Re: EGD Customer Care Outsourcing Initiative – Consultative Meeting

---

EGD's Customer Care Service Agreement (CCSA) with Accenture Business Services for Utilities (ABSU) commenced on April 1, 2007 and will expire on March 31, 2012. EGD looked at three options to consider at the end of this agreement – extend contract with ABSU, start a full-blown vendor selection process or repatriate the customer care functionality in-house. As first step, EGD released a sole-sourcing RFP to ABSU on Jul/5/'10. They also engaged the intervener group that is representing the Ontario Energy Board (OEB) in July 2010 to get approval on their approach. The chronology of events since EGD took on this initiative has been documented in the memo we wrote to you on Oct/25/2010.

In the last consultative meeting on Oct/25/'10, EGD presented ABSU's 'best and final' offer of $437.9M as the price for the 7-year contract. After reviewing the elements of the proposal, the intervener group instructed FivePoint to look at areas of opportunities to further reduce the cost of the contract. On Nov/18/'10, FivePoint met with EGD to present some of the areas to potentially reduce costs. On Nov/19/'10, the interveners, FivePoint and EGD agreed that a total contract price of $430M is a desirable cost for the 7-year period.

EGD negotiated with ABSU while considering the areas FivePoint identified as opportunities for savings and successfully arrived at an agreement. EGD and ABSU signed two amendments on Jan/1/2011 as part of the CCSA core contract and following are the details:

1. *Amendment 2 to core CCSA contract*: This is effective on Jan/1/'11 and expires on Mar/31/'12 (same period as the current CCSA). It includes all the new service levels, change orders, contract terms and conditions that were modified during the negotiations process. This was necessary to continue customer care operations in 2011. Note that the 2 year extension after the expiry of the CCSA (on Mar/31/'12) is still applicable to this amendment.

2. *Amendment 3 to core CCSA contract:* This is effective on Mar/1/'11 but extends the contract until Dec/31/'17. This is a conditional agreement pending approval from OEB, Enbridge Gas Distribution and Enbridge Inc. boards. There are a few other changes made in this amendment (compared to amendment 2). They are:
    a. Implementation of CIS enhancements – EGD should implement 9 identified CIS enhancements with target dates anywhere from Dec/31/'11 to Dec/31/'12. If not done within these times, ABSU's base rate will increase amounting to approximately $1M/year in penalty for EGD. EGD should use the Accenture consulting hours allocated in this CCSA contract to address some of the CIS enhancements
    b. Repatriation of Large Volume Billing (LVB), Sundry account collections and cash reconciliations – the total price for outsourcing LVB functionality to ABSU is $19.2M over 7 years. EGD will repatriate this functionality back to in-house on Apr/1/2011 along with Sundry account collections and cash collections. The underlying assumptions is that the cost to run these functionalities in-house over 7 years will be the same as outsourcing LVB ($19.2M)

EGD was successful in bringing the total contract price to $430M – FivePoint conducted a 'high level' analysis on how the price was reduced from $437.9M to $430M. Following are our observations:

No.	Item	Savings ($1,000s)	Impact
1	Removal of pricing for management of SLAs implemented for LVB customers	$1,700	Since LVB will be repatriated to EGD, this functionality is not required. No impact to operations
2	Removal of soft skills training and town hall meetings	$2,000	Meagre impact to operations. EGD cannot dictate ABSU how to run their operations
3	Maintain call QA functionality in Manila	$2,000	EGD agrees that there is no perceivable impact to quality
4	Downgrading some of the low priority SLAs, relief times and penalties	$2,200	Meagre impact to quality
5	ABSU reduced their base rate due to implementation of some CIS enhancements		Implement '90% in 2 days and 99% in 4 business days' as service level - aggressive but can be done
Total		$7,900	Savings achieved by considering a few items proposed by FivePoint and implementing CIS enhancements

FivePoint's preliminary assessment is that EGD has removed a few items from their scope without impacting operations. Almost all of EGD's requirement changes have been accommodated in this new contract. Our calculations also show that the year over year increase in annual price is less than 1% over the 7 years. EGD may have taken on a little more risk in the new contract but it is not uncommon in 3rd generation outsourcing contracts for utilities to be proactive in finding ways to save costs by tweaking the risk portfolio.

We believe that the consultative process was very effectively applied to this initiative, in reducing the vendor price from the original total contract value of $457.44M presented at the consultative meeting on Sep/17'10 to the current value of $430M. This was a total savings of approximately

$27.5M for the ratepayers without compromising quality while also incorporating enhancements to service levels and adding more EGD requirements. FivePoint endorses EGD's proposal to extend their customer care outsourcing contract for a total contract price of $430M over 7 years.

We are in the process of completing our final report with a more detailed assessment of the new amendments to the CCSA. In the interim, should you have any questions, please do not hesitate to contact us.

Mario M. Bauer, Vice President
Five Point Partners
720.244.1183
mario.bauer@fivepoint.net