

## **BPA 2008 Average System Cost Methodology**

### **Functionalization of Software Assets in Account 302 – Franchises and consents, Account 303 Miscellaneous intangible plant, and Account 118 Other utility plant (Common Plant –Software Assets where applicable.)**

#### **Background**

Most utility software assets are recorded in three FERC Accounts; 302 – Franchises and consents, 303 - Miscellaneous intangible plant, and 118 - Other utility plant. (Account 118 is used to record software assets that are classified as Common plant for utilities with both electric and natural gas retail customers.)

During BPA’s review of the exchanging utilities’ 2009 and 2010-2011 ASC filings, BPA noticed that Direct Analysis of software assets performed by utilities resulted in different functionalizations for similar types of software assets. For example, one utility functionalized metering and customer information system (CIS) software to Distribution/Other while other utilities functionalized such software using the PTD ratio. Section VIII of the ASCM specifies that the default functionalization for Account 303 – Intangible Plant - Miscellaneous is Direct Analysis, with an option to functionalize the Account to Distribution/Other.

The documentation for software assets can be voluminous, a large utility can easily have in excess of 1,000 separate software assets and identifying the proper functionalization for each software asset is difficult and time consuming for utility ASC analysts. In addition, the way software assets are recorded and identified in utility data bases compounds the workload for the utility. For example, a utility may record its CIS descriptively, such as “Customer Information System” or record it by the name of the vendor such as Oracle, Harris, SAP or Ventyx, or by the application name such as Xcellant, Peace, or ConsumerLinX.

During the 2009 and 2010-2011 ASC review process, BPA developed a software functionalization framework to reduce the amount of time utility ASC analysts spend on functionalizing software assets. BPA used a software functionalization framework in the 2009 and 2010-2011 Final ASC Reports to functionalize software assets for most utilities.

#### **BPA Proposal**

BPA is proposing to allow filing utilities the option of using the software functionalization framework developed in the 2009 and 2010-2011 Final ASC Reports to functionalize software assets in future ASC Review processes. This functionalization framework may be used in place of a utility performed Direct Analysis. The utility will need to submit an itemized list with a brief description of each asset and functionalize each software asset based on the functionalization framework. BPA believes that use of the functionalization framework will improve the accuracy and consistency of software

functionalization between and among utilities and reduce the administrative burden on utility and BPA ASC analysts. Because most software assets are amortized over a five year period, BPA believes that the first use of the software functionalization framework will require the most work, primarily to identify and properly functionalize existing software assets. Succeeding years should require much less effort, because the analysis and review will be focused on new software assets added during the year and because of the experience and knowledge gained during the initial review of software assets.

Use of this software functionalization framework does not preclude BPA from asking for additional information on software assets or the justification for including software assets in a particular category. In addition, BPA retains the right to reclassify individual software assets.

Utilities would still be able to perform a Direct Analysis on software assets if they do not want to use BPA's software functionalization framework. Also, if utilities believe that a specific software asset does not fit into one of the software categories, or including the software asset in its assigned category does not reflect accurately its functional nature, the utility may submit an analysis and justification to BPA supporting an alternative functionalization for the software asset.

BPA concluded that use of a dollar or percentage threshold for analysis and functionalization of software assets is not appropriate. If a utility wants to functionalize a software asset, it must properly identify and functionalize it or it will be functionalized to Distribution/Other.

BPA would like written comments from participants on the attached software functionalization framework by COB November 06, 2009.

## Software Asset Functionalization Framework

Below is a list that describes and categorizes the bulk of utility software, including the accounts associated with utility software and the functionalization BPA will use for each type of software. The following categorization reflects BPA's theory of software asset functionalization. In general, the primary purpose of utility software assets is to reduce labor cost, improve efficiency and provide better access to information. Therefore, software assets should be functionalized based on where the labor cost savings or efficiency improvements occur, or the area of the utility's organization in which the software is primarily used. For example, CIS and call center software both reduce the cost of operating a call center and increase the efficiency and quality of utilities' interactions with their customers. Utility customer information and call center labor is normally recorded in Accounts 903 - 912, which are functionalized to Distribution/Other in the 2008 ASCM. BPA functionalized CIS and call center software assets to Distribution/Other. Automated meter reading software assets reduce the labor expense associated with reading utility meters and improve the accuracy and timeliness of customer data. Utility meter reading and related expenses are normally recorded in Accounts 901 – 903. BPA functionalized automated meter reading assets to Distribution/Other.

1. ***Customer/Marketing*** – this category includes such applications as customer information systems for residential, commercial, and industrial customer billing, energy and demand management systems, meter reading, call center operations, and customer relationship management systems.
  - 1.1. *Customer Information System (CIS)* – systems that manage the residential and small commercial customer information, bill calculation and presentation, and payment processes. Distribution - Accounts 903-912.
  - 1.2. *Industrial Billing* – systems that manage the large industrial customers, bill calculation and presentation processes. Distribution - Accounts 903-912.
  - 1.3. *Energy and Demand Management Systems* – systems and software that design, administer, manage, track, and report on the utility's portfolio of Demand-Side Management (DSM) and Energy Efficiency (EE) programs. Production.
  - 1.4. *Call Center Operations* - these systems manage the operations of customer call centers including telephony and data management and employee scheduling and performance management. Distribution - Accounts 903-912.
  - 1.5. *Customer Relationship Management (CRM) System* – systems that manage information about the utility's customers. Distribution - Accounts 903-912.
  - 1.6. *Advanced Meter Infrastructure (AIM) System* – systems that measure, collect and analyze energy usage from advanced devices through various communication media on request or on a pre-defined schedule. It also includes the infrastructure (e.g., hardware, software, communications, customer associated systems, etc.)

and the meter data management system components. Distribution – Account 902.

- 1.7. *Meter Reading System* – systems that manage the meter reading for residential and commercial customers. It includes meter route management and performs limited meter read validation. Distribution - Accounts 902.
2. ***Employee Information*** – this category includes such applications as employee benefits, human resources, training, time entry, payroll, and compensation management systems.
  - 2.1. *Payroll System* – systems that calculate pay for employees and produces payments (checks or direct deposits). LABOR – Account 920.
  - 2.2. *Human Resources* – systems that maintain employee information required to pay employees and maintain individual employee personal and work-related information. LABOR – Account 920.
  - 2.3. *Training System* – systems that maintain information about all employee training requirements, schedules, certifications, courses, and update/recertification requirements. LABOR – Account 920.
  - 2.4. *Time Entry System* – systems that capture actual time and attendance information for employees. LABOR – Account 920.
  - 2.5. *Compensation Management System* – systems that optimize and automate the salary planning process and maintain information on salary history, company guidelines, employee performance and job aspirations. LABOR – Account 920.
3. ***Facilities Management*** – this category includes such applications as generation operations and management, transmission operations and management, substation operations and management, geographic information systems, asset/facilities management, and computer-aid design systems.
  - 3.1. *Geographic Information System (GIS)* – systems that integrate hardware, software, and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information. Distribution - Accounts 580-599.
  - 3.2. *Computer Aided Design (CAD)* – systems that use computers to aid in the design and particularly the drafting (technical drawing and engineering drawing) of a part or product, including entire buildings. It is both a visual (or drawing) and symbol-based method of communication whose conventions are particular to a specific technical field. Distribution - Accounts 580-599.
4. ***Financial Information*** – this category includes such applications as accounts receivable, accounts payable, general ledger, treasury and cash management, debt management, operations and capital budget preparation and management, asset accounting, work order accounting, and cost accounting systems.

- 4.1. *Enterprise Resource Planning (ERP) System* – systems that provide a common foundation for business accounting including common functions such as accounts payable, general ledger, and accounts receivable. Representative vendor solutions include: Lawson Enterprise Financial Management, Oracle B-Business Suite, PeopleSoft Enterprise Financial Management Solutions, and SAP ERP Financials. LABOR – Account 920.
- 4.2. *Treasury and Cash Management* – systems that maintain information on the cash accounts, investments cash pooling, and banking operations. Representative vendor solutions include: Oracle Cash and Treasury Management Solution, SymPro. LABOR – Account 920.
- 4.3. *Debt Management* – systems that manage the debt owned by the utility including debt instruments, notes, bonds, commercial paper, and stocks. PTDG.
- 4.4. *Budget Preparation* – systems that provide for the preparation of both the capital and operational budget. These systems are often incorporated in the ERP system (see above). LABOR – Account 920.
- 4.5. *Asset Accounting* – systems that automate the continuing property records of the utility. PTDG.
- 4.6. *Work Order Accounting* – systems that maintain an automated sub-ledger to the general ledger to account for work-in-progress accounting for both capital and operation and maintenance projects. PTDG.
- 4.7. *Cost Accounting* – systems that provide a standard cost accounting capability for both capital projects and operations and maintenance activities. LABOR – Account 920.
5. ***Management Information*** – this category includes such applications as executive information, key performance indicators, and data warehouse systems.
  - 5.1. *Executive Information* – systems that facilitate and support the information and decision-making needs of senior executives by providing easy access to both internal and external information relevant to meeting the strategic goals of the utility. LABOR – Account 920.
  - 5.2. *Key Performance Indicators* – systems that capture both internal and external information related to key business indicators for senior management. LABOR – Account 920.
  - 5.3. *Business Intelligence* – systems that provide historical, current, and predictive information about the operations of the utility. LABOR – Account 920.
6. ***Market Operations and Trading*** – this category includes such applications as risk management, market simulation, market interface, transmission rights and access,

transmission pricing and billing, wholesale billing and settlement, energy trading and tagging, and market dispatch systems.

- 6.1. *Risk Management* – systems used to integrate loss data from a variety of sources to develop a comprehensive view of operational risk exposure to the utility. LABOR – Account 920.
- 6.2. *Market Simulation* – systems used to provide a model of transmission and security-constrained optimization of the system resources against spatially distributed loads. These systems are used to produce realistic projections of market clearing prices and asset utilization levels across the transmission grid. TRANSMISSION.
- 6.3. *Transmission Rights and Access* – systems that maintain data on the utility’s transmission line rights and access policies. TRANSMISSION.
- 6.4. *Transmission Pricing and Billing* – systems that, similar to the *Customer Information System* above, maintain information on transmission system customers, bill calculation and presentation, and payment processes. TRANSMISSION.
- 6.5. *Wholesale Billing and Settlement* – systems that, similar to the *Customer Information System* above, maintain information on wholesale customers, bill calculation and presentation, and payment processes. LABOR – Account 920.
- 6.6. *Market Dispatch* - LABOR – Account 920.
- 6.7. *Energy Trading and Tagging* – systems that provide trade processing, risk control and invoicing, credit risk to manage credit exposure, collateral management, and counterparty evaluation. Representative vendor solutions include: Triple Point Technology’s Commodity XL, Allegro, and ADICA’s EMCAS system. PRODUCTION.
7. ***Planning Models*** – this category includes such applications as resource management, capacity plan, fuel plan, load forecast, purchased power, and financial/rate forecast systems. LABOR – Account 920.
8. ***Resource Management*** – this category includes such applications as materials management, purchasing, warehouse management, inventory, fleet management, fuel management, and alternative energy supply systems.
  - 8.1. *Materials Management* – systems that maintain information on products, price lists, inventory receipts, shipments, movements, and counts within the utility, as well as to and from suppliers. These systems are often incorporated in the ERP system (see above). PTD.

- 8.2. *Purchasing* – systems that automate the acquisition of goods and services. These systems are often incorporated in the ERP system (see above). LABOR – Account 920.
- 8.3. *Warehouse and Inventory Management* – systems that include the physical inventory, shipping, receiving, and picking of items, barcode labeling, and space management. These systems are often incorporated in the ERP system (see above). PTD – Account 163.
- 8.4. *Fleet Management* – systems that provide for the management and maintenance of all vehicles and equipment used by the utility including scheduling maintenance and preventive maintenance. DISTRIBUTION - Account 933.
- 8.5. *Fuel Management* – systems that maintain information on fuel management for the utility’s fleet operations. DISTRIBUTION - Account 933.
- 8.6. *Alternative Energy Supply* – systems that manage the availability of energy supply from alternative sources which may be outside the control of the utility. PRODUCTION.
9. *System Operations* – this category includes such applications as outage scheduling, system optimization, load control, generation control, SCADA, energy management, system dispatch, fault restoration, stability analysis, and state estimator systems.
  - 9.1. *Generation Control* – systems that regulate the power output of electric generators within a prescribed area in response to changes in system frequency, tie-line loading, and the relation of these to each other. PRODUCTION.
  - 9.2. *Generation Operations and Management* – systems used to maximize plant operating income by optimizing output and heat rates and by reducing maintenance expenses. PRODUCTION.
  - 9.3. *Substation Operations and Management* – systems used to monitor the operation of substations to maximize performance and ensure safe equipment operations. TD.
  - 9.4. *Supervisory Control And Data Acquisition (SCADA)* – systems that maintain the real-time, as-operated state of the electrical network, tracking remote control and local control operations, temporary network changes, and fault conditions. TD.
  - 9.5. *Energy Management (EMS)*– systems used to reduce energy losses, improve the utilization of the system, increase reliability, and predict electrical system performance as well as optimize energy usage to reduce cost. TD.
  - 9.6. *System Dispatch* – systems used to evaluate and optimize on an hour-ahead and day-ahead basis the dispatch of the utility’s power plants to changing plant conditions, power markets, and contractual obligations. PRODUCTION.

10. **Work Management** – this category includes such applications as plant maintenance, work order, service order, outage management, trouble order, contractor management, and project management systems.
  - 10.1. *Plant Maintenance* – systems used to plan, manage, and evaluate the required major maintenance activities typically in generation facilities or other major facilities and substations. PRODUCTION.
  - 10.2. *Work Order* – systems that manage longer-duration work, either capital or operations and maintenance frequently performed by multi-person crews. DISTRIBUTION.
  - 10.3. *Service Order* – systems that manage the short-interval work of the utility typically performed by service crews. The system would include work scheduling, tracking, and order completion. DISTRIBUTION.
  - 10.4. *Outage Management* – systems that prioritize restoration efforts based upon criteria such as locations of emergency facilities, size of outages, and duration of outages, extent of outages and number of customers impacted; calculate estimates of restoration times; provides information on crews needed and assisting in restoration; and predict the location of fuse or breaker that opened upon failure. Representative vendor solutions include: ABB, GE Energy, Intergraph, Oracle Utilities, and Trimble. DISTRIBUTION.
11. **Miscellaneous Software** – For software that is in general and widespread use throughout the utility such as Microsoft Office, Microsoft Exchange Server, Anti-Virus applications and Adobe products. LABOR