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## Electronic Filing

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, BC V6Z 2N3

**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**  
**Reply Submission of FortisBC**

We enclose for filing in the above proceeding the Reply Submission of FortisBC, dated April 20, 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**

**REPLY SUBMISSION OF**

**FORTISBC ENERGY INC. AND FORTISBC INC.**

**April 20, 2026**

FASKEN MARTINEAU DuMOULIN LLP

CHRIS BYSTROM

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## **PART ONE: INTRODUCTION AND OVERVIEW**

1. The four intervener submissions filed in this proceeding indicate that there is high level of support for the Enterprise Resource Planning (ERP) Modernization Project (ERP Modernization Project) and Customer Information System (CIS) Replacement Project (CIS Replacement Project) (together, the Combined Project), including the need, proposed alternatives, implementation approach, and accounting treatment of costs. A summary of the position of each intervener is as follows:

- (a) The Council of Senior Citizens' Organizations of BC et al (COSCO) supports the Combined Project as proposed and FortisBC's accounting treatment requests, except proposes an allocation of project costs of 80 percent to FEI and 20 percent to FBC.<sup>1</sup>
- (b) The Commercial Energy Consumers Association of British Columbia (CEC) supports the need for the Combined Project,<sup>2</sup> and FortisBC's preferred alternatives (subject to some comments),<sup>3</sup> but submits that the ERP Modernization Project costs should be allocated 82 percent to FEI and 18 percent to FBC and a 13-year useful life should be approved for the project assets.<sup>4</sup>
- (c) The Industrial Customer Group (ICG) accepts the need for the Combined Project and, of the alternatives identified, agrees with the proposed alternatives,<sup>5</sup> but suggests that the alternatives be further considered with respect to artificial

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<sup>1</sup> COSCO Final Argument, p. 18.

<sup>2</sup> CEC Final Argument, para. 16.

<sup>3</sup> CEC Final Argument, paras. 31 and 38.

<sup>4</sup> CEC Final Argument, paras. 9 and 50.

<sup>5</sup> ICG Final Argument, p. 3.

intelligence (AI), proposes a two-year delay<sup>6</sup> and suggests that the Combined Project costs all be allocated 78 percent to FEI and 22 percent to FBC.<sup>7</sup>

- (d) The Residential Consumer Intervener Association (RCIA) accepts the need for the Combined Project, but submits that the CIS Replacement Project is not as urgent, the alternatives analysis is structured to favour SAP, the implementation deepens dependence on a single cloud vendor, and the cost allocation has disproportionate rate impacts on FBC.<sup>8</sup>

2. FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) (together, FortisBC or the Companies) submit that the need for the Combined Project is clear and compelling and that this conclusion is supported by the intervener submissions. While ICG and RCIA question the timing of the Combined Project, any deferral of implementation would be imprudent due to the risk to FortisBC's business operations.

3. FortisBC also submits that its alternatives analysis is comprehensive and that there is no feasible AI-driven alternative and that the results of the analysis reflect the inherent advantages of a move to SAP S/4HANA. FortisBC's implementation of the Combined Project is reasonable and beneficial to customers, including facilitating the use of AI through SAP's cloud-based platform. Finally, FortisBC submits that its proposed cost allocation and accounting treatment requests are just and reasonable, while interveners have not proposed any alternative cost allocation approach that withstands scrutiny.

4. FortisBC responds in detail to the intervener submissions below. Silence on any particular intervener submission is not indicative of agreement.

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<sup>6</sup> ICG Final Argument, p. 13.

<sup>7</sup> ICG Final Argument, p. 8.

<sup>8</sup> RCIA Final Argument, p. 5.

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

5. There is broad support from interveners for the need for the Combined Project, with all interveners supporting the need for the ERP Modernization Project<sup>9</sup> and the CIS Replacement Project.<sup>10</sup>

6. However, ICG suggests that the Combined Project can be delayed by two years,<sup>11</sup> while RCIA submits that the CIS Replacement Project does not need to be implemented as soon as the ERP Modernization Project.<sup>12</sup> FortisBC submits that any delay to the timing of the Combined Project would not be prudent given the risk to the continuity of FortisBC's business operations.

7. FortisBC responds in detail to ICG and RCIA below.

**A. FortisBC Has Timed the Combined Project to Address Loss of Mainstream Support**

8. ICG submits that the "SAP ERP and CIS Plus application can adequately meet FortisBC's IS needs until 2030",<sup>13</sup> claiming that the financial benefit of a two-year delay "represents meaningful savings to ratepayers with minimal incremental risk to FortisBC."<sup>14</sup> FortisBC submits that ICG has not demonstrated that there will be any meaningful savings from such a delay and that ICG has ignored the risks of continuing with the existing ERP system and CIS Plus. Contrary to ICG, a two-year delay would bring material risk to FortisBC's business operations and would not be prudent.

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<sup>9</sup> CEC Final Argument, para. 16; COSCO Final Argument, p. 3; RCIA Final Argument, pp. 5-6; ICG Final Argument, para. 2.

<sup>10</sup> CEC Final Argument, para. 16; COSCO Final Argument, p. 4.

<sup>11</sup> ICG Final Argument, p. 13.

<sup>12</sup> RCIA Final Argument, pp. 6-8.

<sup>13</sup> ICG Final Argument, p. 14.

<sup>14</sup> ICG Final Argument, p. 13.

9. First, while a two-year delay would delay the costs of implementation, stopping the development of the Combined Project now and restarting it in two years would be highly inefficient, increase the Combined Project's exposure to cost escalation, and would delay realization of the benefits of a modern ERP system for an additional two more years. FBC would continue to bear the risks of operating CIS Plus, including incurring costs due to outages, and its customer service would continue to be limited by CIS Plus's age and limited functionality. FortisBC therefore considers that a two-year delay is likely to increase costs to customers, as well as increase risks to its business operations.

10. Second, FortisBC has prudently planned the timing of the ERP Modernization Project in response to SAP ending system enhancements and mainstream support for the ECC, CRM and BW applications at the end of 2027. While SAP will offer up to three additional years of extended support until the end of 2030, during this time SAP will provide only essential services.<sup>15</sup> Assuming BCUC approval and no delays, FortisBC's proposed implementation of the Combined Project is scheduled to be complete by the end of 2028.<sup>16</sup> FortisBC submits that this timing is reasonable and the Project should not be delayed. Given the importance of the ERP system to FortisBC's operations, FortisBC should not rely on the limited essential support offered by SAP any longer than necessary.

11. The BCUC accepted a similar approach in Decision and Order G-44-25, which approved BC Hydro's Enterprise Resource Planning Projects Application that contemplated all of BC Hydro's ERP Program projects being in service by the end of 2026.<sup>17</sup> In that Decision, the BCUC accepted the rationale of completing the Project before the end of mainstream vendor support:<sup>18</sup>

**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

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<sup>15</sup> Exhibit B-1-3, Application, p. 30.

<sup>16</sup> Exhibit B-1-3, Application, p. 89.

<sup>17</sup> BCUC Decision and Order G-44-25, at p. 3: [doc 80369\\_g-44-25-bch-erp-projects-final.pdf](#).

<sup>18</sup> BCUC Decision and Order G-44-25, at p. 5: [doc 80369\\_g-44-25-bch-erp-projects-final.pdf](#).

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.

Consistent with the BCUC's decision on BC Hydro's Enterprise Resource Planning Projects Application, the ERP Modernization Project is well timed to address the end of mainstream vendor support from SAP.

12. Third, FBC has appropriately timed the CIS Plus Replacement Project, given the significant risk to its business operations which will increase with time. FBC considered the option of continuing with CIS Plus and ruled it out as infeasible based on four significant business risks:

- **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 vendor support, relying on manual workarounds for any new business requirements, with increased risks of unplanned system failure.<sup>19</sup>
- **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

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<sup>19</sup> Exhibit B-1-3, Application, p. 59.

evolving cyber threats, including ransomware and data breaches, which could put both operational integrity and sensitive customer information at risk.<sup>20</sup>

- **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.<sup>21</sup>
- **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.<sup>22</sup>

13. Based on the current project schedule, FBC will already need to continue to rely on CIS Plus for two more years.<sup>23</sup> ICG's recommendation that FBC should continue with CIS Plus for a further two years would mean four more years of exposure to the significant risks posed by CIS Plus. ICG does not evaluate these risks in making its recommendations. For example, ICG does not explain why, in their view, it would be prudent for FBC to continue to retain the cybersecurity vulnerability risk of CIS Plus for four more years. FortisBC submits that such a risk is not acceptable and that it must plan to prudently address these significant risks before they materialize.

14. Finally, and in general, given the importance of the ERP system and CIS to FortisBC's business operations, it is prudent for FortisBC to plan to address the significant risks caused by continuing with its current ERP system and CIS Plus before the risks materialize, and to take into

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<sup>20</sup> Exhibit B-1-3, Application, p. 59.

<sup>21</sup> Exhibit B-1-3, Application, p. 59.

<sup>22</sup> Exhibit B-1-3, Application, p. 59.

<sup>23</sup> Exhibit B-1-3, Application, pp. 88-89.

account the time it takes to develop and implement the project. The Combined Project is complex – it has been under development since July 2022<sup>24</sup> – and will take years to implement, with the completion planned for the end of 2028.<sup>25</sup> Even with careful planning, there are potential risks of delay to the schedule,<sup>26</sup> which must be considered. FortisBC must proceed as planned with the Combined Project to address the significant risks to the continuity of its business operations. FortisBC submits that ICG’s recommendation for a two-year delay is not a prudent approach and should be rejected.

**B. FBC Has Reasonably Timed the Implementation of the CIS Plus Replacement Project to Address Risks**

15. RCIA submits that “the evidentiary record does not support FortisBC’s claim of an immediate, critical need to replace CIS Plus.”<sup>27</sup> FortisBC submits that the timing of the CIS Replacement Project is reasonable, reflects a prudent approach and that RCIA’s submissions to the contrary should be rejected. RCIA puts forward five reasons for its views, to which FortisBC responds below.

16. First, RCIA says the outage history of CIS Plus is “inconsistent with claims that the system is on the brink of collapse”.<sup>28</sup> In reply, FBC has not claimed that CIS Plus is on the “brink of collapse”. FBC has stated that CIS Plus exposes FBC to unacceptable business continuity risks, including unacceptable system performance and reliability risks due to lack of regular updates, patches, and hardware compatibility.<sup>29</sup> The CIS Plus outages that FBC is experiencing are only a symptom of these risks. CIS Plus is built on 40-year old technology<sup>30</sup> and, as the system ages further, the duration of outages will only increase, posing a significant risk to the reliability,

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<sup>24</sup> Exhibit B-1-3, Application, p. 110.

<sup>25</sup> Exhibit B-1-3, Application, p. 89.

<sup>26</sup> Exhibit B-1-3, Application, p. 96.

<sup>27</sup> RCIA Final Argument, p. 6.

<sup>28</sup> RCIA Final Argument, p. 6.

<sup>29</sup> Exhibit B-1-3, Application, p. 59.

<sup>30</sup> Exhibit B-5, ICG IR1 8.1.

security and continuity of FBC's business operations.<sup>31</sup> As FBC must have a reliable CIS to maintain its business operations, FBC cannot wait for CIS Plus outages to become unmanageable before planning its replacement. Rather, FBC must prudently plan to replace CIS Plus *before* outages become so extreme as to disrupt the continuity of its business operations.

17. Second, RCIA says FBC's ability to maintain CIS Plus over the past two decades is evidence of its continued adaptability, noting FBC's decision in 2010 to take a low-cost approach "that has proven durable for 15 years".<sup>32</sup> As RCIA has highlighted, FBC has been able to extend the life of CIS Plus for over two decades, which further illustrates how old CIS Plus is and how unreasonable it would be to continue to rely on this legacy system. Moreover, the historical ability of FBC to extend the life of CIS Plus is not evidence of the ability of FBC to continue to extend the life of CIS Plus into the future. On the contrary, the measures FBC has used to date are not sustainable. For example, key internal staff are nearing retirement and FBC's ability to find and attract resources with the skillset to support the legacy CIS Plus platform is becoming increasingly challenging,<sup>33</sup> and is expected to worsen as more organizations retire similar systems.<sup>34</sup> Again, FBC must prudently manage these risks. FBC must plan to replace CIS Plus *before* there are no resources available to maintain CIS Plus and help guide the transition to a new system.

18. Third, RCIA says FBC's decision to defer replacement in 2018 and use of manual workarounds to address issues "undermines claims of technical urgency".<sup>35</sup> However, the fact that FBC has deferred investment in the past is not evidence that FBC should defer investment again. Similarly, the fact that FBC has been able to find manual workarounds is not evidence that FBC can continue to do so going forward. Util-Assist concluded in 2018 that CIS Plus is at end of life<sup>36</sup> and its reliability has only degraded since then. Contrary to RCIA, CIS Plus's continued operation

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<sup>31</sup> Exhibit B-1-3, Application, p. 56.

<sup>32</sup> RCIA Final Argument, p. 6.

<sup>33</sup> Exhibit B-1-3, Application, p. 60.

<sup>34</sup> Exhibit B-1-3, Application, p. 55.

<sup>35</sup> RCIA Final Argument, pp. 6-7.

<sup>36</sup> Exhibit B-1-3, Application, p. 56.

is not sustainable and now presents an unacceptable risk to the continuity of FBC's business operations. FBC's past decisions to defer investment and efforts to extend the life of CIS Plus only underscore that FBC has done all it can to extend the life of CIS Plus, but that now is the time to proceed with its replacement.

19. Fourth, RCIA says that the timing of the CIS Replacement Project is "a function of FortisBC's decision to bundle the CIS Replacement scope with the ERP Modernization Project".<sup>37</sup> FBC has been considering a replacement to CIS Plus well before SAP announced the discontinuance of support for its core SAP enterprise applications, and has provided a robust and compelling justification for the CIS Replacement Project that is independent of the ERP Modernization Project. However, combining the CIS Replacement Project with the ERP Modernization Project is a cost-effective choice, resulting in project cost savings and other benefits.<sup>38</sup> The opportunity to achieve synergies with the ERP Modernization Project provides additional reasons for why now is the right time to replace CIS Plus.

20. Finally, RCIA says that the quantified operational benefits of replacing CIS Plus are modest compared to the cost of the CIS Replacement Project.<sup>39</sup> However, FBC has not justified the CIS Replacement Project based on its quantifiable operational cost benefits. Rather, CIS Plus needs to be replaced to address the unacceptable risks posed by continuing with CIS Plus, including system reliability and performance risk, cybersecurity risk, resource availability risk and compliance and audit risk. RCIA does not explain how or why it would be prudent for FBC to continue to retain these risks.

21. Overall, FortisBC submits that RCIA's suggestion that FBC should continue to rely on CIS Plus is not prudent. FBC's proposed replacement of CIS Plus is estimated to be complete by the end of 2028.<sup>40</sup> Given the significant risks that CIS Plus poses to the continuity of FBC's business

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<sup>37</sup> RCIA Final Argument, p. 7.

<sup>38</sup> Exhibit B-1-3, Application, pp. 80-82.

<sup>39</sup> RCIA Final Argument, pp. 7-8.

<sup>40</sup> Exhibit B-1-3, Application, p. 89.

operations, FortisBC submits that this timing is reasonable and appropriate. RCIA's apparent suggestion that CIS Plus needs to be at the "brink of failure" before a replacement can be justified reflects an imprudent approach. CIS Plus plays a critical role in FBC's business operations and it takes years to develop and implement a project as complex as the CIS Replacement Project. Relying on CIS Plus also carries significant risks, which are growing. Therefore, FBC needs to plan prudently to replace CIS Plus before it fails. FortisBC submits that RCIA's recommendations should be rejected.

**PART THREE: FORTISBC CONDUCTED A ROBUST ANALYSIS SUPPORTING THE PREFERRED  
ALTERNATIVES**

22. There is also broad intervener support for the results of FortisBC's alternatives analysis for the ERP Modernization Project and CIS Replacement Project. CEC and ICG (based on the alternatives presented) and COSCO (without qualification) agree that ERP Alternative 3 to upgrade to SAP S/4HANA is the preferred alternative for the ERP Modernization Project.<sup>41</sup> CEC and ICG (based on the alternatives presented) and COSCO (without qualification) also agree that CIS Alternative 4 to replace CIS Plus with SAP S/4HANA is the preferred alternative for the CIS Replacement Project.<sup>42</sup>

23. While CEC and ICG agree with the results of the alternatives analysis based on the alternatives presented, CEC says that it could benefit from consideration of on-premises AI-driven development and implementation, and ICG argues that FortisBC has not considered "the potential savings in costs due to future innovation such as embedded AI".<sup>43</sup> RCIA argues that the structure of the analysis favours an SAP replacement.<sup>44</sup> FortisBC submits that the issues raised by these interveners are misguided and that the alternatives analysis considers the opportunities to leverage AI and reflects the inherent benefits of a transition to SAP S/4HANA.

24. FortisBC responds in detail to CEC, ICG and RCIA's submissions below.

**A. FortisBC Considered the Potential for AI and Deployment Models**

25. The CEC recommends that the BCUC find that FortisBC's "concepts for future enterprise software needs, such as for the Combined Project, should include alternatives based on in-

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<sup>41</sup> CEC Final Argument, para. 31; COSCO Final Argument, p. 9; ICG Final Argument, para. 23.

<sup>42</sup> CEC Final Argument, para. 38; COSCO Final Argument, p. 13; ICG Final Argument, para. 22.

<sup>43</sup> ICG Final Argument, para. 27.

<sup>44</sup> RCIA Final Argument, Section 4.

premises AI-driven development and implementation.”<sup>45</sup> Somewhat similarly to CEC, ICG argues that FortisBC has not considered “the potential savings in costs due to future innovation such as embedded AI”.<sup>46</sup> ICG says that AI should have been part of the project scope<sup>47</sup> and that, if the Combined Project is denied, then FortisBC “will be in a position to investigate alternatives including AI.”<sup>48</sup>

26. FortisBC submits that CEC’s and ICG’s submissions are without merit and that it has fully evaluated the feasible alternatives, including appropriately considering deployment models and the potential for AI.

27. First, AI is not a project alternative. FortisBC explained that attempting to use custom AI to avoid the need to modernize its ERP system would be an unsupportable and high-risk approach:<sup>49</sup>

Using custom AI to mitigate SAP ECC end-of-life or avoid moving to the more modern S/4HANA does not reduce risk. Instead, such an approach would transfer critical operational, security, and compliance risk entirely onto FortisBC, creating an unsupportable, high-risk operating model for core enterprise systems.

A primary driver for migrating from SAP ECC to SAP S/4HANA is to be on a vendor-supported platform to mitigate against the associated risks, such as being exposed to increased cyber security vulnerabilities. While AI tools may assist in improving monitoring, anomaly detection, or workflow optimization during the transition period, they do not eliminate or materially mitigate the core risks of SAP ECC being at end-of-life. AI would not eliminate support or compliance risk, nor could it

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<sup>45</sup> CEC Final Argument, paras. 26 and 27. CEC submits that the alternatives analysis could benefit from: (a) “the inclusion of on-premise and hybrid deployment models for enterprise applications as distinct project alternatives”; and (b) “a longer (than the 13-year) analysis period for evaluating on premises ERP/CIS alternatives, driven by AI and continuously updated and improved to follow company needs, and to better capture the longer-term cost/benefit dynamics for the Utilities’ customers.”

<sup>46</sup> ICG Final Argument, para. 27.

<sup>47</sup> ICG Final Argument, para. 27.

<sup>48</sup> ICG Final Argument, para. 30.

<sup>49</sup> Exhibit B-5, ICG IR1 5.3.

replace SAP security patches or support future regulatory compliance requirements.

In short, AI is not a substitute for the need to migrate off SAP ECC.

28. Neither the CEC nor ICG point to any evidence or provide any reason to believe that AI could be used to sustain FortisBC's ERP system or CIS or provide an alternative to the complex systems offered by SAP and other service providers. While AI has potential to support content synthesis, automate routine tasks, and surface insights from data, FortisBC needs a reliable and proven ERP system and CIS to maintain its business operations. It would not be prudent for FortisBC to venture into the use of AI in a novel and untested way to provide critical business functions.

29. Second, ICG says that AI should have been part of the project scope, misleadingly stating that FortisBC "acknowledged" that the "potential for AI and machine learning or predictive analytics were not part of the project scope and cost estimate".<sup>50</sup> In fact, FortisBC said that it "has not included any potential savings due to future innovation such as embedded AI, machine learning or predictive analytics into the financial analysis of the Combined Project as these types of future enhancements are not part of the project scope and cost estimate."<sup>51</sup> [Emphasis added.] While future enhancements were not part of the project scope, FortisBC evaluated all the alternatives on their ability to provide for innovation, including a foundation for future AI integration.<sup>52</sup> This consideration was included in the Innovation sub-criterion in the alternatives analysis for both the ERP Modernization Project and the CIS Replacement Project, which included consideration of "the capacity to support automation and its compatibility with emerging technologies, particularly artificial intelligence (AI)."<sup>53</sup> As recognized in this sub-criterion, "the

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<sup>50</sup> ICG Final Argument, para. 27.

<sup>51</sup> Exhibit B-7, CEC IR1 10.1.

<sup>52</sup> Exhibit B-7, CEC IR1 10.1.

<sup>53</sup> Exhibit B-1-3, Application, pp. 41 and 66.

chosen ERP system must serve as a robust foundation for integrating automation and AI capabilities.”<sup>54</sup>

30. As described in the alternatives analysis, all the feasible alternatives met the Innovation sub-criterion, including the preferred SAP S/4HANA alternatives.<sup>55</sup> Specifically, the SAP S/4HANA solution includes key innovations such as artificial intelligence and machine learning that enable predictive analytics, automated processes and intelligent co-pilots that allow users to interact with the system using natural language to access data and perform tasks efficiently.<sup>56</sup> Therefore, AI, machine learning and predictive analysis are part of the project scope.

31. Third, CEC appears to make an unwarranted link between on-premise delivery models and AI, suggesting that FEI should have developed “on premises ERP/CIS alternatives, driven by AI.” However, the use of AI does not require on-premise infrastructure. In fact, FortisBC chose the cloud-based deployment model for SAP S/4HANA in part because it provides for more innovation potential and SAP has indicated that AI and machine learning enhancements may only be available for customers on their cloud subscription service.<sup>57</sup> Therefore, FortisBC’s chosen cloud-based deployment model better positions it to take advantage of AI in the future.

32. Fourth, in reply to CEC, FortisBC appropriately considered the deployment models of the preferred alternative, which included hybrid and fully cloud-based deployment models. Considering deployment models of rejected alternatives, as CEC appears to suggest, would not provide any value as the alternative has been rejected regardless of its potential deployment models.

33. Furthermore, a fully on-premise deployment model is inconsistent with the current generation of software that allows the transition from traditional on-premise infrastructure to a

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<sup>54</sup> Exhibit B-1-3, Application, pp. 41 and 66.

<sup>55</sup> Exhibit B-1-3, Application, pp. 45 and 70; Exhibit B-7, CEC IR1 10.1.

<sup>56</sup> Exhibit B-1-3, Application, p. 45.

<sup>57</sup> Exhibit B-7, CEC IR1 3.1.

modern, cloud-based environment, eliminating the significant infrastructure costs traditionally associated with information technology projects. In fact, all leading ERP and CIS solutions have analytics capabilities built on scalable cloud-based data and are built with modular, cloud-based architectures.<sup>58</sup> A fully on-premise deployment model would therefore rule out leading solutions and undermine the ability of FortisBC to modernize its ERP system.

34. FortisBC therefore submits that CEC's and ICG's comments on the alternatives analysis are without merit and should be rejected.

#### **B. Alternatives Analysis Reflects Benefits of Continuing with SAP**

35. RCIA submits that the alternatives analysis was shaped by internal assumptions favouring the incumbent platform.<sup>59</sup> FortisBC submits that the results of the alternatives analysis fairly reflect the benefits of FortisBC using SAP. This is not a bias, but factual and accurate. FortisBC responds to RCIA's particular points below.

##### **(a) Non-SAP ERP Alternatives Were Reasonably Developed to a Class 5 Accuracy**

36. RCIA acknowledges that a transition to a non-SAP platform may carry additional risks, but submits that FortisBC's cost estimate for the non-SAP alternative does not provide a "symmetric evidentiary foundation".<sup>60</sup> In reply, FortisBC's Class 5 estimate for ERP Alternative 2 (Non-SAP Replacement) is reasonable and sufficient for the purpose of the alternatives analysis, as discussed in Part Three, Section C(b) of FortisBC's Final Submission and further discussed below.

37. RCIA says that FortisBC's estimate was hampered by the lack of vendor-provided data.<sup>61</sup> While there was limited response to the RFEOI from non-SAP vendors, this is not within FortisBC's control and likely reflects that the vendor market is aware that shifting from an SAP to a non-SAP

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<sup>58</sup> Exhibit B-1-3, Application, pp. 45 and 70-71.

<sup>59</sup> RCIA Final Argument, p. 11.

<sup>60</sup> RCIA Final Argument, p. 9.

<sup>61</sup> RCIA Final Argument, p. 9.

system is more costly and therefore less likely to warrant the costs of participating in the process. However, FortisBC in fact used system integrator implementation labour and software licensing costs received through the RFEI process to develop the Class 5 cost estimate for the non-SAP ERP Alternative (ERP Alternative 2).<sup>62</sup> To the extent that FortisBC could not rely on vendor information, FortisBC's use of the Class 4 SAP Alternative as a basis for the non-SAP ERP Alternative is appropriate because the cost drivers are similar for the SAP and non-SAP ERP options.<sup>63</sup>

38. Further, FortisBC explained in detail the reasonable adjustments it made to the Class 4 estimate for ERP Alternative 2 to account for the differences between the SAP and Non-SAP Alternatives.<sup>64</sup> In summary:

- Third-Party Implementation Costs: An aggregate adjustment of 50 percent to third-party implementation labour costs is reasonable given that the non-SAP ERP Alternative would require the replacement or redevelopment of a materially larger proportion of integrations, custom interfaces, and technical components compared to the SAP ERP Alternative, and introduces a higher likelihood of scope growth, rework, and additional vendor effort as detailed design progresses. Therefore:<sup>65</sup>
- An 81 percent adjustment to Interface Support costs is reasonable as all interfaces to third-party systems would need to be rebuilt for a new non-SAP application, unlike the SAP ERP Alternative where only a small number would need to be rebuilt with most just needing updates or no change at all; and

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<sup>62</sup> Exhibit B-3, BCUC IR1 3.1 and 3.2.

<sup>63</sup> Exhibit B-3, BCUC IR1 3.1.

<sup>64</sup> Exhibit B-3, BCUC IR1 3.5.

<sup>65</sup> Exhibit B-3, BCUC IR1 3.5.

- A 50 percent adjustment to Audit Support is reasonable as the project duration is estimated to increase by a period of 1 year and the cost for an independent third-party auditor would increase accordingly.
- Internal Implementation Labour Costs: Internal implementation labour costs were estimated to increase by an aggregate of 25 percent due to increased effort for process redesign, testing and post go-live support as the technology and business processes will be new to FortisBC and will require more effort than transitioning to a new version of SAP.<sup>66</sup> Therefore:
  - A 50 percent increase in Design costs is reasonable due to the significant impact of new technology on the design phase of the project, which involves activities such as mapping FortisBC processes to non-SAP application functionality, process redesign and data mapping;
  - A 30 percent increase in Test costs is reasonable due to more complex testing effort being required, as redesigned processes need to be tested with system configuration and there is a higher likelihood of process gaps being identified at this time, which drives rework and additional testing; and
  - A 40 percent increase in Support and Stabilization costs is reasonable due to the greater volume of user issues and support required given the magnitude of process and technology changes on end users is greater.
- Change Management and Training Costs: A 25 percent increase reflects the additional training cycles, expanded communications, and extended stabilization

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<sup>66</sup> Exhibit B-3, BCUC IR1 3.5.

support expected when introducing a fundamentally different ERP platform to a workforce with long-standing SAP experience.<sup>67</sup>

- Contingency: A 25 percent contingency for the non-SAP ERP Alternative (as compared to the 15 percent contingency for the SAP ERP Alternative) is reasonable given the increased degree of uncertainty with regard to the risk, scope and cost of moving to a non-SAP ERP, which involves complex integrations to many third-party applications that would need to be rebuilt, and requires a high degree of process redesign, change management and training.<sup>68</sup>
- FortisBC Internal Resources: The 25 percent increase in incremental FortisBC internal support reflects the need to hire new employees and contractors to support the new technology and processes, in addition to retraining existing staff to achieve proficiency in a non-SAP system.<sup>69</sup>

39. RCIA provides no argument or evidence that suggests FortisBC's adjustments are mistaken or based on incorrect assumptions. FortisBC submits that its assumptions are in fact reasonable and fairly reflect the costs to transition from an SAP platform to a non-SAP platform.<sup>70</sup>

40. RCIA says that the extension of the implementation period to four years for ERP Alternative 2, compared to three years for ERP Alternative 3, was not "vendor informed" but based on "expert judgment".<sup>71</sup> FortisBC explained that the extra year of implementation was to account for the greater level of change and complexity that would be required to move to a non-SAP ERP system.<sup>72</sup> RCIA itself acknowledges that a transition to a non-SAP platform may carry

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<sup>67</sup> Exhibit B-3, BCUC IR1 3.5.

<sup>68</sup> Exhibit B-3, BCUC IR1 3.5.

<sup>69</sup> Exhibit B-3, BCUC IR1 3.5.

<sup>70</sup> Exhibit B-1-3, Application, p. 36.

<sup>71</sup> RCIA Final Argument, p. 9.

<sup>72</sup> Exhibit B-3, BCUC IR1 3.4.

additional risks,<sup>73</sup> and RCIA provides no reason why a transition to a non-SAP platform should not require an additional year compared to an SAP platform. In any case, 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 would not change the results of the comparative financial evaluation between ERP Alternative 2 and ERP Alternative 3.<sup>74</sup>

41. Overall, FortisBC submits that RCIA has provided no evidence or argument that undermines FortisBC's estimates for ERP Alternative 2. FortisBC has provided detailed justification for all of its assumptions in the cost estimate and submits that the estimate is reasonable and appropriate for the alternatives analysis.

**(b) Evaluation and Scoring Systems are Unbiased, with Results Reflecting Inherent Benefits of FortisBC Using SAP**

42. RCIA submits that FortisBC's evaluation and scoring criteria framework inherently favoured the incumbent SAP platform.<sup>75</sup> RCIA sets out four points in support of its position, each of which is without merit.

43. First, RCIA says that because each alternative scored equally on the "Ability to Support Current and Future Requirements" criteria, nearly one-third of the evaluation provided zero differential.<sup>76</sup> FortisBC explained that it included this criterion in the analysis given the importance of confirming that each alternative can sustainably support FortisBC's current and future business requirements. FortisBC expected there to be minor differences amongst the alternatives, but ultimately concluded there were not.<sup>77</sup> While this criterion was ultimately not a differentiating factor, FortisBC maintains that it was important to include. For instance, as discussed above, the inclusion of the "Ability to Support Current and Future Requirements"

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<sup>73</sup> RCIA Final Argument, p. 9.

<sup>74</sup> Exhibit B-3, BCUC IR1 3.4.

<sup>75</sup> RCIA Final Argument, pp. 9-11.

<sup>76</sup> RCIA Final Argument, pp. 9-11.

<sup>77</sup> Exhibit B-3, BCUC IR1 4.3.

criteria, which included Innovation, was a way to demonstrate that FortisBC has indeed considered AI and other innovation potential. In any case, including the criterion does no harm, as it does not change the results and can easily be excluded from the scoring if desired. Moreover, including this criterion, on which the non-SAP Alternative scored equally with the SAP Alternative, does not favour the SAP Alternative.

44. Second, RCIA says that the sub-criteria of Criteria 2 were “defined in ways that directly reward incumbency”, stating “SAP was scored higher specifically because it builds on existing internal skillsets and familiar workflows, while the non-SAP alternative was penalized for requiring new skills and a steeper learning curve”.<sup>78</sup> This criticism is baseless. SAP in fact has an advantage because it builds on internal skillsets and familiar workflows. Notably, RCIA does not dispute that SAP has this advantage. FortisBC was obliged to reflect the advantages of SAP in the alternatives analysis as this is an important reality that needed to be considered. RCIA’s apparent suggestion that FortisBC should ignore the benefits of staying with an incumbent service provider would result in an inaccurate comparison that would translate into increased costs for customers.

45. Third, and similarly, RCIA submits that the financial criterion favours SAP on the basis that an upgrade is more straightforward than a full replacement, noting that the transition costs to a non-SAP platform will always be incremental to an SAP upgrade.<sup>79</sup> Again, RCIA does not dispute that an upgrade to SAP is in fact more straightforward than a full replacement, or that the transition costs to a non-SAP platform will always be incremental to an SAP upgrade. In fact, RCIA acknowledges that a transition to a non-SAP platform may carry additional risks<sup>80</sup> and that change risk is a relevant consideration.<sup>81</sup> FortisBC submits that ERP Alternative 3 to upgrade to SAP S/4HANA in fact has a cost advantage and that its analysis fairly and reasonably reflects this advantage. This is not a bias in the alternatives analysis, but a fact.

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<sup>78</sup> RCIA Final Argument, p. 10.

<sup>79</sup> RCIA Final Argument, p. 10.

<sup>80</sup> RCIA Final Argument, p. 9.

<sup>81</sup> RCIA Final Argument, p. 10.

46. Fourth, RCIA says that there was no independent third-party review of the alternatives analysis.<sup>82</sup> However, there is no requirement for an independent review of the alternatives analysis prior to filing the Application and, in any case, the BCUC itself provides that review. The BCUC's CPCN Guidelines do not require an independent third-party review of the alternatives analysis and FortisBC is aware of no BCUC decision suggesting that such a review is required. Nor has RCIA pointed to any authority suggesting such a requirement. Consistent with the standard practice in CPCN applications to the BCUC, FortisBC conducted a comprehensive alternatives analysis with well-developed criteria, sub-criteria, and quantified measures and weights, all with detailed supporting rationales. This analysis is subject to the BCUC's review in this proceeding. No other independent third-party review is required.

47. Finally, RCIA submits that it is unclear if the evaluation truly captured meaningful tradeoffs, such as the potential risks of long-term vendor lock-in or the total costs over multiple lifecycles.<sup>83</sup> FortisBC addresses the two suggested criteria below.

- (a) Long-term-vendor lock-in is not a differentiating factor because FortisBC would be equally "locked in" regardless of which vendor it chose. As discussed further below, FortisBC is mitigating long-term cost and dependency risks through contractual safeguards.<sup>84</sup>
- (b) As the lifecycles of leading ERP systems are at least 10 years in length, estimating total costs over multiple lifecycles is an extremely uncertain exercise, and requires significant and highly uncertain assumptions about the systems and options available at the time of future lifecycles, and their costs and risks. Given the high uncertainty, FortisBC does not consider that estimating total costs over multiple lifecycles is a useful exercise that should be a factor in choosing an alternative today.

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<sup>82</sup> RCIA Final Argument, p. 10.

<sup>83</sup> RCIA Final Argument, p. 10.

<sup>84</sup> Exhibit B-6, RCIA IR1 4.2.

48. FortisBC therefore submits that RCIA's submissions are without merit.

**(c) FortisBC Considered Using Third-Party SAP Service Providers**

49. RCIA's third and final argument is that FortisBC's alternatives analysis was deficient because FortisBC did not consider the alternative of using third-party SAP service providers as a bridging solution to delay capital investment.<sup>85</sup> RCIA states that it agrees that third-party maintenance is not a permanent solution, but criticizes FortisBC for not quantifying and comparing the costs to determine if such a bridging approach could have mitigated rate impacts on residential customers.<sup>86</sup> FortisBC in fact considered this alternative and concluded it was infeasible. Contrary to RCIA, continuing without SAP's support is not viable, even with the support of contractors.

50. First, RCIA's alternative to use third-party vendor support is equivalent to FortisBC's ERP Alternative 1. FortisBC described ERP Alternative 1 as relying on contractors (i.e., third-party service providers) to provide support beyond 2030: "Beyond 2030, where extended support from SAP is no longer available, FortisBC would use a combination of new internal resources as well as contractors to maintain and support the existing applications until they are non-functional (i.e., failure), at which point completely new core ERP applications would have to be implemented."<sup>87</sup>

51. FortisBC also specifically considered using third-party service providers and found that they had limitations and relying on them would entail significant risks. FortisBC explained:<sup>88</sup>

FortisBC engaged third-party SAP service providers about extending the current SAP ECC environment, but FortisBC identified several limitations and significant risks despite vendor claims of support through 2040.

A key risk of third-party SAP support is the lack of SAP-certified security patches. Third-party SAP support relies on compensating controls, virtual protection,

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<sup>85</sup> RCIA Final Argument, pp. 10-11.

<sup>86</sup> RCIA Final Argument, pp. 10-11.

<sup>87</sup> Exhibit B-1-3, Application, p. 33.

<sup>88</sup> Exhibit B-5, ICG IR1 5.2.

configuration hardening, and accelerated threat updates which cannot fully address security vulnerabilities. Relying on compensating controls instead of SAP-certified patches increases the likelihood that security issues turn into operational incidents, business disruption, or compliance problems, making it a material operational risk rather than a purely technical one.

Furthermore, third-party SAP service providers do not deliver functional enhancements, which would progressively limit the system's ability to support evolving business requirements and limit FortisBC's ability to leverage innovations such as advancements in AI and analytics.

Lastly, as SAP transitions its customer base to S/4HANA, the availability of qualified resources to support legacy systems such as SAP ECC is expected to decline. Third-party providers face the same labour market dynamics, as skilled professionals increasingly focus on current, vendor-supported technologies. Training and certification programs similarly prioritize newer platforms, further reducing the long-term sustainability of legacy expertise.

Although a third-party service provider could initially maintain the current SAP system, the growing cybersecurity exposure, declining alignment with business needs and availability of skilled resources would progressively erode operational viability, making it an unsustainable long-term option for FortisBC.

52. FortisBC reasonably rejected ERP Alternative 1, including reliance on third-party service providers, as being infeasible. FortisBC explained:<sup>89</sup>

This alternative poses a high risk to the continuity of FortisBC's business operations. 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. Moreover, the impending end of mainstream vendor support in 2027, followed by the cessation of extended support in 2030, would increase FortisBC's vulnerability to cybersecurity threats. Without access to vendor-issued security updates, the Companies 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.

The absence of vendor support means that FortisBC would likely struggle to find qualified internal and external professionals to maintain the legacy system. Even

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<sup>89</sup> Exhibit B-1-3, Application, p. 34.

if FortisBC were to invest in recruiting and contracting specialized legacy system expertise, 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.

Lastly, unsupported software elevates the risk of non-compliance with 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.

Accordingly, FortisBC has determined that ERP Alternative 1 is infeasible and has not assessed this alternative further.

53. Given the above conclusion, FortisBC did not need to quantify the costs of ERP Alternative 1 to determine if it would have mitigated rate impacts. ERP Alternative 1 is not feasible as it does not address the need for the ERP Modernization Project and FortisBC therefore reasonably eliminated it from further consideration. RCIA's position to the contrary is without merit.

**PART FOUR: FORTISBC IS REASONABLY IMPLEMENTING THE COMBINED PROJECT AND  
REASONABLY ALLOCATING COSTS**

54. In this Part, FortisBC responds to intervener submissions related to the implementation of the Combined Project, the allocation of costs, and mitigation of project risk. FortisBC submits that it is reasonably implementing the Combined Project in a way that maximizes value and minimizes risk for customers and has proposed an allocation of the costs of the Combined Project that reasonably follows the principle of cost causation.

**A. FortisBC Is Reasonably Implementing the Combined Project**

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

55. As set out in FortisBC's Final Submission, FortisBC evaluated the available deployment models for SAP S/4HANA and reasonably determined that all new software applications will be hosted by SAP in the cloud.<sup>90</sup> CEC, however, "submits that it finds the Companies' evaluation inconclusive in the absence of a broader examination of alternative corporate software futures, such as those evolving within company premises AI-driven solutions with continuous improvement following the companies' needs."<sup>91</sup> CEC's submission should be rejected. FortisBC has explored all the deployment models for the preferred alternative for the Combined Project, which included either a cloud-based, SAP subscription service or a hybrid model where the SAP S/4HANA application would be hosted on servers managed and maintained by FortisBC. FortisBC's choice of the cloud-based model is supported by a detailed analysis of the advantages and disadvantages of the two available options, which CEC provides no commentary on.<sup>92</sup> SAP does not offer a "company premises AI-driven solution", as referenced by CEC.

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<sup>90</sup> Exhibit B-7, CEC IR1 3.1.

<sup>91</sup> CEC Final Argument, para. 24.

<sup>92</sup> 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.

56. Further, as discussed in Part Three of this Reply Submission, a “company premises AI-driven solution” is not a project alternative. CEC has provided no explanation of what such an alternative would entail, and no evidence that AI is a feasible project alternative that should have been investigated. Rather, as FortisBC has explained, custom AI is not an alternative to the project and would be an unsupportable, high-risk operating model for core enterprise systems.<sup>93</sup>

**(b) FortisBC is Mitigating Long-Term Cost Dependency Risks**

57. CEC states with respect to the cloud-based model that it “is not convinced that FortisBC has clearly outlined in the evidence how it plans to build the organizational fortitude required to manage the loss of direct technical control and navigate the contractual relationship between the parties.”<sup>94</sup> There is no merit to CEC’s concern. FEI and FBC have experience managing cloud-based services and are sophisticated entities that routinely manage complex commercial relationships. FEI and FBC have the technical and legal capacity to manage the contractual relationship with SAP, including access to legal and other resources to ensure that contractual risks are managed. FortisBC is aware of the risks and is mitigating long-term cost and dependency risks through contractual safeguards.<sup>95</sup>

58. RCIA submits that the Combined Project “further entrenches dependency on a single vendor and a proprietary deployment model.”<sup>96</sup> In reply, long-term cost and dependency risk would be present with any of the alternatives for the ERP Modernization Project or CIS Replacement Project and with any of the deployment models and implementation approaches for the Combined Project. For example, if FortisBC chose SAP’s hybrid solution, then FortisBC would be “locked in” to the services provided by the server vendor, as well as SAP. These types of risks are not particular to SAP’s S/4HANA but are general features of long-term service contracts.

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<sup>93</sup> Exhibit B-5, ICG IR1 5.3.

<sup>94</sup> CEC Final Argument, p. 5.

<sup>95</sup> Exhibit B-6-1, RCIA IR1 4.2.

<sup>96</sup> RCIA Final Argument p. 12.

59. RCIA states that, while FortisBC has secured a five-year licensing commitment for cost certainty, “beyond year five, licensing terms and pricing are unknown and will be determined at SAP’s discretion or through future negotiations at a time when FortisBC is even more embedded in the ecosystem.”<sup>97</sup> FortisBC submits that a five-year licensing commitment provides significant cost certainty and that pricing risk for the remaining years can be managed through contractual means. Further, these types of pricing risks are not particular to SAP, the Combined Project, or FortisBC’s implementation approach, but are general features of long-term service contracts which FortisBC would need to manage under any alternative. It is worth noting, however, that under the cloud-based, subscription model, the annual subscription fees are comparable to the hybrid annual maintenance costs, but the fee structure does not include any additional upfront capital purchase, which results in lower costs as compared to the hybrid option.<sup>98</sup>

60. Finally, RCIA submits that the absence of quantitative analysis regarding the cost to migrate off SAP RISE is a material omission.<sup>99</sup> FortisBC disagrees. FortisBC would not need to migrate off SAP RISE for more than 10 years, if at all. There is limited value in modelling the costs of a migration off SAP RISE, as the costs and circumstances around such a migration, including what FortisBC would be migrating to, would be highly uncertain. FortisBC emphasizes again that the potential cost to migrate away from the chosen service provider is not particular to FortisBC’s preferred alternative or implementation approach for the Combined Project but would be present under any alternative or implementation approach. FortisBC is aware of the various cost-risks under its service contracts and will manage them prudently in the ordinary course.

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<sup>97</sup> RCIA Final Argument, p. 12.

<sup>98</sup> Exhibit B-7, CEC IR1 3.1.

<sup>99</sup> RCIA Final Argument, p. 12.

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

61. RCIA submits that implementing the ERP Modernization and CIS Replacement Projects together may not be in the best interest of FBC's residential customers.<sup>100</sup> RCIA's submissions on this point are misguided:

- (a) RCIA says that, while FortisBC rejected sequencing the Project based on an increase in costs by at least \$50 million, sequencing could provide a number of benefits.<sup>101</sup> While sequencing would indeed provide some operational flexibilities, the additional costs of at least \$50 million are material and outweigh those benefits.<sup>102</sup> Moreover, the operational benefits of sequencing are also outweighed by the increased risks, including increased operational complexity due to parallel platform risk, increased licence costs, operational divergence leading to inefficiencies and an extended timeline and resource risks.<sup>103</sup> This illustrates that RCIA's proposed approach to de-couple the ERP Modernization and CIS Replacement Projects would significantly increase costs and risks for FBC ratepayers. It also illustrates the benefit to FBC of being able to combine the CIS Replacement and ERP Modernization Projects.
- (b) RCIA says that "the benefits of utility harmonization do not apply to the majority of FBC customers", as only 49 percent of FBC's customers also receive gas service.<sup>104</sup> However, the harmonization of FEI and FBC services is not a factor in determining how the Combined Project is implemented; the harmonization would occur regardless of how the Combined Project is implemented.

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<sup>100</sup> RCIA Final Argument, p. 12.

<sup>101</sup> RCIA Final Argument, p. 13.

<sup>102</sup> Exhibit B-5, ICG IR1 14.1.

<sup>103</sup> Exhibit B-5, ICG IR1 14.1.

<sup>104</sup> RCIA Final Argument, p. 13.

- (c) RCIA is concerned by the disparity in the per-customer cost of the Combined Project.<sup>105</sup> However, the higher per-customer cost for FBC is primarily due to FBC's cost of replacing its legacy CIS Plus, whereas FEI replaced its legacy CIS with an SAP-based system in 2012 through its Customer Care Enhancement Project.<sup>106</sup> Notably, FEI bore 100 percent of the costs of the Customer Care Enhancement Project.

62. FortisBC therefore submits that RCIA's position that the CIS Replacement Project should be delayed poses significant risks to FBC ratepayers, including significantly higher costs, and should be rejected.

**B. FortisBC Has Reasonably Allocated Project Costs Between FEI and FBC**

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

63. FortisBC proposes that the ERP Modernization Project costs be allocated based on the number of employees, which results in an allocation of 78 percent to FEI and 22 percent to FBC.<sup>107</sup> COSCO proposes an 80 percent allocation to FEI, and CEC proposes an 82 percent allocation to FEI. While the differences in the proposed allocations are small, FortisBC considers that its proposed allocation is the most reasonable.

64. COSCO submits that an 80 percent allocation to FEI based on the average Shared Services allocation is the most appropriate as it "better reflects the extent to which employees of each company are expected to use the ERP system".<sup>108</sup> FortisBC does not agree. Shared Services are allocated using cost drivers that are appropriate for allocating each shared service activity.<sup>109</sup>

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<sup>105</sup> RCIA Final Argument, p. 13.

<sup>106</sup> Exhibit B-1-3, Application, p. 13.

<sup>107</sup> Exhibit B-1-3, Application, p. 103; Exhibit B-3, BCUC IR1 11.2; Exhibit B-6, RCIA IR1 6.1.

<sup>108</sup> COSCO Final Argument, p. 18.

<sup>109</sup> Exhibit B-3, BCUC IR1 11.2.

However, an allocation based on the number of employees is more appropriate in this case as it best aligns with how the upgraded ERP system will be used by both FEI and FBC employees. SAP is an employee-facing system and FEI and FBC employees have similar user roles and access. An allocation based on number of employees is also consistent with the allocation approach for other information system (IS) projects, such as Project One, and the allocation method for O&M related to IS costs in FortisBC's current BCUC-approved Shared Services Policy.<sup>110</sup>

65. COSCO also submits that an 80 percent allocation to FEI reflects that the ERP Modernization Project includes replacing FEI's existing SAP CRM with SAP Service Cloud, but FBC does not currently use SAP CRM CIS.<sup>111</sup> FortisBC does not agree with COSCO's rationale, as the ERP Modernization Project will enable both FEI and FBC to use and share all upgraded SAP applications and modules. Due to the highly integrated nature of the SAP ERP system and the SAP CRM application, it is difficult to directly break out the asset management effort specifically for upgrading FEI to SAP Service Cloud, just as it is difficult to estimate the specific costs of migrating FBC from Cascade to the Asset Management and Quality Management modules of SAP S/4HANA.<sup>112</sup> Accordingly, it is appropriate to allocate the overall implementation costs of the ERP.<sup>113</sup>

66. The CEC proposes that the ERP Modernization Project costs be allocated 82 percent to FEI and 18 percent to FBC based on its allocation of SAP components based on customer account, employees or rate base, as set out in CEC Table 1.<sup>114</sup> However, the CEC offers no justification for its allocation factors for each SAP component, nor rationale for its key assumption that all SAP components be given equal weight.

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<sup>110</sup> Exhibit B-3, BCUC IR1 11.2. The Shared Service Policy was approved by Decision and Orders G-165-20 and G-166-20 regarding FortisBC's 2020-2024 MRP Application.

<sup>111</sup> COSCO Final Argument, p. 18.

<sup>112</sup> Exhibit B-8, COSCO IR1 5.1; Exhibit B-5, ICG IR1 9.1.

<sup>113</sup> Exhibit B-8, COSCO IR1 5.2.

<sup>114</sup> CEC Final Argument, p. 7.

67. While CEC uses three different allocators (customer account, employees or rate base), customer accounts and rate base result in the same 78 percent / 22 percent allocation between FEI and FBC.<sup>115</sup> Therefore, the only difference between FortisBC's and CEC's allocation is where CEC proposes to allocate SAP components based on number of customers. However, as FortisBC has set out in its evidence and Final Submission (para. 111), 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 the ERP system is not customer-facing and its use by each department is more influenced by the number of employees rather than the number of customers of each utility.<sup>116</sup> CEC proposes, for example, that the Financial Accounting component be allocated based on number of customers. FortisBC has explained, however, that the use of the ERP system for financial and procurement operations would not be impacted by the number of customers; rather, the amount of time the ERP system is used tends to be driven by the number of employees.<sup>117</sup> FortisBC therefore submits that the CEC's proposed approach is not supported.

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

68. CEC and COSCO agree with FortisBC that 100 percent of the costs of the CIS Replacement Project should be allocated to FBC.<sup>118</sup> ICG submits, however, that the costs of the Combined Project – including the CIS Replacement Project – should be allocated 78 percent to FEI and 22 percent to FBC.<sup>119</sup> ICG puts forward numerous reasons for its proposed allocation, all of which have no merit.

69. First, ICG submits that the BCUC has authority to allocate projects costs as between FEI and FBC in a way that does not follow cost causation, to achieve “reasonable rates” and to meet

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<sup>115</sup> Exhibit B-3, BCUC IR1 11.2.

<sup>116</sup> FortisBC Final Argument, para. 11; Exhibit B-3, BCUC IR1 11.2.

<sup>117</sup> Exhibit B-3, BCUC IR1 11.2.

<sup>118</sup> CEC Final Argument, para. 44; COSCO Final Argument, p. 17.

<sup>119</sup> ICG Final Argument, p. 8.

provincial energy objectives.<sup>120</sup> FortisBC submits that this would be an error of law. In Decision and Order G-5-17, the BCUC found that it did not have the jurisdiction to approve low-income rates because to do so would have strayed beyond its statutory jurisdiction, stating: **“The Panel finds there is no evidence that the UCA provides the Commission with the jurisdiction to approve a low income rate in the absence of an economic or a cost of service basis reason.”**<sup>121</sup> [Emphasis in original.] Compared to low income rates, ICG’s proposal strays further from cost of service rate-setting by proposing that FBC costs be foisted on a separate utility, FEI. There is no economic or cost of service basis for allocating these FBC costs to FEI. Therefore, FortisBC submits that the BCUC cannot over-allocate costs of the Combined Project to FEI, even if the purpose were to seek to achieve provincial energy objectives.

70. Second, ICG states that FBC is a smaller utility than FEI and has higher rates than other provincial electric utilities<sup>122</sup> and that “when IS costs, as in the case of the Combined Project, cannot be directly assigned, then the size, scope and rate impacts of FEI and FBC should be considered.”<sup>123</sup> FortisBC submits that the allocation must have a reasonable basis following the principle of cost causation, and that the size, scope and rate impacts of FBC compared to FEI, and the comparison of FBC’s rates to BC Hydro are irrelevant considerations. FortisBC also notes that comparison between FBC’s rates and BC Hydro’s rates is complex, and it cannot be simply assumed that FBC has higher rates than BC Hydro.

71. Third, ICG claims that an estimate of the CIS Replacement Project costs was never prepared.<sup>124</sup> This is not accurate, as FBC has presented an estimate for the CIS Replacement Project in Table 6-1 of the Application. This estimate is based in part on the fixed price proposal

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<sup>120</sup> ICG Final Argument, p. 4.

<sup>121</sup> Decision and Order G-5-17, at page 80, emphasis in original; affirmed on reconsideration in Decision and Order G-87-17; leave to appeal denied in *British Columbia Old Age Pensioners’ Organization v. British Columbia Utilities Commission*, 2017 BCCA 400 at para. 37 (<https://www.canlii.org/en/bc/bcca/doc/2017/2017bccca400/2017bccca400.pdf>).

<sup>122</sup> ICG Final Argument, p. 6.

<sup>123</sup> ICG Final Argument, p. 8.

<sup>124</sup> ICG Final Argument, p. 10.

that FortisBC received for the Combined Project, in which IBM provided separate implementation costs for the ERP Modernization and CIS Replacement scopes.<sup>125</sup> Contrary to ICG, although some costs may be based on an allocation, it does not follow that FortisBC has not provided an estimate of the CIS Replacement Project.

72. ICG submits that there is insufficient justification for the 62 percent / 38 percent allocation between FEI and FBC based on IBM's fixed-price proposal, as IBM is a third party that is not a participant in the proceeding.<sup>126</sup> Contrary to ICG, FortisBC submits that the fact that the allocation was prepared by IBM, a third-party vendor with no stake in the allocation of costs, reinforces the reasonableness of the estimate. IBM assessed that 62 percent of the implementation effort is related to the ERP Modernization scope and 38 percent is related to FBC's CIS Replacement scope, based on IBM's analysis of factors such as user count, technical effort, functional scope for FEI and FBC, system size, governance requirements, and data migration effort.<sup>127</sup> FortisBC submits that this allocation should be accepted.

73. ICG claims that the CIS Replacement Project costs should be treated the same as the costs associated with FBC's migration from Cascade to the Asset Management and Quality Management modules of SAP S/4HANA, which are part of the ERP Modernization Project.<sup>128</sup> The migration is part of the ERP Modernization scope. Due to the highly integrated nature of the SAP ERP system, it is difficult to directly break out the asset management effort specifically for migrating FBC from Cascade to the Asset Management and Quality Management modules of SAP S/4HANA.<sup>129</sup> However, the CIS Replacement Project is a distinct project that is solely attributable to FBC's need to replace CIS Plus. Similarly, when FEI replaced its legacy CIS with an SAP-based

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<sup>125</sup> Exhibit B-6, RCIA IR1 3.1.

<sup>126</sup> ICG Final Argument, paras. 11 to 14.

<sup>127</sup> Exhibit B-6, RCIA IR1 3.1.

<sup>128</sup> ICG Final Argument, paras. 24-26.

<sup>129</sup> Exhibit B-8, COSCO IR1 5.1; Exhibit B-5, ICG IR1 9.1.

system in 2012 through its Customer Care Enhancement Project,<sup>130</sup> FEI bore 100 percent of the costs of that project.

74. Overall, FortisBC submits that ICG has not identified any reasonable basis on which to change the proposed allocation of the CIS Replacement Project costs. These costs are solely attributable to FBC and therefore should be allocated 100 percent to FBC.

#### **PART FIVE: ACCOUNTING TREATMENT REQUESTS ARE JUST AND REASONABLE**

75. This part responds to intervener submissions related to FEI and FBC requests for 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. The only intervener to take issue with FortisBC's proposals in this regard is CEC, which recommends a 13-year useful life for the Combined Project assets. FortisBC responds to CEC below.

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

76. The CEC recommends that the BCUC approve a 13-year useful life, with a resulting depreciation rate of 7.69 percent, "to reflect the opportunity for a 13-year useful life."<sup>131</sup> CEC derives the 13-year useful life based on SAP's announcement that mainstream support for the S/4HANA platform will be available through 2040, "thus potentially extending the service life of the Combined Project to 13 years." However, given the expected completion date for the Combined Project by the end of 2028,<sup>132</sup> this would not result in a service life of 13 years. In any case, as FortisBC has submitted,<sup>133</sup> a depreciation rate based on SAP's announcement is not preferred as it is not recommended by Concentric Advisors, ULC (Concentric), and SAP's

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<sup>130</sup> Exhibit B-1-3, Application, p. 13.

<sup>131</sup> CEC Final Argument, paras. 19 and 50.

<sup>132</sup> Exhibit B-1-3, Application, p. 89.

<sup>133</sup> FortisBC Final Argument, Part Seven, Section A.

announcement does not contractually obligate it to provide maintenance support. FortisBC submits that a depreciation rate of 10 percent applicable to the SAP S/4HANA software and components<sup>134</sup> 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 and expectations for the current generation of cloud-based software systems.<sup>135</sup>

## **PART SIX: REPORTING REQUIREMENTS**

77. COSCO submits that the reporting requirements should mirror those ordered for BC Hydro in Order G-44-25.<sup>136</sup> FortisBC notes that the reporting requirements for BC Hydro in Appendix A to Order G-44-25 are tailored to BC Hydro's governance model and have been developed by the BCUC in conjunction with BC Hydro's Capital Filing Guidelines, which do not apply to FortisBC. As such, FortisBC submits it would not be reasonable or appropriate to simply apply BC Hydro's reporting requirements to FortisBC. FortisBC recommends reporting requirements consistent with what the BCUC has previously directed FortisBC to follow in past CPCN Orders, such as in Section 9 of Decision and Order C-2-25 approving the FEI Okanagan Capacity Mitigation Project or Appendix C of Order C-6-25 approving the FEI Tilbury Liquefied Natural Gas Storage Expansion Project.

## **PART SEVEN: CONCLUSION AND REQUESTED DETERMINATION**

78. FortisBC submits that interveners have overall expressed a high level of support for the need for the Combined Project, the preferred alternatives, and the implementation approach. Where interveners have expressed concerns, FortisBC submits that these concerns are without merit and should be rejected.

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<sup>134</sup> 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.

<sup>135</sup> 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.

<sup>136</sup> COSCO Final Argument, p. 23.

79. 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: April 20, 2026

*[original signed by Chris Bystrom]*

Chris Bystrom

Counsel for FortisBC Energy Inc. and  
FortisBC Inc.