

FOR BOARD ACTION

Agenda Item # 6.b.

Meeting Date:

8/28/12

SUBJECT:

SAP Regulatory Reporting Module Optimization

PREPARED BY:

Bryan Blom, Manager of Finance & Accounting

ITEM DESCRIPTION:

RPU performs financial reporting in two different formats, one using a natural chart of accounts which is designed for management control, and the other using the regulatory chart of accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric Utility and the American Water Works Association (AWWA) for the Water Utility. The monthly reports presented to the Board are in the natural chart of accounts format and it is also what is audited annually.

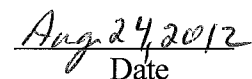
All investor-owned electric utilities are required to report to the U.S. Dept of Energy using the FERC format. Because the FERC format is so prevalent in the utility industry, it has also become the standard form of reporting to the Midwest Independent System Operators (MISO) organization when applying for MISO membership and subsequent annual reporting. RPU plans on applying for MISO membership in 2014 so that revenue is generated from the investment in the CAP-X 2020 transmission lines and so we must report using the FERC format. The FERC/AWWA format is also the industry standard for having cost-of-service study results performed.

RPU uses the Regulatory Reporting Module within our SAP software system to produce financial reports in the FERC/AWWA format. RPU's current installation of that module was done in 2000 and because of a very limited budget at that time it was not installed according to how SAP designed the module to work optimally. As a result numerous calculations need to be performed outside of SAP by extracting cost detail from SAP, summarizing and calculating cost assignment percentages based on the nature of work done, and then uploading those cost assignment percentages back into SAP for use in the Regulatory Reporting Module. It is a very time consuming process, so much so that it is only performed once a year instead of monthly as would be a best practice.

Last year RPU submitted a trial run of its Regulatory Reporting results to MISO for a review. MISO had difficulty understanding the detail provided and responded with numerous questions, mostly about the very large volume of transactions split across numerous FERC accounts resulting from our current SAP Regulatory Reporting Module configuration. After multiple attempts to lay out transaction detail in a more summarized intuitive presentation for them and not being able to satisfy their questions, we decided that we needed to rework how we perform regulatory reporting.

In July, RPU had Heck Partners Consulting-America (HPC) perform an assessment of RPU's SAP Regulatory Reporting Module installation. They provided RPU with an assessment report and from that developed the attached Statement of Work with the objectives to improve the reporting results so that it is easily understood by MISO and also to optimize the processing so that it can be performed and reviewed


General Manager


Date

ROCHESTER PUBLIC UTILITIES

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on a monthly basis. HPC is very qualified to do this work as they are the original developers of the SAP Regulatory Reporting Module which has since been made a core component of SAP.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

RPU has a 2012 budgeted item titled MCR-MISO Attachment O Assistance for \$54,000. \$15,000 of that has been spent on the HPC assessment performed in July leaving \$39,000 available. With RPU's plans to join MISO in 2014, it is critical that regulatory reporting be in good form for all of 2013 since that will be the reporting year submitted with the MISO membership application. It is important to begin this work as soon as possible with significant progress made by the end of 2012. Any budget remaining will be carried over to 2013 to complete the work in the first quarter of 2013.

The attached statement of work shows a range of costs from \$149,000 to \$193,500. Using the top of the range of costs, the difference of \$154,500 has been approved as a draw from RPU's contingency fund for a total of \$193,500 budgeted for 2012.

The City Attorney has reviewed the Statement of Work.

UTILITY BOARD ACTION REQUESTED:

Management recommends the Board approve the attached Statement of Work from HPC in the amount of \$193,500, and that the Mayor and City Clerk execute the agreement.

General Manager

Date

Based on an initial assessment of Rochester Public Utilities' SAP FERC configuration and related business processes, HPC America will help RPU realize the following four goals:

1. A streamlined FERC process that RPU can run monthly.
2. An efficient and accurate process for handling actual labor charges, secondary cost element credits on cost centers, and related secondary cost element debits on non-capital PM/Internal Orders, such that payroll taxes and benefits currently included in fully loaded labor rates are calculated correctly and applied through overhead processes.
3. A consolidated process to manage Fleet costs and equipment charges, such that line item detail for maintenance of equipment does not appear in distribution/transmission O&M FERC accounts.
4. An efficient and automated way to determine appropriate allocations to FERC accounts without having to mimic the flow-of-cost trace outside of SAP.

To achieve these goals, HPC will replace or retain key elements of RPU's current SAP system as follows:

Current Design Element	Recommended Future Design
Manual allocations for FERC	Replace with automated process
Fully-loaded standard rates	Replace with gross labor only to each cost center, then load PM orders
Fleet rates by category	Retain as-is (temporarily, until SAP HRIS implementation warrants fleet rates by unit number)
Direct charge fleet labor to orders	Replace with process for fleet repairs to settle to fleet cost center only
Charge fleet costs to orders	Retain fleet costs charged to orders, then report them as FERC-relevant
Separate company codes	Retain as-is
Single Controlling area	Retain as-is
Perform FERC reporting annually	Replace with monthly process at each close
Apply Purchasing and Stores overheads to both cost centers and orders	Replace with no overheads to cost centers, only orders

Within these design changes, HPC's specific deliverables will include:

- A. Reconfiguring FERC_C3, C8, C3A, C7
- B. Changing overhead burdens from cost centers to orders
- C. Re-running all 2011 and 2012 FERC data
- D. Configuring secondary cost elements (e.g., Fleet charges, labor, and overhead) to support FERC balances
- E. Configuring costing sheets, settlement profiles, and allocation structures on orders to improve FERC reporting
- F. Prototyping a new budget model to support plan-versus-actual comparisons in cost centers that represent lines of business
- G. Training RPU on the resulting processes from these modifications

HPC's team of four Senior SAP Consultants will work part-time over a period of five to six months, performing 520 to 700 total hours of work depending on the project's actual complexity. Most of HPC's work will be conducted remotely, with on-site visits for project kickoff, system testing, and staff training.

The work will also include an evergreen license for three modules of HPC's SAP-certified software solution Utility Financials Accelerator (UFA). HPC will implement UFA's *Trace Assurance*, *Auto Assignment for Regulatory ID*, and *Auto Assignment for Translation*. This new functionality, which is not part of RPU's existing SAP license, will increase the project's efficiency; reduce ongoing trace workload and errors; improve the speed and accuracy of new order creation; automate translation of natural accounts to regulatory categories; and facilitate better table maintenance.

The estimated costs for this scope of work are as follows:

Consulting Hours	Labor Cost	HPC UFA Software Partial License*	Travel Budget (Actual, At Cost)	Estimated Total Cost
520-700	\$117,000 - \$157,500	\$20,000	\$12,000 - \$16,000	\$149,000 - \$193,500

* The full UFA license is \$245,000. HPC will implement three select modules of it for RPU's particular requirements.



Statement of Work for SAP FERC Automation

ROCHESTER PUBLIC UTILITIES

General Manager

Printed Name

CITY OF ROCHESTER

Mayor

Printed Name

Reviewed as to Form:

City Attorney

Printed Name

Attest:

Dated: _____

City Clerk

CONTRACTOR

It's _____

Printed Name

It's _____

Printed Name



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a contract agreement with Heck Partners Consulting-America (HPC), and request the Mayor and the City Clerk to execute the agreement for

SAP Regulatory Reporting Module Optimization

The amount of the contract agreement to be ONE HUNDRED NINETY THREE THOUSAND FIVE HUNDRED AND 00/100 DOLLARS (\$193,500.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 28th day of August, 2012.

President

Secretary