

IT-Related ATCO Interventions – Decision Summary

EXECUTIVE SUMMARY

The purpose of this report is to provide information on decisions made by the Alberta Utility Commission (AUC) on proceedings where The City participated as an intervener. Both ATCO Pipelines and ATCO Electric filed rate applications that requested substantial funds for IT-related capital projects. The City of Calgary intervened in the AUC proceedings, expressing concern over the quality of ATCO's business cases substantiating the need for the projects. The AUC concurred with Calgary's concerns in both proceedings, and disallowed a total of approximately \$20 million in costs.

ADMINISTRATION RECOMMENDATION(S)

That the Gas, Power, and Telecommunications Committee:

1. Receive this report for information

PREVIOUS COUNCIL DIRECTION / POLICY

The Gas, Power and Telecommunications Committee has requested that Decision Reports be prepared for AUC proceedings where The City participates as an intervener.

BACKGROUND

The City originally intervened in these proceedings because it was the first opportunity to test the Master Service Agreements between ATCO and its IT service provider, Wipro, in the aftermath of the Evergreen proceedings. However, IT issues common to the ATCO Utilities have been re-assigned to the ATCO Utilities Common Matters proceeding. Consequently, the focus of The City's intervention shifted to related IT issues; namely service levels, IT capital projects, and asset management systems.

In its 2015-2017 General Tariff Application, ATCO Electric Transmission (AET) requested that substantial IT costs be included in its revenue requirement. AET sought approval of \$75 million in IT expenditures, as well as \$10 million in relation to its asset management program. AET forecast that its IT volumes would increase through the test period, and anticipated associated operating costs of \$26.8 million. However, matters related to the pricing of IT services are to be considered in the Common Matters Proceeding, and were therefore deemed out of scope for this proceeding.

Similarly, ATCO Pipelines (AP) filed its 2015-2016 General Rate Application, which requested the approval of \$19.4 million in IT costs, and \$4.95 million for its asset management proposal. In addition to the capital costs for the proposal, AP also endeavoured to be compliant with the International Organization for Standardization's (ISO) asset management systems requirements under ISO 55001. AP requested \$1.6 million to conduct a gap analysis to assess its current processes and documentation relative to the ISO 55001 standard, and to produce a roadmap for AP to achieve the certification. As was the case with AET, AP's forecast for IT operating costs was considered beyond the scope of the proceeding.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Calgary's objections to both proposals were primarily focused on the lack of proper business cases supporting both IT capital projects and asset management programs. Calgary highlighted the fact that the utilities were holding themselves to a lower standard for their regulatory

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business cases than they require from Wipro, its IT supplier, or which the ATCO Group requires internally. Because of this, AET and AP failed to discharge its onus to demonstrate that the requested costs were just and reasonable.

Asset Management

Throughout the proceeding, Calgary highlighted the fact that AET had spent close to \$10 million on work related to asset management without ever providing a full and complete business case. Calgary argued that these costs should be disallowed until AET met previous Commission directives, which include a detailed cost/benefit analysis, and a benefits realization plan. The Commission agreed, and disallowed all costs associated with AET's asset management program.

The same result was achieved in AP's application. Calgary successfully argued that the \$4.95 million in costs for AP's asset management should be disallowed until a proper business case was filed. Calgary also pointed out that the \$1.6 million in costs associated with the ISO 55001 standards be disallowed until AP provided a justification for undertaking the work. The Commission concurred, and disallowed the costs.

IT Capital Projects

In its analysis of AET's filings, Calgary found that AET either failed to produce an adequate business case for its IT projects, or neglected to provide one at all. Calgary argued that this was grounds for disallowance for IT related capital projects. Although the Commission allowed several projects to go forward, it denied a total of \$2.5 million for three projects.

Stakeholder Engagement, Research and Communication

Not applicable.

Strategic Alignment

This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)

Not applicable.

Financial Capacity

Current and Future Operating Budget:

This report does not propose a decision and there is no direct budget or business plan implication.

Current and Future Capital Budget:

There are no budget or business plan implications arising from this report.

Risk Assessment

No specific risks are associated with this report

REASON(S) FOR RECOMMENDATION(S):

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This report provides information to GPT Committee members to assist them in their understanding of regulatory issues that affect The City's interests.

ATTACHMENT(S)

None.