



November 22, 2018

To: British Columbia Hydro and Power Authority
Registered Interveners

Re: British Columbia Hydro and Power Authority – Inquiry of Expenditures Related to the Adoption of the SAP Platform – British Columbia Utilities Commission Action on Complaint – Project No. 1598878 – Un-redacted Evidence

On September 7, 2018, the British Columbia Utilities Commission issued the SAP Inquiry Report. On page 15 of the Report, the Panel stated:

Based on the Panel’s findings in this Section of the SAP Inquiry Report, we consider it in the public interest to release additional information contained in Exhibit B-24. As this evidence is not directly quoted in the body of the SAP Inquiry Report, the Panel will release this further un-redacted evidence subsequent to the issuance of this Report.

Further to the Panel’s findings, enclosed is additional un-redacted evidence from Exhibit B-24.

Sincerely,

Original signed by:

Patrick Wruck
Commission Secretary

PW/ad
Enclosure



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BY E-FILING

June 28, 2017

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British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

**Re: British Columbia Utilities Commission (Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Inquiry of Expenditures related to the adoption of the SAP Platform (Inquiry)
Project No. 3698878**

We write on behalf of BC Hydro in connection to Commission Order No. G-86-17 which directs BC Hydro to file the Code of Conduct complaint received by BC Hydro's Code of Conduct Advisor in April 2010 (the Code of Conduct Complaint) and documents related to the resolution of that complaint.¹ As outlined below and detailed in the confidential information we are filing with the Commission separately in hard copy, BC Hydro is submitting the Code of Conduct Complaint and approximately 100 documents related to the resolution of the Code of Conduct Complaint in 2010 and also related to a review of the Code of Conduct Complaint undertaken in 2016 (2016 Review).

The documents are filed on a confidential basis

BC Hydro remains of the view that all Code of Conduct matters at BC Hydro must be treated with a high degree of confidentiality to ensure all parties involved are provided with a confidential environment in which to report and address sensitive and confidential Code of Conduct questions or concerns. BC Hydro encourages its employees to report suspected Code of Conduct breaches and provides assurances that whistle-blower reporting will be kept strictly confidential except in truly exceptional circumstances.

Due to these concerns, and as noted in BC Hydro's June 13, 2017 letter to the Commission requesting a two-week extension to the date for filing this evidence, BC Hydro's Ethics Officer

¹ Pursuant to Order No. G-92-17 the Commission extended the date for BC Hydro's filing to June 28, 2017.

was asked to review the documents to be filed with the Commission and help BC Hydro to better understand the impact that disclosure could have on the Code of Conduct reporting program. The Ethics Officer has set out his views on the matter in a letter to the Commission which is enclosed with this submission. The Ethics Officer's letter emphasizes the importance of safeguarding the confidentiality and preserving the integrity of BC Hydro's whistleblowing process, and urges the Commission to ensure confidentiality of any employees' identities and personal information contained within the documents being provided.

In its Order No. G-86-17 Decision, the Commission acknowledged the concerns regarding protection of private personal information, and also noted that it is sensitive to the concern that disclosure of the Code of Conduct Complaint could discourage future Code of Conduct reporting. Accordingly, Order No. G-86-17 provides that BC Hydro shall redact any information BC Hydro considers necessary to protect the privacy of personal information of the individuals referenced in the requested documents.

In considering how to fulfill the directives of the Commission's order, BC Hydro has considered the advice of the Ethics Officer and his strong concerns that disclosure of the identities and personal information contained in the documents would betray trust and create significant risk to BC Hydro and its stakeholders.

BC Hydro also considered its *Freedom of Information and Protection of Privacy Act* (FOIPPA) obligations to protect personal information that is in BC Hydro's custody and control. Specifically, pursuant to section 30.4 of FOIPPA, "an employee, officer or director of a public body..., who has access, whether authorized or unauthorized, to personal information in the custody or control of a public body, must not disclose that information except as authorized under this Act." FOIPPA defines personal information broadly as "recorded information about an identifiable individual other than contact information". Pursuant to sections 33 and 33.1(1)(t) of FOIPPA, a public body may disclose personal information to comply with an order made by a court or a body such as the Commission.

We have considered what redactions would be necessary to protect the privacy of identifiable individuals, and have concluded that in these circumstances a great majority of the information would need to be redacted. It would not be sufficient to redact the names of individuals, for example, because the individuals could be readily identified by other information in the documents and connected to the private personal matters addressed. If we redacted the names of individuals, information that indirectly identifies individuals and their private personal information, there would be little information left unredacted. We believe such an approach would frustrate the intent of the Commission's order. Accordingly, we are submitting the documents unredacted on a confidential basis.

BC Hydro specifically requests confidential treatment of the information we are filing separately in hard copy with the Commission to protect the privacy of personal information and mitigate harm to the Code of Conduct reporting program.

BC Hydro also requests that access to the confidential documents be limited to the Commission and legal counsel for interveners again to ensure that these documents are handled with the utmost care. Legal counsel for interveners may have access to hard copies of the confidential documents by signing and submitting the Commission's Confidentiality Declaration and Undertaking Form.

Order No. G-86-17 provides for one round of information requests on these documents. BC Hydro requests that the information request process also be confidential for the same reasons articulated above. For greater certainty, information requests would be submitted to BC Hydro on a confidential basis, and BC Hydro's response would be submitted on a confidential basis.

Following the information request process, if the Commission or an intervener counsel believes that any of the information should be placed on the public record, redaction of specific documents could be considered at that time.

Overview of Code of Conduct Complaint process in 2010 and related confidential documents

The Commission has directed BC Hydro to file the Code of Conduct Complaint and documents related to the resolution of the Code of Conduct Complaint. Concurrently with this letter, we are filing separately with the Commission approximately 100 confidential documents in hard copy. A full listing of the documents and explanatory comments are included within the confidentially filed binder of documents. The following overview of BC Hydro's Code of Conduct reporting process as it was in 2010 is provided to place these documents in context.

In 2010, Code of Conduct concerns were reported to the independent Code of Conduct Advisor (a contractor). The Code of Conduct Advisor would forward a report of a potential breach of the Code of Conduct, on an anonymous basis, to BC Hydro's Director of Audit Services who would lead the review of the allegations. A copy of the Code of Conduct Complaint that the Director of Audit Services received from the Code of Conduct Advisor in April 2010 is provided at Tab 1 of the confidentially filed binder.

BC Hydro notes that the process now used in investigating and reviewing Code of Conduct concerns has been revised since 2010. Code of Conduct concerns are now reported to BC Hydro's Ethics Officer and if an investigation is to be undertaken, an external independent investigator is engaged and provided with terms of reference to be followed. A written report is then provided to the Ethics Officer from the independent investigator.

An extract of the Audit Services Operations Manual in respect of the Code of Conduct process, as it was in 2010, is provided at Tab 2 of the confidentially filed binder. The Director of Audit Services would lead the review of the allegations in coordination with representatives of the Corporate Human Resources group, Corporate Security group and/or the Legal Department as required. A great majority of the documents in the confidential enclosure consist of emails among the BC Hydro staff investigating the Code of Conduct Complaint.

The Director of Audit Services reported the findings to the Code of Conduct Advisor, the Chair of the Audit and Risk Management Committee (ARMC) of the Board of Directors and the appropriate BC Hydro officer(s). A copy of the report of the Director of Audit Services with respect to the Code of Conduct Complaint is provided at Tab 78 of the confidentially filed binder.

The Director of Audit Services presented the report to the Chair of the ARMC in person. A summary report was also provided to all ARMC members. A copy of the summary report provided to all ARMC members is provided at Tab 84 of the confidentially filed binder.

Any communication back to the complainant would have been by the Code of Conduct Advisor. BC Hydro is not aware of any documents related to the Code of Conduct Advisor's communications with the complainant. BC Hydro understands that the Code of Conduct Advisor's practice was to communicate with reporting employees verbally and not by written correspondence.

Overview of the 2016 Review and the 2010 Code of Conduct Complaint and related confidential documents

As stated in BC Hydro's January 8, 2016 response to the initial December 2015 complaint from Mr. Dix, filed as Exhibit A2-2 in this inquiry, BC Hydro took the allegations in that complaint very seriously and accordingly, undertook an extensive search and review of all internal records related to that complaint. In addition, BC Hydro initiated a Code of Conduct review (2016 Review) through the BC Hydro Ethics Office, and conducted by an external investigator, in order to gain further insights into the judgements that led to the testimony itself and the failure to correct the record.

The search and review of internal records included a review of the Code of Conduct Complaint which BC Hydro referenced in its September 30, 2016 letter filed as Exhibit B-8 of this Inquiry by stating: "BC Hydro also notes that during our review of materials while preparing our January 8, 2016 submission, we reviewed a relevant Human Resource (HR) matter that arose in 2010. Due to the confidentiality of such matters, BC Hydro has not included this document herein but raised that fact to the attention of the Commission."

As noted in BC Hydro's earlier letter dated May, 17, 2017 filed as Exhibit B-15, the Code of Conduct Complaint is almost identical to Mr. Dix's complaint. Through the review of the Code of Conduct Complaint, BC Hydro became concerned that the scope of the Code of Conduct review in 2010 was too narrowly focused on the legal requirements for testimony and document filings at Commission hearings and whether those legal requirements were met. The 2010 review did not take into consideration whether or not the overall culture at BC Hydro and its relationship with the Commission may have indicated a systemic problem. The scope of the 2016 Review was therefore expanded to address these issues as set out in the Terms of Reference for the 2016 Review listed below.

As stated in the January 8, 2016 response, BC Hydro believes that the testimony relating to IT&T expenditures in the F2009/F2010 RRA oral hearing during October 2008, including the failure to update the Commission on the SAP strategy, did not attain the standards BC Hydro expects of itself for its participation in regulatory processes before the Commission.

For this reason and to ensure a similar situation does not happen again, BC Hydro purposefully designed the terms of reference for the 2016 Review to obtain further insight into the judgements that led to those shortcomings during the 2008 hearing that are at the centre of both the Code of Conduct Complaint submitted to the Code of Conduct Advisor in April 2010 and the complaint Mr. Dix submitted to the Commission in December 2015. Specifically the terms of reference for the 2016 Review were:

1. To determine if BC Hydro had developed an overall culture and identified an approach to its relationship with BCUC in 2008 and if so to determine what it was and what expectations were communicated to its employees in the context of sharing information with BCUC.
2. To determine if the conduct demonstrated by BC Hydro staff aligned with our expectations at the time (safety/service/integrity/accountability/teamwork/ingenuity).
3. To determine the nature of employees' understanding of the regulatory process and evidentiary requirements.
4. To obtain learnings from the 2008 Regulatory Review Process to inform the development of appropriate Regulatory practices in the future.

The 2016 Review also investigated whether there was an internal systemic problem in 2008, why the complainant did not come forward with the concerns about the testimony during the F2009/F2010 Revenue Requirements Application proceeding sooner, and why the Code of Conduct Complaint indicated a misunderstanding of the nature of the SAP strategy and of BC Hydro's financial oversight and project governance policies

While eight years had passed, the report on the 2016 Review concluded that there was no evidence of an internal systemic problem in 2008, found no evidence of any intent to withhold information from the Commission, and suggested that the shortcomings of the testimony in 2008 could be attributable to inexperience and a lack of understanding of the significance of the regulatory process.

The report on the 2016 Review contains confidential personal information about individuals involved, and is provided at Tab 95 of the confidentially filed binder.

As previously described, the confidential information we are filing with the Commission separately in hard copy includes a full listing of the documents being provided and explanatory comments respecting the documents.

Yours very truly,

LAWSON LUNDELL LLP



Ian Webb

Letter dated June 22, 2017 from Peter Clark, BC Hydro Ethics Officer, to the Commission is enclosed.

Six copies of the binder of confidential documents are being submitted separately in hard copy to the Commission.

cc. BC Hydro and Registered Interveners (without confidential documents)



Peter Clark
Ethics Officer
Ethics Office, BC Hydro
Phone: 604-528-3400

June 22, 2017

Mr. Patrick Wruck
Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Sixth Floor – 900 Howe Street
Vancouver, BC V6Z 2N2

Dear Mr. Wruck:

**RE: Project No. 3698878
British Columbia Utilities Commission (BCUC or Commission)
BC Hydro and Power Authority (BC Hydro)
BC Hydro Code of Conduct Advisor (Code Advisor)
Expenditures Related to the Adoption of the SAP Platform**

I understand that BC Hydro is directed to file the April 2010 Code of Conduct complaint received by our Code of Conduct Advisor; and documentation relating to the resolution of this complaint, including any internal report(s) prepared by BC Hydro, as well as any letter(s) or documentation provided to the complainant at the conclusion of the investigation. It is my further understanding that BC Hydro is directed to redact information which BC Hydro considers necessary to protect the privacy of the complainant and personal information of the individuals who are referenced in the requested documents. I applaud the direction by the BCUC to preserve the confidentiality of the complainant's name and the privacy of others referenced in the requested documents.

As BC Hydro's Ethics Officer, I want to share my rationale and emphasize the importance of safeguarding the confidentiality and preserving the integrity of BC Hydro's confidential disclosure and/or whistleblowing process. Confidentiality is the cornerstone of the Ethics Office. It preserves the sanctity of our employee's trust when they report a violation of The Code knowing that we will not put them at risk of harm by ensuring their identities and personal information remain confidential.

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Maintaining the trust of our employees and the public is so important that we champion it in the first five words of our vision 'to be the most trusted, innovative utility company in North America... by being smart about power in all we do'. BC Hydro wants to continue to build and sustain a culture of trust with our employees because it is vital for their confidence in the Ethics Office and BC Hydro's Code of Conduct. The Code explicitly states we will preserve an employees' privacy when we receive their confidential disclosures, witness statements and/or when providing confidential counsel. BC Hydro's continued desire is to foster a respectful and open environment that encourages diverse opinions, and the freedom to raise concerns and report unethical or illegal conduct. To achieve this, we encourage confidential internal disclosures and whistleblowing:

The privacy of anyone who seeks advice or discloses a breach or potential breach under the Code will be respected by management of BC Hydro as much as is possible in the circumstances.

Any disclosures or reports under the Code will be treated as confidential and will only be disclosed if absolutely necessary (for example where there is a threat of serious harm). This confidentiality is subject to all laws, which may oblige us to disclose information.

We will not permit any individual who, in good faith, has made a disclosure about another person or party having breached or potentially breached the Code to suffer any adverse consequences as a result.

From my observations, it takes enormous courage to report unethical or illegal conduct because of the fear of retaliation from making a disclosure. We count on and require our employees to report potential violations of our code of conduct to ensure that we are able to respond appropriately, impartially and in a timely manner.

I deem it be our continued duty to create a safe space for disclosures in a respectful and open environment where our employees are confident about and trust in our stewardship of their disclosure. They need to be assured that their concerns will be investigated in a way that keeps them safe from current and future harm.

I believe that we have earned our employee's trust one disclosure at a time by consistently demonstrating our trustworthiness in protecting disclosing person's identities and personal information while impartially investigating their concerns. Trust takes a very long time to develop and can be very quickly diminished if betrayed.

While holding the sanctity of our employee's trust is paramount, I also recognize the importance of maintaining our stakeholders trust by consistently communicating and operating with openness and transparency in everything we do. These principles support our values of integrity and trust and are fundamental to the way BC Hydro serves our communities.

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To earn the trust of our employees and of our stakeholders is our vision. To achieve this, we must balance confidentiality with transparency. We must uphold the promise of confidentiality and therefore the safety of disclosing persons and witnesses while openly, transparently and impartially sharing information with integrity when required.

I have strong concerns that disclosing the identities and personal information of the persons involved with our internal Code of Conduct reviews would betray the trust of our employees. It would place our trusting and vulnerable employees who cared enough to disclose essential information into positions of potential harm. It would cast doubt on BC Hydro's commitment to safety and confidentiality and jeopardize the willingness of people to come forward with future concerns about unethical or illegal conduct. This would create significant risk to BC Hydro and its' stakeholders by closing the door on those whose voices need to be heard. It would undermine the trust of our employees and create a culture of fear, avoidance and mistrust. This would be the antithesis of what we stand for. Risks of misconduct are significantly heightened in environments where confidential reporting of wrongdoing is not supported or protected.

We must uphold the trust of both our employees and our stakeholders. For this reason, I urge the commission to ensure confidentiality of any employees' identities and personal information contained within the submission of the attached documents. I would request that their review uphold the sanctity of our employee's trust in the confidential disclosure process that is integral to BC Hydro. Please help us to protect the cornerstone of the Ethics Office and safeguard BC Hydro's culture of trust.

Sincerely,

A handwritten signature in black ink, appearing to read "P. Clark". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

Peter F. Clark
Ethics Officer
BC Hydro

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BC Hydro SAP Inquiry - Summary of Documents

Since December 2015 BC Hydro has performed an extensive and ongoing review of the issues raised in the initial December 2015 complaint from Mr. Dix and the SAP Inquiry which has involved reviewing upwards of 550,000+ documents. As part of that review, BC Hydro has reviewed the following documents related to the internal Code of Conduct complaint received by BC Hydro's Code of Conduct Advisor in and around April 2010 (the **Code of Conduct Complaint**) and documents related to the resolution of the Code of Conduct Complaint.

BC Hydro has identified approximately 100 documents consisting primarily of emails and attachments that were produced and/or reviewed by the individuals conducting the investigation into the Code of Conduct Complaint in 2010. These documents cover the date range of approximately April 2010 – September 2010.

To put the below documents in context, the following individuals are identified as being key people involved in the review and resolution of the Code of Conduct Complaint¹:

- Bonita Thompson, Q.C.: external Code of Conduct Advisor
- Ray Aldeguer: Senior Vice-President, Corporate Resources and General Counsel
- Debbie Nagle: Chief Human Resources Officer
- Charles Reid: Executive Vice-President and Chief Financial Officer
- David Avren: Director, Legal Services
- Henry Honda: Director, Audit Services
- Rick Prinja: Senior Audit Manager
- Albert Lagnado: Acting Head of Audit Services
- [REDACTED] Chief Information Officer
- [REDACTED] Chief Regulatory Officer

Below is a listing of each of the documents contained in the attached confidential binder with a short description of the document, where applicable.

It appears that in and around April 2010, Ms. Thompson, BC Hydro's external Code of Conduct Advisor, received a copy of the Code of Conduct Complaint. A copy of the Code of Conduct Complaint Ms. Thompson forwarded to certain BC Hydro staff is attached at Tab 1. Upon receipt, Ms. Thompson forwarded the complaint to Ray Aldeguer and Debbie Nagle. On April 29, 2010, Ms. Thompson referred the Code of

¹ All references to title and position are to the individual's position as it was in 2010 during the relevant time period.

Conduct Complaint to the attention of Henry Honda, Audit Services, under BC Hydro's Financial Disclosures Policy.

A copy of the relevant pages from BC Hydro's Audit Operations Manual which outlines the process Audit Services used in 2010 to conduct special reviews/investigations is attached at Tab 2.

David Avren (Director of Legal Services), Henry Honda, Rick Prinja and Albert Lagnado (all in Audit Services) formed the internal BC Hydro team that conducted the investigation into the Code of Conduct Complaint.

Tab	Document Type	Summary of Contents	Date
Copy of 2010 Code of Conduct Complaint			
1.	Summary of the Evidence of a Possible Breach of the Code of Conduct	Document summarizing 2010 IT Complaint and evidence regarding possible breach of Code of Conduct	Date unknown, received in and around April 2010
2.	BC Hydro Audit Services Audit Operations Manual - Version 9	Extract from pp. 27, 28, and 41 of the Audit Operations Manual specifying process for special reviews/fraud investigations in 2010	August 2014
Notification of Code of Conduct Complaint from Code of Conduct Advisor			
3.	E-mail from Bonita Thompson to Ray Aldeguer, Debbie Nagle	Subject "Disclosure of possible breach" - e-mail from Thompson asking to discuss facts to see if possible breach	April 6, 2010
4.	E-mail from Bonita Thompson to Ray Aldeguer	Subject "Re: Disclosure of possible breach" - follow-up to set time for teleconference	April 6, 2010
5.	E-mail from Bonita Thompson to Ray Aldeguer, attached Summary of the Evidence of a Possible Breach of the Code of Conduct	Subject "Re: Summary of disclosure" - Thompson providing Code of Conduct Complaint	April 6, 2010
6.	E-mail from Debbie Nagle to Ray Aldeguer	Subject "Re: Code Of Conduct Matter" - discussion regarding providing Reid with materials provided by Thompson	April 7, 2010

Tab	Document Type	Summary of Contents	Date
7.	E-mail from Bonita Thompson to Charles Reid, FW to Ray Aldeguer, Debbie Nagle	Subject "Last meeting" - Thompson contacted by employee who made disclosure; agreed to follow-up meeting	April 19, 2010
8.	E-mail from Debbie Nagle to Charles Reid, Ray Aldeguer	Subject "Re: Last meeting" – Nagle indicating she will update Reid	April 19, 2010
9.	E-mail from Bonita Thompson to Ray Aldeguer, Debbie Nagle	Subject "Meeting" - question about whether Reid or Lagnado attending meeting	April 21, 2010
10.	E-mails between Bonita Thompson, Ray Aldeguer, Debbie Nagle	Subject "Re: Meeting" – e-mails confirming intent not to have Reid or Lagnado at initial meeting	April 21, 2010
11.	E-mail from Bonita Thompson to Ray Aldeguer, Debbie Nagle	Subject "Referral" - confirmation that information regarding representations to BCUC regarding financial information referred to Audit Services	April 29, 2010
12.	E-mail from Henry Honda to Albert Lagnado and Rick Prinja	Subject "FW: Referral" – forward of e-mail from Thompson to Honda on April 29, 2010 confirming that the allegations have been referred to Audit Services	April 29, 2010
Emails Related to Code of Conduct Complaint Investigation Approach			
13.	E-mail from Henry Honda to Bonita Thompson, cc Albert Lagnado and Rick Prinja	Subject "RE: Referral" - Honda noting he would like to perform review jointly with resource from BC Hydro internal legal group; confirming reporting employee anonymity	April 29, 2010
14.	E-mail from Henry Honda to Rick Prinja	Subject "Fw: Referral" - Honda forwarding to Prinja e-mail from Thompson to Honda and	April 30, 2010

Tab	Document Type	Summary of Contents	Date
		Lagnado on April 30, 2010 noting Thompson had spoken with the reporting employee and the employee is fine with the approach	
15.	E-mail from David Avren to Henry Honda	Subject "Privileged and confidential referral" - Avren confirms legal will need assistance of audit team to come to a legal view and render opinion. Attaches e-mail from Honda to Avren on April 29, 2010, attaching referral to audit services e-mail from Thompson to Honda on April 29, 2010	May 1, 2010
16.	E-mail from Henry Honda to Albert Lagnado and Rick Prinja	Subject "Fw: Privileged and confidential referral" - forward of May 1 2010 e-mail from Avren to Honda confirming that Avren had read material and that legal would need the assistance of BC Hydro's audit team	May 1, 2010
17.	E-mail from Rick Prinja to Henry Honda and Albert Lagnado	Subject "RE: Privileged and confidential referral" - question from Prinja re: meeting with [REDACTED]	May 3, 2010
18.	E-mail from Henry Honda to Bonita Thompson, Albert Lagnado, and Rick Prinja	Subject "Re: Referral" - update to Thompson re: approach of working jointly with Legal to complete review and obtain as much information as possible before approaching regulatory group	May 5, 2010
Emails Related to Code of Conduct Complaint Investigation Terms of Reference			
19.	E-mail from David Avren to Rick Prinja, Ray Aldeguer, Debbie Nagle, cc to Henry Honda,	Subject "Re: Terms of Reference Code of Conduct Review" - response to e-mail attaching terms of reference	May 6, 2010

Tab	Document Type	Summary of Contents	Date
	Albert Lagnado	for code of conduct review	
20.	E-mail from David Avren to Rick Prinja	Subject "RE: Final Terms of Reference Attached" - response from Avren to Prinja confirming revised terms of reference	May 7, 2010
21.	E-mail from Rick Prinja to David Avren, Ray Aldeguer, Debbie Nagle, cc to Henry Honda, Albert Lagnado	Subject "Final Terms of Reference Attached" - attached Terms of Reference Code of Conduct Review.doc	May 7, 2010
22.	Code of Conduct Review Terms of Reference – draft		Undated
Documents Created in the course of Investigation and Correspondence Regarding Conduct of Investigation			
23.	E-mail from David Avren to Henry Honda	Subject "privileged and confidential - RRA matter" - Avren inquiring as to when ██████ started at BC Hydro and status at key times; how and when SAP business case developed	May 3, 2010
24.	E-mail from Henry Honda to Albert Lagnado and Rick Prinja	Subject "Fw: privileged and confidential - RRA matter" - forward of May 3, 2010 e-mail from Avren to Honda	May 3, 2010
25.	E-mail from Rick Prinja to Henry Honda	Subject - "Re: privileged and confidential - RRA matter" - response to forwarded e-mail	May 3, 2010
26.	E-mail from David Avren to Henry Honda, Albert Lagnado, and Rick Prinja	Subject "Privileged and confidential referral - task list" - task list in response to referral to Audit Services	May 4, 2010
27.	Code of Conduct Table of Allegations	Author Unknown	Undated

Tab	Document Type	Summary of Contents	Date
28.	E-mail from Henry Honda to Rick Prinja, cc. Albert Lagnado	Subject "Timeline" - e-mail attaching SAP timeline	May 4, 2010
29.	E-mail from David Avren to Henry Honda, Rick Prinja, Albert Lagnado	Subject "Privileged and Confidential - RRA issue" - Forward of e-mail from Avren to Nicole Prior re: consultant contracts for ██████ and Reid; copies of agreements related to use of SAP around last RRA; and discussions in RRA re: SAP	May 4, 2010
30.	E-mail from Rick Prinja to David Avren, cc to Albert Lagnado	Subject "RE: Privileged and Confidential - RRA issue" - Prinja following up with background information; wants to participate in interviews or discussions related to review including external counsel	May 4, 2010
31.	E-mail from David Avren to Rick Prinja, cc to Albert Lagnado	Subject "RE: Privileged and Confidential - RRA issue" - Avren excerpted transcripts of all pages with ██████ testifying	May 4, 2010
32.	E-mail from David Avren to Henry Honda, Rick Prinja, Albert Lagnado and attached Charles Reid consulting contract from March 2008	Subject "FW: Consulting Contract" - forward of e-mail from May 4 2010 Nicole Prior to Avren attaching Reid Consulting Contract from March 2008	May 4, 2010
33.	E-mail from Kandi Anderson to Rick Prinja, cc to Debbie Nagle and Henry Honda	Subject "RE: Information Requested" - series of e-mails responding to May 4 2010 e-mail from Kandi Anderson to Honda and Nagle confirming Reid and ██████ start dates with BC Hydro	May 5, 2010
34.	E-mail from David Avren to Debbie Nagle, Ray Aldeguer, cc to Henry Honda, Rick Prinja,	Subject "Privileged and confidential - consulting agreements re RRA issue" -	May 5, 2010

Tab	Document Type	Summary of Contents	Date
	Albert Lagnado	Avren asks whether HR has [REDACTED] consulting agreement	
Documents Reviewed in the course of Investigation			
35.	Extract of F2009/F2010 RRA Hearing Transcript, Hearing Volume 9	Copy of pages 1507-1511 and 1535-1551	October 15, 2008
36.	Expenditure Authorization Request (EAR) for SAP Financials Licensing Phase 1A		September 30, 2008
37.	EAR for SAP Enterprise Licenses		March 25, 2009
38.	EAR for Financial Systems Replacement Project; Implementation Phase		July 13, 2009
Documentation related to meeting with Chief Regulatory Officer, [REDACTED]			
39.	List of questions and summary of key discussion points with [REDACTED]	Document of questions and summary of key discussion points of interview with [REDACTED]	May 19, 2010
Correspondence and Documentation related to meeting with Chief Information Officer, [REDACTED]			
40.	E-mail from Rick Prinja to Henry Honda, David Avren, and Albert Lagnado	Subject "RE: Privileged and confidential - RRA audit" - e-mail correspondence confirming agreement with approach suggested by Avren for interview with [REDACTED]	May 27, 2010
41.	E-mail from Henry Honda to [REDACTED]	Subject "Meeting" - Honda e-mailing to set up meeting with [REDACTED]	June 2, 2010
42.	E-mail from Henry Honda to Meena Lee and [REDACTED]	Subject "Meeting" - e-mail asking Lee to set up meeting between Honda and [REDACTED]	June 3, 2010
43.	E-mail from Henry Honda to [REDACTED] cc to David Avren,	Subject "Privileged and confidential - Questions" -	June 8, 2010

Tab	Document Type	Summary of Contents	Date
	attached questions to [REDACTED]	e-mail attaching questions to discuss at next meeting.	
44.	E-mail from [REDACTED] to Henry Honda, cc to David Avren with attached answers to questions for CIO interview	Subject "RE: Privileged and confidential - Questions" - [REDACTED] attaches answers to questions. Answers relate to training and RRA preparation, transition from Peoplesoft to SAP, financials and cost	June 14, 2010
45.	E-mail from Henry Honda to David Avren, [REDACTED] attaching additional questions for CIO	Subject "RE: meeting?" - Honda thanks [REDACTED] for responses to questions, attaches follow-up questions to clarify certain points. Attached document adds additional questions in bold to document with [REDACTED] answers	June 17, 2010
46.	E-mail from David Avren to David Avren	Subject "RRA audit" - notes on discussion with [REDACTED] and [REDACTED]	June 23, 2010
47.	E-mail from David Avren to [REDACTED] cc to Rick Prinja, Henry Honda	Subject "Privileged and confidential - additional questions re: RRA" - further questions for [REDACTED]	June 25, 2010
48.	Code of Conduct Review Questions created by Audit Team	List of questions for [REDACTED] (5 drafts) and general questions compiled by Audit Team	May/June 2010
Draft Report and Correspondence Related to Draft Report			
49.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "privileged and confidential - re [REDACTED]/RRA" - update on evidence given by [REDACTED] at hearing when questioned by BCUC counsel	June 29, 2010
50.	E-mail from David Avren to Ray Aldeguer	Subject "RRA audit update" - Avren reporting on interview with [REDACTED] Indicates this	June 29, 2010

Tab	Document Type	Summary of Contents	Date
		leaves training and financial presentations as only remaining issues	
51.	E-mail from Henry Honda to David Avren, Albert Lagnado, Rick Prinja	Subject "Re: privileged and confidential - re ██████/RRA" - Honda thanking Avren for summary of ██████ evidence, asks if Avren can provide legal perspective on situation	June 29, 2010
52.	E-mail from Rick Prinja to Henry Honda	Subject "Special investigation" - Prinja asking Honda for input into report draft	June 29, 2010
53.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "RE: privileged and confidential - re ██████/RRA" - Avren providing supplemental content to e-mail summary of ██████ evidence from hearing, including legal perspective on BC Hydro evidentiary responsibilities	June 30, 2010
54.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "RE: privileged and confidential - re RRA" - summary of ██████ evidence given at hearing with legal analysis of BC Hydro evidentiary responsibilities	July 5, 2010
55.	E-mail from David Avren to Ray Aldeguer	Subject "FW: privileged and confidential - re RRA" - Avren attaching e-mail to Honda, Lagnado, Prinja addressing legal perspective on evidence given by ██████ at hearing	July 6, 2010
56.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "RE: privileged and confidential - re RRA" - Avren fixing one word in summary of ██████ evidence	July 6, 2010
57.	E-mails between Charles Reid and Henry Honda	Subject "Re: Monday mtg" - question by Reid about	July 6, 2010

Tab	Document Type	Summary of Contents	Date
		whether there will be anything in writing circulated in advance of scheduled meeting	
58.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "RE: privileged and confidential - re RRA" - Avren confirming amendment of summary of [REDACTED] evidence as per Honda voice mail	July 9, 2010
59.	E-mail from Henry Honda to Albert Lagnado	Subject "Report July 8th.doc" - e-mail attaching July 8, 2010 Report on Code of Conduct Review	July 9, 2010
60.	E-mail from Henry Honda to Rick Prinja, Albert Lagnado, attaching Report July 9 V1	Subject "Special review memo" - e-mail attaching latest memo for special review, ask for Lagnado and Prinja to comment	July 10, 2010
61.	E-mail from David Avren to Ray Aldeguer, Charles Reid, Debbie Nagle	Subject "Privileged and confidential - audit report" - email thanking recipients for input on report	July 12, 2010
62.	E-mail from Henry Honda to David Avren, cc to Albert Lagnado, Rick Prinja, attaching Special Review Draft Memo V1	Subject "Draft Memo for review - privileged and confidential" - e-mail attaching draft July 8 memo	July 12, 2010
63.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja, attaching Special Review Draft Memo V1	E-mail with attached blackline of July 8 memo with edits	July 12, 2010
64.	E-mail from Henry Honda to David Avren, Albert Lagnado, Rick Prinja	Subject "RE: Draft Memo for review - privileged and confidential" - Honda accepting Avren edits to July 8 memo	July 12, 2010
65.	E-mail from Henry Honda to Charles Reid, Ray Aldeguer, Debbie Nagle, cc to David Avren, Albert Lagnado, Rick	Subject "Draft memo - privileged and confidential" - Draft July 8 memo attached in advance of meeting	July 12, 2010

Tab	Document Type	Summary of Contents	Date
	Prinja, attaching Special Review Draft Memo V2		
66.	E-mail from Henry Honda to ██████ ██████ CC to Rick Prinja, Albert Lagnado, David Avren, attaching Special Review Draft Memo V2	Subject "Privileged and Confidential - Review Draft Memo" - e-mail attaching July 8 memo of BC Hydro review and conclusions; seeking ██████ comments	July 12, 2010
67.	E-mail from ██████ ██████ to Henry Honda, cc to Rick Prinja, Albert Lagnado, David Avren -	Subject "RE: Privileged and Confidential - Review Draft Memo" - ██████ reviewed July 8 memo and provides comments for clarification and organization	July 12, 2010
68.	E-mail from Henry Honda to ██████ ██████ cc to Rick Prinja, Albert Lagnado, David Avren	Subject "Re: Privileged and Confidential - Review Draft Memo" - e-mail to ██████ advising suggested changes will be made	July 12, 2010
69.	E-mail from David Avren to Henry Honda, Albert Lagnado, Rick Prinja	Subject "privilege/distribution" - reminder that distribution of copy of final report to ARMC chair and Thompson should be by Legal	July 12, 2010
70.	E-mail from David Avren to Henry Honda, cc to Rick Prinja, Albert Lagnado	Subject "audit services comments re RRA audit" – Avren comments on memo	July 12, 2010
71.	E-mail from David Avren to Henry Honda, cc to Rick Prinja, Albert Lagnado	Subject "RE: audit services comments re RRA audit" - e-mails discussing privilege of review report	July 13, 2010
72.	E-mail from Henry Honda to Rick Prinja, Albert Lagnado, attaching Special Review Draft Memo V3	Subject "FW: Revised Memo" - e-mail attaching revised July 8 memo, asking Avren whether memo still conforms to his legal assessment	July 13, 2010
73.	E-mail from Henry Honda to Albert Lagnado, Rick Prinja,	Subject "FW: Privileged and confidential FW: Revised	July 13, 2010

Tab	Document Type	Summary of Contents	Date
	attaching Special Review Draft Memo V3	Memo" - discussion of changes to July 8 memo, Avren revised slightly	
74.	E-mail from Rick Prinja to Henry Honda, cc to Albert Lagnado	Subject "RE: Privileged and confidential FW: Revised Memo" - Prinja agreeing with Avren revisions to July 8 memo	July 13, 2010
75.	E-mail from Henry Honda to Charles Reid, Debbie Nagle, Ray Aldeguer, cc to David Avren, Albert Lagnado, Rick Prinja, attaching Special Review Draft Memo V4	Subject "Revised memo-privileged and confidential" - e-mail attaching revised July 8 memo, asking for review and comments	July 13, 2010
76.	E-mail from Charles Reid to Henry Honda, Debbie Nagle, Ray Aldeguer, cc to David Avren, Albert Lagnado, Rick Prinja	Subject "RE: Revised memo-privileged and confidential" - Reid saying this draft of July 8 memo represents situation more accurately	July 13, 2010
77.	E-mail from Ray Aldeguer to Henry Honda, Charles Reid, Debbie Nagle, cc to David Avren, Albert Lagnado, Rick Prinja	Subject "RE: Revised memo-privileged and confidential" - Aldeguer replying to attached revised July 8 memo, no further comments	July 13, 2010
78.	E-mail from Henry Honda to Rick Prinja, cc to Albert Lagnado, attaching Special Review Draft Memo V4	Forward of e-mail from Avren to Thompson attaching Special Review Draft Memo V4 (*this is the final version of the report)	July 14, 2010
79.	E-mail from Rick Prinja to Henry Honda and Albert Lagnado	Subject "RE: Privileged and confidential - Revenue requirements related issue" - e-mail in response to e-mail from Honda confirming report sent to Thompson	July 14, 2010
80.	E-mail from Henry Honda to Rick Prinja, cc to Albert Lagnado	Subject "RE: Privileged and confidential - Revenue requirements related issue" - Honda thanking everyone for	July 14, 2010

Tab	Document Type	Summary of Contents	Date
		work on report	
81.	E-mail from Debbie Nagle to Henry Honda, Ray Aldeguer, Charles Reid, cc to David Avren, Albert Lagnado, Rick Prinja	Subject "RE: Revised memo-privileged and confidential" - series of e-mails on July 13, 14 and 15 2010 correcting references to SAP licenses referred to in July 8 memo	July 15, 2010
82.	E-mail from Loretta Thwaites to Ray Aldeguer	Subject "Voice Mail from David Avren - not urgent just fyi"	July 21, 2010
83.	E-mail from Henry Honda to Bonita Thompson, cc to David Avren, attaching Special Review Draft Memo V4	Series of e-mails between Honda and Thompson re-sending report	August 4, 5, and 16, 2010
Reporting of Code of Conduct Complaint to Audit and Risk Management Committee (ARMC) of the Board of Directors			
84.	Form reporting document to ARMC for Q1 F2011	Reporting of complaint that senior officer misrepresented BCH financial information to BCUC received by Code of Conduct Advisor during 3 month period ending June 30, 2010	July 2010
85.	Copy of Draft Minutes of September 2010 ARMC meeting	Meeting discussing, <i>inter alia</i> , Summary of Financial Concerns to Code of Conduct Advisor.	September 15, 2010

In preparing its January 2016 response to the initial December 2015 Complaint from Mr. Dix, BC Hydro reviewed the 2010 Code of Conduct Complaint and related documents. Tom Loski, BC Hydro's then Chief Regulatory Officer, led that review which resulted in a number of the above-listed documents being identified. The below documents are from Mr. Loski's review in December 2015.

Tab	Document Type	Summary of Contents	Date
Tom Loski December 2015 Review			
86.	Email from Henry Honda to David Avren	Email from Honda regarding records related to 2010 Code of Conduct Complaint	December 10, 2015
87.	E-mail from Henry Honda to David Avren	Email from Honda providing response to questions from Aldeguer and Avren regarding 2010 Code of Conduct Complaint	December 11, 2015
88.	E-mail from David Avren to Ray Aldeguer, cc Tom Loski	Email from Avren confirming he has copied his 2010 Code of Conduct files for Loski	December 14, 2015
89.	Email from Rick Prinja to Henry Honda	Email from Prinja re: gathering information related to 2010 Code of Conduct Complaint	December 16, 2015
90.	E-mail from Rick Prinja to Tom Loski, cc Albert Lagnado and Henry Honda	Email from Prinja re: gathering information related to the 2010 Code of Conduct Complaint and answer to Loski questions	December 16, 2015
91.	E-mail from David Avren to Tom Loski	Subject "FW: Privileged and confidential - additional questions re: RRA" - Avren response to Loski re: 2010 Code of Conduct Complaint and investigation	December 16, 2015
92.	E-mail from Rick Prinja to Henry Honda and Albert Lagnado	Subject "FW: Privileged and confidential – additional questions re: RRA": follow-up to questions regarding 2010 Code of Conduct Complaint investigation between Avren, Prinja and Lagnado	December 16, 2015
93.	E-mail from David Avren to Tom	Subject "RE: Investigation" –	December

Tab	Document Type	Summary of Contents	Date
	Loski, cc to Henry Honda, Cheryl Yaremko, Ray Aldeguer, Rick Prinja	Avren forwarding answers to Loski re: 2010 Code of Conduct Complaint	21, 2015
94.	Email from Henry Honda to David Avren and Tom Loski, cc Ray Aldeguer, Janet Fraser, Rick Prinja and Albert Lagnado	Subject "RE: Investigation" – Honda answering questions from Loski re: 2010 Code of Conduct Complaint investigation	December 23, 2015

Through BC Hydro's review of the 2010 Code of Conduct Complaint, BC Hydro became concerned that the scope of the review was too narrowly focused on legal requirements for testimony and document filings with the Commission and whether those legal requirements were met. BC Hydro determined that it did not attain the current standards for a Code of Conduct investigation. As such, and as reported in BC Hydro's January 2016 response to the Complaint, BC Hydro initiated a Code of Conduct review in 2016 through the BC Hydro Ethics Office, and conducted by an external investigator. A copy of the April 2016 Code of Conduct Investigation is attached at Tab 95.

Tab	Document Type	Summary of Contents	Date
2016 Code of Conduct Investigation			
95.	Cultural Review: Code of Conduct Investigation for BC Hydro	Prepared for BC Hydro by [REDACTED] [REDACTED]	April 1, 2016

Summary of the Evidence of a Possible Breach of the Code of Conduct

The evidence outlined below suggests that Vice President and Chief Information Officer (CIO) [REDACTED] misled the BC Utility Commission (BCUC) in the October 2008 Revenue Requirement Application (RRA) Hearings during his testimony, and through subsequent written undertakings, on the scope and cost of the BC Hydro Information Technology and Telecommunication (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically.

If a breach (of the Code of Conduct) did not occur, there is now, at a minimum, the appearance of it, given the recently published 2011 RRA and other documents from the 2009/2010 RRA Hearings publicly available on the BCUC website.

If it turns out the BCUC was misled in this matter, there is the risk that the Board of Directors may have also been misled on the benefits, costs and risks associated with the nearly \$400M BC Hydro IT&T Five Year Plan, and the SAP Program that will cost more than \$50M to fully implement.

Summary of Supporting Documentation

Copies of supporting documentation are attached. Endnotes referencing the supporting documentation are included in this summary.

The supporting documentation can be grouped into two areas: documents publicly available on the BCUC website under the BC Hydro 2009/2010 RRA and 2011 RRA submissions; and internal BC Hydro IT&T Strategy Documents and IT Project Business Cases available to a wide audience within BC Hydro. The internal BC Hydro documents would most likely be subject to BCUC Information Requests (IRs), and even potentially general public Freedom of Information (FOI) requests.

Summary of Evidence

^{2009/2010}
The ~~F2007~~ RRA proposal was officially submitted to BCUC on February 20, 2008.¹ The 2009/2010 RRA submission included a summary of the planned IT Capital Spend from F2007 to F2010 in a table breaking the IT Capital Spend down into projects greater than \$2M (Appendix I)² and one page summaries of projects greater than \$5M (Appendix J).³

The planned IT Capital Spend was \$46.8M in F2009 and \$40.5M in F2010.⁴ Eight projects, including the Enterprise Financials Upgrade project, had one page summaries included in Appendix J (projects greater than \$5M).⁵

During the October 15, 2008 BCUC RRA hearing, [REDACTED] was asked about the state of the current IT Strategic Plan.⁶ In response to BCUC Information Request (IR) 1.71.2.2, BC Hydro had submitted an outdated version of the IT Strategic Plan dated May 2006, and said that the

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updated IT Plan was scheduled to be presented to the Board in May 2008, and that BC Hydro would file the plan as part of evidentiary evidence.⁷

██████████ stated that the new plan was not filed.⁸ He said that we (BC Hydro) had started doing the analysis in terms of the strategic plan, but we were still working on it. He went on to state that, we did establish some principles and directions on which strategy was to be governed, with both the BC Hydro Executive Team and the Board through the Audit and Risk Committee. That was completed and we are following those (principles and directions), but we have not finished the detailed plans and deliverables for all the strategies.⁹

When pressed if the document which established the principles of the IT Strategic Plan could be filed with the BCUC, ██████████ said that he could do that.¹⁰ This was later delivered to the BCUC as BC Hydro Undertaking No. 62.¹¹

In testimony later that day, ██████████ was questioned about the proposed F2009/2010 IT Capital Spend and IT Projects listed in Witness Aid A2-21 (Appendix J summaries of projects greater than \$5M)¹² and if there were any cost/benefit analysis or feasibility studies done for those projects.¹³ He stated that projects listed as in the Definition phase or Identification phase did not have formal business cases done at that point.¹⁴

He was later specifically asked questions about the PeopleSoft Financial System and the project justification for the Enterprise Financial Upgrade Project.¹⁵

The BCUC commissioner read out the description of the Enterprise Financial Upgrade Project. "This project involves the upgrade of People Soft Financial Software from the version currently used, to PeopleSoft enterprise financial management, release 9.0."¹⁶

██████████ was then asked to give the BCUC panel some sense of the enhancements in financial reporting by release 9.0.¹⁷

As part of his responses to the questioning, ██████████ stated that, "We are, in fact, looking at PeopleSoft as one of the solutions, but we are also looking at other options, just in case we want to find a better solution."¹⁸

When asked if there may be a risk that BC Hydro would need to purchase a further release to accommodate the IFRS (International Financial Reporting Standards) changes, ██████████ replied, "... I think the capital forecast that was done in the initial budget was fairly pessimistic, in current terms of capability and what changes had to be made to the software. So within the scope of financial constraints, I think we're – I think the project is probably fine, but, yeah, yes, the answer is we have to review their proposal – or the processes to ensure that we can deliver in the future."¹⁹

The submitted Appendix J one page summary for the \$7.2M Enterprise Financial Upgrade Project clearly states in its section on the Discussion of Alternatives that to re-platform the Financial System to SAP Software instead of just upgrading PeopleSoft would cost between \$30M to \$40M, would take away significant resources from other BC Hydro IT Projects, would take two to three years, and was not considered an appropriate option for BC Hydro.²⁰

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At no time during his testimony did [REDACTED] state that there were any plans to spend more than amounts listed in the Appendix I table of the planned IT Capital Spend in the 2009/2010 RRA - \$46.8M in F2009 and \$40.5M in F2010.²¹

He also did not indicate there were any changes or additions to the eight IT projects greater than \$5M listed in Appendix J of the RRA, even though at the time of the hearing most of the eight projects had been cancelled or changed substantially.²²

When [REDACTED] eventually submitted his response to BC Hydro Undertaking No.62 on October 28, 2008, he submitted an earlier version called IT Summary dated October 31, 2007, which did not include any reference to SAP software or the plan to increase the IT Capital Spend.²³

[REDACTED] did not submit the IT&T Strategy document which had established the principles and directions on which the strategy would be governed, that had been approved by the Executive Team and presented to the Audit and Risk Committee of the Board in May 2008.²⁴ It was this document, not the October 31, 2007 document, that had been requested by the BCUC and that [REDACTED] appears to have committed to file.²⁵

The May 2008 IT&T Update on Strategy Development document clearly states in the last paragraph on page 6 that for all major initiatives, SAP will be used as the default solution.²⁶ The document also states on page 4 an additional capital investment of \$32-38M may be required above the historic annual IT Plan amount of \$45M.²⁷

The May 2008 document also corresponds to the updated IT Plan document referenced in the BCUC IR 1.71.2.2 response that was scheduled to be presented to the board in May 2008, and that BC Hydro was to later file the plan as part of evidentiary evidence.²⁸

[REDACTED] used this May-2008-IT-Strategy document as part of the business case to purchase SAP Financial Software licenses in F2009. This business case to purchase millions of dollars of SAP Financial Software licenses was also signed by [REDACTED] prior to his October 15, 2008 BCUC hearing testimony.²⁹

It is not known if this May 2008 IT Strategy document was purposely withheld from the BCUC so that the plan to implement the Enterprise Financial Upgrade Project using SAP software and the anticipated increase in IT spending would not be exposed during the hearing.

Fiscal 2011 Revenue Requirement Application

The F2011 RRA proposal was officially submitted to BCUC on March 3, 2010.³⁰ Appendix I of the F2011 states that the actual IT Capital Spend for F2009 was \$61.9M (50.3+11.6)³¹ versus the 2009/2010 RRA planned amount of \$46.8M³², a 32% variance. The forecasted IT Capital Spend for F2010 is now forecasted to be \$90.5M (77.6+12.9)³³ versus the 2009/2010 RRA planned amount of \$40.5M³⁴, a 123% variance.

Appendix I and J of the F2011 RRA proposal now lists several SAP related projects in both F2009 and F2010. The Enterprise Financial Upgrade Project originally planned at \$7.2M in the 2009/2010 RRA is now forecasted at \$14.1M to implement SAP financials.³⁵

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The \$14.1M amount to implement SAP financials, also does not include the \$4.2M for SAP Common Infrastructure, the \$3.3M for SAP Financial Software licenses, and the \$9M spent in F2009 and F2010 for the Enterprise Service Bus (primarily to support SAP integration) listed in Appendix I of the F2011 RRA.³⁶ Based on this, the capital expenditure alone to implement SAP Financials has been greater than \$30M. If you also add in the operating costs associated with the project, the original estimate of \$30M to \$40M to re-platform the Financial System to SAP Software, as stated in the Discussion of Alternatives section of \$7.2M Enterprise Financial Upgrade Project summary in Appendix J of the 2009/2010 RRA, appears to have been accurate.³⁷

Appendix I and J of the F2011 RRA also lists \$20M for the Plan and Schedule Work Management (PSW) Project, \$15M for the Project & Portfolio Management (PPM) Project and the \$10.2M for the Human Resources Information System (HRIS) Replacement Initiative, all of which the CIO is planning to use SAP as the default solution.³⁸

The BC Hydro IT&T Five Year Plan – Year 2, included as Appendix N of F2011 RRA submission estimates the total five year IT Capital spend at nearly \$400M.³⁹ The SAP Program portion of this is far in excess of \$50M, but in Appendix I of the F2011 RRA submission, the program is broken down in to a set of discrete projects, none exceeding \$20M.⁴⁰

Conclusions and Recommendations

This evidence suggests that the Vice President and Chief Information Officer [REDACTED] misled the BC Utility Commission in the October 2008 RRA Hearings during his testimony. With the recent release of the F2011 RRA submission, almost all of this evidence is now publically available on the BCUC website.

If a breach (of the Code of Conduct) did not occur, there is now, at a minimum, the appearance of it, given the recently published 2011 RRA and other documents from the 2009/2010 RRA Hearings publicly available on the BCUC website.

Given the importance and sensitivity associated with the proposed rate increases in the F2011 RRA submission, even the appearance of attempting to mislead the BC Utility Commission in financial matters, or not being seen to perform the proper due diligence on a proposed SAP IT Program far in excess of \$50M, could bring serious harm to BC Hydro's reputation.

It is recommended that [REDACTED] testimony to the BCUC in the October 2008 RRA Hearings, and his parts of the F2011 RRA submission, be reviewed to establish if there has been any intent to mislead the BC Utility Commission.

Considering the total cost of the IT&T Five Year Plan is listed at nearly \$400M (not including the proposed \$920M for the Smart Metering Program and Smart Grid Program, also listed in Appendix J of the 2011 RRA)⁴¹, it is also highly recommended that the Board have an independent assessment done on the IT&T Five Year Plan and its supporting business cases. It is specifically recommended that the risks associated with scope, cost and schedule of the five year program as outlined in the "BC Hydro IT&T Five Year Plan – Year 2", and the \$23.9M in planned F10 annual cost reduction be examined fully.⁴²

End Notes

¹ Fiscal 2009/2010 Revenue Requirements Application dated February 20, 2008 – BC Hydro Exhibit B-1 (available on the BCUC website)

² Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

³ Pages 82 to 93 - Appendix J - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁴ Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁵ Pages 82 to 93 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁶ Page 1508 line 4 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

⁷ BCUC Information Request (IR) 1.71.2.2 dated March, 2008 - BC Hydro Exhibit B-5-1 (BCUC website)

⁸ Page 1508 line 17- BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

⁹ Page 1509 line 3 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁰ Page 1509 line 19 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹¹ BC Hydro F09/F10 Revenue Requirements Application - BC HYDRO UNDERTAKING No. 62 – BC Hydro Exhibit B - 78 (available on the BCUC website)

¹² Witness Aid A2-21 Appendix J of the BC Hydro F09/F10 Revenue Requirements Application (BCUC website)

¹³ Page 1537 line 11 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁴ Page 1537 line 15 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁵ Page 1548 line 5 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (available on the BCUC website)

¹⁶ Page 1548 line 17- BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁷ Page 1548 line 23 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁸ Page 1549 line 12 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁹ Page 1550 line 17 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

²⁰ Page 89 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

²¹ Page 10 - Appendix I - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

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- ²² Pages 82 to 93 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ²³ BC Hydro F09/F10 Revenue Requirements Application - BC HYDRO UNDERTAKING No. 62 – BC Hydro Exhibit B-78 (BCUC website)
- ²⁴ IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁵ Page 1509 line 19 - BC Hydro Revenue Requirement F2009, F2010 – Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)
- ²⁶ Page 6 IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁷ Page 4 IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁸ BCUC Information Request (IR) 1.71.2.2 dated March, 2008 - BC Hydro Exhibit B-5-1 (BCUC website)
- ²⁹ SAP Financial Software Licenses Business Case - EAR# 1122961 (Internal BC Hydro Documents, not available on the BCUC website).
- ³⁰ Fiscal 2011 Revenue Requirement Application dated March 3, 2010 – BC Hydro Exhibit B-1 (BCUC website)
- ³¹ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³² Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³³ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁴ Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁵ Page 83 - Appendix J- Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁶ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (available on the BCUC website)
- ³⁷ Page 89 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁸ Pages 82, 84 and 87 Appendix J - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁹ Page 31 - Appendix N - BC Hydro IT&T Five Year Plan dated November 18, 2009 - Fiscal 2011 Revenue Requirement Application. (BCUC website)
- ⁴⁰ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ⁴¹ Page 113 - Appendix J- Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ⁴² Page 30 - Appendix N - BC Hydro IT&T Five Year Plan dated November 18, 2009 - Fiscal 2011 Revenue Requirement Application. (BCUC website)

- The status of an outstanding audit recommendation will continue to be reported to the Board until management; Audit Services and the board are satisfied that the recommendation has been addressed.

COMPLIANCE AUDITS

Corporate Policy Compliance audits of individual business groups assess compliance with corporate policies and effectiveness of management controls. They provide high level assurance of policy compliance, but do not replace each business group's responsibility for maintaining its own control environment and complying with corporate policies. The specific policies and procedures covered by compliance audits are listed in the standard compliance audit planning memo.

SPECIAL REVIEWS/ FRAUD INVESTIGATIONS

BC Hydro has an Ethics Officer who provides independent and confidential advice on the interpretation and application of the Director and Employee Code of Conduct and recommends actions needed to eliminate or address a conflict of interest.

BC Hydro also has an External Code Advisor who reports to the Corporate Governance Committee who provides advisory services to members of the Board Directors of BC Hydro or any of its subsidiaries, and Executive Officers on matters pertaining to BC Hydro's Code of Conduct.

The Ethics Officer relies on Audit Services to review and investigate any allegations received that relate to Code of Conduct violations or Audit & Accounting Issues. The process is as follows:

Allegations to be sent to Audit Services:

As per the Code of Conduct Policy, Audit Services is responsible to review allegations pertaining to accounting and auditing concerns for financial statement reporting and for conflicts of interest that have a financial element (ie. award of contracts, etc.).

In addition, although not specifically stated in the Code of Conduct policy, as the Ethics Officer receives allegations with regards to non-compliance with Corporate policies (financial or risk related), safeguard of assets and internal control weaknesses, it was agreed that it would be beneficial for Audit Services to review and investigate these allegations and to determine if they are systemic and / or material.

Therefore, the following is a summary of the types of allegations which should be sent to Audit Services for preliminary review:

1. **Allegation relating to concerns regarding questionable accounting or auditing matters with regards to financial statement reporting. Examples include:**
 - Fraud or deliberate error in the preparation, evaluation, review or audit of any financial statements of the Company;
 - Fraud or deliberate error in the recording or maintaining of financial records of the Company;
 - Deficiencies in or non-compliance with the Company's internal accounting controls;
 - Misrepresentations or false statements to or by an officer of the Company or an accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; or
 - Deviation from reporting of the Company's financial condition as required by applicable laws and regulations.

2. **Allegations relating to non-compliance with Corporate Policies (financial or risk related) and internal control weaknesses. Examples include:**
 - Financial or procurement policy violations (Financial Approval Procedure, Purchasing, Local Purchasing of Goods and Services, Banking, Financing and Credit)
 - Operational control weaknesses and deficiencies which have a direct financial impact.

3. **Allegations relating to the safeguard of assets:**
 - Improper or unauthorized expenditures of the Company's funds; and
 - Improper or unauthorized use of the Company's assets

If it is difficult to determine applicability, Audit Services will discuss with the CFO and the Ethics Officer. If it is determined that the allegation is not applicable under the categories noted above, Audit Services will suggest the appropriate person to review the allegation.

Materiality

All allegations of fraud or intentional/deliberate error in relation to accounting, auditing or financial reporting matters and intentional/deliberate non-compliance with corporate policies and internal controls should be reviewed by Audit Services, regardless of materiality.

However, where the elements of fraud or deliberate intent are not present, Audit Services will use a general materiality threshold of \$100,000 prior to reviewing the allegation in further detail (certain allegations may warrant a lower materiality amount). If the allegation is below \$100,000, Audit Services will then suggest to the Ethics Officer, the appropriate person to review the allegation.

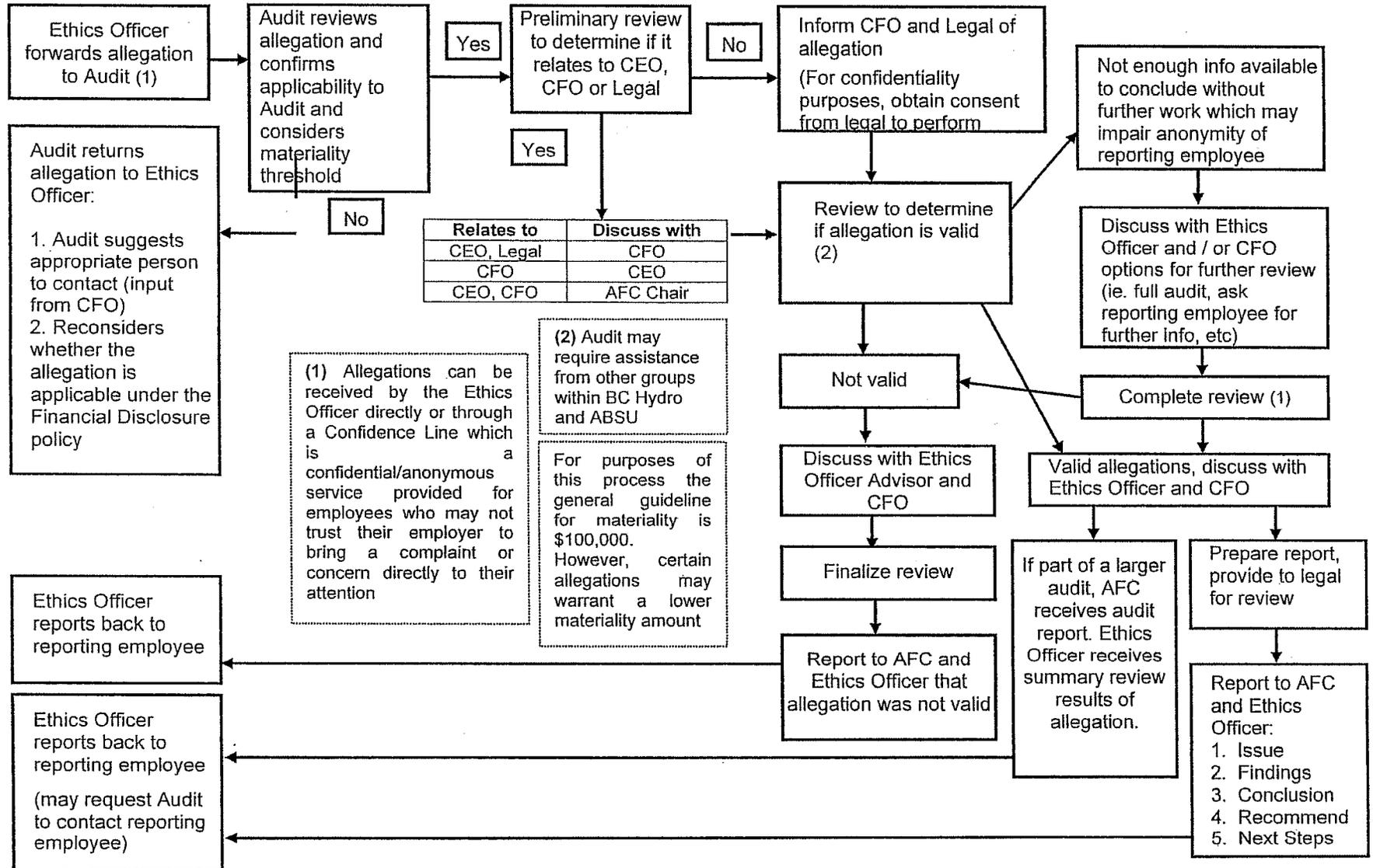
Coordination

Investigations should coordinate with the Corporate HR Group, Corporate Security Group, or the legal department when applicable.

In addition, from time to time, Senior Management may ask Audit Services to review or investigate specific areas of the Company or processes where issues have been identified. The review process will depend on the issues identified and the areas involved.

See **Appendix C** for related decision and reporting process.

APPENDIX C – CODE OF CONDUCT PROCESS



From: Advisor, Code of Conduct <codeofconduct.advisor@bchydro.com>
Sent: Apr-06-2010 12:30:26 pm
To: Aldeguer, Ray </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=RALDEGUE>; Nagle, Debbie </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=DEBNAGLE>
Cc:
Bcc:
Subject: Disclosure of possible breach

I have received a report relating to the BCUC process. It is very well documented. I would appreciate an informal conversation with both of you to discuss whether there is a potential breach based on the facts provided and if so how to proceed with the information.

The matter has been reported with a high degree of concern about confidentiality and there is some indication that the report may be time sensitive.

I am available this afternoon but am likely to be headed for [REDACTED] tomorrow morning for a couple of days.

I look forward to hearing from you.

Regards, Bonita

Bonita J. Thompson, Q.C. [REDACTED]

Code of Conduct Advisor
confidential line: 604-623-4419

From: Code of Conduct Advisor <bonita_thompson@shaw.ca>
Sent: Apr-06-2010 02:33:02 pm
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: Re: Disclosure of possible breach

Could you call me at [REDACTED]. It is my landline in [REDACTED] Thanks b

Sent from my BlackBerry device on the Rogers Wireless Network

From: ""Aldeguer, Ray"" [Ray.Aldeguer@bchydro.com]
Date: Tue, 06 Apr 2010 13:53:20 -0700
To: Advisor, Code of Conduct[codeofconduct.advisor@bchydro.com];
[bonita_thompson@shaw.ca]
Cc: Grant, Davina[Davina.Grant@bchydro.com]
Subject: RE: Disclosure of possible breach

Hi Bonita,

Ray and Debbie could be available at 4:30 pm today for a call with you. I ll send you a meeting notice. I believe we should call you at [REDACTED] Please let me know if this isn t the number to call. Thanks Bonita.

Loretta

From: Advisor, Code of Conduct
Sent: 2010, April 06 12:30 PM
To: Aldeguer, Ray; Nagle, Debbie
Subject: Disclosure of possible breach

I have received a report relating to the BCUC process. It is very well documented. I would

appreciate an informal conversation with both of you to discuss whether there is a potential breach based on the facts provided and if so how to proceed with the information.

The matter has been reported with a high degree of concern about confidentiality and there is some indication that the report may be time sensitive.

I am available this afternoon but am likely to be headed for [REDACTED] tomorrow morning for a couple of days.

I look forward to hearing from you.

Regards, Bonita

Bonita J. Thompson, Q.C. [REDACTED]

Code of Conduct Advisor

confidential line: 604-623-4419

From: Advisor, Code of Conduct <codeofconduct.advisor@bchydro.com>

Sent: Apr-06-2010 05:01:27 pm

To: Aldeguer, Ray </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=RALDEGUE>; Nagle, Debbie </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=DEBNAGLE>

Cc:

Bcc:

Subject: Summary of Disclosure

I see now that it is only the summary but it is heavily end noted.

Regards, Bonita

Bonita J. Thompson, Q.C.

Code of Conduct Advisor
confidential line: 604-623-4419

1 Attachment

Summary of the Evidence of a Possible Breach of the Code of Conduct

The evidence outlined below suggests that Vice President and Chief Information Officer (CIO) [REDACTED] misled the BC Utility Commission (BCUC) in the October 2008 Revenue Requirements Application (RRA) Hearings during his testimony, and through subsequent written undertakings, on the scope and cost of the BC Hydro Information Technology and Telecommunication (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically.

If a breach (of the Code of Conduct) did not occur, there is now, at a minimum, the appearance of it, given the recently published 2011 RRA and other documents from the 2009/2010 RRA Hearings publicly available on the BCUC website.

If it turns out the BCUC was misled in this matter, there is the risk that the Board of Directors may have also been misled on the benefits, costs and risks associated with the nearly \$400M BC Hydro IT&T Five Year Plan, and the SAP Program that will cost more than \$50M to fully implement.

Summary of Supporting Documentation

Copies of supporting documentation are attached. Endnotes referencing the supporting documentation are included in this summary.

The supporting documentation can be grouped into two areas: documents publicly available on the BCUC website under the BC Hydro 2009/2010 RRA and 2011 RRA submissions; and internal BC Hydro IT&T Strategy Documents and IT Project Business Cases available to a wide audience within BC Hydro. The internal BC Hydro documents would most likely be subject to BCUC Information Requests (IRs), and even potentially general public Freedom of Information (FOI) requests.

Summary of Evidence

The 2009/2010 RRA proposal was officially submitted to BCUC on February 20, 2008.¹ The 2009/2010 RRA submission included a summary of the planned IT Capital Spend from F2007 to F2010 in a table breaking the IT Capital Spend down into projects greater than \$2M (Appendix I)² and one page summaries of projects greater than \$5M (Appendix J).³

The planned IT Capital Spend was \$46.8M in F2009 and \$40.5M in F2010.⁴ Eight projects, including the Enterprise Financials Upgrade project, had one page summaries included in Appendix J (projects greater than \$5M).⁵

During the October 15, 2008 BCUC RRA hearing, [REDACTED] was asked about the state of the current IT Strategic Plan.⁶ In response to BCUC Information Request (IR) 1.71.2.2, BC Hydro had submitted an outdated version of the IT Strategic Plan dated May 2006, and said that the

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updated IT Plan was scheduled to be presented to the Board in May 2008, and that BC Hydro would file the plan as part of evidentiary evidence.⁷

██████████ stated that the new plan was not filed.⁸ He said that we (BC Hydro) had started doing the analysis in terms of the strategic plan, but we were still working on it. He went on to state that, we did establish some principles and directions on which strategy was to be governed, with both the BC Hydro Executive Team and the Board through the Audit and Risk Committee. That was completed and we are following those (principles and directions), but we have not finished the detailed plans and deliverables for all the strategies.⁹

When pressed if the document which established the principles of the IT Strategic Plan could be filed with the BCUC, ██████████ said that he could do that.¹⁰ This was later delivered to the BCUC as BC Hydro Undertaking No. 62.¹¹

In testimony later that day, ██████████ was questioned about the proposed F2009/2010 IT Capital Spend and IT Projects listed in Witness Aid A2-21 (Appendix J summaries of projects greater than \$5M)¹² and if there were any cost/benefit analysis or feasibility studies done for those projects.¹³ He stated that projects listed as in the Definition phase or Identification phase did not have formal business cases done at that point.¹⁴

He was later specifically asked questions about the PeopleSoft Financial System and the project justification for the Enterprise Financial Upgrade Project.¹⁵

The BCUC commissioner read out the description of the Enterprise Financial Upgrade Project. "This project involves the upgrade of People Soft Financial Software from the version currently used, to PeopleSoft enterprise financial management, release 9.0."¹⁶

██████████ was then asked to give the BCUC panel some sense of the enhancements in financial reporting by release 9.0.¹⁷

As part of his responses to the questioning, ██████████ stated that, "We are, in fact, looking at PeopleSoft as one of the solutions, but we are also looking at other options, just in case we want to find a better solution."¹⁸

When asked if there may be a risk that BC Hydro would need to purchase a further release to accommodate the IFRS (International Financial Reporting Standards) changes, ██████████ replied, "... I think the capital forecast that was done in the initial budget was fairly pessimistic, in current terms of capability and what changes had to be made to the software. So within the scope of financial constraints, I think we're – I think the project is probably fine, but, yeah, yes, the answer is we have to review their proposal – or the processes to ensure that we can deliver in the future."¹⁹

The submitted Appendix J one page summary for the \$7.2M Enterprise Financial Upgrade Project clearly states in its section on the Discussion of Alternatives that to re-platform the Financial System to SAP Software instead of just upgrading PeopleSoft would cost between \$30M to \$40M, would take away significant resources from other BC Hydro IT Projects, would take two to three years, and was not considered an appropriate option for BC Hydro.²⁰

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At no time during his testimony did [REDACTED] state that there were any plans to spend more than amounts listed in the Appendix I table of the planned IT Capital Spend in the 2009/2010 RRA - \$46.8M in F2009 and \$40.5M in F2010.²¹

He also did not indicate there were any changes or additions to the eight IT projects greater than \$5M listed in Appendix J of the RRA , even though at the time of the hearing most of the eight projects had been cancelled or changed substantially.²²

When [REDACTED] eventually submitted his response to BC Hydro Undertaking No.62 on October 28, 2008, he submitted an earlier version called IT Summary dated October 31, 2007, which did not include any reference to SAP software or the plan to increase the IT Capital Spend.²³

[REDACTED] did not submit the IT&T Strategy document which had established the principles and directions on which the strategy would be governed, that had been approved by the Executive Team and presented to the Audit and Risk Committee of the Board in May 2008.²⁴ It was this document, not the October 31, 2007 document, that had been requested by the BCUC and that [REDACTED] appears to have committed to file.²⁵

The May 2008 IT&T Update on Strategy Development document clearly states in the last paragraph on page 6 that for all major initiatives, SAP will be used as the default solution.²⁶ The document also states on page 4 an additional capital investment of \$32-38M may be required above the historic annual IT Plan amount of \$45M.²⁷

The May 2008 document also corresponds to the updated IT Plan document referenced in the BCUC IR 1.71.2.2 response that was scheduled to be presented to the board in May 2008, and that BC Hydro was to later file the plan as part of evidentiary evidence.²⁸

[REDACTED] used this May 2008 IT Strategy document as part of the business case to purchase SAP Financial Software licenses in F2009. This business case to purchase millions of dollars of SAP Financial Software licenses was also signed by [REDACTED] prior to his October 15, 2008 BCUC hearing testimony.²⁹

It is not known if this May 2008 IT Strategy document was purposely withheld from the BCUC so that the plan to implement the Enterprise Financial Upgrade Project using SAP software and the anticipated increase in IT spending would not be exposed during the hearing.

Fiscal 2011 Revenue Requirement Application

The F2011 RRA proposal was officially submitted to BCUC on March 3, 2010.³⁰ Appendix I of the F2011 states that the actual IT Capital Spend for F2009 was \$61.9M (50.3+11.6)³¹ versus the 2009/2010 RRA planned amount of \$46.8M³², a 32% variance. The forecasted IT Capital Spend for F2010 is now forecasted to be \$90.5M (77.6+12.9)³³ versus the 2009/2010 RRA planned amount of \$40.5M³⁴, a 123% variance.

Appendix I and J of the F2011 RRA proposal now lists several SAP related projects in both F2009 and F2010. The Enterprise Financial Upgrade Project originally planned at \$7.2M in the 2009/2010 RRA is now forecasted at \$14.1M to implement SAP financials.³⁵

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The \$14.1M amount to implement SAP financials, also does not include the \$4.2M for SAP Common Infrastructure, the \$3.3M for SAP Financial Software licenses, and the \$9M spent in F2009 and F2010 for the Enterprise Service Bus (primarily to support SAP integration) listed in Appendix I of the F2011 RRA.³⁶ Based on this, the capital expenditure alone to implement SAP Financials has been greater than \$30M. If you also add in the operating costs associated with the project, the original estimate of \$30M to \$40M to re-platform the Financial System to SAP Software, as stated in the Discussion of Alternatives section of \$7.2M Enterprise Financial Upgrade Project summary in Appendix J of the 2009/2010 RRA, appears to have been accurate.³⁷

Appendix I and J of the F2011 RRA also lists \$20M for the Plan and Schedule Work Management (PSW) Project, \$15M for the Project & Portfolio Management (PPM) Project and the \$10.2M for the Human Resources Information System (HRIS) Replacement Initiative, all of which the CIO is planning to use SAP as the default solution.³⁸

The BC Hydro IT&T Five Year Plan – Year 2, included as Appendix N of F2011 RRA submission estimates the total five year IT Capital spend at nearly \$400M.³⁹ The SAP Program portion of this is far in excess of \$50M, but in Appendix I of the F2011 RRA submission, the program is broken down in to a set of discrete projects, none exceeding \$20M.⁴⁰

Conclusions and Recommendations

This evidence suggests that the Vice President and Chief Information Officer [REDACTED] misled the BC Utility Commission in the October 2008 RRA Hearings during his testimony. With the recent release of the F2011 RRA submission, almost all of this evidence is now publically available on the BCUC website.

If a breach (of the Code of Conduct) did not occur, there is now, at a minimum, the appearance of it, given the recently published 2011 RRA and other documents from the 2009/2010 RRA Hearings publicly available on the BCUC website.

Given the importance and sensitivity associated with the proposed rate increases in the F2011 RRA submission, even the appearance of attempting to mislead the BC Utility Commission in financial matters, or not being seen to perform the proper due diligence on a proposed SAP IT Program far in excess of \$50M, could bring serious harm to BC Hydro's reputation.

It is recommended that [REDACTED] testimony to the BCUC in the October 2008 RRA Hearings, and his parts of the F2011 RRA submission, be reviewed to establish if there has been any intent to mislead the BC Utility Commission.

Considering the total cost of the IT&T Five Year Plan is listed at nearly \$400M (not including the proposed \$920M for the Smart Metering Program and Smart Grid Program, also listed in Appendix J of the 2011 RRA)⁴¹, it is also highly recommended that the Board have an independent assessment done on the IT&T Five Year Plan and its supporting business cases. It is specifically recommended that the risks associated with scope, cost and schedule of the five year program as outlined in the "BC Hydro IT&T Five Year Plan – Year 2", and the \$23.9M in planned F10 annual cost reduction be examined fully.⁴²

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End Notes

¹ Fiscal 2009/2010 Revenue Requirements Application dated February 20, 2008 – BC Hydro Exhibit B-1 (available on the BCUC website)

² Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

³ Pages 82 to 93 - Appendix J - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁴ Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁵ Pages 82 to 93 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

⁶ Page 1508 line 4 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

⁷ BCUC Information Request (IR) 1.71.2.2 dated March, 2008 - BC Hydro Exhibit B-5-1 (BCUC website)

⁸ Page 1508 line 17- BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

⁹ Page 1509 line 3 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁰ Page 1509 line 19 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹¹ BC Hydro F09/F10 Revenue Requirements Application - BC HYDRO UNDERTAKING No. 62 – BC Hydro Exhibit B - 78 (available on the BCUC website)

¹² Witness Aid A2-21 Appendix J of the BC Hydro F09/F10 Revenue Requirements Application (BCUC website)

¹³ Page 1537 line 11 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁴ Page 1537 line 15 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁵ Page 1548 line 5 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (available on the BCUC website)

¹⁶ Page 1548 line 17- BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁷ Page 1548 line 23 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁸ Page 1549 line 12 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

¹⁹ Page 1550 line 17 - BC Hydro Revenue Requirement F2009, F2010 –Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)

²⁰ Page 89 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

²¹ Page 10 - Appendix I - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)

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-
- ²² Pages 82 to 93 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ²³ BC Hydro F09/F10 Revenue Requirements Application - BC HYDRO UNDERTAKING No. 62 – BC Hydro Exhibit B - 78 (BCUC website)
- ²⁴ IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁵ Page 1509 line 19 - BC Hydro Revenue Requirement F2009, F2010 – Transcript Volume 9 – Oral Hearing – October 15, 2008. (BCUC website)
- ²⁶ Page 6 IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁷ Page 4 IT&T Update on Strategy Development – May 22, 2008 Audit and Risk Management Committee Meeting of the Board (Internal BC Hydro Documents, not available on the BCUC website)
- ²⁸ BCUC Information Request (IR) 1.71.2.2 dated March, 2008 - BC Hydro Exhibit B-5-1 (BCUC website)
- ²⁹ SAP Financial Software Licenses Business Case - EAR# 1122961 (Internal BC Hydro Documents, not available on the BCUC website).
- ³⁰ Fiscal 2011 Revenue Requirement Application dated March 3, 2010 – BC Hydro Exhibit B-1 (BCUC website)
- ³¹ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³² Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³³ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁴ Page 10 - Appendix I - F2007 – F2010 Capital Expenditures, Information Technology - Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁵ Page 83 - Appendix J- Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁶ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (available on the BCUC website)
- ³⁷ Page 89 - Appendix J- Fiscal 2009/2010 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁸ Pages 82, 84 and 87 Appendix J - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ³⁹ Page 31 - Appendix N - BC Hydro IT&T Five Year Plan dated November 18, 2009 - Fiscal 2011 Revenue Requirement Application. (BCUC website)
- ⁴⁰ Page 13 - Appendix I - F2009 – F2011 Capital Expenditures, Information Technology & Telecom - Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ⁴¹ Page 113 - Appendix J- Fiscal 2011 Revenue Requirement Application – BC Hydro Exhibit B-1 (BCUC website)
- ⁴² Page 30 - Appendix N - BC Hydro IT&T Five Year Plan dated November 18, 2009 - Fiscal 2011 Revenue Requirement Application. (BCUC website)

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From: Nagle, Debbie <Debbie.Nagle@bchydro.com>
Sent: Apr-07-2010 06:38:59 pm
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: Re: Code Of Conduct Matter

Will do - I am in at 7:00!! He will have time to pre-read.

Deb

From: Aldeguer, Ray
To: Nagle, Debbie
Sent: Wed Apr 07 18:29:26 2010
Subject: Code Of Conduct Matter

Hi Deb, I wasn't sure if you had provided Charles with a copy of the material that Bonita gave us the other day. If not, I was thinking that it might be a good idea to share that with him ahead of our 10:30 am meeting tomorrow so that he has an opportunity to digest. I did meet with Charles earlier today and gave him the gist of the matter so he won't be surprised to receive the material. In the event that you're in earlier than me (which is par for the course!), would you mind giving him a hard copy of what Bonita gave us? Failing that I will be sure to do so just as soon as I arrive.

Have a great evening!

Ray.

RAY A. ALDEGUER

Senior Vice-President

Corporate Resources and General Counsel

Dunsmuir 18

Phone: 623-4513 / 74513

Fax: 623-4323 / 74323

e-mail: ray.aldeguer@bchydro.com

This message is intended for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential, or otherwise exempt from disclosure. Any other distribution, copying or disclosure is strictly prohibited. If you have received this message in error, please notify me at (604) 623-4513 or by return e-mail and destroy all copies of this communication. Thank you.

From: Reid, Charles <Charles.Reid@bchydro.com>
Sent: Apr-19-2010 11:47:02 am
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>; Nagle, Debbie <Debbie.Nagle@bchydro.com>
Cc:
Bcc:
Subject: FW: Last meeting

fyi

From: Advisor, Code of Conduct
Sent: 2010, April 19 11:03 AM
To: Reid, Charles
Subject: Last meeting

I was contacted today by the employee whose disclosure/report we discussed recently. ■ advised that BCUC has submitted info request #1 to be responded to in May. The employee said that this request contains similar probing questions to those the employee asked.

We agreed to have a follow up meeting within a week to discuss next steps in this report. I happen to be in Vancouver on Friday for meetings on D18. I have time available from 11:30 to 2. Would this time work for you?

Regards, Bonita

Bonita J. Thompson, Q.C.

Code of Conduct Advisor

confidential line: 604-623-4419

From: Nagle, Debbie <Debbie.Nagle@bchydro.com>
Sent: Apr-19-2010 06:29:08 pm
To: Reid, Charles <Charles.Reid@bchydro.com>; Aldeguer, Ray
<Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: RE: Last meeting

I will update you on Ray s and my last chat on Friday afternoon - slight change of plans

Thanks,

Debbie Nagle

Chief Human Resources Officer

BC Hydro

333 Dunsmuir

Vancouver, BC

V6B 5R3

Phone: 604-623-4447

Cell: 604-374-2700

Fax: 604-623-4155

E-mail: [mailto:debbie.nagle@bchydro.com] debbie.nagle@bchydro.com

From: Reid, Charles
Sent: 2010, April 19 11:47 AM
To: Aldeguer, Ray; Nagle, Debbie
Subject: FW: Last meeting

fyi

From: Advisor, Code of Conduct
Sent: 2010, April 19 11:03 AM
To: Reid, Charles
Subject: Last meeting

I was contacted today by the employee whose disclosure/report we discussed recently. [REDACTED] advised that BCUC has submitted info request #1 to be responded to in May. The employee said that this request contains similar probing questions to those the employee asked.

We agreed to have a follow up meeting within a week to discuss next steps in this report. I happen to be in Vancouver on Friday for meetings on D18. I have time available from 11:30 to 2. Would this time work for you?

Regards, Bonita

Bonita J. Thompson, Q.C.



Code of Conduct Advisor

confidential line: 604-623-4419



From: bonita_thompson@hotmail.com - on behalf of - Code of Conduct Advisor
</O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=CCADVSR>

Sent: Apr-21-2010 04:23:52 pm

To: Aldeguer, Ray <ray.aldeguer@bchydro.com>; Nagle, Debbie
<debbie.nagle@bchydro.com>

Cc:

Bcc:

Subject: Meeting

Is Charles going to be in attendance? Henry was inquiring. He also asked if Albert should be present as he is still acting. I said that we were really looking for Henry's fine touch but perhaps he should discuss with you.

Bonita

Bonita J. Thompson, Q.C.

[REDACTED]

[REDACTED]

[REDACTED]

From: Code of Conduct Advisor <bonita_thompson@shaw.ca>
Sent: Apr-21-2010 06:21:39 pm
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: Re: Meeting

Makes perfect sense. B

Sent from my BlackBerry device on the Rogers Wireless Network

From: ""Aldeguer, Ray"" [Ray.Aldeguer@bchydro.com]
Date: Wed, 21 Apr 2010 17:45:27 -0700
To: Code of Conduct Advisor[bonita_thompson@shaw.ca]; Nagle, Debbie[Debbie.Nagle@bchydro.com]
Subject: RE: Meeting

Hi Bonita, for time being we are not planning to have either Charles or Albert attend this initial discussion which is really more for our own benefit as we try to work through appropriate next steps with Henry. Hope this makes sense to you. Look forward to seeing you on Friday.

Cheers!

From: bonita_thompson@hotmail.com [mailto:bonita_thompson@hotmail.com] On Behalf Of Code of Conduct Advisor
Sent: 2010, April 21 4:24 PM
To: Aldeguer, Ray; Nagle, Debbie
Subject: Meeting

Is Charles going to be in attendance? Henry was inquiring. He also asked if Albert should be present as he is still acting. I said that we were really looking for Henry's fine touch but perhaps he should discuss with you.

Bonita

Bonita J. Thompson, Q.C.

[REDACTED]

[REDACTED]

[REDACTED]

From: Advisor, Code of Conduct <codeofconduct.advisor@bchydro.com>

Sent: Apr-29-2010 03:12:13 pm

To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>; Nagle, Debbie
<Debbie.Nagle@bchydro.com>

Cc:

Bcc:

Subject: Referral

I have referred to Audit Services under the Financial Disclosures Policy the information submitted to me respecting representations made to BCUC respecting financial information.

I understand that Audit Services may wish to discuss a proposed inquiry process with you and that I will be advised as soon as a decision on process has been made.

As previously advised, the reporting employee is seeking protection against reprisals. I will monitor the situation and will advise Debbie of the employee's name if that is necessary to ensure that the employee's concerns are being addressed.

Regards,

Bonita

Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
Sent: Thursday, April 29, 2010 3:05 PM
To: Lagnado, Albert
Cc: Prinja, Rick
Subject: FW: Referral

FYI

-----Original Message-----

From: Advisor, Code of Conduct
Sent: 2010, April 29 3:03 PM
To: Honda, Henry
Subject: Referral

Henry, this is to confirm that I have referred to Audit Services allegations that fall under the Financial Disclosure Policy. The documents in this matter have been provided to you and relate to representations made by a senior management officer to BCUC.

Thank you to you and Albert for our discussions on this matter. As I have indicated previously the employee who provided this information wishes to remain anonymous. If you require any additional information please do not hesitate to contact me.

I await your information on how this inquiry process will be conducted.

Regards, Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

Prinja, Rick

From: Honda, Henry
Sent: 2010, April 29 3:24 PM
To: Advisor, Code of Conduct
Cc: Lagnado, Albert; Prinja, Rick
Subject: RE: Referral

Bonita

Thanks again for the call this morning.

As discussed, I would like to perform this review jointly with a resource from our internal legal group as reviewing the allegation would require understanding the legal requirements of the regulatory rate application process, related hearings and evidential reports. In addition, this legal resource would also provide input into any legal implications or sensitivities that we should be aware of as part of our review.

In addition, as most of this information is public, and as you mentioned, similar questions have already been asked through the current regulatory process, I would like to perform this review taking a direct approach and being open with the process when interviewing any individuals who may have been involved in the process. However, I do not anticipate requiring to know who the reporting employee is and therefore the reporting employee will remain anonymous. If for whatever reason, we need to contact the reporting employee for further information, I will work with you in this process.

Please confirm that this high-level approach would be acceptable to the reporting employee as we would like to start our review as soon as possible. I will be meeting with Ray and Debbie next week to further discuss the review approach and will provide you with a further update.

Thanks again.

Henry

-----Original Message-----

From: Advisor, Code of Conduct
Sent: 2010, April 29 3:03 PM
To: Honda, Henry
Subject: Referral

Henry, this is to confirm that I have referred to Audit Services allegations that fall under the Financial Disclosure Policy. The documents in this matter have been provided to you and relate to representations made by a senior management officer to BCUC.

Thank you to you and Albert for our discussions on this matter. As I have indicated previously the employee who provided this information wishes to remain anonymous. If you require any additional information please do not hesitate to contact me.

I await your information on how this inquiry process will be conducted.

Regards, Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

Prinja, Rick

From: Honda, Henry
Sent: 2010, April 30 10:09 AM
To: Prinja, Rick
Subject: Fw: Referral

FYI

----- Original Message -----

From: Advisor, Code of Conduct
To: Honda, Henry; Lagnado, Albert
Sent: Fri Apr 30 08:48:35 2010
Subject: Referral

I have spoken with the reporting employee and the employee is fine with the approach.

Bonita

Bonita J. Thompson, QC

Code of Conduct Advisor

604-623-4419

Avren, David

From: Avren, David
Sent: 2010, May 01 5:36 PM
To: Honda, Henry
Subject: Privileged and confidential referral

Henry:

I have reviewed the material provided and can confirm that Legal will need the assistance of your audit team, and others, to come to a legal view and render an opinion.

Please ensure that communications made and documents created are consistent with privileged and confidential status. Any report you prepare should be for Legal.

We will need to discuss next steps in the matter.

My current view is we need to meet with [REDACTED] or others in regulatory to discuss the matter. We can then decide what further conversations are needed.

Regards,

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

-----Original Message-----

From: Honda, Henry
Sent: 2010, April 29 3:25 PM
To: Avren, David
Subject: FW: Referral

David,

As discussed, I have received the following referral from the Code of Conduct Advisor.

Henry

-----Original Message-----

From: Advisor, Code of Conduct
Sent: 2010, April 29 3:03 PM
To: Honda, Henry

Subject: Referral

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Regards, Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
Sent: Saturday, May 01, 2010 10:43 PM
To: Lagnado, Albert; Prinja, Rick
Subject: Fw: Privileged and confidential referral

Fyi

----- Original Message -----

From: Avren, David
To: Honda, Henry
Sent: Sat May 01 17:35:37 2010
Subject: Privileged and confidential referral

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I have reviewed the material provided and can confirm that Legal will need the assistance of your audit team, and others, to come to a legal view and render an opinion.

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Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

-----Original Message-----

From: Honda, Henry
Sent: 2010, April 29 3:25 PM
To: Avren, David
Subject: FW: Referral

avid,

From: Prinja, Rick
ent: Monday, May 03, 2010 9:46 AM
To: Honda, Henry; Lagnado, Albert
Subject: RE: Privileged and confidential referral

Should I setup a meeting with [REDACTED] per David's email?

Rick

Rick Prinja, CA
Senior Manager, Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

-----Original Message-----

From: Honda, Henry
Sent: 2010, May 01 10:43 PM
To: Lagnado, Albert; Prinja, Rick
Subject: Fw: Privileged and confidential referral

Fyi

----- Original Message -----

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Regards,

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Canada V6B 5R3

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To: Avren, David
Subject: FW: Referral

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To: Honda, Henry
Subject: Referral

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Thank you to you and Albert for our discussions on this matter. As I have indicated previously the employee who provided this information wishes to remain anonymous. If you require any additional information please do not hesitate to contact me.

I await your information on how this inquiry process will be conducted.

Regards, Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
Sent: Wednesday, May 05, 2010 9:41 AM
To: Advisor, Code of Conduct; Lagnado, Albert; Prinja, Rick
Subject: Re: Referral

Bonita

As an update, we have met with Ray and Debbie again to discuss the approach of working jointly with Legal to complete the review. We plan to obtain as much information we can before approaching our regulatory group to discuss and potentially the external counsel who assist in our regulatory process. We will then assess the information we receive and determine the need to approach [REDACTED] and Charles.

Thanks

Henry

----- Original Message -----

From: Advisor, Code of Conduct
To: Honda, Henry; Lagnado, Albert
Sent: Fri Apr 30 08:48:35 2010
Subject: Referral

I have spoken with the reporting employee and the employee is fine with the approach.

Bonita

Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Avren, David <David.Avren@bchydro.com>

Sent: May-06-2010 09:23:33 pm

To: Prinja, Rick </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=VPRINJA>; Aldegue,
Ray </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=RALDEGUE>; Nagle, Debbie
</O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=DEBNAGLE>

Cc: Honda, Henry </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=HHONDA>; Lagnado,
Albert </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=ALAGNADO>

Bcc:

Subject: RE: Terms of Reference Code of Conduct Review

Hi, Rick:

Just one thing: the document should indicate that, consistent with the privileged and confidential nature of the work, audit is undertaking its review and preparing its report for Legal Services, in order for Legal to provide advice and opinion.

Could you make the appropriate edits and send along another version?

Thanks.

D.

-----Original Message-----

From: Prinja, Rick

Sent: Thu 5/6/2010 4:47 PM

To: Aldegue, Ray; Nagle, Debbie; Avren, David

Cc: Honda, Henry; Lagnado, Albert

Subject: Terms of Reference Code of Conduct Review

Hello Everyone

Please see the attached terms of reference for the code of conduct review.

Please let me know if you have any comments or concerns.

Thanks

Rick



Code of Conduct Review

F2011 Q1

TERMS OF REFERENCE

Privileged and Confidential

This document contains confidential communications, analysis or recommendations and was prepared in anticipation of litigation

Code of Conduct Review - Terms of Reference

Review Objective	<p>Audit Services has been requested by the Code of Conduct Advisor to review allegations that the VP and Chief Information Officer did not fully disclose or provide appropriate information to the BC Utility Commission in the 2009/2010 RRA Hearings held in October 2008.</p> <ul style="list-style-type: none"> The allegation specifically relates to testimony and subsequent written undertakings, on the scope and cost of the BC Hydro Information Technology and Telecommunications Strategic Plan in general, and on the Enterprise Financial Upgrade project.
Review Scope	<p>The scope of the review will focus on the following key areas:</p> <ul style="list-style-type: none"> Clarify the legal requirements with regards to information provided in oral testimony and written documents at a BCUC regulatory rate hearing. Determine whether BC Hydro and the VP and Chief Information Officer complied with the legal requirements clarified above based on provided testimony and written documentation.
Review Approach	<p>As the allegation relates to testimony at a regulatory rate hearing (which is similar to a legal proceeding), Audit Services will perform the review jointly with BC Hydro Legal Services (a legal resource who is not directly involved in the regulatory rate hearing process).</p> <p>All key meetings and review processes will be performed with both an individual from Audit Services and Legal Services present. Audit Services will prepare the final report with input and comments from Legal Services.</p> <ol style="list-style-type: none"> The review will include, but not be limited to, interviewing key individuals involved in the 2009/2010 RRA application and related public hearing such as: <ul style="list-style-type: none"> ██████████, Chief Regulatory Officer ██████████, VP and Chief Information Officer Charles Reid, VP and CFO External Legal Counsel – Regulatory Review key documents related to the allegation such as (but not limited to) the 2009/2010 RRA, witness testimony, and contracts and business cases related to the Enterprise Financial Upgrade.

Privileged and Confidential

Code of Conduct Review - Terms of Reference

Criteria:	BCUC Regulatory Rate Hearing requirements BC Hydro policies and procedures (where applicable)
Deliverable:	Consistent with the privileged and confidential nature of the work, Audit Services is undertaking its review and preparing its report for Legal Services, in order for Legal to provide advice and opinion.
Audit Team:	Henry Honda, Head of Audit Services David Avren, Director Legal Services Albert Lagnado, Acting Head of Audit Services Rick Prinja, Senior Audit Manager

Privileged and Confidential

This document contains confidential communications, analysis or recommendations and was prepared in anticipation of litigation

From: Avren, David
Sent: Friday, May 07, 2010 10:54 AM
To: Prinja, Rick
Subject: RE: Final Terms of Reference Attached

Looks good. Thanks, Rick

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prinja, Rick
Sent: 2010, May 07 10:43 AM
To: Avren, David; Aldeguer, Ray; Nagle, Debbie
Cc: Honda, Henry; Lagnado, Albert
Subject: Final Terms of Reference Attached

Hi Everyone,

Please see the revised terms of reference for the COC review with changes as recommended.

Thanks
Rick

Rick Prinja, CA
Senior Manager, Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

Avren, David

From: Prinja, Rick
Sent: 2010, May 07 10:43 AM
To: Avren, David; Aldeguer, Ray; Nagle, Debbie
Cc: Honda, Henry; Lagnado, Albert
Subject: Final Terms of Reference Attached
Attachments: Terms of Reference COC Review.doc

Hi Everyone,

Please see the revised terms of reference for the COC review with changes as recommended.

Thanks
Rick

Rick Prinja, CA
Senior Manager, Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

BC Hydro 

Corporate Code of Conduct Review

Special Review

F2011 Q1

TERMS OF REFERENCE

Draft—For Executive Management Purposes only

Privileged and Confidential

This document contains confidential communications, analysis or recommendations and was prepared in anticipation of litigation

Code of Conduct Special Review - Terms of Reference

Review Objective	<p>Audit Services has been requested by the Code of Conduct Advisor to review allegations that the VP and Chief Information Officer misled-did not fully disclose or provide appropriate information to the BC Utility Commission in the October 2008 RRA Hearings during his testimony and through subsequent written undertakings, on the scope and cost of the BC Hydro Information Technology and Telecommunications Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically.</p>
Review Scope	<p>The scope of the review will focus on the following key areas:</p> <ul style="list-style-type: none"> • Clarify the legal requirements with regards to information provided in oral testimony and written documents at a BCUC regulatory rate hearing. • Determine whether compliance by BC Hydro and the VP and Chief Information Officer complies with the legal requirements clarified above based on provided testimony and written documentation for disclosing information to the BCUC; • Determine whether VP and Chief Information Officer misled the BCUC based on testimony and written undertakings. • Legal Services and Audit Services will jointly perform the review.

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Code of Conduct Special-Review - Terms of Reference

Review Approach	<p><u>As the allegation relates to testimony at a regulatory rate hearing (which is similar to a legal proceeding), Audit Services will perform the review jointly with BC Hydro Legal Services (a legal resource who is not directly involved in the regulatory rate hearing process).</u></p> <p><u>All key meetings and review processes will be performed with both an individual from Audit Services and Legal Services present. Audit Services will prepare the final report with input and comments from Legal Services.</u></p> <p>1. The review will include, but not be limited to, interviewing key individuals involved in the 2009/2010 RRA application and related public hearing such as:</p> <ul style="list-style-type: none"> ██████████, Chief Regulatory Officer ██████████ VP and Chief Information Officer Charles Reid, VP and CFO External Legal Counsel – Regulatory <p>2. Review key documents such as 2009/2010 RRA, witness testimony, business cases related to the Enterprise Financial Upgrade, Information Requests and information presented to the BCH Executive Team and BC Hydro Board of Directors and related sub-committees.</p>	<p>Formatted: Bullets and Numbering</p> <p>Formatted: Bullets and Numbering</p>
Criteria:	<p>As determined by Legal and Audit BCUC Regulatory Rate Hearing requirements BC Hydro policies and procedures (where applicable)</p>	
Sponsor:	<p>Benita Thompson, COC Advisor</p>	
Deliverable:	<p>A confidential report detailing the results of our review based on the scope above.</p>	
Audit Team:	<p>Henry Honda, Head of Audit Services David Avren, Director Legal Services Albert Lagnado, Acting Head of Audit Services Rick Prinja, Senior Audit Manager</p>	

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Code of Conduct Review

F2011 Q1

TERMS OF REFERENCE

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Code of Conduct Review - Terms of Reference

Review Objective	<p>Audit Services has been requested by the Code of Conduct Advisor to review allegations that the VP and Chief Information Officer did not fully disclose or provide appropriate information to the BC Utility Commission in the 2009/2010 RRA Hearings held in October 2008.</p> <ul style="list-style-type: none"> The allegation specifically relates to testimony and subsequent written undertakings, on the scope and cost of the BC Hydro Information Technology and Telecommunications Strategic Plan in general, and on the Enterprise Financial Upgrade project.
Review Scope	<p>The scope of the review will focus on the following key areas:</p> <ul style="list-style-type: none"> Clarify the legal requirements with regards to information provided in oral testimony and written documents at a BCUC regulatory rate hearing. Determine whether BC Hydro and the VP and Chief Information Officer complied with the legal requirements clarified above based on provided testimony and written documentation.
Review Approach	<p>As the allegation relates to testimony at a regulatory rate hearing (which is similar to a legal proceeding), Audit Services will perform the review jointly with BC Hydro Legal Services (a legal resource who is not directly involved in the regulatory rate hearing process).</p> <p>All key meetings and review processes will be performed with both an individual from Audit Services and Legal Services present. Audit Services will prepare the final report with input and comments from Legal Services.</p> <ol style="list-style-type: none"> The review will include, but not be limited to, interviewing key individuals involved in the 2009/2010 RRA application and related public hearing such as: <ul style="list-style-type: none"> ██████████, Chief Regulatory Officer ██████████, VP and Chief Information Officer Charles Reid, VP and CFO External Legal Counsel – Regulatory Review key documents related to the allegation such as (but not limited to) the 2009/2010 RRA, witness testimony, and contracts and business cases related to the Enterprise Financial Upgrade.

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Code of Conduct Review - Terms of Reference

Criteria:	BCUC Regulatory Rate Hearing requirements BC Hydro policies and procedures (where applicable)
Deliverable:	Consistent with the privileged and confidential nature of the work, Audit Services is undertaking its review and preparing its report for Legal Services, in order for Legal to provide advice and opinion.
Audit Team:	Henry Honda, Head of Audit Services David Avren, Director Legal Services Albert Lagnado, Acting Head of Audit Services Rick Prinja, Senior Audit Manager

Privileged and Confidential

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Avren, David

From: Avren, David
Sent: 2010, May 03 3:28 PM
To: Honda, Henry
Subject: privileged and confidential - RRA matter

Henry:

couple of things I would like audit to determine for us:

1. When did [REDACTED] start at BCH and what was his status at key times: Feb, 2008 (RRA filing), May 2008 (ARMC meeting), October 2008 (testimony)?
2. how and when did the SAP business case develop (key dates and milestones), including dates for signing agreements etc.

We can discuss for tomorrow at our meeting. All for now .

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: Monday, May 03, 2010 3:54 PM
To: Lagnado, Albert; Prinja, Rick
Subject: Fw: privileged and confidential - RRA matter

Fyi.

From: Avren, David
To: Honda, Henry
Sent: Mon May 03 15:27:54 2010
Subject: privileged and confidential - RRA matter

Henry:

couple of things I would like audit to determine for us:

1. When did [REDACTED] start at BCH and what was his status at key times: Feb, 2008 (RRA filing), May 2008 (ARMC meeting), October 2008 (testimony)?
2. how and when did the SAP business case develop (key dates and milestones), including dates for signing agreements etc.

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Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prinja, Rick
Sent: Monday, May 03, 2010 4:01 PM
To: Honda, Henry
Cc: Lagnado, Albert
Subject: Re: privileged and confidential - RRA matter

I will look at tomorrow. [REDACTED]

Rick

From: Honda, Henry
To: Lagnado, Albert; Prinja, Rick
Sent: Mon May 03 15:54:16 2010
Subject: Fw: privileged and confidential - RRA matter

Fyi.

From: Avren, David
To: Honda, Henry
Sent: Mon May 03 15:27:54 2010
Subject: privileged and confidential - RRA matter

Henry:

couple of things I would like audit to determine for us:

1. When did [REDACTED] start at BCH and what was his status at key times: Feb, 2008 (RRA filing), May 2008 (ARMC meeting), October 2008 (testimony)?
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Prinja, Rick

From: Avren, David
Sent: 2010, May 04 3:19 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: Privileged and confidential referral - task list

Gentlemen:

Here is the draft task list for now:

Legal/me:

- ascertain whether RRA testimony context is relevant; speak to Jeff Christian as advisable
- search legal files for SAP/business case records
- obtain consultant contracts and info respecting [REDACTED] and CR, if in Legal's possession

Audit:

- identify relevant IR's in current rate hearing
- obtain files and records showing development of SAP business and commitments during relevant time period

I will send the red file to you once I have copied transcript excerpts.

Once the above are completed and the information shared, we should determine next steps which I envision as:

1. conversation with [REDACTED] and/or delegates and others (Lawsons) on the regulatory team for the last RRA to determine judgement exercised in providing answers.
2. subject to outcome of the foregoing, possibly a conversation with Charles;
3. subject to outcome of the foregoing, possibly a conversation with [REDACTED]

Let me know if the above sounds right, or amend it as you think advisable.

Thanks.

D.

J. David S. Avren
Director of Legal Services
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Tel: 604-623-3611
Fax: 604-623-3606

-----Original Message-----

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Sent: 2010, May 01 5:36 PM
To: Honda, Henry
Subject: Privileged and confidential referral

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D.

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Director of Legal Services
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Tel: 604-623-3611
Fax: 604-623-3606

-----Original Message-----

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To: Avren, David
Subject: FW: Referral

David,

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Henry

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Sent: 2010, April 29 3:03 PM
To: Honda, Henry
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I await your information on how this inquiry process will be conducted.

Regards, Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

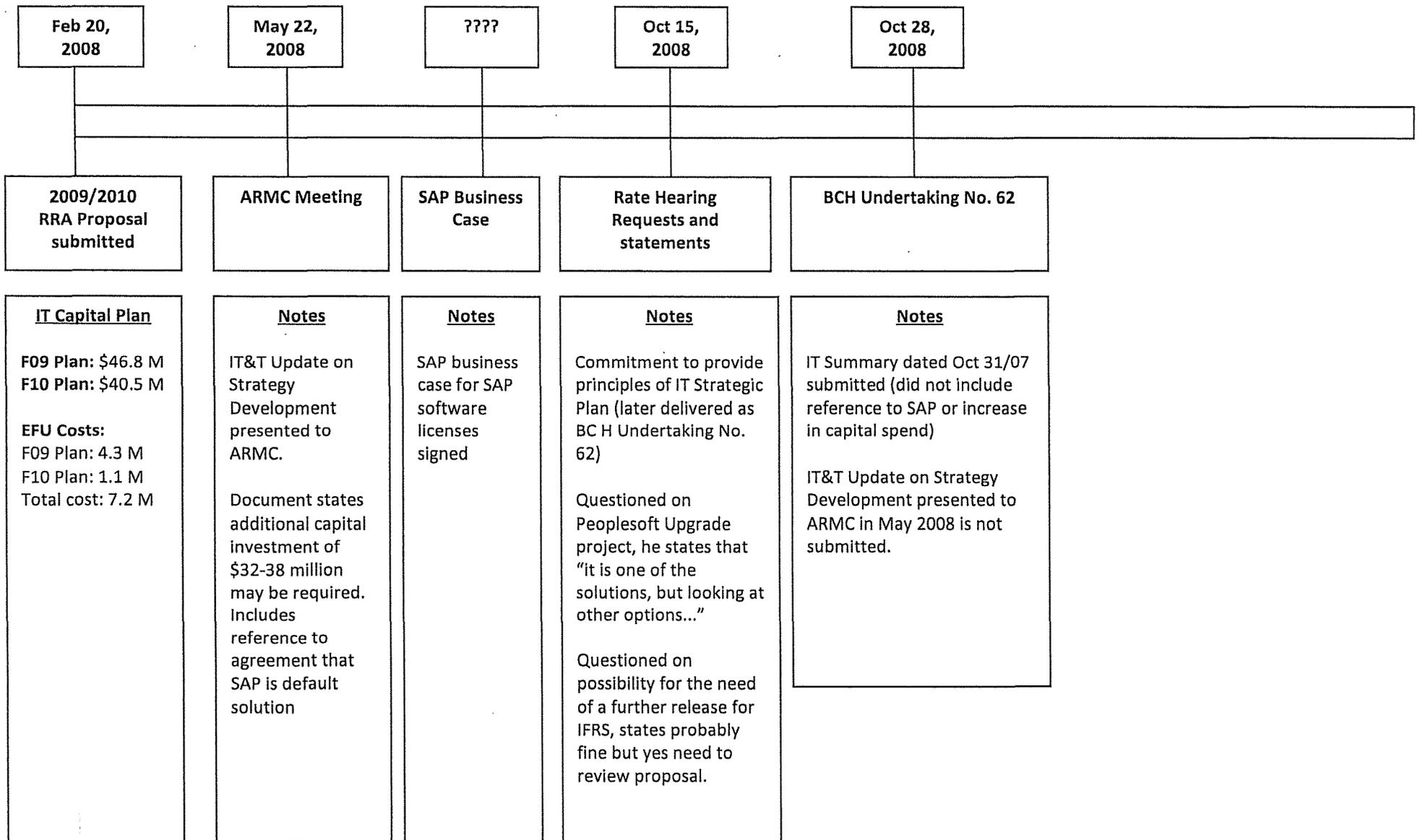
Allegation	Response
<p>During testimony, ██████████ did not indicate that there were any plans to spend more than amounts listed in Appendix I table IT Capital Spend in 2009/2010 RRA (\$46.8M in F2009, \$40.5M in F2010)</p>	
<p>██████████ did not indicate that there were any changes or additions to the eight IT projects > \$5M in Appendix J, even though most of the eight had been cancelled or changed substantially.</p>	
<p>██████████ did not submit the IT&T Strategy document which had established the principles and directions on which the strategy would be governed and that had been approved by the Executive Team and presented to the ARMC in May 2008. This was the document that had been requested by the BCUC</p>	
<p>Appendix I and J forecast cost to implement SAP Financials is \$14.1M but does not include \$4.2M for SAP Common Infrastructure, \$3.3M for SAP Financial Software licenses and the \$9M spent in F09 and F10 for the Enterprise Service Bus (to support SAP integration.</p>	

From: Honda, Henry
Sent: Tuesday, May 04, 2010 4:44 PM
To: Prinja, Rick
Cc: Lagnado, Albert
Subject: Timeline
Attachments: Timeline.doc

Here's the soft copy of the timeline in case you want to add more info.

Henry

Henry Honda, CA, CPA (Illinois)
Head of Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com



From: Avren, David
Sent: Tuesday, May 04, 2010 4:17 PM
To: Honda, Henry; Prinja, Rick; Lagnado, Albert
Subject: Privileged and Confidential - RRA issue

fyi – see especially Nicole's suggestion of whom to obtain SAP files from.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prior, Nicole (LEGAL)
Sent: 2010, May 04 4:15 PM
To: Avren, David
Subject: RE: Confidential - issue respecting SAP in last rate hearing

Nicole Prior

Solicitor & Counsel, BC Hydro Legal Services
16th Floor, 333 Dunsmuir St, Vancouver, BC, V6B 5R3
Phone: (604) 623-3692 (73692) Fax:(604) 623-3606 (73606)
nicole.prior@bchydro.com

From: Avren, David
Sent: 2010, May 04 4:14 PM
To: Prior, Nicole (LEGAL)
Subject: RE: Confidential - issue respecting SAP in last rate hearing

Thanks.

Who might have CIO office files on the SAP business case and contracts (other than [REDACTED])?

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prior, Nicole (LEGAL)
Sent: 2010, May 04 4:10 PM
To: Avren, David
Subject: RE: Confidential - issue respecting SAP in last rate hearing

Not sure if you got this. I got an error message when I sent it.

Nicole Prior

Solicitor & Counsel, BC Hydro Legal Services
16th Floor, 333 Dunsmuir St, Vancouver, BC, V6B 5R3
Phone: (604) 623-3692 (73692) Fax: (604) 623-3606 (73606)
nicole.prior@bchydro.com

From: Avren, David
Sent: 2010, May 04 3:27 PM
To: Prior, Nicole (LEGAL)
Subject: Confidential - issue respecting SAP in last rate hearing
Importance: High

Hi, Nicole:

I'll fill you in when we speak, but a sensitive and 'top secret' personnel-related issue has arisen respecting evidence given at the last RRA on SAP vs. Peoplesoft. At the last RRA we went forward with Peoplesoft as our forecast expense and IT solution, but were still considering SAP and had apparently even determined by the hearing date, we were going to go with SAP.

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Let me know.

Thanks.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Avren, David

From: Prinja, Rick
Sent: 2010, May 04 4:29 PM
To: Avren, David
Cc: Lagnado, Albert
Subject: RE: Privileged and Confidential - RRA issue

Hi David

I followed up with someone from Corporate BSS who outside OCIO for the business case and EARs and hopefully have something soon.

I will hopefully have something to you soon in terms of work plan.

In terms of coordination, I would like to participate in all interviews or discussions related to the review including those with external counsel. Please let me know if there are any concerns with this approach.

Rick

Rick Prinja, CA
Senior Manager, Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

From: Avren, David
Sent: 2010, May 04 4:17 PM
To: Honda, Henry; Prinja, Rick; Lagnado, Albert
Subject: Privileged and Confidential - RRA issue

fyi – see especially Nicole's suggestion of whom to obtain SAP files from.

D.

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From: Prior, Nicole (LEGAL)
Sent: 2010, May 04 4:15 PM

To: Avren, David
Subject: RE: Confidential - issue respecting SAP in last rate hearing

Nicole Prior

Solicitor & Counsel, BC Hydro Legal Services
16th Floor, 333 Dunsmuir St, Vancouver, BC, V6B 5R3
Phone: (604) 623-3692 (73692) Fax:(604) 623-3606 (73606)
nicole.prior@bchydro.com

From: Avren, David
Sent: 2010, May 04 4:14 PM
To: Prior, Nicole (LEGAL)
Subject: RE: Confidential - issue respecting SAP in last rate hearing

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Who might have CIO office files on the SAP business case and contracts (other than [REDACTED])?

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From: Avren, David
Sent: Tuesday, May 04, 2010 4:43 PM
To: Prinja, Rick
Cc: Lagnado, Albert
Subject: RE: Privileged and Confidential - RRA issue

sounds fine.

I've excerpted from the transcripts all pages with [REDACTED] testifying. Once they're copied I'll send them around.

He was on a panel with Tony Morris, Al Leonard and Aki Lintunen.

d.

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████████████████████

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From: Avren, David
Sent: Tuesday, May 04, 2010 5:52 PM
To: Honda, Henry; Prinja, Rick; Lagnado, Albert
Subject: FW: Consulting contract
Attachments: Charles Reid Consulting Contract Mar 2008.doc

Sensitivity: Confidential

fyi

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
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From: Prior, Nicole (LEGAL)
Sent: 2010, May 04 5:50 PM
To: Avren, David
Subject: FW: Consulting contract
Sensitivity: Confidential

From: Prior, Nicole (LEGAL)
Sent: 2010, May 04 5:03 PM
To: Avren, David
Subject: FW: Consulting contract
Sensitivity: Confidential

This is the last draft of Charles Reid's contract that I saw.

Nicole Prior

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Phone: (604) 623-3692 (73692) Fax:(604) 623-3606 (73606)
nicole.prior@bchydro.com

From: Nahirney, Lois
Sent: 2008, March 18 12:17 AM
To: Prior, Nicole
Cc: Szpak, Iwona
Subject: RE: Consulting contract
Sensitivity: Confidential

Comments below. Need insurance text. Thanks. L

Lois Nahirney

Acting Chief Human Resources Officer
BC Hydro
333 Dunsmuir Street
Vancouver British Columbia V6B 5R3
Tel: 604 623 4447
Fax: 604 623 4155

From: Prior, Nicole
Sent: 2008, March 17 5:07 PM
To: Nahirney, Lois
Cc: Szpak, Iwona
Subject: Consulting contract
Sensitivity: Confidential

Lois,

A couple of concerns:

- ♦ The consultant will need a GST number as he will be making over the minimum amount. ABSU is unlikely to issue a PO (meaning the consultant will not be paid) without the GST number – he has applied for one.
- ♦ I changed the project definition? I could not find what you changed.
- ♦ In the scope of services it refers to "Assistance will be provided at 40 hours per week". If this is intended to refer to administrative assistance, you should probably clarify that and reference the actual work week for BCH employees (although most do work longer). I suggest, "Administrative assistance will be provided at 37.5 hours per week." I've changed to The contract will be based on 40 hours per week as it referred to the consultant not admin support.
- ♦ I made a change to the fees section of Schedule C
- ♦ I have some questions about the expenses clause added language:
 - ...Services including, without limitation, **computer and blackberry use, parking, travel costs, reproduction and duplicating services and materials, communication costs, office and services costs and cost of subconsultants.**

I'm not sure what will be provided to the Consultant but I think it's likely that the highlighted things are things BCH will supply the consultant with directly. So, I recommend adding "...unless BC Hydro pays such costs or provides such items directly." To the end of the sentence after "subconsultants." Added thanks.

- ♦ Not sure why the text was deleted for the insurance Schedule D, sections 1 (a), (b), and (c). If the insurance is not applicable, please put "N/A" after each. **Can you please provide me with the text to add. Thanks.**
- ♦ The consultant is unlikely to qualify for WCB coverage so I've removed it.

If you have any questions, please let me know. thanks

.....
Nicole Prior

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This e-mail may contain privileged and confidential information. This information is intended only for the use of the intended addressee. If you have received this e-mail in error, please notify us by return e-mail as soon as possible and then delete the original message. Any distribution or copying of a message received by you in error is strictly prohibited. Thank you.

Consulting Services Agreement



Contract No. : *To act as the Executive Project Advisor and provide assistance on selected projects within the CFO Portfolio*

This agreement made as of the 19th day of March, 2008 between British Columbia Hydro and Power Authority ("BC Hydro") with offices at 333 Dunsmuir Street, Vancouver, B.C., V6B 5R3 (Fax No. 604 623-4155) and Charles Reid, ("Consultant" or "Contractor") with offices at [REDACTED] witnesses that the parties agree that:

1. **THE AGREEMENT** - This Cover Agreement, the Schedules listed below, and Change Orders, all as amended are herein collectively, the "**Agreement**". The Agreement includes the following Schedules:

- Schedule A - Definitions and Interpretation
- Schedule B - Scope of Services
- Schedule C - Compensation
- Schedule D - Insurance
- Schedule E - Change Order Form
- Schedule F - Special Conditions

Definitions and rules of interpretation in Schedule A apply to this Agreement. The Agreement is the entire agreement between the parties concerning the subject matter hereof, and all prior communications related to the subject matter hereof, whether written, oral or in any other format, are of no legal effect.

2. **SERVICES AND CHANGES** - Consultant will perform the Services for the Project and observe and perform all of its other obligations hereunder subject to, and in accordance with, the terms and conditions of the Agreement. The Services may be changed by agreement between the parties, confirmed by Change Order signed by both parties. Change Orders will include a description of the change in Services and any related change in Compensation and other terms and conditions.

3. **INCLUDED SERVICES** - Consultant acknowledges that there are functions or tasks that will not be specifically included in the description of the Services but that are customarily required for the proper performance and provision of the Services. Consultant agrees that such functions or tasks are implied, and therefore included, in the scope of the Services to the same extent and in the same manner as if those functions or tasks had been specifically described in this Agreement and will be performed by Consultant as part of the Services.

4. **COMPENSATION** - BC Hydro will pay Compensation for the Services in accordance with Schedule C. Consultant's Canadian federal Goods and Services Tax (GST) number is _____.

5. **SCHEDULE** - Consultant will commence the Services on or before March 25th, 2008 and complete the Services no later than September 30th, 2008 and will comply with the timetable for deliverables set out in Schedule B, if applicable. Time is of the essence in this Agreement.

6. **STANDARD OF CARE** - Consultant will perform the Services in a good and proficient manner and with no less than the standard of professional skill, care and diligence customarily applied by qualified and experienced professional consultants performing similar services for similar projects. If Consultant fails to meet this standard of care, then, in addition to all other rights and remedies of BC Hydro, at BC Hydro's request, Consultant will perform, for no additional Compensation, additional Services of the type described in Schedule B for necessary remedial work on the Project.

7. **RELATIONSHIP** - Consultant is an independent contractor to BC Hydro. Consultant is not, and will not represent itself to be, an agent, partner or joint venturer of or with BC Hydro. None of the Consultant and its personnel and independent contractors will be entitled to membership in any BC Hydro pension or benefit program as a result of this Agreement. If Consultant or any of its personnel or independent contractors become an employee of

BC Hydro at any time, BC Hydro will not recognize any portion of their service as a consultant or independent contractor for BC Hydro employment purposes (including BC Hydro pension or benefit programs).

8. **PERSONNEL** - Consultant will assign to the Services persons who are qualified and experienced in the work to be performed by them, including the project manager and other key personnel, if any, specified as follows:

Executive Project Advisor: Charles Reid [REDACTED]

None of these key personnel will be changed without BC Hydro's prior approval, except for death, disability, termination of employment or personal compassionate reasons or unless so agreed by BC Hydro. If so changed, they will be replaced with a person approved by BC Hydro and at no additional cost to BC Hydro. Consultant's project manager is authorized to act for and bind Consultant on all matters relating to the Agreement. BC Hydro appoints Bob Elton, CEO, as its representative authorized to act for and bind BC Hydro on all matters relating to the Agreement and may, upon notice to Consultant, change its representative from time to time.

9. **SUBCONTRACTS/ASSIGNMENTS** - Consultant will not subcontract performance of all or part of the Services, and will not assign the Agreement, without the prior approval of BC Hydro, not to be unreasonably withheld or delayed. Consultant is liable to BC Hydro for acts and omissions of its subconsultants and of persons employed, directly or indirectly, by them to the same degree as it is liable under the Agreement for its own acts and omissions and those of its own personnel.

10. **PAYMENT OF ACCOUNTS** - Consultant will pay when due all salaries, wages and benefits to which its personnel assigned to the Services are entitled and will make all tax and other statutory withholdings and remittances in respect thereof, and Consultant will pay upon becoming due all accounts of third persons incurred in connection with the Services. To the extent lienable, Consultant will keep the site of the Project free of all liens arising from a failure of Consultant to comply with this Section of the Agreement.

11. **COMPLIANCE WITH LAWS AND STANDARDS** - Consultant will comply, will cause its personnel and each subconsultant to comply, and will ensure that the Services and each part thereof, complies with: (a) all Laws, (b) the terms and conditions of all Permits of which timely notice is given by BC Hydro, that are applicable to Consultant's Services under the Agreement; and (c) all policies, practices and procedures (including the Code of Conduct Guidelines Applicable to BC Hydro Contracts) established by BC Hydro with respect to safety, environment, security, conduct, use of BC Hydro's information and communications technology and systems and other matters related to the performance of the Services which are communicated by BC Hydro to Consultant from time to time.

Consultant, in the event of any injury to a worker in the course of the performance of the Site work, will, within 10 days, provide a safety incident report through BC Hydro's web-based contractor incident reporting facility. If Consultant is without internet access, Consultant will promptly obtain the required report form from BC Hydro's representative and promptly after obtaining it will complete and return the completed report to BC Hydro Safety and Health (telephone 604 528-2414).

11A. **PRIVACY** - The Consultant understands and acknowledges that it may be required to provide copies of, or access to copies of, Consultant records, or subconsultant records, containing the personal information of Consultant and subconsultant employees that is relevant to the Consultant's performance of its obligations pursuant to the Agreement. The Consultant further understands and acknowledges that provision of copies of such records, or access to such records, would be subject to the provisions of the (BC) *Freedom of Information and Protection of Privacy Act* ("FOIPPA"), including the requirement for each person, whose information the Consultant or subconsultant would disclose to BC Hydro, to consent to BC Hydro's indirect collection of that information. The Consultant warrants that it will ensure that it obtains all consents necessary to legitimate and facilitate the disclosure of Consultant and subconsultant employee personal information to BC Hydro and that it will make those consents available to BC Hydro within a reasonable period after request.

12. **INSURANCE** - The Consultant will comply with the insurance provisions in Schedule D.

13. **OWNERSHIP OF WORK PRODUCT AND EMBEDDED IP** - Consultant agrees that BC Hydro will own all of the Work Product and Consultant irrevocably assigns to BC Hydro all of Consultant's right, title and interest in the Work Product and hereby waives in favour of BC Hydro all rights (including, all moral rights), and will cause all of its personnel working on the Project to waive in favour of BC Hydro such rights, in and to the Work Product. Consultant retains ownership of the Embedded IP, if any, but grants BC Hydro and its other consultants and contractors an irrevocable, perpetual, assignable, royalty free right to load, transmit, access, execute, use, store, display, modify, alter or otherwise change the Embedded IP for the Project or for such other projects as BC Hydro may undertake. Any and all modifications of the Embedded IP prepared by or on behalf of BC Hydro will be owned by BC Hydro.

14. **CONFIDENTIAL INFORMATION** - Consultant will not use or disclose to third persons: (a) BC Hydro Confidential Information; or (b) Confidential Information of any third party ("**Third Party CI**"), in either case received or otherwise obtained by Consultant in connection with this Agreement, except with the prior written consent of BC Hydro. As between BC Hydro and Consultant, BC Hydro owns and retains ownership of all BC Hydro Confidential Information and all Third Party CI (collectively, the "**Agreement CI**"). Upon request of BC Hydro from time to time, Consultant will execute separate confidentiality agreement(s) in respect of Third Party CI on terms and conditions reasonably required by BC Hydro to comply with any obligations BC Hydro may have with such third parties. Consultant will inform all of its personnel having access to any Agreement CI of the confidential nature thereof and will ensure that its personnel maintain the confidentiality of the Agreement CI in accordance with the terms of this Agreement and/or such other confidentiality agreements, as the case may be.

Upon request of BC Hydro, Consultant will return to BC Hydro or destroy, as directed by BC Hydro, all copies of the Agreement CI, whether written, in the form of computer data or otherwise, and all documents and materials prepared by or for Consultant which include or refer to the Agreement CI and will delete the same from any computer system, retrieval system or database of Consultant. Notwithstanding the foregoing, Consultant will not be in breach of its obligation to return to BC Hydro or destroy and not to disclose such Agreement CI if that retention or disclosure is required by law (including professional obligation) or a court order, provided that (a) Consultant gives BC Hydro as much notice as is reasonably possible in the circumstances prior to disclosing any such Agreement CI, (b) Consultant cooperates with BC Hydro in any application, proceedings or other action BC Hydro may undertake to obtain a protective order or other means of protecting the confidentiality of the Agreement CI required to be disclosed, and (c) if Consultant is required to retain the Agreement CI, the Consultant will continue to maintain the confidentiality of such Agreement CI in accordance with this section.

15. **FORCE MAJEURE** - A party is excused from performance under this Agreement if and to the extent and for the time that performance is prevented or materially hindered by events or circumstances (collectively, "**Force Majeure Events**") beyond the reasonable control of that party and which by the exercise of reasonable diligence by such party could not have been prevented (except not lack of financial capability or lack of labour, material or utilities unless caused by an event or circumstance that would otherwise excuse a party from performance of its obligations), provided that prompt notice is given to the other party. If either party gives notice of a Force Majeure Event, each party will exercise reasonable efforts to avoid or minimize any delay occasioned thereby. The party prevented or delayed in the performance or observance of its obligations under the Agreement will resume promptly the performance and observance of those obligations after cessation of the particular Force Majeure Event unless the Agreement has been terminated.

16. **SUSPENSION/TERMINATION BY BC HYDRO** - BC Hydro may suspend performance of the Services or terminate the Agreement by notice to Consultant: (a) if Consultant is bankrupt, insolvent or unable to discharge its liabilities when due; (b) if Consultant is in breach of any term of this Agreement and which breach has not been cured within 10 days following receipt of written notice thereof (provided that if such breach, in the reasonable assessment of BC Hydro, is not curable, BC Hydro may suspend or terminate the Agreement immediately); or (c) for any other reason on 15 days prior notice to Consultant.

17. **TERMINATION BY CONSULTANT** - Consultant may terminate the Agreement by notice to BC Hydro if: (a) BC Hydro is bankrupt, insolvent or unable to discharge its liabilities when due; or (b) BC Hydro defaults in payment of any undisputed Compensation for 30 days after receipt of notice of overdue payment.

18. **OBLIGATIONS ON TERMINATION** - If the Agreement is terminated, BC Hydro will pay Consultant Compensation due to the termination date in respect of Services performed by Consultant. Consultant will deliver to

BC Hydro all completed but previously undelivered Work Product and all work-in-progress including any partially completed Work Product.

19. **WORK PRODUCT WARRANTY** - Consultant warrants that the Work Product will comply with all requirements, including the specifications, provided for such Work Product in the Agreement and, in addition to all other rights and remedies of BC Hydro, at BC Hydro's request, Consultant will promptly remedy for no additional compensation any Work Product non-compliance.

20. **CONSULTANT'S INDEMNITY** - Consultant will indemnify and hold harmless BC Hydro, its directors, officers and employees, for Claims and Claim Costs for or arising out of:

- (a) infringement of any patent or intangible, intellectual, proprietary or industrial property rights of the third person resulting from BC Hydro's use of the Work Product for the Project in a manner contemplated in Schedule B;
- (b) personal injury, including death, or property damage caused by the negligence and/or wilful misconduct of Consultant, its subconsultants, or their respective employees or agents; and/or
- (c) breach of this Agreement by Consultant, its subconsultants, or their respective employees or agents.

21. **INDEMNITY CONDITIONS** - Consultant agrees that each of BC Hydro and its directors, officers and employees may enforce the above indemnity for their benefit directly against Consultant. The right of a party, or its directors, officers and employees ("**indemnitee**") to be indemnified by the other party ("**indemnitor**") under the Agreement is subject to the conditions that:

- (a) the indemnitee gives the indemnitor prompt notice of any Third Party Claim, the right and opportunity to select counsel and defend or settle the Third Party Claim, all documents and other information, including access to witnesses, available to the indemnitee that may assist in the favourable defence or settlement of the Third Party Claim; and
- (b) the indemnitee does not make any admission, or do any other act or thing, that is materially prejudicial to the favourable defence or settlement of the Third Party Claim.

22. **LIABILITY EXCLUSIONS** - Neither party is liable to the other for special, punitive, contingent, indirect or consequential loss or damage. In addition, BC Hydro releases Consultant from any claims that arise as a result of BC Hydro's use of the Work Product in a manner or for purposes inconsistent with BC Hydro's intended use of the Work Product provided such intended use is specifically described in Schedule B.

23. **MAXIMUM LIABILITY** - The maximum aggregate liability of Consultant to BC Hydro for Claims under or relating to the Agreement, whether or not terminated, and whether arising in contract, tort, including negligence, by statute or as matters of strict or absolute liability, is limited:

- (a) for Claims, or portions thereof, insured under a policy of insurance required to be maintained under the Agreement, if any, to the amount of Claims payments to which Consultant is entitled under those policies, but not exceeding the minimum insurance amount prescribed in the Agreement for those policies; and
- (b) for all other Claims, including deductibles and excluded risks and Claims, or portions thereof, not insured under the policies or in excess of the minimum insurance amount prescribed in the Agreement for those policies, if any, referenced in (a) above, to an amount equal to **\$180,000** the maximum fee set out in Section 1.2 of Schedule C.

24. **EXCEPTIONS TO MAXIMUM LIABILITY** - Notwithstanding anything in the Agreement to the contrary, the limits on Consultant's liability under the Agreement will not apply to:

- (a) Claims or Claim Costs arising out of the willful, fraudulent or criminal misconduct of Consultant, its subconsultants, or their respective employees or agents; or
- (b) Third Party Claims or Claim Costs arising out of the breach by Consultant, its subconsultants or their respective employees or agents of any confidentiality obligations under the Agreement.

25. **RESPONSE TO INJUNCTIVE RELIEF** - Without limiting any other rights or remedies of BC Hydro or any other obligation of Consultant under this Agreement, if the use of the Work Product, or any part thereof, by BC Hydro is enjoined by a court of competent jurisdiction as a result of any infringement for which Consultant has agreed to indemnify BC Hydro under Section 20(a), Consultant, on notice from BC Hydro and at Consultant's option, either will procure and pay for an irrevocable, non-exclusive, royalty free and perpetual license in favour of BC Hydro permitting continued use by BC Hydro of the Work Product, or applicable part thereof, or will replace or modify the Work Product, or applicable part thereof, with non-infringing work of quality and performance capability that is substantially equivalent in all material respects to that specified by the Agreement, in each case, all at the expense of Consultant.

26. **DISPUTE RESOLUTION** - BC Hydro and Consultant will use all reasonable efforts to resolve their disputes by discussion and negotiation and agree to provide, without prejudice, frank, candid and timely disclosure of relevant facts, information and documents to facilitate these negotiations. If BC Hydro and Consultant are unable to resolve the dispute, the parties may agree to have the dispute resolved by mediation, arbitration or such other means. If no agreement as to the method of dispute resolution is reached between BC Hydro and Consultant within 30 days of the dispute arising, then either party may at any time submit the dispute to such British Columbia judicial tribunal as may be appropriate in the circumstances.

27. **GOVERNING LAW** - The Agreement is governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, excluding conflict of laws principles that would impose a law of another jurisdiction for the construction of the Agreement. The parties hereby irrevocably and unconditionally attorn to the non-exclusive jurisdiction of the courts of the Province of British Columbia and all courts competent to hear appeals therefrom. The United Nations Convention on Contracts for the International Sale of Goods (1980) does not apply.

28. **MISCELLANEOUS:**

- (a) *Currency.* All references herein to currency are to the lawful money of Canada, unless expressly stated otherwise.
- (b) *Further Assurances.* Each of the parties will execute all further documents and instruments and do all further and other things as may be necessary to implement and carry out the terms of this Agreement.
- (c) *Survival.* All rights, obligations and remedies of the parties which accrued prior to the time of expiry or earlier termination of this Agreement, or which are by their nature continuing and all other provisions necessary for the interpretation or enforcement of such Sections will survive expiry or earlier termination of this Agreement.
- (d) *Notices.* Notices may be given personally or by fax transmission to the addresses stated herein, or other addresses given by subsequent notice. Notices given by fax transmission are deemed received on the business day at the location of the recipient next following the date of transmission.
- (e) *Waiver.* A waiver of any breach of this Agreement is not a waiver of any continuing or subsequent breach. A waiver must be written and signed by the party against whom enforcement thereof is sought.
- (f) *Severability.* If any provision of this Agreement is illegal or unenforceable, it will be severed and the balance of the Agreement enforced.

- (g) *Enurement.* The Agreement enures to the benefit of and binds the parties and their respective successors and permitted assigns.
- (h) *Amendment.* The Agreement may be amended only by a Change Order, or by a subsequent written agreement between the parties.
- (i) *Counterparts.* This Agreement may be executed in counterparts, which when taken together will constitute one and the same document. This Agreement may be executed by the exchange of signed counterparts by facsimile transmission or electronically in PDF or similar secure format.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

British Columbia Hydro and Power Authority

Charles Reid

per:

Authorized Signatory

Charles Reid

Bob Elton, President and Chief Executive Officer

**SCHEDULE A
DEFINITIONS AND INTERPRETATION**

1. DEFINITIONS

- 1.1 "**Affiliate**" means, with respect to a party, a corporation that controls, is controlled by, or is under common control with, that party.
- 1.2 "**Agreement**" has the meaning ascribed to it in Section 1 of the Cover Agreement.
- 1.3 "**Change Order**" means a written order made pursuant to Section 2 of the Cover Agreement in the form set out in Schedule E that changes the scope of the Services.
- 1.4 "**Claim**" means any claim, demand, action, cause of action, suit and proceeding.
- 1.5 "**Claim Costs**" means any and all loss, damage, cost and expense, including but not limited to all legal, accounting and expert costs and expenses incurred in the investigation, defence or settlement of a Claim.
- 1.6 "**Compensation**" means amounts payable to Consultant in accordance with Schedule C.
- 1.7 "**Confidential Information**" means technical, financial, commercial, legal or other information, that is disclosed or otherwise made available by one party to the other whether orally or in any other media or form and includes the Work Product, the existence of this Agreement and the contents hereof, but excluding information that is:
- (a) in the public domain before disclosure to the receiving party, or becomes in the public domain thereafter otherwise than as a result of a breach by the receiving party of its obligations of confidentiality under this Agreement;
 - (b) known to the receiving party before it is disclosed by the disclosing party;
 - (c) developed independently by the receiving party without reference to the information disclosed by the disclosing party as evidenced by written or other tangible records; or
 - (d) received by the receiving party from a third person, who is not under any obligation to the disclosing party to restrict disclosure.
- 1.8 "**Cover Agreement**" means the agreement made between BC Hydro and Consultant to which this Schedule is attached.
- 1.9 "**Embedded IP**" has the meaning ascribed to it in Section 1.16 of this Schedule A.
- 1.10 "**Force Majeure Events**" has the meaning ascribed to it in Section 15 of the Cover Agreement.
- 1.11 "**Laws**" means all applicable constitutions, charters, acts, laws, statutes, regulations, ordinances, by-laws, rules, protocols, codes, guidelines, judgments, orders, notices, directions, decrees, treaties or other requirements whether national, provincial or local made or issued by any government or governmental agency or authority.
- 1.12 "**Permits**" means permits, licenses, approvals and similar authorisations issued by any government or governmental agency or authority for the Project.
- 1.13 "**Project**" means the Executive Project Advisor project located in BC Hydro, 333 Dunsmuir Street, Vancouver, BC.

- 1.14 **"Services"** or **"Work"** means the services to be performed by Consultant under the Agreement, as described in Schedule B, as amended from time to time by Change Order.
- 1.15 **"Third Party Claim"** means a Claim made against a party to this Agreement by a third party.
- 1.16 **"Work Product"** means all drawings, data, plans, models, designs, reports, specifications and other documents and all concepts, inventions, methods, mechanisms, know-how, products and processes and any other deliverables to be prepared, produced or supplied by Consultant under the Agreement as part of the Services, and all copyright and other intellectual property rights therein. For greater certainty, Work Product does not include intellectual property that is proprietary to the Consultant and (a) used by the Consultant to prepare, produce or supply the Work Product; or (b) that is otherwise embedded within the Work Product ("**Embedded IP**"), provided such intellectual property was not specified as a deliverable under the Agreement.

2. **INTERPRETATION** - Grammatical variations of defined terms have similar meanings, the singular includes the plural and vice versa, and the masculine includes the feminine and neuter, where the context requires. The division of the Agreement into Sections, subsections, paragraphs and Schedules is for convenience and does not affect the interpretation of the Agreement. The word "including" is deemed to be followed by "without limitation". Special Conditions, if any, govern over the Cover Agreement.

Contract No.

**SCHEDULE B
SCOPE OF SERVICES**

To act as the Executive Project Advisor to support selected projects within the CFO Portfolio. Initially the projects will include: Procurement, Regulatory, IT, Smart Metering Infrastructure, and Estimates. These may adjust from time to time as instructed by the CEO. The role will be for a period of up to 4 months with the option to extend to 6 months, commencing March 25th, 2008 to September 30, 2008. The contract will be based on 40 hours per week.

**SCHEDULE C
COMPENSATION**

(Hourly/Unit Rate Plus Expenses)

1. **FEES**

1.1 **Fees** - Subject to Section 1.2 of this Schedule C, BC Hydro will pay Consultant for performance of the Services fees, calculated based on time spent by Consultant's personnel in performing the Services, in accordance with the following:

RATE
██████████
This rate will be adjusted (reduced) for any month the Consultant works less than 40 hours in any week of that month.

1.2 **Maximum Fees** - The maximum aggregate liability of BC Hydro to Consultant for fees pursuant to Section 1.1 of this Schedule C is **limited to an amount equal to** ██████████ and BC Hydro will not pay or otherwise be liable to Consultant for fees in excess of such amount unless otherwise expressly agreed to in writing by BC Hydro.

2. **EXPENSES**

2.1 **Expenses** - BC Hydro will reimburse Consultant at cost for any and all expenses and other external costs reasonably incurred in connection with the performance of the Services including, without limitation, **computer and blackberry use, parking, travel costs, reproduction and duplicating** services and materials, communication costs, office and services costs and cost of subconsultants unless BC Hydro pays such costs or provides such items directly. Notwithstanding the foregoing, BC Hydro will not be liable to reimburse Consultant for individually expensed commitments exceeding \$ ██████████ unless previously approved in writing by BC Hydro.

3. **PAYMENT CONDITIONS**

3.1 **Invoicing** - Consultant will invoice fees and expenses monthly. Undisputed invoices are due 30 days after the invoice date.

3.2 **Disputed Invoices** - BC Hydro reserves the right to withhold payment of any invoice which is not in accordance with this Agreement and will on receipt of such invoice promptly notify Consultant in writing of the reason for such withholding.

3.3 **Taxes** - Fees and expenses do not include any applicable Canadian federal Goods and Services Tax ("GST"), which will be calculated and included as a separate line item in invoices, for payment by BC Hydro in accordance with applicable Laws. Notwithstanding the foregoing, if Consultant wishes to collect GST in respect of the Services performed under this Agreement, Consultant must be registered for GST under the *Excise Tax Act* (Canada) and must provide to BC Hydro on all invoices, Consultant's GST registration number. British Columbia Social Service Tax is not chargeable by Consultant or payable by BC Hydro under this Agreement.

- 3.4 **Non-Resident Withholding** - Where Consultant is a non-resident of Canada, BC Hydro may withhold from any payments to the Consultant, and remit to such applicable governmental agency or authority, such amounts as may be required to be withheld and remitted pursuant to applicable Laws.
- 3.5 **Records** - Consultant will maintain for a period of 6 years accurate records of time spent by its personnel in performing Services and of expenses incurred and provide to BC Hydro copies of all applicable receipts (other than credit card receipts) for which Consultant seeks reimbursement. In addition, Consultant will permit BC Hydro, at its request, to examine those records at Consultant's offices during normal business hours for the purpose of verifying the accuracy of invoices.
- 3.6 **Contract Personnel** - Persons who are retained by Consultant as independent contractors under contract and assigned to perform Services will be invoiced using a charge rate that is equal to that of employees of Consultant in equivalent positions.
- 3.7 **Affiliate Personnel/Expenses** - Affiliate personnel assigned to perform Services, whether by secondment from, or subcontract with, the Affiliate will be invoiced at the rates determined under Section 1.1, without further mark-up, as though they were employees of Consultant. Expenses incurred by an Affiliate will be invoiced at the rates provided in Section 2.1 without further mark-up.
- 3.8 **Currency** - Fees and expenses will be paid in Canadian dollars ("**Contract Currency**"). If wages, salaries or expenses are incurred and paid in any other currency, they will be converted to the Contract Currency at the conversion rate quoted by Royal Bank of Canada for the business day preceding the invoice date.
- 3.9 **Fixed Rates** - Consultant acknowledges and agrees that charge rates for Consultant's personnel and expenses are fixed for the duration of the Agreement and are not subject to review and adjustment.

Contract No.

**SCHEDULE D
INSURANCE**

1. **INSURANCE REQUIRED** - Consultant will obtain, maintain until completion of the Services or earlier termination of the Agreement or such longer period as may be specified below, and pay the premiums for, the following insurance:

- (a) Automobile Liability Insurance.
- (b) Professional Liability Insurance.
- (c) Commercial General Liability Insurance.

2. **PROOF OF INSURANCE** - The Consultant will provide BC Hydro with a completed Certificate of Insurance in the form attached in Appendix 1 to this Schedule D evidencing insurance coverage in place meeting the requirements set out above in this Schedule D, at the commencement of the Agreement and from time to time on request by BC Hydro.

3. **NOTICE OF AMENDMENTS/CANCELLATION** - All insurance policies required under this Schedule D must provide that 30 days written notice of cancellation and, in the case of insurance under paragraph 1(c) of negative material alteration, must be given to BC Hydro and all insurance policies must be considered primary. The Consultant will forthwith provide BC Hydro with notice in writing if any of the insurance coverage required by this Schedule D is, for any reason, cancelled or materially altered. The Consultant is solely responsible to determine the appropriate type and amount of insurance to carry, but must maintain, during the Agreement, at least the amount and type of insurance specified in this Schedule D.

4. **WORKERS COMPENSATION** - N/A.

CERTIFICATE OF INSURANCE

This Certificate must be completed by Agent or Broker using this form.

If you would prefer an electronic copy of this certificate, please email contract.insurance@bchydro.com referencing the Contract Identifier below. Please note that electronic versions are contract specific, and not reusable.

THIS CERTIFICATE IS ISSUED TO

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
13th Floor, 333 Dunsmuir Street, Vancouver, B.C. V6B 5R3

And certifies that policies of insurance as herein described have been issued to the insured(s) named below and are in full force and effect.

INSURED (CONTRACTOR)	NAME			CONTRACT IDENTIFIER	
	ADDRESS & TELEPHONE				
OPERATIONS INSURED	PROVIDE DETAILS				
TYPE OF INSURANCE	COMPANY NAME AND POLICY NO.	EXPIRY DATE			LIMIT OF LIABILITY/AMOUNT
		Y	M	D	
COMMERCIAL GENERAL LIABILITY (INCLUDES CROSS LIABILITY; SEVERABILITY OF INTEREST; AND NON-OWNED AUTOMOBILE; & BROAD FORM PROPERTY DAMAGE, IF REQUIRED)					PER OCCURRENCE \$ _____
					AGGREGATE LIMIT \$ _____
AUTOMOBILE LIABILITY (OWNED OR LEASED VEHICLES)					PRIMARY \$ _____
					EXCESS \$ _____
UMBRELLA LIABILITY					LIMITS \$ _____
					EXCESS OF \$ _____
COURSE OF CONSTRUCTION (BUILDERS ALL RISK)					LIMITS \$ _____
PROPERTY (INCLUDING WAIVER OF SUBROGATION AGAINST BC HYDRO)					DETAILS \$ _____
					\$ _____
OTHER (INCLUDING PROFESSIONAL LIABILITY INSURANCE)					DETAILS \$ _____
					\$ _____

These policies comply with the insurance requirements of the contract documents, and/or contract/purchase order with BC Hydro. It is understood and agreed that where required by the contract documents, and/or contract/purchase order, BC Hydro has been added as an additional insured with respect to liability arising out of the operations of the Insured and that the insurer will endeavour to provide thirty (30) days' written notice of cancellation and, in the case of commercial general liability insurance, of negative material alteration, of or to any of the insurance policies listed herein, either in part or in whole, to the holder of this certificate.

AGENCY/BROKERAGE NAME _____ TELEPHONE/FAX _____

SIGNED ON BEHALF OF THE CONTRACTOR'S INSURERS	PRINT NAME	Y	M	D

**SCHEDULE E
CHANGE ORDER FORM**

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY

Contract No. _____

PAGE 1 of 2

Consultant: _____

CHANGE ORDER

Notes:

- (1) *Where space on this form is insufficient, please reference and attach additional sheets.*
- (2) *Terms used in this form and defined in the Agreement have the meaning given them in the Agreement unless otherwise defined.*

DESCRIPTION OF CHANGE IN THE WORK: _____

REFERENCE:

Notice of Claim - Changes No. _____
Drawings: _____
Specifications: _____
Other Instructions: _____

CONTRACT PRICE ADJUSTMENT:

Method of Valuation

Tick one:

- CONTRACT UNIT PRICE
- ADDITIONAL UNIT PRICES
- LUMP SUM
- COST PLUS PERCENTAGE

Details of Valuation

Contract Price

Estimated Contract Price before this Change Order: \$ _____
Adjustment (firm/estimated): \$ _____
(Underline one)

Estimated Contract Price after this Change Order: \$ _____

Contract No.

Consultant: _____

CHANGE ORDER

CONTRACT TIME ADJUSTMENT

- No Adjustment
- Adjustment: +/- _____ days

Date required for completion of the Services: _____, 20____

SPECIAL CONDITIONS

DATE: _____, 20____

SIGNED:

[CONSULTANT]

British Columbia Hydro & Power Authority

By: _____
Authorized Signatory

By: _____
Authorized Signatory

**SCHEDULE F
SPECIAL CONDITIONS**

1. **CONFLICT OF PROVISIONS** - In the event of conflicts or inconsistencies, if any, between or among the special conditions contained within this Schedule F and the other terms and conditions of the Agreement, the special conditions set out in this Schedule F take precedence and govern over the other terms and conditions of the Agreement.

2. **SECURITY SENSITIVE WORK** - The Consultant shall ensure that any individual it intends to utilize in the performance of the Services who, in the course of such performance, may engage in Security Sensitive Work has, within 3 years prior to engaging in any such Security Sensitive Work, successfully passed all of the following:

- (a) reference check,
- (b) criminal background check, and
- (c) education qualifications/verification checks,

"Security Sensitive Work" means any work of special trust that may:

- (a) play a key role in maintaining BC Hydro's information security,
- (b) involve the capability to create, delete, or alter records in BC Hydro computer databases containing Confidential Information or "personal information" (as defined in Schedule F), or
- (c) impact systems critical to BC Hydro's infrastructure protection and operation, including critical systems for bulk energy generation and delivery.

Throughout the term of the Agreement, the Consultant shall require any or all of the checks prescribed by this section to be repeated from time to time as necessary to ensure that the results obtained with respect to any individual engaged in Security Sensitive Work are not more than 5 years old at any given time. The Consultant shall not permit any Security Sensitive Work to be performed by any individual who has not successfully passed (in the opinion of BC Hydro) any of the checks required under this section.

Prior to allowing any individual to engage in Security Sensitive Work, and subsequently at any other time upon BC Hydro's request, the Consultant shall provide BC Hydro with a letter, satisfactory to BC Hydro, confirming compliance with the requirements of this section with respect to each individual engaged, or proposed to be engaged, in Security Sensitive Work. Moreover, BC Hydro reserves the right, at any time during the term of the Agreement, to audit and review, at its own expense, the Consultant's compliance with this section, including without limitation the processes used to implement the background checks. The Consultant will cooperate with BC Hydro and provide all assistance reasonably requested by BC Hydro in conducting such audits and reviews from time to time.

3. **PRIVACY PROTECTION** - To the extent Consultant has access, whether direct, indirect or incidental, or opportunity to access, any "personal information", as that term is defined in the Privacy Protection Schedule attached to this Schedule F (the "**Privacy Schedule**"), BC Hydro and Consultant will have the respective rights and obligations applicable to each of them as provided in the Privacy Schedule and Section 14 of the Cover Agreement will not apply in respect of any such "personal information".

This Schedule forms part of the agreement between British Columbia Hydro and Power Authority ("BC Hydro") and Charles Reid (the "Contractor") respecting the contract referred to as (the "Agreement").

Definitions

1. In this Schedule,
 - (a) "Act" means the *Freedom of Information and Protection of Privacy Act* (British Columbia), as amended from time to time;
 - (b) "contact information" means information to enable an individual at a place of business to be contacted and includes the name, position name or title, business telephone number, business address, business email or business fax number of the individual;
 - (c) "personal information" means recorded information about an identifiable individual, other than contact information, collected, created or otherwise acquired by the Contractor as a result of the Agreement or any previous agreement between BC Hydro and the Contractor dealing with the same subject matter as the Agreement.

Purpose

2. The purpose of this Schedule is to:
 - (a) enable BC Hydro to comply with its statutory obligations under the Act with respect to personal information; and
 - (b) ensure that, as a service provider, the Contractor is aware of and complies with its statutory obligations under the Act with respect to personal information.

Collection of personal information

3. Unless the Agreement otherwise specifies or BC Hydro otherwise directs in writing, the Contractor may only collect or create personal information that is necessary for the performance of the Contractor's obligations, or the exercise of the Contractor's rights, under the Agreement.
4. Unless the Agreement otherwise specifies or BC Hydro, the individual whose personal information is at issue, or that individual's lawful representative otherwise directs in writing, the Contractor must collect personal information directly from the individual the information is about.
5. Unless the Agreement otherwise specifies or BC Hydro otherwise directs in writing, the Contractor must tell an individual from whom the Contractor collects personal information:
 - (a) the purpose for collecting it;
 - (b) the legal authority for collecting it; and
 - (c) the title, business address and business telephone number of the person designated by BC Hydro to answer questions about the Contractor's collection of personal information.

Accuracy of personal information

The Contractor must make every reasonable effort to ensure the accuracy and completeness of any personal information to be used by the Contractor or BC Hydro to make a decision that directly affects the individual the information is about.

Requests for access to personal information

7. If the Contractor receives a request for access to personal information from a person other than BC Hydro, the individual whose personal information has been requested, or that individual's lawful representative, the Contractor must promptly advise the person to make the request to BC Hydro unless the Agreement expressly requires the Contractor to provide such access and, if BC Hydro has advised the Contractor of the name or title and contact information of an official of BC Hydro to whom such requests are to be made, the Contractor must also promptly provide that official's name or title and contact information to the person making the request.

Correction of personal information

8. Within 5 business days of receiving a written direction from BC Hydro to correct or annotate any personal information, the Contractor must annotate or correct the information in accordance with the direction.
9. When issuing a written direction under section 8, BC Hydro must advise the Contractor of the date the correction request to which the direction relates was received by BC Hydro in order that the Contractor may comply with section 10.
10. Within 5 business days of correcting or annotating any personal information under section 8, the Contractor must provide the corrected or annotated information to any party to whom, within one year prior to the date the correction request was made to BC Hydro the Contractor disclosed the information being corrected or annotated.
11. If the Contractor receives a request for correction of personal information from a person other than BC Hydro, the individual whose personal information has been requested, or that individual's lawful representative, the Contractor must promptly advise the person to make the request to BC Hydro and, if BC Hydro has advised the Contractor of the name or title and contact information of an official of BC Hydro to whom such requests are to be made, the Contractor must also promptly provide that official's name or title and contact information to the person making the request.

Protection of personal information

The Contractor must protect personal information by making reasonable security arrangements against such risks as unauthorized access, collection, use, disclosure or disposal, including any expressly set out in the Agreement.

Storage and access to personal information

13. Unless BC Hydro otherwise directs in writing, the Contractor must not store personal information outside Canada or permit access to personal information from outside Canada.

Retention of personal information

14. Unless the Agreement otherwise specifies, the Contractor must retain personal information until directed by BC Hydro in writing to dispose of it or deliver it as specified in the direction.

Use of personal information

15. Unless BC Hydro otherwise directs in writing, the Contractor may only use personal information if that use is:
 - (a) for the performance of the Contractor's obligations, or the exercise of the Contractor's rights, under the Agreement; and
 - (b) in accordance with section 13.

Disclosure of personal information

16. Unless the Agreement otherwise specifies or BC Hydro, the individual whose personal information is at issue, or that individual's lawful representative otherwise directs in writing, the Contractor must not disclose personal information inside or outside Canada to any person other than BC Hydro, the individual whose personal information is at issue, or that individual's lawful representative or an entity that can legitimately compel disclosure under the laws of British Columbia. BC Hydro will not unreasonably withhold such direction.

17. NOT USED.

Inspection of personal information

18. In addition to any other rights of inspection BC Hydro may have under the Agreement or under statute, BC Hydro may, at any reasonable time and on reasonable notice to the Contractor, enter on the Contractor's premises to inspect any personal information in the possession of the Contractor or any of the Contractor's information management policies or practices relevant to its management of personal information or its compliance with this Schedule and the Contractor must permit, and provide reasonable assistance to, any such inspection.

Compliance with the Act and directions

19. The Contractor must in relation to personal information comply with:
 - (a) the requirements of the Act applicable to the Contractor as a service provider, including any applicable order of the commissioner under the Act; and
 - (b) any direction given by BC Hydro under this Schedule.
20. The Contractor acknowledges that it is familiar with the requirements of the Act governing personal information that are applicable to it as a service provider.

Notice of non-compliance

21. If for any reason the Contractor does not comply, or anticipates that it will be unable to comply, with a provision in this Schedule in any respect, the Contractor must immediately notify BC Hydro of the particulars of the non-compliance or anticipated non-compliance and what steps it proposes to take to address, or prevent recurrence of, the non-compliance or anticipated non-compliance.

Termination of Agreement

22. In addition to any other rights of termination which BC Hydro may have under the Agreement or otherwise at law, BC Hydro may, subject to any provisions in the Agreement establishing mandatory cure periods for defaults by the Contractor, terminate the Agreement by giving written notice of such termination to the Contractor, upon any failure of the Contractor to comply with this Schedule in a material respect.

Interpretation

23. In this Schedule, references to sections by number are to sections of this Schedule unless otherwise specified in this Schedule.
24. Any reference to the "Contractor" in this Schedule includes any subcontractor or agent retained by the Contractor to perform obligations under the Agreement and the Contractor must ensure that any such subcontractors and agents comply with this Schedule.
25. The obligations of the Contractor in this Schedule will survive the termination of the Agreement.
26. If a provision of the Agreement (including any direction given by BC Hydro under this Schedule) conflicts with a requirement of the Act or an applicable order of the commissioner under the Act, the conflicting provision of the Agreement (or direction) will be inoperative to the extent of the conflict.
27. The Contractor must comply with the provisions of this Schedule despite any conflicting provision of this Agreement or the law of any jurisdiction outside Canada.

CODE OF CONDUCT GUIDELINES APPLICABLE TO BC HYDRO CONTRACTS

In its ongoing efforts to ensure that BC Hydro and its subsidiaries behave and are perceived to behave as ethical corporations, BC Hydro has adopted a Code of Conduct that provides guidelines for the behaviour of its directors, officers and employees and for BC Hydro's expectations of the behaviour of its suppliers, consultants, contractors and business associates.

Unless it is inappropriate to do so, the guidelines set out below are to be included in every tender call, request for proposals and contract with BC Hydro and its subsidiaries.

A supplier, consultant, contractor or business associate may be required to give assurances that it conducts itself in accordance with the standards set in these guidelines before it will be considered qualified to enter into a business relationship with BC Hydro.

A supplier, consultant, contractor or business associate with which BC Hydro has a contract will be expected to comply with the standards set in these guidelines. Failure to do so, may be treated by BC Hydro as a reason for terminating the contract. In some cases, other terms of a specific contract may impose a higher standard. In these cases, the contract terms with the higher standards apply.

GUIDELINES

In these guidelines:

"BC Hydro" means BC Hydro and Power Authority or any of its subsidiaries that has entered into the Contract described in these guidelines;

"Contractor" means the contractor, consultant, supplier or business associate who has a contract with BC Hydro in which these guidelines are included as a term of the contract.

1. The Contractor shall act at all times with integrity and honesty
 - (a) in its dealings with BC Hydro, and
 - (b) in its dealings with a third person if, in those circumstances, the Contractor is acting as a representative of or on behalf of BC Hydro.
2. If the conduct of business with a competitor of BC Hydro during the term of the Contract would require the Contractor to act contrary to the best interests of BC Hydro, the Contractor shall not conduct such business unless the Contractor has the prior written permission of BC Hydro.
3. Before the Contract is entered into and from time to time as circumstances require, the Contractor shall disclose in writing to BC Hydro:
 - (a) any business relationship that the Contractor or any of its owners or officers has with a director or employee of BC Hydro,
 - (b) the name of any director or employee of BC Hydro who is a relative of the Contractor or any of its owners or officers, and
 - (c) the name of any director or employee of BC Hydro with whom the Contractor or any of its owners or officers is connected by frequent or close association.
4. The Contractor shall read BC Hydro's Code of Conduct that is available from Hydro's contract representative or available at BC Hydro's website at www.bchydro.com and shall take all reasonable steps to avoid placing a director or employee of BC Hydro in a conflict of interest as contemplated by the Code.

5. The Contractor shall keep confidential all information provided to it by BC Hydro or developed during performance of the Contract and shall not use that information for any purpose unrelated to performance of its obligations under the Contract.
6. If the Contractor is given access to any BC Hydro property in order to perform the Contract, the Contractor shall use that property solely for purposes of performance of the Contract.
7. The Contractor shall not attempt to secure preferential treatment with BC Hydro by offering entertainment, gifts or benefits to BC Hydro directors or employees. Reasonable exchanges common to business relationships are acceptable.
8. Unless the Contractor has the express permission of BC Hydro, the Contractor shall not offer employment to a BC Hydro employee during the term of the Contract.
9. The Contractor shall provide its employees, including any employees of BC Hydro with whom the Contractor has a close working relationship, with a safe and healthy workplace that is harassment and discrimination free.
10. The Contractor shall ensure that when it is participating in any public discussions or taking a position of leadership in other organizations that it does not represent itself as a spokesperson of BC Hydro unless the Contractor has been retained specifically to act in that capacity.

Contractors who wish further information or advice on the application of these guidelines to particular circumstances are encouraged to speak to BC Hydro's contract representative.

The attached Clarification dated August 2000 and the Further Clarification dated September 2005 form part of the above Code of Conduct Guidelines.

DIRECTOR AND EMPLOYEE CODE OF CONDUCT
CODE OF CONDUCT GUIDELINES APPLICABLE TO BC HYDRO CONTRACTS

CLARIFICATION
Issued August 2000

This document is issued to provide clarification of the intention of Item 3 of the *Code of Conduct Guidelines applicable to BC Hydro Contracts* which refer to "owners" of a Contractor. The following may be used to determine whether a disclosure is required for a particular owner of the Contractor.

If the Contractor is a corporation with more than two shareholders, a disclosure will only be required for a shareholder who is:

- (1) an individual who beneficially owns, directly or indirectly, more than 20 per cent of the voting rights attached to all outstanding voting shares of the Contractor, or
- (2) an individual who together with his or her associate* beneficially owns, directly or indirectly, more than 20 per cent of the voting rights attached to all outstanding voting shares of the Contractor.

If a Contractor is a partnership with more than two partners, a disclosure will only be required for a partner who is:

- (1) an individual who beneficially owns, directly or indirectly, more than 20 per cent interest in the partnership, or
- (2) an individual who together with his or her associate* beneficially owns, directly or indirectly, more than 20 per cent interest in the partnership.

* **"associate"** means

- (1) a spouse** of the shareholder or partner,
- (2) a son or daughter
 - of the shareholder or partner, or
 - of the spouse of the shareholder or partner, if the son or daughter is under 19 years of age or is living in the family residence of the shareholder or partner, or
- (3) a relative of the shareholder or partner who is living in the family residence of the shareholder or partner.

** **"spouse"** means a person to whom the shareholder or partner is married or with whom the shareholder or partner is living in a marriage-like relationship, including a person of the same gender, but does not include a person from whom the shareholder or partner is separated or living apart and with whom the shareholder or partner has entered into an agreement to live apart or who is the subject of an order of a court recognizing the separation.

**CODE OF CONDUCT GUIDELINES APPLICABLE TO BC HYDRO CONTRACTS
ATTACHMENT 1 TO DIRECTOR AND EMPLOYEE CODE OF CONDUCT**

**Further Clarification
Issued September 2005**

This document is issued to provide clarification of items 1 and 5 of the Code of Conduct Guidelines applicable to BC Hydro Contracts with respect to Conflicts of Interest; Integrity and Honesty; and Confidentiality.

Item 1

Item 1 states: *The Contractor shall act at all times with integrity and honesty*

- a) *in its dealings with BC Hydro, and*
- b) *in its dealings with a third person if, in those circumstances, the Contractor is acting as a representative of BC Hydro.*

Although this obligation has a broader scope than this discussion, this document is intended to address specifically the issue of conflicts of interest that may arise in the course of a Contractor providing services to BC Hydro or otherwise acting for or on behalf of BC Hydro. In such circumstances BC Hydro expects that a Contractor acting with integrity and honesty will conduct itself as follows:

1. At all times during the term of a contract, the Contractor will avoid any potential conflicts of interest between its interests and those of BC Hydro.
2. Before a contract is entered into, the Contractor will make a written disclosure of any potential conflicts of interest that might arise during the term of the contract.
3. If a potential or actual conflict of interest arises during the term of an existing contract, the Contractor will make a written disclosure of the circumstances at the earliest possible opportunity to the BC Hydro representative responsible for the contract.
4. After making the required written disclosure, the Contractor will take any steps reasonably required by BC Hydro to ensure that BC Hydro's interests are protected, including refraining from any activity or ceasing any activity that has given rise to the conflict of interest. For these purposes, BC Hydro's interests include non-economic considerations such as reputation.

These expectations are consistent with those required of the employees and directors of BC Hydro as set out in its Code of Conduct for Employees and Directors.

Potential conflicts of interest are more likely to occur if the Contractor has been engaged to perform the following types of activities:

1. To administer or manage other BC Hydro contracts. For example, if the Contractor is engaged to administer or manage the contract of another BC Hydro contractor that is a competitor of the Contractor, the Contractor has a conflict of interest if it has access to the other contractor's proprietary information or methods for carrying out the contract or if the Contractor has the opportunity to treat the other contractor in an inequitable or unfair manner.

2. To carry out purchasing functions including preparing all or part of the tender documents or RFPs, conducting the tendering or RFP process, recommending award of contracts. For example, if the Contractor has been engaged to prepare the scope of work or services for a contract upon which it, or any related business (see interpretation at the end of this discussion), intends to or is considering submitting a bid or proposal, the Contractor has a conflict of interest.
3. To develop or manage a budget. For example, if the Contractor has been engaged to develop or manage a budget for BC Hydro operations and the Contractor's current business relationship or future business relationship with BC Hydro is or could be affected by that budget, the Contractor has a conflict of interest.
4. To provide services to or manage a special project. For example, if the Contractor has been engaged to evaluate BC Hydro's needs in respect of a certain issue e.g. adequacy of equipment; business organization, and the Contractor is in the business of supplying or refurbishing equipment or providing business management services, the Contractor has a conflict of interest.
5. To conduct negotiations on behalf of BC Hydro. For example, if the Contractor has the opportunity in these negotiations to benefit itself - other than as contemplated in the contract with BC Hydro - the Contractor has a conflict of interest.
6. To speak for BC Hydro.

The Contractor has an actual conflict of interest if the Contractor, while performing these activities, has the opportunity to further its own interests. The Contractor has an apparent conflict of interest when a reasonably well informed person could perceive that the Contractor's ability to perform these activities was or may be affected by the Contractor's interests.

For purposes of this discussion, a Contractor's interests include the interests of the Contractor's directors, officers, employees and of a related business.

For purposes of this discussion, "related business" includes, but is not limited to:

1. an affiliate, as defined in the *Business Corporations Act* SBC 2002, as amended from time to time, of the Contractor;
2. an owner as described in the Clarification Statement issued August 2000 in respect of the Code of Conduct Guidelines applicable to BC Hydro Contracts; and
3. any other entity in which the Contractor has an ownership or financial interest.

Item 5

Item 5 of the Guidelines, although dealing specifically with confidential information, is often related to Item 1 discussed above.

Item 5 states: *The Contractor shall keep confidential all information provided to it by BC Hydro or developed during performance of the Contract and shall not use that information for any purpose unrelated to performance of its obligations under the Contract.*

A Contractor acting with integrity and honesty will take special care to ensure that any confidential information it has been provided by BC Hydro or that it has developed for BC Hydro will not be used for its own purposes. For example, this information should not be used by the Contractor to prepare any bids or proposals in response to a BC Hydro tender or proposal call or to take advantage of any business

opportunities disclosed in the information or to acquire a competitive advantage over other businesses or to harm BC Hydro.

For further advice on issues relating to conflicts of interest or confidentiality of information please contact your BC Hydro representative responsible for the contract or BC Hydro's Code of Conduct Advisor.

From: Anderson, Kandi
Sent: Wednesday, May 05, 2010 10:21 AM
To: Prinja, Rick
Cc: Nagle, Debbie; Honda, Henry
Subject: RE: Information Requested

That was their FTR start dates. I will have to do some digging on the consultant dates as we don't track that in our PAHR system.

Kandi

From: Prinja, Rick
Sent: 2010, May 05 9:59 AM
To: Anderson, Kandi
Cc: Nagle, Debbie; Honda, Henry
Subject: Re: Information Requested

Hi Kandi

Are the start dates referenced below when Charles and [REDACTED] became FTR or when they joined BCH as consultants? If FTR, can you please let me know the start dates for Charles and [REDACTED] in their roles as consultants.

Thanks
Rick

From: Honda, Henry
To: Prinja, Rick; Lagnado, Albert
Sent: Wed May 05 09:43:44 2010
Subject: Fw: Information Requested

Fyi

From: Anderson, Kandi
To: Honda, Henry
Cc: Nagle, Debbie
Sent: Tue May 04 17:48:36 2010
Subject: Information Requested

Hi Henry,

This is to confirm that Charles Reid's start date with BC Hydro was August 18, 2008 and [REDACTED] was July 2, 2008. Neither letters of employment set out job descriptions or specific language around duties to be performed.

Kandi

Kandi Anderson for Davina Grant
Administrative Assistant
Office of the CHRO
604-623-4423
kandi.anderson@bchydro.com

From: Avren, David
Sent: Wednesday, May 05, 2010 12:39 PM
To: Nagle, Debbie; Aldeguer, Ray
Cc: Honda, Henry; Prinja, Rick; Lagnado, Albert
Subject: Privileged and confidential - consulting agreements re RRA issue

Legal has only Charles's. We weren't involved with [REDACTED]

Maybe HR has [REDACTED] somewhere???

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT
S.B.C. 1996, CHAPTER 473

And

**An Application by British Columbia Hydro and Power
Authority for Review of the F2009 and F2010 Revenue
Requirements Application**

Vancouver, B.C.
October 15, 2008

PROCEEDINGS AT HEARING

BEFORE:

L. A, O'Hara,	Chairperson
B. Milbourne,	Commissioner
A. Rhodes,	Commissioner

VOLUME 9

APPEARANCES

G.A. FULTON, Q.C.	Commission Counsel
J. CHRISTIAN N. ELLEGOOD I. WEBB J. SOFIELD	British Columbia Hydro and Power Authority
D. CURTIS S. HILL	British Columbia Transmission Corporation
M. GHIKAS D. PERTTULA	Terasen Gas Inc (TGI), Terasen Gas (Vancouver Island) Inc. (TGVI), and Terasen Gas (Whistler) Inc. (Collectively Terasen Utilities)
D. AUSTIN	Independent Power Producers Association of British Columbia
P. COCHRANE R. CARLE	City of New Westminster
R. B. WALLACE	Joint Industry Electricity Steering Committee (JIESC)
D. NEWLANDS	Elk Valley Coal Corporation
C. DAL MONTE	Catalyst Paper Corporation
C. WEAFFER	Commercial Energy Consumers of British Columbia <i>et al</i> (CEC)
L. WORTH J. QUAIL	B.C. Branch, B.C. Old Age Pensioners' Organization, Council Of Senior Citizens' Organizations, Federated Anti-Poverty Groups Of B.C., West End Seniors' Network (BCOAPO)
W. J. ANDREWS	B.C. Sustainable Energy Association, Sierra Club of Canada, British Columbia Chapter (BCSEA)
J. HUNTER M. OULTON	Canadian Office and Professional Employees Union, Local 378
A. WAIT	On His Own Behalf
S. MEADE	On His Own Behalf

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CAARS
VANCOUVER, B.C.
October 15th, 2008

(PROCEEDINGS RESUMED AT 9:00 A.M.)

THE CHAIRPERSON: Please be seated.

**B.C. HYDRO COMMUNICATIONS, SAFETY,
HEALTH & ENVIRONMENT - PANEL 3**

RAYMOND STEWART, Resumed:

SUSAN YURKOVICH, Resumed:

DEBBIE NAGLE, Resumed:

THE CHAIRPERSON: Good morning, Mr. Christian. Some preliminaries?

MR. CHRISTIAN: Yes. Good morning, Madam Chair. I do have two matters this morning. I would have had more, but I gather we had some printer problems. I'll have some more undertakings to file, I understand, after the morning break.

For now, though, I've only got one. It's actually a revision to an undertaking we filed already on Friday afternoon at Volume 7 of the transcript. Mr. Webb filed Exhibit B-39, which was a response to a question put to Panel 2 by Mr. Wallace with respect to the line item, "Accumulated other comprehensive income quarter". And we gave an answer to that undertaking response but, upon review, it appeared that we actually got the question wrong. We got the answer

1 MR. FULTON: Q: Okay. And in terms of the potential
2 benefits to a third-party utility from implementing
3 the ABSU/B.C. Hydro CIS, is the benefit that it
4 receives that it's getting a stable product or a
5 product that has been used in service by a utility, so
6 it's not involved in the start-up costs, as it were?

7 MR. LEONARD: A: I don't really feel like I'm in a
8 position to comment on how Accenture would market our
9 CIS system, or frankly how they market CIS systems in
10 general. I'm not really in a position to discuss
11 that.

12 MR. FULTON: Q: Yes, okay. And I'm not asking in terms
13 of what -- how Accenture would market it. What I'm
14 trying to understand is, what benefit -- B.C. Hydro
15 surely must have some idea of what benefit a potential
16 third-party source would have if it implemented the
17 CIS that B.C. Hydro has with Accenture.

18 MR. LEONARD: A: So, I guess maybe a way to look at
19 this is if I were a third-party utility looking at
20 this, I mean one of the things that I would look to
21 is, as you've referenced, a stable system that is
22 tried and trued [sic], the ability to reference a
23 client, reference the application, and have an
24 understanding on, you know, its actual performance
25 levels, those types of things. I think that would be
26 what a third party would get in looking at a system

1 similar to ours.

2 MR. FULTON: Q: Okay, thank you. Now, I had some
3 questions of Panel 2 on the risk and response program,
4 and they were directed forward to this panel. One was
5 simply confirmatory, and maybe, Mr. Stuckert, you're
6 the one to answer this question.

7 MR. STUCKERT: A: I am.

8 MR. FULTON: Q: But can you confirm that the management
9 action plans and the risk and response program
10 disaster recovery and business continuity plans audits
11 have been completed?

12 MR. STUCKERT: A: Not all the tasks have been
13 completed. We put together a plan to establish a
14 disaster recovery centre. We set up a plan to set up
15 the processes around which we would carry out the
16 disaster recovery plan and business continuity. We
17 evaluated and implemented a disaster recovery centre
18 in Calgary, as part of the plan. We have since
19 developed all the policies and procedures, and the
20 process around a -- what's referred to as a "cold
21 site", which is, we have the system on tape and on
22 disc so we can load in the event of a disaster or
23 business continuity.

24 But part of the plan also was to move the
25 mission critical applications, ones are really the
26 point of our business, to more of what's referred to

1 as a hot site, which is running in real-time mode.
2 We've only moved over one application out of eleven.

3 **Proceeding Time 3:19 p.m. T61**

4 MR. FULTON: Q: All right, thank you. B.C. Hydro is a
5 part of the response to BCUC IR 1.71.2.2, advised that
6 the current IT strategic plan -- or attach the current
7 IT strategic plan which was dated May 2006. And in
8 the response to the question, the response in part was
9 that

10 "...B.C. Hydro was currently updating its
11 five-year IT strategic plan to support
12 forthcoming major IT initiatives. The plan
13 is scheduled to be presented to the board in
14 May 2008, and B.C. Hydro will file it as
15 part of the evidentiary update."

16 Do you know whether that new plan was filed?

17 MR. STUCKERT: A: The new plan was not filed.

18 MR. FULTON: Q: Okay. And can you tell us why it
19 wasn't filed as expected?

20 MR. STUCKERT: A: Yes, when we started doing the
21 analysis, in terms of the strategy plan, we looked at
22 the current state in a fair amount of detail. We are
23 developing approximately nine different layers in the
24 strategy. It ranges from the business process
25 strategy down through to infrastructure, data,
26 applications, business, continuity, collaboration and

1 so on, so a number of layers, and it's a much more
2 complicated process than we originally envisioned.

3 However, we did establish some very key
4 principles and directions with both the executive
5 team, the board and through the auto risk management
6 committee to establish some principles and directions
7 on which the strategy will be governed. That is
8 completed and we are following those. But we have not
9 finished the detailed plans and deliverers for all the
10 strategies.

11 MR. FULTON: Q: Are those plans and strategies
12 something that could be filed?

13 MR. CHRISTIAN: I think the evidence was that the plans
14 and strategies hadn't been finalized.

15 MR. FULTON: Q: Or the principles and strategies.

16 MR. CHRISTIAN: The principles I think hadn't been
17 finalized, so that might be able to be filed. I don't
18 know.

19 MR. STUCKERT: A: Yes, we could do that.

20 MR. CHRISTIAN: Then we will.

21 **Information Request**

22 MR. FULTON: Q: And is the plan, the shape of the plan
23 that you're looking at, will it include budgets,
24 cost/benefit analysis, analyses and deadlines as well?

25 MR. STUCKERT: A: The actual strategy is being driven
26 by -- started by the business process strategies which

1 we've gone through with each of the organization units
2 within Hydro to define sort of future business
3 processes. And those cascade down to applications and
4 data strategies and so on. Related to that, there is
5 going to be implementation plans for each one of the
6 strategies, yes. We will have costs and benefits as
7 it relates specifically to the IT component, which is
8 -- which I administer, the CIOs, which are
9 infrastructure costs that I will bear and will have
10 costs and benefits associated to it.

11 Some of the strategies being -- other
12 strategies being developed will have some magnitude of
13 cost and benefit, depending on how far we get down in
14 terms of the business process review.

15 MR. FULTON: Q: Thank you. And do you have a new
16 estimated time for finalizing the plan then?

17 MR. STUCKERT: A: The plan has been in its final draft
18 and will go through a review process with the
19 executive team inside Hydro, at which time it'll be
20 revised or updated depending on what the review shows.
21 And then we will present to the auto risk management
22 committee of the board, and then at that time after
23 that, it'll be published as a formal document. So I
24 can't give you an exact timeframe because I don't know
25 how long it'll take to get through the ATM board for
26 processing.

1 MR. FULTON: Q: Right, and I'm not asking for
2 exactitude. I'm asking for an estimated end date.

3 MR. STUCKERT: A: Well, the part that I manage and
4 control, we expect the draft to be completed by the
5 end of the calendar year and the approval process is
6 inside of the executive team and the board, I don't
7 know yet.

8 MR. FULTON: Q: Thank you.

9 Mr. Lintunen, my next question is for you
10 and it relates to property taxes. And in Exhibit B-
11 10, the evidentiary update of July, the statement
12 appeared that the property assessments in 2009 would
13 be higher than expected. You don't need to turn to
14 that unless you want to.

15 MR. LINTUNEN: A: Okay.

16 MR. FULTON: Q: But would you agree with that summary?

17 MR. LINTUNEN: A: I haven't read that evidentiary
18 update, but okay, subject to check, sure.

19 MR. FULTON: Q: Okay. And are you also expecting that
20 the property assessments will be higher in 2010? And
21 the reference, Mr. Lintunen, for my framing of the
22 question about 2009, is at page 18 of the evidentiary
23 update, section 5.3.

24 **Proceeding Time 3:24 p.m. T62**

25 MR. LINTUNEN: A: Okay. What was the question?

26 MR. FULTON: Q: All right. So, do you also expect that

1 provided to you before the commencement of the
2 proceedings.

3 MR. CHRISTIAN: Thank you. I did get it, I distributed
4 it, but it appears that --

5 MR. LINTUNEN: A: I have a copy.

6 MR. CHRISTIAN: Oh, you do have a copy? Good. Does
7 anybody else of the witnesses require a copy? Thank
8 you.

9 MR. FULTON: Q: Okay. And just for the record, this is
10 a document that lists the capital expenditures with a
11 gross value over \$5 million that are to be carried out
12 through the test period, and the details of those
13 projects are described in Appendix J, pages 4 to 120
14 of the application. And the projects are grouped, and
15 those projects that I wish -- that I believe this
16 panel is responsible for are page 3 of 4, "information
17 technology", and pages 3 of 4 and 4 of 4, "properties
18 and other". Correct?

19 MR. LINTUNEN: A: Yes, I have the "properties and
20 other" part.

21 MR. FULTON: Q: Okay. And so, Mr. Stuckert probably
22 needs the "information and technology" part.

23 MR. CHRISTIAN: It sounds like we do have a witness who
24 requires a copy of the witness aid.

25 MR. FULTON: There you go.

26 MR. CHRISTIAN: Thank you very much.

1 MR. FULTON: Q: And the columns show the project name,
2 the spend, the in-service date, phase underway and
3 existing CPCN.

4 Now, you, Mr. Lintunen, have had an
5 opportunity to review the witness aid prior to today?

6 Proceeding Time 4:07 p.m. T70

7 MR. LINTUNEN: A: Yes, I have.

8 MR. FULTON: Q: Okay. Are there any projects that are
9 in other areas that you believe should more properly
10 be in the properties in other area?

11 MR. LINTUNEN: A: Not that I'm aware of.

12 MR. FULTON: Q: And Mr. Stuckert, you've had an
13 opportunity to review the witness aid before today?

14 MR. STUCKERT: A: I have.

15 MR. FULTON: Q: And are there any projects in other
16 parts of Exhibit A2-2 that should be in the
17 information and technology section, other than those
18 that are listed in the information and technology
19 sector?

20 MR. STUCKERT: A: No, there are no.

21 MR. FULTON: Q: Thank you.

22 I'm told, Madam Chair, that we have not
23 marked Exhibit A2-21 yet. So if I could ask that it
24 be marked.

25 THE HEARING OFFICER: Marked Exhibit A2-21.

26 THE CHAIRPERSON: Officially marked, thank you.

1 (WITNESS AID, HEADED "B.C. HYDRO...APPENDIX J...",
2 PREPARED BY COMMISSION STAFF, (4 PAGES), MARKED AS
3 EXHIBIT A2-21)

4 MR. FULTON: Q: And if you go to the far right-hand
5 column under "Existing CPCN" you will see that that
6 column contains Ys and Ns, and the Y denotes "yes" to
7 a CPCN, and the N is "no" for an existing CPCN.

8 MR. LINTUNEN: A: I see that.

9 MR. FULTON: Q: Mr. Lintunen, are there any projects in
10 the properties and other area that you believe should
11 have a Y rather than an N, or that you know should
12 have a Y rather than an N?

13 MR. CHRISTIAN: Well, I'm not sure what the question
14 means. If the question is, are any of these projects
15 certificated already, certificated through the CPCN
16 process, is that what the question is? Or is the
17 question should be there be an application for CPCN in
18 respect of the former? The former is a fair question,
19 the latter I submit is not.

20 MR. FULTON: Q: And it is the former.

21 MR. LINTUNEN: A: No, they are not. There's no CPCN
22 for any of the projects.

23 MR. FULTON: Q: And same question for you, Mr.
24 Stuckert, under "Information Technology"?

25 MR. STUCKERT: A: No, they're not.

26 MR. FULTON: Q: If we look first then to the

1 information and technology section, to your knowledge,
2 Mr. Stuckert, are there any of those projects that Mr.
3 -- that B.C. Hydro anticipates it will be seeking a
4 CPCN for?

5 MR. STUCKERT: A: No.

6 MR. FULTON: Q: Okay. And same question for you, Mr.
7 Lintunen, under the projects.

8 MR. LINTUNEN: A: Not that I'm aware of. But I'm not
9 -- I don't, you know, make the decisions around CPCN,
10 so that's --

11 MR. FULTON: Q: Okay. Now, in terms of the information
12 and technology projects, Mr. Stuckert, are there any
13 -- or have cost/benefit analyses and/or feasibility
14 studies been done for those projects at this point?

15 MR. STUCKERT: A: Are you referring to the phase which
16 they're in? Definition phase and identification phase
17 are both analysis phases. We would not have done a
18 formal business case on it at this point.

19 MR. FULTON: Q: Okay. And I see for the properties and
20 other, Mr. Lintunen, that there are two that have
21 implementation designations. Would cost/benefit
22 analyses have been done on those projects?

23 MR. LINTUNEN: A: I presume you're referring to
24 building revitalization program and Central Park
25 Place?

26 MR. FULTON: Q: Yes.

1 **Proceeding Time 4:12 p.m. T71**

2 MR. LINTUNEN: A: On a building revitalization program,
3 that's made up of hundreds of smaller items, around
4 the portfolio, so there would be no sort of cost-
5 benefit analysis across those hundreds of small items.
6 But each one would have an appropriate level of
7 business case and approval for them before it was
8 done.

9 MR. FULTON: Q: And just returning to you, Mr.
10 Stuckert, I see that lines 69 and 70 are designated
11 "implementations".

12 MR. STUCKERT: A: Yes.

13 MR. FULTON: Q: So, do those have cost-benefit analyses
14 or feasibility studies?

15 MR. STUCKERT: A: The property, the PIM assistant does
16 have a cost/benefit. It is in the second year of an
17 implementation. The enterprise data warehouse
18 project, I am not familiar with it, it's sort of quite
19 a while ago. I would suggest it does have that.

20 MR. FULTON: Q: Now, in terms of information technology
21 projects, do you have an approval amount yourself that
22 you can approve up to?

23 MR. STUCKERT: A: With respect to the projects that are
24 on the list there, many of those projects are
25 business-driven. They come from the business units
26 themselves, which will have gone through an approval

1 process within there. I do have a role to advise and
2 sign off on technology and architecture-related
3 things. With respect to the projects that are
4 specific to information technology, yes, I do. My
5 signing authority is up to a million dollars.

6 MR. FULTON: Q: And after -- beyond a million dollars,
7 where does the signing authority go?

8 MR. STUCKERT: A: It goes to the CFO and if it's
9 broader than that, it goes to the CEO, and if it's
10 larger than that, it goes to the Board.

11 MR. FULTON: Q: Okay. And so the CFO is what level?
12 Do you know?

13 MR. STUCKERT: A: No, I do not.

14 MR. FULTON: Q: And do you have sign-off authority on
15 -- as well, Mr. Lintunen, for the projects that fall
16 within the properties and others?

17 MR. LINTUNEN: A: Yes, I do. All of these projects,
18 when they would be fully implemented, are beyond my
19 signing authority, except I think the building
20 revitalization is -- there's a lot of small projects
21 in there, so many of those would be within my signing
22 authority.

23 MR. FULTON: Q: And your signing authority is --

24 MR. LINTUNEN: A: Is three million, oh, it depends.
25 It's three million within plan, and \$50,000, I think,
26 ex-plan.

1 MR. FULTON: Q: Does B.C. Hydro have a current capital
2 authorization request procedural manual?

3 MR. LINTUNEN: A: I'm not sure if there's a capital
4 authorization request procedure manual. We do have a
5 expenditure authorization request process and policy
6 for that, yes. I believe that may have replaced a
7 number of the earlier ones.

8 MR. FULTON: Q: And can you file a sample of that as an
9 undertaking?

10 MR. LINTUNEN: A: A sample of the process?

11 MR. FULTON: Q: Yes.

12 MR. LINTUNEN: A: It's -- yeah, it's one of our on-line
13 documents that describes the process.

14 MR. CHRISTIAN: We can file that, if I understand it's --
15 the request was for a manual that describes how to go
16 through the capital authorization request. As I
17 understand the evidence, there is a sample and some
18 instructions on line with respect to the replacement,
19 called the expenditure authorization request.

20 MR. LINTUNEN: A: Yes.

21 MR. CHRISTIAN: And it's the latter that's what you want?
22 Then we'll file that.

23 MR. FULTON: Q: Yes, because I understand there isn't a
24 manual.

25 MR. LINTUNEN: A: Not that I'm aware of. There may be
26 something they have a hard copy of. The only copy I'm

1 what the risks are to B.C. Hydro for not spending on
2 each of those projects?

3 MR. LINTUNEN: A: Some of the risks are described in
4 Schedule J. Each one of those projects has a
5 description of the requirement -- of the need for the
6 project, and some of the issues that it is addressing.
7 So some, you know, it's a variety of risks from
8 environmental risks to safety risks to just business
9 risks and dealing with aging assets. So I wouldn't
10 say that there's just one common analysis for all the
11 risks for each of the projects. You have to kind of
12 look at each one and define the risks associated with
13 it. So some of the buildings are in a tsunami zone,
14 for example, so -- and some of the buildings are at
15 the end of their life and in a seismic hazard zone or
16 liquefaction zone. And some of them are aged-back
17 systems that have just reached the end of their life
18 or aren't working.

19 So each one we'd have to kind of look at
20 and get the risk associated with each project on its
21 own.

22 MR. FULTON: Q: Right, thank you. When I sent the
23 witness aid to your counsel, I also indicated that I
24 was intending to ask each of the panels who had
25 witnesses responsible for these various projects, if
26 they could rank the projects with 10 being the highest

1 MR. LINTUNEN: A: And I guess I'd like to establish a
2 better context. During the budget process there was a
3 review done of the many reports that we had done of
4 the buildings around the province, about a hundred
5 buildings around the province, and we identified
6 roughly 15 that we thought eventually, or due course,
7 would require replacement or rebuilding for a number
8 of reasons. For example, we may have an existing
9 facility that's in a temporary facility -- is a
10 temporary facility, like in Horn Payne or Maple Ridge
11 or Chilliwack, where it's a growing area and there's a
12 business need for it to be there, and right now it's
13 in a trailer or it's in an unauthorized, really, kind
14 of a facility, or is an end-of-life facility that's
15 unsafe, like Port Alberni, which is in a tsunami zone.

16 And out of those 15 or so, we narrowed it
17 down to about nine or ten, and then also on the
18 building revitalization side, we identified a body of
19 work that was fairly large, and we made a proposal to
20 start fairly aggressively to pursue that body of work.
21 And in discussions with the CFO, he suggested that we
22 cut that body of work back by some 50 million, which
23 we did, and the results of that cut is what's
24 presented in here.

25 I guess I would look at the corporate
26 facility improvements as a bit of -- in a bit of a

1 different light, because again, that is really
2 addressing an end-of-life in a way that has a clear
3 densification benefit. The other ones are a
4 combination of end-of-life buildings and business
5 requirement needs. So I guess in that context I would
6 suggest that I've given some of these different
7 ranges, from 8 to 9, or 7 to 8, and I think one is
8 already done, so I didn't give that a range.

9 MR. FULTON: Q: Okay. So, if you -- so in terms of the
10 ones that are 8 to 9 and 7 to 8, if you -- did you
11 write down the ranges on --

12 MR. LINTUNEN: A: I've written it down here. So, for
13 Maple Ridge, that's an 8 to 9 range. And for
14 Chilliwack, 8 to 9. Port Kells is a 7 to 8. We had
15 identified a need there, but arising from our Surrey
16 campus review, and more recent information has shown
17 that that Surrey campus review is still ongoing, so
18 we're still sorting out what groups should go there.
19 We've identified a building that needs to be evacuated
20 there, but we're not sure what groups will go into
21 Port Kells. Prince George --

22 MR. FULTON: Q: So what number did we give to --

23 MR. LINTUNEN: A: A 7 to 8.

24 MR. FULTON: Q: Right, okay.

25 **Proceeding Time 4:23 p.m. T74**

26 MR. LINTUNEN: A: Prince George, again, it's a 7 to 9.

1 There's some more urgent issues there that we're
2 dealing with, but again, in discussions, especially
3 with Mr. Rodford's group, they have some additional
4 requirements that they've identified that we're in
5 discussions with. They were looking at customer
6 construction services having a larger presence there.
7 So that'll probably take a bit longer for us to
8 identify that full scope in the definition phase. So
9 in the meantime we may have to do a few urgent things
10 that are smaller to keep it going, but in terms of the
11 replacement facility there's further work required
12 than I had thought originally on that one.

13 Horne Payne, that's a 9 to 10 because that
14 is in a -- it's a number of temporary trailers in the
15 side of an existing substation and it's a fairly
16 urgent matter. The groups there take care of all the
17 underground cables in the Lower Mainland amongst other
18 things, and there's an urgent need to have a
19 replacement facility there.

20 Campbell River, again I described it in the
21 8 to 9 range.

22 Port Alberni, a 9 to 10 range again because
23 it really is an end-of-life facility and it's in a
24 tsunami zone, and we do need a replacement facility
25 there right away.

26 Surrey Campus Review, that's a 7 to 10,

1 because again there's a range of issues out at that,
2 and it's in a definition phase. We did a stage 1
3 review and there is several hundred people there --
4 well, 15 business units are operating out of Surrey
5 Campus, and the facilities are in various conditions,
6 and the business requirements are still in a
7 definition phase. But in the meantime we are again
8 making sure that, you know, we take care of the life
9 safety things and the more urgent matters.

10 Building revitalization, I've kind of
11 bucketed into sort of three buckets. I think about a
12 third of it is a 10. It needs to be dealt with right
13 away. About a third of it is an 8 to 9, and about a
14 third of it is a 7 to 8.

15 And the Dunsmuir facility improvement one,
16 that's a 7 to 8. I mean in the sense of building it's
17 not going to fall down, but I think that in that case,
18 because of the requirements to densify or find
19 optional space, I raised a priority of that as a 7 to
20 8.

21 Central Park Place, we've done the two
22 floors that we proposed to do during the test period
23 already because of customer care and conservation
24 requirements there, so I didn't write that one.

25 Edmonds Tower and the core building, I
26 mean, I've rated as a 7 to 8.

1 technology, or --

2 MR. FULTON: Q: Functions.

3 MR. STUCKERT: A: The basic PeopleSoft financial system
4 was implemented about 2002, 2003, I believe. It is a
5 basic system that we actually over a period of time
6 did a significant modification to, to meet B.C. Hydro
7 requirements. What we want -- what we're doing today
8 is we're going through a business process re-design
9 project right now, as to incorporate not only the
10 functions and processes we see for the future, but
11 also to incorporate the requirements for IFRS.

12 We are, in fact, looking at PeopleSoft as
13 one of the solutions, but we are also looking at other
14 options, just in case we want to find a better
15 solution.

16 That said, these functions would include a
17 lot of end user functions, better reporting functions.
18 What's referred to as "work flow", which is more an
19 automated process, as a step-by-step accounting
20 process and those nature.

21 MR. FULTON: Q: Okay. And do you know whether the
22 release 9.0 will provide enhanced reporting to the
23 extent that it can accommodate the IFRS reporting
24 requirements?

25 MR. STUCKERT: A: That is some current analysis we're
26 going on right as we speak today.

1 MR. FULTON: Q: Okay, so you don't know the answer at
2 this point in time, but you're looking at it?

3 MR. STUCKERT: A: Correct.

4 THE CHAIRPERSON: I want to make sure I understood Mr.
5 Stuckert. So you say you are still looking at other
6 options as well?

7 MR. STUCKERT: A: Yeah, the team -- the accounting team
8 in place today is really looking at all the business
9 processes and reporting requirements, with a
10 reflection of IFRS in particular, yes.

11 THE CHAIRPERSON: Thank you.

12 MR. FULTON: Q: Okay. So, I take it from that answer,
13 then, that there may be a risk that you -- that B.C.
14 Hydro needs to purchase a further release to
15 accommodate the IFRS changes.

16 MR. STUCKERT: A: I'm not sure it would be necessarily,
17 Mr. Fulton, a further release. I think the capital
18 forecast that was done in the initial budget was
19 fairly pessimistic, in current terms of capability and
20 what changes had to be made to the software. So
21 within the scope of the financial constraints, I think
22 we're -- I think the project is probably fine, but,
23 yeah, yes, the answer is we have to review their
24 proposal -- or the processes to ensure that we can
25 deliver to the future.

26 MR. FULTON: Q: All right, thank you.

1 That, I believe, concludes my cross-
2 examination, Madam Chair, other than the question or
3 the series of questions that may arise as a result of
4 Mr. Oulton's cross-examination of this panel tomorrow.

5 THE CHAIRPERSON: Thank you, Mr. Fulton. I see delighted
6 faces, I guess, for two reasons. It is 4:30, but it
7 seems like there are a number of people in the room
8 suffering from this hearing kennel cough, or kennel
9 cold, whatever it is. So we'll all have a good rest.

10 And now a reminder, tomorrow morning, then,
11 it will be 8:30 start time, with COPE, and then an
12 opportunity for Mr. Fulton to come back and after
13 that, then, the panel questions, and then we will be
14 finished with this panel.

15 MR. FULTON: Yes.

16 THE CHAIRPERSON: Thank you very much. So, we'll return,
17 8:30.

18 **(PROCEEDINGS ADJOURNED AT 4:31 P.M.)**

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Expenditure Authorization Request (EAR)

Section 1 Summary of Expenditures and Approvals

BCH - SAC



1.1 Project Creation

LB (chargeable) 1122962

EAR Title SAP Financials Licensing Phase 1A		Project ID. PINIT 1122961		Rev. No.	
Project Initiator Enn Kiudorf	Local 73729	Project Manager Enn Kiudorf	Local 73729	Date 30-Sep-08	Business Group OCIO / Corp
Expenditure Type <input checked="" type="radio"/> Specific Capital <input type="radio"/> Recurring Capital <input type="radio"/> Operating Cost Initiatives <input type="radio"/> Deferred DSM <input type="radio"/> Deferred Regulatory Other <input type="radio"/> Land Disposals <input type="radio"/> Capital Retirement			For Capital Projects Only Estimated Project Start Date: <u>Dec. 1/09</u> Estimated In-Service Date: <u>Mar. 31/10</u> High Level Business Driver: <input checked="" type="radio"/> Sustaining <input type="radio"/> Growth Originating Department (CC) <u>9805</u> End Use Department (CC) <u>1320</u>		
Request Reason <input checked="" type="radio"/> New <input type="radio"/> Revision:		<input type="radio"/> Scope Change <input type="radio"/> New Phase <input type="radio"/> Cost Change <input type="radio"/> Other please specify: _____			
Project Description This is required to secure the first phase of SAP licensing to support BC Hydro's SAP program. To execute the IT&T strategy, it is evident that additional SAP licensing will be needed, so this is the first stage of that acquisition. The annual support fees of 22% of the license cost will be capitalized in the development stage of the project in F09 & F10.					

1.2 Investment

Request Dollars (000's)	Prior Requests	Current Request	Total/Expected Amount	Project Reserve Complete Section 1.5	Total Authorized Amount
Direct Costs				<i>if applicable</i>	
- Capital, (incl Recurring Cap.)		\$ 1,482	\$ 1,482		\$ 1,482
- Operating Costs		\$ 2,200	\$ 2,200		\$ 2,200
- Deferred DSM		\$ -	\$ -		\$ -
- Deferred Regulatory Other		\$ -	\$ -		\$ -
Overhead (COH)		\$ -	\$ -		\$ -
IDC		\$ 125	\$ 125		\$ 125
Total Investment Cost (A)	\$ -	\$ 3,807	\$ 3,807	\$ -	\$ 3,807
Retirement of Capital Assets (Complete Section 6)					
Net Value (Greater of NBV or Market)	\$ -	\$ -	\$ -		\$ -
Estimated Dismantling Cost	\$ -	\$ -	\$ -		\$ -
Total Authorized Retirement Cost (B)	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative EAR Total (A+B)	\$ -	\$ 3,807	\$ 3,807	\$ -	\$ 3,807

1.3 Required Review & Approvals

Name	ODMS#	Signature	Date
Project Initiator Enn Kiudorf		<i>Enn Kiudorf</i>	DEC. 11/08
Group Controller Carol Richards	625	<i>Carol Richards</i>	Dec 12, 2008
Senior Vice President or Vice President			
Jurisdictional Approval (CIO, Properties) Don Stuckert	1260	<i>Don Stuckert</i>	DEC. 12/08
Corporate Financial Evaluation Review Simon Paisley	3497	<i>Simon Paisley</i> - see note overlay.	Dec 12/08
Financial Approval (CFO) Charles Reid	112	<i>Charles Reid</i>	DEC 12/08
Chair, CEO or President, or Board			

1.4 Delegation of Approval Authority for Contracts and Commitments

Contract / Commitment	Amount	Delegated to (Name)	Delegated by (Title)	Signature	Date

1.5 Delegation of Project Reserve

Delegated to	Delegated by	Signature	Date

Expenditure Authorization Request (EAR)

Section 2 Annualized Forecast

2.1 Project Expenditures by Fiscal Year (Up to date of project completion) (\$ 000's)

	Prior Expenditures	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Balance	Total
Capital (Incl. COH & IDC)		\$ 1,289	\$ 318	\$ -	\$ -	\$ -	\$ 1,607
Deferred DSM							\$ -
Deferred Reg - Other							\$ -
ARO							\$ -
Operating		\$ -	\$ -	\$ 220	\$ 220	\$ 1,760	\$ 2,200
Total	\$ -	\$ 1,289	\$ 318	\$ 220	\$ 220	\$ 1,760	\$ 3,807

Investigate Capitalization of Maintenance in Development Phase - 12-2-08

2.2 Forecast Annual Net Income Impact (For Years following In-service) (\$ 000's)

(This table is only applicable for capital projects > \$100,000)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013 to 2020
Revenue increase					
Cost of Energy					
Operating Costs Increase (decrease)	\$ -	\$ -	\$ 220	\$ 220	\$ 1,760
Depreciation & Amortization	\$ -	\$ -	\$ 161	\$ 161	\$ 482
Grants and Taxes					
Finance Charges					
Other Expenses (Revenues) - Specify:					
Income Before Regulatory Accounts	\$ -	\$ -	\$ (381)	\$ (381)	\$ (2,242)
Regulatory Transfers					
Net Income Impact decrease (increase)	\$ -	\$ -	\$ 381	\$ 381	\$ 2,242

2.3 DSM Program

(This table is applicable for DSM Projects only)

	Fiscal 20	Fiscal 20	Fiscal 20	Balance	Total for this request	Full Program
Annual Energy Savings (GWh/Yr)					-	
Cumulative Energy Savings (GWh/Yr)					-	
Demand Savings (MW)					-	
Unit Hydro Costs (¢/kWh)					-	
Unit Total Resource Costs (¢/kWh)					-	
		Full Program Year	Final Year			
Market penetration of technology (%)						
Status quo estimate (%)						
Tag on estimate (%)						

Expenditure Authorization Request (EAR)

Section 3 EAR Project Information

3.1 INITIAL SETUP INFORMATION REQUIRED IN PEOPLESFT PROJECTS

Request Details

Project Description: SAP Financials Licensing Phase 1A

Project Type: PINIT

Status: P (Planned)

Dept: 1320 (Capital) / xxxxxx (OMA)

Product (ABC Activity): 619500 (capital) xxxxxx (OMA)

Account Prefix:

Specific Capital 160XXX
 Deferred Reg Exp Other 161XXX
 Deferred DSM 079XXX
 Operating Costs 600XXX
 Recurring Capital 162XXX
 Retirements 760XXX
 Land Disposals 302XXX

Business Driver: OTH

Business Function: CU (Computers)

Asset Categories: CSW (Computer Software) _____ 100%

Business Group: Capital: _____ OMA: _____

10022 - BCH SAC _____ 100% 10035 - BCH

Parent Project (PWPKG): L6 1109462 _____ L6 _____

L7 (PINIT) 1122961 _____ L8 (chargeable) 1122962 _____ L7 (PINIT) _____ L8 (chargeable)

Section 4 Approved EAR Project Information

FINAL SETUP INFORMATION REQUIRED IN PEOPLESFT PROJECTS (AFTER EAR APPROVAL)

4.1 Steps to be completed in PeopleSoft Projects

- Project Approval page completed by LoB/SO approver
- Approve the PINIT project by switching the status from "P" to "A"
- Attach document to EAR project - (Justification should be kept on file, attach electronic copy to PINIT project)
- Create project(s) and add to the tree (see appendix I for sample template)
- Create assets and/or assign cost allocations to existing assets via asset detailing (see appendix II for sample template)
- Create a retirement detailing to assign cost allocations to assets and/or retire individual assets (see appendix III for sample template)

4.2 Project-Activity Creation - Request Details

Activity ID	<u>001</u> (or NEXT)	Activity ID	<u>001</u> (or NEXT)
Activity Description	<u>Capital</u>	Activity Description	<u>OMA</u>
Activity Type	<u>STD (Standard)</u>	Activity Type	<u>STD (Standard)</u>
Status	<u>A (Approved)</u>	Status	<u>A (Approved)</u>
Account Prefix		Account Prefix	

4.3 Entry of EAR Approved Amount in PeopleSoft Projects

Activity ID	Analysis Type (EAR or EAU)	Account Prefix	Resource Type	Resource Cat	Resource Sub-category	Resource Amount (\$)
001	EAR	160	x	xx	xxx	1,607
002	EAR	600	x	xx	xxx	2,200
TOTAL						\$ 3,807

Note: the total resource amount must equal the Cumulative EAR Total for the Current Request in Section 1.2. The level of detail entered is discretionary, but should reflect the level of detail in your Business Group reporting requirements

Expenditure Authorization Request (EAR)

Section 5 Capital Project Asset Acquisition/Construction

5.1 Asset Summary

Profile ID	Description	Location	Asset Type	End Use Dep't ID	Depreciation Impact (\$ 000's)			
					Original Cost	Estimated Life	Annual Depr Expense	
C80302	SAP financials licenses - Phase 1	DUN	I	1320	\$ 1,607	10	\$ 161	
TOTAL (\$ 000's):							\$	161

COMPLETE THE FOLLOWING SUBSECTION ONLY IF APPLICABLE

5.2 Contributions In Aid

<input type="radio"/> Yes, provide details <input type="radio"/> No	
Contributor's name	
Amount of total contribution (\$ 000's)	\$ -
Date(s) contribution(s) to be received	
CIA account distribution:	307000

Expenditure Authorization Request (EAR)

Section 6 Capital Retirements

6.1 Funding Request

Request Dollars (000's)	Total Prior Requests	Current Request	Total Request
Original Cost of Assets (A)		\$ -	\$ -
Accumulated Depreciation (B)		\$ -	\$ -
Net Book Value (C = A-B)	\$ -	\$ -	\$ -
Market Value (E)			\$ -
Greater of NBV and Market Value (F)	\$ -	\$ -	\$ -
Estimated Dismantling Cost (D)		\$ -	\$ -
Total Authorized Retirement Cost (E=F+D)	\$ -	\$ -	\$ -

6.2 Retirement Dollars (\$ 000's)

Asset Description	Asset # or Tag ID	Cost Balance	Accum. Depr.	NBV	Est. Dismantling	Est. Salvage	Profile ID Life	Useful Life
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
Total		\$ -	\$ -	\$ -	\$ -	\$ -		
		A	B	C	D			

6.3 Trade-Ins

Traded Asset Description	Asset Identification	New Asset Description	Trade-in Value (\$ 000's)

Section 7 Write Downs

Asset Description	Asset Identification	Cost Balance	Accum. Depr.	NBV (\$ 000's)	Adjusted Cost Balance	Adjustment Amount
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
Total		\$ -	\$ -	\$ -	\$ -	\$ -

SAP Licensing Phase 1A Business Case Sept 24, 2008

Executive Summary

This document has been prepared to seek financial approval for the purchase of SAP software and associated maintenance valued at \$1.2 million (including taxes and maintenance) as negotiated with SAP Canada Inc.

This is expected to be the first of a series of purchases from SAP to secure sufficient licensing to support BC Hydro's SAP program. This is in alignment with the recently adopted IT&T strategy as approved by ARMC; to execute the SAP Program, it is evident that additional SAP licensing will be needed, so this is the first stage of that acquisition.

To mitigate overall financial risk to BC Hydro, a number of protections are included within the contractual framework to contain BC Hydro's overall financial commitment. These include the ability to buy licensing incrementally as needed and the ability to exchange software purchases in the future as BC Hydro's SAP program evolves.

Background

As per BC Hydro's new IT&T Strategy as endorsed by ARMC in May 2008, SAP software has been identified as the "default solution" to be used for ERP related IT implementations. The intent is to roll out the program incrementally as driven by business requirements and associated business case justifications.

The initial major focus area is Finance; BC Hydro is currently conducting an SAP Financials Blueprint project, which is expected to culminate in the first major implementation of SAP outside of the existing 2003 CCS implementation. Follow-up projects may be initiated other functional areas such as Project Management, Human Resources, Work Management, Supply Chain, etc as driven by business needs.

To facilitate execution of the overall SAP program, BC Hydro needs to secure enterprise licensing, and accordingly detailed negotiations with SAP to establish an overall licensing framework have been underway for a number of months.

Alternatives

Three basic approaches to negotiating an Enterprise Licensing Agreement with SAP were considered:

1 / Buy full enterprise license up front. BC Hydro considered entering into a negotiation with SAP for the purposes of buying comprehensive enterprise licensing for SAP. This option was not selected since the full extent and timing of the SAP program is not yet known (i.e. these will be driven by the business) so therefore this option has a large risk of 'overbuying'. As well, this option triggers multiple internal funding and business case

issues since a large commitment would be needed upfront without certainty that all parts of the system will be used.

2 / Negotiate individual parts and buy as you go. Another option is to negotiate each incremental component with SAP as the program proceeds. This approach, while limiting upfront financial commitment, places BC Hydro in a disadvantaged position as the program proceeds. SAP will be less likely to negotiate favourable economic terms as the program proceeds since BC Hydro's options in regards to the overall program will be limited.

3 / Negotiate overall contract upfront, but buy as you go. The final option is to negotiate overall enterprise licensing for all of the primary SAP components that BC Hydro may ultimately, but make commitments (i.e. buy) only as those parts of the SAP program become certain. For example, assuming that the business case for Financials is approved after Blueprint stage in December, then BC Hydro would secure the full licensing to facilitate the Financials implementation as previously negotiated.

Option 3 has clear overall advantages for BC Hydro since this provides overall cost certainty and containment, yet does not lead to unnecessary financial commitments until the time where various software components are formally required. BC Hydro is therefore pursuing this option during the current negotiations with SAP.

Detailed Description of Selected Approach

Given that BC Hydro has adopted alternative 3, the specific objectives during the current contract negotiations have been as follows:

1. to establish upfront overall cost certainty and cost containment on SAP software licensing, including a cost effective overall program cost.
2. to adopt a "pay-as-you-go" approach, meaning that commitments to SAP are made incrementally. Typically this will occur only as business case approval is achieved for each incremental SAP program component.
3. to ensure that an "exchange clause" is embedded within the SAP contract, allowing BC Hydro to exchange unused SAP software components for other modules of equivalent value. This is important since given the extent and complexity of the overall SAP program and the associated SAP solution, there needs to be maximum after-the-fact flexibility to adapt as detailed design and implementation decisions proceed. This helps to mitigate rollout risk as the program evolves.

At this stage BC Hydro has made considerable progress during negotiations and there is comfort that these three goals are being achieved. BC Hydro has received detailed information from SAP, including documents articulating overall program software costs with negotiated discounts, and contractual language which provides appropriate risk mitigation around ability to exchange licensing as needed. The overall parameters of the proposed deal have thus been outlined and the mutual intent of the parties is clear.

BC Hydro and SAP are now proposing to make a limited commercial commitment in the form of an initial purchase of SAP Financials software valued at \$1M, plus associated maintenance and taxes.

As per the framework negotiated with SAP, the overall cost of the Financials licensing is estimated at follows:

Current Phase 1A	1,000,000
Phase 1B (expected Dec/08)	900,000
Per Seat User Licensing (assume 1,500 seats)	<u>1,200,000</u> **
Total Financials Licensing	3,100,000

** this component will require additional refinement pending detailed analysis of number of seats of various roles that will be needed for SAP Financials.

There are three reasons for making this investment at this time (i.e. commit by September 30):

- 1) Concluding the agreement now provides certainty around two critical licensing terms that BC Hydro has negotiated with SAP. These concern BC Hydro's need to achieve unlimited use licensing (i.e. a simplified licensing structure for BCH where professional users have access to all SAP functionality). Also, the overall discount structure and associated pay-as-you-go approach for the suite of software that BC Hydro needs as it builds out the SAP program can be locked in. Both of these terms are non-standard arrangements and will expire by Sept 30. It is possible that SAP Canada may be able to extend these terms again in the future, but the vendor will need to go through an internal re-approval process with SAP Germany after expiry of their 3rd financial quarter.
- 2) The new agreement considerably strengthens BC Hydro's existing SAP agreement (from 2002) in the area of Protection of Privacy since it explicitly binds SAP to comply with the FOIPP Act via attachment of BC Hydro's Protection of Privacy Schedule.
- 3) The new agreement provides BC Hydro with access to the software components required for the SAP Financials project detailed design stage.

This business case therefore seeks funding for \$1,200,000.-; which is effectively a down-payment on the software needed to enable the Financials phase of the overall program. This will also enable the overall contract negotiations to proceed into the next phase so that additional detailed terms and conditions can be concluded.

Financial Risk Mitigation

In the event that for some unforeseen circumstance the overall deal fails to materialize, the exchange clause provision mitigates financial risk to BC Hydro in the following way: BC Hydro will be able to exchange the \$1M value for any other SAP software. This would include expansion of current SAP CCS licensing, AMI related SAP functionality, or any other SAP products as may be needed by BC Hydro in the future in accordance with the IT&T strategy. Overall the likelihood of not consuming at least \$1M in SAP software seems unlikely given that ARMC has endorsed SAP as the default ERP solution and there are many business drivers across BC Hydro creating demand for improved ERP solutions.

An additional component of financial risk relates to the ongoing annual maintenance payment that BC Hydro commits to when purchasing software. This is charged at 22% of the original purchase price, or \$220,000 for the purchase contemplated in this business case. In the event that BC Hydro fails to use this software or any other exchanged software, then maintenance can be cancelled under the terms of the proposed contract.

Related Activities

As indicated earlier, the first expected future rollout of SAP beyond the existing CCS footprint is in the area of Financials. The Financials Blueprint project was initiated in August 2008 and is expected to culminate in a full Financials business case by the end of December 2008.

This business case and the associated \$1.2M expenditure will be referenced in the full Financials business case (i.e. Financial Systems Replacement Project) since the software components purchased at the current time are related to SAP Financials.

Assuming that the BC Hydro business case for the Financial Systems Replacement Project is approved in the December 2008 timeframe, this will then trigger the next incremental purchase of SAP software (i.e. the balance of the SAP Financials licensing).

Funding Request Details

Approval is sought as follows:

Expenditure

- Software Purchase: \$1,000,000. + 5% gst + 7% pst = \$1,120,000
- Maintenance for balance of 2008 @ 22% for 3 months = \$55,000. + 5% gst + 7% pst = \$61,600
- TOTAL \$1,181,600.-, (rounded to \$1.2M)

Funding source:

- the funding for this purchase will come from the OCIO IT capital budget in department 9805.
- In particular the existing budget for the PeopleSoft Upgrade project will not be required since this is now being replaced by the SAP program as per the IT&T strategy.

Funding classification: capital.

Recommendation

As per the rationale outlined above, funding for \$1.2M is sought and recommended.

Enn Kiudorf,
BC Hydro SAP Enterprise Lead, OCIO

Expenditure Authorization Request (EAR)

Section 1 Summary of Expenditures and Approvals

BCH - SAC



L8 (chargeable) 1122962

1.1 Project Creation

EAR Title SAP Enterprise Licenses		Project ID. PINIT 1122961		Rev. No. 1	
Project Initiator Enn Kludorf	Local 73729	Project Manager Enn Kludorf	Local 73729	Date 25-Mar-09	Business Group OCIO / BCH-SAC
Expenditure Type <input checked="" type="radio"/> Specific Capital <input type="radio"/> Recurring Capital <input type="radio"/> Operating Cost Initiatives <input type="radio"/> Deferred DSM <input type="radio"/> Deferred Regulatory Other <input type="radio"/> Land Disposals <input type="radio"/> Capital Retirement			For Capital Projects Only Estimated Project Start Date: Dec. 1/09 Estimated In-Service Date: Mar. 31/10 High Level Business Driver: <input checked="" type="radio"/> Sustaining <input type="radio"/> Growth		
Request Reason <input type="radio"/> New <input checked="" type="radio"/> Revision:		<input type="radio"/> Scope Change <input checked="" type="radio"/> New Phase <input type="radio"/> Cost Change <input type="radio"/> Other please specify: _____		Originating Department (CC) 9307 End Use Department (CC) 1320	

Project Description

In December 2008, BC Hydro received approval to purchase software licenses as a down payment on SAP enterprise licensing in order to lock in favourable pricing. Licenses worth \$1 million have been purchased to date. This EAR revision seeks approval to purchase the next phase of SAP software licensing as needed for the Finance project and partial licensing for the Project & Portfolio Management (PPM) project for a total value of \$2.1 million. This also enables the continued execution of the IT&T strategy as it relates to enterprise applications. Annual software maintenance fees of 22% will be dealt with in the relevant business case & EAR for each specific module, so it has been removed from this EAR. As this EAR is for the license purchase alone, and the configuration of the asset is dealt with in a separate EAR, Interest During Construction (IDC) has also been removed from this EAR.

1.2 Investment

Request Dollars (000's)	Prior Requests	Current Request	Total Expected Amount	Project Reserve Complete Section 1.5	Total Authorized Amount
Direct Costs				<i>If applicable</i>	
-- Capital, (incl Recurring Cap.)	\$ 1,482	\$ 1,843	\$ 3,325		\$ 3,325
-- Operating Costs	\$ 2,200	\$ (2,200)	\$ -		\$ -
-- Deferred DSM			\$ -		\$ -
-- Deferred Regulatory Other			\$ -		\$ -
Overhead (COH)			\$ -		\$ -
C	\$ 125	\$ (125)	\$ -		\$ -
Total Investment Cost (A)	\$ 3,807	\$ (482)	\$ 3,325	\$ -	\$ 3,325
Retirement of Capital Assets (Complete Section 6)					
Asset Value (Greater of NBV or Market)	\$ -	\$ -	\$ -		\$ -
Estimated Dismantling Cost	\$ -	\$ -	\$ -		\$ -
Total Authorized Retirement Cost (B)	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative EAR Total (A+B)	\$ 3,807	\$ (482)	\$ 3,325	\$ -	\$ 3,325

1.3 Required Review & Approvals

Name	ODMS#	Signature	Date
Project Initiator Enn Kludorf	00016985	<i>[Signature]</i>	JUNE 1/09
Finance Lead Carol Richards	00013544	<i>[Signature]</i>	June 19, 2009
Senior Vice President or Vice President Don Stuckert	00013605	<i>[Signature]</i>	June 2, 2009
Jurisdictional Approval (CIO, Properties) Group Controller, Corporate Financial Evaluation Review Simon Paisley	00016868	<i>[Signature]</i>	June 17/09
Financial Approval (CFO) Charles Reid	00013679	<i>[Signature]</i>	JUNE 23/09
Chair, CEO or President, or Board			

1.4 Delegation of Approval Authority for Contracts and Commitments

Contract / Commitment	Amount	Delegated to (Name)	Delegated by (Title)	Signature	Date

Expenditure Authorization Request (EAR)

1.5 Delegation of Project Reserve

Delegated to	Delegated by	Signature	Date

Section 2 Annualized Forecast

2.1 Project Expenditures by Fiscal Year (Up to date of project completion) (\$ 000's)

	Prior Expenditures	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Balance	Total
Capital (Incl. COH & IDC)		\$ 3,325	\$ -	\$ -	\$ -	\$ -	\$ 3,325
Deferred DSM							\$ -
Deferred Reg - Other							\$ -
ARO							\$ -
Operating		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ 3,325	\$ -	\$ -	\$ -	\$ -	\$ 3,325

2.2 Forecast Annual Net Income Impact (For Years following In-service) (\$ 000's)

(This table is only applicable for capital projects > \$100,000)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013 to 2019
Revenue increase					
Cost of Energy					
Operating Costs increase (decrease)	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation & Amortization	\$ -		\$ 333	\$ 333	\$ 2,660
Grants and Taxes					
Finance Charges					
Other Expenses (Revenues) - Specify:					
Income Before Regulatory Accounts	\$ -	\$ -	\$ (333)	\$ (333)	\$ (2,660)
Regulatory Transfers					
Net Income impact decrease (increase)	\$ -	\$ -	\$ 333	\$ 333	\$ 2,660

2.3 DSM Program

(This table is applicable for DSM Projects only)

	Fiscal 20	Fiscal 20	Fiscal 20	Balance	Total for this request	Full Program
Annual Energy Savings (GWh/Yr)					-	
Cumulative Energy Savings (GWh/Yr)	-	-	-	-	-	
Demand Savings (MW)					-	
Unit Hydro Costs (\$/kWh)					-	
Unit Total Resource Costs (\$/kWh)					-	
		Full Program Year	Final Year			
Market penetration of technology (%)						
Status quo estimate (%)						
Tag on estimate (%)						

Expenditure Authorization Request (EAR)

Section 3 EAR Project Information

3.1 INITIAL SETUP INFORMATION REQUIRED IN PEOPLESOFT PROJECTS

Request Details

Project Description: SAP Enterprise Licenses

Project Type: PINIT

Status: A (Active)

Dept: 1320 (Capital) / 9307 (OMA)

Product (ABC Activity): 619500 (capital)

Account Prefix:

<input checked="" type="radio"/> Specific Capital 160XXX	<input type="radio"/> Deferred Reg Exp Other 161XXX	<input type="radio"/> Deferred DSM 079XXX
<input type="radio"/> Operating Costs 600XXX	<input type="radio"/> Recurring Capital 162XXX	<input type="radio"/> Retirements 760XXX
		<input type="radio"/> Land Disposals 302XXX

Business Driver: OTH

Business Function: CU (Computers)

Asset Categories: CSW (Computer Software) 100%

Business Group: 10022 BCH SAC 100%

Parent Project (PWPKG): BCH_10022 > 2200101 > 2200102 > 2200103 > 1120696 > 1109462 > 1122961 > 1122962

Capital:

Section 4 Approved EAR Project Information

FINAL SETUP INFORMATION REQUIRED IN PEOPLESOFT PROJECTS (AFTER EAR APPROVAL)

4.1 Steps to be completed in PeopleSoft Projects

- Project Approval page completed by LoB/SO approver
- Approve the PINIT project by switching the status from "P" to "A"
- Attach document to EAR project - (Justification should be kept on file, attach electronic copy to PINIT project)
- Create project(s) and add to the tree (see appendix I for sample template)
- Create assets and/or assign cost allocations to existing assets via asset detailing (see appendix II for sample template)
- Create a retirement detailing to assign cost allocations to assets and/or retire individual assets (see appendix III for sample template)

4.2 Project-Activity Creation - Request Details

Activity ID	<u>001</u> (or NEXT)	Activity ID	_____ (or NEXT)
Activity Description	<u>Capital</u>	Activity Description	_____
Activity Type	<u>STD (Standard)</u>	Activity Type	<u>STD (Standard)</u>
Status	<u>A (Approved)</u>	Status	<u>A (Approved)</u>
Account Prefix	<u>160xxx</u>	Account Prefix	_____

4.3 Entry of EAR Approved Amount In PeopleSoft Projects

Activity ID	Analysis Type (EAR or EAU)	Account Prefix	Resource Type	Resource Cat	Resource Sub-category	Resource Amount (\$)
001	EAR	160	x	xx	xxx	3,325
TOTAL						\$ 3,325

Note: the total resource amount must equal the Cumulative EAR Total for the Current Request in Section 1.2. The level of detail entered is discretionary, but should reflect the level of detail in your Business Group reporting requirements

Expenditure Authorization Request (EAR)

Section 5 Capital Project Asset Acquisition/Construction

5.1 Asset Summary

Profile ID	Description	Location	Asset Type	End Use Dep't ID	Depreciation Impact (\$ 000's)			
					Original Cost	Estimated Life	Annual Depr Expense	
C80302	SAP enterprise licenses	DUN	I	1320	\$ 3,325	10	\$ 333	
TOTAL (\$ 000's):							\$	333

COMPLETE THE FOLLOWING SUBSECTION ONLY IF APPLICABLE

5.2 Contributions In Aid

	<input type="radio"/> Yes, provide details <input type="radio"/> No
Contributor's name	
Amount of total contribution (\$ 000's)	\$ -
Date(s) contribution(s) to be received	
CIA account distribution:	307000

Expenditure Authorization Request (EAR)

Section 6 Capital Retirements

6.1 Funding Request

Request Dollars (000's)	Total Prior Requests	Current Request	Total Request
Original Cost of Assets (A)		\$ -	\$ -
Accumulated Depreciation (B)		\$ -	\$ -
Net Book Value (C = A-B)	\$ -	\$ -	\$ -
Market Value (E)			\$ -
Greater of NBV and Market Value (F)	\$ -	\$ -	\$ -
Estimated Dismantling Cost (D)		\$ -	\$ -
Total Authorized Retirement Cost (E=F+D)	\$ -	\$ -	\$ -

6.2 Retirement Dollars (\$ 000's)

Asset Description	Asset # or Tag ID	Cost Balance	Accum. Depr.	NBV	Est. Dismantling	Est. Salvage	Profile ID Life	Useful Life
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
				\$ -				
Total		\$ -	\$ -	\$ -	\$ -	\$ -		

A
B
C
D

6.3 Trade-Ins

Traded Asset Description	Asset Identification	New Asset Description	Trade-in Value (\$ 000's)

Section 7 Write Downs

Asset Description	Asset Identification	Cost Balance	Accum. Depr.	NBV (\$ 000's)	Adjusted Cost Balance	Adjustment Amount
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
				\$ -		\$ -
Total		\$ -	\$ -	\$ -	\$ -	\$ -

Expenditure Authorization Request

COH and IDC Calculation

Project Start Date December 1, 2008 Month Day, Year e.g. "Sept 15, 2008"
 In Service Date March 31, 2010 Month Day, Year e.g. "March 1, 2010"

Fiscal Year	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2018	Total	EAR Input
IDC Rate	6.52%	6.52%	6.51%	6.52%	6.52%	6.52%	6.52%	6.52%	6.52%		
COH Rate		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		

All costs in \$ 000's

	No COH rate												
Capital Costs	\$	3,325									\$	3,325	Total costs should match Section 1.2
Non IDC/COH Capital Costs	\$	3,325									\$	3,325	
Deferred Regulatory / DSM Contributions in Aid											\$	-	Table 5.3

IDC	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	Table 1.2
Overhead (COH)	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	Table 1.2
Finance Charges	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	Table 2.2

Capital (Incl. IDC and COH)	\$	3,325	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	3,325	Table 2.1
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SAP Invoices:	Base	PST	Total
Sep-08	\$ 1,000,000	\$ 70,000	\$ 1,070,000
	55,000	3,850	58,850
09-Mar	131,738	9,222	140,959
	1,920,359	134,425	2,054,784
Total	\$ 3,107,097	\$ 217,497	\$ 3,324,593

SAP Enterprise Licensing Business Case Update March 30, 2009

Executive Summary

This document has been prepared to supplement and amend the original business case for SAP Licensing that was prepared in September 2008. At that time, BC Hydro purchased software valued at \$1M from SAP and financial approval was granted via EAR #1122961. The initial purchase was executed as a down-payment on overall licensing and was needed to effectively "lock in" the pricing as had been negotiated earlier in 2008.

BC Hydro now proposes to purchase the next phase of SAP software licensing as needed to enable execution of its IT&T strategy in the area of enterprise applications. This purchase is valued at \$2.1M, for a total SAP enterprise licensing cost to date of \$3.1M plus taxes and maintenance.

Once this purchase is completed, BC Hydro will have acquired licensing for the following SAP software components:

- 1,500 professional user seats (unlimited use)
- 2,000 employee self service seats (restricted to certain casual end user roles)
- licensing for all components required for the Financials project
- the majority of the licensing needed for Project and Portfolio Management, including full licensing to the SAP RPM product. (May need to supplement this in the future by purchasing additional user seats depending on final user counts for PPM).
- licensing for an online end user training package as needed to support various SAP rollouts (i.e. RWD Productivity Pak)
- partial licensing for Human Resources
- partial licensing for Work Management and Supply Chain
- licensing for various SAP common infrastructure and tools including Business Intelligence (BI), Governance Risk & Compliance (GRC), Portal and middleware (PI)

A significant feature of the March 2009 software is the inclusion of purchase options for up to \$4.3M for the balance of the software needed to execute future BC Hydro projects such as PPM, HR, Work Management, Supply Chain, etc.

If BC Hydro chooses to exercise all of the accompanying purchase options, the total cost of software would total \$7.4M for 4,000 professional seats (unlimited usage), 2,000 self service seats and all the associated software as defined in the agreement. By way of comparison, the cost of the initial 2002 purchase of SAP software was \$8M for coverage in the Customer Care area for 1,200 limited professional seats.

Once this purchase including options is complete, BC Hydro expects that SAP enterprise licensing requirements will be substantially met for its SAP Program. There may be some minor additional purchases in coming years (e.g. various specialty SAP or third

party applications, or additional seats if BC Hydro's employee population grows), but these are expected to be of relatively small value. The only significant exception is coverage for SAP functionality related to Advanced Metering as needed to enable the SMI project. Such licensing is being arranged separately as part of the procurement process for the SMI program.

A significant benefit in this contract is that BC Hydro has not committed to pay full capital cost nor annual maintenance for the \$7.4M amount, but is only making this commitment for components purchased to date (i.e. \$3.1M). This is in keeping with the "pay-as-you-go" philosophy. Therefore, maintenance will not be payable on other areas such as HR, Work Management, Supply Chain until BC Hydro has project which are sufficiently advanced in those areas. Through inclusion of formal purchase options, BC Hydro has mitigated future financial risk of the SAP Program since prices and discounts have been locked in and can be exercised at BC Hydro's option.

Alternatives (Updated for March 2009)

As presented in the original September 2009 Business Case, three basic approaches to negotiating an Enterprise Licensing Agreement with SAP were considered. The original analysis is repeated below along with an update for March 2009.

As per the original September 2008 analysis, alternative 3 continues to be the recommended approach and the March 2009 agreements are fully consistent with this direction.

1 / Buy full enterprise license up front

September 2008 Analysis: BC Hydro considered entering into a negotiation with SAP for the purposes of buying comprehensive enterprise licensing for SAP. This option was not selected since the full extent and timing of the SAP program is not yet known (i.e. these will be driven by the business) so therefore this option has a large risk of 'overbuying'. As well, this option triggers multiple internal funding and business case issues since a large commitment would be needed upfront without certainty that all parts of the system will be used.

March 2009 Update: there is now more certainty on the full extent of the SAP program. Numerous projects are advancing, or in detailed analysis phases (Financials, Project Management, certain HR components, some Work Management components). Additionally there is strong organizational acceptance and endorsement of the enterprise SAP strategy. Nevertheless, there continues to be risk of 'overbuying' and the associated funding issues for software acquisition and maintenance payments remain.

2 / Negotiate individual parts and "pay as you go".

September 2008 Analysis: Another option is to negotiate each incremental component with SAP as the program proceeds. This approach, while limiting upfront financial commitment, places BC Hydro in a disadvantaged position as the program proceeds. SAP will be less likely to negotiate favourable economic terms as the program proceeds since BC Hydro's options in regards to the overall program will be limited.

March 2009 Update: this alternative continues to be problematic for the reasons stated above.

3 / Negotiate overall contract upfront, but "pay as you go".

September 2008 Analysis: The final option is to negotiate overall enterprise licensing for all of the primary SAP components that BC Hydro may ultimately need, but make commitments (i.e. buy) only as those parts of the SAP program become certain. For example, assuming that the business case for Financials is approved after Blueprint stage in December, then BC Hydro would secure the full licensing to facilitate the Financials implementation as previously negotiated.

March 2009 Update: in the period following the September 2008 purchase, SAP and BC Hydro continued negotiations with a view to finalizing an agreement. BC Hydro's objectives were to secure the licensing rights needed for near term projects and firm options for future projects, and that these options must be consistent with the pricing established during the September 2008 discussions. During these negotiations, SAP actively promoted a more substantial deal along the lines of Option 1. The execution of the September 2008 contract has been advantageous to BC Hydro since it has been used to reinforce full consistency in the pricing and terms associated with the balance of the contract. Negotiations on details have been lengthy, but contract terms have now been agreed that include the purchase of an additional \$2.1M in software delivered in March 2009 with firm options for the balance of the software as needed for future parts of the SAP Program. This meets BC Hydro's objectives as stated above.

Description of Selected Approach

This business case recommends Option 3 and the license agreements have accordingly been established along these lines.

Details are:

1. Software Licensing. In March 2008, BC Hydro is committing to an additional \$2.1M contract to supplement the \$1M agreed in September for a total of \$3.1M. This cost is being funded as per this business case so that all Enterprise SAP licensing costs are contained in one EAR. The full details are outlined in Appendices F, G H, I of the Contract (these are commercially sensitive and will not be attached to this business case, but are available for viewing as needed). BC Hydro hence establishes usage rights to the following SAP components:
 - o 1,500 professional user seats (unlimited use)
 - o 2,000 employee self service seats (restricted to certain casual end user roles)
 - o licensing for all components required for the Financials project
 - o the majority of the licensing needed for Project and Portfolio Management, including full licensing to the SAP RPM product. (May need to supplement this in the future by purchasing additional user seats depending on final user counts for PPM).

- o licensing for an online end user training package as needed to support various SAP rollouts (i.e. RWD Productivity Pak)
 - o partial licensing for Human Resources
 - o partial licensing for Work Management and Supply Chain
 - o licensing for various SAP common infrastructure and tools including Business Intelligence (BI), Governance Risk & Compliance (GRC), Portal and middleware (PI)
2. Software Options. As discussed earlier, the execution of these agreements establishes the formal rights of BC Hydro to purchase additional software at locked in prices. This achieves cost certainty on future phases of the SAP Program should BC Hydro elect to proceed with those projects using SAP software. The details of these options are included in Appendix G of the agreement (again not attached to business case due to sensitivity). If BC Hydro exercises these options, this is expected to trigger further updates to this business case.
3. Software Maintenance. In executing these Software Licensing Agreements, BC Hydro is making a commitment to pay 22% maintenance per annum on the net negotiated purchase price. These maintenance components payable to SAP will be dealt with as part of the business cases of individual projects; this achieves linkage and matching of ongoing operating costs including an appropriate share of software maintenance with associated business benefits.

Funding Request Details

Approval is sought as follows:

Expenditure

- Software Purchase: \$1,000K (Sept 2008) +\$2,100K (March 2009) = \$3,100K
- GST at 5% = \$155K
- PST at 7% = \$217K
- TOTAL \$3,472K

Funding source:

- This is an ex-plan expenditure and was not budgeted in F2009.

Funding classification: capital

Recommendation

As per the rationale outlined above, funding for an additional \$2.1M is sought and recommended. This raises the overall value of the business case to \$3.1M plus tax, for a total of \$3.5M.

Enn Kiudorf,
BC Hydro SAP Enterprise Lead, OCIO

— within Plan?

Expenditure Authorization Request (EAR)

Section 1 Summary of Expenditures and Approvals

BCH-SAC

BC Hydro

Project Creation

Project Title Financial Systems Replacement Project; Implementation Phase		Project ID. PINIT 1123613		Rev. No. 2	
Project Initiator Cheryl Yaremko, Chief Accounting Officer		Local 74110		Project Manager Enn Kludorf	
Local 74110		Local 73729		Date 13-Jul-09	
Business Group Corporate					
Expenditure Type <input checked="" type="radio"/> Specific Capital <input type="radio"/> Recurring Capital <input type="radio"/> Operating Cost Initiatives <input type="radio"/> Deferred DSM <input type="radio"/> Deferred Regulatory Other <input type="radio"/> Land Disposals <input type="radio"/> Capital Retirement			For Capital Projects Only Estimated Project Start Date: 01-Aug-08 Estimated In-Service Date: 31-Mar-10		
Request Reason <input type="radio"/> New <input checked="" type="radio"/> Revision: <input type="radio"/> Scope Change <input checked="" type="radio"/> New Phase <input type="radio"/> Cost Change <input type="radio"/> Other please specify:			High Level Business Driver: <input checked="" type="radio"/> Sustaining <input type="radio"/> Growth Originating Department (CC): 1419 End Use Department (CC): 9307 for work in progress; asset to be detailed to BCH SAC dept 1320		

Project Description
 Subsequent to the Blueprint Phase, it is recommended that BC Hydro proceed with the implementation of SAP Financials to replace BC Hydro's existing Financial systems (Peoplesoft Financials v8.0). The total prior requests were approved on PINIT 1123613 Revision 1 on February 17th, 2009

1.2 Investment

Request Dollars (000's)	Prior Requests	Current Request	Total Expected Amount	Project Reserve Complete Section 1.5 If applicable	Total Authorized Amount
Direct Costs					
- Capital, (incl Recurring Cap.)	4,082.0	10,633.0	14,715.0		14,715.0
- Operating Costs	1,204.0	2,316.0	3,520.0		3,520.0
- Deferred DSM					
- Deferred Regulatory Other					
Overhead (COH)					
DC	92.0	373.0	465.0		465.0
Total Investment Cost (A)	5,378.0	13,322.0	18,700.0		18,700.0
Retirement of Capital Assets (Complete Section 6)					
Asset Value (Greater of NBV or Market)	-	-	-		-
Estimated Dismantling Cost	-	-	-		-
Total Authorized Retirement Cost (B)	-	-	-		-
Cumulative EAR Total (A+B)	5,378.0	13,322.0	18,700.0		18,700.0

1.3 Required Review & Approvals

Name	Position #	Signature	Date
Project Initiator Cheryl Yaremko, Chief Accounting Officer	00013966	<i>[Signature]</i>	July 14/09
Finance Lead - Corporate Groups Carol Richards	00013544	<i>[Signature]</i>	July 14, 2009
Jurisdictional Approval (CIO, Properties) Don Stuckert, VP & CIO	00013605	<i>[Signature]</i>	July 20/09
Corporate Financial Evaluation Review Simon Paisley	00016868	<i>[Signature]</i>	July 14 2009
Financial Approval (CFO) Charles Reid	00013679	<i>[Signature]</i>	July 15/09
Chair, CEO or President, or Board Bob Elton	00010001	<i>[Signature]</i>	July 29/09

1.4 Delegation of Approval Authority for Contracts and Commitments

Contract / Commitment	Amount	Delegated to (Name)	Delegated by (Title)	Signature	Date

Delegation of Project Reserve

Delegated to	Delegated by	Signature	Date

Expenditure Authorization Request (EAR)

Section 2 Annualized Forecast

2.1 Project Expenditures by Fiscal Year (Up to date of project completion) (\$ 000's)

	Prior Expenditures	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Balance	Total
Capital (Incl. COH & IDC)	765.0	13,145.0	1,270.0	-	-	-	15,180.0
Deferred DSM							-
Deferred Reg - Other							-
ARO							-
Operating	820.0	2,390.0	310.0				3,520.0
Total	1,585.0	15,535.0	1,580.0	-	-	-	18,700.0

2.2 Forecast Annual Net Income Impact (For Years following In-service) (\$ 000's)

(This table is only applicable for capital projects > \$100,000)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013 to 2021
Revenue increase					
Cost of Energy					
Operating Costs (increase) decrease	820.0	2,390.0	310.0	-	-
Depreciation & Amortization	-	-	1,518.0	1,518.0	12,144.0
Grants and Taxes					
Finance Charges					
Other Expenses (Revenues) - Specify:					
Income Before Regulatory Accounts	(820.0)	(2,390.0)	(1,828.0)	(1,518.0)	(12,144.0)
Regulatory Transfers					
Net Income Impact	(820.0)	(2,390.0)	(1,828.0)	(1,518.0)	(12,144.0)

2.3 DSM Program

(This table is applicable for DSM Projects only)

	Fiscal 20	Fiscal 20	Fiscal 20	Balance	Total for this request	Full Program
Annual Energy Savings (GWh/Yr)					-	
Cumulative Energy Savings (GWh/Yr)					-	
Demand Savings (MW)					-	
Unit Hydro Costs (\$/kWh)					-	
Unit Total Resource Costs (\$/kWh)					-	
		Full Program Year	Final Year			
Market penetration of technology (%)						
Status quo estimate (%)						
Tag on estimate (%)						

Expenditure Authorization Request (EAR)

Section 5 Capital Project Asset Acquisition/Construction

5.1 Asset Summary

Profile ID	Description	Location	Asset Type	End Use Dep't ID	Depreciation Impact (\$ 000's)		
					Original Cost	Estimated Life	Annual Depr Expense
C80302	Software, Mainframe	EDM	I	1320	15,180.0	10	1,518.0
						TOTAL (\$ 000's):	1,518.0

COMPLETE THE FOLLOWING SUBSECTION ONLY IF APPLICABLE

5.2 Contributions In Aid

	<input type="radio"/> Yes, provide details <input type="radio"/> No
Contributor's name	_____
Amount of total contribution (\$ 000's)	\$ _____
Date(s) contribution(s) to be received	_____

CIA account distribution:	307000

Section 6 Capital Retirements

6.1 Funding Request

Request Dollars (000's)	Total Prior Requests	Current Request	Total Request
Original Cost of Assets (A)			
Accumulated Depreciation (B)			
Net Book Value (C = A-B)	-		
Market Value (E)			
Greater of NBV and Market Value (F)	-		
Estimated Dismantling Cost (D)			
Total Authorized Retirement Cost (E=F+D)	-		

6.2 Retirement Dollars (\$ 000's)

Asset Description	Asset # or Tag ID	Cost Balance	Accum. Depr.	NBV	Est. Dismantling	Est. Salvage	Profile ID Life	Useful Life
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
					-	-		
Total					-	-		

6.3 Trade-Ins

Traded Asset Description	Asset Identification	New Asset Description	Trade-In Value (\$ 000's)

Section 7 Write Downs

Asset Description	Asset Identification	Cost Balance	Accum. Depr.	NBV (\$ 000's)	Adjusted Cost Balance	Adjustment Amount
Total						

Expenditure Authorization Request

COH and IDC Calculation

Project Start Date

August 1, 2008

Month Day, Year e.g. "Sept 15, 2008"
 In Service Date

March 31, 2010

Month Day, Year e.g. "March 1, 2010"

Fiscal Year	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Total	EAR Input
	Fiscal 2018									
IDC Rate	6.51%	6.55%	6.55%	6.55%	6.55%	6.55%	6.55%	6.55%		
COH Rate		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
<i>All costs in \$ 000's</i>										
Capital Costs	715.0	10,870.0	1,270.0							12,855.0
Non IDC/COH Capital Costs										-
Deferred Regulatory / DSM Contributions in Aid										-
										Table 5.3
IDC	50.0	415.0	-	-	-	-	-	-		465.0
Overhead (COH)										Table 1.2
Finance Charges										Table 2.2
Capital (Incl. IDC and COH)	765.0	11,285.0	1,270.0							13,320.0
										Table 2.1

BUSINESS CASE

FINANCIAL SYSTEMS REPLACEMENT PROJECT (FSR PROJECT)

JUNE 2009

IMPLEMENTATION PHASE

Project Sponsor: CHERYL YAREMKO

Project Manager: HUGH SMITH

Submitted by: BRUCE MILNE

BChydro 

Document Control

Author	Role	Date
Bruce Milne	FSRP Business Lead	June 24, 2009

Approved by	Signature	Date
Cheryl Yaremko Project Sponsor		July 14, 2009
Carol Richards Group Controller		July 14, 2009
[REDACTED] VP & CIO		July 14, 2009
Charles Reid Executive Sponsor		July 14, 2009

Change History:

Version	Reason for Version	Date
V1-06-18-09	Initial Draft – Bruce Milne	June 18, 2009
V2-06-22-09	Second Draft – Bruce Milne	June 22, 2009
V3-06-24-09	Third Draft – Bruce Milne	June 24, 2009
V4-07-14-09	Fourth Draft – Bruce Milne	July 14, 2009

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1 Classification

The FSR Project is primarily a sustaining capital project (approximately 80% of total expenditures), with an operating cost component (approximately 20% of total expenditures).

2 Executive Summary

The Project Management Team and Steering Committee is recommending that BC Hydro proceed with full implementation of the FSR Project – the replacement of the PeopleSoft Financials systems with SAP Financials. Specific deliverables of the project include replacement of the general ledger, project costing, accounts payable, accounts receivable, sundry billing, expenses, asset management, and reporting and budgeting modules.

This business case documents BC Hydro's need to proceed with the FSR Project, and specifically supports funding approval for the implementation phase, during which BC Hydro will complete design and implement SAP Financials on a coordinated basis with the implementation of International Financial Reporting Standards for external reporting purposes.

The FSR Project is scheduled for completion with a target go-live date for the SAP Financials systems of April 1, 2010. Total costs, including capital expenditures and operating expenses, are expected to be \$18.7 million, inclusive of a contingency of \$2.1 million.

Issues / Opportunities:

BC Hydro's existing financial system cannot adequately support a number of current requirements, most notably imminent statutory and regulatory reporting requirements. These include International Financial Reporting Standards (IFRS) and the BCUC Uniform Standards of Accounts (BCUC USoA). Inability to comply with these externally mandated requirements could expose BC Hydro and its shareholder to reputational risk, and potentially damage relationships with external stakeholders.

BC Hydro's current financial system is a significantly customized version of PeopleSoft that no longer meets BC Hydro's business requirements, and that is not supported by the vendor. Without a significant change to the financial systems, BC Hydro does not have an efficient and reliable long-term solution to support ongoing changes to business organization or requirements.

In meeting the immediate need to comply with new business reporting requirements and address an aging, inefficient and unsupported financial system, an opportunity also exists to align with the BC Hydro's IT&T Strategy of leveraging a common SAP ERP (enterprise resource planning) platform across BC Hydro. SAP is the preferred / default solution so long as it will meet BC Hydro's functional requirements and other tools will be incorporated only where they work better.

Performance against key financial and non-financial objectives

The recommended Financial Systems Replacement Project addresses the following needs:

- It will provide functionality to address new statutory, regulatory and internal financial and management reporting requirements: IFRS, BCUC USoA reporting, and Phase 3 of BC Hydro's internal Financial Simplification Initiative (FSI).

- It will replace PeopleSoft financial systems, which are nearing end of life, are unsupported by the vendor, and which do not adequately support current business requirements.
- It will implement process improvements / efficiencies for the BC Hydro Finance and Corporate Information Technology (IT) communities to increase work capacity, reduce reliance on ad hoc analysis and spreadsheets and will provide a single source of truth for financial information and improve data reliability.
- It will increase the use of system enabled internal controls to replace existing manual internal controls, increase the use of automated workflow.
- It will conform to BC Hydro's Information Technology & Telecommunications (IT&T) Strategy to leverage a single SAP ERP environment, facilitating enablement of IT sustainment cost savings in the long-term.

Alignment with purpose, short term priorities and Guiding Principles

The FSR Project's links to BC Hydro's short term priorities and Guiding Principles are indirect in nature, and arise from the overall IT&T Strategy to deliver and operate efficient and effective technology systems to enable BC Hydro to achieve its goals.

The FSR Project is an enabler of BC Hydro's financial strategy to streamline financial processes and simplify its accounting and data models. This will provide finance staff with better tools and improved access to information and in turn will improve Finance staff productivity and offset staffing increases that would otherwise be necessary to satisfy new reporting requirements. Financial benefits are also achieved by avoided future IT costs related to re-implementation or upgrade of PeopleSoft systems, and reduction of future IT sustainment and maintenance costs associated with SAP financial systems as part of a broader SAP program.

Social benefits will result from compliance with external reporting requirements (IFRS compliance) and the ability to meet reporting needs established with our regulator. This supports stronger relationships with external stakeholders.

There are no significant environmental benefits, costs or business drivers associated with this project.

Risks and Mitigation:

Identified known risks that could adversely impact the success of this project are:

- **Schedule and cost** may be negatively impacted by mobilization delays and lack of availability of internal and external labour. This is mitigated by securing commitment of internal resources throughout the project timeline. Also, confirmation of availability of external consultants has been obtained through several recent external procurement processes.
- **Project Execution** may be threatened as the contractor model versus use of an SAP integrator is a new approach for BC Hydro and increases schedule risk and imposes coordination challenges to project manage. This is mitigated by the appointment of an experienced Project Manager and the use of well qualified external consultants. This approach has been in use for several months and is proving successful.
- **Coordination with other projects** may not be achieved, undermining project success. This is mitigated by a strong governance structure with the same Executive Sponsor for SAP/ IFRS / FSI Projects, and closely coordinated FSR Project and IFRS steering committees both of which have the same Chair.
- **Level of Change** may be too great for BC Hydro Finance community in light of multiple upcoming initiatives (IFRS, Financial Simplification, SAP implementation) as well as other ongoing cyclical

planning / budgeting and Revenue Requirement Application pressures. This is mitigated by dedicated change management for this project and IFRS being coordinated through the management team within BC Hydro's Enterprise Strategy and Business Transformation group.

- **Business reputation** may be impacted if IFRS reporting deadlines are not met due to delays in implementing this project. This is mitigated by creation of a detailed "Plan B" for IFRS-transition.

Current Funding Request:

Based on work completed to date in the Blueprint Phase, the total project cost is estimated at \$18.7 million. The table below summarizes the Project funding history and current cost estimates.

	Costs to Date	Prior Funding Request	Current Funding Request	Total Expected Amount	Contingency	Total Authorized Amount
OMA	\$0.9M	\$1.2M	\$2.0M	\$3.2M	\$0.3M	\$3.5M
Capital	\$2.2M	\$4.1M	\$8.8M	\$12.9M	\$1.8M	\$14.7M
IDC		\$1M	\$0.4M	\$0.5M	\$0.0M	\$0.5M
Total	\$3.1M	\$5.4M	\$11.2M	\$16.6M	\$2.1M	\$18.7M

SAP licensing and common infrastructure costs to support the BC Hydro's overall SAP program including this project are addressed under a separate business case.

Project Success:

In addition to being completed on-time and on-budget, the following primary FSR Project deliverables will form the basis for project success. When possible, quantifiable performance measures (metrics) will be used to determine whether the project deliverables have been achieved.

- Compliance with statutory and regulatory reporting
- Accurate and timely financial reporting
- Financial simplification
- Embedded internal controls
- Standardized and consistent financial data
- Facilitation of single ERP

3 Issue Definition

Description of the Problem/Opportunity

The following problems and opportunities represent the key drivers in the decision to change BC Hydro's current financial systems.

New Reporting Requirements

BC Hydro is subject to significant upcoming changes in its external reporting requirements, which cannot be met using the current PeopleSoft financial systems. They are:

International Financial Reporting Standards (IFRS) conversion: As a government business enterprise, BC Hydro is considered a publicly accountable enterprise and will be required to implement IFRS effective for its Fiscal 2012 year, including comparative information for Fiscal 2011. IFRS will replace Canadian Generally Accepted Accounting Principles as the primary authoritative reference for establishing BC Hydro's accounting policies.

BC Hydro must reflect the new accounting requirement related to IFRS in its quarterly and annual audited financial statements for the Fiscal 2012 year. The changes are particularly significant and have impacts to the current accounting practices of regulated enterprises such as BC Hydro.

The major changes will need to be IT-enabled due to the high volume of accounting transactions that are affected, particularly in the topic area of property, plant and equipment. Virtually all Canadian regulated electricity utilities (Canadian Electrical Association members) are preparing for significant changes or replacement of their financial and other systems to enable IFRS conversion.

It should be noted that assessments are currently underway that could significantly influence BC Hydro's requirements related to IFRS conversion. Specifically, the International Accounting Standards Board (IASB) is currently reviewing the status of accounting practices for regulated enterprises. Similarly, the Canadian Public Sector Accounting Standards Board (PSAB) is currently reviewing the status of government business enterprises, such as BC Hydro, to determine whether they qualify as publicly accountable enterprises. It is unlikely that these issues will be fully resolved prior to the start of the implementation phase of the FSR Project.

BCUC Uniform Standards of Accounts (Regulatory) Reporting: The British Columbia Utilities Commission (BCUC) has been requesting that BC Hydro provide annual reporting to them that is comparable to reporting that is currently provided by other BCUC-regulated utilities.

Specifically, in the F2009/F2010 RRA decision, the BCUC directed BC Hydro to adopt the BCUC USoA by no later than the F2012 reporting year (Directive No. 54), and that if BC Hydro is to re-platform to a replacement financial system this replacement financial system is to fully incorporate the BCUC USoA (Directive No. 55).

BC Hydro intends to update its data model, accounting model, and financial systems to allow for automated reporting of BC Hydro's financial information consistent with the BCUC USoA. Most other BCUC-regulated utilities are able to provide this sort of reporting, however, BC Hydro cannot currently meet this requirement. This is due to the complexities within BC Hydro's internal accounting models, as well as the complexity related to the customization and complex integration of the PeopleSoft systems. This has been a topic of discussion in BC Hydro's last two revenue requirement processes.

Inability to meet these external requirements could expose BC Hydro and its shareholder to reputational risk, and potentially damage relationships with external stakeholders.

The imminent reporting requirement changes will require significant change to BC Hydro's data capture rules and accounting practices, and should be system-enabled. The FSR Project provides an opportunity to ensure that these significant changes to BC Hydro's external reporting requirements will be satisfied through system and process changes instead of the permanent addition of staff. The related business requirements have been captured as part of the Blueprint (definition) Phase.

Any system upgrade or replacement should meet the objective of complying with these statutory and regulatory reporting requirements.

Existing Unsupported Financial System

The need to consider upgrading or replacing existing financial systems relates to the fact that the PeopleSoft systems are near the end of their useful life. The PeopleSoft systems were implemented in 2002 and initially included significant customization to support the complex organizational model that existed at the time of implementation. The current version in use by BC Hydro (release 8.0 SP3) is no longer supported by the product vendor and there is no additional extended support available.

Internal reorganizations in recent years, including the separation of the Transmission business from BC Hydro, and the move from lines of business to business groups, all influenced by provincial energy policy, has rendered much of the initial customization no longer relevant, in fact, existing PeopleSoft system configurations hinder fulfilment of current business requirements. Recent changes to amend the PeopleSoft systems have been short-term in nature and partial measures have been taken rather than a reliable long-term solution to meet BC Hydro's current and future business needs.

BC Hydro must change its current system (PeopleSoft 8.0), and any system upgrade or replacement should meet the objective of ensuring flexibility to accommodate future changes in business requirements.

IT Strategy to Consolidate ERPs

In developing the IT&T Strategy during 2008, BC Hydro recognized that the company had deployed four different ERP solutions: Ventyx-PassPort for work management and supply chain, SAP for customer processes, PeopleSoft for finance and human resources, and JD Edwards to support some aspects of construction work. In addition there are many custom and packaged point solutions to support a variety of sub-processes and organizational requirements. The overall situation is characterized by weak business integration, inconsistent data and information, ageing and difficult to maintain systems, a high total cost of ownership, and sub-optimal overall usability. The complexity of the environment makes it inflexible for supporting "One Hydro" business strategies and emerging requirements.

These solutions were analyzed and two options were considered:

- best of breed - taking the current ERP solutions and integrating the best components,
- single ERP (SAP) that would provide the majority of required functionality.

The single ERP approach was considered advantageous for BC Hydro based on cross-functional process needs, integrated databases for single source of information, and total cost of ownership.

The selection of SAP was driven by looking at what the industry is using and what was considered best practice. There have been many successful deployments in utilities similar to BC Hydro. SAP has been deployed in over 30 utilities in Canada and 1000 utilities worldwide. There are numerous examples of companies moving to SAP today (PG&E, Southern Cal Edison, Hydro One), but very few are migrating away. SAP is the only extensive ERP solution that provides a common platform and an integrated

architecture. The only other extensive ERP option is Oracle for Utilities, but this does not provide a common integrated architecture. Oracle essentially offers various products acquired through multiple acquisitions to supplement the original Oracle solution (e.g. Oracle Applications, PeopleSoft, JD Edwards, SPL, Siebel, Primavera). These product sets are not fully integrated and the overall strategy to combine them into a common platform is still under development.

In addition, BC Hydro already has an extensive and successful SAP investment onto which additional functionality can be layered. The IT&T Strategy therefore recommended deploying an SAP environment, and to incrementally deploy it in the financial and operational business groups over a 3-5 year period.

Based on the IT&T Strategy, any system upgrade or replacement should meet the objective of establishing the SAP environment as the long term solution for financial management, reporting and control.

Financial Simplification

This Project will enable certain changes to BC Hydro's internal accounting model and reporting. These requirements have been established by the most recent phase of the Financial Simplification Initiative. These changes will eliminate elements of complexity of internal cross-charging between organization units. The resulting accounting and management reporting will reflect greater transparency of cost information.

Any system upgrade or replacement should meet the objective of continuing progress of BC Hydro's Financial Simplification initiative.

Cost Effectiveness

One of BC Hydro's short term priorities is to maintain low costs for electricity customers in BC over the long term, and decisions made should align with that goal. Any system upgrade or replacement should meet the objective of providing a cost effective solution over the long term. Opportunities to achieve costs savings include:

- Streamlined financial processes through automation and efficiency
- Improved data capture and reduced data reconciliation
- Standardized internal reporting
- Avoided future costs relating to system re-implementation or upgrades

Stakeholders and First Nations

A key stakeholder impacted by this project is the BCUC. The financial reports generated by any existing or future financial system will be an important component of regular filings to the BCUC, including future Revenue Requirement Applications, where the information is used by the BCUC as well as various intervenor groups representing other BC Hydro stakeholders.

With specific reference to the BCUC's recent F2009/F2010 RRA decision directing BC Hydro to adopt the BCUC USoA, BC Hydro will provide annual progress reports to the BCUC until the USoA reporting is fully implemented, which include updates on incorporation of any new financial information system BC Hydro may be considering.

Customers and other stakeholders are not expected to be impacted directly by a replacement or upgrade of the current financial systems. However, there are several other important initiatives with relationships to this project underway, including: Smart Metering, Customer Care Initiatives, Project & Portfolio Management, Procure to Pay, and other SAP functionality. Coordination with these other projects will be managed to ensure there is no indirect negative impact on stakeholders.

There is no impact on First Nations arising out of the issues defined above.

4 Background and Context

A number of events and decisions have been made that influence the need for financial system, process and functional improvements and the plan for addressing them. These are listed below in chronological order.

- BC Hydro re-organized Lines of Business into Business Groups (2006).
- Financial Simplification Initiative (FSI) Phase 1 eliminated Line of Business and Service Organizations.
- Canadian Accounting Standards Board mandated that publically accountable Canadian enterprises are to adopt IFRS for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011.
- FSI Phase 2 eliminated internal recoveries between internal organizations.
- BC Hydro planned to upgrade PeopleSoft Financials with specific business and data process improvements targeted for April 2009. Expenditure Authorization Request number 1102179 was approved for \$5.7M Capital. The business case also included \$1.6M of operating costs. (December 2007).
- FSI Phase 3 contemplated the elimination of internal cross-charges effective April 2009 and that together with proceeding with the PeopleSoft Financial upgrade was put on hold pending review of BC Hydro's IT Strategy.
- BC Hydro committed to the BCUC that it would provide annual reports to the Commission that follow the BCUC USoA reporting. (BC Hydro is currently unable to comply).
- BC Hydro's Executive IT&T Oversight Group established an IT&T architectures strategy.
 - Each major IT&T initiative will complete business process design and business functional requirements prior to software design. SAP will be used as a default solution.
- BC Hydro created a project team and steering committee to guide formation of a Financials Systems Replacement Project (FSR Project).
- An FSR Project Blueprint discovery/definition phase was initiated to evaluate an SAP option in the fall of 2008. Initial business case approved.
- Results of the FSR Project Blueprint discovery/definition phase confirmed SAP as a viable option to replace PeopleSoft Financials.
- Results of analysis supports partnership with independent SAP contractors versus a single system integrator for the Blueprint detailed design and implementation (Realization) phases of the FSR Project.
- BCUC Directive no. 54, issued March 2009, requiring BC Hydro to adopt the BCUC USoA by no later than the F2012 reporting year.
- The FSR Project implementation phase business case approval (pending).

It should be noted that BC Hydro had previously considered a complete re-implementation of the PeopleSoft systems. In December 2007 a business case was prepared and an expenditure authorization request (EAR) was approved for PeopleSoft Financials re-implementation. However, based on BC Hydro's current IT&T Strategy, SAP is now the preferred and default IT solution so long as it will meet BC Hydro's functional requirements. When approval to proceed with the definition phase of this project was attained the PeopleSoft Financials re-implementation EAR (#1120179 - \$5.7M capital) was cancelled.

5 Key Assumptions

SAP Financials as a default solution

Analysis to date has determined that SAP Financials will meet BC Hydro's business functional requirements. As a result, and consistent with BC Hydro's current IT&T Strategy, SAP is assumed to be the preferred and default solution to address issues related to BC Hydro's current financial systems.

This business case therefore does not present alternatives to the FSR Project with respect to particular vendor systems. Furthermore, a 'status-quo / do nothing' alternative has not been considered, as it does not meet any of BC Hydro's objectives and does not add value to the analysis.

It should be noted that BC Hydro had previously considered a complete re-implementation of the PeopleSoft systems as the recommended alternative, and was submitted as one of the capital projects in the F2009 / F2010 RRA. This recommendation pre-dated adoption of the IT&T Strategy in 2008 that focused on using SAP as the default ERP solution. Given BC Hydro's IT&T Strategy to implement a single-vendor IT environment, and given that SAP Financials will meet BC Hydro's business functional requirements, the original PeopleSoft upgrade project is no longer considered a viable alternative.

A more detailed description of the project is included in Appendix A and additional key supporting assumptions specific to the recommended FSR Project are found in Appendix B.

6 Alternatives – Description, Analysis, Trade-offs & Recommendation

Analysis of SAP Financials

It is important that the proposed FSR Project achieves the objectives set forth in Section 3 of this business case, which defines the problems, opportunities and key drivers in the decision to find an alternative to BC Hydro's current financial systems. The performance of the FSR Project against these objectives is described below.

Non-Financial Objectives / Drivers

Compliance with external reporting requirements

The implementation of SAP Financials will meet the objective of complying with statutory and regulatory reporting requirements. Specifically, the FSR Project will support the externally driven requirements related to both IFRS and the BCUC USoA.

Alignment with IT&T Strategy

The implementation of SAP Financials will meet the objective of establishing the SAP environment as the long term solution for financial management, reporting and control.

A key component of BC Hydro's IT&T Strategy is to simplify and standardize the overall IT landscape with minimal customization. According to this strategy, each major IT or systems initiative will complete the business process design and business functional requirements prior to software design, with SAP assumed to be a default solution if it can meet BC Hydro's current and future business needs. BC Hydro's Finance and IT groups have completed an assessment process and have concluded that SAP Financials will meet BC Hydro's functional requirements.

Overall, it is appropriate to undertake the FSR Project in the near term to align with BC Hydro's timeframe for implementation of new external compliance requirements such as IFRS and the BCUC USoA. It is also logical to ensure alignment with the IT&T Strategy at a time where the financial systems would otherwise be scheduled for an upgrade. This would eliminate the need to implement the IFRS and BCUC USoA requirements in the PeopleSoft systems with redevelopment later in SAP Financials as the IT&T Strategy is executed.

Financial Objectives / Drivers

Cost Reductions and Business Process Efficiency:

This implementation of the FSR Project meets the objective of providing opportunities to capture future cost savings or otherwise to achieve a higher level of productive capacity within the BC Hydro Finance and Corporate IT communities. These potential efficiencies and cost reductions can be separately associated with BC Hydro's IT and finance functions.

Finance Savings / Efficiencies: An opportunity exists for the BC Hydro Finance function to improve its existing practices through the implementation of new financial systems. New systems and processes will facilitate abandonment of manual intervention prevalent in the PeopleSoft environment required to ensure internal controls are in place and information reliability is expected to improve. Specific opportunities to be addressed include:

- increased use of system enabled internal control to replace existing manual internal control;
- increased use of automated workflow;
- common data standards that will reduce the prevailing reliance on ad hoc analysis and spreadsheets;
- common data standards that will provide a "single source of truth" principle and simplify reporting
- reduced manual intervention in the system in the form of journal entries, and
- reduced cycle times for period end close

This Project will target these areas of opportunity so that overall improvements can be achieved. Efficiency will be reflected using existing finance resource capacity to provide more timely and reliable reporting, and to address important new business priorities within current finance staffing and resource levels.

IT Savings / Efficiencies: Although the initial project investment is larger than that what was originally estimated for a PeopleSoft re-implementation, once fully implemented the SAP ERP will result in a simplified IT landscape that will enable a reduction in total IT spending that would not otherwise be achievable in a complex multi-ERP environment.

The costs of a PeopleSoft re-implementation (comparable to the FSR Project) have not been estimated. The original PeopleSoft Financials re-implementation cost was estimated at approximately \$7.3 million (OMA \$1.6 million and Capital \$5.7 million). Additional funds, of approximately \$3 million, under this scenario would be required for reporting enhancements. These amounts were not included in the original approved funding, rather, it was expected that work would be completed through a separate Enterprise Business Reporting (EBR) Project which was not completed. Additional substantial costs for functional enhancements to enable IFRS and BCUC USoA reporting would also be required.

The anticipated reduction in future IT spending associated with a simpler single vendor IT environment (the SAP solution) relates to lower future costs for development, sustainment, and maintenance of BC Hydro's enterprise applications. It is also expected that the new SAP systems will have minimal customization which will in-turn lower the ongoing development and sustainment costs. The potential savings will increase as BC Hydro commits to invest in future phases of the SAP program as these future phases will ultimately combine with this Project to create a fully integrated IT environment.

Environmental and Social Analysis

There is no environmental impact related to the alternatives considered. Social considerations relate to compliance with new reporting requirements (IFRS compliance) and the ability to meet reporting needs established with our regulator, and are discussed above.

Description of Implementation Alternatives

For the implementation phase of the Project, BC Hydro has considered three vendor options:

- a single system integrator
- a lead integrator with participation from other vendors
- a BC Hydro managed contractor approach.

These three options are effectively part of a spectrum, but are presented as discrete choices for purposes of discussion and to illustrate potential implications.

Alternative 1: Single System Integrator

- Rely on one vendor for essentially all external resources
- Potential mix: 50% single system integrator, 25% ABSU, 25% BC Hydro internal & contractors

Alternative 2: Lead Integrator with participation from other vendors

- Rely on lead integrator for majority of external resources, but supplement with other suppliers having special skills, top quality expertise, favourable rates, etc.
- Potential mix: 25% lead system integrator, 25% ABSU, 25% Other External, 25% BC Hydro internal & contractors

Alternative 3: BC Hydro Managed Contractor approach

- BC Hydro plays a more significant role in defining the approach (methodology, detailed project management, etc.) and secures resources from external sources to build implementation team.
- Potential mix: 45% various external vendors / contractors, 25% ABSU, 30% BC Hydro internal & contractors

More information on each alternative is provided in Appendix C

Analysis of Implementation Alternatives

Financial Considerations

Financial analysis of the three implementation alternatives is based on relative labour cost differences (infrastructure costs are assumed to be constant across all three alternatives). The single and lead integrator estimates are based on quotes received from a single integrator firm. The BC Hydro managed contractor approach (Alternative 3) has estimated labour and contractor costs of less than 50% of the other two alternatives.

Alternative	Total Labour Costs - Implementation
Single System Integrator	\$31 million
Lead Integrator with participation from other vendors	\$28 million
BC Hydro Managed Contractor approach	\$14 million

Appendix D provides more detailed comparison of the labour and contractor costs of the single system integrator, lead integrator and managed contractor approach.

Non-Financial Considerations

The Single System Integrator approach performs better from an implementation risk perspective, as it is an approach which usually delivers better cost certainty and has lower timeframe risk (risk of project execution delay). Vendor accountability is clear, and the lead integrators have resources with strong expertise and capability.

The Lead Integrator approach can result in an implementation team built of high quality resources. However, the full benefits of these resources can be at risk due to potential for unclear accountabilities or for vendor friction between lead integrator and others.

The BC Hydro Managed Contractor approach also allows for building a team using top resources from various vendors. Furthermore, given the use of a large number of internal staff, this approach can result in less reliance on outside resources for sustainment, future integration with other SAP systems, and eventual upgrades. However, the lack of overall vendor accountability, as well as the complexities around resource procurement and mobilization, causes significant challenges from a project management perspective.

Appendix C provides more detail on the advantages and disadvantages of each implementation alternative.

Summary of Trade-off Analysis

The chosen option is the BC Hydro managed contractor approach primarily because it provides for the strongest internal BC Hydro capabilities for sustainment and future projects and has much lower overall implementation costs. The expected labour and contractor cost of implementation is less than one half the cost of single system integrator option (\$14 versus \$31 million).

These financial considerations outweighed the higher execution risk related to high degree of active project management by BC Hydro. A summary of this risk and its mitigation, among others, has been described in Section 7 of this business case.

Appendix C provides a table summarizing the framework used to consider the various implementation alternatives.

Recommendation

The Project Management Team and Steering Committee is recommending that BC Hydro proceed with the Financial Systems Replacement Project based on the need to satisfy new externally-mandated business requirements, including IFRS and new regulatory reporting that aligns with the BCUC USoA and to improve the efficiency and capacity of the finance and IT functions within BC Hydro. This work will also mitigate issues related to the current PeopleSoft Financials systems that are at the end of their useful life. The current version of PeopleSoft is no longer supported by the vendor. It contains significant customization that precludes efficient use to support current business requirements and would not support any future change to business organization or requirements.

The Project Management Team and Steering committee have chosen a contractor model to provide external resources and assist BC Hydro with project deliverables. By choosing the managed contractor approach, BC Hydro is procuring its advisors from several sources instead of just one and has direct access to the best skills available in the marketplace. BC Hydro takes responsibility for establishing the Project methodology, and coordination of Project team resources. BC Hydro has full accountability for meeting the overall budgets, deadlines, and quality requirements established during the Blueprint (definition) phase. This approach builds stronger internal BC Hydro capabilities for sustainment and future projects. This also

implies lower sustainment costs. In either scenario ABSU resources will be used to assist with legacy system integration.

7 Appendices

- Appendix A – FSR Project Description
- Appendix B – Key Supporting Assumptions
- Appendix C – Analysis of Vendor Options for Blueprint Design & Realization (Implementation)
- Appendix D – Vendor Options Cost Summary
- Appendix E – FSR Project Risk Management
- Appendix F – FSR Project Benefits Realization and Success Measures

Appendix A - FSR Project Description

Scope

The FSR Project will implement SAP Financials and includes replacement of the general ledger, project costing, accounts payable, accounts receivable, sundry billing, expenses, asset management, and reporting and budgeting modules. Treasury (SAP Treasury module) and Time & Labour are excluded from the initial implementation scope.

The FSR Project will also involve the re-integration between SAP Financials and all other BC Hydro systems which currently interface with PeopleSoft Financials.

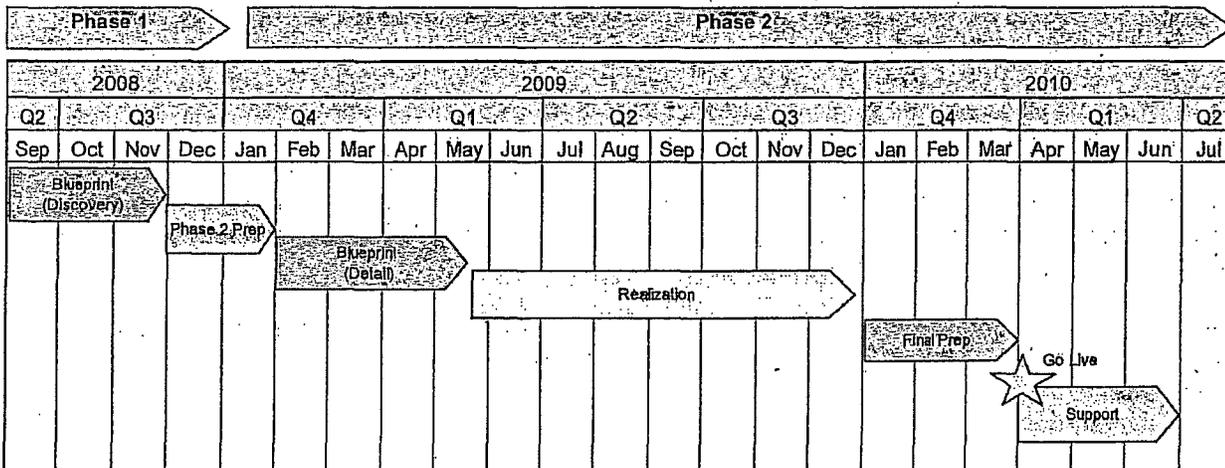
Implementation Approach

The FSR Project will be implemented using the managed contractor approach. This involves BC Hydro assuming the primary work leadership role utilizing a blend of external consultants; primarily independent SAP-specialist consultants and firms, and working with and supplementing the SAP knowledge of BC Hydro internal business resources.

Schedule

- August 2008: Project formation
- September – November 2008: FSR Project Blueprint (definition) phase with Accenture
- December 2008 – January 2009: Blueprint (definition) phase contractor RFP and mobilization
- January 2009: Contractor selection and internal project team selection
- February 2009: Project team initiation and training
- March – May 2009: Complete Blueprint (definition) phase
- May 2009 – December 2009: Complete design, configure and test functionality, and conduct / complete integration tests
- December 2009 – February 2010: Training & organizational readiness
- April 1, 2010: Go-live
- April – June 2010: Post-implementation support
- June 2010 – March 2011 : Project completion report / benefits realization

The following timeline summarizes the project schedule:



Costs

Based on work completed to date in the Blueprint (definition) phase, the total project cost is estimated at \$18.6 million. The tables below summarize the FSR Project funding history and current cost estimates.

Prior and Current Funding Requests

	Costs to Date	Prior Funding Request	Current Funding Request	Total Expected Amount	Contingency	Total Authorized Amount
OMA	\$0.9M	\$1.2M	\$2.0M	\$3.2M	\$3M	\$3.5M
Capital	\$2.2M	\$4.1M	\$8.8M	\$12.9M	\$1.8M	\$14.7M
IDC		\$0.1M	\$0.4M	\$0.5M	\$0.0M	\$0.5M
Total	\$3.1M	\$5.4M	\$11.2M	\$16.6M	\$2.1M	\$18.7M

Estimated Annual Project Expenditures

	F2009		F2010		F2011		Project Totals		
	Capital	OMA	Capital	OMA	Capital	OMA	Capital	OMA	Total
Project Costs	\$715	\$820	\$10,870	\$2,090	\$1,270	\$310	\$12,855	\$3,220	\$16,075
IDC	\$50		\$415				\$465		\$465
Total Expected Amount	\$765	\$820	\$11,285	\$2,090	\$1,270	\$310	\$13,320	\$3,220	\$16,540
Contingency									\$2,160
Total Authorized Amount									\$18,700

SAP licensing and common infrastructure costs to support the BC Hydro's overall SAP program including this project are addressed under a separate business case.

Personnel Requirements

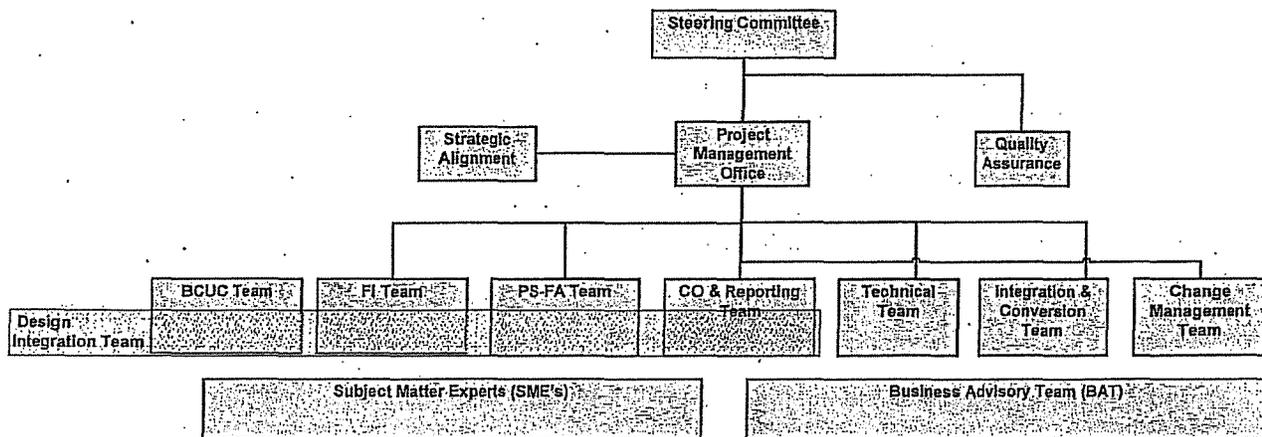
To provide effective governance and strong management support, the steering committee has representation from the BC Hydro executive team, as well as influential management personnel from key finance functions across the organization.

The FSR Project is also being led by an experienced project manager, with a strong track record of successful SAP implementations, including regulated utility experience.

Additionally, a significant number of BC Hydro staff has been seconded to work exclusively on this project, supplemented by the involvement of many subject matter experts from all BC Hydro business groups to provide input during process design and testing.

Finally, BC Hydro has contracted numerous highly experienced consultants with the specialized expertise required for the FSR Project, and each with several years of SAP implementation in varied business environments.

Personnel requirements are summarized in the chart below:



Risk Management

In summary, the key risks and mitigations for the recommended FSR project are:

Risks

- **Schedule and cost** may be impacted by mobilization delays and availability of internal and external labour.
- **Execution** may be challenging as the contractor model versus use of an SAP integrator is a new approach for BC Hydro and increases schedule risk and imposes coordination challenges to project manage.
- **Scope of work** is not certain as estimates are based upon a blueprint level analysis.
- **Coordination with other projects** is challenging as there are several other important initiatives with relationships to this project underway, including: Smart Metering, Customer Care Initiatives, Project & Portfolio Management, Procure to Pay, and other SAP functionality.
- **Change management** effort is significant for the BC Hydro Finance community that faces significant change over the next two years including: the introduction of IFRS, BCUC USoA, financial process changes and SAP system implementation, Revenue Requirement Applications together with other ongoing cyclical planning / budgeting and regulatory cycle pressures.
- **Business reputation** may be impacted if IFRS reporting deadlines are not met due to delays in implementing this project.

Mitigation

- **An experienced Project Manager is in place and well qualified external consultants are available at the expected cost** as confirmed through a recent RFP process.
- **Internal BC Hydro Finance resources have been committed and are available to the project.**
- **A phased approach to development and funding is being followed:** Blueprint discovery, Blueprint detailed design, Realization (implementation.)
- **Scope has been reduced** through removal of Time and Labour and Treasury functionality to focus efforts on delivering core functionality and meeting IFRS requirements.
- **A strong governance structure is in place** with the same Executive Sponsor for SAP/ IFRS / FSI Projects, and closely coordinated FSR Project and IFRS steering committees both of which have the same Chair. Coordination with other projects is facilitated through Executive IT&T Oversight and IT&T Leadership groups.
- **Change management** for IFRS, BCUC USoA and this project is being coordinated through the change management team within BC Hydro's Corporate Strategy and Business Transformation group.

- **Variable pay alignment** for project sponsors and participants is being put in place.
- **Contingency Planning** to minimize project delay impacts is being put in place, including creation of a "Plan B" for IFRS-transition.
- **The Project complies with IT&T Strategy guidelines.**
- **SAP meets functional requirements**, as confirmed during the Blueprint (definition) phase.

A detailed table of project risks and risk mitigation measures can be found in Appendix D.

Project Deliverables and Success Measures

A detailed table of project deliverables and success measures can be found in Appendix E. In summary, the key deliverables for the recommended FSR project are:

- Meet the requirements of the International Financial Reporting Standards (IFRS) project and the objectives of the Financial Simplification Initiative (FSI) by replacing BC Hydro's current PeopleSoft Financials system with SAP on or before April 1, 2010.
- Deliver all entity-wide financial accounting and reporting, including external reporting that complies with International Financial Reporting Standards (IFRS), and regulatory reporting including the BCUC Annual Report. It also includes management reporting that supports cost and budget accountability, as well as other financial performance metrics. This will be supportive of a "one truth" approach to financial information that is understood and used across the company.
- Implement new business processes that as much as possible:
 - Simplify and Standardize BC Hydro's financial processes and reduce the complexity of the financial system environment,
 - Provide Efficiency through Automation to reduce user-burden, reduce manual intervention, and create financial benefit through a reduction of the total cost of finance functions,
 - Enable and Improve BC Hydro's Internal Controls.

As defined in the FSR Project Charter, the success of the project implementation will be assessed based on achieving the following measures:

- Financial transaction processing must support data capture that complies with IFRS requirements for F11 (i.e. by April 1, 2010), and must support external financial reporting under Canadian GAAP during F11, and under IFRS subsequent to F11.
- All financial and in scope business processes must be migrated from PeopleSoft to SAP Financials, or related SAP systems.
- Communication and change management is completed and analysis indicates a high level of business readiness prior to F11. All end-users are trained and ready to use the new processes and systems effective for F11.
- All required system interfaces, or alternative interim workarounds, must be implemented to support sharing of data between systems effective for F11.
- Post-implementation transition and post-implementation sustainment strategies are approved by the Steering Committee, Project Executive Sponsor and key stakeholders, and implemented in time for F11.

Post-Completion Requirements

After the project is completed; a Project Completion report will be prepared by the BC Hydro Business Lead, working with the Project Manager. It is expected that the Project Completion report will be prepared two quarters after the initial go-live date, and approved by the Project Steering Committee during Q3 of Fiscal 2011.

Appendix B - Key Supporting Assumptions

Key supporting assumptions are summarized in the following table:

Key Assumptions	Addressed	To-be Addressed
Resources		
<ul style="list-style-type: none"> Sufficient and capable BC Hydro business resources will be available to support the Project. 	BC Hydro resources have been confirmed	
<ul style="list-style-type: none"> ABSU resources will support Project work within the existing terms under the Amended Master Service Agreement. 	ABSU resources have been assigned to the project	
<ul style="list-style-type: none"> Under the contractor model, it is assumed that BC Hydro will utilize a Request for Proposal process to hire a number of SAP-specialist individual contractors, or small groups of contractors from local boutique firms. Overall, the contractor team established would have sufficient capability to deliver the overall project scope working with BC Hydro business resources. Sufficient third party contractor resources are available to make the contractor model viable. 	Confirmed through RFP process	
Scope & Methodology		
<ul style="list-style-type: none"> The scope of work established during the first part of the Blueprint Phase will not change. BC Hydro will implement SAP Financials inclusive of the following scope: <ul style="list-style-type: none"> General Ledger Accounts Receivable Accounts Payable Employee Expenses (SAP Travel Management module) Projects Management Reporting / Budgeting / Data Warehouse (SAP Controlling module) All necessary interfaces into existing enterprise applications or other dependent systems Treasury (SAP Treasury module) and Time & Labour are excluded from the initial implementation scope. 	Confirmed by the FSRP Steering Committee	
<ul style="list-style-type: none"> The BC Hydro SAP Program Manager, external Project Manager, and other BC Hydro resources will be able to successfully establish a Project methodology that can be used by all Contractor resources. 		In progress

Cost		
<ul style="list-style-type: none"> The high-level estimate of labour and contractor effort, established by Accenture during the Blueprint Assessment phase is reasonable for the purposes of cost estimation of the single system integrator model, and the estimated daily charge rates billed by Accenture, being approximately \$1,800 per day, during the Blueprint Assessment phase is reasonable for costing this option. Based on these assumptions, it was estimated that the total funding requirement was in excess of \$30 million to completion of the Project under the single system integrator model. 	Preliminary cost assumptions were based upon Blueprint Discovery Phase investigation. The project cost estimate was updated at the end of Blueprint and is reflected in this business case.	
<ul style="list-style-type: none"> Under the contractor model the estimated daily charge rates is \$1,200 per day. This rate compared to the single system integrator model is based on the expectation that independent contractors will provide lower rates, as well as reduced expenses due to a larger number of locally-based resources 	Confirmed through RFP process	
<ul style="list-style-type: none"> A separate business case, will be approved to provide SAP infrastructure that is necessary to support this Project, as well as future SAP implementations (that replace BC Hydro's PeopleSoft HR systems and Ventyx Passport / Work Management systems) that are contemplated to occur in the future and that are aligned with BC Hydro's IT&T Strategy. 		In progress
<ul style="list-style-type: none"> The PeopleSoft Replacement cost estimates, are reasonably accurate for comparison purposes. IFRS requirements and Enterprise Business Reporting Enhancements are based upon estimates. 	Initial PeopleSoft Replacement costs were based upon a December 2007 business case approval. Incremental IFRS compliance and FSI implementation costs are assumed constant under any replacement scenario.	
Benefits		
<ul style="list-style-type: none"> Project benefits are achievable. 	A benefits realization plan forms part of this business case.	

Phase 2 Vendor Relationship



Vendor Options for Detailed Design & Implementation Phase:

Option 1: Single System Integrator

- Rely on one vendor for essentially all external resources
- Potential mix: 50% Accenture, 25% ABSU, 25% BC Hydro internal & contractors

Option 2: Lead Integrator with participation from other vendors

- Rely on a lead integrator for majority of external resources, but supplement with other suppliers having special skills, top quality expertise, favourable rates, etc.
- Potential mix: 25% Accenture, 25% ABSU, 25% Other External, 25% BC Hydro internal & contractors

Option 3: Hydro managed “Contractor” approach

- BC Hydro plays a more significant role in defining the approach (methodology, detailed project management, etc.) and secures resources from multiple external sources to build the implementation team.
- Potential mix: 45% various external vendors / contractors, 25% ABSU, 30% BC Hydro internal & contractors

Notes: these three options are effectively a spectrum, but are presented as discrete choices for purposes of discussion and to illustrate potential implications (see also accompanying diagram).

Framework for Considering Options **BC Hydro**

Financial Systems Replacement Project
 Analysis of Potential Vendor Options for Phase 2

DRAFT 4

Objective: Achieve Project Success

Vendor Options (and sample resource mix %)

Overall Cost	Cost Certainty	Timeframe Risk	Quality Control	Vendor Accountability	Requires Active BCH Mgmt	BCH Resource Requirement	Initial Contract Complexity	Ongoing Procurement Complexity
1A Single System Integrator (Acc 50 / ABS 25 / ECH 25) Fixed Price			Medium		Medium	Medium		
1B Single System Integrator (Acc 50 / ABS 25 / ECH 25) Time & Materials	Medium	Medium			Medium	Medium	Medium	
2A Lead Integrator with Limited Niche Vendors (Acc 40 / Ext 10 / ABS 25 / ECH 25) Hybrid: fixed price for core scope plus change requests	Medium	Low		Medium	Medium	Medium	Medium	Medium
2B Lead Integrator with Other Vendors (Acc 25 / Ext 25 / ABS 25 / ECH 25) Time & Materials	Medium	Medium		Medium	Medium	Medium	Medium	Medium
3 Hydro Managed with Multiple Vendors (Acc 0 / Ext 45 / ABS 25 / BCH 30) Time & Materials	Medium	Medium				Medium		Medium

Objective: Achieve Project Success

Objective: Enable Ongoing Sustainment Success

Vendor Options (and sample resource mix %)

Get the Best People	Capable Performing Team	Leverage Vendor Methodology	Vendor Agility and Flexibility	Business Sustainment Capability	Technical Sustainment Capability	Build Strength for Future SAP Projects	Mitigate External Risk
1A Single System Integrator (Acc 50 / ABS 25 / ECH 25) Fixed Price	Medium	Medium					
1B Single System Integrator (Acc 50 / ABS 25 / ECH 25) Time & Materials	Medium	Medium					
2A Lead Integrator with Limited Niche Vendors (Acc 40 / Ext 10 / ABS 25 / ECH 25) Hybrid: fixed price for core scope plus change requests	Medium	Medium		Medium	Medium	Medium	Medium
2B Lead Integrator with Other Vendors (Acc 25 / Ext 25 / ABS 25 / ECH 25) Time & Materials	Medium	Medium	Medium	Medium	Medium	Medium	Medium
3 Hydro Managed with Multiple Vendors (Acc 0 / Ext 45 / ABS 25 / BCH 30) Time & Materials	Medium	Medium	Medium	Medium			

Option 1: Single System Integrator



Advantages

- Resources: Leading integrators (e.g. Accenture, IBM, Deloitte) generally have many quality resources with good expertise and capability
- Track record and experience
- Methodology / Approach
- Vendor Accountability is clear

Disadvantages

- High amount of project overhead (Partner reviews, junior consultants paired with more experienced consultants, perhaps excessive documentation, etc.). Implies a large team size with a mix of senior, mid-level and junior consultants. Many resources are not yet fully productive, or are not focused on end deliverables.
- High Cost (stems from large team size plus high integrator rates to cover organizational overhead).
- Challenge to build BC Hydro system capabilities and strengths for sustainment. May perpetuate reliance on high cost outside resources.
- Does not diversify external vendor risk.

Key Risks	Mitigation
- High amounts of project overhead	- Try to influence integrator to adjust way of working, although this is likely to be a challenge.
- High Overall Project and Program Cost	- Try to negotiate lower overall cost or more favourable rates.
- Internal BC Hydro Capability Development	- Ensure BCH team is fully embedded with integrator, ensure project focus on knowledge acquisition and transfer activities.

Option 2: Lead Integrator with Others **BC Hydro**

Advantages

- Resources: Can leverage top resources from both Lead Integrator and other vendors to build a strong team
- Track record and experience: able to leverage track record and methodology / approach of both Lead and others
- Some limited potential for cost savings if lower cost resources can be secured via independents, boutiques, etc

Disadvantages

- Potential for vendor friction / unclear accountabilities between Lead integrator and others.
- Unclear viability – large integrators may actively resist such an arrangement.
- Continued high amount of project overhead associated with Lead Integrator. This may actually increase compared to Option 1 since Lead integrator will also manage other vendors.
- High Cost
- Challenge to build BC Hydro system capabilities and strengths for sustainment. May perpetuate reliance on high cost outside resources.

Key Risks	Mitigation
- Vendor friction / accountabilities / viability	- To minimize these issues, ensure scope of responsibilities is clearly articulated; set clear expectation about need to collaborate
- High amounts of project overhead	- Try to influence integrator to adjust way of working, although this is likely to be a challenge
- High Overall Project and Program Cost	- Try to negotiate lower overall cost or more favourable rates. Bring in more independents while insisting lead does not shadow or duplicate efforts
- Internal BC Hydro Capability Development	- Ensure BCH team is fully embedded with integrator, ensure project focus on knowledge acquisition and transfer activities

Option 3: BCH Managed 'Contractor' Approach **BC Hydro**

Advantages

- Resources: able to select top resources from various vendors to put together strong overall team. Expect to leverage more local independent and boutique resources.
- Mitigates individual vendor risk since undue reliance not placed on single vendor. In the event that need to change resources for performance reasons then this is easy to achieve.
- Project and Program Cost: much lower overall implementation costs.
- Builds stronger internal BC Hydro capabilities for sustainment and future projects. This also implies lower sustainment costs.

Disadvantages

- May be difficult to access to specialized expertise (e.g. IFRS experience)
- Need to develop a single clear methodology / approach to follow
- BC Hydro Project Management Skill and Effort – will not be able to rely on PM from Lead Integrator for day to day overall oversight
- Lack of Overall Vendor Accountability
- Mobilization and Procurement Complexity

Key Risks

- Specialty Expertise (e.g. IFRS)
- Methodology
- BCH Project Management Effort
- Overall Vendor Accountability
- Mobilization Complexity

Mitigation

- Need to identify and carefully resource specialty skills. For IFRS consider expanding role of KPMG
- SAP implementation methodologies are relatively generic (i.e. ASAP). PM in collaboration with vendors and PMO to tailor approach upfront
- Ensure experienced BCH PM with much SAP implementation knowledge is in place.
- BCH will need to take on overall delivery accountability, but need to ensure that individual vendors are clear on their respective scope components
- Quickly identify & resource contractor procurement process

Appendix D – Vendor Options Cost Summary

Financial Systems Replacement Project (including deployment of misc Enterprise SAP Infrastructure)
Labour cost scenario analysis (excluding Blueprint) illustrating relative labour cost differences under 3 vendor options

Scenario 1 - Large System Integrator (i.e. Accenture)

Labour	Daily Rate	Share	Days	FTEs	Cost (\$000s)
Accentura*	1800	48%	11,005	36.7	19,810
ABSU	1000	25%	5,732	19.1	5,732
BC Hydro	788	25%	5,732	19.1	4,514
Contractors	1280	0%	0	0.0	0
SAP*	2400	2%	459	1.5	1,101
Total Labour (excluding infrastructure)	1359	100%	22,928	76.4	31,166

(* 50% in Appendix B includes SAP)

POTENTIAL SAVINGS FOR SCENARIOS 2 and 3

Scenario 2 - Lead Integrator

Labour	Daily Rate	Share	Days	FTEs	Cost (\$000s)
Accentura*	1800	23%	5,273	17.6	9,492
ABSU	1000	25%	5,732	19.1	5,732
BC Hydro	788	25%	5,732	19.1	4,514
Contractors	1280	25%	5,732	19.1	7,337
SAP*	2400	2%	459	1.5	1,101
Total Labour	1229	100%	22,928	76.4	28,176

(* 25% in Appendix B includes SAP)

SAVINGS ASSOCIATED WITH LOWER DAILY RATE: **2,991**

Scenario 3 - Contractor Approach with Expected Days

Labour	Daily Rate	Share	Days	FTEs	Cost (\$000s)
Accenture	1800	0.0%	0	0.0	0
ABSU	1000	25.0%	3,091	10.3	3,091
BC Hydro	788	30.0%	3,710	12.4	2,921
Contractors*	1280	43.0%	5,317	17.7	6,806
SAP*	2400	2.0%	247	0.8	594
Total Labour	1085	100.0%	12,365	41.2	13,412

(*45% in Appendix B includes SAP)

SAVINGS ATTRIBUTABLE TO LOWER TOTAL DAYS AND MIX: **14,764**

TOTAL POTENTIAL SAVINGS: **17,745**

labour from Scenario 3 above	13,412
Planned Accenture Labour in Blueprint	450
(\$13,730 per Appendix F excludes any contingencies)	13,862

Labour Assumptions

ABSU @ 1000/day assumes you can 1/2 of needed resources at CCR rates with balance at VRC

BC Hydro rate of \$787 day based on average standard hourly rate of \$105.-for an M2

External Contractor Rate assumed at \$160/hr as per market research from TEK, I4C, etc.

Note: Treasury and Time & Labour are out of scope

Assume 1FTE = 240 days
Project duration = 16 months

Labour Assumptions

ABSU @ 1000/day assumes you can 1/2 of needed resources at CCR rates with balance at VRC

BC Hydro rate of \$787 day based on average standard hourly rate of \$105.-for an M2

External Contractor Rate assumed at \$160/hr as per market research from TEK, I4C, etc.

Appendix E – FSR Project Risk Management

Although the contractor model has been selected, the business risks associated with selecting this option as compared to the single system integrator are also included to highlight the risk management considerations already made as well as those contemplated. PeopleSoft re-implementation was eliminated based on misalignment with BC Hydro's IT&T Strategy, and the Blueprint Assessment phase finding that SAP Financials can meet the functional requirements identified by BC Hydro.

Category	Risk Description & Analysis	Probability	Impact	Mitigation Strategy
1. Technical				
<ul style="list-style-type: none"> IFRS 	<p>Ongoing changes to IFRS will occur during the Project design and implementation phases. However, two major risks currently exist:</p> <ul style="list-style-type: none"> Risk that IFRS will be found not to be applicable to BC Hydro by Public Sector Accounting Standards Board (PSAB) Risk that fundamental components of IFRS will change resulting in need to amend requirements, and related SAP design 	<p>Medium</p> <p>High</p>	<p>High</p> <p>High</p>	<p>Risk of outcome is not controllable, except through response to invitations to comment. However, the IFRS project actively monitors communications from accounting standard setting organizations.</p> <p>It is unlikely that either of these issues will resolve prior to completion of Blueprint. Further, it is expected that additional work will be after the go-live date to fully satisfy IFRS requirements.</p> <p>Ongoing monitoring will minimize the impacts.</p>
<ul style="list-style-type: none"> Lack of SAP knowledge 	<p>BC Hydro resources do not have significant background or experience working with SAP</p>	<p>Medium</p>	<p>Low</p>	<p>SAP design phase will start with Project Team training.</p> <p>Contractors hired by BC Hydro bring SAP specialist knowledge, and deep background with SAP Financials. Reduced accountability and reliance on contractors under the contractor model may increase this risk compared to single system integrator model.</p> <p>The greater accountability and BC Hydro staff involvement under the contractor model is expected to provide Hydro with greater expertise which will benefit sustainment and future phases of SAP implementation.</p>
<ul style="list-style-type: none"> Change Management 	<p>Overall level of change is too great due to implementing IFRS and other accounting model changes concurrent with the change to SAP</p>	<p>High</p>	<p>Medium</p>	<p>The Project assumes a high level of change management effort.</p> <p>A Project Coordination Committee (or Joint Steering Committee) will assess the level of change that must be implemented within each business group.</p> <p>An integrated Change Management plan (IFRS and SAP) will be developed. IFRS awareness training is ongoing.</p>

Category	Risk Description & Analysis	Probability	Impact	Mitigation Strategy
2. External Stakeholders & Regulatory Risk	Regulatory risk associated with additional cost of SAP Financials. BC Hydro has not advised the Regulator of the IT&T Strategy.	Low	Low	<p>Risk is assumed to be limited to financial risk estimated at \$5 million. (Possible disallowance of incremental costs of this project compared to a comparable PeopleSoft Financials option as requested in the F09/F10 RRA and adjusted for costs associated with mandatory IFRS compliance and Enterprise reporting enhancements that would likely be incurred under any ERP scenario. \$7.2 million F09/F10 RRA estimate for a PeopleSoft Financials upgrade + \$5 million for IFRS and reporting = \$12 million PeopleSoft Financials compared to \$17 million for Financial using an SAP ERP, excluding SAP licensing and infrastructure costs)</p> <p>The magnitude of the potential risk is significantly lower under the contractor model due to the lower expected implementation cost as compared to the single system integrator model.</p>
3. Social	Business case financial benefits are based on efficiency gains, mainly related to reduction of FTEs required to support the Finance functions or avoided future increases. The reductions may be difficult to achieve.	High	Low	<p>The need to proceed with the Project is largely supported by new, externally-mandated business requirement such as IFRS. Financial efficiency gains are not a primary driver of the Project.</p> <p>From an economic impact to the Province, it is expected that the contractor model will utilize a greater number of local contractors compared to the single system integrator model.</p>
4. Project Mgmt				
• Assumptions	<p>Project cost</p> <p>BC Hydro resources</p> <p>SAP Infrastructure</p> <p>Establishing project methodology under an independent contractor model</p>	<p>Medium</p> <p>Low</p> <p>Low</p> <p>Medium</p>	<p>Medium</p> <p>Medium</p> <p>High</p> <p>Medium</p>	<p>The Contractor Model leaves BC Hydro with greater accountability for managing potential cost overruns i.e. less cost certainty compared to a fixed price single system integrator model. However, the possibility of budget overruns under a cost plus expenses contractor model compared to a fixed price single system integrator model is mitigated by a significantly lower overall cost estimate under the contractor model.</p> <p>BC Hydro's senior financial management and executives commit the required staff to be assigned to the Project on a dedicated basis.</p> <p>An SAP Infrastructure business case will be prepared separately but the infrastructure implementation is subject to common management in the BC Hydro CIO organization.</p> <p>The experienced Project Manager has established a common methodology for BC Hydro staff and contractors to use through all remaining phases of the project.</p>

Category	Risk Description & Analysis	Probability	Impact	Mitigation Strategy
• Client	Discussed above as Change Management.	As per above	As per above	A high level of change management is assumed within the Project scope. Client acceptance of new processes and systems is also highly dependent on implementation of SAP infrastructure, as discussed above.
• Scope	Discussed above under Technical - IFRS.	As per above	As per above	A significant amount of detailed work will be completed and delivered to this Project as part of the IFRS Project (IT tasks), and through the Financial Simplification Project.
• Schedule	The implementation timeline may be aggressive given that BC Hydro finance staff has limited experience with SAP. Significant work would be required to convert data to comply with IFRS if the new financial systems are not delivered on time for the go-live date (April 1, 2010)	Medium	High	A high level of coordination between the IFRS project team and this Project is in place and will be maintained. BC Hydro has accepted greater accountability for meeting deadlines, relative to the single system integrator model. As part of the IFRS project, a mitigation (Plan B) strategy is under development, and will be presented to the Project Steering Committees if the go-live date appears to be at risk.
• Budget	Addressed above under Assumptions – Project Cost	As per above	As per above	The greater relative risk of cost overruns under the contractor model compared to a fixed price contract with a single system integrator is assumed offset by the significantly lower overall cost estimate of the contractor model.
• Quality	Quality of the design, or related implementation does not meet project manager or client expectations	Medium	Low	Mitigated by use of SAP-specialist knowledge Contractors, combined with BC Hydro resources and subject matter advisors. Medium probability is associated with uncontrollable factors related to IFRS. The need for some rework of the design is already assumed.
• Benefits Realization	Project will not deliver its intended results	Medium	Medium	A benefits realization plan has been developed. – Appendix F

Appendix F – FSR Project Benefits Realization and Success Measures

REF. No.	PROJECT SUCCESS:	PROJECT SUCCESS MEASURES:	BUSINESS SUCCESS:	BUSINESS SUCCESS MEASURES:
1.0	Statutory Reporting (Financial Statements) built and produced by financial systems and transactions fully compliant with IFRS	<p>External Auditor acceptance of go live financial statements April 2010; and go live public statements and comparatives for Q1 F2012</p> <p>No or minimal manual effort to produce statements</p>	Statutory compliance	In Fiscal 2011 on a quarterly basis IFRS financial statements will be reviewed for timeliness, completeness, compliance and quality by Corporate Finance and External Auditors. Comments will be formally captured in a quarterly benefits realization report and if there are any remediation items required they will be documented for assignment and follow-up.
2.0	<p>Regulatory reporting consistent with the BCUC USoA and internal management reporting that is consistent or readily reconciled to regulatory reporting.</p> <p>Data conversion activities associated with translation of Canadian GAAP to opening IFRS, IFRS to SAP GLs / financial statement balances and Canadian GAAP to opening BCUC / Regulatory GLs / financial statement balances are timely, accurate and complete. Data cleanup activities that precede data conversion are identified and completed prior to data conversion</p>	<p>Reduced effort in preparing for and defending RRAs The first RRA on the BCUC USoA will be filed in late F2011 for F2012</p> <p>No jeopardy to regulatory filing quality</p> <p>No or minimal impact on F2011 regulatory filing and ability to restate to USoA to the satisfaction of BCUC and intervenors</p> <p>External Auditor and BCUC acceptance; go live financial statements April 2010; go live public statements and comparatives Q1 F2012</p> <p>No jeopardy to regulatory filing quality</p>	<p>Regulatory Compliance</p> <p>Improved relationship with Regulator</p> <p>Consistent and efficient in preparation and defence of Revenue Requirement Applications</p> <p>Enhanced benchmarking capability with other North American utilities</p> <p>Certainty that we have interpreted the USoA or modified it so that any rework in advance of ability to get concurrence with the regulator is minimized.</p> <p>Preparation of financial statements, management reports and regulatory filings are not in any way impacted by data conversion activities. Any mandatory restatement of historic information satisfies requirements of management, auditors and the BCUC.</p>	In Fiscal 2011 on a quarterly basis a survey will be conducted with Regulatory Affairs, and Corporate and Business Group Planning personnel responsible for preparing the BCH Revenue Requirements Application, Information Requests (IR) and Witness Preparation to assess the impact of BC Hydro's adoption of the BCUC USoA. The results will be documented as part of a quarterly benefits realization report and if there are any remediation items required they will be documented for assignment and follow-up. Specific questions will deal with clarity of converted data, timeliness and ease of IR response related information availability and quality and a gauging of BCUC and intervenor acceptance.
3.0	Cost flows and common management reporting views that support financial simplification and a standardized accountability framework for BCH	Standardized management reporting, targeted to specific audiences available in Q1 F2011	<p>Improved cost accountability</p> <p>Focused management accountabilities</p>	Through an established "reporting" user group, survey usage, deficiencies and follow-up on a quarterly basis in F2011 to ensure that SAP and warehouse-enabled reports are available on a timely basis and meet agreed upon requirements.

REF. No.	PROJECT SUCCESS:	PROJECT SUCCESS MEASURES:	BUSINESS SUCCESS:	BUSINESS SUCCESS MEASURES:
4.0	Internal controls embedded in re-designed business processes wherever possible	<p>Fewer correcting journal entries (Q2 F11) Reduced effort on low-value add reclassification activities (Q2 F11)</p> <p>No degradation in internal audit results during F2011 that can be attributed to in-scope financial processes.</p> <p>Timely delivery of signed off Risk and Control Assessments (RACA) and Detailed Control Worksheets (DCW)</p>	An internal control framework that moves BCH closer to being SOX/ Bill 198 compliant and closer to CEO/ CFO certification supported by timely signoff of all RACA / DCW for in-scope processes	<p>F 2011 quarterly review of monthly manual journal entry line count compared to a baseline number established by Corporate Finance in Fiscal 2010 and follow-up action plan for any required</p> <p>In place improvements to in-scope internal controls as assessed by internal audit through a formal post-go live audit program for F2011 targeted to in-scope FSRP financial processes and cross-referenced to the FSRP RACA / DCW.</p>
5.0	<p>Standardized data achieved through standardized data definitions, standardized data capture rules and standardized business processes.</p> <p>Aggregation of all financial information in a single financial system that over time will also incorporate more and more associated operating information</p> <p>Business Readiness is in place to deal with all aspects of transition and sustainment. Impacted individuals throughout the organization are identified, made aware of change, trained, reorganized and provided with revised policies, procedures and support in advance of and throughout the transition. Out of scope processes, eg. Planning tools, operations reporting tools / spreadsheets / data bases that rely on financial information are identified and resources provided to mitigate</p>	<p>Reduced cycle time and manual effort to produce financial statements, management reports and responding to management information requests – Evident by Q2 of go-live.</p> <p>Reduce wd's to period close (Q1 F11), financial statements and management reports</p> <p>Satisfaction Survey carried out on 1. Current State; then 2 at Go-Live then 3. Post implementation</p> <p>- Survey would be customization by big implementation change areas (i.e. specific processes) and sent to targeted audiences - Readiness Assessments carried out throughout the lifecycle of the project (completion of deliverables).</p>	<p>Consistent and reliable financial data / information that is readily available. One truth principle for data (consistent information readily available)</p> <p>Readily accessible financial and operating information that facilitates timely operations management and decision support</p>	<p>Two day reduction in monthly period close cycle as compared to Fiscal 2010 as evidenced by availability of financial reports delivered by the financial data warehouse. This will be measured and reported by Corporate Financial Processes (with comparatives by month for fiscal 2009 and 2010.)</p> <p>A quarterly post implementation survey satisfaction survey will be conducted for 3 quarters after go live to monitor client satisfaction and capture and action any remediation items.</p>

transitional impacts

REF. No.	PROJECT SUCCESS:	PROJECT SUCCESS MEASURES:	BUSINESS SUCCESS:	BUSINESS SUCCESS MEASURES:
6.0	Interfaces built between SAP Financials and out of scope (OOS) source systems containing financial data that enable both SAP financials and the OOS source systems to share all necessary information to function in an efficient manner with minimal manual intervention	Timely implementation of all required interfaces to legacy systems to enable SAP financials to operate efficiently within the SAP footprint identified in the project scope.	Facilitation of a staged migration to a single ERP for BC Hydro	In Fiscal 2011 on a quarterly basis a survey will be performed by the OCIO to evaluate the efficiency and effectiveness of SAP interfaces to legacy systems. Comments will be formally captured in a quarterly benefits realization report and if there are any remediation items required they will be documented for assignment and follow-up

Code of Conduct Review

1. What are BC Hydro's responsibilities when information in a rate application changes before a public hearing?
2. What are evidentiary updates?
3. What are witnesses' responsibilities when giving information at a public hearing?
4. What is the Company position on what information should be discussed during witness testimony at rate hearings?
5. What is the process to review information prior to being filed with the regulator and are there integrity checks on information being released?
6. What are implications for BCH for providing inaccurate information to the BCUC?

Specific

7. Was VP aware of responsibilities during hearing process?
8. Did Legal and Regulatory assist VP in preparing for the hearing?
9. Was VP instructed to not discuss certain information?
10. Why did VP not disclose all the facts around SAP at the public hearing?
11. Why was an outdated IT&T Strategy document provided (May 2006) rather than the May 2008 IT Plan?

COC Review
Interview Summary

Date and

location: May 19, 2010

Interviewee: [REDACTED] Chief Regulatory Officer

Interviewer: Henry Honda, Director Audit Services
Albert Lagnado, Acting Director Audit Services
Rick Prinja, Acting Senior Audit Manager
David Avren, Director Legal Services

Summary of key discussion points

- Everything that drives expenditures is included in RRA including projects and initiatives. Large projects are also included given impact on rates in future years.
- RRA is filed in February/March and is based on forecasts which could be as old as six months. Evidentiary updates can be filed part way through the IR process for actual financials and material changes to load forecasts which affects rates. If there are errors or substantial changes to forecasts, can introduce change through IRs or file an addendum. Operating and capital costs are typically not material.
- Witness responsibility is to tell the truth and respond to the question. Regulatory and external legal counsel do prepare witnesses based anticipated questions or issues by conducting mock cross examinations.
- There is no policy on what cannot be filed or disclosed. If things have changed since the RRA then need to be honest when asked.
- There is no formal process to check the integrity of information being filed with the regulator but there is some due diligence and probing by Regulatory. Regulatory relies on Business Group as they are the experts.
- No incentive to either overstate or understate costs in RRA.
- Implications of offering inaccurate information to BCUC are reputation/credibility hits and potential for certain expenses to be denied.
- VP [REDACTED] was aware of responsibilities during hearing process and did receive training.
- Was not aware that the VP was asked to not disclose certain information.
- Recollection of why VP did not disclose SAP was that at the time IT plans were vague. Regulatory strategy was to hope that there would not be much of a discussion on IT. There was not much discussion on IT at the hearing.
- Surprised now that she has seen both documents that the most recent document was not provided (May 2008). Document was provided by VP and she felt it was appropriate at the time given what the BCUC had requested.
- Believes a risk is present and that because of a lack of experience in RRA hearings, [REDACTED] may have felt pressure to defend the application. More experienced witnesses usually discuss major changes since the application when preparing for testimony but VP did not really discuss any major changes since filing application.

From: Prinja, Rick
Sent: Thursday, May 27, 2010 11:44 AM
To: Honda, Henry; Avren, David; Lagnado, Albert
Subject: RE: Privileged and confidential - RRA audit

I think this approach is good.

I am preparing a list of questions as we speak for circulation and comments.

Rick

Rick Prinja, CA
Senior Manager, Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

From: Honda, Henry
Sent: 2010, May 26 10:33 PM
To: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Re: Privileged and confidential - RRA audit

I agree with this approach. David, thanks for putting together.

Albert/Rick, any concerns or suggestions.

Henry

From: Avren, David
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Sent: Wed May 26 18:26:28 2010
Subject: Privileged and confidential - RRA audit

suggested introductory points for [REDACTED]

- question has been raised about the evidence in the previous RRA on the issue of SAP vs. Peoplesoft, that's what we're looking into
- it could be a Code of Conduct issue as well as an RRA preparation issue
- audit being done for Legal/ARMC
- asking you because you gave BCH's evidence on the point
- basically it appears that our evidence we affirmed the plan for Peoplesoft though plans for SAP instead were already pretty well established.
- here are the key documents – transcript excerpts, undertaking, exec summary and Sept business case

- have discussed with [REDACTED] and she didn't recall that there was any discussion or decision on the evidence on this point
- here's a list of questions, we'll make an appointment in a week or so to discuss them and anything else. give you a chance to do some review

Have at it...

d.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry <Henry.Honda@bchydro.com>

Sent: Jun-02-2010 12:54:27 pm

To: [REDACTED]

Cc:

Bcc:

Subject: Meeting

[REDACTED]

Hope things are well. I've tried to contact you a couple of times but it looks like you are always busy and out of the office. I was wondering if we could meet on Friday to discuss a review we are currently working on to get your input. I will set up a meeting with Meena.

Thanks

Henry

From: Honda, Henry <Henry.Honda@bchydro.com>

Sent: Jun-03-2010 11:39:12 am

To: Lee, Meena <Meena.Lee@bchydro.com>

Cc: [REDACTED]

Bcc:

Subject: Meeting

Meena,

Can you please set up a meeting for me with [REDACTED] on Monday. I was originally hoping we could meet tomorrow but it looks like it will have to be Monday (I am open between 9am and 11 am or between 2:30 and 5). I know he's very busy but I would like to get his input on something that we are working on and need to complete very soon. The meeting will only take 15 minutes. I have e-mailed him about this meeting already. We can meet up here on the 12th floor.

Thanks

Henry

Avren, David

From: Honda, Henry
Sent: 2010, June 08 2:35 PM
To: [REDACTED]
Cc: Avren, David
Subject: Privileged and confidential -Questions
Attachments: Questions - CIO.DOC

[REDACTED]

Thanks again for meeting with us yesterday. As discussed, we have attached the questions we would like to discuss with you at the next meeting. I will set the meeting up for sometime next week. In addition, please let us know if it would be helpful to discuss this with others. Feel free to contact me if you have any questions.

Henry

Privileged and Confidential

Questions

2009/2010 Rate Application – General Questions

1. Who was primarily responsible for putting the IT Project information together for the 2009/2010 rate application?
2. What witness or other training was provided to you or others in CIO group for the regulatory hearing in October 2008?
3. Did the training or RRA preparation discussion include any advice as to how to deal with changes in an already filed application?
4. What was your understanding in October 2008, at the time of the hearing, about ability to change costs and proposals contained in the already-filed RRA?
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6. When was the current five year IT Strategic Plan finalized?

FSR – Peoplesoft to SAP

7. What was the status of the Peoplesoft Financial Upgrade at the time of the RRA filing in February 2008?
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SAP Financials –Cost

13. How do we typically budget for IT Projects? (i.e. which costs are included when seeking approval? software, hardware, implementation, project management, ongoing maintenance?? etc.)
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15. Why were separate business cases and approvals obtained for the SAP Financial licenses and maintenance costs? Were license and maintenance costs excluded in the FSR business case funding request?

Avren, David

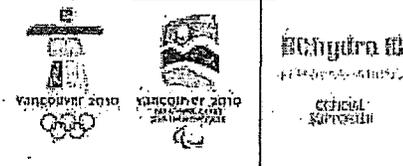
From: [REDACTED]
Sent: 2010, June 14 7:13 AM
To: Honda, Henry
Cc: Avren, David
Subject: RE: Privileged and confidential -Questions
Attachments: Questions - CIO.doc

Importance: High
Sensitivity: Confidential

Hi Henry

Please find attached, the answers to the questions you had sent. I am not sure of the overall context so please let me know if there is more you need. Thanks, [REDACTED]

[REDACTED]
Vice President & Chief Information Officer
BC Hydro



This email may contain privileged and confidential material and its transmission is not a waiver of that privilege. It is intended for the sole use of the person to whom it is addressed. Any copying, disclosure, distribution or reliance on this material other than the intended recipient is strictly prohibited. We assume no responsibility to persons other than the intended recipient. If you have received this transmission in error, please notify BC Hydro at 604.623.4000 immediately and destroy any copies you may have.

From: Honda, Henry
Sent: Tuesday, June 08, 2010 2:35 PM
To: [REDACTED]
Cc: Avren, David
Subject: Privileged and confidential -Questions

[REDACTED]

Thanks again for meeting with us yesterday. As discussed, we have attached the questions we would like to discuss with you at the next meeting. I will set the meeting up for sometime next week. In addition, please let us know if it would be helpful to discuss this with others. Feel free to contact me if you have any questions.

Henry

Privileged and Confidential

Questions

2009/2010 Rate Application – General Questions

1. Who was primarily responsible for putting the IT Project information together for the 2009/2010 rate application?

The primary people responsible for producing the information were staff members from the CIO and the corporate finance group. My role was at the end to review the submissions prior to them being submitted.

2. What witness or other training was provided to you or others in CIO group for the regulatory hearing in October 2008?

I was provided, as a new employee unfamiliar with the process, witness training.

3. Did the training or RRA preparation discussion include any advice as to how to deal with changes in an already filed application?

Yes, as we had progressed since the submission and were developing the draft IT plan and discussed how we should address the changes.

4. What was your understanding in October 2008, at the time of the hearing, about ability to change costs and proposals contained in the already-filed RRA?

My understanding was that if changes had occurred we would discuss them.

5. Were there any specific discussions with Regulatory around the FSR project as part of the preparation and training for the rate hearing?

We had discussed that we were developing a plan for all systems work and looking at a number of projects including the finance business processes.

6. When was the current five year IT Strategic Plan finalized?

The draft plan was under construction during the hearing and the latest version was produced in February 2009. The updated 5 year plan was presented to management in May 2009.

FSR – Peoplesoft to SAP

7. What was the status of the Peoplesoft Financial Upgrade at the time of the RRA filing in February 2008?

It had been drafted as a potential project and to be included in the capital plan.

8. Why was re-platforming to SAP not a viable option for the Financial Upgrade project at the time of the filing of that RRA?

Privileged and Confidential

In the fall of 2007, when IT projects were being contemplated, a number of initiatives were identified. A high level analysis by the then current IT management concluded it was too expensive.

9. Why was there a significant change in BCH intention vis a vis Peoplesoft Financial Upgrade and SAP, and when was that change?

We began an IT planning process in early 2008 to look at the whole organization to define more effective enterprise-wide solutions with the expectation to increase effectiveness and reduce costs. That analysis continued through 2008 and early 2009 when it was determined the SAP and other solutions would provide more effective solutions.

10. The May 2008 IT&T Update on Strategy Development which was presented to the Audit & Risk Management Committee (included in binder provided), states that SAP has been selected as the default solution going forward. What was the effect of on the Peoplesoft Financial Upgrade plan?

In May 2008 we were in the middle of the development and analysis of solutions and stated we were considering SAP as an option. The Peoplesoft upgrade was still on hold with no investment.

11. Why did Hydro not raise the move to SAP at the October 2008 rate hearing?

At the hearing, as stated in the testimony, we were still investigating solutions, plans, costs etc as part of our plan. The business case for the FSR project was approved in July 2009.

12. It appears the Commission requested some information around the principles to the IT Strategy being developed. Why did we file the document we did as our undertaking instead of the May 2008 IT&T Update on Strategy Development?

They had asked for a copy of the principles.

SAP Financials –Cost

13. How do we typically budget for IT Projects? (i.e. which costs are included when seeking approval? software, hardware, implementation, project management, ongoing maintenance?? etc.)

Typically, we develop business processes design, systems design and business cases for individual projects. These include capital and operating costs.

14. Why are the various SAP related capital expenditures broken out separately in Appendix I and J of the F2011 RRA and not consolidated somewhere in the application? (included in binder provided).

Privileged and Confidential

All our costs are broken into individual project costs and overall enterprise costs. If a cost is shared across multiple projects or functions, it is covered under enterprise costs.

15. Why were separate business cases and approvals obtained for the SAP Financial licenses and maintenance costs? Were license and maintenance costs excluded in the FSR business case funding request?

The costs associated with the FSR project were included in the FSR business case and the costs related to the overall enterprise costs were included in the overall IT infrastructure costs.

Avren, David

From: Honda, Henry
Sent: 2010, June 17 5:44 PM
To: Avren, David; [REDACTED]
Subject: RE: meeting?
Attachments: additional questions final - CIO.doc

[REDACTED]

My apologies again for the mix up with the meeting time this afternoon. My admin assistant is off sick today and I didn't receive any meeting notice confirmation.

Thanks again for providing your responses to our original questions. As discussed, I have attached some follow-up questions (in blue font) to clarify certain points. We would appreciate it if you could review them and we will then set up a meeting to discuss. I think it would be best to meet in person so we can close off any loose ends right away instead of continuing to go back and forth via e-mail as I know everyone is busy.

I will ask Heidi to set up the meeting for early next week.
Thanks again.

Henry

From: Avren, David
Sent: 2010, June 17 3:33 PM
To: [REDACTED]
Cc: Honda, Henry
Subject: meeting?

Sorry, I hadn't heard about a meeting for us at 2:30 and had a conflict then anyway.

Will wait to hear about reset unless you went ahead anyway.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Privileged and Confidential

Questions

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The primary people responsible for producing the information were staff members from the CIO and the corporate finance group. My role was at the end to review the submissions prior to them being submitted.

2. What witness or other training was provided to you or others in CIO group for the regulatory hearing in October 2008?

I was provided, as a new employee unfamiliar with the process, witness training.

**Who conducted the witness training and how much time did you spend in training?
Did you feel that the training was adequate in preparing you for the hearing?**

3. Did the training or RRA preparation discussion include any advice as to how to deal with changes in an already filed application?

Yes, as we had progressed since the submission and were developing the draft IT plan and discussed how we should address the changes.

4. What was your understanding in October 2008, at the time of the hearing, about ability to change costs and proposals contained in the already-filed RRA?

My understanding was that if changes had occurred we would discuss them.

Did the witness training or other hearing related discussion touch on when or how to give evidence on changes to the RRA application?

5. Were there any specific discussions with Regulatory around the FSR project as part of the preparation and training for the rate hearing?

We had discussed that we were developing a plan for all systems work and looking at a number of projects including the finance business processes.

6. When was the current five year IT Strategic Plan finalized?

The draft plan was under construction during the hearing and the latest version was produced in February 2009. The updated 5 year plan was presented to management in May 2009.

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Privileged and Confidential

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10. The May 2008 IT&T Update on Strategy Development which was presented to the Audit & Risk Management Committee (included in binder provided), states that SAP has been selected as the default solution going forward. What was the effect of on the Peoplesoft Financial Upgrade plan?

In May 2008 we were in the middle of the development and analysis of solutions and stated we were considering SAP as an option. The Peoplesoft upgrade was still on hold with no investment.

11. Why did Hydro not raise the move to SAP at the October 2008 rate hearing?

At the hearing, as stated in the testimony, we were still investigating solutions, plans, costs etc as part of our plan. The business case for the FSR project was approved in July 2009.

What was the likelihood of moving to the SAP solution at the time of the October 2008 rate hearing?

Which basis/criteria were used to determine if the potential move to the SAP solution should be discussed at the hearing? For example, approval by ET, business case approval, ARMC approval..etc.

We noted the following documents which may give someone the impression that there was a move to the SAP solution in 2008.

- **May 2008 IT&T Strategy Development update to ARMC which stated that Peoplesoft project was on hold, and SAP was identified as default solution for IT ERP related implementations**
- **August 2008 Accenture Consulting Contract for a SAP Financial implementation blueprint;**

Privileged and Confidential

- SAP Licensing Phase 1A Business Case (September 2008) noted the “first expected rollout of SAP beyond CCS footprint was in the area of Financials”;
- End-User License Agreement for \$1M Financial Licenses and Professional Service Agreement were executed with SAP in September 2008.

Were these documents part of the move to the SAP solution? How do they tie into the business case approved in July 2009?

12. It appears the Commission requested some information around the principles to the IT Strategy being developed. Why did we file the document we did as our undertaking instead of the May 2008 IT&T Update on Strategy Development?

They had asked for a copy of the principles.

In addition to the October 2007 document submitted to the BCUC, did BCH also consider submitting the May 2008 IT&T Strategy Development document as it included references to principles and was presented to ET, the Board and the ARMC? If not, why not?

- During testimony on the IT Strategy, it was stated that the principles had been presented to ET, the Board through the ARMC. The October 2007 document that was submitted appears to only have been presented to ET. Was it also presented to the Board and ARMC as well?

SAP Financials –Cost

13. How do we typically budget for IT Projects? (i.e. which costs are included when seeking approval? software, hardware, implementation, project management, ongoing maintenance?? etc.)

Typically, we develop business processes design, systems design and business cases for individual projects. These include capital and operating costs.

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All our costs are broken into individual project costs and overall enterprise costs. If a cost is shared across multiple projects or functions, it is covered under enterprise costs.

15. Why were separate business cases and approvals obtained for the SAP Financial licenses and maintenance costs? Were license and maintenance costs excluded in the FSR business case funding request?

The costs associated with the FSR project were included in the FSR business case and the costs related to the overall enterprise costs were included in the overall IT infrastructure costs.

Privileged and Confidential

The costs for the SAP Financial license were presented separately in the F2011 RRA. The FSR business case dated June 2009 notes that the funding request does not include SAP license costs and they would be addressed in a separate business case. Why were the license cost not considered a part of the FSR project?

Can someone from your group please provide a breakdown of the costs to date on the FSR project including additional forecasted costs to complete the project? Can they also provide a breakdown of costs for the \$18.7M in the June 2009 FSR Project EAR?

From: Avren, David </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=DAVREN>
Sent: Jun-23-2010 06:06:09 pm
To: Avren, David <David.Avren@bchydro.com>
Cc:
Bcc:
Subject: RRA audit

■■■■

instruction in training on not filing draft?

Why consider document draft?

■■■■

SAP likely, if don tknow say nothing, concerned about more questions couldn t answer, not finalized, concern for business process not name of solution. Ok with answer?

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,

Avren, David

From: Avren, David
Sent: 2010, June 25 11:15 AM
To: [REDACTED]
Cc: Prinja, Rick; Honda, Henry
Subject: Privileged and confidential - additional questions re: RRA

Hi, [REDACTED]

Sorry to pester you further on this, but Henry, Rick and I had some further questions. Your call whether you'd like to answer in writing or via a discussion like earlier this week. Here they are:

Can you please elaborate on what other SAP related processes (projects) outside of Financials, the SAP financial licenses described in Appendix I of the F11 RRA are used in? Could labelling these costs as "SAP Financials License" in the RRA be in any way inaccurate or misleading?

Of the \$3.3M spent on licenses, can you provide a breakdown of the license costs by current or future SAP related projects (ie.- Financials, PPM, WOM)?

Can you please provide a copy of the end-user licensing agreements with SAP for the \$3.3M purchase?

Can you please confirm that annual support and maintenance costs are not included in the \$3.6m IOMA balance in the FSR Project Summary "Life to Date Spend" memo prepared by Ryan, and also not included in the \$18.7M EAR funding request?

Can you please provide any documentation or guidance that prescribes what costs should be included in IT related business cases when making an investment proposal?

Can we please see the business case and approved EAR for the Peoplesoft Financial Upgrade Project?

Was there instruction in the witness training or otherwise on not filing draft documents at the BCUC?

On the face of it the IT and T Update on Strategy Development of 22 May 2008 (which went to ARMC) appears final. In what way or sense was it "draft"?

At the time of the hearing in October 2008, what was the relative likelihood of the SAP solution proceeding as opposed to the Peoplesoft solution proceeding? How and why had the perspective changed on this choice since the filing in October 2007? (For the sake of context, recall that the IT and T update of May 2008 states "SAP will be used as a default solution", and the SAP Licensing Phase 1A Business Case of Sept. 24, 2008 states: "This is expected to be the first of a series of purchases from SAP to secure licensing to support BC Hydro's SAP program. This is in alignment with the recently adopted IT and T strategy as approved by ARMC....")

Thanks, [REDACTED]

D.

J. David S. Avren
Director of Legal Services
BC Hydro

Tel: 604-623-3611
Fax: 604-623-3606

16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prinja, Rick
Sent: 2010, June 25 10:29 AM
To: Avren, David
Cc: Honda, Henry
Subject: additional questions

Hi David

Here are my additional questions for [REDACTED]

Can you please elaborate on what other SAP related processes (projects) outside of Financials, the SAP financial licenses described in Appendix I of the F11 RRA are used in? Is it fair to say that labelling these costs as "SAP Financials License" in the RRA is slightly misleading?

Of the \$3.3M spent on licenses, can you provide a breakdown of the license costs by current or future SAP related projects (ie.- Financials, PPM, WOM)

Can you please provide a copy of the end-user licensing agreements with SAP for the \$3.3M purchase?

Can you please confirm that annual support and maintenance costs are not included in the \$3.6m IOMA balance in the FSR Project Summary "Life to Date Spend" memo prepared by Ryan, and also not included in the \$18.7M EAR funding request?

Can you please provide any documentation or guidance that prescribes what costs should be included in IT related business cases when making an investment proposal?

Can we please see the business case and approved EAR for the Peoplesoft Financial Upgrade Project?

Thanks
Rick

Rick Prinja, CA
Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

Code of Conduct Review Questions - [REDACTED]

Pre-Regulatory Hearing October 2008

1. Had you ever given testimony at a regulatory hearing prior to October 2008?
2. What training or assistance was provided for the regulatory hearing in October 2008?
3. What are your responsibilities as a witness during a regulatory hearing?
4. What is your understanding on what information could be disclosed at regulatory hearings?
5. Were you advised to not discuss certain information at the October 2008 regulatory hearing?

FSR/SAP

6. When was the current five year IT Strategic Plan finalized?
7. Why was re-platforming to SAP not a viable option for the Financial Upgrade project at the time of the RRA?
8. What was the status of the Peoplesoft Financial Upgrade at the time of the RRA filing in February 2008?
9. Why the sudden change in direction away from Peoplesoft to SAP?
10. Why were separate business cases and approvals obtained for the SAP Financial licenses and maintenance costs when they related to the FSR project? Were license and maintenance costs excluded in the FSR business case funding request?
 - > The original license business case dated September 24, 2008 indicated that these costs would be included in the FSR business case.
 - > The FSR business case dated June 2009 noted that the SAP licensing and common infrastructure costs were addressed under a separate business case.
11. Why are the various SAP related capital expenditures broken out separately in Appendix I and J of the F2011 RRA when they appear to relate to the SAP Financial Upgrade Project?

Testimony at October 2008 Regulatory Hearing

12. Why was the SAP solution for the FSR and the potential increase in capital spend not discussed at the public hearing when you were asked about the Peoplesoft Upgrade Project given that was the only option being considered given the IT&T strategy:
 - > Recent strategy document in May 2008 noted that SAP was considered to be the default solution on major ERP implementations;
 - > Consulting agreements had been signed with Accenture (August 2008) and SAP (September 2008) to create a roadmap for SAP financial system (Blueprint project);
 - > Business case dated September 24, 2008 indicated that Blueprint project was expected to culminate in first major implementation of SAP outside of CCS Implementation in 2003;
 - > Agreements to purchase \$1M SAP financial licenses were signed September 2008.
13. Why was the May 2008 IT&T Update on Strategy Development not presented to the Commission given it was the most recent strategy document approved by ET and presented to the ARMC?

Code of Conduct Review Questions - [REDACTED]

Pre-Regulatory Hearing October 2008

1. Was the October 2008 regulatory hearing your first hearing?
2. What training or assistance was provided for the regulatory hearing in October 2008?
3. What are your responsibilities as a witness during a regulatory hearing?
4. What is your understanding on what information could be disclosed at regulatory hearings?
5. Were you advised to not discuss certain information at the October 2008 regulatory hearing?

FSR/SAP

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 - > Business case dated September 24, 2008 indicated that Blueprint project was expected to culminate in first major implementation of SAP outside of CCS Implementation in 2003;
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13. Why was the May 2008 IT&T Update on Strategy Development not presented to the Commission?

Code of Conduct Review Questions - [REDACTED]

Pre-Regulatory Hearing October 2008

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Questions

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1. Who was primarily responsible for putting the IT Project information together for the 2009/2010 rate application?
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FSR – Peoplesoft to SAP

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7. Why was there a change from the Peoplesoft Financial Upgrade to SAP around the time of the October 2008 rate hearing?
8. The May 2008 IT&T Update on Strategy Development which was presented to the Audit & Risk Management Committee (included in binder provided), states that SAP has been selected as the default solution going forward. How does this tie into the Peoplesoft Financial Upgrade?
9. Why did Hydro not discuss the move to SAP at the October 2008 rate hearing?
10. It appears the Commission requested some information around the principles to the IT Strategy being developed. Why was the May 2008 IT&T Update on Strategy Development not provided to the Commission? It appears an older memo was provided to the Commission (Undertaking included in binder provided)

SAP Financials –Cost

11. How do we typically budget for IT Projects? (ie. which costs are included when seeking approval? software, hardware, implementation, project management, ongoing maintenance?? etc.)
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Privileged and Confidential

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Avren, David

From: Avren, David
Sent: 2010, June 29 5:41 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: privileged and confidential - re [REDACTED]/RRA

Here's something very quick:

At the hearing, [REDACTED] VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

In his evidence, [REDACTED] informed the hearing:

- principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.
- an October 31, 2007 IT Summary which had been presented to ET (and not the Board or ARMC) was filed in fulfilment of that undertaking. Another document, "IT and T Update on Strategy Development", was not filed though it indicated principles and probable strategy and had been to ARMC in May 2008.
- though the BC Hydro RRA application indicated Peoplesoft was the preferred enterprise financials solution, SAP had become the "default solution" by May 2008 and the much more likely solution by the October 2008 hearing.
- the approximate additional cost of SAP had been estimated to be \$XXX more than Peoplesoft when the RRA application was filed in October, 2007.
- BCH was "looking at PeopleSoft as one of the solutions, but [BCH is] looking at other options...." He did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.

[REDACTED] BCH's Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with [REDACTED] answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Avren, David <David.Avren@bchydro.com>
Sent: Jun-29-2010 06:23:06 pm
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: RRA audit update

Had a good interview with [REDACTED]

In short, she is not concerned about the evidence that was given.

That leaves training and financial presentation (i.e. splitting of costs) as the only remaining issues.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
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Vancouver, B.C.
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J. David S. Avren
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Tel: 604-623-3611
Fax: 604-623-3606

From: Honda, Henry
Sent: Tuesday, June 29, 2010 8:09 PM
To: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Re: privileged and confidential - re [REDACTED]/RRA

David

Thanks for this. This lays out many of the key points and [REDACTED] position. There may be a few things we may add to this.

Would you also be able to provide your legal perspective on the situation based on the information you have reviewed and heard?

Thanks again

Henry

From: Avren, David
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Sent: Tue Jun 29 17:40:57 2010
Subject: privileged and confidential - re [REDACTED]/RRA

Here's something very quick:

[REDACTED] the hearing, [REDACTED] VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

In his evidence [REDACTED] informed the hearing:

- principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.
- an October 31, 2007 IT Summary which had been presented to ET (and not the Board or ARMC) was filed in fulfilment of that undertaking. Another document, "IT and T Update on Strategy Development", was not filed though it indicated principles and probable strategy and had been to ARMC in May 2008.
- though the BC Hydro RRA application indicated Peoplesoft was the preferred enterprise financials solution, SAP had become the "default solution" by May 2008 and the much more likely solution by the October 2008 hearing.
- the approximate additional cost of SAP had been estimated to be \$XXX more than Peoplesoft when the RRA application was filed in October, 2007.
- BCH was "looking at PeopleSoft as one of the solutions, but [BCH is] looking at other options...." He did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.

[REDACTED], BCH's Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with [REDACTED] answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft.. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

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Tel: 604-623-3611
Fax: 604-623-3606

From: Prinja, Rick </O=BCHYDRO/OU=LM6/CN=RECIPIENTS/CN=VPRINJA>
Sent: Jun-29-2010 09:27:34 am
To: Honda, Henry <Henry.Honda@bchydro.com>; Prinja, Rick <rick.prinja@bchydro.com>
Cc:
Bcc:
Subject: Special Investigation

When: 2010, June 29 10:30 AM-11:00 AM (GMT-08:00) Pacific Time (US & Canada).
Where: Your desk

~~*~*~*~*~*~*~*~*

Henry

I wanted to get your input on the report as I have started drafting it. Wanted to get your thoughts on approach as there is long backstory with this review.

Rick

Avren, David

From: Avren, David
Sent: 2010, June 30 4:19 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re [REDACTED]/RRA

Hi, Henry – have supplemented it a bit below.

See what you think.

D.

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From: Honda, Henry
Sent: 2010, June 29 8:09 PM
To: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Re: privileged and confidential - re [REDACTED]/RRA

David

Thanks for this. This lays out many of the key points and [REDACTED] position. There may be a few things we may add to this.

Would you also be able to provide your legal perspective on the situation based on the information you have reviewed and heard?

Thanks again.

Henry

From: Avren, David
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Sent: Tue Jun 29 17:40:57 2010
Subject: privileged and confidential - re [REDACTED]/RRA

Here's something very quick:

At the hearing, [REDACTED] VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

In his evidence, [REDACTED] informed the hearing:

- principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.

- an October 31, 2007 IT Summary which had been presented to ET (and not the Board or ARMC) was filed in fulfilment of that undertaking. Another document, "IT and T Update on Strategy Development", was not filed though it indicated principles and probable strategy and had been to ARMC in May 2008.
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██████████ BCH's Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with ██████████ answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of both solutions were still under consideration. The issue is whether there was an obligation to raise, unasked, the SAP probability.

The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC was specifically advised that BCH was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. No party inquired further on this aspect. In the circumstances, it would be difficult to conclude there was a positive duty on BCH to advise the hearing further.

SAP was expected to be more costly than Peoplesoft. Failure to raise the more likely SAP solution at the hearing did not artificially increase costs for ratepayers, rather the reverse, to ratepayers' probable advantage. Rates would in theory have been higher had the merits of an SAP solution been raised with and accepted by the BCUC.

██████████ advised of his rationale for not raising SAP at the hearing and for filing the October 31, 2007 document rather than the more recent May 2008 update document which had been to a Board committee. While his reasons may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft", no final determination of the enterprise financials solution), there was no suggestion of deliberate evasion or intent to mislead. His testimony and filings on this aspect were in keeping with BCH's evidentiary responsibilities.

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From: Avren, David
Sent: Monday, July 05, 2010 5:04 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

How's this for addressing the legal angle:

At the hearing, ██████████ VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

In his evidence ██████████ informed the hearing:

- principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.
- an October 31, 2007 IT Summary which had been presented to ET (and not the Board or ARMC) was filed in fulfilment of that undertaking. Another document, "IT and T Update on Strategy Development", was not filed though it indicated principles and probable strategy and had been to ARMC in May 2008.
- though the BC Hydro RRA application indicated Peoplesoft was the preferred enterprise financials solution, SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008 hearing.
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She advised she was content with ██████████ answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of both solutions were still under consideration. The issue is whether there was an obligation to raise, unasked, the SAP probability.

The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and intervenors were specifically advised that BCH was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BCH to advise the hearing further.

SAP was expected to be more costly than Peoplesoft. Failure to raise the more likely SAP solution at the hearing did not artificially increase costs for ratepayers, rather the reverse, to ratepayers' probable advantage. Rates would in theory have been higher had the merits of an SAP solution been raised with and accepted by the BCUC.

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While the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations.

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Fax: 604-623-3606

From: Avren, David <David.Avren@bchydro.com>
Sent: Jul-06-2010 10:09:23 am
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: FW: privileged and confidential - re RRA

Ray:

See below for where I think we've got to on the main evidentiary aspect. There may be other aspects in terms of how \$ are presented in applications (broken into components or rolled up, but that's more for audit).

I see Henry has teed up a meeting with Charles for Monday; don't know if you need a pre-meeting.

D.

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Director of Legal Services Fax: 604-623-3606
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16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
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From: Avren, David
Sent: 2010, July 05 5:04 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

How s this for addressing the legal angle:

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In his evidence, [REDACTED] informed the hearing:

* principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.

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[REDACTED], BCH s Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with [REDACTED]'s answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

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Avren, David

From: Avren, David
Sent: 2010, July 06 10:10 AM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

Use this version. Amended one word.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Avren, David
Sent: 2010, July 05 5:04 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

How's this for addressing the legal angle:

At the hearing, [REDACTED] VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

In his evidence, [REDACTED] informed the hearing:

- principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.
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- BCH was "looking at PeopleSoft as one of the solutions, but [BCH is] looking at other options...." He did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.

[REDACTED], BCH's Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with [REDACTED] answers and response to the undertaking, and it would only have been if he had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft.. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

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The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and intervenors were specifically advised that BCH was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BCH to advise the hearing further.

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While the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations.

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Vancouver, B.C.
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From: Reid, Charles <Charles.Reid@bchydro.com>
Sent: Jul-06-2010 10:25:51 am
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: Fw: Monday mtg

Should I be concerned about where this will land?
C

----- Original Message -----
From: Honda, Henry
To: Reid, Charles
Sent: Tue Jul 06 10:18:58 2010
Subject: Re: Monday mtg

Charles

Yes, the meeting is for the IT/RRA review. We are still reviewing some documentation and will be drafting our summary memo this week. If possible, we will try and send the draft out on Monday morning before our meeting.
Thanks

Henry

----- Original Message -----
From: Reid, Charles
To: Honda, Henry
Sent: Tue Jul 06 10:16:22 2010
Subject: Monday mtg

I see that you have scheduled an update mtg on Monday regarding your 'special review'. I'm guessing that is the RRA/IT issue? Regardless, will you have anything in writing in advance?
Charles

From: Avren, David
Sent: Friday, July 09, 2010 2:04 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

Have amended as per your voice mail Henry. Hope that does it.

D.

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From: Avren, David
Sent: 2010, July 05 5:04 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: RE: privileged and confidential - re RRA

At the hearing, [REDACTED] VP and CIO, was asked by Commission counsel about BCH's IT strategy and about its proposed choice of Peoplesoft Financial System for the enterprise financials upgrade.

Some key facts are:

- [REDACTED] advised the BCUC that principles for the IT strategy had been established by the executive, the board and the audit and risk management committee of the board, and undertook to file a document which showed those principles.
- an October 31, 2007 IT Summary which had been presented to ET (and not the Board or ARMC) was filed in fulfilment of that undertaking. Another document, "IT and T Update on Strategy Development", was not filed though it indicated principles and probable strategy and had been to ARMC in May 2008.
- though the BC Hydro RRA application indicated Peoplesoft was the preferred enterprise financials solution, SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008 hearing.
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- [REDACTED] advised the BCUC that BCH was "looking at PeopleSoft as one of the solutions, but [BCH is] looking at other options..." He did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.

[REDACTED], BCH's Chief Regulatory Officer, reviewed the relevant transcript excerpts and filings, including the October 31, 2007 IT Strategy document, plus the unfiled May 2008 Update and a September 2008 business case, which also affirmed the likelihood of an SAP solution.

She advised she was content with [REDACTED] answers and response to the undertaking, and it would only have been if she had been asked about SAP specifically that she believed he would have had an obligation to inform the BCUC at the hearing that since the filing SAP had become preferred to Peoplesoft.. She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.

From: Honda, Henry
ent: Friday, July 09, 2010 3:56 PM
To: Lagnado, Albert
Subject: Report July 8th.doc
Attachments: Report July 8th.doc

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:		
Subject:	Code of Conduct Review	

Background

- Audit Services has been requested by the Code of Conduct Advisor to review allegations that the VP and Chief Information Officer (CIO) misled the BC Utilities Commission (BCUC) on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, through the following allegations:
 - > During the F2009/2010 Revenue Requirement Application (RRA) process, the following items were not properly disclosed to the BCUC;
 - > Potential increase in the IT Capital spend and changes to the IT projects listed in the RRA eventhough an internal memo indicated a potential increase of \$32-38 million and even though certain projects had been cancelled or changed at the time of the oral hearings (specifically the Peoplesoft Enterprise Financial Upgrade Project).
 - > Submission of the document that established the principles of the IT Strategic Plan was an earlier version (dated October 2007) and a more recent document (dated May 2008) was not submitted as it discussed the plans to increase IT Capital Spend and the use of SAP as the default solution.
 - > The F2011 RRA states that the SAP Enterprise Financial Upgrade project cost \$14.1 million when in fact the capital expenditures have been greater than \$30 million. In addition, the SAP Program total forecasted costs exceed \$50 million but have been broken down to discrete projects, none exceeding \$20 million.

Review Scope

- The scope includes the following for each key allegation:
 - > Confirm the validity of the information included in the allegations being made.
 - > Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - > Based on the information obtained, determine whether BC Hydro and the VP and Chief Information Officer complied with the legal requirements and internal policies/guidance.
 - > Based on the information obtained, determine if there is any evidence that suggests that BC Hydro and the VP and Chief Information Officer intended to mislead the BCUC.

- As the allegation relates to a regulatory rate hearing process, Audit Services has engaged BC Hydro Legal Services to assist with this review to provide clarification on legal requirements at regulatory rate hearings and to provide a legal opinion on the allegations based on the information obtained.

General Legal Requirements

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months. At oral hearings, witness responsibility is to truthfully respond to all questions.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates. If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum. Typically, changes in operating and capital costs are not considered material.

Review Results for Key Allegations

Allegation 1: Potential increase in the IT Capital spend and changes to the IT projects listed in the RRA were not disclosed to the BCUC even though an internal memo indicated a potential increase of \$32-38 million and even though certain projects had been cancelled or changed at the time of the oral hearings. (specifically the Peoplesoft Enterprise Financial Upgrade Project).

Findings:

- A May 2008 IT&T Update The BCUC was not informed that SAP had become the preferred solution for the Enterprise Financial Upgrade at the time of the October 2008 hearing. However, no final decisions had been made at the time of the hearing and efforts were still underway to investigate the SAP solution.
 - Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases. The roadmap was delivered in early 2009.
 - SAP was the preferred option as it represented an opportunity to align with BC Hydro's IT&T Strategy of leveraging a common SAP ERP (enterprise resource planning) platform across BC Hydro as long as it met BC Hydro's functional requirements.
- The testimony by the CIO at the October 2008 hearing specifically stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC and intervenors were specifically advised that BCH was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. No party inquired further on this aspect of other options.

Legal Requirements/Internal Guidance:

- Chief Regulatory Officer indicated that witnesses were advised to truthfully respond to all questions asked by the Commission.

Resolution:

Privileged and Confidential

This document contains confidential communications, analysis, or recommendations, and was prepared in anticipation of litigation.

- According to BC Hydro Legal Services (Legal Services), in these circumstances, there was no positive duty on BCH to advise the hearing further.

Allegation 2: Submission of the document that established the principles of the IT Strategic Plan was an earlier version and a more recent document was not submitted as it discussed the plans to increase IT Capital Spend and the use of SAP as the default solution.

Findings:

- The October 2007 IT Strategy document submitted by the CIO contained the key IT principles for the IT Strategic Plan which was finalized in November 2009.
- The May 2008 IT&T Update on Strategy Development contained a brief summary of the key principles for the IT Strategic Plan, highlighted the potential for increased capital spend in F09/F10 of \$32 - 38 million and noted that SAP will be used as a default solution for each major initiative. The CIO did not file the May 2008 document with the BCUC as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.
 - The May 2008 Update document was presented to the ARMC and approved by ET.

Legal Requirements/Internal Guidance:

- BCUC had requested, during the October 2008 rate hearing, the principles or strategies that governed the IT Strategic Plan (Plan) as the IT Strategic Plan had not been finalized.

Resolution:

- Submission by the CIO met the BCUC request.

Allegation 3: The F2011 RRA states that the SAP Enterprise Financial Upgrade project cost \$14.1 million when in fact the capital expenditures have been greater than \$30 million. In addition, the SAP Program total forecasted costs exceed \$50 million but have been broken down to discrete projects, none exceeding \$20 million.

Findings:

- Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out separately in the F2011 RRA as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects.
- Other projects such the Work Order Management (Transmission and Distribution) and Portfolio and Project Management projects (Generation) were broken out separately as they represented discrete projects in different areas of the business. In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects such the Human Resources Information System Replacement Initiative, Project and Portfolio Management and Work Order Management. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Legal Requirements/Internal Guidance:

Privileged and Confidential

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- ❑ There is limited guidance on the presentation and approval of individual projects that are part of a larger initiative. In this case, the individual projects are part of the larger IT&T SAP Program.
- ❑ There is limited guidance internally on the treatment of costs incurred during a capital project that will benefit potential future projects (ie. are they considered a cost of the initial capital project or should they be setup and tracked separately). May need to clarify here with accounting to be 100% sure.

Resolution:

- ❑ In the absence of firm guidance, there are no violations noted.

Additional Information

- ❑ The Chief Regulatory Officer also reviewed the relevant information related to the allegation and advised that:
 - She was content with the CIO's answers at the oral hearing and his response to the undertaking;
 - She believed that the CIO only had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project if he had been asked about SAP specifically;
 - She further indicated that had she known all relevant facts at the time, she would still not have wanted the evidence changed or supplemented on this issue.
- ❑ Legal Services concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. Furthermore, there was no suggestion of deliberate evasion or intent to mislead the BCUC.

From: Honda, Henry
Sent: Saturday, July 10, 2010 1:47 PM
To: Prinja, Rick; Lagnado, Albert
Subject: Special review memo
Attachments: Report July 9th V1.doc

Rick / Albert

Hope things are well. Sorry to e-mail you on the weekend.

I have attached the latest memo for the special review. Can you both have a review. It would be great if I could get any comments you may have by tomorrow night or first thing Monday morning. I would like to send to David Avren first thing in the morning on Monday.

Rick,

I haven't really made any changes to Allegation 4. Can you please update it as necessary based on the info we have now and [REDACTED] recent e-mail.

I have also inserted some additional wording around the internal guidance that we may have to run by [REDACTED] to ensure it is accurate.

Please let me know if I have misunderstood anything.

Thanks again

Henry

From: Henry Honda <henryhonda@shaw.ca>
To: Honda, Henry
Sent: Sat Jul 10 13:34:49 2010
Subject:

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:		
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the VP and Chief Information Officer (CIO) misled the BC Utilities Commission (BCUC) on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, through the following allegations:
 - > During the F2009/2010 Revenue Requirement Application (RRA) process, it is alleged that;
 - > A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed during the October 2008 BCUC RRA oral hearing process (RRA oral hearings).
 - > Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the RRA oral hearings eventhough certain projects on the list had been cancelled or changed at the time. Specifically, SAP replacing Peoplesoft as the Enterprise Financial Upgrade solution.
 - > The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan. Alleges that an earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - > Alleges that the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, alleges that the SAP Program, with forecasted costs exceeding \$50 million, have been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. The review did not find any evidence that the CIO was intentionally trying to mislead the BCUC.
- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concludes she would not have wanted the original evidence changed or supplemented.

Review Scope

- ❑ The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations being made.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if there is any evidence that suggests that BC Hydro and the CIO intended to mislead the BCUC.
- ❑ As the allegation relates to a regulatory rate hearing process, Audit Services engaged BC Hydro Legal Services (Legal Services) to assist with this review to provide clarification on legal requirements at regulatory rate hearings and to provide a legal assessment on whether these requirements were met. The conclusions below incorporate their legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- ❑ BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.

Typically, changes in operating and capital costs are not considered material

- ❑ Generally, BC Hydro Regulatory advises witnesses that if questioned on potential projects or initiatives where the scope and related costs have not yet been adequately defined or estimated or if the project has not yet received proper approval, it would be best not to prematurely discuss these projects. However, witnesses are responsible to truthfully respond to all questions.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed during the October 2008 BCUC RRA oral hearing process.

Findings:

- ❑ An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.

- This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009 and business cases were not finalized for all IT projects contemplated for this increase.

Conclusion:

- ❑ At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes for an IT&T Update. It was not meant to be a definitive cost estimate and was not approved at the time.
- ❑ As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected. Therefore, based on the guidance, it appears reasonable that the potential increase in IT&T Capital Spend mentioned in the IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008.
- ❑ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the October 2008 BCUC RRA oral hearing process even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP replacing Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- ❑ The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team, on May 12, 2008, agreed to use SAP as a default solution.
- ❑ Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- ❑ SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- ❑ At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.
- ❑ Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- ❑ Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.
- ❑ The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The

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BCUC and intervenors were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit the document which established principles for the IT&T Strategic Plan. Alleges that an earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- ❑ During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- ❑ The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an error.
- ❑ The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- ❑ The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.

Conclusion:

- ❑ While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead.
- ❑ As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect complied with BCH's evidentiary responsibilities.

Allegation 4: Alleges that the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, alleges that the SAP Program, with forecasted costs exceeding \$50 million, have been broken down to discrete projects, none exceeding \$20 million.

Findings:

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- ❑ Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out separately in the F2011 RRA as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects.
- ❑ Other projects such as the Work Order Management (Transmission and Distribution) and Portfolio and Project Management projects (Generation) were broken out separately as they represented discrete projects in different areas of the business. In both projects, SAP represents only 50-60% of the technology solution.
- ❑ SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects such the Human Resources Information System Replacement Initiative, Project and Portfolio Management and Work Order Management. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- ❑ There is limited guidance on how individual projects that are part of a larger initiative should be reported and approved. In this case, the individual projects are part of the larger IT&T SAP Program.
- ❑ There is also limited guidance internally on the treatment of costs incurred during a capital project that will benefit potential future projects (ie. are they considered a cost of the initial capital project or should they be setup and tracked separately). May need to clarify here with accounting to be 100% sure.
- ❑ In the absence of firm guidance, there are no violations noted.

Additional Information

- ❑ We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - She further indicated that after reviewing all the relevant facts at the time of the RRA oral hearing, she would not change or supplement the evidence on this issue.

From: Avren, David <David.Avren@bchydro.com>
Sent: Jul-12-2010 07:49:44 pm
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>; Reid, Charles
<Charles.Reid@bchydro.com>; Nagle, Debbie <Debbie.Nagle@bchydro.com>
Cc:
Bcc:
Subject: Privileged and confidential - audit report

Thanks for your input today. Very helpful and will make for a better report.

Nearly there on it all.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry <Henry.Honda@bchydro.com>
Sent: Monday, July 12, 2010 9:48 AM
To: Avren, David
Cc: Lagnado, Albert; Prinja, Rick
Subject: Draft Memo for review -privileged and confidential
Attachments: Special Review Draft Memo V1 (Ref 1101).doc

David,

Hope things are well. I have attached our draft memo. Please note that we are still working on some parts of the memo (primarily allegation #4) but I wanted to give you an opportunity to review now so you can provide feedback and comments this morning. We have tried to use your wording where possible but please ensure we have not taken them out of context. I plan to give [REDACTED] an opportunity to review (after you) as we have included her conclusions as well.

I would like to send to Ray, Charles and Debbie before lunch if possible to give them some time to review before our 3 pm meeting. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the VP and Chief Information Officer (CIO) misled the BC Utilities Commission (BCUC) on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, through the following allegations:
 - During the F2009/2010 Revenue Requirement Application (RRA) process, it is alleged that;
 - A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed during the October 2008 BCUC RRA oral hearing process (RRA oral hearings).
 - Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the RRA oral hearings eventhough certain projects on the list had been cancelled or changed at the time. Specifically, SAP replacing Peoplesoft as the Enterprise Financial Upgrade solution.
 - The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan. Alleges that an earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - Alleges that the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, alleges that the SAP Program, with forecasted costs exceeding \$50 million, have been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. The review did not find any evidence that the CIO was intentionally trying to mislead the BCUC.

- ❑ In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concludes she would not have wanted the original evidence changed or supplemented.

Review Scope

- ❑ The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations being made.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if there is any evidence that suggests that BC Hydro and the CIO intended to mislead the BCUC.
- ❑ As the allegation relates to a regulatory rate hearing process, Audit Services engaged BC Hydro Legal Services (Legal Services) to assist with this review to provide clarification on legal requirements at regulatory rate hearings and to provide a legal assessment on whether these requirements were met. The conclusions below incorporate their legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- ❑ BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is considered when deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- ❑ Generally, BC Hydro Regulatory advises witnesses that if questioned on potential projects or initiatives where the scope and related costs have not yet been adequately defined or estimated or if the project has not yet received proper approval, it would be best not to prematurely discuss these projects. However, witnesses are responsible to truthfully respond to all questions.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed during the October 2008 BCUC RRA oral hearing process.

Findings:

- ❑ An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an

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incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.

- > This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- ❑ At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependant on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
 - ❑ Therefore, it appears reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependant on the future development of IT project plans and were not yet approved.
- ❑ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the October 2008 BCUC RRA oral hearing process eventhough certain projects on the list had been cancelled or changed at the time. Specifically, SAP replacing Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- ❑ The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team, on May 12, 2008, agreed to use SAP as a default solution.
- ❑ Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- ❑ SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- ❑ At the RRA oral hearings, the CJO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CJO did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.
- ❑ Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- ❑ Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That

said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.

- The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and intervenors were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit the document which established principles for the IT&T Strategic Plan. Alleges that an earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an error.
- The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.

Conclusion:

- While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead.
- As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect complied with BCH's evidentiary responsibilities.

Allegation 4: Alleges that the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, alleges that the SAP Program, with forecasted costs exceeding \$50 million, have been broken down to discrete projects, none exceeding \$20 million.

Findings:

- ❑ Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependant on the other components of the initiative, the project should be reported and approved on its own.
- ❑ Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out seperately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- ❑ The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Distribution and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- ❑ SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- ❑ Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- ❑ We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - > She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - > She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - > She further indicated that after reviewing all the relevant facts at the time of the RRA oral hearing, she would not change or supplement the evidence on this issue.

Recommendations

- ❑ BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.

From: Avren, David
Sent: Monday, July 12, 2010 11:11 AM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: FW: Draft Memo for review -privileged and confidential
Attachments: Special Review Draft Memo V1 (Ref 1101).doc

thanks. Good work.

Have blacklined a few suggested edits.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: 2010, July 12 9:48 AM
To: Avren, David
Cc: Lagnado, Albert; Prinja, Rick
Subject: Draft Memo for review -privileged and confidential

David,

Hope things are well. I have attached our draft memo. Please note that we are still working on some parts of the memo (primarily allegation #4) but I wanted to give you an opportunity to review now so you can provide feedback and comments this morning. We have tried to use your wording where possible but please ensure we have not taken them out of context. I plan to give [REDACTED] an opportunity to review (after you) as we have included her conclusions as well.

I would like to send to Ray, Charles and Debbie before lunch if possible to give them some time to review before our 3 pm meeting. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the ~~VP and Chief Information Officer (CIO) misled the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Enterprise Financial Upgrade project specifically, in the following ways: through the following allegations:~~
 - ↳ During the F2009/2010 Revenue Requirement Application (RRA) process, it is alleged that;
 - > A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - > Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced replacing Peoplesoft as the Enterprise Financial Upgrade solution.
 - > The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. —Alleges that an October 2007 earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - > Alleges that the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, alleges that the SAP Program, with forecasted costs exceeding \$50 million, has have been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion**Privileged and Confidential**

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- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. The review did not sustain the allegation ~~find any evidence that the CIO had intentionally~~ ~~was intentionally trying to mislead~~ the BCUC.
- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concludes that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and original evidence corrected ~~changed~~ or supplemented.

Review Scope

- The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations ~~being made~~.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if there is any evidence that suggests that BC Hydro's evidence, and in particular the ~~and the~~ CIO's testimony and filings, intended to mislead the BCUC as alleged.
- As the allegation relates to a regulatory rate hearing process, Audit Services requested engaged ~~BC Hydro Legal Services (Legal Services) oversee to assist with this review, and to provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as~~ and to provide a legal assessment of ~~on whether these requirements were met. The conclusions below incorporate that their legal assessment.~~

General Legal Requirements / Internal RRA Oral Hearing Guidance

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in ~~considered when deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.~~
- Generally, BC Hydro Regulatory advises witnesses that it is best not to prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, of if the project has not yet received proper approval. if questioned on potential projects or initiatives where the scope and related costs have not yet been adequately defined or estimated or if the project has not yet received proper approval, it would be best not to prematurely discuss these projects. However, witnesses are at all times responsible to truthfully respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

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Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not properly disclosed during the October 2008 BCUC RRA oral hearing process.

Findings:

- An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependant on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it appears reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependant on the future development of IT project plans and were not yet approved.

□ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed during the October 2008 BCUC RRA oral hearing process even though even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced replacing Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team, on May 12, 2008, agreed to use SAP as a default solution.
- Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'.

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The CIO did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.

- Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.
- The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and intervenors were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit the document which established principles for the IT&T Strategic Plan, viz. —Alleges that an earlier document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an error.
- The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.

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Conclusion:

- While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead. The May 2008 document was not a "draft" as that term is ordinarily understood.
- As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled ~~complied with~~ BCH's evidentiary responsibilities.

Allegation 4: ~~Alleges that~~ the SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, ~~alleges that~~ the SAP Program, with forecasted costs exceeding \$50 million, ~~has~~ been broken down to discrete projects, none exceeding \$20 million.

Findings:

- Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependant on the other components of the initiative, the project should be reported and approved on its own.
- Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Distribution and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:

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- > She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
- > She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
- > She further indicated that after reviewing all the relevant facts, and had she had full knowledge at the time of the hearing, she would not have wanted the CIO's testimony and evidence corrected or supplemented.
- > ~~She further indicated that after reviewing all the relevant facts at the time of the RRA oral hearing, she would not change or supplement the evidence on this issue.~~

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Recommendations

- BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.
- The RRA witness training program should consider whether there is a need for guidelines on "draft" documents, defining the same and making clear when they can be filed in the course of a hearing.

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From: Honda, Henry <Henry.Honda@bchydro.com>
Sent: Monday, July 12, 2010 11:50 AM
To: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: RE: Draft Memo for review -privileged and confidential

David,

Thanks. We have accepted the suggested edits.

Henry

From: Avren, David
Sent: 2010, July 12 11:11 AM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: FW: Draft Memo for review -privileged and confidential

thanks. Good work.

Have blacklined a few suggested edits.

D.

David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: 2010, July 12 9:48 AM
To: Avren, David
Cc: Lagnado, Albert; Prinja, Rick
Subject: Draft Memo for review -privileged and confidential

David,

Hope things are well. I have attached our draft memo. Please note that we are still working on some parts of the memo (primarily allegation #4) but I wanted to give you an opportunity to review now so you can provide feedback and comments this morning. We have tried to use your wording where possible but please ensure we have not taken them out of context. I plan to give [REDACTED] an opportunity to review (after you) as we have included her conclusions as well.

I would like to send to Ray, Charles and Debbie before lunch if possible to give them some time to review before our 3 pm meeting. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro

12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

From: Honda, Henry <Henry.Honda@bchydro.com>
Sent: Monday, July 12, 2010 11:59 AM
To: Reid, Charles; Aldeguer, Ray; Nagle, Debbie
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Draft memo -privileged and confidential
Attachments: Special Review Draft Memo V2 (Ref 1101).doc

In advance of our meeting today at 3 pm, I have attached our Special Review Draft Memo for your review. This memo has been reviewed by David Avren. I will be sending [REDACTED] this as well as we include her assessment and I would like to ensure we have not misunderstood her perspective. There is still some minor work we are completing but I think we are at a stage where we can discuss.

Thanks and see you at 3 pm.

Henry

Henry Honda, CA, CPA (Illinois)
Head of Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, in the following ways:
 - A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.
 - The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. The review did not sustain the allegation that the CIO had intentionally misled the BCUC.

- ❑ In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented.

Review Scope

- ❑ The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if BC Hydro's evidence, and in particular the CIO's testimony and filings, misled the BCUC as alleged.
- ❑ As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- ❑ BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- ❑ Generally, BC Hydro Regulatory advises witnesses that it is best not to prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, or if the project has not yet received proper approval. However, witnesses are at all times responsible to respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

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- An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it appears reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

- Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team, on May 12, 2008, agreed to use SAP as a default solution.
- Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.
- Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the

BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.

- ❑ The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- ❑ During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- ❑ The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an error.
- ❑ The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- ❑ The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.

Conclusion:

- ❑ While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead. The May 2008 document was not a "draft" as that term is ordinarily understood.
- ❑ As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities.

Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Findings:

- ❑ Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.
- ❑ Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
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- ❑ SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- ❑ Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- ❑ We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
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Recommendations

- BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.
- The RRA witness training program should consider whether there is a need for guidelines on “draft” documents, defining the same and making clear when they can be filed in the course of a hearing.

DRAFT

From: Honda, Henry <Henry.Honda@bchydro.com>
Sent: Monday, July 12, 2010 1:23 PM
To: [REDACTED]
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Subject: Privileged and Confidential -Review Draft Memo
Attachments: Special Review Draft Memo V2 (Ref 1101).doc

[REDACTED]

Hope things are well. Thanks again for providing your input for the review we are performing on the IT Capital Plan in relation to the revenue rate applications. I have attached a memo that summarizes our review and conclusions. This includes input from David Avren. Please review the memo as it includes some of the input you provided during the meetings and also includes your assessment. We appreciate it if you could provide any comments or suggestions as soon as possible. As previously discussed, this is a privileged and confidential review and therefore please do not discuss or provide to others. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

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Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented at the hearing was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations. The review did not sustain the allegation that the CIO had intentionally misled the BCUC.

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Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

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 - > This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it appears reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

- Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team, on May 12, 2008, agreed to use SAP as a default solution.
- Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the "default solution" in preference to Peoplesoft.
- Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the

BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.

- ❑ The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- ❑ During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- ❑ The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony.
 - > The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an error.
- ❑ The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- ❑ The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was operational and was "draft" because it dealt with matters that were in progress and yet to be determined.

Conclusion:

- ❑ While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead. The May 2008 document was not a "draft" as that term is ordinarily understood.
- ❑ As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities.

Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Findings:

- ❑ Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.
- ❑ Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- ❑ The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Distribution and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- ❑ SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- ❑ Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- ❑ We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - She further indicated that after reviewing all the relevant facts, and had she had full knowledge at the time of the hearing, she would not have wanted the CIO's testimony and evidence corrected or supplemented.

Recommendations

- ❑ BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.
- ❑ The RRA witness training program should consider whether there is a need for guidelines on “draft” documents, defining the same and making clear when they can be filed in the course of a hearing.

DRAFT

From: [REDACTED]
Sent: Monday, July 12, 2010 2:00 PM
To: Honda, Henry
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Subject: RE: Privileged and Confidential -Review Draft Memo

Hi Henry

I have reviewed the attached document and have the following comments.

I am comfortable with the characterisation of my input and my assessment. The only comment I would make is that I would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

My additional words imply that, under other circumstances I might well have wanted to update the CIO's evidence.

With respect to the recommendations; the first one speaks to "BC Hydro management" developing additional guidance for witnesses. I am not sure who you mean by "management". If you are talking broadly of all management then with all due respect I need to point out that determinations as to materiality for any changes to filings are made by the regulatory manager and legal counsel on that filing. I would have no problem with your recommendation referring directly to "BC Hydro Regulatory management" developing additional guidance...

On the second recommendation I agree with the overall sentiment of the recommendation, but the guidance on drafts versus final versions, and production of documents in hearings needs to come well before we get to witness training, and goes much wider than just the RRA – it needs to be understood even as we prepare the applications and respond to RRs. In cases where there is no oral hearing the same issues can arise.

Thanks for giving me the opportunity to review and comment.

[REDACTED]
[REDACTED]
Chief Regulatory Officer
BC Hydro

From: Honda, Henry
Sent: 2010, July 12 1:23 PM
To: [REDACTED]
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Subject: Privileged and Confidential -Review Draft Memo

[REDACTED]

Hope things are well. Thanks again for providing your input for the review we are performing on the IT Capital Plan in relation to the revenue rate applications. I have attached a memo that summarizes our review and conclusions. This includes input from David Avren. Please review the memo as it includes some of the input you provided during the meetings and also includes your assessment. We appreciate it if you could provide any comments or suggestions as soon as possible. As previously discussed, this is a privileged and confidential review and therefore please do not discuss or provide to others. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)

Director, Audit Services

BC Hydro

12th Floor -333 Dunsmuir St.

Vancouver, BC, V6B 5R3

Phone: 604-623-4108

E-mail: henry.honda@bchydro.com

Lagnado, Albert

From: Honda, Henry
Sent: 2010, July 12 5:07 PM
To: [REDACTED]
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Subject: Re: Privileged and Confidential -Review Draft Memo

[REDACTED]

Thanks for reviewing the document and getting back to us so quickly. We will make the suggested change in terms of your assessment. We will likely remove the recommendations in the report. Thanks again for your input.

Henry

From: [REDACTED]
To: Honda, Henry
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Sent: Mon Jul 12 14:00:10 2010
Subject: RE: Privileged and Confidential -Review Draft Memo

Hi Henry

I have reviewed the attached document and have the following comments.

I am comfortable with the characterisation of my input and my assessment. The only comment I would make is that I would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

My additional words imply that, under other circumstances I might well have wanted to update the CIO's evidence.

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Thanks for giving me the opportunity to review and comment.

[REDACTED]

[REDACTED]

Chief Regulatory Officer
BC Hydro

[REDACTED]

[REDACTED]

[REDACTED]

From: Honda, Henry
Sent: 2010, July 12 1:23 PM
To: [REDACTED]
Cc: Prinja, Rick; Lagnado, Albert; Avren, David
Subject: Privileged and Confidential -Review Draft Memo

[REDACTED]

Hope things are well. Thanks again for providing your input for the review we are performing on the IT Capital Plan in relation to the revenue rate applications. I have attached a memo that summarizes our review and conclusions. This includes input from David Avren. Please review the memo as it includes some of the input you provided during the meetings and also includes your assessment. We appreciate it if you could provide any comments or suggestions as soon as possible. As previously discussed, this is a privileged and confidential review and therefore please do not discuss or provide to others. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

From: Avren, David
Sent: Monday, July 12, 2010 7:44 PM
To: Honda, Henry; Lagnado, Albert; Prinja, Rick
Subject: privilege/distribution

Just a reminder that distribution of finals of the report to ARMC chair and Bonita should be by Legal (meaning me, as I look around).

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Avren, David
Sent: Monday, July 12, 2010 6:54 PM
To: Honda, Henry
Cc: Prinja, Rick; Lagnado, Albert
Subject: audit services comments re RRA audit

Henry:

How's this?

Legal Services carried out a privileged and confidential review with the assistance of Audit Services. The review did not sustain the allegation.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Lagnado, Albert

From: Avren, David
Sent: 2010, July 13 11:35 AM
To: Honda, Henry
Cc: Prinja, Rick; Lagnado, Albert
Subject: RE: audit services comments re RRA audit

If we don't say something about privilege, along these lines, we jeopardize it. This is an important document it seems to me in the overall establishment and corroboration of privilege.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: 2010, July 13 10:56 AM
To: Avren, David
Cc: Prinja, Rick; Lagnado, Albert
Subject: RE: audit services comments re RRA audit

David,

I think the conclusion we provide should be the same summary conclusion in the actual report. The first sentence is a bit odd as we were requested by the Code of Conduct Advisor to carry out the review. However, if you need it for privileged and confidential reasons, we can discuss. Let's finalize the report and then circle back to this. I will not be adding my conclusion to Bonita's report until our report is completed.

Henry

From: Avren, David
Sent: 2010, July 12 6:54 PM
To: Honda, Henry
Cc: Prinja, Rick; Lagnado, Albert
Subject: audit services comments re RRA audit

Henry:

How's this?

Legal Services carried out a privileged and confidential review with the assistance of Audit Services. The review did not sustain the allegation.

D.

From: Honda, Henry
Sent: Tuesday, July 13, 2010 3:33 PM
To: Prinja, Rick; Lagnado, Albert
Subject: FW: Revised Memo
Attachments: Special Review Draft Memo V3 (Ref 1101).doc

FYI. Forgot to copy you.

From: Honda, Henry
Sent: 2010, July 13 2:58 PM
To: Avren, David
Subject: Revised Memo

David,

Attached is the revised memo, please have a review and confirm that you are comfortable with the changes and that the report still represents your legal assessment. I would like to send out another version by end of day. We can discuss the wording in Bonita's report and the distribution process once this is finalized.

Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services

BCH Hydro

12th Floor -333 Dunsmuir St.

Vancouver, BC, V6B 5R3

Phone: 604-623-4108

E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, in the following ways:
 - > A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - > Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.
 - > The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - > The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that ~~while the evidence presented at the hearing by the CIO was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations and that the CIO did~~

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~~not misled the BCUC. The review also did not sustain the allegation that the CIO had intentionally misled the BCUC.~~

- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Review Scope

- The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if BC Hydro's evidence, and in particular the CIO's testimony and filings, ~~misled, misled~~ the BCUC as alleged.
- As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- Generally, BC Hydro Regulatory advises witnesses ~~that it is best not to~~ not prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, ~~or~~ if the project has not yet received proper approval. However, witnesses are at all times responsible to respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO)

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during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

- An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it ~~is appears~~ reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

□ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team and representatives from the business groups, on May 12, 2008, agreed that for each major initiative s to use SSAP will be used as a default solution provided it meets business needs.
- Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the preferred or more likely "default solution" in preference to over Peoplesoft.
- Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

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Conclusion

~~□ Although, SAP had become the more likely solution at the time of the oral hearing in October 2008, no final decisions had been made. In addition, the BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but were also looking at other options. Since no party inquired further on this aspect of other options, there was no duty by the CIO or BC Hydro to advise the hearing further.~~

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~~□ Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.~~

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Findings:

- During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony but was presented to the Executive Team.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an unintended error.
- The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was an operational update and was "draft" because it dealt with matters that were still a work in progress, and yet to be determined.

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Conclusion:

As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities. The May 2008 IT&T Update was not submitted because the information was not finalized or approved. There was no suggestion of deliberate evasion or intent to mislead the BCUC.

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While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead. The May 2008 document was not a "draft" as that term is ordinarily understood.

As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities.

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Findings:

- Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.
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- The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Distribution and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

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Additional Information

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Recommendations

- ~~□ BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.~~
- ~~□ The RRA witness training program should consider whether there is a need for guidelines on "draft" documents, defining the same and making clear when they can be filed in the course of a hearing.~~

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From: Honda, Henry
Sent: Tuesday, July 13, 2010 3:47 PM
To: Lagnado, Albert; Prinja, Rick
Subject: FW: Privileged and confidential FW: Revised Memo
Attachments: Special Review Draft Memo V3 (Ref 1101).doc

FYI. I am fine with these. Let me know what you think. I will send out

From: Avren, David
Sent: 2010, July 13 3:39 PM
To: Honda, Henry
Subject: Privileged and confidential FW: Revised Memo

Henry:

I have revised slightly, at the places shown with blue highlighting.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: 2010, July 13 2:58 PM
To: Avren, David
Subject: Revised Memo

David,

Attached is the revised memo, please have a review and confirm that you are comfortable with the changes and that the report still represents your legal assessment. I would like to send out another version by end of day. We can discuss the wording in Bonita's report and the distribution process once this is finalized.

Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com



FOR GENERATIONS

PRIVILEGED AND CONFIDENTIAL

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, in the following ways:
 - > A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - > Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.
 - > The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - > The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that while the evidence presented during the process at the hearing by the CIO was not the best or most complete evidence possible, it met BC Hydro's evidentiary obligations and that

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~~the CIO did not misled the BCUC was not misled. The review also did not sustain the allegation that the CIO had intentionally misled the BCUC.~~

- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Review Scope

- The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if BC Hydro's evidence, and in particular the CIO's testimony and filings, ~~misled, misled~~ the BCUC as alleged.
- As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- Generally, BC Hydro Regulatory advises witnesses ~~that it is best not to~~ not prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, ~~ofr~~ if the project has not yet received proper approval. However, witnesses are at all times responsible to respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO)

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during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

- An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - > This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it ~~is appears~~ reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

□ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team and representatives from the business groups, on May 12, 2008, agreed that for each major initiative s to use SSAP will be used as a default solution provided it meets business needs.
- Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- SAP Financial Software licenses were purchased in September 2008 for \$1.2 million.
- At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the preferred or more likely "default solution" in preference to over Peoplesoft.
- Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

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Conclusion

□ Although, SAP had become the more likely solution at the time of the oral hearing in October 2008, no final decisions had been made. In addition, the BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but were also looking at other options. Since no party inquired further on this aspect of other options, having raised the issue, there was no evidentiary duty on by the CIO or BC Hydro to advise the hearing further.

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□ Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.

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□ The issue is whether there was an obligation to raise, unasked, the SAP probability. The testimony specifically stated that there was a possibility of a non-Peoplesoft solution. The BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but was also looking at other options. No party inquired further on this aspect of other options. In the circumstances, there was no positive duty on BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony but was presented to the Executive Team.
 - > The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an unintended error.
- The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.

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- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was an operational update and was "draft" because it dealt with matters that were still a work in progress, and yet to be determined.

Conclusion:

- As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities. The May 2008 IT&T Update was not submitted because the information was not finalized or approved. There was no suggestion that the May 2008 document was withheld of as an intentional evasion or with intent deliberate evasion or intent to to mislead the BCUC.

- While the reasons for not filing the May 2008 IT&T Update document may not have been entirely suited to the circumstances (e.g. interpreting the May 2008 document as "draft" because it dealt with matters that were "in progress" and yet to be determined), there was no suggestion of deliberate evasion or intent to mislead. The May 2008 document was not a "draft" as that term is ordinarily understood.

- As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities.

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Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Findings:

- Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.
- Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project period have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Distribution and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other potential projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

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- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - She further indicated that after reviewing all the relevant facts, and had she had full knowledge at the time of the hearing, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Recommendations

- ~~□ BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.~~
- ~~□ The RRA witness training program should consider whether there is a need for guidelines on "draft" documents, defining the same and making clear when they can be filed in the course of a hearing.~~

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From: Prinja, Rick
Sent: Tuesday, July 13, 2010 3:53 PM
To: Honda, Henry
Cc: Lagnado, Albert
Subject: RE: Privileged and confidential FW: Revised Memo

These are fine.

Rick Prinja, CA
Audit Services

BC Hydro
12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

From: Honda, Henry
Sent: 2010, July 13 3:47 PM
To: Lagnado, Albert; Prinja, Rick
Subject: FW: Privileged and confidential FW: Revised Memo

FYI. I am fine with these. Let me know what you think. I will send out

From: Avren, David
Sent: 2010, July 13 3:39 PM
To: Honda, Henry
Subject: Privileged and confidential FW: Revised Memo

Henry:

I have revised slightly, at the places shown with blue highlighting.

D.

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: 2010, July 13 2:58 PM

To: Avren, David
Subject: Revised Memo

David,

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Henry Honda, CA, CPA (Illinois)
Director, Audit Services

BC Hydro

12th Floor -333 Dunsmuir St.

Vancouver, BC, V6B 5R3

Phone: 604-623-4108

E-mail: henry.honda@bchydro.com

From: Honda, Henry
Sent: Tuesday, July 13, 2010 3:59 PM
To: Reid, Charles; Nagle, Debbie; Aldeguer, Ray
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Revised memo-privileged and confidential
Attachments: Special Review Draft Memo V4 (Ref 1101).doc

I have attached the revised memo per our discussions yesterday. This has been reviewed with David Avren. Please have a review and let me know if you have any additional comments. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
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Summary Conclusion

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~~the CIO did not misled the BCUC was not misled. The review also did not sustain the allegation that the CIO had intentionally misled the BCUC.~~

- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervenor and BCUC interest in this area.

Review Scope

- The scope includes the following for each key allegation:
 - > Confirm the validity of the information included in the allegations.
 - > Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - > Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
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- As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

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Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO)

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during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

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 - > This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- Therefore, it is ~~appears~~ reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

□ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team and representatives from the business groups, on May 12, 2008, agreed that for each major initiative to use SAP will be used as a default solution provided it meets business needs.
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Conclusion

□ Although, SAP had become the more likely solution at the time of the oral hearing in October 2008, no final decisions had been made. In addition, the BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but were also looking at other options. Since No party inquired further on this aspect of other options. Having raised the issue, there was no evidentiary duty on by the CIO or BC Hydro to advise the hearing further.

□ Although the SAP Financial business case was approved in June 2009 (after the RRA oral hearings), it appears that SAP had become the "default solution" by May 2008 and the more likely solution by the October 2008. From a legal, evidentiary perspective, it is clear the BCUC was not informed that SAP had replaced Peoplesoft as the preferred solution. That said, no final decisions had been made by the hearing and the relative advantages of the potential solutions were still under consideration.

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- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was an operational update and was "draft" because it dealt with matters that were still a work in progress, and yet to be determined.

Conclusion:

- ~~As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities. The May 2008 IT&T Update was not submitted because the information was not finalized or approved. There was no suggestion evidence that the May 2008 document was withheld of as an intentional evasion or with intent deliberate evasion or intent to to mislead the BCUC.~~

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Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

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- Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.
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Conclusion

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- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking;
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - She further indicated that after reviewing all the relevant facts, and had she had full knowledge at the time of the hearing, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Recommendations

- ~~□ BC Hydro management should develop additional guidance to assist witnesses determine whether changes or proposed changes to their operating and capital budgets included in the RRA application should be adjusted and disclosed.~~
- ~~□ The RRA witness training program should consider whether there is a need for guidelines on "draft" documents, defining the same and making clear when they can be filed in the course of a hearing.~~

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From: Reid, Charles <Charles.Reid@bchydro.com>
Sent: Tuesday, July 13, 2010 4:06 PM
To: Honda, Henry; Nagle, Debbie; Aldeguer, Ray
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: RE: Revised memo-privileged and confidential

Thanks, I think this represents the situation more accurately. Well done.

Charles

From: Honda, Henry
Sent: 2010, July 13 3:59 PM
To: Reid, Charles; Nagle, Debbie; Aldeguer, Ray
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Revised memo-privileged and confidential

I have attached the revised memo per our discussions yesterday. This has been reviewed with David Avren. Please have a review and let me know if you have any additional comments. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services

3C Hydro

2th Floor -333 Dunsmuir St.

Vancouver, BC, V6B 5R3

Phone: 604-623-4108

E-mail: henry.honda@bchydro.com

From: Aldeguer, Ray
Sent: Tuesday, July 13, 2010 4:10 PM
To: Honda, Henry; Reid, Charles; Nagle, Debbie
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: RE: Revised memo-privileged and confidential

I have no further comments except to express my appreciation for the diligent and thoughtful efforts of those involved. Cheers.

From: Honda, Henry
Sent: 2010, July 13 3:59 PM
To: Reid, Charles; Nagle, Debbie; Aldeguer, Ray
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Revised memo-privileged and confidential

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Henry

Henry Honda, CA, CPA (Illinois)

Director, Audit Services

BC Hydro

12th Floor -333 Dunsmuir St.

Vancouver, BC, V6B 5R3

Phone: 604-623-4108

E-mail: henry.honda@bchydro.com

From: Honda, Henry
Sent: Wednesday, July 14, 2010 4:52 PM
To: Prinja, Rick
Cc: Lagnado, Albert
Subject: FW: Privileged and confidential - Revenue requirements related issue
Attachments: Special Review Draft Memo V4 (Ref 1101).doc

FYI. David has sent this to Bonita.

Henry

From: Avren, David
Sent: 2010, July 14 4:05 PM
To: Advisor, Code of Conduct
Cc: Honda, Henry
Subject: Privileged and confidential - Revenue requirements related issue

Bonita:

The attached report was prepared by Legal with the assistance of Audit Services, and is privileged and confidential.

If you have any questions, please contact Henry or myself. Henry will be away on AV starting Friday and myself starting Monday, so either before then or in August when we're back.

Regards,

David

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, in the following ways:
 - A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.
 - The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that the evidence presented during the process met BC Hydro's evidentiary obligations and that the BCUC was not misled.

- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Review Scope

- The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if BC Hydro's evidence, and in particular the CIO's testimony and filings, misled the BCUC as alleged.
- As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- Generally, BC Hydro Regulatory advises witnesses to not prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, or if the project has not yet received proper approval. However, witnesses are at all times responsible to respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

- ❑ An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- ❑ At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- ❑ Therefore, it is reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

- ❑ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- ❑ The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team and representatives from the business groups, on May 12, 2008, agreed that for each major initiative SAP will be used as a default solution provided it meets business needs .
- ❑ Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- ❑ SAP Financial Software licenses were purchased in September 2008 for \$1.2 million for the Accenture roadmap project.
- ❑ At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the preferred or more likely solution over Peoplesoft.
- ❑ Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

- ❑ Although, SAP had become the more likely solution at the time of the oral hearing in October 2008, no final decisions had been made. In addition, the BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but were also looking at other options. No party inquired further on this aspect of other options. Having raised the issue, there was no evidentiary duty on the CIO or BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- ❑ During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- ❑ The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony but was presented to the Executive Team.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an unintended error.
- ❑ The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- ❑ The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was an operational update and was draft because it dealt with matters that were still a work in progress.

Conclusion:

- ❑ As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities. The May 2008 IT&T Update was not submitted because the information was not finalized or approved. There was no evidence that the May 2008 document was withheld as an intentional evasion or with intent to mislead the BCUC.

Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Findings:

- ❑ Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which

should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.

- Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project period have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Field Operations and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - > She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking.
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Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
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Privileged and Confidential

This document contains confidential communications, analysis, or recommendations, and was prepared in anticipation of litigation.

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From: Prinja, Rick
Sent: Wednesday, July 14, 2010 5:05 PM
To: Honda, Henry
Cc: Lagnado, Albert
Subject: Re: Privileged and confidential - Revenue requirements related issue

We should have a wrap party on this one :-)

From: Honda, Henry
To: Prinja, Rick
Cc: Lagnado, Albert
Sent: Wed Jul 14 16:51:38 2010
Subject: FW: Privileged and confidential - Revenue requirements related issue

FYI. David has sent this to Bonita.

Henry

From: Avren, David
Sent: 2010, July 14 4:05 PM
To: Advisor, Code of Conduct
Cc: Honda, Henry
Subject: Privileged and confidential - Revenue requirements related issue

Bonita:

The attached report was prepared by Legal with the assistance of Audit Services, and is privileged and confidential.

If you have any questions, please contact Henry or myself. Henry will be away on AV starting Friday and myself starting Monday, so either before then or in August when we're back.

Regards,

David

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Honda, Henry
Sent: Wednesday, July 14, 2010 5:12 PM
To: Prinja, Rick
Cc: Lagnado, Albert
Subject: RE: Privileged and confidential - Revenue requirements related issue

Thanks everyone for your work on this. Much appreciated.

Henry

From: Prinja, Rick
Sent: 2010, July 14 5:05 PM
To: Honda, Henry
Cc: Lagnado, Albert
Subject: Re: Privileged and confidential - Revenue requirements related issue

We should have a wrap party on this one :-)

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David

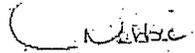
J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606

BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Lagnado, Albert

From: Nagle, Debbie
Sent: 2010, July 15 6:59 AM
To: Honda, Henry; Aldeguer, Ray; Reid, Charles
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: RE: Revised memo-privileged and confidential

Sounds good... thanks Henry!!



Debbie Nagle
Chief Human Resources Officer
BC Hydro
333 Dunsmuir
Vancouver, BC
V6B 5R3

Phone: 604-623-4447
Cell: 604-374-2700
Fax: 604-623-4155
E-mail: debbie.nagle@bchydro.com



From: Honda, Henry
Sent: 2010, July 14 11:57 PM
To: Nagle, Debbie; Aldeguer, Ray; Reid, Charles
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Re: Revised memo-privileged and confidential

Debbie

Thanks. I double-checked with the team on the SAP license referred to in allegation #2. This license was actually a SAP Financial license and was required for the blue-print / road map process which is discussed in that section. Therefore, we can't change that reference but have added that the license was required for the blue-print phase.

I hope that clarifies. Thanks

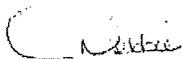
Henry

From: Nagle, Debbie
To: Aldeguer, Ray; Honda, Henry; Reid, Charles
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Sent: Wed Jul 14 19:32:23 2010
Subject: RE: Revised memo-privileged and confidential

FYI: I gave a suggested change to Henry (conclusion under allegation #2).

Charles: per our discussion I asked Henry to confirm all references to SAP Licences (enterprise versus financial) he will make the appropriate correction to reflect that the \$1.2 in licences purchased were enterprise licences (allegation #2 findings).

Thanks,



Debbie Nagle
Chief Human Resources Officer
BC Hydro
333 Dunsmuir
Vancouver, BC
V6B 5R3

Phone: 604-623-4447
Cell: 604-374-2700
Fax: 604-623-4155
E-mail: debbie.nagle@bchydro.com



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Sent: 2010, July 13 4:10 PM
To: Honda, Henry; Reid, Charles; Nagle, Debbie
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
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I have no further comments except to express my appreciation for the diligent and thoughtful efforts of those involved. Cheers.

From: Honda, Henry
Sent: 2010, July 13 3:59 PM
To: Reid, Charles; Nagle, Debbie; Aldeguer, Ray
Cc: Avren, David; Lagnado, Albert; Prinja, Rick
Subject: Revised memo-privileged and confidential

I have attached the revised memo per our discussions yesterday. This has been reviewed with David Avren. Please have a review and let me know if you have any additional comments. Thanks again.

Henry

Henry Honda, CA, CPA (Illinois)
Director, Audit Services
BC Hydro
12th Floor -333 Dunsmuir St.
Vancouver, BC, V6B 5R3
Phone: 604-623-4108
E-mail: henry.honda@bchydro.com

From: Twaites, Loretta <Loretta.Twaites@bchydro.com>
Sent: Jul-21-2010 07:50:49 am
To: Aldeguer, Ray <Ray.Aldeguer@bchydro.com>
Cc:
Bcc:
Subject: Voice Mail from David Avren - not urgent just fyi

Hi Ray,

David left you a voice mail re the audit matter; report was sent to Bonita and she responded with thank you and no further comments. David comments further on the matter and I left the message there for you to listen to later. Thanks.

Loretta

Loretta Twaites

Administrative Assistant

Finance & Corporate Resources

Telephone: 604-623-4514

Fax: 604-623-4155

Avren, David

From: Honda, Henry
Sent: 2010, August 16 11:06 AM
To: Advisor, Code of Conduct
Cc: Avren, David
Subject: Privileged and confidential
Attachments: Special Review Draft Memo V4 (Ref 1101).doc

Bonita,

David Avren has asked me to send you the report again on his behalf. Please let David know if you have any questions on the report. Thanks again and enjoy the rest of the summer.

Henry

From: Advisor, Code of Conduct
Sent: 2010, August 05 4:57 PM
To: Honda, Henry
Subject: Re: Privileged and confidential - Revenue requirements related issue

Would you mind please re sending me the report. Thanks Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
To: Avren, David; Advisor, Code of Conduct
Sent: Wed Aug 04 16:10:44 2010
Subject: RE: Privileged and confidential - Revenue requirements related issue

Bonita,

Hope things are well. I wanted to confirm whether you had any questions / comments on the report below sent to you by David Avren. We will be providing a copy of this report to the Chair of the Audit & Risk Management Committee next month. Hope you are enjoying the summer.
Thanks

Henry

From: Avren, David
Sent: 2010, July 14 4:05 PM
To: Advisor, Code of Conduct
Cc: Honda, Henry
Subject: Privileged and confidential - Revenue requirements related issue

Bonita:

The attached report was prepared by Legal with the assistance of Audit Services, and is privileged and confidential.

If you have any questions, please contact Henry or myself. Henry will be away on AV starting Friday and myself starting Monday, so either before then or in August when we're back.

Regards,

David

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Inter-office memo

To:	David Avren, Director Legal Services	July 8, 2010
From:	Henry Honda, Director Audit Services	REF: 11-1
CC:	(after legal review, memo will be provided to Code of Conduct Advisor, Chair of Audit & Risk Management Committee and CFO)	
Subject:	Code of Conduct Review	

Background / Allegations

- The Code of Conduct Advisor has requested Audit Services to review allegations that the BC Utilities Commission (BCUC) was misled at the 2009/10 RRA hearing on the scope and cost of the BC Hydro Information Technology and Telecommunications (IT&T) Strategic Plan in general, and on the Enterprise Financial Upgrade project specifically, in the following ways:
 - > A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.
 - > Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.
 - > The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.
 - > The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Summary Conclusion

- Audit Services worked jointly with Legal Services to review the allegations. It is concluded that the evidence presented during the process met BC Hydro's evidentiary obligations and that the BCUC was not misled.

- In addition, BC Hydro's Chief Regulatory Officer has reviewed the relevant information and concluded that even with full knowledge of all the facts at the time, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervener and BCUC interest in this area.

Review Scope

- The scope includes the following for each key allegation:
 - Confirm the validity of the information included in the allegations.
 - Clarify the legal requirements or internal policies/guidance for the applicable item for disclosure to the BCUC.
 - Based on the information obtained, determine whether BC Hydro and the CIO complied with the legal requirements and internal policies/guidance.
 - Based on the information obtained, determine if BC Hydro's evidence, and in particular the CIO's testimony and filings, misled the BCUC as alleged.
- As the allegation relates to a regulatory rate hearing process, Audit Services requested BC Hydro Legal Services (Legal Services) oversee this review, and provide clarification on the legal/evidentiary requirements at regulatory rate hearings as well as a legal assessment of whether these requirements were met. The conclusions below incorporate that legal assessment.

General Legal Requirements / Internal RRA Oral Hearing Guidance

- BC Hydro has an obligation to include information on all items that drive expenditures in a regulatory rate application. Applications are typically filed in February/March and are based on forecasts which could be as old as six months.
 - Evidentiary updates can be filed part way through the Information Request process for actual financial information and material changes to load forecasts which affects rates.
 - If there are errors or substantial changes to forecasts, BC Hydro can introduce the correction or change through Information Request responses or file an addendum.
 - Typically, materiality is a factor in deciding whether previously filed information should be updated for subsequent changes in forecasted operating and capital costs.
- Generally, BC Hydro Regulatory advises witnesses to not prematurely discuss potential projects or initiatives if their scope and related costs have not yet been adequately defined or estimated, or if the project has not yet received proper approval. However, witnesses are at all times responsible to respond truthfully to all questions. Witnesses receive witness training prior to the RRA hearings.

Review Results for Each Allegation

Allegation 1: A potential increase of \$32-\$38 million in the annual IT&T Capital plan, as noted in an IT&T Update on Strategy Development provided to the Audit and Risk Management Committee in May 2008, was not disclosed by BC Hydro's Chief Information Officer (CIO) during the October 2008 BCUC RRA oral hearing process (RRA oral hearings), and should have been.

Findings:

- ❑ An IT&T Update on Strategy Development (IT&T Update) was presented to the Audit and Risk Management Committee (ARMC) of the Board on May 22, 2008 and stated that an incremental amount of \$32-\$38 million per year may be required for IT&T Capital over the next three years based on the elements of the proposed IT&T Strategy.
 - This IT&T Update was not meant to be the final IT&T Strategy but was meant to provide the ARMC with an overview of the proposed strategy and a summary of initial directions and recommendations. The actual IT&T Strategic Plan was not finalized until November 2009.

Conclusion:

- ❑ At the time of the RRA oral hearings, the potential \$32-\$38 million annual increase was a management estimate for information purposes and would be dependent on whether the IT&T Strategy was approved and developed further. It was not meant to be a definitive cost estimate and was not approved at the time. As stated in the IT&T Update, the potential increase would need to be refined based on business priorities and the subsequent development of the plans for key IT projects selected.
- ❑ Therefore, it is reasonable that the potential increase to the IT&T Capital Spend noted in the May 2008 IT&T Update would not be disclosed as part of the RRA oral hearing process in October 2008 as these estimated costs were dependent on the future development of IT project plans and were not yet approved.

- ❑ Allegation 2: Subsequent changes to IT projects listed in the RRA application were not properly disclosed by the CIO during the RRA oral hearings even though certain projects on the list had been cancelled or changed at the time. Specifically, SAP had by then replaced Peoplesoft as the Enterprise Financial Upgrade solution.

Findings:

- ❑ The IT&T Update presented to the ARMC on May 22, 2008 states that the Executive Team and representatives from the business groups, on May 12, 2008, agreed that for each major initiative SAP will be used as a default solution provided it meets business needs.
- ❑ Accenture had been contracted in August 2008 to define a clear roadmap for an SAP Financial system including resource requirements, budget and an overall timeline for the Design and Implementation phases.
- ❑ SAP Financial Software licenses were purchased in September 2008 for \$1.2 million for the Accenture roadmap project.
- ❑ At the RRA oral hearings, the CIO stated that there was a possibility of a non-Peoplesoft solution for the Enterprise Financial Upgrade project. The BCUC was advised that BC Hydro was 'looking at Peoplesoft as one of the solutions, but was also looking at other options'. The CIO did not specifically raise SAP's status as the preferred or more likely solution over Peoplesoft.
- ❑ Accenture delivered the SAP roadmap in early 2009 and the SAP Enterprise Financial Upgrade (SAP Financial) business case was approved in June 2009.

Conclusion

Privileged and Confidential

This document contains confidential communications, analysis, or recommendations, and was prepared in anticipation of litigation.

- Although, SAP had become the more likely solution at the time of the oral hearing in October 2008, no final decisions had been made. In addition, the BCUC and interveners were specifically advised that BC Hydro was looking at Peoplesoft as one of the solutions, but were also looking at other options. No party inquired further on this aspect of other options. Having raised the issue, there was no evidentiary duty on the CIO or BC Hydro to advise the hearing further.

Allegation 3: The CIO submitted incorrect information when requested by the BCUC to submit a document which establishes principles for the IT&T Strategic Plan, viz. an October 2007 document was submitted to avoid exposing the potential increase in the annual IT&T Capital spend and the use of SAP as the default solution.

Findings:

- During the RRA oral hearings, the CIO stated that Hydro had established some principles and directions for the IT&T Strategy with the BC Hydro Executive Team and the Board through the Audit and Risk Management Committee (ARMC). The BCUC requested the document which established these principles.
- The CIO subsequently submitted the October 2007 IT Strategy document. This document does contain the key IT principles for the IT Strategic Plan, which was eventually finalized in November 2009. However, this document was not presented to or discussed with the ARMC as stated in the CIO's testimony but was presented to the Executive Team.
 - The CIO confirms that stating that the ARMC had reviewed the October 2007 IT Strategy document was an unintended error.
- The May 2008 IT&T Update also contains a brief summary of the key principles for the IT Strategic Plan but was not submitted in response to the BCUC request. As noted above, this document does include the potential increase in IT&T Capital spend of \$32 - \$38 million per year and does state that SAP will be used as a default solution. This document was presented to the Executive Team and the ARMC.
- The CIO stated that he did not file the May 2008 IT&T Update as he believed this document was an operational update and was draft because it dealt with matters that were still a work in progress.

Conclusion:

- As the document submitted to the BCUC does contain the key IT principles used for the eventual IT&T Strategic Plan, the CIO's testimony and filings on this aspect adequately fulfilled BCH's evidentiary responsibilities. The May 2008 IT&T Update was not submitted because the information was not finalized or approved. There was no evidence that the May 2008 document was withheld as an intentional evasion or with intent to mislead the BCUC.

Allegation 4: The SAP Enterprise Financial Upgrade project cost of \$14.1 million, as reported in the F2011 RRA, is not correct and should be greater than \$30 million. In addition, the SAP Program, with forecasted costs exceeding \$50 million, has been broken down to discrete projects, none exceeding \$20 million.

Findings:

- Currently, BC Hydro does not have a policy on how individual projects that are part of a larger initiative should be reported and approved. This has been previously noted by Audit Services and BC Hydro Management is developing a policy statement to address this which

should be completed by September 2010. However, the current practice is that if a project within a larger initiative is considered discrete and is not dependent on the other components of the initiative, the project should be reported and approved on its own.

- Certain SAP related costs such as the SAP Common Infrastructure and Enterprise Service Bus incurred during the Enterprise Financial Upgrade project period have been broken out separately in the F2011 RRA and included in separate business cases as they are expected to benefit future SAP projects such as Work Order Management and Portfolio and Project Management projects (future SAP projects).
- The future potential SAP projects were broken out separately as they represented discrete projects in different areas of the business (Field Operations and Generation). In both projects, SAP represents only 50-60% of the technology solution.
- SAP Financials licenses costs were also broken out separately in the F2011 RRA but these costs represented partial or full licensing for other projects. Therefore, the description of these costs as solely being SAP Financial license costs in the F2011 RRA was not accurate.

Conclusion

- Based on BC Hydro's practice in place at the time of the RRA application, the SAP projects and costs have been reported consistently with this practice.

Additional Information

- We also requested BC Hydro's Chief Regulatory Officer to review all the relevant information related to the allegation. Based on her review, she concluded that:
 - She was content with the CIO's answers at the RRA oral hearing and his response to the undertaking.
 - She believed that the CIO would have had an obligation to inform the BCUC about SAP becoming the preferred solution for the Enterprise Financial Upgrade Project had he been specifically asked but he was never asked this question;
 - She further indicated that after reviewing all the relevant facts, and had she had full knowledge at the time of the hearing, she would not have wanted the CIO's testimony and evidence corrected or supplemented in light of the degree of materiality and intervenor and BCUC interest in this area.

EMPLOYEE ACCOUNTING & AUDITING CONCERNS REPORTED DURING Q1, F2011

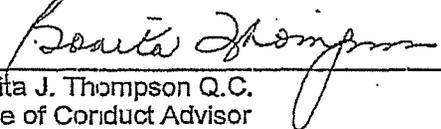
Purpose: To report to the Audit and Risk Management Committee (ARMC) of the Board, all confidential disclosures of accounting or auditing concerns received from employees of BC Hydro or its subsidiaries, in accordance with Attachment 3B to the Director and Employee Code of Conduct (Procedures for Confidential Reporting of Financial Concerns).

No complaints were received by the Code of Conduct Advisor during the 3-month period ending June 30, 2010 or

X The following complaints were received by the Code of Conduct Advisor during the 3-month period ending June 30, 2010

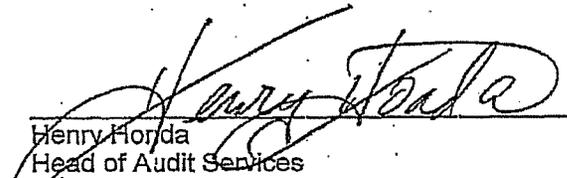
Reference Number	Summary of Complaint	Complaint Date	Audit Services Comments
1/11	allegation that senior officer misrepresented BCH financial information to BCUC	referred to Audit Services on April 29, 2010 (original disclosure handed over)	<i>Audit Services performed a privileged and confidential review with Legal Services. It is concluded that the evidence presented during the BCUC process met BC Hydro's evidentiary obligations and that the BCUC was not misled.</i>

Signatures:



 Bonita J. Thompson Q.C.
 Code of Conduct Advisor

Date: July 5, 2010



 Henry Florida
 Head of Audit Services

Date: July 15, 2010

BC Hydro

DRAFT MINUTES of a Meeting of the Audit and Risk Management Committee of the BOARD OF DIRECTORS

18th Floor Boardroom, BC Hydro, 333 Dunsmuir Street, Vancouver, BC
Wednesday, 15 September 2010 at 8:00 a.m.

PRESENT:

Tracey McVicar, Chair
Stephen Bellringer
Wanda Costuros
Dan Doyle, ex-officio
John Knappett (Items 3-23)

IN ATTENDANCE:

Dave Cobb, President & CEO
Teresa Conway, Acting EVP, Energy Procurement & Economic
Development (Items 1-6)
David Facey, Corporate Secretary
Henry Honda, Director Audit Services
Renata Kurschner, Director, Generation Resource Management
(Item 6)
Frank Lin, Manager Commercial & Portfolio Management (Item 5)
Albert Lagnado, Audit Services Manager
Chris O'Riley, EVP, Generation (Items 6-6.1)
Charles Reid, Chief Financial Officer
Skye Samson, Assistant Corporate Secretary
Jim Scouras, Director, Power Acquisitions (Item 5)
Renee Smith-Valade, Sr. VP Communications
Mike Standbrook, Chief Risk Officer
Cheryl Yaremko, Chief Accounting Officer

ALSO IN ATTENDANCE: Russ Jones, Auditor General

The Committee Chair called the meeting to order with a quorum of Directors present.

APPROVALS

- Approval of Minutes**
The minutes of the Meeting held 19 May 2010 were approved.
- Financial Approval Authorities**
Management provided an overview of the materials that were presented to the Committee and filed for reference with the meeting materials. The Committee's attention was drawn to the rationale supporting the proposed change in financial approval authority, including the various ways in which the internal controls of the company have been tightened in recent years. The following resolution was then approved:

RESOLVED THAT the following resolution is recommended to the Board for approval:

***RESOLVED THAT** on recommendation of the Audit and Risk Management Committee, the Corporation's Financial Approval Procedure be and is hereby amended to reflect an increase in the CEO's financial*

approval authority from \$20 million to \$50 million for authorization documents, contracts, commitments and payment documents that are within an approved annual plan.

3. Pension Management – Valuation and Strategy to fund Solvency Deficiency

The Committee Chair provided the Committee with an overview of the funding requirements associated with the BC Hydro Pension Plan, including the proposal to post a letter of credit in relation to those funding obligations. Management also noted that this approach would impose less burden on the rate payer than would other options. After further discussion, the following resolution was approved:

RESOLVED THAT the Audit and Risk Management Committee recommend for Board approval the establishment of a letter of credit trust to secure the BC Hydro Pension Plan solvency deficiency, together with the indemnity to the financial institutions supplying the letter of credit, all as presented to the Committee and reflected in the materials filed with the meeting records.

4. Financial Information Act

After having management point out the legislative requirement for disclosure, the Committee approved the following resolution:

RESOLVED THAT the Audit and Risk Management Committee hereby recommend that the Board of Directors approve the Financial Information Act Return for Fiscal Year 2010, as presented to the Committee and filed with the records of this meeting, subject to final changes indicated necessary by Management.

5. Revisions to Standing Offer Program

Management presented an overview of the materials that had previously been provided to the Committee and filed for reference with the meeting record. The Committee asked various questions about the structure of the program, the adjustments that are made for regional pricing and how stakeholders have been consulted during the review process. Management went on to explain that the proposed revisions remain subject to approval by government. After further discussion, the following resolution was approved:

RESOLVED THAT the following resolution be recommended to the BC Hydro Board of Directors for approval:

RESOLVED THAT, on recommendation from the Audit and Risk Management Committee:

1. the changes to the BC Hydro Standing Offer Program, as presented to the Board and reflected in the materials filed with the meeting records, be and are hereby approved; and

2. that the CEO, or delegate, be and is hereby authorized to conclude, approve and execute all agreements (including energy purchase agreements), documents and payments for such purposes or in performance thereof, always provided that the same shall be in substantial conformity with the terms, including pricing, presented to the Board.

PROVIDED THAT the foregoing resolutions are subject to any required approvals from Government having first been obtained and formally communicated to BC Hydro.

6. Non-Treaty Storage Agreement

Management provided a high level overview of the objectives of the Columbia River Treaty and explained the Non Treaty Storage Agreement in relation to it. These were described in terms of not only power and flood control but also environmental and recreational concerns which were not addressed in the Treaty. Management explained that, although the Non Treaty Storage Agreement is a bilateral commercial agreement, it is of great interest to First Nations and stakeholders, with whom consultation is planned. The Committee was informed that a term sheet is expected to be negotiated by the spring at which time it will be presented to the board for approval, as well as a general update on the negotiations.

After further discussion, the following resolution was passed:

RESOLVED THAT the Audit and Risk Management Committee recommend the following resolution to the Board of Directors for approval:

RESOLVED THAT, on recommendation from the Audit and Risk Management Committee, the negotiation mandate for the Non-Treaty Storage Agreement between BC Hydro and Bonneville Power Administration be and is hereby approved by the Board of Directors; PROVIDED THAT the negotiations and subsequent actions comply with the following conditions:

- 1. The key negotiation principles outlined in the recommendation made to the Board and included in the materials filed for reference with the meeting record be honoured; and*
- 2. Outcomes of the negotiations be reflected in a term sheet which shall be subject to further approval of the Board.*

6.1 Waneta Expansion

Management presented an overview of the materials previously provided to the Committee and filed with the meeting records.

The Committee asked about the proposed transactions in the context of the Clean Power Call. Management explained that while there were some distinctions, there are significant similarities between this project and the types of projects that were bid into the Clean Power Call. Management went on to explain the involvement of the Government to date in shaping this transaction.

Management also noted that part of the arrangement involves a renewal of the Arrow Lakes energy purchase agreement at an attractive price which further enhances the value of the proposed transactions.

After further discussion, the following resolution was approved:

RESOLVED THAT the Audit and Risk Management Committee recommends the following resolution be approved by the Board of Directors:

RESOLVED THAT:

- 1. the non-binding term sheet for the Waneta Expansion Project, as presented to the Board and filed for reference with the meeting record, be and is hereby approved;*
- 2. the CEO, or delegate, be and is hereby authorized to sign the non-binding term sheet referred to in paragraph 1, above.*
- 3. the CEO, or delegate, be and is hereby authorized to sign such agreements as described in the materials presented to the Board and contemplated by the nonbinding term sheet referred to in paragraph 1, above.*

PROVIDED THAT:

- a. the mandate, and associated principles, approved by the Board in its meeting of January 29, 2010 continue to apply and all subsequent negotiations are subject thereto;*
- b. that the CEO has determined that the Project is advanced in a manner that is consistent with maintaining the honour of the Crown in the context of its obligations to First Nations;*
- c. that all agreements, documents, purchase orders and payments are in substantial conformity with the terms presented to the Board; and,*
- d. authority to approve and execute all related lesser agreements, documents, purchase orders and payments be as provided by BC Hydro's policies of general application.*

7. Terms of Reference Review

The Committee and management engaged in a brief discussion around the proposed changes to the Terms of Reference. One change was discussed by the Committee, after which the following resolution was approved:

RESOLVED THAT, the Audit and Risk Management Committee support the Corporate Governance Committee in making a recommendation to the Board of Directors that it approve amendments to the Audit and Risk Management Committee Terms of Reference in the form presented to the Committee and filed for reference with the records of this meeting, provided that additional language be added to clarify that discussions with or about the Director of Audit Services need not take place at every meeting of the Committee.

REPORTS AND UPDATES

8. Risk Management Quarterly Report

Management presented the Quarterly Risk Report noting that it was prepared in July and updated the Committee on issues that have arisen since that time. The Committee and management engaged in a discussion into a number of the identified risks, focusing in particular on the reduction in the risks of having insufficient generation to meet the winter peak.

9. Update on International Financial Reporting Standards

Management provided the Committee with an update into Government's expectations of BC Hydro with respect to IFRS. It was drawn to the Committee's attention that the Province has directed BC Hydro, as a regulated entity, to adopt IFRS, however, if IFRS does not have a regulatory accounting standard, then the Province's direction is that BC Hydro is to adopt IFRS plus the US GAAP standard for regulatory accounting. The Committee was further advised that the Province also directed BC Hydro to take advantage of the two year deferral of IFRS proposed by the Canadian Accounting Standards Board, if approved. However, as only a one year deferral was actually

approved, management advised the Committee that BC Hydro is assessing whether or not it makes sense to take advantage of the one year deferral and will work with government in finalizing its decision.

10. Report of the Internal Auditor

Internal Audit presented an overview of the materials previously provided to the Committee and filed for reference with the meeting records.

Internal Audit also explained their involvement with the project evaluation review completed for the Coquitlam Dam Upgrade and the plans that are in place to conduct similar reviews for certain other projects in the future.

TABLED REPORTS

11. Pension Management Quarterly Report
12. Information Technology Update
13. Accounting Standards Update
14. Summary of Significant Legal Claims
15. Summary of Financial Concerns – Code of Conduct Advisor
16. Executive Liability Insurance Renewal Strategy
17. Long Term Sourcing Strategy – Accenture End of Term
18. KPMG Management Letter

OTHER BUSINESS

19. Committee Terms of Reference Checklist

The Committee reviewed the Terms of Reference Checklist, confirming that it had addressed all issues requiring its attention at the current time.

There being no further business, the meeting proceeded in camera and then concluded.

EXECUTIVE SUMMARY

FINANCIAL HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2010

PURPOSE

To provide the ARMC and the Board the highlights of the second quarter results for fiscal 2011.

Key Highlights

<i>(in millions)</i>	<i>For the three months ended September 30</i>		
	2011 Actual	2011 Plan	2010 Actual
Revenues			
Domestic	\$ 768	\$ 766	\$ 735
Trade	405	403	831
	1,173	1,169	1,566
Expenses			
Operating costs			
Cost of energy	564	565	964
Personnel expenses	140	145	118
Material and external services	142	149	146
Amortization & Depreciation	128	124	121
Grants and Taxes	45	45	43
Capitalized Costs	(76)	(73)	(73)
Other costs	(2)	(3)	2
	941	952	1,321
Finance charges	113	111	130
	1,054	1,063	1,451
Net Income	\$ 119	\$ 106	\$ 115

Net income for the second quarter of fiscal 2011 after regulatory transfers is \$119 million, \$4 million higher than the same period in the prior year and \$7 million higher than Plan. The key variances are as follows:

<i>in millions</i>	Prior year Q2	Q2 Plan
Net income - prior year/plan	\$ 115	\$ 106
Domestic Margins	(4)	5
Trade Income	13	0
Operating expenses	(22)	10
Finance Charges	17	(2)
Net income - as reported	\$ 119	\$ 119

Honda, Henry

From: Honda, Henry
Sent: 2015, December 10 6:40 PM
To: Avren, David
Subject: Re: Privileged and confidential

David

Hi, I will try and contact you tomorrow to discuss. I don't have access to these reports and records anymore as they are maintained by internal audit so I will likely need to work with them to answer some of the questions below as I don't remember all the details. Thanks

Henry

Sent from my iPhone

On Dec 10, 2015, at 5:06 PM, Avren, David <David.Avren@bchydro.com> wrote:

Hi, Henry:

This has come back in the form of a complaint, in almost identical terms, to the BCUC by Adrian Dix.

Could you let me know the answers to Ray's questions below, please? I'll pass the answers along to him. (I'm pretty sure I know the answer to the last 2 but let's collaborate on them.)

Thanks.

D.

David Avren
Director, Legal Services

BC Hydro
333 Dunsmuir St, 16th floor
Vancouver, BC V6B 5R3

P 604 623 3611
M 604 816 3074
E david.avren@bchydro.com

bchydro.com

Smart about power in all we do.

From: Aldeguer, Ray
Sent: 2015, December 10 4:37 PM
To: Avren, David
Subject: RE: Privileged and confidential

Hi David, could you please follow-up with Henry Honda on the following:

- Can he provide us with a copy of the 'final' version of this report and/or confirm that the one you sent me is it?

- Can he confirm who the report was in fact provided to by name and their roles at the time (i.e. to the Chair of the Audit Committee, to the CEO, to the CFO, other?)
- Was there any presentation or briefing given to either the Audit Committee or to the full Board and if so who delivered that presentation/briefing and when did that occur?
- Was the identity of the original complainant ever made known to us?
- Was outside counsel involved or consulted on any of the investigation process or legal conclusions, and if so whom?

Cheers!

R.

From: Avren, David
Sent: 2015, December 10 3:48 PM
To: Aldeguer, Ray
Subject: FW: Privileged and confidential

David Avren
Director, Legal Services

BC Hydro
333 Dunsmuir St, 16th floor
Vancouver, BC V6B 5R3

P 604 623 3611
M 604 816 3074
E david.avren@bchydro.com

bchydro.com

Smart about power in all we do.

From: Honda, Henry
Sent: 2010, August 16 11:06 AM
To: Advisor, Code of Conduct
Cc: Avren, David
Subject: Privileged and confidential

Bonita,

David Avren has asked me to send you the report again on his behalf. Please let David know if you have any questions on the report. Thanks again and enjoy the rest of the summer.

Henry

From: Advisor, Code of Conduct
Sent: 2010, August 05 4:57 PM
To: Honda, Henry
Subject: Re: Privileged and confidential - Revenue requirements related issue

Would you mind please re sending me the report. Thanks Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
To: Avren, David; Advisor, Code of Conduct
Sent: Wed Aug 04 16:10:44 2010
Subject: RE: Privileged and confidential - Revenue requirements related issue

Bonita,

Hope things are well. I wanted to confirm whether you had any questions / comments on the report below sent to you by David Avren. We will be providing a copy of this report to the Chair of the Audit & Risk Management Committee next month. Hope you are enjoying the summer.
Thanks

Henry

From: Avren, David
Sent: 2010, July 14 4:05 PM
To: Advisor, Code of Conduct
Cc: Honda, Henry
Subject: Privileged and confidential - Revenue requirements related issue

Bonita:

The attached report was prepared by Legal with the assistance of Audit Services, and is privileged and confidential.

If you have any questions, please contact Henry or myself. Henry will be away on AV starting Friday and myself starting Monday, so either before then or in August when we're back.

Regards,

David

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

Honda, Henry

From: Honda, Henry
Sent: 2015, December 11 3:44 PM
To: Avren, David
Subject: RE: Privileged and confidential

David,

Apologies for the delay, please see my responses below and feel free to let me know if you would like to have a call to discuss. I will be in a meeting at 4pm until 4:30pm but will be free after that.

Thanks

Henry

Henry Honda, CA, CPA (Illinois) | Senior Manager, Finance
Capital, Evaluations, & Business Support Team
T 604-529-5845

From: Avren, David
Sent: 2015, December 10 5:06 PM
To: Honda, Henry
Subject: FW: Privileged and confidential

Hi, Henry:

This has come back in the form of a complaint, in almost identical terms, to the BCUC by Adrian Dix.

Could you let me know the answers to Ray's questions below, please? I'll pass the answers along to him. (I'm pretty sure I know the answer to the last 2 but let's collaborate on them.)

Thanks.

D.

David Avren
Director, Legal Services

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From: Aldeguer, Ray
Sent: 2015, December 10 4:37 PM

To: Avren, David
Subject: RE: Privileged and confidential

Hi David, could you please follow-up with Henry Honda on the following:

- Can he provide us with a copy of the 'final' version of this report and/or confirm that the one you sent me is it? Audit does not have a "Final" version in our files as the report was to be issued by Legal Services. Therefore, the last version we have is the draft version sent to Bonita.
- Can he confirm who the report was in fact provided to by name and their roles at the time (i.e. to the Chair of the Audit Committee, to the CEO, to the CFO, other?) As noted above, we don't have a "Final" version on our files but the draft version was likely provided to the Chair of the Audit Committee as part of a pre-ARMC meeting.
- Was there any presentation or briefing given to either the Audit Committee or to the full Board and if so who delivered that presentation/briefing and when did that occur? The issue would have been discussed with the ARMC in the in-camera session and a summary quarterly report on special investigations would have been provided to the ARMC in-camera (we can provide this summary to you if requested). We would not have provided any versions to the CEO or CFO as they should have received from Legal Services to maintain the privileged and confidential nature.
- Was the identity of the original complainant ever made known to us? No and we did not ask.
- Was outside counsel involved or consulted on any of the investigation process or legal conclusions, and if so whom? We have some e-mails which indicate that Jeff Christian may have been engaged but you may have more info on this.

Cheers!

R.

From: Avren, David
Sent: 2015, December 10 3:48 PM
To: Aldeguer, Ray
Subject: FW: Privileged and confidential

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From: Honda, Henry
Sent: 2010, August 16 11:06 AM
To: Advisor, Code of Conduct
Cc: Avren, David
Subject: Privileged and confidential

Bonita,

David Avren has asked me to send you the report again on his behalf. Please let David know if you have any questions on the report. Thanks again and enjoy the rest of the summer.

Henry

From: Advisor, Code of Conduct
Sent: 2010, August 05 4:57 PM
To: Honda, Henry
Subject: Re: Privileged and confidential - Revenue requirements related issue

Would you mind please re sending me the report. Thanks Bonita
Bonita J. Thompson, QC
Code of Conduct Advisor
604-623-4419

From: Honda, Henry
To: Avren, David; Advisor, Code of Conduct
Sent: Wed Aug 04 16:10:44 2010
Subject: RE: Privileged and confidential - Revenue requirements related issue

Bonita,

Hope things are well. I wanted to confirm whether you had any questions / comments on the report below sent to you by David Avren. We will be providing a copy of this report to the Chair of the Audit & Risk Management Committee next month. Hope you are enjoying the summer.

Thanks

Henry

From: Avren, David
Sent: 2010, July 14 4:05 PM
To: Advisor, Code of Conduct
Cc: Honda, Henry
Subject: Privileged and confidential - Revenue requirements related issue

Bonita:

The attached report was prepared by Legal with the assistance of Audit Services, and is privileged and confidential.

If you have any questions, please contact Henry or myself. Henry will be away on AV starting Friday and myself starting Monday, so either before then or in August when we're back.

Regards,

David

J. David S. Avren Tel: 604-623-3611
Director of Legal Services Fax: 604-623-3606
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6th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Avren, David
Sent: Monday, December 14, 2015 3:18 PM
To: Aldeguer, Ray
Cc: Loski, Tom
Subject: RE: Investigation

I've copied what I have so it's ready whenever Tom wants it.
D.

David Avren
Director, Legal Services

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From: Aldeguer, Ray
Sent: 2015, December 14 2:57 PM
To: Avren, David
Cc: Loski, Tom
Subject: Investigation

Hi David, just a quick heads-up that Tom will be in touch with you shortly for any documents/notes that you have that may be relevant to his investigation.

Cheryl is similarly in the process of asking Henry Honda to provide what he has to Tom.

Plan is to review all of that over the next 24 hours.

Cheers!

Ray Aldeguer | Senior Vice President & General Counsel

BC Hydro
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E ray.aldeguer@bchydro.com

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Honda, Henry

From: Prinja, Rick
Sent: 2015, December 16 7:49 AM
To: Honda, Henry
Subject: RE: Fwd: File

Ok I'm on my way in. I need about 30 45 minutes to put stuff together. By 945 sb done.

Sent from my Android phone using Symantec TouchDown (www.symantec.com)

-----Original Message-----

From: Honda, Henry [Henry.Honda@bchydro.com]
Received: Tuesday, 15 Dec 2015, 10:15PM
To: Lagnado, Albert [Albert.Lagnado@bchydro.com]; Prinja, Rick [rick.prinja@bchydro.com]
Subject: Fwd: File

FYI... We need to provide any files we have to Tom Loski first thing tomorrow. Let's discuss in the morning. Thanks

Henry

Sent from my iPhone

Begin forwarded message:

From: "Aldeguer, Ray" <Ray.Aldeguer@bchydro.com>
Date: December 15, 2015 at 7:37:01 PM PST
To: "Yaremko, Cheryl" <Cheryl.Yaremko@bchydro.com>, "Loski, Tom" <Tom.Loski@bchydro.com>, "Honda, Henry" <Henry.Honda@bchydro.com>
Subject: Re: File

Hi folks, I'm alarmed to see that Tom has still not received and reviewed this material. I had no problem routing through David when I thought it would get to Tom for review early today but we no longer have time for that. Can we have Henry get this material directly to Tom first thing in the morning? It could be very relevant to the messaging we're developing for release tomorrow.

R.

On Dec 15, 2015, at 6:08 PM, Yaremko, Cheryl <Cheryl.Yaremko@bchydro.com> wrote:

FYI

Sent from my iPhone

Begin forwarded message:

From: "Honda, Henry" <Henry.Honda@bchydro.com>
Date: December 15, 2015 at 5:45:10 PM PST

To: "Yaremko, Cheryl" <Cheryl.Yaremko@bchydro.com>

Subject: Re: File

Cheryl

We are meeting with him tomorrow to provide what Internal Audit had. We tried to meet with him today but he didn't have time.

Henry

Sent from my iPhone

On Dec 15, 2015, at 5:38 PM, Yaremko, Cheryl
<Cheryl.Yaremko@bchydro.com> wrote:

Hi Henry - have you gotten the file to David?

Cheryl

Sent from my iPhone

Honda, Henry

From: Prinja, Rick
Sent: 2015, December 16 10:28 AM
To: Loski, Tom
Cc: Lagnado, Albert; Honda, Henry
Subject: RE: Update

Hi Tom

Based on our collective recollection, David A was maintaining minutes for that meeting.

Thanks
Rick

From: Loski, Tom
Sent: 2015, December 16 10:26 AM
To: Prinja, Rick
Subject: RE: Update

Hi Rick, in the info, I cannot locate the interview notes etc from [REDACTED]
Can you point me in right direction please.
Thanks

Tom Loski | Chief Regulatory Officer

BC Hydro
333 Dunsmuir St, 16th floor
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M 604 839 3899
E tom.loski@bchydro.com

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From: Prinja, Rick
Sent: 2015, December 16 9:39 AM
To: Loski, Tom
Cc: Lagnado, Albert
Subject: Update

Hi Tom,

I just spoke to Director Lagnado and we will give you the entire file on a USB stick. Should be ready shortly.

Thanks
Rick

From: Avren, David
Sent: Wednesday, December 16, 2015 12:55 PM
To: Loski, Tom
Subject: FW: Privileged and confidential - additional questions re: RRA

Hi, Tom:

I have no documentation on the answers to these supplementary questions. The last 3 questions in the list below were mine, all the others emanated from audit.

We met with [REDACTED] late afternoon on 29 June, and I sent a note summarizing things to Henry etc. after that meeting with [REDACTED]. My electronic scheduler does not show a meeting with [REDACTED] after I sent the note below and before I sent my summary to Henry after the meeting with [REDACTED].

My recollection, though faint, is that we got oral answers from [REDACTED] in a further meeting with him, and they enabled me to prepare the summary I did.

I'll check with Henry and co on their meeting recollections etc.

D.

David Avren
Director, Legal Services

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From: Avren, David
Sent: 2010, June 25 11:15 AM
To: [REDACTED]
Cc: Prinja, Rick; Honda, Henry
Subject: Privileged and confidential - additional questions re: RRA

Hi, [REDACTED]

Sorry to pester you further on this, but Henry, Rick and I had some further questions. Your call whether you'd like to answer in writing or via a discussion like earlier this week. Here they are:

Can you please elaborate on what other SAP related processes (projects) outside of Financials, the SAP financial licenses described in Appendix I of the F11 RRA are used in? Could labelling these costs as "SAP Financials License" in the RRA be in any way inaccurate or misleading?

Of the \$3.3M spent on licenses, can you provide a breakdown of the license costs by current or future SAP related projects (ie.- Financials, PPM, WOM)?

Can you please provide a copy of the end-user licensing agreements with SAP for the \$3.3M purchase?

Can you please confirm that annual support and maintenance costs are not included in the \$3.6m IOMA balance in the FSR Project Summary "Life to Date Spend" memo prepared by Ryan, and also not included in the \$18.7M EAR funding request?

Can you please provide any documentation or guidance that prescribes what costs should be included in IT related business cases when making an investment proposal?

Can we please see the business case and approved EAR for the Peoplesoft Financial Upgrade Project?

Was there instruction in the witness training or otherwise on not filing draft documents at the BCUC?

On the face of it the IT and T Update on Strategy Development of 22 May 2008 (which went to ARMC) appears final. In what way or sense was it "draft"?

At the time of the hearing in October 2008, what was the relative likelihood of the SAP solution proceeding as opposed to the Peoplesoft solution proceeding? How and why had the perspective changed on this choice since the filing in October 2007? (For the sake of context, recall that the IT and T update of May 2008 states "SAP will be used as a default solution", and the SAP Licensing Phase 1A Business Case of Sept. 24, 2008 states: "This is expected to be the first of a series of purchases from SAP to secure licensing to support BC Hydro's SAP program. This is in alignment with the recently adopted IT and T strategy as approved by ARMC....")

Thanks, [REDACTED]

D.

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Director of Legal Services Fax: 604-623-3606
BC Hydro
16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prinja, Rick
Sent: 2010, June 25 10:29 AM
To: Avren, David
Cc: Honda, Henry
Subject: additional questions

Hi David

Here are my additional questions for [REDACTED]

Can you please elaborate on what other SAP related processes (projects) outside of Financials, the SAP financial licenses described in Appendix I of the F11 RRA are used in? Is it fair to say that labelling these costs as "SAP Financials License" in the RRA is slightly misleading?

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Can you please provide any documentation or guidance that prescribes what costs should be included in IT related business cases when making an investment proposal?

Can we please see the business case and approved EAR for the Peoplesoft Financial Upgrade Project?

Thanks
Rick

Rick Prinja, CA
Audit Services

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12th Floor, 333 Dunsmuir Street
Vancouver, BC V6B 5R3
Tel: 604-623-3722 (73722)
Cell: 604-250-6559
Fax: 604-623-3792

Honda, Henry

From: Prinja, Rick
Sent: 2015, December 16 2:30 PM
To: Honda, Henry; Lagnado, Albert
Subject: FW: Privileged and confidential - additional questions re: RRA

FYI below. There was a follow up meeting on July 5th with [REDACTED] as well.

From: Avren, David
Sent: 2015, December 16 2:14 PM
To: Prinja, Rick
Subject: RE: Privileged and confidential - additional questions re: RRA

I rarely keep notes.

I see we had a meeting scheduled with [REDACTED] 5 July.

D.

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From: Prinja, Rick
Sent: 2015, December 16 2:13 PM
To: Avren, David
Subject: RE: Privileged and confidential - additional questions re: RRA

Do you have any notes from the in person meeting with [REDACTED]

From: Avren, David
Sent: 2015, December 16 2:05 PM
To: Prinja, Rick
Cc: Lagnado, Albert; Honda, Henry
Subject: RE: Privileged and confidential - additional questions re: RRA

Ok, thanks

Tom was asking about answers to the supplementals, which would have been during that time period I think.

D.

David Avren
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From: Prinja, Rick
Sent: 2015, December 16 2:02 PM
To: Avren, David
Cc: Lagnado, Albert; Honda, Henry
Subject: RE: Privileged and confidential - additional questions re: RRA

Hi David

Responses to questions below:

- 1) I have attached the meeting request with [REDACTED] for June 23, 2010 which was attended by Henry, myself and you.
- 2) We don't have any record other than questions for [REDACTED]. We recall that for this meeting that Legal was taking the notes.

Thanks
Rick

From: Avren, David
Sent: 2015, December 16 12:57 PM
To: Honda, Henry; Prinja, Rick
Subject: FW: Privileged and confidential - additional questions re: RRA
Importance: High

Henry/Rick:

1. Do your records (including electronic scheduler) show a meeting with [REDACTED] to get the answers to the questions below? My scheduler doesn't show it, but does show a meeting for us with [REDACTED] 29 June 2010 in the pm.
2. Do you have any record at all of [REDACTED] answers – notes or whatever?

The last 3 bullet points contained my questions, and the rest were more from yourselves as I recall.

Let me know ASAP. Thanks,

D.

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From: Avren, David
Sent: 2010, June 25 11:15 AM
To: [REDACTED]
Cc: Prinja, Rick; Honda, Henry
Subject: Privileged and confidential - additional questions re: RRA

Hi, [REDACTED]

Sorry to pester you further on this, but Henry, Rick and I had some further questions. Your call whether you'd like to answer in writing or via a discussion like earlier this week. Here they are:

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Thanks, [REDACTED]

D.

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16th floor, 333 Dunsmuir St.,
Vancouver, B.C.
Canada V6B 5R3

From: Prinja, Rick
Sent: 2010, June 25 10:29 AM
To: Avren, David
Cc: Honda, Henry
Subject: additional questions

Hi David

Here are my additional questions for [REDACTED]

Can you please elaborate on what other SAP related processes (projects) outside of Financials, the SAP financial licenses described in Appendix I of the F11 RRA are used in? Is it fair to say that labelling these costs as "SAP Financials License" in the RRA is slightly misleading?

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Can you please provide any documentation or guidance that prescribes what costs should be included in IT related business cases when making an investment proposal?

Can we please see the business case and approved EAR for the Peoplesoft Financial Upgrade Project?

Thanks
Rick

Rick Prinja, CA
Audit Services

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Fax: 604-623-3792

From: Avren, David
Sent: Monday, December 21, 2015 11:07 AM
To: Loski, Tom
Cc: Honda, Henry; Yaremko, Cheryl; Aldeguer, Ray; Prinja, Rick
Subject: FW: Investigation

Tom:

A quick response from Rick is below. He also recalls that Albert Lagnado was involved.

D.

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Director, Legal Services

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From: Prinja, Rick
Sent: 2015, December 21 10:54 AM
To: Avren, David
Cc: Honda, Henry; Lagnado, Albert
Subject: RE: Investigation

Hi David

Your responses seem pretty accurate to me as I recall. Probably a minor point but this assignment was a review strictly focused on the allegations rather than an audit per se.

Thanks
Rick

From: Avren, David
Sent: 2015, December 21 10:42 AM
To: Prinja, Rick
Cc: Honda, Henry
Subject: FW: Investigation

Hi, Rick:

Fyi...

D.

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From: Avren, David
Sent: 2015, December 21 10:36 AM
To: Loski, Tom; Honda, Henry
Cc: Aldeguer, Ray; Fraser, Janet
Subject: RE: Investigation

Hi, Tom.

I have not conferred with Henry on this, so let's see if he's consistent with what I recall, below....!

If you need more, I'm around all week.

D.

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From: Loski, Tom
Sent: 2015, December 21 8:02 AM
To: Avren, David; Honda, Henry
Cc: Aldeguer, Ray; Fraser, Janet
Subject: Investigation

Hi David and Henry. I have some questions for the two of you regarding the 2010 COC review with respect to the IT issue that arose out of the RRA hearing in 2008, after having read the documents provided to me. The documents I have were those that you provided me directly David as well as the documents I received from Albert Lagnado and Rick Prinja from Internal Audit. Henry, I was told the documents provided me by Albert and Rick represent 100% of the documents Internal Audit have on this file.

In the documents I have included is an audit plan. That plan set out an interview plan for four people. [REDACTED] Charles Reid, [REDACTED] [REDACTED] and external regulatory counsel (Jeff Christian).

In the file that David provided were answers to questions for [REDACTED] [REDACTED] only that I could see. These seemed to be written responses by [REDACTED] to written questions posed to him. There were no interview notes for [REDACTED]. There were no interview notes that I could see for the other three individuals in the documents provided me from David.

In the documents David provided there were two sets of additional questions posed to [REDACTED] via email. In a previous email David has informed me that he does not have any responses from [REDACTED] in his files to these additional questions. David also told me he does not recall whether [REDACTED] answered the questions or not.

In the documents from Internal Audit were notes from an interview with [REDACTED]. There were no notes that I could see from interviews with the other three individuals.

Based in this information I have a number of questions for both of you (David and Henry) that we need answered.

Questions:

Which of the four individuals ([REDACTED] [REDACTED] Reid, Christian) were interviewed? Who interviewed each of the individuals? I spoke with all of the individuals. [REDACTED] and [REDACTED] were in person with Henry and/or Rick present as I recall – both I believe, Jeff Christian was over the phone by me.. Charles was a meeting with Ray present I believe, and I am not sure about Henry or Rick. Particularly with Charles I would not call it an “interview”, it was a meeting to discuss the results to that point.

If any of these four individuals were not interviewed please provide an explanation as to why they were not interviewed and who made that decision. Were any other employees involved in that decision making process other than the two of you? Rick Prinja was involved.

Was [REDACTED] interviewed or only provided written questions to which he responded in written form? [REDACTED] was interviewed at least once. The first set of questions ensued from that interview – that interview partly explored the issues, but was mostly to set the stage and get him thinking and recalling. As I recall we gave him a package of key documents, as we did with [REDACTED] for fairness and to ensure fairness and fullness of comprehension and recall.

If Reid and Christian were interviewed provide notes or an explanation as to why no notes are in the files. Reid was met with, not really interviewed. Christian I spoke with over the phone. My practice in this sort of circumstance (as opposed to taking witness statements or notes for future potential witness statements for a legal proceeding) is to take transitory notes of points that had something to add to what was in issue, that tended to confirm or deny the assertions, then destroy them later after they are transformed into conclusions or reports or questions or operative documents. If someone had nothing to add (e.g. Jeff Christian), no notes were necessary as the exercise was relatively short-lived. In my mind it was not the appropriate procedure, for an in-house review as opposed to a termination related inquiry, say - - to take notes during the interview, plus it makes it harder, at least for me, to concentrate on the answer and the supplemental questions. So the notes I made were sketchy, written mainly immediately after the interviews, and probably only understandable by myself both for legibility and content. They would have been destroyed after the report was done and a little grace period had elapsed to see if there were any questions arising. Jeff Christian I needed no notes for nor any mention or endorsement in the report: he had no involvement in the particulars of the issue and knew nothing of it at the time. Charles Reid was not really an interview, as I said. As I recall he affirmed that no decision had been made as of the time of the hearing, and that was the only real point of direct relevance. That was consistent

with what we had already learned so no further notation needed to be made. I also spoke with Bonita Thompson, and offered to meet with the complainant to discuss the conclusion, if he or she wanted. (Neither Henry nor myself have ever known who it was.)

Were the conclusions of the audit based on interviews with Reid and Christian? If not, provide an explanation as to why not and an explanation as to who made that decision. Christian had no familiarity with the issue or the background. The issue did not come up for him in the proceeding in a way that required him to insert or inform himself. Reid, as I recall, was mainly a matter of reporting back to him the status of the investigation and report. I distinctly recall some of the feedback he gave, which I can go into in person if you wish.

Were any other employees involved in that decision making process other than the two of you? Rick Prinja.

Henry do you have notes or responses from [REDACTED] for the additional questions posed to [REDACTED] Do you recall whether [REDACTED] responded to these additional questions? I do not recall the outcome or whether [REDACTED] answered further. It could be I followed up with him by phone on the matters of particular interest from my point of view (viz. the last 3 questions, but I am trying not to force (and maybe manufacture) recollections. I would absolutely have wanted to be sure of his answers on things that were vital to my particular points of concern before I reached my own conclusions. I did not cross-examine [REDACTED] for credibility; that would not have been appropriate to the proceeding or my role, nor on the face of it were there grave inconsistencies that required that sort of engine to be brought to bear.

Do either of you recall your thought process for concluding the audit and presenting your findings, without including [REDACTED] responses to the additional questions, if he did not answer them. In a similar vein, if either or both of Reid and Christian were not interviewed do you recall your thought process for completing the audit without interviewing them? [REDACTED] answers and interview, [REDACTED] interview, and the evidence given at the hearing, plus internal documents showing the state of play on the issue behind the scenes were the key elements for my part. I do recall my thought process and can describe that to you in person or by separate note if you wish. As per the report and my notes, my conclusion is pretty much consistent with the public statement issued: we met our evidentiary obligations, but it was not the best or most complete evidence possible (meaning issues of judgment were raised.)

I look forward to your replies. I may have some further questions.

Respectfully,

Tom Loski | Chief Regulatory Officer

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From: Honda, Henry
Sent: Wednesday, December 23, 2015 3:33 PM
To: Avren, David; Loski, Tom
Cc: Aldeguer, Ray; Fraser, Janet; Prinja, Rick; Lagnado, Albert
Subject: RE: Investigation

Tom,

I met with Albert and Rick this morning to have a preliminary review of the files and related e-mails that Internal Audit has on this review. I still need a bit more time to review all the information. However, in general, based on what I have reviewed so far, I agree with David's responses below. However, I would like to finish reviewing the information to see if there are other additional points I can add or provide. Can you please confirm the required timing on this. It may be beneficial for all of us to meet and discuss this review when you have some time as it may be easier if we discuss the review approach and related meetings. Thanks

Henry

Henry Honda, CA, CPA (Illinois) | Senior Manager, Finance
Capital, Evaluations, & Business Support Team
T 604-529-5845

From: Avren, David
Sent: 2015, December 21 10:36 AM
To: Loski, Tom; Honda, Henry
Cc: Aldeguer, Ray; Fraser, Janet
Subject: RE: Investigation

Hi, Tom.

I have not conferred with Henry on this, so let's see if he's consistent with what I recall, below....!

If you need more, I'm around all week.

D.

David Avren
Director, Legal Services

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From: Loski, Tom
Sent: 2015, December 21 8:02 AM
To: Avren, David; Honda, Henry
Cc: Aldeguer, Ray; Fraser, Janet
Subject: Investigation

Hi David and Henry. I have some questions for the two of you regarding the 2010 COC review with respect to the IT issue that arose out of the RRA hearing in 2008, after having read the documents provided to me. The documents I have were those that you provided me directly David as well as the documents I received from Albert Lagnado and Rick Prinja from Internal Audit. Henry, I was told the documents provided me by Albert and Rick represent 100% of the documents Internal Audit have on this file.

In the documents I have included is an audit plan. That plan set out an interview plan for four people. [REDACTED] Charles Reid, [REDACTED] [REDACTED] and external regulatory counsel (Jeff Christian).

In the file that David provided were answers to questions for [REDACTED] [REDACTED] only that I could see. These seemed to be written responses by [REDACTED] to written questions posed to him. There were no interview notes for [REDACTED] There were no interview notes that I could see for the other three individuals in the documents provided me from David.

In the documents David provided there were two sets of additional questions posed to [REDACTED] via email. In a previous email David has informed me that he does not have any responses from [REDACTED] in his files to these additional questions. David also told me he does not recall whether [REDACTED] answered the questions or not.

In the documents from Internal Audit were notes from an interview with [REDACTED] There were no notes that I could see from interviews with the other three individuals.

Based in this information I have a number of questions for both of you (David and Henry) that we need answered.

Questions:

Which of the four individuals ([REDACTED], Reid, Christian) were interviewed? Who interviewed each of the individuals? I spoke with all of the individuals. [REDACTED] and [REDACTED] were in person with Henry and/or Rick present as I recall – both I believe, Jeff Christian was over the phone by me.. Charles was a meeting with Ray present I believe, and I am not sure about Henry or Rick. Particularly with Charles I would not call it an “interview”, it was a meeting to discuss the results to that point.

If any of these four individuals were not interviewed please provide an explanation as to why they were not interviewed and who made that decision. Were any other employees involved in that decision making process other than the two of you? Rick Prinja was involved.

Was [REDACTED] interviewed or only provided written questions to which he responded in written form? [REDACTED] was interviewed at least once. The first set of questions ensued from that interview – that interview partly explored the issues, but was mostly to set the stage and get him thinking and recalling. As I recall we gave him a package of key documents, as we did with [REDACTED] for fairness and to ensure fairness and fullness of comprehension and recall.

If Reid and Christian were interviewed provide notes or an explanation as to why no notes are in the files. Reid was met with, not really interviewed. Christian I spoke with over the phone. My practice in this sort of circumstance (as opposed to taking witness statements or notes for future potential witness statements for a

legal proceeding) is to take transitory notes of points that had something to add to what was in issue, that tended to confirm or deny the assertions, then destroy them later after they are transformed into conclusions or reports or questions or operative documents. If someone had nothing to add (e.g. Jeff Christian), no notes were necessary as the exercise was relatively short-lived. In my mind it was not the appropriate procedure, for an in-house review as opposed to a termination related inquiry, say - - to take notes during the interview, plus it makes it harder, at least for me, to concentrate on the answer and the supplemental questions. So the notes I made were sketchy, written mainly immediately after the interviews, and probably only understandable by myself both for legibility and content. They would have been destroyed after the report was done and a little grace period had elapsed to see if there were any questions arising. Jeff Christian I needed no notes for nor any mention or endorsement in the report: he had no involvement in the particulars of the issue and knew nothing of it at the time. Charles Reid was not really an interview, as I said. As I recall he affirmed that no decision had been made as of the time of the hearing, and that was the only real point of direct relevance. That was consistent with what we had already learned so no further notation needed to be made. I also spoke with Bonita Thompson, and offered to meet with the complainant to discuss the conclusion, if he or she wanted. (Neither Henry nor myself have ever known who it was.)

Were the conclusions of the audit based on interviews with Reid and Christian? If not, provide an explanation as to why not and an explanation as to who made that decision. Christian had no familiarity with the issue or the background. The issue did not come up for him in the proceeding in a way that required him to insert or inform himself. Reid, as I recall, was mainly a matter of reporting back to him the status of the investigation and report. I distinctly recall some of the feedback he gave, which I can go into in person if you wish.

Were any other employees involved in that decision making process other than the two of you? Rick Prinja.

Henry do you have notes or responses from [REDACTED] for the additional questions posed to [REDACTED] Do you recall whether [REDACTED] responded to these additional questions? I do not recall the outcome or whether [REDACTED] answered further. It could be I followed up with him by phone on the matters of particular interest from my point of view (viz. the last 3 questions, but I am trying not to force (and maybe manufacture) recollections. I would absolutely have wanted to be sure of his answers on things that were vital to my particular points of concern before I reached my own conclusions. I did not cross-examine [REDACTED] for credibility; that would not have been appropriate to the proceeding or my role, nor on the face of it were there grave inconsistencies that required that sort of engine to be brought to bear.

Do either of you recall your thought process for concluding the audit and presenting your findings, without including [REDACTED] responses to the additional questions, if he did not answer them. In a similar vein, if either or both of Reid and Christian were not interviewed do you recall your thought process for completing the audit without interviewing them? [REDACTED] answers and interview, [REDACTED] interview, and the evidence given at the hearing, plus internal documents showing the state of play on the issue behind the scenes were the key elements for my part. I do recall my thought process and can describe that to you in person or by separate note if you wish. As per the report and my notes, my conclusion is pretty much consistent with the public statement issued: we met our evidentiary obligations, but it was not the best or most complete evidence possible (meaning issues of judgment were raised.)

I look forward to your replies. I may have some further questions.

Respectfully,

Tom Loski | Chief Regulatory Officer

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**CULTURAL REVIEW:
CODE OF CONDUCT INVESTIGATION**

for:

BC Hydro

PRIVATE & CONFIDENTIAL

April 1, 2016

Prepared for:

Ms. Janet Fraser,

Senior Vice President Corporate Affairs & Chief Human Resources Officer

Investigator:

[REDACTED]
Lawyer, Mediator & Investigator

**CULTURAL REVIEW:
CODE OF CONDUCT INVESTIGATION**

Background

In January 2016, Butler Workplace Solutions and specifically [REDACTED] (the "Investigator") was retained as legal counsel by Mr. Peter Clark, Ethics Officer, BC Hydro on behalf of BC Hydro ("BCH") to conduct a confidential investigation (the "Investigation"). [REDACTED] met with Ms. Janet Fraser, Senior Vice President Corporate Affairs & Chief Human Resources Officer and Mr. Clark to develop terms of reference for the Investigation (the "Terms of Reference").

On December 10, 2015, BCH received a copy of a complaint sent by Mr. Adrian Dix, MLA Vancouver-Kingsway (the "Dix Complaint"), to the BC Utilities Commission (the "BCUC") on December 8, 2015. The Dix Complaint made serious allegations against BCH, its Board and individual employees regarding testimony on information technology ("IT") expenditures during the F2009/2010 Revenue Requirements oral hearing in 2008 (the "2008 RRA"). On January 8, 2016, BCH submitted its response to the Dix Complaint to the BCUC.

The Dix Complaint and the document review that it caused BCH to undertake confirmed BCH's interest to continue to foster a respectful and open environment in which diverse opinions are encouraged and all feel free to speak up about concerns, consistent with the core values articulated in the Code of Conduct (the "Code").

The objectives of this Investigation as articulated in the Terms of Reference are as follows:

1. To determine if BCH had developed an overall culture and identified an approach to its relationship with BCUC in 2008. If so, to determine what it was and what expectations were communicated to its employees in the context of sharing information with BCUC.
2. To determine if the conduct demonstrated by BCH staff aligned with the company's expectations at the time (those of safety, service, integrity, accountability, teamwork and ingenuity).

3. To determine the nature of the employees' understanding of the regulatory process and evidentiary requirements.
4. To obtain learning's from the 2008 Regulatory Review Process to inform the development of appropriate regulatory practices in the future.

The document review carried out in responding to the Dix Complaint identified only four current BCH employees who were involved in the 2008 RRA and who may have knowledge relevant to the above referenced objectives. The Investigator met and interviewed six witnesses including the four current BCH employees and two external legal counsel who were all involved in the 2008 RRA in various capacities (the "Witnesses"). The Investigator interviewed Witnesses on February 19, March 2, 9, 10 and 11, 2016. At the request of Ms. Fraser and Mr. Clark; this Investigation summary (the "Summary Report") was prepared based on the evidence gathered and conclusions made to date, as of March 22, 2016.

Conclusions

There are inherent challenges in providing strong findings in the circumstances, in which only four relevant and current BCH employee Witnesses are available to provide evidence and when such a long time has passed (almost eight years). As such, the Investigator has provided the following conclusions that outline the key findings in connection with the objectives and questions posed in the Terms of Reference, as opposed to findings of fact on a balance of probabilities.

1. BCH IT Department: The Climate in 2008

Witnesses provided evidence about the general climate in the IT Department in 2008 and how, in their view, it contributed to the concern that the evidence provided by ■■■ ■■■ ■■■ Chief Information Officer (at that time), in the 2008 RRA, was not entirely correct. The Witness evidence indicated that in 2008, the IT Department was experiencing a number of changes that created an environment where its overall strategy was evolving and not clear to many BCH employees. In addition, there were many new IT employees and sometimes-unfilled positions within the Department. The following are the factors that likely influenced the IT Department's climate in 2008:

BUTLER WORKPLACE SOLUTIONS

- Witness evidence indicated that in 2008, a majority of the IT employees had less than two years' seniority with BCH;
 - Under [REDACTED] leadership, the IT strategy was changing from a more decentralized approach both in terms of how and where IT employees were positioned and of amalgamation of Enterprise Resource Planning (the "ERP"). Witnesses indicated that in 2008, the IT strategy changed as BCH was then working with many ERPs and there was an interest in bringing them together under one ERP;
 - ERP process change was a massive undertaking and some Witnesses said there was a lack of understanding from non-IT employees about what the process entailed which contributed to communication challenges between departments;
 - In 2008 when [REDACTED] transitioned from contractor to his role as a BCH employee, he made a number of changes that contributed to a high degree of change in the IT Department. The impact was that important senior positions were not filled that year. An example provided from one Witness was a former employee, [REDACTED] and who would have been key in managing the capital budget for the ERP Project;
 - [REDACTED] in moving the ERP initiative forward. Combined with the high degree of change in the IT Department, Witness evidence indicated this created [REDACTED] and
 - One Witness recalled a sense that with regard to the 2008 RRA, the IT Department "didn't have a solid story" to explain what "they were doing and what their intent was." The Witness recalled that the IT Department's evidence was somewhat "messy" and "unclear". A few examples follow:
 - One Witness indicated that in 2008, there was a shift "coming out of an era" where the IT strategy went from being more "piecemeal" to supporting a more integrated, effective, longer-term strategy;
 - One Witness indicated that in 2008, [REDACTED] had been tasked with a mandate to "tidy up" the IT strategy, but that the change in strategy was slow and in the period leading to the 2008 RRA, "it felt like it was in a state of flux" and that [REDACTED] explanation of the IT strategy in 2008 "was murky";
-

- One Witness indicated that there was a *"lack of executive ownership of technology"* at the time because IT was difficult for people to understand and the [then] senior executive *"didn't like thinking about it"*;
- One Witness stated that the general lack of understanding about the IT projects contributed to people asking less questions about the IT strategy. One Witness said, *"Tech is so complicated – most people have a peripheral understanding of it – it's not like building a transformer... The rest of us rely on the tech leader because we will never understand it enough to really know... maybe that's still the case today?"*;
- One Witness stated, *"Sometimes it's hard to put our arms around IT"* and that IT is more difficult to understand than a defined process or project; and
- One Witness indicated that with respect to the IT strategic plan, questions were not asked. This Witness said, *"I didn't pursue it because I didn't understand it that well."*

2. Lack of Clarity and Understanding of Significance of the Regulatory Process

The Witness evidence to date has been consistent in outlining that in 2008, there was a lack of clarity about the role of the BCUC and the roles and responsibilities of BCH employees preparing information requests ("IRs") and evidence for hearings. Witnesses described that in 2008, BCH was going through a process of *"understanding what it meant to be regulated"* because at that time, there had not been any rate hearings for a number of years.

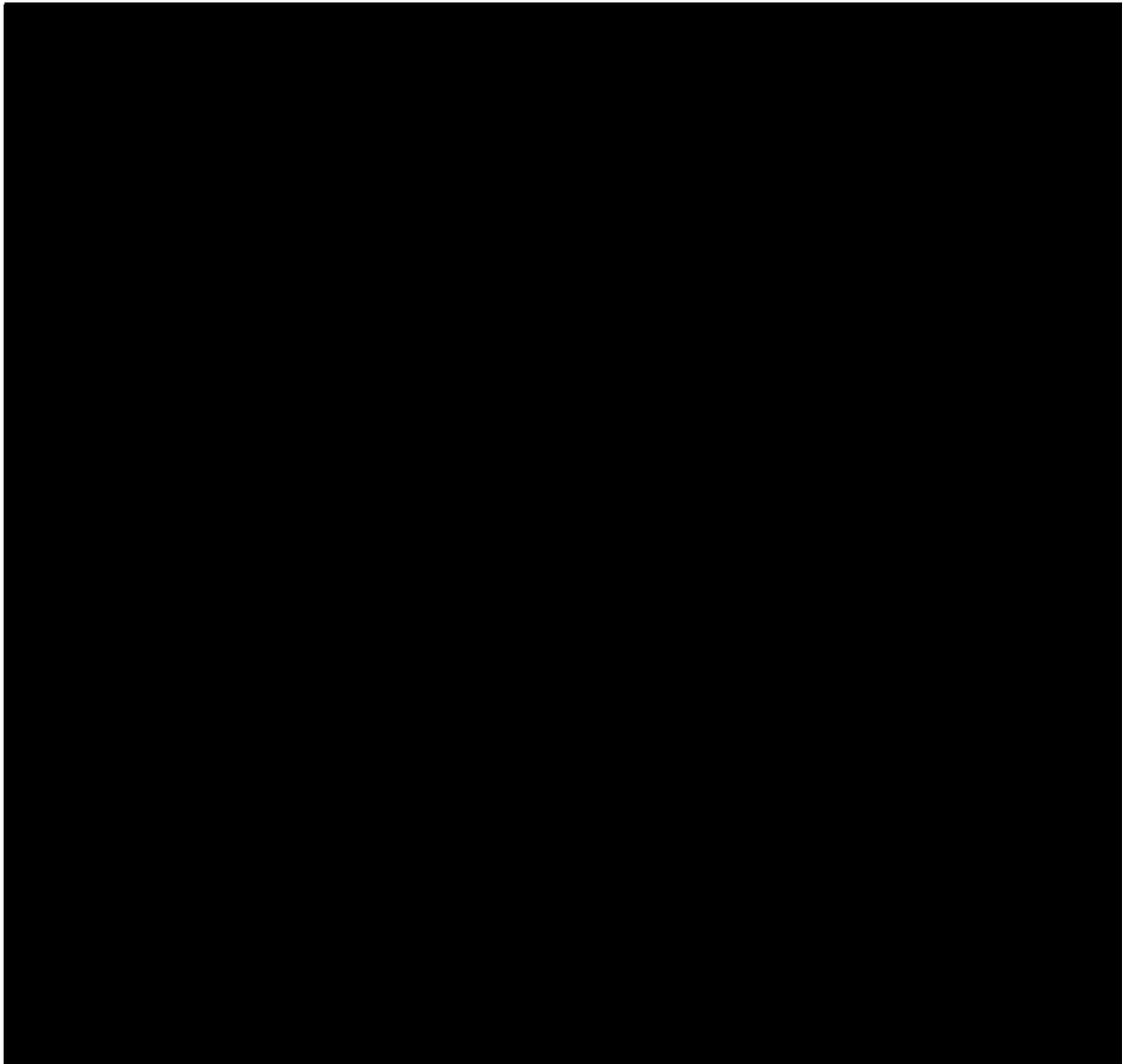
- One Witness indicated that some BCH employees were uncomfortable with the scrutiny in the regulatory process in 2008 due to their *"sheer inexperience"* in the process;
- Witness evidence indicated that while BCH was taking the 2008 RRA *"very seriously"* and many *"executives were giving a lot of time, attention and effort to the process,"* some senior leaders in 2008 felt the process was onerous and that there was not enough time for it:
 - One Witness recalled that in 2008 some senior leaders felt, *"Why should we let people look up our kimono?"*;

- One Witness recalled that for some BCH leaders, it may have been *“Uncomfortable for a non-BCH body telling us how much money to spend on what”*; and
- One Witness recalled a sense by some BCH leaders that the *“process was an annoyance... not a core-business process... done off the side of people’s desk”*;
- One Witness indicated that regular participation in the regulatory process contributes to BCH best business practices. The Witness stated, *“If you go through a process every year, you get in the habit of making good business decisions that can be scrutinized”*;
- Two Witnesses indicated a need for better training for those supporting the leaders in preparation for rate hearings so that they understand what information they should be looking for and to what extent to prioritize the regulatory work versus the regular and ongoing expectations in their job descriptions;
- One Witness stated, *“I’m not aware of how to amend regulatory testimony – even today – it’s not clear”*; and
- One Witness indicated that in 2008, BCH employees’ lack of experience with the regulatory process made it difficult to respond effectively. The Witness stated that the rapid timeline of requiring information, *“sometimes only three hours,”* made it impossible to ask questions; and that the rush to get answers did not create an environment that *“encouraged people to ask questions”* or question whether the material being provided was the best evidence.

3. [REDACTED]

[REDACTED]

- [REDACTED]



- o Witness evidence indicated the ERP strategic business plan had not been well articulated to many internally within BCH prior to the rate hearing process which may have [REDACTED] [REDACTED] [REDACTED] [REDACTED] and
- o One Witness stated that [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

4. Legal Advice and Witness Training

The evidence indicates that in 2008, there was a high degree of reliance on external counsel Lawson Lundell ("Lawson") during much of the lead up to and preparation for the 2008 RRA. During the preparation for the hearings, there was also an American witness preparation consultant (the "Witness Consultant") retained to prepare witnesses for the hearings. The substantial reliance on Lawson and the Witness Consultant created an environment in which individuals external to BCH had a significant impact on the way in which BCH witnesses and employees understood their role and participation with the BCUC in the 2008 RRA.

- One Witness stated that in 2008 for many at BCH *"the regulatory process was long forgotten... people weren't comfortable"* which led to BCH being *"quite reliant on Lawson to guide us"*;
- One Witness stated that Lawson was relied on for guidance on *"how to respond, what to say... every IR was reviewed by Lawson... [BCH] deferred to them a lot because we didn't have experience or know how"*;
- One Witness described the sense of deference to Lawson in 2008 and recalled hearing BCH employees state, *"That's what [the lawyer] wanted us to do"*;
- One Witness stated, *"Jump forward to 2012 and today, we have people who are familiar with [the regulatory process]... [Therefore we won't] be so reliant on what Lawson is telling us... but the deference to Lawson still exists"*;
- Three witness training activities were organized prior to the rate hearing in 2008:
 - Witness training, mock-cross examination, and one-on-one sessions with regulatory and external counsel; and
 - The focus on training was not about content but about demeanor (how to sit, speak and answer);
- Witnesses described their experiences with the Witness Consultant:
 - One Witness indicated many BCH employees did not feel comfortable with the Witness Consultant because the tone was extremely adversarial and *"came from a place of fear"*;

- One Witness recalled that during the 2008 RRA hearing preparation, a witness pulled her aside to voice dis-satisfaction with the Witness Consultant and said, *"They don't fit with our values and culture in how they treat us in training"*; and
- One Witness indicated the concern with the Witness Consultant was *"not the content but the way it was presented"*;
- Witness evidence indicates that the instructions from Lawson in how to respond as a witness during the hearing included:
 - Litigation is not a dialogue; and
 - It is not the witness' job to volunteer; a witness is not there to make a case for the position of the cross-examiner;
- One Witness stated, *"Perhaps we created too much fear in the process"*:
 - The Witness recalled that the hearing practice set up with the Witness Consultant and Lawson was seen by some at BCH to be *"worse than [the] actual hearing"*;
 - The Witness stated that the hearing practice was *"perhaps overblown"* and that they were *"trying to get witnesses to take it seriously"*;
 - The Witness recalled that the actual hearing process was *"very nerve-wracking for people... they just wanted to get it done"*; and
 - The Witness stated that in 2008, *"We used a military style"* to prepare people;
- One Witness stated, *"I never felt like Lawson was telling us to be evasive"* but *"I didn't like the [Witness Consultant]"*; and
- One Witness stated, *"We should try something different in terms of prepping teams for hearings and responsibility for IRs."* The Witness indicated that more coaching and use of a collaborative style as opposed to a more dictatorial style would likely be more effective.

5. Perceptions of Culture and Expectations of BCH Employees in Connection with Raising Concerns and Sharing Information

The Witness evidence to date has been consistent in articulating that they could and would come forward with concerns in connection with the 2008 RRA, both in 2008 and in the present. There was no evidence that any Witnesses had a sense of being *"silenced"* in any way in 2008.

- The Witness evidence to date indicates that in 2008, employees did not feel a sense that they were “*expected to fall in line*” with whatever evidence was being brought forward in the 2008 RRA;
 - The Witness evidence to date indicates they were not clear about the process or that there was a process to amend evidence given in hearings;
 - When asked to comment on the culture and expectations of BCH employees in sharing information with the BCUC in 2008, Witnesses stated:
 - “*I didn’t feel at the time I was being silenced – I feel the same now as well.... Even though [REDACTED] I didn’t feel silenced – there was no particular climate in IT in 2008 where we were all falling in line*”;
 - “*I had no reservations to ask questions [in 2008]*”;
 - “*If I had concerns – I would have brought them forward*”;
 - “*I heard [an employee] brought concerns about [REDACTED] testimony in the BCUC hearings to [REDACTED] and [REDACTED]*”
 - “*To my knowledge, nobody came forward at the time [to Regulatory]... if this had come up, it would have gone through the regulatory team to decide whether or not to address it in re-direct... I wonder why it didn’t come to Regulatory? Inexperience of other folks?*”;
 - “*I had no concerns about any evidence in 2008... It’s up to an individual’s strength of character... Lots of people aren’t empowered to speak up [because of] fear of making a mistake, fear of annoying their boss, fear of the regulatory process or fear of causing more work.*”
 - Given the small number of Witnesses available to provide evidence, the Investigator was unable to make further findings in connection the second objective set out in the terms of reference: *To determine if the conduct demonstrated by BCH staff aligned with the company’s expectations at the time (those of safety, service, integrity, accountability, teamwork and ingenuity)*. However evidence did indicate that the BCH values at the time were articulated clearly and communicated widely to BCH employees in a number of innovative ways including banners hanging in BCH lobbies and mouse-pads provided to employees stating the values.
-

Recommendations

1. BCH: A Regulated Utility

A number of Witnesses discussed the need for BCH employees at all levels to have a better understanding of what it means to be regulated and how regulation impacts the work being done in the organization, all the time, not only during the lead up to a hearing process such as the 2008 RRA.

One Witness suggested a "*Regulated Utility 101*" course would be valuable for employees across BCH in order for them to understand what it means to be regulated and to have clarity in how BCH approaches communication with the BCUC in any regulatory process so that it is consistent with the values articulated in the Code today.

By incorporating the expectations of regulation as an essential part of BCH's business, there is an opportunity to engage business groups to become responsible for regulatory outcomes, rather than seeing the regulatory process as something that only rests on those charged with regulatory and legal duties within BCH. When business groups and individuals feel greater ownership in the regulatory process, it would be logical that they would take greater responsibility for the messages and material being provided to the BCUC.

By integrating regulatory expectations as a part of best business practice, all business groups will hopefully become more proactive in information sharing and producing material that would be necessary in a process such as the 2008 RRA. One Witness stated he/she felt some BCH departments that are more familiar with the regulatory process are being more proactive in planning, tracking costs and making business cases with the knowledge that the information will likely be used or required by the regulator. This example lends credence to how being proactive results in better information sharing during the rate hearing process and less "*scrambling*."

2. Reliance on External Legal Counsel and Consultants

The evidence indicates that in 2008, there was a high degree of reliance on external legal counsel in the lead up to and during the preparation for the 2008 RRA. Two Witnesses indicated a view that the reliance was due in large part to the inexperience of employees in

2008 in preparing for a rate hearing. One Witness stated, "*We deferred to them a lot because we didn't have experience or know how.*"

The Witness Consultant used in 2008 made a significant and sometimes negative impact on a number of employees. One Witness stated, "*They would scare us to make sure we prepared enough.... Prepping people is important, but I'm not sure if it was the right way.*"

The evidence is clear that both Lawson and the Witness Consultant were strong influences on BCH employees preparing to be witnesses and those supporting the witnesses.

The evidence indicates that standard legal advice was provided in connection with witnesses in a litigation setting, such as "*It's not your job to volunteer information,*" "*You're not there to make a case for the position of the cross-examiner,*" and "*It's litigation – not a dialogue.*" While the advice may be typical, paired with the strong reliance on external counsel and the adversarial approach of the Witness Consultant, one can imagine an environment created where inexperienced witnesses may not have been clear on how to approach their role as a witness that would be both effective and consistent with the BCH values articulated at the time.

It is fundamental that future BCH witness and witness support teams are prepared in a way that sets them up to be successful *AND* is consistent with the values articulated in the Code, not only in order for them to effectively share information with the BCUC but in order that they feel confident that the work they are doing is in line with the expectations of BCH and its values.

3. Preparation for Regulatory Processes

Witnesses discussed the role of the employees as a witness aid, or in assisting business groups to draft IRs and the challenges created when these employees are not clear about their role. One Witness indicated that in 2008, it was never made clear "*What our role was [or] what we should do.*" Another Witness indicated employees needed more information on "*how to deal with conflicting information [and] who has the final say to decide what information*" should be brought forward in an IR, a witness binder, or an undertaking.

Another Witness described challenges created when a senior leader leaves much of the hearing preparation to employee witness aids and the "*witness aid becomes more engaged than the witness.*" While it is clear the preparation for a rate hearing must be a collaborative process in order to be effective, it cannot rest entirely with witness aids; senior leaders must be significantly engaged.

As part of the education about the regulatory process, it would be helpful to provide information about:

- any upcoming processes and what can be expected;
- the degree of time and energy likely to be required in different roles; and
- the expectations on employees in terms of how to balance increasing expectations with respect to regulatory process with the demands in their regular roles.

Further, by linking experienced BCH employees as mentors and coaches with employees who are new to regulatory processes, there is an opportunity to increase BCH's organizational knowledge and confidence in the regulatory process, share information and best practices between employees, and encourage BCH values to be incorporated into the significant effort being undertaken to satisfy the regulatory expectations.

All of which is respectfully submitted.

Date: April 1, 2016


Lawyer, Mediator & Investigator
