Energy Probe Compendium

Panel 12

EGI Integration Capital

EB-2022-0200 Phase 1 Oral Hearing

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ENBRIDGE GAS INC.

Answer to Interrogatory from
Consumers Council of Canada (CCC)

Interrogatory

Reference:

Exhibit B/T3/S1/p. 5

Question:

The evidence states that within Customer care, the CIS Project which delivers a common system for Enbridge Gas accounted for $14.3 million of the integration costs in 2020. Up-front costs in 2020 and 2021 are expected to deliver savings in 2022 and 2023. Please explain how the $14.3 million was derived. Please provide the annual level of savings expected in 2022 and 2023.

Response:

Within Customer Care, the CIS Project updated and integrated systems and processes previously managed in separate systems (SAP and Banner). The first phase of the project involved the upgrade of existing software that was completed in mid-2020. The cost of this portion of the work was about $8.7M. Over the course of 2020, integration work was also carried out on detailed planning, system design, and system build. Costs for the integration portion in 2020 amounted to about $5.6M. While project costs amounted to $14.3M, additional staffing costs for CIS project support were $1.2M, bringing total 2020 CIS costs to $15.4M.

With the completion of the CIS Project, the Banner system is no longer required. Savings from the end of the Vertex contract for Banner are estimated at $15.3M per year in 2022 and 2023.

ENBRIDGE GAS INC.

Answer to Interrogatory from
Ontario Energy Board Staff (STAFF)

Interrogatory

Reference:

Exhibit B, Tab 3, Schedule 1, pp. 4-5, Table 2

Question(s):

At the above reference, Enbridge Gas states:

"While savings were achieved, there were associated costs that enabled those savings. Integration-related costs (Line 15) comprise severance costs and other post-amalgamation costs to support harmonization and drive synergies. Severance costs increased by $36M over 2019 as a result of the voluntary departure program".

Integrations costs have increased substantially in 2020 as compared to 2019.

a) Please confirm that the 2020 integration costs have increased by 156% as compared to 2019. Please provide reasons for the substantial increase in integration costs.

b) Please provide a more detailed breakdown of the O&M integration costs and the drivers for the changes.

c) Please provide a summary of the savings achieved during 2020 and forecasted savings for 2021.

Response:

a) Confirmed. Integration costs have increased 156% as compared to 2019 largely due to severance costs and the ramp-up of integration efforts in Distribution Operations, Customer Care, Engineering, and Finance areas. Please see paragraphs 13 and 14 which describe the activities driving the major components of the increase, and part b) which provides a more detailed breakdown of those drivers.

b) Table 1 on page 3 provides a breakdown of costs for each of the Distribution Operations, Customer Care, Engineering, and Finance areas.

Within Distribution Operations, EGI Sync provided system implementation, oversight, coordination, and alignment of the Asset & Work Management System (AWS), the Connect initiative, Work and Resource Strategy, and the Customer Information System (CIS) Project. The collective work will deliver a cohesive transformation that integrates systems in support of frontline operational work, scheduling the execution of field work, and maintenance of customer information. It will allow EGI to operate as one utility, supporting safe, efficient, and reliable operations. Much of the work in 2020 involved dedicated resources to align processes, policies, technology, and systems required for the multi-prong integration initiatives. It also involved consultants to assist with benchmarking, cost studies, and project management. Other initiatives included the one-time costs of training, tooling, and building adjustments associated with the outsourcing of meter work for two regions, as well as the harmonization of fleet and heavy equipment maintenance from legacy approaches.

Within Customer Care, the CIS Project updated and integrated systems and processes previously managed in separate systems (SAP and Banner). The first phase of the project involved the upgrade of existing software that was completed in mid-2020. Over the course of 2020, integration work was carried out on detailed planning, system design, and system build.

Within Engineering, much of the work was around the alignment of legacy engineering processes, policies, procedures, design specifications. The Pipeline Risk and Integrity Management (PRIM) system alignment involved the integration of legacy Union Gas transmission pipelines operating at or above 30% SMYS as part of the Transmission Integrity Management Program. Other alignment work involved processes and policies in the metershop program, developing a combined Asset Management Plan which leveraged a combined Risk Management Framework, harmonized asset class definitions and governance structure, and the integration of the change process.

Within Corporate Shared Services, Finance had the largest share of integration costs as combined management reporting was developed across all areas, bridging local legacy systems to a harmonized enterprise system. This work entailed the alignment of financial data into a single source, report consolidation, alignment of reporting processes, and automation where possible.

Table 1:
2020 Integration Costs ($M)

Distribution Operations		
Dedicated Integration Resources		11.7
Outsourcing of Meter work		2.9
EGI Sync/AWS/Connect		3.1
Fleet Harmonization		0.3
Distribution Operations - Total	$	18.0
Customer Care		
CIS Project		14.3
Labour Support of CIS Project		1.2
Customer Care - Total	$	15.4
Engineering		
Alignment of Policies & Procedures		4.2
Dedicated Integration Resources		1.5
PRIM Integration		0.5
Alignment of Metershop		0.5
Alignment of Asset Plan		0.2
Integrate Management of Change		0.1
Engineering - Total	$	6.9
Corporate Shared Services		
Finance Alignment of Management Reporting		3.4
Dedicated Integration Resources - Finance		0.9
Other		0.1
Corporate Shared Services - Total	$	4.5
All Other Functional Areas	$	2.6
Total Integration Initiative Costs	**$**	**47.5**
Severance	$	77.7
Total Integration Costs Incl. Severance	**$**	**125.2**

c) Savings resulting from integration are estimated at $66M in 2020 and are expected to stay relatively stable in 2021. Table 2 below is a summary of those savings.

Table 2:
2020 Integration Savings ($M)

Base Pay Savings & Burden Savings from VWO	54.8
Meter Reading & Vendor Consolidation	2.7
Emergency Reponse & Call Handling	2.1
Alignment Synergies in Operations & Engineering	1.8
Targeted Inspections & WWO	2.9
Other Savings	1.7
	66.0

The largest component of savings was driven by base pay reductions from 2020 adjustments (as noted in Exhibit I.FRPO.2) as well as salary and benefits reductions from voluntary departures (or VWO). Integration initiatives in Customer Care associated with vendor consolidation in the areas of meter reading, bill printing, payment processing, and collections resulted in $2.7M in savings. The alignment of emergency response and emergency call handling operations brought about $2.1M in savings. Within the Operations and Engineering groups, warehouse consolidation, metershop integration, Integration Management Systems harmonization, and content management alignment contributed to $1.8M in savings. Similarly, the discontinuation of targeted inspections at legacy Enbridge Gas and the cancellation of the Workflow and Workforce Optimization (WWO) at legacy Union harmonized programs and processes under a single work strategy and achieved $2.9M. Other integration savings across all areas contributed to the balance.

ENBRIDGE GAS INC.

Answer to Supplementary Interrogatory from
Energy Probe (EP)

Interrogatory

Reference:

Exhibit H, Page 3, Paragraph 7

Preamble:

"Within Customer Care, the CIS Project updated and integrated systems and processes previously managed in separate systems (SAP and Banner). The first phase of the project involved the upgrade of existing software that was completed in mid-2020. Over the course of 2020, integration work was carried out on detailed planning, system design, and system build." (Exhibit I.Staff.3, page 2)

Question(s):

Please break out the line CIS Phase 1 (Hana Upgrade) shown in the table in Paragraph 7 into two separate lines with appropriate amounts shown in each column:

- Upgrade of Existing Software
- Integration Work (Detailed Planning, System Design, and System Build)

Response:

The CIS Phase 1 (Hana Upgrade) project is related to upgrading the existing software to the S4 platform. The upgrade was necessary to ensure ongoing support from SAP, as it was the chosen software solution for the integrated utility, and thus served as the foundation for all CIS Phase 2 project integration work, which went into service in 2021.

MAADs transaction with achieved savings and efficiencies over the deferred rebasing term. Effectively MAADs transaction costs (or amalgamation/integration costs) and associated savings are excluded from ratemaking over the deferred rebasing term.

6. However, during the deferred rebasing term, the Company does note that the accelerated CCA impact related to amalgamation/integration projects is reflected in the determination of actual utility results subject to earnings sharing, consistent with the inclusion of the associated capital costs and benefits (synergies/savings) related to those projects. As such, when the Company is in an earnings sharing position, ratepayers will share in the benefit of accelerated CCA related to amalgamation/integration projects.

7. The 2020 accelerated CCA revenue requirement impact associated with 2020 amalgamation/integration related capital additions, which has been excluded from the 2020 TVDA balance, was $3.7 million.[3] The calculation of the impact was detailed in the response to OEB Staff interrogatory #7 a), at Exhibit I.STAFF.7, and is reproduced below.

2020 Amalgamation/Integration Project Additions

	CCA Pool Capital Addition	CCA Class / Rate	Accelerated CCA	Regular CCA	CCA Variance	Earnings Impact (26.5% tax rate)	Grossed-up Earnings Impact
Scada and Gas Control Consolidation	711,933	Class 12 100%	711,933	355,967	355,967	94,331	128,342
Scada and Gas Control Consolidation	1,114,524	Class 50 55%	919,482	306,494	612,988	162,442	221,009
CIS Phase 1 (Hana Upgrade)	17,020,480	Class 50 55%	14,041,896	4,680,632	9,361,264	2,480,735	3,375,150
Customer Experience	44,854	Class 12 100%	44,854	22,427	22,427	5,943	8,086
Bill Print and Presentment	20,361	Class 12 100%	20,361	10,180	10,180	2,698	3,670
	18,912,152		15,738,526	5,375,700	10,362,826	2,746,149	3,736,257

[3] As was noted and detailed in the response to OEB Staff interrogatory #7 b), at Exhibit I.STAFF.7, EGI's treatment of the 2019 accelerated CCA revenue requirement impact associated with 2019 amalgamation/integration related capital additions, was not consistent with the current proposed treatment, as the $3.3 million impact was included in the 2019 TVDA balance for disposition to ratepayers. The change in treatment results from the evolution of the Company's believed appropriate treatment of accelerated CCA impacts, as informed by OEB's findings in the 2019 ESM TVDA decision. However, because the 2019 amalgamation/integration related capital additions were to the Class 12, 100% CCA rate pool, the credit provided to ratepayers through the 2019 TVDA was reversed as part of the determination of the 2020 TVDA balance.