

1 **Q. Reference: “2021 Capital Budget Application,” Newfoundland Power, July 9, 2020**
 2 **Volume 1, Customer Service Continuity Plan, Attachment 1 “Ernst & Young LLP**
 3 **Customer Information System: Assessment Results and Planning**
 4 **Recommendations” at p. 23.**
 5

6 **Please provide details with respect to the calculation for procurement expenses and**
 7 **please provide Newfoundland Power’s determination on how these costs qualify for**
 8 **capitalization.**
 9

10 **A. A. Procurement Expenses**
 11

12 Ernst and Young LLP (“EY”) estimated third-party procurement expenses of
 13 approximately \$600,000 for the Customer Information System (“CIS”) project. This
 14 reflects the costs associated with contracting a third-party Procurement Advisor to assist
 15 in undertaking competitive tendering processes.¹
 16

17 EY’s estimate for these procurement expenses was based on an assessment of the level of
 18 effort required to conduct competitive tendering processes for a System Integrator and
 19 software vendor.²
 20

21 Table 1 provides EY’s detailed calculation of estimated third-party procurement
 22 expenses.

Table 1: Calculation of Third-Party Procurement Expenses		
Duration in Weeks (A)	-	32
Hours/Week (B)	-	40
Total projected hours (C)	A x B	1,280
Average FTE (D)	-	2.5
Total hours (E)	C x D	3,200
Rate per hour (F) ³	-	\$ 175
Total resource cost (G)	E x F	\$ 560,000
Contingency (H)	-	\$ 40,000
Total	G + H	\$ 600,000

¹ For a list of potential Procurement Advisors, see response to Request for Information CA-NP-087.

² For more information on the two-stage procurement process, see the *2021 Capital Budget Application, Volume 1, Customer Service Continuity Plan*, pages 14 to 15.

³ Reflects a blended hourly rate in CAD.

1 In addition to the third-party procurement expenses of \$0.6 million, EY estimates
 2 approximately \$0.4 million in internal labour will be required during the procurement
 3 process.⁴
 4

5 Total procurement costs are estimated to be \$1.0 million.
 6

7 **B. Accounting Treatment**

8
 9 Newfoundland Power assessed generally accepted accounting principles in the United
 10 States (“U.S. GAAP”) to determine the proper accounting treatment of costs associated
 11 with implementing a modern CIS, including procurement costs.⁵
 12

13 *ASC 350-40 Internal-Use Software* provides guidance on accounting for the cost of
 14 computer software developed or obtained for internal use. This includes guidance on
 15 which costs should be capitalized and which are more general in nature and should be
 16 expensed.
 17

18 The assessment determined that approximately \$0.4 million in procurement costs should
 19 be capitalized in accordance with ASC-350-40. This includes activities related to the
 20 application development stage that are required to implement a modern CIS.⁶
 21 Completing these tasks will help assess vendors during the procurement process and
 22 reduce potential customizations after a vendor is selected.
 23

24 According to ASC 350-40, the remaining procurement costs of approximately
 25 \$0.6 million are more general in nature and should be expensed as incurred. This
 26 includes activities associated with preparing the Request for Proposal (“RFP”) and an
 27 extended RFP process to evaluate multiple vendors.⁷
 28

29 Newfoundland Power has also assessed the accounting treatment of CIS project costs in
 30 relation to *ASC 980 Regulated Operations*. The assessment determined that ASC 980
 31 could apply to the general procurement project costs of \$0.6 million, if approved by the
 32 Board. For information on the capitalization of general procurement-related costs, see
 33 response to Request for Information PUB-NP-006.

⁴ Based on average FTEs of approximately 5.2 over the 32-week period at a blended rate of \$65/hour. See the *Accounting Treatment* section of this response for activities that will be completed by Newfoundland Power staff during procurement.

⁵ See the *2021 Capital Budget Application, Volume 1, Customer Service Continuity Plan, Attachment C, Accounting Assessment*. U.S. GAAP is established by the Financial Accounting Standards Board (“FASB”). The FASB Accounting Standards Codification (“ASC”) provides guidance on the recognition of software costs.

⁶ Activities include: (i) designing hardware architecture that supports fault tolerance, disaster recovery and system performance of a new CIS; (ii) tasks related to connecting external systems or applications to a new CIS; (iii) installing automated testing software; and (iv) detailing the specific technical and functional system requirements of the new CIS. Typically, this work would largely occur post-vendor selection. However, given the magnitude of the CIS project, these activities are expected to occur before the vendor selection process and be used to help assess potential vendors. The work is required for the new CIS and will be able to be used by any vendor post-procurement.

⁷ Given the magnitude of the CIS project, the RFP process is expected to take approximately 32 weeks and include detailed evaluation processes for multiple vendors not typically completed in a standard RFP.