

1 **Q. In the Customer Service Continuity Plan, Attachment C, Accounting Assessment,**
 2 **there are references to the guidance provided on the recognition of software costs in**
 3 **the FASB Accounting Standards Codification (“ASC”), particularly with ASC 350-**
 4 **40 Internal Use Software which provides guidance on which costs should be**
 5 **capitalized and which costs would be considered more general in nature and should**
 6 **be expensed.**

7
 8 **Newfoundland Power has estimated that approximately \$2.9 million of the total**
 9 **project cost of \$31.6 million would be categorized as costs to be expensed.**

10 **i. ASC 350-40, paragraph 350-40-25-1 states that internal and external costs**
 11 **incurred during the preliminary project stage shall be expensed as they are**
 12 **incurred. Please confirm if all of the costs for Newfoundland Power’s Pre-**
 13 **Implementation stage are included in the \$2.9 million of costs to be**
 14 **expensed? If not, please explain why.**

15 **ii. Page 2 of Attachment C, lines 16-19, indicate the costs included in the \$2.9**
 16 **million are related to data conversion, employee training and certain**
 17 **activities related to the Request for Proposals process. Please provide an**
 18 **estimated breakdown of the \$2.9 million by the type of costs captured in this**
 19 **amount by project phase and by year.**

20
 21 **A. i. Not all costs associated with the pre-implementation stage are included in the**
 22 **\$2.9 million of Customer Information System (“CIS”) project costs related to data**
 23 **conversion, employee training and certain procurement activities.¹**

24
 25 Over the 2018 to 2020 timeframe, Newfoundland Power completed an assessment
 26 for the replacement of the Company’s Customer Service System (“CSS”). The
 27 results of that assessment formed the basis of the plan included in the *2021*
 28 *Capital Budget Application* for replacing the CSS and ensuring continuity in the
 29 customer service delivery function.

30
 31 The assessment cost approximately \$1.1 million over the 3-year period.² The
 32 assessment activities included reviewing existing business processes, outlining
 33 how Newfoundland Power will continue to provide customer service over the
 34 long-term, and reviewing the Company’s existing customer data.³ These
 35 activities helped inform Ernst and Young LLP’s assessment of alternatives
 36 available to provide continuity in Newfoundland Power’s customer service
 37 delivery.

¹ Additionally, for clarity, the \$2.9 million in costs referenced in the question are proposed to be capitalized as part of the project cost.

² The actual costs incurred are consistent with Newfoundland Power’s estimates included in its 2019/2020 General Rate Application. See the Company’s *2019/2020 General Rate Application, Section 2.2.2 Balancing Costs and Service*, pages 2-10 to 2-12.

³ See the *2021 Capital Budget Application, Volume 1, Customer Service Continuity Plan, Section 2.3 Assessment and Planning Framework* for further detail on the assessment completed.

1 These assessment activities were general in nature, and were not related to
 2 bringing into service a specific asset that would provide an enduring benefit to
 3 customers.⁴ For that reason, the costs comprising the \$1.1 million figure were
 4 expensed in the year incurred.
 5

6 The \$2.9 million in project costs related to data conversion, employee training and
 7 certain procurement activities are a result of implementing the proposed modern
 8 CIS.⁵ While these activities would be considered general in nature in accordance
 9 with ASC-350-40, they are related to bringing a specific asset into service that
 10 will provide an enduring benefit to customers. For that reason, the Company has
 11 included all of these costs in the proposed capital budget for the project.
 12

- 13 ii. Table 1 provides a breakdown of the \$2.9 million in general project costs for the
 14 Customer Service System Replacement project by phase.

Table 1: General Project Costs by Project Phase (\$000s)				
	Pre- Implementation	Implementation	Post- Implementation	Total
Data Conversion	-	1,323	56	1,379
Training	-	954	-	954
Procurement	551	-	-	551
Total	551	2,277	56	2,884

15 Table 2 provides a breakdown of the \$2.9 million in general project costs for the
 16 Customer Service System Replacement project by year.

Table 2: General Project Costs by Year (\$000s)				
	2021	2022	2023	Total
Data Conversion	322	890	167	1,379
Training	-	874	80	954
Procurement	551	-	-	551
Total	873	1,764	247	2,884

⁴ These costs would be incurred whether or not a capital project related to the replacement of the Company's CSS was ultimately proposed by Newfoundland Power or approved by the Board.

⁵ These costs are incremental, in that they would not be incurred if the CIS project was not implemented.