



LETTER NO. L-23-94

ROBERT J. PELLATT
COMMISSION SECRETARY

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VIA FACSIMILE

Mr. D.M. Masuhara
Vice President, Legal and Regulatory Affairs
BC Gas Utility Ltd.
1111 West Georgia Street
Vancouver, B.C.
V6E 4M4

Dear Mr. Masuhara:

Re: BC Gas Utility Ltd.
CIS Quarterly Report and Certificate Requirement

With regard to your letter of August 17, 1994 which proposed to suspend the CIS reporting until further determination, and the accompanying June 30, 1994 quarterly report which identified the uncertainty of the Theseus development status, the Commission wishes to draw your attention to Section 3.4.4 on pages 34 to 35 of the August 5, 1992 Decision (see attached) which in particular reference to the CIS states that "BC Gas should exercise maximum caution in the control and development. . .", ". . . must keep costs within budget to justify this level of development" and "The Commission will further review expenditures on the CIS before they are allowed for rate base treatment. . .".

As stated in Section 3.2 of the 1994 Phase 1 Decision dated June 16, 1994, while the Commission and intervenors agreed that a public review of the CIS should await future review of the Theseus schedule, it is now noted that over \$10 million of the \$15 million budgeted Theseus costs have been incurred and that the CIS consortium has been dissolved.

In view of the above events, the Commission requires BC Gas to prepare a detailed report to justify the prudence of CIS project costs incurred. The report should clearly provide the timing and reasons for each major cost incurrence, and identify any of the CIS developments performed to date which will be of no value or have to be performed again in the final CIS system. This report should be filed by September 30, 1994 and will form the basis of the public CIS review to be scheduled.

In addition, the Commission designates the CIS in BC Gas as a new initiative and a significant addition to the utility system which will require the issuance of a Certificate of Public Convenience and Necessity under Section 51(3) of the Utilities Commission Act. BC Gas must file a formal application together with full support for any future cost incurrence. Meanwhile the quarterly reporting must be maintained.

Yours truly,

A handwritten signature in dark ink, appearing to read "R. Pellatt".

Robert J. Pellatt

SSW/PN/dlf
Attach.

vendor selection processes, effectiveness of the major systems and a value for money assessment. Due to the technical nature of this topic, Commission staff conducted a seminar for the benefit of the intervenors on March 24, 1992. The Applicant and the staff consultant gave their respective overviews on the MIS in BC Gas. The seminar shortened the hearing process.

While there were criticisms in various areas, the consultant generally found that the systems installed or to be implemented are at the high end of the product line for similar utilities; the expenditures and investment decisions were not unreasonable and were supported by a business case analysis. Notwithstanding this, they recommended more analyses and review of the out-sourcing and contracting process. Deloitte & Touche criticized BC Gas for implementing the out-sourcing policy on a very narrow analysis. In particular, very little risk had been transferred to the vendors. They also suggested that there is an on-going concern for the Commission regarding: "control/management of the business risks associated with the development of CIS; the desirability of increased transference of risk to vendors engaged under the out-sourcing program; and the emergence of a more rigorous business case analysis of on-going and future projects." (Exhibit 66, page 24)

3.4.4 Commission Decision

The Commission accepts the Deloitte & Touche conclusions in Exhibit 66. The FIS, WMS and HRIS are complete or near completion, while the CIS is still in early development. Due to the significant business risks associated with the CIS, BC Gas should exercise maximum caution in the control and development of this system. While the expenditure on this project is treated as Construction Work in Progress attracting AFUDC and has no impact on the 1992 revenue requirements, the significant capital investment together with future operating costs will have an impact on future customer rates. The CIS is an unusually sophisticated undertaking and BC Gas must keep costs within budget to justify this level of development. The Commission directs BC Gas to file a progress report on a quarterly basis to detail the variance of costs and plans for the CIS. The first report for the quarter ending September 30, 1992 should be filed by the end of October, 1992 and the format of the report should be established in advance with Commission staff. The Commission will further review expenditures on the CIS before they are allowed for rate base treatment in 1993.

With respect to the risk transference, the Commission recognizes higher costs have to be incurred in exchange for lower risk, but the Commission expects the Company to minimize any unacceptable business risks to the extent that cost effectiveness is achieved. The Applicant should also conduct more rigorous business case studies for all future projects. The Commission will continue to monitor all MIS in BC Gas to ensure value for money is attained. The value for money test requires that BC Gas canvass the range of options to find the optimum mix of services versus development cost. This does not mean that only the expensive, top-end products are to be reviewed.

3.5 Office Facilities

In February 1993, BC Gas plans to consolidate its Lower Mainland head office functions into one single, downtown location in Vancouver. The functions to be moved would be those generally described as providing support services to the corporation and operations centres in Burnaby, Surrey and in cities in the interior (Exhibit 2, Tab 14, page 7). The new corporate headquarters will take up 10 floors of leased space in a building to be known as BC Gas Centre ("Centre"). Staff will occupy floors 2 and 3 and 6 to 12, while the Senior Management group will occupy the 24th floor. During the hearing the Commission reviewed the justification for the move and the expenses involved.

In his testimony to the hearing, Mr. C.F. Hess, Vice President, Administration and Planning, gave the following account of BC Gas' decision to move into new premises (Exhibit 2, Tab 14, page 7):

"A number of departments which interact frequently are located in different buildings and locations. That arrangement negatively impacts productivity and communications among those departments. Projected manpower over the next 10 years for departmental growth and repatriated B.C. Hydro service contracts indicated that up to eight separate building locations should be required to hold these head office and administrative groups. The problems associated with operating a fragmented work force would continue if arrangements were not made to consolidate certain departments at one location."

BC Gas provided the Commission with information to justify the move on the basis of cost savings over a 10-year period as a result of lower expenses due to consolidation of office space, elimination of redundant services and lower lease rates due to the renting of a large block of space [Exhibit 5, Tab 11, item 1.11(d), pages 2 and 3].