



**SAP IMPLEMENTATION INTERFACE BUSINESS CASE
2005-2009**

Executive Summary

As part of the Centrica plc corporate implementation of SAP, Direct Energy Marketing Limited (DEML) will be adopting SAP as its financial and accounting system in 2005. DEML is proposing the SAP Implementation Interface project (SAP Project) to reconcile its SAP system with ATCO I-Tek and to develop certain improved financial and regulatory processes and reporting tools.

This business case describes the costs and benefits of the SAP Project, including incremental cash flow analysis and revenue requirement impact. The DEML Western Region total cost of the SAP Project is forecast to be \$0.6 million; 90% of the total cost (\$0.5 million) has been allocated to Direct Energy Regulated Services (DERS). The expected revenue requirement to DERS over the 2005-2006 period is summarized below.

2005 Incremental Revenue Requirement (\$000)	2006 Incremental Revenue Requirement (\$000)
\$53.6	\$141.4

In consideration of the information presented herein, DERS recommends proceeding with the SAP Project.

Table of Contents

1. INTRODUCTION	1
1.1 BUSINESS CASE SUBJECT	1
1.2 BACKGROUND	1
1.3 TECHNICAL/BUSINESS DRIVERS.....	2
1.4 BENEFITS RATIONALE	2
2. PROJECT DESCRIPTION.....	3
2.1 PROJECT COST DESCRIPTION	3
2.2 PROJECT COST ASSUMPTIONS	4
2.3 ALTERNATIVES TO THE SAP PROJECT	5
3. FINANCIAL METRICS.....	5
3.1 ANALYSIS PERIOD.....	5
3.2 REVENUE REQUIREMENT.....	5
3.3 CASH FLOW	6
3.4 SENSITIVITY ANALYSIS	7
4. CONCLUSIONS AND RECOMMENDATIONS	7

1. Introduction

1.1 Business Case Subject

This business case examines the projected costs of DERS' proposed SAP Implementation Interface (SAP Project). The purpose of the SAP Project is to design and implement SAP best practice processes applicable to DERS and to build an interface for financial information flow between ATCO I-Tek and DERS. The SAP Project is planned as an adjunct to Centrica's corporate replacement of the Platinum financial system with SAP.

The project capital costs have been allocated between regulated and competitive business lines consistent with other such allocations, namely 90% regulated and 10% competitive. Unless otherwise noted, all references to the SAP Project costs and benefits in this business case relate only to that portion allocated to DERS. DERS will include the 90% allocation of the SAP Project costs in its 2005-2006 forecast revenue requirement, pro-rated between DRT and RRT on the basis of customer count.

1.2 Background

In 2002, DEML entered into an agreement with the ATCO Group (ATCO) to transfer ATCO's natural gas and electricity retail functions to DEML. Subject to certain conditions, the EUB approved the transfer in Decision 2003-098, including the appointment of DERS to perform the Default Supply Provider and Regulated Rate Tariff functions on behalf of ATCO. Consequently, DERS provides natural gas to approximately 850,000 households and electricity to 165,000 households in Alberta, along with certain regulated customer care services.

DERS is a division of Centrica Canada (Centrica). As part of the corporate shared services, DERS utilizes Centrica Canada's Platinum financial system as its financial accounting system. Centrica is currently replacing the Platinum system with a corporate

wide mySAP version 5.0, scheduled to be in service by September 2005. The SAP Project is designed to address DERS' specific financial system requirements and does not include any of Centrica's capital costs in respect of the corporate SAP implementation.

1.3 Technical/Business Drivers

The SAP Project is planned to correspond with Centrica's corporate replacement of the Platinum system with SAP. From DERS' perspective, the limitations of the current Platinum system have forced DERS to develop manual processes and workarounds. The SAP Project will allow DERS to replace these inefficient practices with best practice processes and controls.

DERS has designed the SAP Project to ensure that its system is configured to meet both internal and external financial reporting and regulatory requirements and that the ATCO I-Tek interfaces are mapped accordingly. Since SAP will have a new code structure, the Platinum codes currently imbedded in the ATCO I-Tek system will be remapped as part of the reconciliation process of the two systems.

1.4 Benefits Rationale

The implementation of SAP within DERS will result in the following benefits which DERS expects to realize approximately one year after implementation. Such delay is due to learning curve and potential technical implementation issues in the first year.

- New functionality such as enhanced access and reporting capabilities which results in improved financial management
- Reduced system maintenance and down time
- Increased effectiveness of end-users with the removal of manual processes

- Reduced employee training time
- Increased job satisfaction
- Responsiveness and flexibility to address future regulation requirements (eg. Uniform Chart of Accounts)

2. Project Description

The SAP Project scope includes the re-mapping, design and implementation of:

- (a) SAP best practice processes applicable to DERS (utilizing local SAP consultants with utility experience to conduct this exercise);
- (b) the interface for financial information between ATCO I-Tek and DERS' SAP system;
- (c) reporting tools that will allow DERS to simplify the regulatory deferral account calculations and GCFR filings; and
- (d) adjustments to coding and reporting to efficiently comply with Alberta Uniform Chart of Accounts.

2.1 Project Cost Description

DEML has estimated the total capital cost of the SAP Project in Alberta at \$0.6 million, comprised of external labour costs. 90% of those costs are allocated to DERS, and 10% allocated to the competitive business. DERS has allocated these capital project costs to the DRT and RRT on the basis of customer count as shown below.

SAP Project Cost Description

Cost Description	2005 Forecast Cost (DERS) (\$000)
Project scope and mapping	\$81.0
Report specifications, testing, project management	\$112.7
Planning and modelling	\$59.9
ATCO I-Tek Interface	\$244.5
Total DERS Forecast Cost	\$498.1
Allocated to DRT (83.29%)	\$414.8
Allocated to RRT (16.71%)	\$83.2

2.2 Project Cost Assumptions

DERS has made the following general assumption in the projected costs of the SAP Project.

- In-service date: August 31, 2005.
- Operating Cost increase: \$0.
- Discount rate for net present value calculations: 10.1%, based on the applied-for working capital carrying costs in DERS' 2005-2006 DRT and RRT Application, prorated between DRT and RRT on the basis of forecast 2005 customer count.
- Capital cost allocation between DRT and RRT based on 2005 customer count.
- 2005 customer count allocation factors: 83.29% DRT and 16.71% RRT.

2.3 Alternatives to the SAP Project

The SAP Project is a Centrica initiative which has involved a lengthy process of evaluating alternative suppliers to upgrade the corporate financial systems. Various vendor proposals were evaluated including an upgrade proposed to the Platinum systems. DERS current and future requirements were considered in this evaluation process. The SAP product was chosen as superior to all other options and a preferable option to DERS.

3. Financial Metrics

3.1 Analysis Period

This business case covers the full five year period from 2005-2009 in respect of cash flow analysis and 2005-2006 in respect of revenue requirement impact.

3.2 Revenue Requirement

The SAP Project will result in an overall revenue requirement increase, as shown in the table below. The calculation of incremental revenue requirement accords with those methods used in DERS' 2005-2006 DRT and RRT Application and is segregated into working capital carrying costs and amortization, allocated to the DRT and RRT.

SAP Project Incremental 2005 -2006 Revenue Requirement

Incremental Revenue Requirement	DRT		RRT	
	2005 (\$000)	2006 (\$000)	2006 (\$000)	2007 (\$000)
Working Capital Carrying Costs	17.0	34.9	3.4	7.0
Amortization	27.7	83.0	5.5	16.6
Total Revenue Requirement	\$44.7	\$117.8	\$8.9	\$23.6

3.3 Cash Flow

This analysis includes incremental cash flow estimates in C\$000 for each year of the analysis period. The discount rate for net present value calculations is assumed to be 10.1% in each year of the 2005-2009 analysis period. The discount rate represents a blended rate for DRT and RRT, pro-rated by customer count and calculated as:

DRT working capital carrying costs rate of 10.19% multiplied by 83.29%

Plus

RRT working capital carrying costs rate of 9.7% multiplied by 16.71%.

SAP Project Cash Flow and Net Present Value

Incremental Cash Flow in \$000						
	2005	2006	2007	2008	2009	Total
Cash Flow Summary						
Capital Expenditures	(498)	0	0	0	0	(498)
Operating Expense	0	0	0	0	0	0
Total Cash Outflows	(498)	0	0	0	0	(498)
Net Present Value						
Discounted Cash Flow Stream	(452)	0	0	0	0	(452)

3.4 Sensitivity Analysis

A 10% increase or reduction in the estimated SAP Project cost would have an equivalent effect on 2005-2006 revenue requirement and net present value. A delayed in-service-date for the SAP Project would reduce amortization by approximately \$8,300 for each month of delay; working capital carrying costs would also be reduced depending on the number of months delayed.

4. Conclusions and Recommendations

Based on the information provided herein, DERS recommends proceeding with the SAP Project. The SAP Project has been designed to cost effectively integrate DERS' financial operations with its parent, Centrica, and its external customer care service provider, ATCO I-Tek.