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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Registrar

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (collectively FortisBC)
Application for Approval of Capital Expenditures for the Enterprise Resource
Planning Modernization and Customer Information System Replacement Projects
Final Submission of FortisBC

We enclose for filing in the above proceeding the Final Submission of FortisBC, dated March 12, 2026.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP



Chris Bystrom*
*Law Corporation

Encl.



BRITISH COLUMBIA UTILITIES COMMISSION

IN THE MATTER OF

THE *UTILITIES COMMISSION ACT*, R.S.B.C. 1996, CHAPTER 473

AND

FORTISBC ENERGY INC. AND FORTISBC INC

APPLICATION FOR APPROVAL OF CAPITAL EXPENDITURES FOR THE ENTERPRISE RESOURCE

PLANNING MODERNIZATION AND CUSTOMER INFORMATION SYSTEM REPLACEMENT

PROJECTS

FINAL SUBMISSION OF

FORTISBC ENERGY INC. AND FORTISBC INC.

March 12, 2026

FASKEN MARTINEAU DuMOULIN LLP

CHRIS BYSTROM

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (together, FortisBC or the Companies) respectfully submit that the British Columbia Utilities Commission (BCUC) should determine that the Enterprise Resource Planning (ERP) Modernization Project (ERP Modernization Project) and Customer Information System (CIS) Replacement Project (CIS Replacement Project) (together, the Combined Project) are in the public interest and grant the approvals sought in FortisBC's Application for Approval of Capital Expenditures for the ERP Modernization and CIS Replacement Projects (Application).¹

2. The Combined Project is needed to modernize FortisBC's core SAP enterprise applications and replace FBC's legacy CIS by upgrading to SAP's S/4HANA. FortisBC's core SAP applications² manage and streamline the Companies' business processes and operations through a centralized platform. FBC utilizes a legacy CIS (CIS Plus) to manage its customer interactions, billing, and meter-to-cash workflows. All of these applications are critical to FortisBC's ongoing day-to-day business operations. However, FortisBC's core SAP applications are facing end of vendor support, and it is no longer feasible to extend the life of CIS Plus. The continued operation of these systems without vendor support will cause significant risk to the continuity of FortisBC's business operations. FortisBC must, therefore, undertake the Combined Project to modernize or replace these information system applications with modern, secure, efficient and vendor-supported applications. FortisBC's proposal to upgrade to SAP's S4/HANA achieves this at a lower cost and implementation risk than the alternatives.

3. FortisBC submits that the BCUC should accept in the public interest the schedule of anticipated capital expenditures for the Combined Project, at approximately \$190.779 million (in

¹ In this Final Submission, FortisBC references Exhibit B-1-3 for the Application as this exhibit includes the minor corrections to the Application identified while responding to information requests (IRs).

² FortisBC's three core SAP applications are ERP Central Component (ECC), Customer Relationship Management (CRM) and Business Warehouse (BW).

as-spent dollars), with approximately \$92.246 million (48 percent) allocated to FEI and \$98.533 million (52 percent) allocated to FBC.

4. FortisBC also respectfully submits that the BCUC should approve a depreciation rate of 10 percent applicable to the SAP S/4HANA software and components related to the Combined Project, which reasonably reflects the expected life of these assets. Finally, FEI and FBC submit that the BCUC should approve deferral accounts to capture each utility's respective share of the implementation O&M costs and the Application and preliminary stage development costs for the Combined Project. FEI and FBC have proposed that these accounts attract a Weighted Average Cost of Capital (WACC) return, as is just and reasonable, and have proposed reasonable time periods over which to amortize the balances.

5. The remainder of this Final Submission is organized as follows:

- Part Two: the ERP Modernization Project is needed to address the risk from the end of vendor support for FortisBC's core SAP applications.
- Part Three: ERP Alternative 3 (Upgrade to SAP S/4HANA) achieves the objective of the project at a lower cost and implementation risk than the alternative.
- Part Four: the CIS Replacement Project is needed as it is no longer feasible to extend the life of CIS Plus.
- Part Five: CIS Alternative 4 (Replacing CIS Plus with SAP S4/HANA) fully addresses FBC's business risks, supports current and evolving operational needs, and has a lower project implementation risk than a non-SAP CIS alternative.
- Part Six: FortisBC is reasonably implementing the Combined Project, has reasonably estimated and allocated the costs of the Combined Project and is mitigating project risks.
- Part Seven: the proposed depreciation rate and deferral accounts for FEI and FBC are just and reasonable.

**PART TWO: ERP MODERNIZATION PROJECT IS NEEDED TO MAINTAIN CONTINUITY OF
BUSINESS OPERATIONS**

6. FortisBC must undertake the ERP Modernization Project to replace its core SAP enterprise applications as vendor support for these applications is ending in 2030, which will cause unacceptable risk to FortisBC's business operations. As FortisBC's core enterprise applications are critical to day-to-day business operations, operating an SAP enterprise application suite at end-of-life and without vendor support is not an acceptable risk to FortisBC. The lack of vendor support will expose the Companies to increased system reliability and performance risk, cybersecurity risk, resource availability risk and compliance and audit risk. Therefore, FortisBC must implement a solution that will ensure the Companies can continue their day-to-day functions reliably and are able to adapt to future change.³

7. The following sections discuss the key aspects of the need for the ERP Modernization Project.

A. FortisBC's SAP Application Suite is Critical to its Operations

8. FortisBC's core SAP applications are critical to the Companies' operations, and the end of vendor support significantly increases the risk to FortisBC's business operations:

- SAP ECC is the foundational application for managing FortisBC's enterprise-wide operations and business processes across both the gas and electric utilities. It is the primary repository for current and historical operational and financial data, supporting core business functions such as device management, customer care (for FEI), work and maintenance planning, financial reporting, human resources, procurement, and inventory management. SAP ECC is integrated with over 30 internal applications at FortisBC. It plays a critical role in support of day-to-day business operations by maintaining accurate and up-to-date enterprise data and

³ Exhibit B-1-3, Application, p. 32.

providing real-time visibility and control of data, updating information across all functional areas.⁴ For example, it supports approximately 1.1 million gas customers across residential, commercial, and industrial classes with accurate billing by supporting 150 different rates under five rate classes and validating data through 20 billing cycles per month.

- SAP CRM is the primary platform used by FEI's customer service representatives (CSRs) to manage customer-related inquiries. It provides CSRs with a unified desktop that enables them to view complete customer account and interaction histories, initiate and track service requests, and resolve billing or service-related issues efficiently. Back-office and dispatch teams also use SAP CRM to manage service orders, coordinate field activities, and support meter related inquiries. The stability and performance of CRM is essential to maintaining reliable and responsive customer service operations. Any degradation in SAP CRM would have a direct and immediate impact on FEI's ability to manage customer interactions, potentially affecting service levels, customer satisfaction, and regulatory compliance.⁵
- SAP BW is the centralized repository for SAP ECC, CRM and other applications and provides a single, reliable source of truth for reporting, analytics, and regulatory compliance across the various business domains. BW is a key source system for enterprise reporting and the foundation for analytics and reporting capabilities based on transactional data extracted from the SAP framework. It allows FortisBC to analyze historical data and make data-driven decisions that can help streamline processes and optimize operations, and enables predictive analytics. Continued

⁴ Exhibit B-1-3, Application, pp. 15-16 and 28-29.

⁵ Exhibit B-1-3, Application, pp. 29-30.

support and modernization of SAP BW is essential to maintaining the reliability, integrity, and data-driven decision-making capabilities of FortisBC's operations.⁶

9. Given the centrality of these core SAP applications, FortisBC must plan early to address the end of vendor support.⁷

B. SAP Is Ending Support, Creating Significant Risk to FortisBC Operations

10. The need for the ERP Modernization Project is driven by the fact that SAP will end system enhancements and mainstream support for the ECC, CRM and BW applications at the end of 2027. SAP will offer up to three additional years of extended support until the end of 2030, during which time SAP will provide essential services such as regular updates, security patches and technical support. However, no further updates or support will be available beyond 2030.⁸

11. The end of support for FortisBC's critical SAP applications after 2030 exposes the Companies to unacceptable risks that must be addressed. Specifically, these risks are:

- **Material Declines in System Reliability and Performance:** As an application reaches the end of its vendor-supported lifecycle, its overall reliability declines materially over time. Without access to ongoing vendor support, the application no longer benefits from updates that maintain performance stability, compatibility with operating systems, and integration with other enterprise applications. This leads to an increased risk of application outages, degradation in functionality, and disruptions to core operations. Over time, unresolved software defects and growing incompatibility with evolving infrastructure can result in failures of critical functions such as financial reporting, procurement, and work management. The billing system will become increasingly vulnerable to

⁶ Exhibit B-1-3, Application, p. 30.

⁷ Exhibit B-1-3, Application, p. 32.

⁸ Exhibit B-1-3, Application, p. 30.

performance issues, which can impair FortisBC's ability to generate accurate and timely invoices, affecting revenue collection and customer trust. These reliability challenges, if unaddressed, jeopardize FortisBC's ability to deliver essential services efficiently and in compliance with regulatory obligations.⁹

- **Cybersecurity and Data Protection Vulnerabilities:** Operating unsupported SAP enterprise applications introduces significant cybersecurity and data protection risks. Vendor support is essential to ensure the timely application of security patches and to mitigate vulnerabilities that emerge in response to evolving cyber threats. Without these protections, the SAP application environment becomes increasingly exposed to malicious exploitation, including ransomware, data breaches, and unauthorized access to sensitive operational, customer and employee data. Without vendor support, FortisBC will be more exposed to cybersecurity attacks which could result in frequent and prolonged legacy system issues disrupting FortisBC's business operations, including potentially widespread and extended service delays. Potential failures will likely last longer due to the lack of experienced, knowledgeable and available experts who can immediately assist with the legacy issues. The increased likelihood and duration of application failures would also increase operating costs.¹⁰
- **Disruption to Operations:** In the event of an abrupt catastrophic failure of its SAP enterprise applications, FortisBC would face significant risk to the operation of its business, including its ability to support critical business processes. For instance, if SAP system components were not functioning, FortisBC would need to implement makeshift manual workarounds, which will increase the likelihood of

⁹ Exhibit B-1-3, Application, p. 31.

¹⁰ Exhibit B-1-3, Application, p. 31.

errors and service delays and lead to unsatisfactory customer experience, reputational damage and potential impacts to the reliability of energy service.¹¹

- **Diminishing Pool of Support Resources:** The diminishing availability of skilled resources to support both the existing platform and any future transition is another significant risk. As organizations move to modern enterprise application solutions, the industry—including vendors, consultants and internal IT professionals—is reorienting skillsets and service offerings toward the newer technologies, resulting in a shrinking pool of qualified personnel with the expertise to maintain or troubleshoot older systems. Training programs and certification pathways are also being realigned to support the new enterprise application landscape, leaving fewer opportunities for personnel to gain or retain proficiency in legacy platforms. This industry-wide shift not only increases the cost and complexity of maintaining the existing system but also presents substantial implementation risk if FortisBC delays modernization. A reduced supply of experienced professionals could impact the quality and efficiency of future enterprise application upgrades or transitions, heightening the risk of schedule delays, budget overruns, and operational disruptions.¹²

12. Given the centrality of the SAP applications to FortisBC’s business operations, these risks are not acceptable to FortisBC and must be addressed.

13. The need to proceed with the ERP Modernization Project is supported by the BCUC’s Decision and Order G-44-25 on BC Hydro’s Enterprise Resource Planning Projects Application. In that Decision, the BCUC found that the end of SAP’s support for SAP ECC meant that SAP ECC was at end of life and that operating SAP ECC without vendor support was unacceptable.¹³

¹¹ Exhibit B-1-3, Application, p. 31.

¹² Exhibit B-1-3, Application, pp. 31-32.

¹³ BCUC Decision and Order G-44-25, at pp. 4-5: [doc 80369_g-44-25-bch-erp-projects-final.pdf](#).

The Panel finds that BC Hydro has established the need to address the upcoming end of vendor support and end-of-life of BC Hydro's ERP system, SAP ERP Central Component. The evidence establishes that BC Hydro's ERP system is critical to its day-to-day business operations including finance, human resources, customer care and billing. BC Hydro's current ERP software, SAP ERP Central Component, will not have mainstream vendor support after 2027 and although BC Hydro can purchase extended support from 2027 to 2030, this support is limited to fixing bugs rather than supporting BC Hydro to maximize the value offered by a vendor-supported ERP system.

The evidence also establishes that SAP ERP Central Component will be at end-of-life in 2030. The Panel is persuaded that operating an ERP system at end-of-life and without vendor support is not acceptable because it would negatively impact BC Hydro's ability to perform its day-to-day operations and result in increasing ERP system outages risk over time.

14. Similarly, FortisBC submits that it must implement a solution that addresses the risk caused by the end of vendor support for its core SAP applications, so that the Companies can continue their day-to-day functions reliably and be able to adapt to future business requirements.¹⁴

¹⁴ Exhibit B-1-3, Application, p. 32.

PART THREE: UPGRADING TO SAP S4/HANA IS THE BEST ALTERNATIVE FOR THE PROJECT

15. FortisBC conducted a robust analysis of the alternatives to meet the need for the ERP Modernization Project. FortisBC's analysis shows that ERP Alternative 3 to upgrade to SAP S/4HANA is the best alternative as it will address the risk due to the end of vendor support at a lower cost and lower implementation risk than an alternative that involves a non-SAP solution. The subsections below discuss the steps in FortisBC's alternatives analysis, which FortisBC submits are reasonable and show that an upgrade to SAP S/4HANA is the preferred alternative for the ERP Modernization Project.

A. FortisBC Investigated and Identified Alternatives to the Project

16. FortisBC identified the alternatives based on a detailed understanding of the project requirements and potential alternatives gained through an investigation and discovery phase. This included FortisBC hosting 25 workshops with 76 internal subject matter experts which resulted in the development of a set of functional and technical requirements for the ERP Modernization Project. FortisBC then undertook vendor demonstration discovery sessions with four potential proponents. These activities informed the content for a Request for Expressions of Interest (RFEOI) to system integrators to obtain market input on approach, timelines, complexity, and high-level costs for each ERP option. The RFEOI was issued to eight system integrators, two for each potential ERP system. Three responses were received for the RFEOI evaluation: two for an SAP S/4HANA ERP and one for a non-SAP ERP. The RFEOI responses enabled FortisBC to understand the various service providers and their capabilities, and the requirements for the ERP Modernization Project.

17. With the benefit of the investigation and discovery activities, FortisBC identified and scoped the following three alternatives to address the ERP Modernization Project need:¹⁵

¹⁵ Exhibit B-1-3, Application, p. 33.

- **ERP Alternative 1 (Run without Support):** Run the existing SAP applications without SAP support until they are non-functional and then replace the applications.
- **ERP Alternative 2 (Non-SAP Replacement):** Replace the existing SAP applications with ERP software from a non-SAP vendor.
- **ERP Alternative 3 (Upgrade to SAP S/4HANA):** Upgrade the existing SAP applications to a suite of new SAP applications, the core foundation of which is the S/4HANA application.

B. FortisBC Reasonably Screened Out Infeasible Alternatives

18. FortisBC reasonably screened out ERP Alternative 1 – Run without Support – as not feasible as it exposes FortisBC to a high risk to the continuity of its business operations, even with the use of third-party SAP service providers.¹⁶ Specifically, this alternative would not address the following business risks:¹⁷

- **System Reliability and Performance:** The lack of regular updates and patches would lead to increased susceptibility to outages and degraded performance, which would disrupt critical business functions such as billing, financial reporting, and supply chain management.¹⁸
- **Cybersecurity Vulnerabilities:** Without access to vendor-issued security updates, FortisBC would be at greater risk of evolving cyber threats, including ransomware attacks and data breaches, which could compromise both operational integrity and sensitive customer information.¹⁹

¹⁶ Exhibit B-5, ICG IR1 5.2.

¹⁷ Exhibit B-1-3, Application, p. 33; Exhibit B-5, ICG IR1 5.2.

¹⁸ Exhibit B-1-3, Application, p. 33; Exhibit B-5, ICG IR1 5.2.

¹⁹ Exhibit B-1-3, Application, p. 33; Exhibit B-5, ICG IR1 5.2.

- **Resource Availability:** Without vendor support, FortisBC would likely struggle to find qualified internal and external professionals to maintain the legacy system, as industry trends show that such resources will become progressively scarce. As more organizations migrate to modern platforms like SAP S/4HANA, the difficulty of maintaining a skilled workforce on the outdated core SAP applications would grow, leading to inefficiencies and delays in resolving issues. This shortage of skilled professionals could lead to inefficient problem resolution, extended downtime, and operational disruptions.²⁰
- **Compliance and Audit:** Unsupported software elevates the risk of non-compliance with Sarbanes-Oxley (SOX) legislation and other regulatory requirements. Without the assurance of vendor-provided controls and documentation, FortisBC would face increased potential for adverse audit findings and associated penalties.²¹

19. Accordingly, ERP Alternative 1 is not feasible.

C. FortisBC Conducted a Robust Analysis of the Feasible Alternatives

20. FortisBC's alternatives analysis is a robust and complete comparison of the two feasible alternatives. FortisBC defined the scope and conducted a detailed financial evaluation of each alternative, identified criteria and sub-criteria which highlighted the strengths and weaknesses of the alternatives, and developed a reasonable scoring and weighting system to evaluate the performance of each alternative. FortisBC submits that its evaluation of the alternatives is reasonable and accurate, highlights the distinguishing features of the alternatives, and has identified the most cost-effective alternative.

21. The subsections below address in more detail the key aspects of the alternatives analysis.

²⁰ Exhibit B-1-3, Application, p. 33; Exhibit B-5, ICG IR1 5.2.

²¹ Exhibit B-1-3, Application, p. 33; Exhibit B-5, ICG IR1 5.2.

(a) FortisBC Selected Appropriate Criteria and Made Reasonable Assumptions in Weighting and Scoring

22. FortisBC created a rigorous and structured evaluation framework for analyzing the alternatives. FortisBC established the evaluation criteria, associated sub-criteria, and their respective weightings through collaborative discussions and iterative reviews with subject matter experts representing business, technical, financial, and change management perspectives. The determination of the framework was informed by management judgment, internal stakeholder input, and prior project experience, including lessons learned from comparable ERP and CIS modernization initiatives within the utility sector. Collectively, FortisBC used these inputs to ensure that the evaluation emphasizes factors most relevant to successful project delivery, risk mitigation, and customer rate impacts.²² Table 3-4 of the Application, below, summarizes the evaluation framework.

Table 3-4: Evaluation Criteria Weighting

Evaluation Criteria Category	Evaluation Criteria Specific	Weight (Sub Criteria)	Weight (Overall)
Ability to Support Current and Future Requirements	Operations Analytics and Reporting	30%	30%
	Mobile Enablement	10%	
	Innovation	10%	
	Flexibility and Scalability	30%	
	Adaptability to Regulatory Changes	20%	
Project Implementation Risk	Project Size and Complexity	25%	35%
	Resourcing	25%	
	Training	15%	
	Organizational Change	35%	
Financial – Impact on Customer Rates	Levelized Rate Impact	100%	35%

23. FortisBC chose appropriate criteria to confirm baseline capability and identify areas where material trade-offs between the alternatives were expected to arise, as follows:²³

²² Exhibit B-3, BCUC IR1 4.3.

²³ Exhibit B-3, BCUC IR1 4.3.

- **Ability to Support Current and Future Requirements:** This criterion reflects the importance of confirming that each alternative can sustainably support FortisBC's current and future business requirements. While variations in scoring were expected, the analysis ultimately confirmed that both feasible alternatives fully met this criterion.²⁴
- **Project Implementation Risk:** This criterion reflects a key differentiator between the feasible alternatives, comparing the complexity of replacing a platform that has been used by FortisBC for more than 25 years with a different ERP platform, or completing an upgrade to the existing ERP platform. Moving to a new ERP platform will create greater challenges, particularly in areas such as resourcing, training and organizational change.
- **Financial – Impact on Customer Rates:** This criterion compares the differences in levelized rate impact between the alternatives, reflecting tradeoffs in the financial impact to customers between the feasible alternatives.

24. At the criteria level, FortisBC assigned weightings based on the relative importance of each criterion, with consideration given to implementation risk, long-term operational suitability, and financial impacts. Given that the impact on customer rates (the Financial Criterion) and the Project Implementation Risk criterion were critical differentiating considerations, FortisBC assigned each of these the highest weightings at 35 percent each.²⁵

25. At the sub-criteria level, FortisBC assigned weightings to support a balanced and transparent assessment within each criterion and to enable consistent scoring across alternatives. For example, FortisBC assigned the weights to the sub-criteria under the Project Implementation Risk criterion as follows:²⁶

²⁴ Exhibit B-3, BCUC IR1 4.3.

²⁵ Exhibit B-3, BCUC IR1 4.1.

²⁶ Exhibit B-3, BCUC IR1 4.1.

- **Organizational Change** was assigned a 35 percent weighting based on FortisBC's experience and external utility feedback indicating that organizational readiness and change capacity are among the most significant risk drivers for large enterprise implementations.
- **Project Size and Complexity** and **Resourcing** were each assigned a weighting of 25 percent, reflecting their role as material standard risk indicators for large technology projects.
- **Training** was assigned the lowest weighting at 15 percent because the risks associated with training are more easily mitigated than risks arising from the other sub-criteria.²⁷

26. FortisBC developed a 1 to 3 evaluation scoring scale through internal discussions with subject matter experts. The 1 to 3 scoring scale is reasonable because it provides sufficient differentiation between alternatives where there are meaningful differences based on the information available. A larger scoring scale, e.g., from 1 to 5, would not have resulted in materially different relative rankings of the alternatives, as there is not a sufficient level of granular or quantitative information to differentiate the alternatives further than the level that is achieved through the selected scale of 1 to 3.²⁸

(b) Financial Evaluation Shows that ERP Alternative 3 (Upgrade to SAP S4/HANA) Is Lower Cost

27. The Financial Criterion in the alternatives analysis considers the levelized delivery rate impact for FEI and rate impact for FBC (rate impacts) resulting from each feasible ERP alternative over a 13-year analysis period.²⁹ To calculate the rate impacts of the alternatives, FortisBC

²⁷ Exhibit B-3, BCUC IR1 4.1.

²⁸ Exhibit B-3, BCUC IR1 4.2.

²⁹ Exhibit B-1-3, Application, p. 52.

defined the scope and conducted a robust total present value (PV) of revenue requirements analysis of each feasible alternative based on a Class 5 cost estimate for ERP Alternative 2 (Non-SAP Replacement) and a Class 4 cost estimate for ERP Alternative 3 (Upgrade to SAP S4/HANA).³⁰ FortisBC also calculated the analysis based on a Class 5 estimate for ERP Alternative 3.³¹ Consistent with past practice, FortisBC calculated the total PV of incremental revenue requirements for each alternative to show the impact to customers.³²

28. FortisBC's total PV of incremental revenue requirements analysis included the estimated tangible and quantifiable costs and benefits of each alternative. The quantifiable benefits of both alternatives include reductions in incremental capital-related support costs, reductions in annual on-premise capital and O&M infrastructure costs, and operational efficiencies and cost savings. Notably, ERP Alternative 3 has higher quantifiable savings, as well as lower implementation and post-implementation support costs than ERP Alternative 2.³³

29. The result of the analysis shows that ERP Alternative 3 (Upgrade to SAP S4/HANA) has materially lower PV of costs and rate impacts than ERP Alternative 2 (Non-SAP Replacement), as indicated in the table below.³⁴

³⁰ Exhibit B-1-3, Application, Section 3.3.2.

³¹ Exhibit B-3, BCUC IR1 2.1.

³² Exhibit B-3, BCUC IR1 2.2.1 and 2.2.2.

³³ Exhibit B-3, BCUC IR1 2.2.

³⁴ Exhibit B-3, BCUC IR1 2.1.

Table 1: Financial Summary of Class 5 Estimate for ERP Alternative 3 Compared to ERP Alternative 2 (Class 5) and ERP Alternative 3 (Class 4) from the Errata to the Application

Class Estimate	ERP	ERP	
	Alternative 2	Alternative 3	
	Class 5	Class 5	Class 4 (As-Filed in Errata)
Total PV of Incremental Capital (\$ millions)	130.832	100.226	102.694
Total PV of Incremental O&M (\$ millions)	13.660	(0.792)	0.191
FEI Total PV of Incremental Revenue Requirement over 13-years (\$ millions)	111.808	83.595	86.328
FEI Levelized Delivery Rate Impact over 13-years (%)	1.02%	0.76%	0.79%
FBC Total PV of Incremental Revenue Requirement over 13-years (\$ millions)	41.862	34.582	35.433
FBC Levelized Rate Impact over 13-years (%)	0.94%	0.77%	0.79%

30. A net present value (NPV) of cash flows similarly indicates that ERP Alternative 3 is the superior alternative from a financial perspective. ERP Alternative 3 has a lower NPV, as indicated in the table below.³⁵

Line	Particular	Reference	ERP	ERP	
			Alternative 2	Alternative 3	
			Class 5	Class 5	Class 4
1	Class Estimate	BCUCIR1 2.1	Class 5	Class 5	Class 4
2	Total PV of Incremental Capital (\$ millions)	BCUCIR1 2.1	\$ 130.832	\$ 100.226	\$ 102.694
3	Total PV of Incremental O&M (\$ millions)	BCUCIR1 2.1	13.660	(0.792)	0.191
4	Total PV (or NPV) of Cash Flow (\$ millions)	Line 2 + Line 3	\$ 144.492	\$ 99.433	\$ 102.885

31. The difference between the alternatives is primarily because an upgrade to SAP S4/HANA will have lower implementation costs than moving to a non-SAP alternative as an upgrade to SAP S/4HANA will require significantly less process redesign and be supported by existing SAP tools. Further, significantly fewer changes will be required to many of the existing interfaces, and change management and training will be lower effort than with a full system non-SAP replacement.³⁶ These factors provide a significant cost advantage to ERP Alternative 3 (Upgrade to SAP S4/HANA).

³⁵ Exhibit B-3, BCUC IR1 2.2.1 and 2.2.2.

³⁶ Exhibit B-1-3, Application, p. 51.

32. FortisBC has provided detailed support for its cost estimates and financial analysis.³⁷ Specifically, FortisBC's Class 5 estimate for ERP Alternative 2 (Non-SAP Replacement) is reasonable and sufficient for the purpose of the alternatives analysis. Consistent with the requirements for a Class 5 estimate, FortisBC developed the estimate using a high-level scope definition, preliminary design maturity, milestone level scheduling, estimation methods primarily based on expert judgement, and project risks and mitigation strategies identified at a preliminary level. More specifically, FortisBC developed the cost estimate using a combination of (1) the high-level system integrator implementation labour and software licensing costs received through the RFEOI process and (2) estimates based on internal subject matter experts' judgement using information from the Class 4 estimate for ERP Alternative 3.³⁸ FortisBC explained in detail the reasonable adjustments it made to the Class 4 estimate for ERP Alternative 3 to account for the differences between the SAP and non-SAP alternatives.³⁹

33. FortisBC also explained that it extended the implementation period to four years for ERP Alternative 2, compared to three years for ERP Alternative 3, to account for the greater level of change and complexity that would be required to move to a non-SAP ERP system. However, all else equal, completing the implementation of the non-SAP ERP Alternative over a three-year period would slightly increase the levelized rate impacts for FEI and FBC and so would not change the results of the comparative financial evaluation between ERP Alternative 2 and ERP Alternative 3.⁴⁰

34. Finally, given the analysis above, it was reasonable not to advance the cost estimate for ERP Alternative 2 to a Class 4 level as it would have required significant development costs, but would have had little, if any, impact on the alternatives analysis. Advancing to a Class 4 estimate for ERP Alternative 2 could potentially better refine the internal estimates of costs to transition from an SAP platform to a non-SAP platform. However, these transition costs will always be

³⁷ Exhibit B-1-3, Application, Sections 3.3.2.1.2 and 3.3.2.2.2; Exhibit B-3, BCUC IR1 2.1 to 2.3 and 3.1 to 3.5.

³⁸ Exhibit B-1-3, Application, p. 36; Exhibit B-3, BCUC IR1 3.1.

³⁹ Exhibit B-3, BCUC IR1 3.5.

⁴⁰ Exhibit B-3, BCUC IR1 3.4.

incremental to the cost of ERP Alternative 3, as a transition to an entirely new ERP system is not required for ERP Alternative 3. Therefore, it was reasonable and cost-effective to analyze the alternatives with a Class 5 cost estimate for ERP Alternative 2.⁴¹

(c) Non-Financial Criteria Show that ERP Alternative 3 (Upgrade to SAP S/4HANA) is Superior

35. FortisBC conducted a detailed evaluation of the two alternatives based on two non-financial criteria, which show that ERP Alternative 3 (Upgrade to SAP S/4HANA) is superior. For the two non-financial criteria, FortisBC identified multiple sub-criteria and developed a scoring and weighting system to evaluate the performance of each alternative. FortisBC supported its scoring for each sub-criterion with a rationale that accurately and reasonably reflects the merits of each alternative.⁴²

36. While both ERP Alternatives 2 and 3 scored the same on their Ability to Support Current and Future Requirements,⁴³ Alternative 3 scored better than Alternative 2 on Project Implementation risk under all four sub-criteria, as explained in Table 3-7, below.

⁴¹ Exhibit B-1-3, Application, p. 36.

⁴² Exhibit B-1-3, Application, Tables 3-6, 3-7 and 3-8.

⁴³ Exhibit B-1-3, Application, pp. 45-47.

Table 3-7: Evaluation of Criteria 2 – Project Implementation Risk

Criteria	ERP Alt 2 Scoring	ERP Alt 2 SAP Replacement	ERP Alt 3 Scoring	ERP Alt 3 SAP Upgrade
Project Size and Complexity	1	<p>A large and highly complex project due to the following:</p> <ul style="list-style-type: none"> Requires a complete ERP system replacement (as opposed to a less complex upgrade to a new version of existing software); Requires migration of data to a very different data model; Requires a complete redesign and reimplementation of existing ERP interfaces to work with the replacement system; Significant redesign of business processes to align with replacement system functionality and workflow; and High degree of change management and training required to be planned and delivered so users can adopt new processes and system functionality. 	2	<p>A large project that has a medium level of complexity due to the following:</p> <ul style="list-style-type: none"> ERP system upgrade (as opposed to replacement) where proven SAP code migration tools can be used; Data will be migrated to a new version of the current data model where proven SAP data migration tools can be used; Partial redesign and reimplementation of existing ERP interfaces to work with the new version of SAP; Partial redesign of some business processes to align with upgraded SAP functionality and workflow; and Medium degree of change management and training required to be planned and delivered so users can adopt new processes and system functionality.
Resourcing	2	Requires recruiting non-SAP talent while sunsetting SAP expertise, creating risk and higher costs.	3	Builds on existing skillset of FortisBC SAP team and majority of resources can be retooled to support new SAP technologies. FortisBC resources have skillsets required to support project implementation.
Training	1	<p>Major redesign of current SAP-based processes and completely new application user interface will drive need for extensive retraining.</p> <p>Application technical support teams will require significant retraining as there will be no familiarity with new application.</p>	2	<p>Processes and SAP interface modernized but many existing workflows and user interface concepts preserved which will reduce amount of retraining required.</p> <p>Application technical teams will require some retraining but will have strong foundation of SAP knowledge to build on.</p>
Organizational Change	1	<p>Completely new application platform and database.</p> <p>New system is unfamiliar and steep learning curve for all staff to adopt new processes and learn new system functionality.</p> <p>Potential large turnover of technical support teams as SAP skilled employees may not want to stay to support non-SAP application.</p> <p>Time required for organization to fully adopt changes will be significant.</p>	2	<p>Continue with an SAP application platform and database.</p> <p>Migration from on-premise to cloud SAP environment and new SAP database technology drives some technology change.</p> <p>SAP environment is familiar and organization will be able to quickly adopt changes.</p>

37. As indicated in the above scoring, ERP Alternative 2 has a high level of project implementation risk due to the substantial changes involved in replacing the existing core SAP applications with a non-SAP ERP platform:

- Replacing SAP with a non-SAP ERP system would be highly complex and would require significant amounts of business process and technological changes, which would in turn increase the resourcing requirements during and after implementation. New technology requires upskilling or onboarding of new

resources and risks the loss of experienced SAP resources, which would likely result in longer implementation and training timelines.

- ERP Alternative 2 would result in significant reworking of existing business processes and the underlying data structures, and the adoption of an unfamiliar system would require significant change management and training.
- The transition to entirely new ERP applications is likely to be highly disruptive, requiring significant resources to implement a detailed change management plan and support training employees on the new workflows and layout of the new core applications.⁴⁴

38. In contrast, ERP Alternative 3 has a medium level of project risk and degree of change. Although there will be significant user interface changes and some workflow changes that will require change management and training, the overall process of upgrading to S/4HANA is less complex than replacing the existing core SAP applications with a non-SAP ERP application, and overall there will be less change management and less change to business processes compared to ERP Alternative 2.⁴⁵ ERP Alternative 3 is therefore superior from a non-financial perspective.

(d) ERP Alternative 3 Is the Preferred Alternative

39. Overall, the results of the analysis show that ERP Alternative 3 (Upgrade to SAP S4/HANA) is the preferred alternative with a score of 2.39 compared to a score of 1.69 for ERP Alternative 2 (Non-SAP Replacement). This result is summarized in Table 3-9, below.

⁴⁴ Exhibit B-1-3, Application, p. 50.

⁴⁵ Exhibit B-1-3, Application, p. 50.

Table 3-9: Weighted Scoring

Criteria	Sub-Criteria	Weighting of Criteria	Alt 2 (Non-SAP) Score	Alt 3 (SAP) Score
Ability to Support Current and Future Requirements (30%)	Operations Analytics and Reporting	30%	3	3
	Mobile Enablement	10%	3	3
	Innovation	10%	3	3
	Flexibility and Scalability	30%	3	3
	Adaptability to Regulatory Changes	20%	3	3
Project Implementation Risk (35%)	Project Size and Complexity	25%	1	2
	Resourcing	25%	2	3
	Training	15%	1	2
	Organizational Change	35%	1	2
Financial Impact (35%)	Levelized Rate Impact (FEI & FBC)	100%	1	2
Total Weighted Score			1.69	2.39

40. As illustrated by the scoring in the table above, upgrading the existing SAP applications to SAP S/4HANA is the most cost-effective alternative, as it will result in a lower project implementation risk and lower cost than replacing the SAP applications with a non-SAP solution. ERP Alternative 3 achieves this by allowing FortisBC to retain existing system configurations and business processes while modernizing its ERP platform to a vendor-supported solution. SAP S/4HANA offers enhanced system performance, modern user experience, improved cybersecurity, and utility-specific capabilities, all within a familiar architecture. Overall, the SAP upgrade meets the need for the ERP Modernization Project with a lower implementation risk and at a reduced cost, compared to a non-SAP ERP system replacement, and is therefore the best alternative.

**PART FOUR: THE CIS REPLACEMENT PROJECT IS NEEDED TO MAINTAIN THE CONTINUITY OF
FBC'S BUSINESS OPERATIONS**

41. FBC needs to replace CIS Plus to address the increasing risks that CIS Plus poses to FBC's business operations, cybersecurity posture and ability to support modern utility business requirements. FBC's continued reliance on CIS Plus for a wide range of customer management functions poses significant risks to its customer service operations due to limited vendor support, operational fragility and technical limitations. While FBC has continued to seek workarounds and extend the life of CIS Plus, this is no longer a sustainable approach and is impacting FBC's ability to operate efficiently and respond to increasingly complex business and customer needs. In short, CIS Plus is at end of life. FBC must replace CIS Plus with a new system with access to ongoing vendor support, regular software updates, and the opportunity for enhancements to respond to changing business requirements.⁴⁶

42. The following sections discuss the key aspects of the need for the CIS Replacement Project.

A. CIS Plus is Critical to FBC's Operations

43. The essential context to understand the need to replace CIS Plus is that CIS Plus is critical to FBC's customer service operations, such that the degradation in CIS Plus poses a significant risk. CIS Plus supports a wide range of customer management functions that are central to FBC delivering timely and accurate utility services. CIS Plus maintains customer information for approximately 156,000 active accounts, serving over 197,000 direct and indirect customers. CIS Plus facilitates the delivery of billing and customer service across multiple customer classes, including residential, commercial, and industrial customers. A central function of CIS Plus is to enable the meter-to-cash cycle. This includes semi-automated integration with FortisBC's Meter Data Management System (MDMS) to retrieve daily meter reads and produce bills. CIS Plus also

⁴⁶ Exhibit B-1-3, Application, p. 57.

supports credit and collections tasks, service order management, and customer payments. Therefore, any degradation in these CIS Plus processes poses immediate risks to customer satisfaction, revenue collection, and regulatory compliance.⁴⁷

B. CIS Plus Poses Increasing Risk to FBC's Operations

44. CIS Plus is at end of life and is posing increasing risks to FBC's business operations due to the deterioration in the security, stability, and overall reliability of the system. CIS Plus was implemented in 2000 and, since 2006, FBC has been relying on internal resources and contract specialists to extend the life of the system and keep its interconnections functioning. While Software AG continues to support the underlying software environment through standard support agreements, it does not provide enhancements or bug fixes to the base software. With limited vendor support, the security, stability, and overall reliability of the legacy CIS Plus platform has deteriorated significantly over time. This deterioration poses an increasing risk to FBC's operational resilience, particularly in terms of cybersecurity vulnerabilities and the potential for widespread and prolonged service interruptions that could directly impact customers and business operations.⁴⁸

45. The conclusion that CIS Plus is at end of life is supported by an independent third-party assessment. In 2018, Util-Assist, an industry expert in utility customer systems, performed an independent assessment and concluded that CIS Plus was approaching end-of-life and would require replacement to ensure continuity of operations and customer service functions. Util-Assist found that inherent design constraints limit CIS Plus's performance and that material functional gaps exist across several key areas, including lack of visibility into full customer interaction history, inability to meet future requirements, and no customer preference centre.

⁴⁷ Exhibit B-1-3, Application, pp. 24-26 and p. 55.

⁴⁸ Exhibit B-1-3, Application, p. 55.

Util-Assist recommended that FBC proceed with a comprehensive evaluation of an alternate solution for CIS Plus.⁴⁹

46. While FBC has been able to extend the life of CIS Plus since 2018, these measures are not sustainable as key internal staff near retirement and the ability to find and attract resources with the skillset to support the legacy CIS Plus platform becomes increasingly more challenging.⁵⁰ FBC's ability to recruit and retain staff with the capability to maintain CIS Plus is extremely constrained and is expected to worsen as more organizations retire similar systems.⁵¹

47. Moreover, the underlying limitations of the CIS Plus platform result in elevated risk exposure with the frequency and severity of system issues increasing, and the time required to identify, triage, and resolve system incidents also rising.⁵² As a small example of the deteriorating condition of the system, it is common that a CSR will need to restart CIS Plus before taking on each new customer call, as the system becomes nonresponsive.⁵³ Further, FBC is now experiencing unplanned outages of CIS Plus two to three times per year due to connectivity issues and issues with the underlying Software AG platform. While relatively short in duration, these outages disrupt normal business operations and temporarily render the CIS Plus Web User Interface unavailable. During these periods, CSRs are unable to access customer account information, process payments, initiate service orders, establish payment arrangements, or respond fully to customer inquiries. As a result, calls may need to be deferred or partially addressed, leading to call backlogs, increased average handle times once service is restored, and additional follow-up workload.⁵⁴ As the system ages further, these risks are expected to accelerate, and the duration of potential outages could increase, posing a significant risk to the reliability, security and continuity of FBC's business operations.⁵⁵

⁴⁹ Exhibit B-1-3, Application, p. 56.

⁵⁰ Exhibit B-1-3, Application, p. 60.

⁵¹ Exhibit B-1-3, Application, p. 55.

⁵² Exhibit B-1-3, Application, p. 57.

⁵³ Exhibit B-1-3, Application, p. 57.

⁵⁴ Exhibit B-5, ICG IR1 12.1.

⁵⁵ Exhibit B-1-3, Application, p. 56.

48. There would be significant consequences if CIS Plus were to experience extended duration outages. For example, an analysis of the operational impact of three outages resulting in CIS Plus being unavailable for three working days found that such a disruption would jeopardize FBC's ability to meet its regulated Service Quality Indicator (SQI) for billing accuracy – the Billing Index.⁵⁶ Further, the analysis estimated a financial impact of approximately \$130 thousand in incremental O&M costs for the contact centre and the requirement for intensified support from FBC's collections and billing teams, resulting in further resourcing strains and incremental O&M costs for overtime. These findings underscore both the operational fragility and the financial impacts of relying on aging, unsupported technology for critical customer service and billing functions.⁵⁷

C. CIS Plus Cannot be Further Enhanced and Evolved to Suit FBC's Business Needs

49. CIS Plus also must be replaced because it does not deliver all required customer service functionality today and is unable to provide any future enhancements.

50. Because of the age and limitations of CIS Plus, additional systems and manual workarounds are required to deliver key customer service functions and support the end-to-end meter-to-cash process.⁵⁸ For example:

- Billing for net metering customers requires manual intervention as CIS Plus does not fully support the automated calculation, application, and reconciliation of generation credits, requiring manual review and adjustments to ensure accurate billing.⁵⁹
- Billing for large power customers with complex rate structures, billing adjustments, and exception handling requires manual processing as CIS Plus lacks

⁵⁶ Exhibit B-1-3, Application, p. 56.

⁵⁷ Exhibit B-1-3, Application, p. 56.

⁵⁸ Exhibit B-1-3, Application, pp. 24-25.

⁵⁹ Exhibit B-5, ICG IR1 8.1. In contrast, manual activity under the SAP system would be limited to standard billing review or exception-handling processes, such as resolving data anomalies or responding to customer inquiries, and would not represent a recurring or structural manual billing process. Exhibit B-5, ICG IR1 13.1 and 13.2.

the flexibility to fully manage these scenarios within standard automated billing workflows.⁶⁰

- CIS Plus does not include an automated end-to-end refund workflow, resulting in manual steps to initiate, issue, track, and reconcile customer refund payments.⁶¹
- Collection activities rely on reports, manual tracking and follow up due to the absence of an integrated automated collections management capability.⁶²
- CIS Plus does not support work assignment functions comparable to modern case management systems such as SAP. As a result, customer service and billing activities require manual coordination and the use of external tools, such as email queues and spreadsheets, to manage work across the meter-to-cash process.⁶³

51. Collectively, these manual workarounds increase operational complexity, introduce additional handling risk, reduce efficiency, and impact FBC's ability to deliver consistent customer service.⁶⁴ For example, FBC estimates that the manual process for net metering and complex billing results in approximately 70 additional hours per month, which is expected to increase in the coming years due to customer growth and the increasing trend of net metering customers.⁶⁵

52. With limited vendor support, no ongoing enhancements or bug fixes, and increasing difficulty in adapting to modern utility business requirements, continuing to operate on this outdated platform poses material operational, technical, and strategic risks for FBC and its customers.⁶⁶

⁶⁰ Exhibit B-5, ICG IR1 8.1.

⁶¹ Exhibit B-5, ICG IR1 8.1.

⁶² Exhibit B-5, ICG IR1 7.2 and 8.1.

⁶³ Exhibit B-5, ICG IR1 8.1.

⁶⁴ Exhibit B-5, ICG IR1 8.1.

⁶⁵ Exhibit B-1-3, Application, p. 57.

⁶⁶ Exhibit B-1-3, Application, p. 26.

D. CIS Plus Must Be Replaced to Meet FBC Requirements

53. For the above reasons, FBC must replace CIS Plus. The continued operation of CIS Plus poses significant risks to customer service operations due to the very limited vendor support available, operational fragility and technical limitations. FBC has continued to seek workarounds and extend the life of the legacy CIS Plus platform for many years. However, this is no longer a sustainable approach and is impacting FBC's ability to operate efficiently and respond to increasingly complex business and customer needs. Therefore, FBC needs to address the increasing risks that CIS Plus poses to its business operations, cybersecurity and its ability to support necessary changes to adapt to the evolving and increasingly complex business requirements.

PART FIVE: REPLACING CIS PLUS WITH SAP S/4HANA IS THE BEST ALTERNATIVE FOR THE PROJECT

54. FBC has conducted a robust analysis of the alternatives to meet the need for the CIS Replacement Project that was informed by internal analysis and external input from third parties, including engagement with system integrators and software vendors to validate technical feasibility, implementation considerations and cost drivers.⁶⁷ FBC's analysis shows that CIS Alternative 4 (Replace CIS Plus with SAP S/4HANA) is the best alternative as it will meet FBC's business needs, at a lower cost and lower implementation risk than a non-SAP solution. The subsections below discuss the steps in FBC's alternatives analysis, which FBC submits are reasonable and robust and show that the replacement of CIS Plus with SAP S/4HANA is the preferred alternative for the CIS Replacement Project.

A. FBC Investigated and Identified Alternatives to the Project

55. FBC's alternatives analysis for the CIS Replacement Project is appropriately informed by market information, alignment with the ERP Modernization Project and detailed assessment of the requirements for the project. To inform its analysis, FBC considered the information gathered in the investigation and discovery phase of the ERP Modernization Project. For example, FBC considered the ERP RFEOI results, including the complexity of implementing non-SAP ERP options as compared to upgrading to SAP S/4HANA, and the potential to align the implementation timelines of both the ERP Modernization Project and the CIS Replacement Project to mitigate disruption to the Companies and reduce overall implementation timelines and costs. FBC also selected a third-party firm through a formal process to assist in documenting FBC's detailed CIS business requirements and assess a short-list of potential CIS solutions to include in an RFP.⁶⁸

⁶⁷ Exhibit B-8, COSCO IR1 2.1.

⁶⁸ Exhibit B-1-3, Application, pp. 57-58.

56. With the benefit of the above information and analysis, FBC identified four alternatives to address the CIS Replacement Project need, as follows:⁶⁹

- **CIS Alternative 1 (Continue with CIS Plus):** Continue to operate CIS Plus with limited vendor support and a limited pool of resources until it is non-functional and then replace CIS Plus.
- **CIS Alternative 2 (Replace with SAP ECC):** Replace CIS Plus with the current SAP ECC platform.
- **CIS Alternative 3 (Replace with Non-SAP CIS):** Replace CIS Plus with CIS software from a non-SAP vendor.
- **CIS Alternative 4 (Replace with SAP S4/HANA):** Replace CIS Plus with a suite of new SAP applications, the core foundation of which is the SAP S/4HANA application.

B. FBC Screened out Infeasible Alternatives

57. FBC reasonably screened out CIS Alternatives 1 and 2 as infeasible, as discussed below.

(a) CIS Alternative 1 Does Not Adequately Address the Risk to Business Operations

58. CIS Alternative 1 (Continue with CIS Plus) is not feasible as it fails to address the significant business risks associated with continuing to operate this legacy system:

- **System Reliability and Performance Risk:** FBC would be exposed to unacceptable system performance and reliability risks due to lack of regular updates, patches, and hardware compatibility. FBC would continue to operate CIS Plus with limited

⁶⁹ Exhibit B-1-3, Application, p. 58.

vendor support, relying on manual workarounds for any new business requirements, with increased risks of unplanned system failure.⁷⁰

- **Cybersecurity Vulnerability Risk:** FBC would be exposed to unacceptable cybersecurity vulnerabilities as it would not have access to vendor-issued security updates. Vendor-issued security updates are required to minimize exposure to evolving cyber threats, including ransomware and data breaches, which could put both operational integrity and sensitive customer information at risk.⁷¹
- **Resource Availability Risk:** FBC would be exposed to unacceptable resource availability risks, as it would continue to rely on a limited pool of internal resources that have expertise in the legacy system, supplemented by a third-party vendor for bug or code error fixes. Consequently, FBC may struggle to address complex issues efficiently, leading to extended downtime and operational disruptions.⁷²
- **Compliance and Audit Risk:** As there would be no further upgrades, vendor patches, or feature enhancements that could be pursued, FBC would be at risk of not being able to meet evolving compliance requirements, including those related to SOX, increasing the risk of adverse audit findings and regulatory penalties.⁷³

(b) CIS Alternative 2 Does Not Adequately Address the Risk to Business Operations

59. CIS Alternative 2 (Replace with SAP ECC) is not feasible as all vendor support for SAP ECC is ending in 2030 and, without ongoing vendor support, FBC would face vulnerabilities related to security, compliance, and system reliability, as well as escalating costs to maintain unsupported technology. As discussed in Parts Two and Three of this Final Submission, operating SAP ECC

⁷⁰ Exhibit B-1-3, Application, p. 59.

⁷¹ Exhibit B-1-3, Application, p. 59.

⁷² Exhibit B-1-3, Application, p. 59.

⁷³ Exhibit B-1-3, Application, p. 59.

beyond SAP's announced end-of-support date would present an unacceptable risk to business operations and is therefore infeasible.⁷⁴

C. FBC Conducted a Robust Analysis of the Feasible Alternatives

60. FBC's alternatives analysis is a robust and complete comparison of the two feasible alternatives. FBC defined the scope and conducted a detailed financial evaluation of each alternative, identified criteria and sub-criteria which highlighted the strengths and weaknesses of the alternatives, and developed a reasonable scoring and weighting system to evaluate the performance of each alternative. FBC submits that its evaluation of the alternatives is reasonable and accurate, highlights the distinguishing features of the alternatives, and has identified the most cost-effective alternative.

61. The subsections below address in more detail the key aspects of the alternatives analysis.

(a) FortisBC Selected Appropriate Criteria and Made Reasonable Assumptions in Weighting and Scoring

62. FBC created a rigorous and structured evaluation framework for analyzing the alternatives. FBC developed evaluation criteria, sub-criteria and weightings for the alternatives analysis for the CIS Replacement Project in the same manner as for the ERP Modernization Project. As such, FortisBC's submissions in Part Three, Section C(a) of this Final Submission apply equally here.

63. The only difference in the evaluation framework for the CIS Replacement Project is that FBC added a Customer Experience sub-criterion to Criteria 1 (Ability to Support Current and Future Requirements). This sub-criterion was required as the ability of a CIS platform to support customer engagement and service delivery is a core functional requirement. FBC reasonably applied a higher weighting of 30 percent to this sub-criterion to reflect the relative importance

⁷⁴ Exhibit B-1-3, Application, p. 60.

of the ability of a customer information system to support customer service and contribute to a positive customer experience.⁷⁵ The resulting evaluation structure is summarized in Table 4-4 of the Application, below.

Table 4-4: Evaluation Criteria Weighting

Evaluation Criteria Category	Evaluation Criteria Specific	Weight (Sub Criteria)	Weight (Overall)
Ability to Support Current and Future Requirements	Operations Analytics and Reporting	20%	30%
	Mobile Enablement	5%	
	Innovation	10%	
	Flexibility and Scalability	20%	
	Adaptability to Regulatory Changes	15%	
	Customer Experience	30%	
Project Implementation Risk	Project Size and Complexity	25%	35%
	Resourcing	25%	
	Training	15%	
	Organizational Change	35%	
Financial – Impact on Customer Rates	Levelized Rate Impact	100%	35%

(b) Financial Evaluation Shows that CIS Alternative 4 is Superior

64. The Financial Criterion in the alternatives analysis considers the levelized rate impact to FBC resulting from each feasible CIS replacement alternative over a 13-year analysis period.⁷⁶ To calculate the rate impacts of the alternatives, FBC defined the scope and conducted a total PV of incremental revenue requirements of each feasible alternative based on a Class 5 cost estimate for CIS Alternative 3 and a Class 4 cost estimate for CIS Alternative 4.⁷⁷ FBC also conducted the analysis based on a Class 5 cost estimate for CIS Alternative 4.⁷⁸ Consistent with past practice,

⁷⁵ Exhibit B-3, BCUC IR1 7.1.

⁷⁶ Exhibit B-1-3, Application, p. 67.

⁷⁷ Exhibit B-1-3, Application, Section 4.3.2.

⁷⁸ Exhibit B-3, BCUC IR1 5.1.

FBC calculated the total PV of incremental revenue requirements for each alternative to show the impact on customers.⁷⁹

65. FBC’s total PV of incremental revenue requirements analysis included the tangible and quantifiable benefits of each alternative. For both CIS Alternative 3 (non-SAP CIS Alternative) and CIS Alternative 4 (SAP CIS Alternative), over the 13-year analysis period, these benefits equate to \$0.048 million in annual incremental capital and O&M savings due to reductions in on-premise infrastructure costs, and \$0.159 million in annual O&M savings due to operational efficiencies.⁸⁰

66. The result of the financial analysis is that CIS Alternative 4 has a lower PV of incremental revenue requirements and a lower rate impact than CIS Alternative 3, as indicated in the table below.⁸¹ The higher PV of rate impacts for CIS Alternative 3 (Non-SAP Replacement) is primarily due to the costs to develop new interfaces and the costs of a standalone FBC CIS support team.⁸²

Table 1: Financial Summary of Class 5 Estimate for CIS Alternative 4 Compared to CIS Alternative 3 (Class 5) and CIS Alternative 4 (Class 4) from the Errata to the Application

Class Estimate	CIS		Class 4 (As-Filed in Errata)
	Alternative 3	Alternative 4	
Total PV of Incremental Capital (\$ millions)	76.374	67.840	75.919
Total PV of Incremental O&M (\$ millions)	22.128	17.152	19.826
FBC Total PV of Incremental Revenue Requirement over 13-years (\$ millions)	107.509	93.395	104.723
FBC Levelized Rate Impact over 13-years (%)	2.41%	2.09%	2.34%

67. An NPV of cash flows similarly indicates that CIS Alternative 4 is the superior alternative from a financial perspective. CIS Alternative 4 has a lower NPV, as indicated in the table below.⁸³

⁷⁹ Exhibit B-3, BCUC IR1 2.2.1 and 2.2.2.

⁸⁰ Exhibit B-3, BCUC IR1 5.2.

⁸¹ Exhibit B-3, BCUC IR1 5.2.

⁸² Exhibit B-3, BCUC IR1 5.2.

⁸³ Exhibit B-3, BCUC IR1 2.2.1 and 2.2.2.

Line	Particular	Reference	CIS		
			Alternative 3	Alternative 4	
1	Class Estimate	BCUCIR1 5.1	Class 5	Class 5	Class 4
2	Total PV of Incremental Capital (\$ millions)	BCUCIR1 5.1	\$ 76.374	\$ 67.840	\$ 75.919
3	Total PV of Incremental O&M (\$ millions)	BCUCIR1 5.1	22.128	17.152	19.826
4	Total PV (or NPV) of Cash Flow (\$ millions)	Line 2 + Line 3	\$ 98.502	\$ 84.992	\$ 95.745

68. FBC has provided detailed support for its cost estimates and financial analysis.⁸⁴ For example, consistent with the requirements for a Class 5 estimate, FBC developed the estimate for the non-SAP CIS Alternative using internal subject matter expert judgement with reference to the information/costing obtained for the SAP CIS Alternative, including estimated system interface remediation costs, project facility costs, and FBC resourcing costs.⁸⁵ FBC has provided compelling rationales for its assumptions in the cost estimate.⁸⁶ For example, the estimated capital cost for a new interface between the non-SAP CIS and FortisBC’s SAP-based ERP system of approximately \$500 thousand is comprised of the expected cost needed to complete detailed requirements definition, interface design, development, testing, and deployment of the interface. FBC developed the estimate by conducting a high-level assessment of the type and volume of data required to support core business functions, including finance, customer service, and human resources between the CIS and ERP system. Based on this assessment, FBC evaluated the relative complexity of the integration, which includes financial transactions, synchronization of customer master data, and billing rates, so that it could compare those requirements to interface integrations of similar complexity that were recently implemented for other FortisBC projects. A similar, though somewhat more complex, interface integration was recently completed for the FEI Advanced Metering Infrastructure (AMI) project at a cost of approximately \$650 thousand.⁸⁷

⁸⁴ Exhibit B-1-3, Application, Sections 4.3.2.1.2 and 4.3.2.2.2; Exhibit B-3, BCUC IR1 5.1, 5.2, 5.3, 6.1 and 6.4.

⁸⁵ Exhibit B-1-3, Application, p. 61; Exhibit B-3, BCUC IR1 6.1.

⁸⁶ Exhibit B-1-3, Application, pp. 62 to 63.

⁸⁷ Exhibit B-3, BCUC IR1 6.4.

69. Finally, given the results above, it was reasonable for FBC not to undertake another RFEOI process,⁸⁸ or to otherwise advance the cost estimate for CIS Alternative 3 to a Class 4 level,⁸⁹ as doing so would have required material cost but have little, if any, impact on the financial analysis. FBC estimates that the majority of the capital and O&M costs to implement a non-SAP CIS would be approximately the same as implementing an SAP CIS and, once implemented, the support and licensing costs would be similar. The primary areas where the costs differ between a non-SAP and SAP CIS are the incremental O&M costs for a non-SAP CIS that would be required to onboard, train, build and operate a new, standalone FBC CIS application support team. These costs will always be incremental to an SAP CIS alternative, which will be able to take advantage of synergies created by moving FEI and FBC to a common CIS platform.⁹⁰ Therefore, it was reasonable and cost-effective to analyze the alternatives using a Class 5 cost estimate for CIS Alternative 3.⁹¹

(c) Non-Financial Criteria Show that CIS Alternative 4 is Superior

70. FBC conducted a detailed evaluation of the two feasible alternatives based on two non-financial criteria, which show that CIS Alternative 4 (Replace with SAP S/4HANA) is superior. For the two non-financial criteria, FBC identified multiple sub-criteria and developed a scoring and weighting system to evaluate the performance of each alternative. FBC supported its scoring for each sub-criterion with a rationale that accurately and reasonably reflects the merits of each alternative.⁹²

⁸⁸ Exhibit B-3, BCUC IR1 6.1.

⁸⁹ Exhibit B-1-3, Application, pp. 61-62.

⁹⁰ Exhibit B-1-3, Application, pp. 61-62; Exhibit B-3, BCUC IR1 6.1.

⁹¹ FBC has also noted that it would not be practical to develop and execute an RFEOI to obtain vendor cost information at this time, given the cost and time to do so (e.g. 6 months) and that it is unlikely that the RFEOI would attract a high level of vendor participation from non-SAP vendors. Exhibit B-3, BCUC IR1 6.1.

⁹² Exhibit B-1-3, Application, Sections 4.4.3 and 4.4.4.

71. While both CIS Alternatives 3 and 4 scored the same on their Ability to Support Current and Future Requirements,⁹³ CIS Alternative 4 scored the same or better than CIS Alternative 3 on Project Implementation Risk under all four sub-criteria, as explained in Table 4-7, below.

Table 4-7: Evaluation of Criteria 2 – Project Implementation Risk

Criteria	CIS Alt 3 Scoring	CIS Alt 3 Non-SAP Replacement	CIS Alt 4 Scoring	CIS Alt 4 CIS SAP S/4HANA Replacement
Project Size and Complexity	2	Implementing a non-SAP CIS platform would require configuration of functionality and migration of data to a completely new platform. Existing interfaces with CIS Plus will require complete redesign and reimplementation, and additional integration to the separate ERP system.	2	Implementing the SAP S/4HANA CIS platform would require configuration of functionality and migration of data to S/4HANA. Existing interfaces with CIS Plus will require complete redesign and reimplementation but would not require additional integration with a separate ERP system.
Resourcing	1	Requires recruiting non-SAP talent. Onboarding, training and building a new FBC CIS application support team required. Separate CIS applications between FEI and FBC limits opportunity for resource sharing. FBC Customer Service resourcing will increase in the short term and then ramp down to current levels after post-implementation stabilization.	3	Leverages existing skillset of FortisBC SAP application support team. Allows for a single FortisBC CIS application support team that supports the CIS application for both FBC and FEI. FBC Customer Service resourcing will increase in the short term and then ramp down to current levels after post-implementation stabilization.
Training	1	Medium redesign to FBC contact centre processes and major redesign to billing processes. Significant changes to system user interface. Process and user interface changes will require extensive retraining. Both FBC customer service team and FEI pool of customer service representatives who provide FBC overflow support will require extensive training on new non-SAP CIS. Application technical support teams will require significant retraining on the new application and new technical support resources will need to be recruited and trained to support the new non-SAP CIS.	2	Medium redesign to FBC contact centre processes and major redesign to billing processes. Significant changes to system user interface. Process and user interface changes will require extensive retraining. FBC customer service team will require extensive training on new SAP system, but FEI pool of customer service representatives who provide FBC overflow support will have strong foundation of SAP knowledge to build on that will make training less complex. Application technical teams will require some retraining but will have strong foundation of SAP knowledge to build on.
Organizational Change	1	Completely new application platform and database for FBC CIS. New application support team will be required to support the new CIS application and new resources recruited and onboarded to join this team. Steep learning curve for all staff to adopt new processes and learn new system functionality. Time required for organization to fully adopt changes will be significant.	2	Completely new application platform and database for FBC CIS. Current SAP application support team can be used to support common FEI and FBC SAP CIS application. Migrating the CIS function into SAP will allow for process alignment between FBC and FEI and mitigate learning curve. Time required for organization to fully adopt changes will be moderate.

⁹³ Exhibit B-1-3, Application, pp. 73-74.

72. As indicated by the scoring and rationale above, CIS Alternative 3 has a high level of process and technology change and would result in a very high level of change within the organization, as implementing a non-SAP CIS platform would require:⁹⁴

- a complex data migration, extensive redesign and reimplementing of CIS interfaces and significant re-engineering of business processes across multiple functional areas;
- FBC continuing to run a separate CIS from both FEI's CIS and FortisBC's enterprise ERP platform, which increases technology change and raises dependency risks between systems, making testing, cutover, and long-term maintenance more challenging;
- the creation of a new application support team, with existing support resources retrained and new resources recruited and onboarded to join the team; and
- greater overall ongoing application support resource requirements due to the need for specialized skills across the different technology stacks, increasing both complexity and cost.

73. While CIS Alternative 4 also has a high level of process and technology change, it would result in only a medium level of change within the organization. Unlike CIS Alternative 3, CIS Alternative 4 would provide FBC with a single enterprise SAP platform that supports both CIS and ERP functions and enables synergies and efficiencies for ongoing support, such as allowing for a single FortisBC CIS application support team. Overall, given FortisBC's existing familiarity with SAP, less training will be required than for a non-SAP system, and the organization will be able to fully adjust to the new processes, technologies and resource changes within a moderate amount

⁹⁴ Exhibit B-1-3, Application, p. 75.

of time.⁹⁵ CIS Alternative 4 (Replace with SAP S/4HANA) is therefore superior from a non-financial perspective.

(d) CIS Alternative 4 Is the Preferred Alternative

74. Overall, the results of the analysis show that CIS Alternative 4 (Replace with SAP S4/HANA) is the preferred alternative with a score of 2.39 compared to a score of 1.69 for CIS Alternative 3 (Replace with Non-SAP CIS). This result is summarized in Table 4-9, below.

Table 4-9: Weighted Scoring

Criteria	Sub-Criteria	Weighting of Criteria	Alt 3 (Non-SAP) Score	Alt 4 (SAP) Score
Ability to Support Current and Future Requirements (30%)	Operations Analytics and Reporting	20%	3	3
	Mobile Enablement	5%	3	3
	Innovation	10%	3	3
	Flexibility and Scalability	20%	3	3
	Adaptability to Regulatory Changes	15%	3	3
	Customer Experience	30%	3	3
Project Implementation Risk (35%)	Project Size and Complexity	25%	2	2
	Resourcing	25%	1	3
	Training	15%	1	2
	Organizational Change	35%	1	2
Financial Impact (35%)	Levelized Rate Impact	100%	1	2
Total Weighted Score			1.69	2.39

75. Based on a financial and non-financial analysis of the two feasible alternatives, replacing CIS Plus with SAP S/4HANA is the preferred alternative. Replacing CIS Plus with SAP S4/HANA fully addresses FBC’s business risks, supports current and evolving operational needs, and has a lower project implementation risk and lower rate impact than a non-SAP CIS alternative. Replacing FBC’s CIS Plus with SAP S/4HANA enables the consolidation of gas and electric customer

⁹⁵ Exhibit B-1-3, Application, p. 75.

operations onto a single, modern platform, resulting in improved efficiency, service consistency, and long-term sustainability. Further, CIS Alternative 4 will enable FBC to leverage the widely used SAP environment already in place for both FEI and FBC, which will mitigate training timelines, better leverage existing resources, simplify integration, and streamline IT support.⁹⁶

⁹⁶ Exhibit B-1-3, Application, pp. 77-78.

PART SIX: FORTISBC IS IMPLEMENTING THE COMBINED PROJECT, HAS REASONABLY ESTIMATED AND ALLOCATED COSTS AND IS MITIGATING PROJECT RISK

76. As set out in Sections 5 and 6 of the Application, FortisBC is reasonably implementing the Combined Project, has reasonably estimated and allocated costs, and is mitigating Project risk.

77. FortisBC is proposing to implement the ERP Modernization and CIS Replacement Projects as a Combined Project deployed in two sequential releases. By designing, building, and testing both the SAP Modernization and CIS Replacement scopes in a single, coordinated effort, FortisBC reduces technical complexity, strengthens system integration, and accelerates benefit realization. This approach eliminates redundant work, shortens the overall implementation timeline, and optimizes the deployment of internal and external resources. The two sequential releases will allow FortisBC to focus training, stabilization, and change management resources on one major system at a time, while leveraging lessons learned from the ERP Modernization release to improve the CIS Replacement release. The combined implementation approach also minimizes the risk of dual platform operations, simplifies data migration, and reduces the likelihood of extended reliance on unsupported systems.⁹⁷

78. FortisBC has filed an AACE Class 3 cost estimate for the Combined Project with a base cost estimate of \$169.639 million. FortisBC has provided a detailed cost estimate, which is included as Confidential Appendix A of the Application, proposed a reasonable allocation of costs consistent with the principle of cost causation and past practice, and has calculated the rate impact of the Combined Project.⁹⁸

79. To enable a successful Combined Project implementation, FortisBC has established a strong governance model and will implement and execute a proven and structured risk

⁹⁷ Exhibit B-1-3, Application, p. 101.

⁹⁸ Exhibit B-1-3, Application, Sections 5.5, 6.2 and 6.5.

management methodology that includes both internal and external quality assurance reviews and checkpoints.⁹⁹

80. The sections below address the following key topics explored in IRs:

- (a) FortisBC is reasonably implementing the Combined Project;
- (b) FortisBC has reasonably estimated the costs of the Combined Project; and
- (c) FortisBC has proposed a reasonable allocation of project costs between FEI and FBC.

A. FortisBC Is Reasonably Implementing the Combined Project

(a) Cloud-Based Implementation is the Most Cost-Effective Approach

81. FortisBC has reasonably determined that all new software applications will be hosted by SAP in the cloud, such that FortisBC will not host or manage any servers for any of the new application components.¹⁰⁰ FortisBC's choice of this model is supported by a detailed analysis of the advantages and disadvantages of the two available options: the cloud-based, SAP subscription service vs. a hybrid model where the SAP S/4HANA application would be hosted on servers managed and maintained by FortisBC.¹⁰¹

82. Compared to a hybrid model, a cloud-based SAP subscription model is the most cost-effective option and will benefit customers. The only advantages of the hybrid model are that FortisBC would maintain control over the application environment and could add or remove additional environments as required and would have a lower reliance on SAP service-level agreements (SLAs). However, the hybrid model would be more costly, as it requires a large

⁹⁹ Exhibit B-1-3, Application, p. 101.

¹⁰⁰ Exhibit B-7, CEC IR1 3.1.

¹⁰¹ Exhibit B-7, CEC IR1 3.1. FortisBC did not complete an evaluation for a fully on-premise model because SAP informed FortisBC that there is no longer an option to host the SAP S/4HANA database on-premise.

upfront capital cost for licensing of \$15 million or greater, as well as additional infrastructure, labour and data egress costs. Further, the cloud-based model provides for more innovation potential, aligning with SAP's strategic direction. For example, SAP has indicated some future technology offerings such as Artificial Intelligence (AI) and Machine Learning may only be available for customers on their cloud subscription service. These advantages of a cloud-based model more than offset any potential reduction in flexibility or increased reliance on SAP SLAs when compared to the hybrid model.¹⁰²

(b) Implementing the Combined Project with a Single Design and Build Phase is the Most Cost-Effective Option

83. FortisBC will upgrade SAP and replace CIS Plus in a single combined design and build phase for the ERP Modernization and CIS Replacement scopes. As detailed in the Application, the Combined Project approach has advantages over two separate design and build phases, including:

- (a) operational benefits, including aligning customer service and billing processes and application configuration where possible for both FEI and FBC operations, and avoiding the need for dual SAP platforms, thereby reducing IT maintenance costs;
- (b) implementation synergies and project cost savings, including streamlined procurement and vendor engagement, better pricing and resource commitments from vendors, an accelerated project timeline, reduced delivery effort and overhead, and integrated change management and training; and
- (c) risk mitigation and technology sustainability, including a single governance framework, accelerated decommissioning of legacy systems, and improved cybersecurity.¹⁰³

¹⁰² Exhibit B-7, CEC IR1 3.1.

¹⁰³ Exhibit B-1-3, Application, pp. 80-82.

84. In summary, implementing the Combined Project with a shared design and build phase maximizes value by minimizing duplication, shortening the overall timeline, preserving enterprise alignment, and maintaining a unified ERP foundation for both utilities.¹⁰⁴

(c) Staggered Release is the Most Cost-Effective Approach

85. Having two separate production releases for the ERP Modernization and CIS Replacement Projects (i.e., a “staggered release”) is the most cost-effective approach given the significantly higher risks associated with a simultaneous release.

86. FortisBC’s choice of a staggered release is supported by a detailed comparison of the cost, schedule, and risk of a simultaneous release versus a staggered release. A staggered release would take approximately two months (10 percent) longer than a simultaneous release and will increase costs by approximately \$5.2 million (4 percent) compared to a simultaneous release. However, the simultaneous rollout total risk score is almost 30 percent higher than for the staggered release due to a significantly higher potential for negative customer and employee impacts, schedule delays and cost overruns.¹⁰⁵

87. FortisBC reasonably determined that the significantly lower risk score of a staggered release outweighs the slightly longer implementation timeline and the increased costs. Moreover, given the higher risks associated with a simultaneous release, the estimated savings in time and cost of a simultaneous release could be partially or fully eroded during project implementation due to the realization of some of the identified risks.¹⁰⁶

88. FortisBC’s third-party quality assurance review also concluded that the proposed release timeline, with the ERP Modernization as the first release and the FBC CIS Replacement as the second release, was reasonable.¹⁰⁷

¹⁰⁴ Exhibit B-5, ICG IR1 14.1.

¹⁰⁵ Exhibit B-3, BCUC IR1 9.2.

¹⁰⁶ Exhibit B-3, BCUC IR1 9.2.

¹⁰⁷ Exhibit B-8, COSCO IR1 14.2.

B. FortisBC Has Reasonably Estimated the Costs of the Combined Project

89. The total cost estimate for the Combined Project is \$190.705 million in as-spent dollars. The AACE Class 3 estimate for the Combined Project includes a fixed price proposal and schedule provided by IBM (the system integrator), along with additional costs estimated by FortisBC to support delivery of the Combined Project, including third-party vendors, internal project labour, software licenses, infrastructure, and facilities costs. FortisBC has provided an overview of the AACE Class 3 estimate in Section 5.5 of the Application¹⁰⁸ and included the estimate itself in Confidential Appendix A of the Application.¹⁰⁹

90. The aspects of the cost estimate explored in IRs are addressed below.

(a) Fixed-Price Proposal Is Reasonable and Has been Reviewed by a Third Party

91. The AACE Class 3 estimate for the Combined Project includes a fixed price proposal and schedule provided by IBM, which includes, but is not limited to, the costs to upgrade the SAP ECC application and CIS Plus to S/4HANA, including all services to design, configure and install the S/4HANA software, and migrate data from SAP ECC.¹¹⁰

92. FortisBC negotiated a pricing discount with IBM from the original fixed fee proposal and engaged an independent third party to conduct a quality assurance review, including market comparisons.¹¹¹ The independent third-party quality assurance review was commissioned to provide an objective assessment of the scope definition, delivery approach, and pricing associated with IBM's fixed-fee proposal.¹¹² The third-party quality assurance review concluded that:

¹⁰⁸ Exhibit B-1-3, Application.

¹⁰⁹ Exhibit B-1-3, Application.

¹¹⁰ Exhibit B-1-3, Application, p. 89.

¹¹¹ Exhibit B-1-3, Application, p. 89.

¹¹² Exhibit B-8, COSCO IR1 14.1.

- (a) the documentation provided by IBM was sound and of appropriate quality;
- (b) the rate card information was reasonable and within expected ranges; and
- (c) the level of FortisBC resources was appropriate for a project of this scale.¹¹³

93. FortisBC secured additional IBM cost certainty by obtaining a commitment from IBM that the fixed fee pricing will remain valid provided a contract is entered into by December 31, 2026, and increase by not more than 2.5 percent provided a contract is entered into by December 31, 2027.¹¹⁴ FortisBC therefore submits that the fixed-fee component of the cost estimate is reasonable.

(b) Facilities Cost is Reasonable

94. The AACE Class 3 estimate for the Combined Project includes a reasonable estimate of the Facilities costs to temporarily lease and configure additional office space in the Lower Mainland for the Project team to support collaboration between core project team members.¹¹⁵

95. FortisBC has appropriately sized its office space needs. FortisBC will utilize a hybrid work environment that incorporates a partial on-site presence and staggered schedules. This model balances the need for in-person collaboration during critical design, testing, and integration activities with remote work where appropriate. Further reducing on-site presence beyond the planned hybrid model was rejected because it would increase the project delivery risk and reduce collaboration effectiveness, with limited or no material reduction in facilities costs due to the ongoing need for dedicated space to support peak on-site activities.¹¹⁶

96. The cost estimate is for the temporary leasing of space, as FortisBC's existing facilities in the Lower Mainland could not provide adequate workspace or parking, and IBM's existing local

¹¹³ Exhibit B-8, COSCO IR1 14.2.

¹¹⁴ Exhibit B-1-3, Application, p. 89.

¹¹⁵ Exhibit B-1-3, Application, pp. 90-91.

¹¹⁶ Exhibit B-3, BCUC IR1 12.3.

facilities do not have sufficient space to accommodate the project team.¹¹⁷ However, if sufficient space at an existing facility were to become available, FortisBC would use that space rather than leasing.

97. The Facilities costs are required to support delivery of the Combined Project. Adequate space to achieve collaboration requirements is required to support effective collaboration for a project of this size, complexity, and risk profile.¹¹⁸ Based on a review of lessons learned from large-scale system implementation projects, consultations with other utilities, and insight from the system integrator (IBM), FortisBC identified co-locating the team as a common success and risk mitigation factor. Feedback emphasized that co-location materially improved collaboration, coordination, and delivery outcomes, particularly during design, testing, and cutover phases. Further, insight from IBM indicates that co-location supports managing integration complexity, cross-functional dependencies, and delivery risk on a project of this nature. The space must provide common areas for collaboration and meetings, workstations to support individual tasks, and meet certain requirements for employee workspaces (e.g., restrooms, break room, first aid spaces, and accessibility requirements).¹¹⁹

98. FortisBC's estimated Facilities cost is reasonable and appropriate for the Combined Project, as it is supported by current regional market lease data, FortisBC's standard facilities-related cost information, and the reuse of existing assets where feasible. FortisBC conducted a comprehensive assessment of staffing levels, workspace needs, and available facilities, and engaged an external consultant (CBRE) to conduct a market survey. Facilities build-out and furniture costs were estimated using standard cost data from similar FortisBC projects for approximately 150 workspaces, while computer equipment costs are based on standard FortisBC provisioning requirements for new employees and reflect the equipment required for the

¹¹⁷ Exhibit B-3, BCUC IR1 12.2 and 12.3.

¹¹⁸ Exhibit B-3, BCUC IR1 12.2.

¹¹⁹ Exhibit B-3, BCUC IR1 12.2.

Project. Existing employees working on the Project will continue to use their current computer equipment.¹²⁰ FortisBC therefore submits that its estimated Facilities costs are reasonable.

(c) FortisBC Labour Costs are Reasonable

99. The AACE Class 3 estimate for the Combined Project includes a reasonable estimate of FortisBC's labour costs to support resourcing for the Combined Project.

100. These estimated labour costs are reasonable as they are based on a resource plan based on IBM's project schedule and staffing recommendations for key areas as well as inputs from FortisBC functional and technical leads. The plan primarily includes FortisBC employees, supplemented by external contractors, across areas such as project management, business and technical teams, change management, and training.¹²¹ The key inputs and assumptions used to develop the plan are based on planning phase deliverables jointly developed with IBM, including the overall project schedule, functional scope assessments, change management strategy, IBM's proposed FortisBC staffing plan, and the responsibility assignment matrix. FortisBC then separately identified the roles expected to be fulfilled by external contractors and FortisBC's employees. While the plan reflects the best estimate at the time of preparation, the final mix of internal and external resources may vary depending on the availability of qualified internal candidates as staffing progresses.¹²²

101. Based on lessons learned from other utilities that have recently implemented similar projects, FortisBC plans to onboard temporary customer service and billing resources incrementally in advance of system go-live and project closing. These resources are intended to provide additional operational capacity during the transition period and until users achieve proficiency with the new system.¹²³

¹²⁰ Exhibit B-3, BCUC IR1 12.1.

¹²¹ Exhibit B-1-3, Application, p. 90.

¹²² Exhibit B-3, BCUC IR1 13.1.

¹²³ Exhibit B-3, BCUC IR1 13.1.

102. FortisBC therefore submits that its estimated labour costs are reasonable.

(d) Project Contingency is Reasonable

103. FortisBC has included a reasonable contingency of 15 percent on the Combined Project implementation capital and O&M costs, which is equivalent to approximately \$22.127 million in 2025 dollars.¹²⁴

104. The 15 percent contingency for the Combined Project is appropriate based on the level of project definition and the results of the detailed risk assessment and risk mitigation activities, as described in Section 5.6 of the Application. Based on the Class 3 level of definition, FortisBC followed a structured methodology to identify the major project risks, develop mitigation plans and assess the likelihood of the risk occurring and impact should it occur. FortisBC determined that a 15 percent contingency was appropriately calibrated to the assessed level of residual risk and the degree of confidence in the underlying cost estimate.

105. The contingency is appropriately applied to IBM's fixed-price contract. The 2.5 percent price-protection commitment from IBM only provides mitigation against inflationary cost increases during the proposal period before the implementation contract is signed. Once implementation begins, additional risks remain that can result in cost increases even under a fixed-price arrangement. While a fixed-price contract provides protection on IBM's cost for the defined scope, contingency is required to account for known implementation risks such as scope changes and dependencies on third parties and FortisBC. For example, if a third-party vendor is late delivering an interface to IBM for testing or the quality is poor resulting in unplanned testing cycles, IBM will incur additional costs that result in a change request.¹²⁵

¹²⁴ Exhibit B-1-3, Application, pp. 91 and 103.

¹²⁵ Exhibit B-6, RCIA IR1 7.1.

106. Finally, the 15 percent contingency is also consistent with the level of contingency that FortisBC has applied to other complex information technology transformation projects, including Project One completed in 2018.¹²⁶

C. FortisBC Has Reasonably Allocated Project Costs Between FEI and FBC

107. FortisBC has proposed the most reasonable allocation of the capital and O&M costs for the ERP Modernization Project and the CIS Replacement Project consistent with the principle of cost causation and past practice. As the ERP Modernization Project will benefit customers of both FEI and FBC, while the CIS Replacement Project will benefit FBC customers only, the project costs are allocated to FEI and FBC as follows:¹²⁷

- The implementation costs for the ERP Modernization Project, including contingency, are allocated between FEI and FBC based on the ratio of employees between the two utilities, which is approximately 78 percent FEI and 22 percent FBC.
- The implementation costs for the CIS Replacement Project, including contingency, are allocated entirely to FBC.
- The pre-implementation development costs and the preliminary stage development costs are allocated using the same method as described above, with the ERP Modernization Project costs allocated based on the ratio of employees between FEI and FBC, and the CIS Replacement Project costs allocated only to FBC.
- The Application costs, which include the preparation and regulatory proceeding costs, are allocated equally, consistent with the allocation treatment approved for recent shared regulatory proceedings, including the FortisBC 2025-2027 Rate

¹²⁶ Exhibit B-3, BCUC IR1 14.1.

¹²⁷ Exhibit B-1-3, Application, pp. 103-104.

Setting Framework and the 2021 BCUC-initiated Generic Cost of Capital proceedings.

108. The allocation of the pre-implementation development costs, the preliminary stage development costs and implementation costs of the ERP Modernization Project and CIS Replacement Project are discussed further below.

(a) ERP Modernization Project Costs Based on Number of Employees is the Most Reasonable Allocation Method

109. It is appropriate to allocate the overall implementation costs of the ERP Modernization Project between FEI and FBC as both FEI and FBC will benefit from the project. FEI and FBC have been utilizing SAP as a combined, integrated ERP system across the two utilities. The ERP Modernization Project will enable FEI and FBC to use and share all upgraded SAP applications and modules.¹²⁸

110. The allocation of ERP Modernization Project costs between FEI and FBC based on number of employees is the most reasonable allocation method, as it is:

- the best approximation of how often the ERP system is used between FEI and FBC;
- consistent with other similar IS projects, such as Project One;
- consistent with the cost driver used to allocate IS O&M costs under FortisBC's approved Shared Services Policy; and
- a practical and administratively feasible method.¹²⁹

111. The only alternative allocation method that yields a materially different result is the number of customers allocation approach, which results in a slightly higher levelized rate impact

¹²⁸ Exhibit B-8, COSCO IR1 5.2.

¹²⁹ Exhibit B-1-3, Application, p. 103; Exhibit B-3, BCUC IR1 11.2; Exhibit B-6, RCIA IR1 6.1.

for FEI and correspondingly lower impact for FBC. However, the number of customers of the utilities does not reflect how much or how often the ERP system is or will be used by FEI and FBC. This is because many functions of the ERP system are not customer-facing and their use by each department is typically more influenced by the number of employees rather than the number of customers of each utility. For example:¹³⁰

- The use of the ERP system for workforce administration, human resource activities and processing payroll for FEI's and FBC's employees are more heavily influenced by the number of employees between each utility than the number of customers.
- The use of the ERP system for FortisBC's financial and procurement operations, including much of its financial reporting, regulatory and audit compliance work, vendor invoice processing work, and the number of procurement activities would not be impacted by each utility's respective number of customers. The fact that FEI has more customers than FBC does not necessarily mean an increase in the use of the ERP system for financial reporting or procurement processes. Instead, the amount of time that the ERP system is used by FEI for these activities tends to be higher due to the larger number of employees (i.e., larger number of users of the ERP system).
- Using the ERP system for asset maintenance, inventory controls, and emergency response is influenced by the number of employees that use the system more than the number of customers.¹³¹

112. Therefore, FortisBC considers the number of employees to be the best approximation of how often the ERP system is used between FEI and FBC.¹³² Considering that the ERP system supports a range of common corporate functions performed across both utilities, including

¹³⁰ Exhibit B-3, BCUC IR1 11.2.

¹³¹ Exhibit B-3, BCUC IR1 11.2.

¹³² Exhibit B-3, BCUC IR1 11.2.

finance, procurement, payroll, customer service, and administrative activities, the number of employees represents a reasonable proxy for the use of the system and does not result in a significantly different result than the other allocation drivers considered. Further, the number of employees is consistent with the current allocation approach for similar shared IS projects of this nature. As such, FortisBC applied an allocation based on the ratio of employees between FEI and FBC for the ERP Modernization Project costs as a practical and administratively feasible method that reasonably reflects ERP system usage.¹³³

(b) CIS Replacement Project Should be Allocated 100 Percent to FBC

113. The CIS Replacement Project costs are allocated 100 percent to FBC, as this component of the Combined Project only benefits FBC customers and is driven by the need to replace CIS Plus, which is a system used solely by FBC.¹³⁴ FBC's CIS Replacement Project involves the movement from CIS Plus to an entirely new customer information system, which is a significant and distinct undertaking from the upgrade of the SAP CRM used by FEI as part of the ERP Modernization Project.¹³⁵ Migrating from CIS Plus to SAP S4/HANA and Service Cloud will improve efficiency, service consistency, and long-term sustainability for FBC's customers. The costs associated with the CIS Replacement Project are therefore appropriately allocated 100 percent to FBC.¹³⁶

D. FortisBC Is Mitigating Project Risks

114. FortisBC has undertaken a comprehensive and proactive approach to identify, assess, and manage risks associated with the Combined Project. This includes conducting readiness assessments, engaging experienced system integrators, aligning implementation timelines with industry cycles, involving key business leaders in decision-making, and following a structured

¹³³ Exhibit B-6, RCIA IR1 6.1.

¹³⁴ Exhibit B-6, RCIA IR1 1.1.

¹³⁵ Exhibit B-8, COSCO IR1 5.2.

¹³⁶ Exhibit B-5, ICG IR1 4.1.

governance framework. FortisBC has described its approach to risk identification, the pre-implementation and implementation risk mitigation measures that FortisBC will undertake or has already undertaken, and the governance structure for the Combined Project.¹³⁷

115. Topics related to risk mitigation that were explored in the IRs included cybersecurity risks and the availability of Service Cloud Version 2 to host Canadian data if required. These topics are addressed below.

(a) FortisBC is Managing Cybersecurity Risks

116. FortisBC is managing cybersecurity risks. FEI and FBC follow a formal Corporate Security Risk Management practice and recognize and adapt to the changing threat landscape, including a continuous governance and training cycle to ensure corporate security objectives are being met with secure processes and monitoring of critical assets. FortisBC's robust cybersecurity practice is applicable to all aspects of its enterprise, including the Combined Project. For instance, all new software and vendors must complete a Security Risk Assessment (SRA), providing technical details on how data is protected, and the Combined Project will proceed only after the SRA is reviewed and approved by FortisBC's cybersecurity teams. Integration vendors already adhere to approved SRAs. If new functionality or scope emerges, the SRA is reopened and reassessed to ensure continuous validation of cybersecurity controls. The existing SAP SRA will be used by FortisBC to evaluate and confirm that SAP's RISE security controls, certifications, and third-party risk management processes have sufficient risk mitigation measures in place aligned with FortisBC's supply chain risk mitigation procedures and requirements. In addition, IBM as system integrator will be required to comply with FortisBC's security policies, access management standards and contractual cybersecurity obligations.¹³⁸

¹³⁷ Exhibit B-1-3, Application, pp. 91-101.

¹³⁸ Exhibit B-3, BCUC IR1 10.1.

(b) Data Residency Requirements and Service Cloud Version 2

117. FortisBC has mitigation measures in place to maintain compliance with the Canadian residency requirements for customer data mandated by BCUC Order G-161-15.¹³⁹ As part of the Combined Project, FortisBC intends to use SAP's Service Cloud Version 2.¹⁴⁰ Service Cloud will host FortisBC CRM data as it is the primary interface for FEI and FBC CSRs and provides a centralized system for managing customer accounts.¹⁴¹ While SAP does not yet offer Service Cloud Version 2 in a Canadian data centre,¹⁴² SAP has initiated a business case to host Service Cloud 2 in a Canadian data centre and FortisBC expects it to be available in time for use as part of the Combined Project.¹⁴³ However, in the unlikely event that SAP does not host Service Cloud Version 2 in a Canadian-based data centre, FortisBC could transition to Service Cloud Version 1. Service Cloud Version 1 is a stable and mature platform capable of meeting both FEI's and FBC's current requirements. SAP has stated that Service Cloud Version 1 will continue to receive support and security updates, and no end-of-support date has been announced.¹⁴⁴

¹³⁹ Exhibit B-7, CEC IR1 11.1.2.

¹⁴⁰ Exhibit B-5, ICG IR1 16.1. Compared to Service Cloud Version 1, which is already hosted in a Canadian data centre, Service Cloud Version 2 is FortisBC's preferred option as it delivers clear architectural and functional advantages, including faster performance, stronger AI-driven capabilities, and increased automation.

¹⁴¹ Exhibit B-7, CEC IR1 11.1.1.

¹⁴² Exhibit B-1-3, Application, p. 97.

¹⁴³ Exhibit B-1-3, Application, p. 97.

¹⁴⁴ Exhibit B-5, ICG IR1 16.1.

PART SEVEN: ACCOUNTING TREATMENT REQUESTS ARE JUST AND REASONABLE

118. FEI and FBC are requesting approval pursuant to sections 59 to 61 of the UCA of a 10 percent depreciation rate applicable to the SAP S/4HANA software and components related to the Combined Project, as well as deferral accounts for implementation O&M costs and Application and preliminary stage development costs. FortisBC addresses below the topics explored in IRs with respect to these requests.

A. 10 Percent Depreciation Rate for SAP Software Assets is Just and Reasonable

119. FortisBC submits that a depreciation rate of 10 percent applicable to the SAP S/4HANA software and components¹⁴⁵ related to the Combined Project is just and reasonable for FEI and FBC, as it best aligns with the expected service life of these assets, based on the recommendation of Concentric Advisors, ULC (Concentric) and expectations for the current generation of cloud-based software systems.¹⁴⁶

120. FortisBC evaluated depreciation rates of 8 years (based on the existing FEI and FBC software depreciation rates), 10 years (based on Concentric's recommendation for next-generation, cloud-based software), and 11 years (based on SAP public statements that there will be support and maintenance for S/4HANA until the end of 2040), and determined that 10 years is the most reasonable.

121. A 10-year expected service life is the most reasonable as it is based on guidance from Concentric which has expertise with asset depreciation for software in various jurisdictions. Concentric is recommending an expected lifecycle of 10 years for the new SAP S/4HANA assets as a longer expected lifecycle is more reflective of the current generation of software systems,

¹⁴⁵ This includes all software-related capital for the Combined Project, including SAP Service Cloud and SAP DataSphere, as all of the SAP modules and applications (discussed in Section 5 in the Application) are integrated with S/4HANA and share the same expected lifecycle of 10 years. Exhibit B-3, BCUC IR1 16.1.

¹⁴⁶ FortisBC notes that it expects to implement patches, updates and upgrades from SAP to extend the use of the platform beyond the 10-year expected lifecycle. Exhibit B-7, CEC IR1 1.2.

such as SAP S/4HANA, that transition from a traditional on-premise infrastructure to a modern, cloud-based ERP environment. Further, large software providers such as SAP are shifting their approach of ongoing support to more frequent releases of new modules and applications with enhanced system functionality, resulting in the expected lifecycle of new software systems becoming more dynamic. Due to the differences in the generations of software applications and asset lifecycles, FortisBC does not consider it appropriate to group the new S/4HANA software assets with its existing software asset classes.¹⁴⁷ Instead, a 10-year life for these next-generation software assets is the most appropriate.

122. A depreciation rate of 11 years is not preferred as it is not recommended by Concentric, and SAP is not contractually obligated to provide maintenance support until 2040. Further, the difference between FortisBC's proposed depreciation rate of 10 percent and an 11-year depreciation period is minor. As such, the proposed 10-year depreciation period for the new SAP S/4HANA software assets based on Concentric's recommendation is the most reasonable.¹⁴⁸

B. Implementation O&M Deferral Accounts with 10-Year Amortization Period Are Just and Reasonable

123. FortisBC submits that the BCUC should approve non-rate base deferral accounts (titled the ERP Project Implementation O&M deferral account for FEI and the ERP/CIS Project Implementation O&M deferral account for FBC) for deferral treatment of the implementation O&M costs of the Combined Project, estimated to be approximately \$13.487 million. FEI and FBC propose to transfer the balance in each of the deferral accounts to rate base on January 1 of the year following the completion of the Combined Project and begin amortization over a 10-year period.¹⁴⁹ A 10-year amortization period is reasonable as it aligns with the expected lifecycle of

¹⁴⁷ Exhibit B-1-3, Application, pp. 107-108.

¹⁴⁸ Exhibit B-3, BCUC IR1 16.3.

¹⁴⁹ Exhibit B-1-3, Application, p. 108. As discussed in Part Six, Section C of this Final Submission, FortisBC proposes to allocate the O&M implementation costs for the ERP Modernization Project based on the employee ratio between FEI and FBC, and the costs for the CIS Replacement Project to only FBC.

the new SAP S/4HANA software. In addition, the proposed deferral treatment smooths the rate impacts to FEI's and FBC's customers, as otherwise these costs would be recovered over the three-year implementation period of the Combined Project.¹⁵⁰

124. FortisBC submits that the amortization period should align with the expected service life of the SAP S/4HANA software and the equivalent depreciation rate, since the O&M costs incurred by FEI and FBC for the implementation would benefit customers over the expected life of the assets. Therefore, if the BCUC were to approve an expected service life for the SAP S/4HANA software assets of 8 years or 11 years, then FortisBC submits that the amortization period for the FEI and FBC Implementation O&M deferral accounts should also be 8 years or 11 years, respectively.¹⁵¹

C. Application and Preliminary Stage Development Costs Deferral Accounts With 4-Year Amortization Period Are Just and Reasonable

125. FortisBC submits that the BCUC should approve non-rate base Application and Preliminary Stage Development Costs deferral accounts for FEI and FBC for deferral treatment of the Application and preliminary stage development costs related to the Combined Project. These costs include only regulatory process-related costs (expenses for external legal, BCUC costs, and BCUC-approved intervener costs) and pre-implementation project development costs (such as vendor engagement, alternatives assessment, and development of preferred solutions).¹⁵² FEI and FBC propose to transfer the balances in the non-rate base deferral accounts to rate base on January 1 of the year following the decision on this Application and begin amortization over a four-year period.¹⁵³

¹⁵⁰ Exhibit B-1-3, Application, p. 109.

¹⁵¹ Exhibit B-3, BCUC IR1 17.2.

¹⁵² Exhibit B-1-3, Application, pp. 112-113; Exhibit B-5, ICG IR1 19.2.

¹⁵³ Exhibit B-1-3, Application, p. 111.

(a) 4-Year Amortization Period is Just and Reasonable

126. The proposed 4-year amortization period is just and reasonable. FortisBC considered amortization periods ranging from one to seven years and determined that a four-year amortization period was the most appropriate based on considerations including annual rate impacts, volatility of rates, the nature of the costs, and intergenerational inequity. As explained in detail in the Application, a four-year amortization period aligns well with the timing of when the Combined Project assets enter FEI's and FBC's rate bases (i.e., 2029) and the timing of the highest rate impact due to the Combined Project (i.e., 2031). A four-year amortization period results in less rate volatility for both FEI and FBC from 2029 to 2031 when compared to a shorter period as well as a lower rate impact in 2031 when compared to a longer period.¹⁵⁴

127. A four-year amortization period is also preferable because:¹⁵⁵

- (a) it will result in a lower degree of rate volatility from 2029 to 2031 when compared to a three-year amortization period;
- (b) it will result in a lower rate impact in 2031, which is the year with the highest rate impact due to the Combined Project for both FEI and FBC, when compared to a longer amortization period, including the 10-year period; and
- (c) it will have lower rate impacts in all years from 2032 to 2036 when compared to a 10-year amortization period.

128. Given a 10-year amortization period would result in greater rate impacts in 2031 (i.e., the year when the rate impacts will be the highest due to the Combined Project) for both FEI and FBC, and also greater rate impacts in all years from 2032 to 2036, there is no benefit to selecting

¹⁵⁴ Exhibit B-1-3, Application, pp. 112-113.

¹⁵⁵ Exhibit B-8, COSCO IR1 15.1.

a 10-year amortization period over the proposed four-year amortization period for the Application and Preliminary Stage Development Costs deferral accounts.¹⁵⁶

(b) Approval of Accounts is Consistent with Approved Past Practice

129. The timing of FortisBC's requests for the proposed Application and Preliminary Stage Development Costs deferral accounts is reasonable and appropriate and consistent with established BCUC practice as evidenced by numerous past BCUC approvals.¹⁵⁷

130. Approval of these deferral accounts as part of the Application is reasonable and appropriate, as FortisBC was required to incur the application and preliminary stage development costs to meet regulatory expectations, prior to the Application being filed. Prior to filing an application such as this with the BCUC, FortisBC must investigate alternatives to the potential project to a Class 4 or 5 level of accuracy and develop the proposed project alternative to a Class 3 level of accuracy. The investigative work and costs to develop the cost estimates, as well as the work required to complete various reports and analysis set out in the BCUC's CPCN Guidelines, take many months or even years to complete. Instead of requesting a deferral account for these costs at the time that a project is identified (either in a standalone deferral account application or as part of Annual Reviews or other rate setting proceedings), FortisBC typically requests approval of the pre-development costs and application costs as part of the Major Project application. This approach is efficient as it avoids multiple applications to the BCUC and enables the BCUC and interveners to consider the costs within the context of the Major Project application.¹⁵⁸

131. It is an established practice with the BCUC for pre-development costs to be recorded in deferral accounts subject to approval sought at the time of the required application to the BCUC for the project. This established practice is illustrated by the following recent examples:

¹⁵⁶ Exhibit B-8, COSCO IR1 15.1.

¹⁵⁷ Exhibit B-3, BCUC IR1 18.1.

¹⁵⁸ Exhibit B-3, BCUC IR1 18.1.

- FEI's Tilbury LNG Storage Expansion (TLSE) CPCN Project. In the BCUC's Decision and Order C-6-25 approving the TLSE CPCN Project, the BCUC approved the establishment as well as the recovery of the TLSE Application and Preliminary Stage Development Cost deferral account with a three-year amortization period. As explained in the TLSE CPCN proceeding, FEI had started to develop the TLSE Project and incurred associated costs since 2020, which was prior to the filing date of the original TLSE CPCN Project application on December 29, 2020, and incurred additional costs in 2023 and 2024 prior to the filing date of the Supplemental Evidence to the TLSE CPCN Project application on October 24, 2024.
- FEI's AMI CPCN Project. In the BCUC's Decision and Order C-2-23 approving the AMI CPCN Project, the BCUC approved the recovery of the AMI Application and Feasibility Cost deferral account with a three-year amortization period. As explained in the AMI CPCN proceeding, FEI had started to develop the AMI Project and incurred associated costs starting in 2015, which was prior to the filing date of the AMI CPCN Project application on May 5, 2021.
- FEI's Pattullo Gas Line Replacement (PGR) CPCN Project. In the BCUC's Decision and Order C-2-21 approving the PGR CPCN Project, the BCUC approved the recovery of the Application and Preliminary Stage Development Costs deferral account with a three-year amortization period. As explained in the PGR CPCN proceeding, the project development costs recorded in the deferral account included actual costs incurred by FEI up to January 31, 2020, which was prior to the filing date of the PGR CPCN Project application on August 31, 2020.
- FEI's Inland Gas Upgrades (IGU) CPCN Project. In the BCUC's Decision and Order G-12-20 approving the IGU CPCN Project, the BCUC approved the recovery of the Application and Preliminary Stage Development Costs deferral account with a three-year amortization period. As explained in the IGU CPCN application, the project development costs recorded in the deferral account included actual costs

incurred by FEI prior to the filing date of the IGU CPCN Project application on December 17, 2018.

132. FortisBC notes that it has received no indication from the BCUC that it intended to change its practice, as indicated by the above decisions, which are as recent as 2025.

133. FortisBC has relied on this established practice with the BCUC regarding the treatment of pre-development and application costs in bringing forward their deferral account requests in the Application. Consistent with the BCUC's CPCN Guidelines, FortisBC was required to spend pre-development dollars to develop an application to the BCUC standards to receive approval for the Combined Project. Had FortisBC not incurred costs for the pre-development work, the Companies would not be able to meet the BCUC's expectations for the Application and there would not be any basis for the Companies to present the proposed project for acceptance by the BCUC. Rejecting the establishment of the deferral accounts as well as the recovery of costs incurred only based on the timing of the deferral account requests, without consideration of whether the costs were necessary or reasonable, would be inconsistent with the established practice of the BCUC and the treatment approved by the BCUC for pre-development costs (and application costs) incurred prior to the filing of the application in past projects, and would therefore be unfair and unreasonable.¹⁵⁹

D. The Proposed Deferral Accounts Should Attract a WACC Return

134. FortisBC submits that it is just and reasonable for the balance in the proposed deferral accounts to attract a WACC (or rate base) return, as it reflects the actual costs to the Companies, is consistent with recent BCUC determinations on this issue, and is in line with other deferral accounts approved by the BCUC.

135. First, a WACC return reflects the actual costs incurred by FEI and FBC and is therefore just and reasonable. As FortisBC has explained, a deferral account creates a timing difference

¹⁵⁹ Exhibit B-3, BCUC IR1 18.1.

between when funds are received or spent and when those amounts are returned to or recovered from customers, and that timing difference has an impact on utility financing. Whether it is for the implementation O&M, the application costs, or the preliminary stage development costs, the amounts expended by the utilities on behalf of customers are being financed at FEI's and FBC's respective WACC. This treatment is comparable to other circumstances where the utilities' cost recovery is deferred, such as capital expenditures included in rate base and the utilities' working capital, both of which are afforded a rate base return, equivalent to FEI's and FBC's WACC.¹⁶⁰

136. Second, the BCUC has recently confirmed that the attraction of a WACC return is appropriate in its decision on FBC's 2020-2021 Annual Review Application, as follows:¹⁶¹

Above all, though, we return to section 75 of the UCA which requires us to make our decision on the merits and justice of the case. FBC incurs costs to finance its deferral accounts. A deferral account creates a timing difference between when funds are spent and when those costs are returned to or recovered from ratepayers, and that timing difference leads to financing costs for the utility. Rate base treatment is comparable to other circumstances where FBC's recovery of costs are deferred, such as capital expenditures included in rate base as well as a working capital component. The Panel accepts FBC's justification for rate base treatment for these deferral accounts since it results in the amounts expended on behalf of customers being financed for rate making purposes at the same rate they are financed by the utility.

137. Third, a WACC (or rate base) treatment for FEI's and FBC's deferral accounts is consistent with the treatment approved by the BCUC for the Companies' deferral account requests in recent years, including regulatory proceeding cost deferral accounts, preliminary stage development and application cost deferral accounts, revenue deficiency/surplus deferral accounts, and FEI's RNG Account, among others.¹⁶² For example, in its recent Decision and Order C-6-25, the BCUC

¹⁶⁰ Exhibit B-3, BCUC IR1 17.2.

¹⁶¹ BCUC Decision and Order G-42-21 dated February 12, 2021: [doc 60995 decision-with-order-g-42-21-fbc-2020-2021-annualreview.pdf](#).

¹⁶² Exhibit B-3, BCUC IR1 17.2.

approved FEI's TLSE Application and Preliminary Stage Development Costs deferral account, attracting a return at FEI's WACC.

PART EIGHT: CONCLUSION AND REQUESTED DETERMINATION

138. FortisBC requests that the BCUC determine that the ERP Modernization Project and CIS Replacement Project are in the public interest, accept the anticipated capital expenditures on the Combined Project pursuant to section 44.2 of the UCA, and approve the proposed depreciation rates and deferral accounts as just and reasonable under sections 59 to 61 UCA.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated:

March 12, 2026

[original signed by Chris Bystrom]

Chris Bystrom

Counsel for FortisBC Energy Inc.