

CFM/N' ABLE
PROJECT

**BOARD MEETING
NOVEMBER 2002**

**Customer Care &
Field Force
Management Project**

November 14, 2002

Customer Care & Field Force Management

Building the Foundation for Customer Care

Year	
2007	
2006	
2005	
2004	
2003	
2002	Credit \$8.6M
2001	Stabilize, Re-engineer & Unbundle \$16M
2000	
1999	
1998	Customer/1 \$5.5M

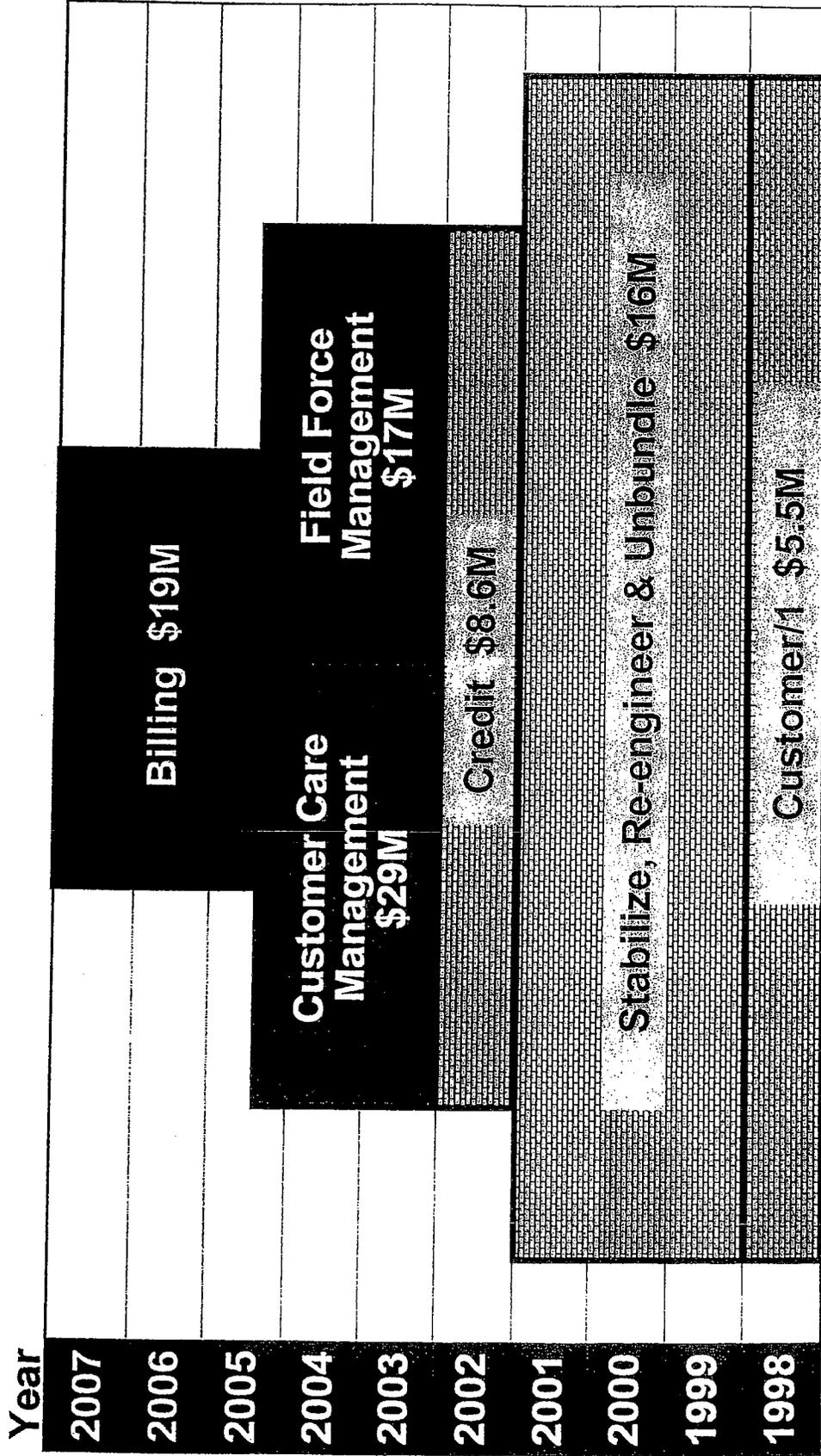
Customer Care & Field Force Management

Building the Foundation for Customer Care

Year	
2007	
2006	
2005	
2004	Customer Care Management \$29M
2003	Field Force Management \$17M
2002	Credit \$8.6M
2001	
2000	Stabilize, Re-engineer & Unbundle \$16M
1999	
1998	Customer/1 \$5.5M

Customer Care & Field Force Management

Building the Foundation for Customer Care



Customer Care Project Spending

(\$ millions)

Capital Dollars

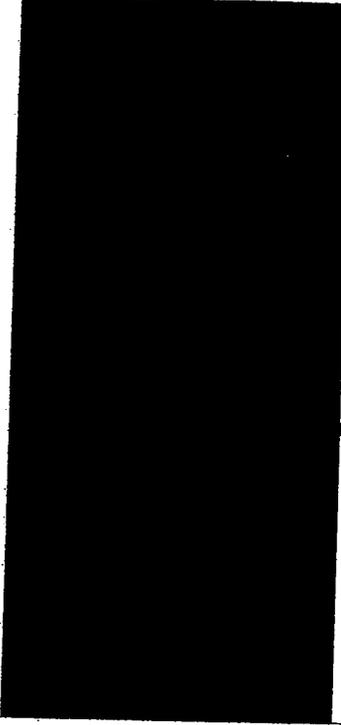
Customer/1 Analysis	\$5.5
Stabilize, Re-engineer, Unbundle	\$16.0
Release 1 (Credit)	\$8.6
Release 2	
Customer Care	\$29.0
Field Force Management	\$17.0
Release 3 (Billing)	\$19.0
Total Spending	\$95.1

Expected Benefits \$5.5-\$7 million per year



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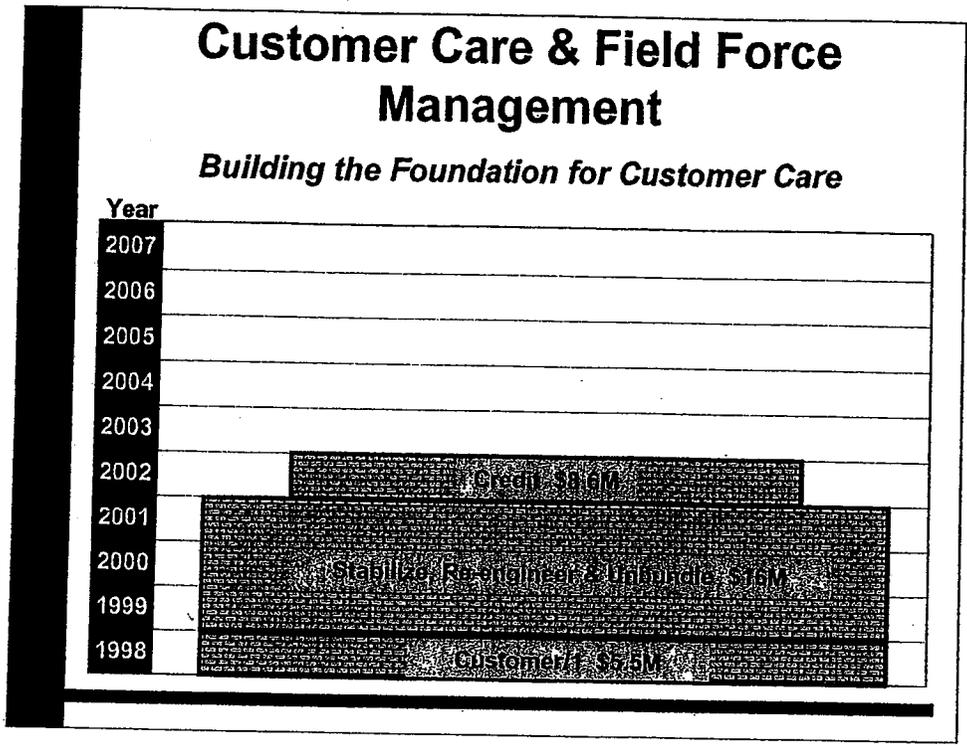
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Customer Care & Field Force Management Project

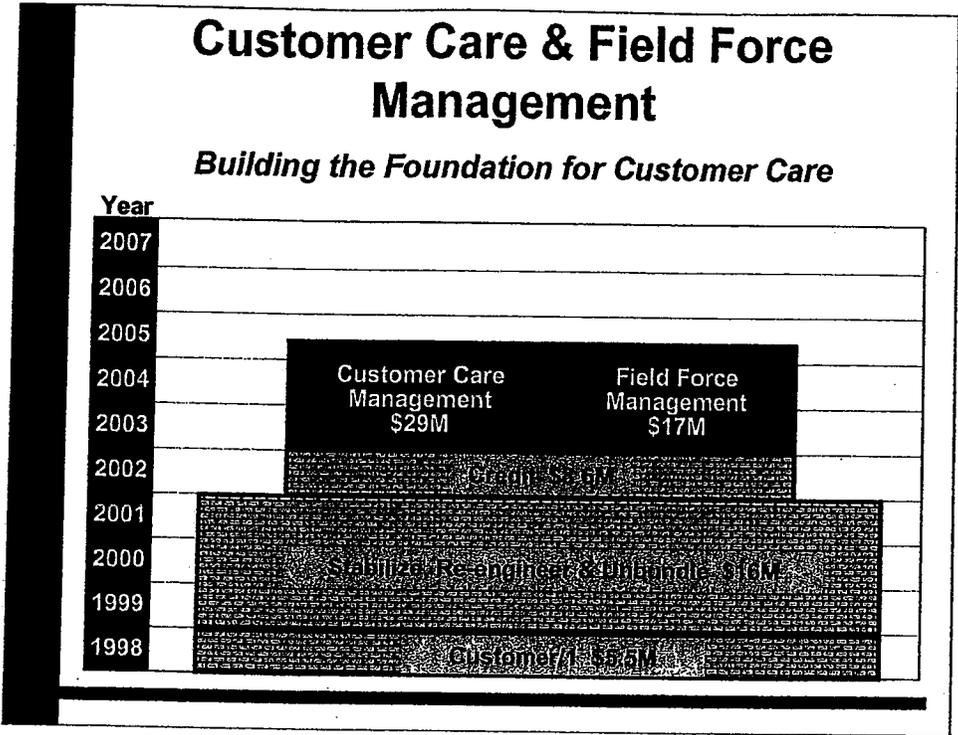
November 14, 2002

Today, I would like your approval for \$15 million for funding the Customer Care Information System project for the year 2003. Currently, our total cost estimate is \$70 million for both capital and operating expense for this 4 1/2 year project.



First I would like to review where we have been.

- We started looking in 1995 at various alternatives to replacing our systems. As some of you might recall, we were headed down the path of installing Anderson Consulting - Customer 1 software. We determined the cost was moving in excess of \$120 million and the risk of a big bang implementation was too high and decided to stop the implementation and look for other alternatives.
- Leveraging off of the analysis completed with the Customer/1 project, a decision was made in 1999 to begin a process we called Functional Migration. Our first priority was to stabilize, re-engineer our system and prepare for unbundling.
- After evaluating many alternatives we decided to implement SPL World Group software. The credit and collections project was completed this year to provide annual savings of \$2-3 million through a direct impact on bad debt.
- The SPL software package is utilized by utilities such as Philadelphia Gas Works, TXU, Pacific Gas & Electric, to name a few. (45 companies run SPL software).



I would now like to review the next steps of function migration

- In the 2002 Chartwell CIS Survey, 65% of large utility respondents indicate they currently are or have in the past two years upgraded their CIS system.

- Also of note, only 11% of the respondents indicated that their CIS system is over 20 years old - ours is over 30 years old. 1/3 of respondents indicated that outdated technology was also a key driver in upgrading CIS systems.

- Providing better customer service is the number one driver mentioned by 98% of respondents. This is followed closely by increasing CSR efficiency and reducing costs. These are exactly the same reasons at this time for Nicor.

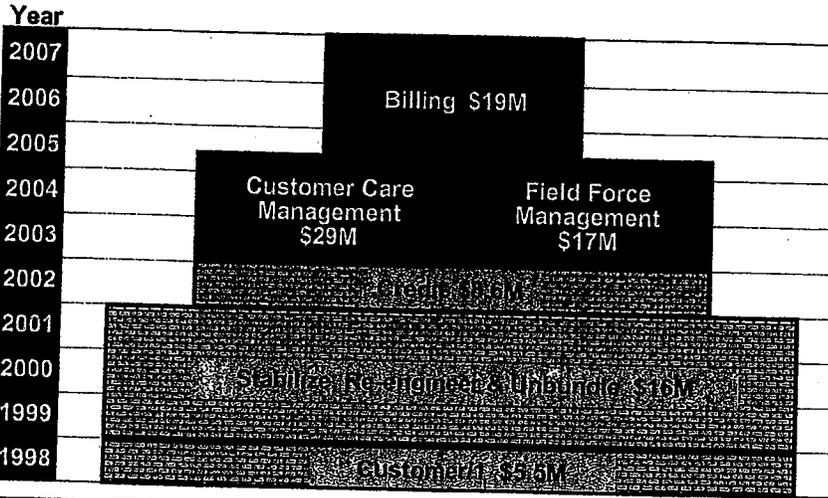
- Customer Care Management - Will support the transformation of our call center to a modern, standard CIS platform.

- Field Force Management - will provide Standard, mobile terminals for all field personnel

- Extensive analysis and planning has begun. We would anticipate completing this release of the project over a 2 1/2 year timeframe.

Customer Care & Field Force Management

Building the Foundation for Customer Care



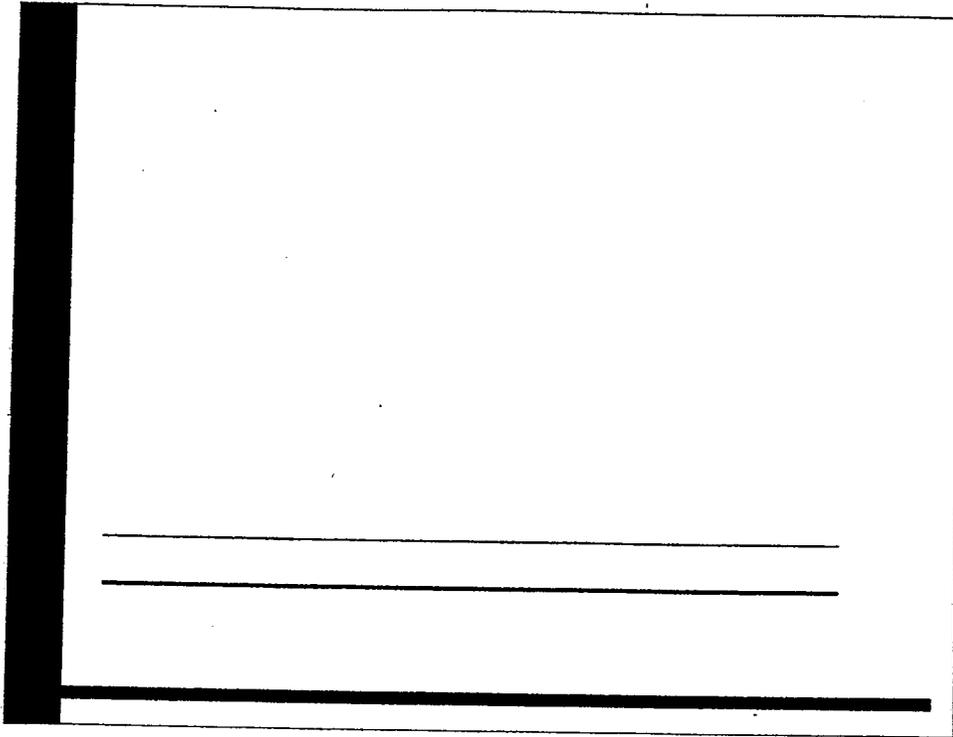
- Completion of our Customer Care Management migration will involve the implementation of the SPL Billing module. This will take approximately two years beginning in 2005 and an additional \$19 million.

Customer Care Project Spending (\$ millions)

	Capital Dollars
Customer/1 Analysis	\$5.5
Stabilize, Re-engineer, Unbundle	\$16.0
Release 1 (Credit)	\$8.6
Release 2	
Customer Care	\$29.0
Field Force Management	\$17.0
Release 3 (Billing)	\$19.0
<hr/> Total Spending	<hr/> \$95.1

Expected Benefits \$5.5-\$7 million per year

- The total cost of our project is \$95 million. The remaining releases will total \$65 million over this 4-5 year period. An additional \$5 million of Operating Expense will also be required.
- Expected Benefits for the investment of \$95 million is \$5.5 - \$7 million per year. (Doesn't include S,R, & U)
- Data provided by Utilities International, Chartwell and Accenture; compares Nicor project cost to other companies
- Overall costs we are in middle of the group. This despite the extended duration and increased integration costs given a functional migration approach over 6 years vs. a big bang over two years. Overall costs range from XXXXX to XXXX
- Our approach provides:
 - Less implementation risk,
 - Has allowed us to stabilize our environment
 - Improve our project management capabilities
 - Control scope creep that caused us to stop C/1
 - Prepare the organization for significant change



The \$15 million I have requested is for funding for the year 2003.

We have included another \$1.5 million of operating expense in our year 2003 budget for this project.

We will keep you updated on our progress and return for approval later this year for funding for future years.

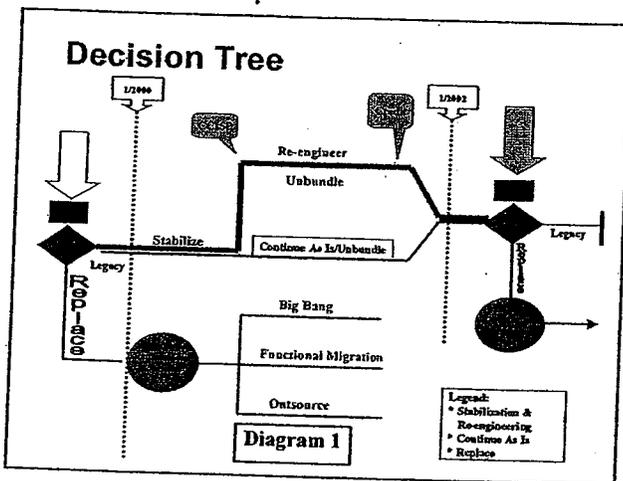
Any Questions??????

Nicor Gas Company
Customer Care Systems Executive Summary
November, 2002

I. Customer Care Information Systems Project (CCISP)

When deregulation was occurring in Illinois, Nicor was faced with making significant changes to its 30-year-old legacy CIS system. In 1997, IS partnered with the Customer Care organization to sponsor a CIS replacement project. A feasibility study and a partial design were completed with the intention of implementing the Customer/1 application. However, due to increasing project costs, risks to the business inherent with a "big bang" approach, and an uncertain future for the chosen package moving forward, the project was terminated in August 1998.

After the Customer/1 project termination, a strategic review of Nicor's CIS approach was conducted. As a result of that strategy engagement, it was determined that a two-pronged approach to our CIS initiatives was needed. This alternative would position Nicor to meet unbundling requirements on the upcoming horizon, while improving the IT infrastructure and capabilities (see diagram 1).



1) We had to work within the current legacy CIS system to provide functionality for the Customer Select program. This not only included adding "unbundling" capabilities, but also required performing some "stabilization" tasks to compensate for time that we had been focused on Customer/1 and not performing upgrades on our legacy applications. Further, it was determined to "reengineer" the legacy code while adding functionality. "Reengineering" primarily meant segregating the code to lay the foundation for functional migration. This became known as CCISP – Customer Care Information Systems Project.

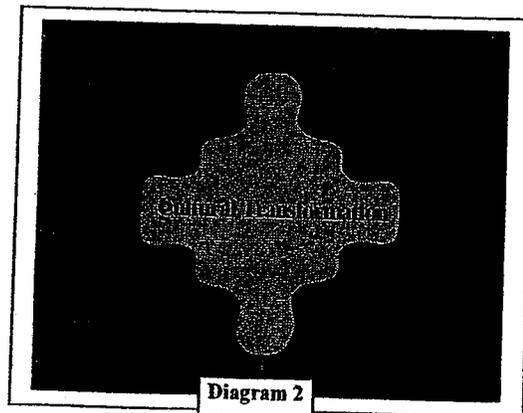
2) A direction was established to "functionally migrate" the legacy CIS applications. Due to the high-risk situation with moving to a new platform and totally

new system, it was decided to selectively replace CIS in pieces, depending on the business case. Credit and Collections would be first

The first year of the project focused on Stabilization. A number of quick hits were completed substantially reducing the number of returned gas bills, billing investigations and dial cards issued while increasing the number of estimated reads and off-cycle billing ability. Though these early successes added business value, the creation of the project infrastructure proved to be the most valuable accomplishment in the first year.

To support the quantity and quality of work that needed to be accomplished over the course of the next two years, Nicor needed to establish new Project Management disciplines. This effort resulted in the development of robust Project Management methodologies and tools, software development lifecycles, and quality assurance and testing processes.

Individually these components stand alone, but together they have become the basis for the IS cultural transformation that needed to take place in order for Nicor to be successful during CCISP and in the future. (See diagram 2).



In early 2001 our new project management practices were put to the test. Aggressive goals were set to implement all of the full unbundling requirements, complete the remaining stabilization and re-engineering tasks, and develop a new multi phase budget plan program all by the Spring of 2002. Many questioned if this workload was feasible;

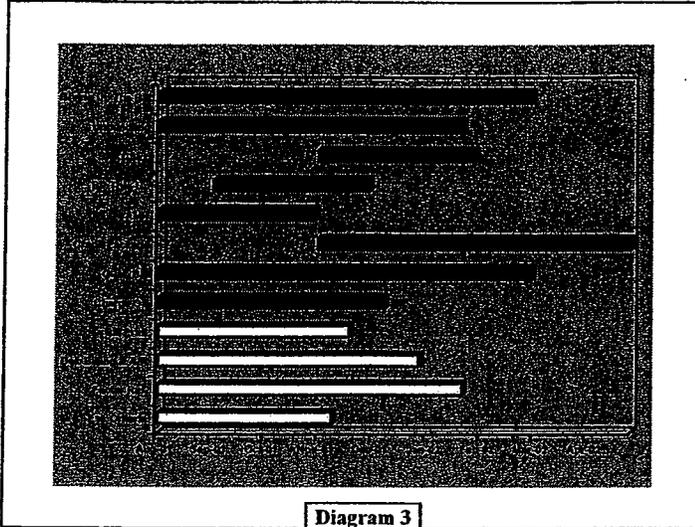


Diagram 3

however, as it turned out much more was added to the project team's plate before summer of 2001 was over.

In addition to the CCISP project workload, GSC expansion, Treasury equipment, AMR, Nicor Services Fixed Bill, and the Charge Off projects were initiated. These projects, along with a Budget Plan program that was much more costly and time consuming than originally forecasted, added approximately 40,000 hours into the overall Customer Care workplan (see *diagram 3*). Using our original budgeting formula, this added \$3.8 million in projects that had to be staffed and completed in the same timeframe, utilizing the same resources as the core CCISP projects.

By March of 2002, nearly all of the CCISP project tasks were completed on schedule and on budget. This included approximately 10,000 project hours in preparation for full unbundling. In addition, several other Customer Care related initiatives (i.e. Fixed Bill, Treasury Equipment, AMR) were successfully implemented. The ability to successfully complete this large number of concurrent projects within Customer Care was a direct result of the newly project management environment. As stated in a Sponsor interview, "we have surpassed our quality and efficiency goals through stabilization. Specifically, the SDLC, system testing and quality assurance have been key drivers in this success."

The CCISP Initiative was a success on many fronts - it delivered needed functionality while developing a project based culture that has already been the catalyst for change within the IS organization and many other Nicor initiatives (i.e. BOFT). The following statements made by the Sponsor Team sums up the value that this project brought.

- ⇒ This project has succeeded in delivering needed functionality to the business. At the same time, it has been successful in allowing employees and the organization to develop new capabilities to support future IT projects and business changes.
- ⇒ The benefits of this cultural transformation have paid off. Nicor can now predict resources and results more accurately. Since these best practices have yielded results in CCIS, several other projects are adopting them for their projects.
- ⇒ The \$20 million spent on CCISP (OE and capital), while a significant figure, is an investment in the future while meeting the demands of the present. It has achieved both objectives. Our people are better prepared to respond to business demands. And, we are well positioned for more strategic changes to replace the legacy applications.

II. Credit & Collections Project

Also in late 2000, the beginning of the current functional migration strategy was initiated with the evaluation of package solutions for Credit and Collections. This direction was chosen after determining that the customer centric view of the data, the foundation of the Credit Department's business requirements, was far too costly and risky to implement in the premise based legacy applications.

By spring of 2001, the Credit package evaluation was down to two vendors. Though the original requirements followed a "best of breed" approach focusing solely on Credit and Collections, by the time the decision was made the scope of the evaluation was increased to consider both the immediate credit needs as well as the broader CIS migration. With this new view of the criteria, SPL WorldGroup's CorDaptix product was chosen as the best solution for Credit and for replacing other CIS components in later phases of Functional Migration.

After making the decision to invest in CorDaptix, further legacy re-engineering tasks were scrutinized to determine if it was prudent to invest in legacy technology given the opportunities CorDaptix presented. This activity resulted in cancellation or indefinite delay of over 40,000 hours of the re-engineering projects acting under the premise that Nicor would pursue replacing the billing system by 2005.

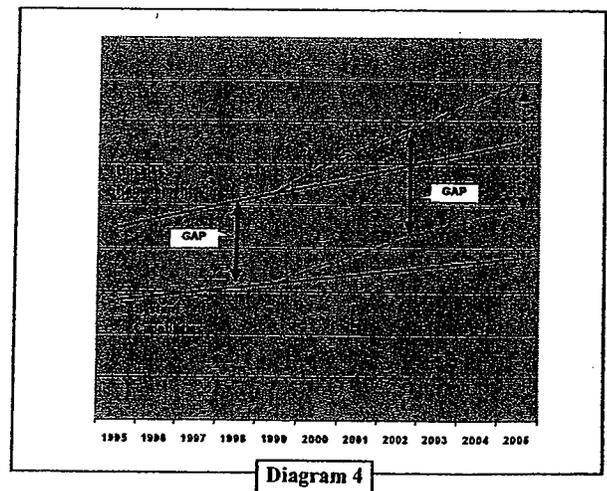
In August of 2001, a fit assessment of CorDaptix was completed and a high-level implementation plan was created. With the business case supported by annual reduction of \$2-3million in bad debt, the Credit Project was then launched in late 2001 as a separate initiative with an estimated implementation date in September of 2002 and a total cost of \$10 million.

Nicor worked closely with our integration partners – Accenture and SPL. Nicor provided 50% of the overall resources for this project. We are pleased to report the successful implementation of the Credit project on Labor Day weekend – "on time and on budget". The Credit department is still in a transition state, but has already begun to identify and realize savings from the new environment.

Beyond CCISP – CIS Migration

As successful as CCISP was, it also heightened the awareness of the inadequacies and issues with the legacy CIS system. Though \$20 millions dollars were spent modifying our legacy applications and developing an environment in support of this platform, the gap between needed business requirements and system functionality remained the same. In fact, with the added system complexities of Fixed Bill and Budget Plan the gap is widening once again (See diagram 4).

The Leadership Team recognized this gap and sanctioned a project team to pursue the strategy and business case for implementation of the remaining CorDaptix modules. As stated at the Nicor Gas Board of Directors meeting in 2001 – "our decision to approve this (CCIS) project was only justified based on the need to begin to functionally migrate off our 30+ year old system."



Several alternatives for proceeding were considered. Original plans called for three additional releases: 1) Bill Ready (Bill Invoicing, A/R and Back Office); 2) Rate Ready (Bill Calc and Meter Reading) and 3) Field Orders (including Meter Management). Costs in the range of \$55-60 million were projected for the full CIS implementation. It was estimated that 20% of the functionality was implemented with credit and that 45% would be implemented with Bill Ready.

In August 2002, Senior Management was interviewed to determine the most important business drivers for making a sequencing decision. The results were mixed with a focus on customer satisfaction, meeting external demands and fiscal management. A 3-4 year proposal was submitted to the CARE committee in September to proceed with Bill Ready as the next phase in our CIS migration (see diagram 5). The economics for such a proposal continue to be negative given the significant infrastructure investment (+\$10 million) required for whichever module is implemented next. Continuing the migration strategy is still a priority.

As a result of the CARE process, several synergies were identified with the Field Force Automation project proposed by the Operations business units. The sequencing of the CIS field orders implementation simultaneous to the Computer Aided Dispatching (CAD) upgrade and Distribution department mobilization demonstrated many benefits, including cost avoidance of \$5-6 million in integration costs. The project team was commissioned with validating these synergies and formulating several sequencing proposals.

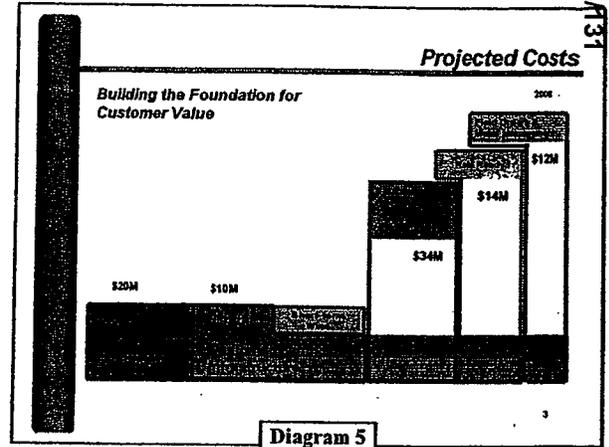


Diagram 5

In early October, two primary alternatives were compared and presented to management: Billing first and Field Orders first. (Note: The team recommended that the Bill Ready and Rate Ready phases be collapsed into one phase to reduce the significant risk of "pulling RA120 apart".) Two additional alternatives were documented as options to support significant financial constraints. These options were rejected due to the increased long-term costs, short-term change management impacts, and the delay in benefit realization.

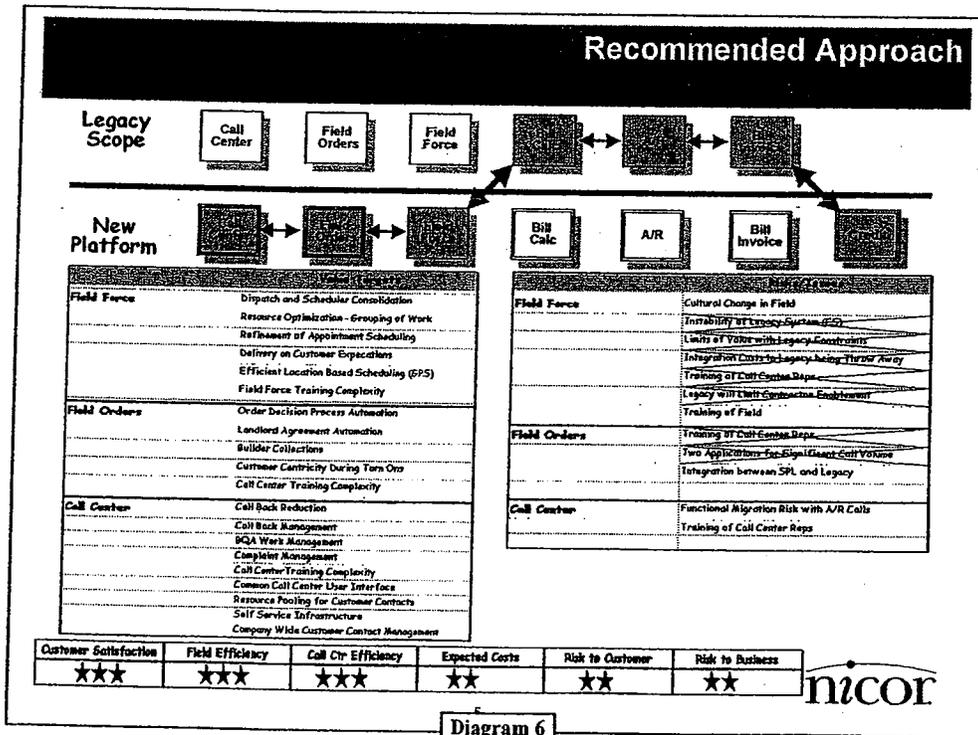
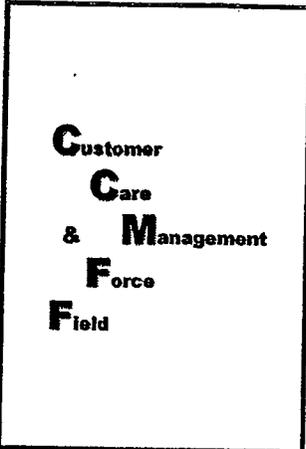


Diagram 6

Upon completion of the team's analysis, the Field Order first scenario was recommended. It provides the best value to support Customer Care and Employee Efficiency strategies. It also mitigates several risks inherent with a Billing first scenario. Overall costs are slightly higher and there is a delay in achieving cost reductions for the current mainframe environment. In the end, senior management supported the teams recommendation to combine the CIS Migration and the Field Force Automation projects into a combined program – Customer Care & Field Force Management.



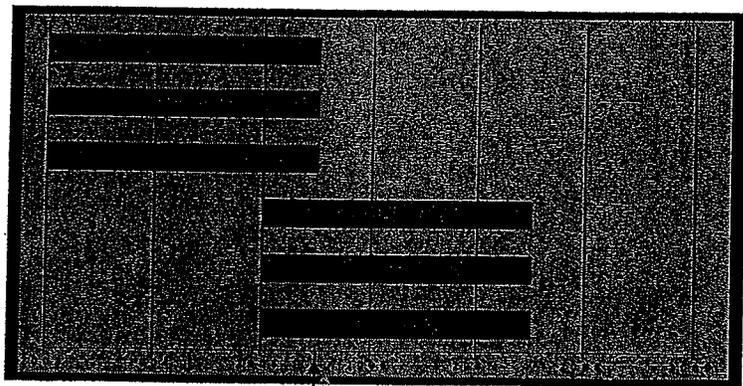
Customer Care & Field Force Management Program

The Customer Care and Field Force Management Program will bring many tangible and intangible benefits to the company. Implementation will last over a 4-5 year period, cost \$70 million and will involve two releases: 1) Customer Care and Field Force Management; and 2) Billing. The overall scope includes:

- ◆ Replacement of our 1968 Billing system;
- ◆ Replacement of our 1970's CIS system;
- ◆ Replacement of 8+ year old mobile hardware;
- ◆ Upgrade of our CAD dispatching software;
- ◆ Mobilization of all field workers with a consistent mobile hardware platform;
- ◆ Visibility for the call center to ALL field activities;
- ◆ New time-based appointment scheduling capabilities for all field activities;
- ◆ Global workforce scheduling capability;
- ◆ Continued leverage of customer-centric foundation built with the credit project – specifically improved handling of builders and landlords;
- ◆ “Off the shelf” CIS and Dispatching packages;
- ◆ Minimal modifications to readily support future upgrades from the vendor;
- ◆ Reduction in required mainframe computing power with a future mainframe replacement.

Benefit Identification and Realization: Early identification of business value indicates additional direct departmental savings of \$3.5-4 million per year will be achieved. In addition, many less direct benefits have been identified as well as intangible benefits. These benefit levels can be achieved in a 7-year period. Economics have been calculated over a 15-year period. The sequencing of these values are shown in *diagram 7*.

Sequencing Options: Field Force Management First



Field Force, Field Orders and Call Center First

- Focus on Customer Satisfaction and Field Value in next step
- Aligns 3 of the 4 Change Mgmt Impacts
- 80% of Call Center on Cordaptix in 2005 - with Portal view of Online A/R
- Delay billing implementation until summer timeframe – lower bills/risk
- Does not allow for Mainframe Downsizing in 2005

CALL CENTER Value
 •Visibility into all of Field for Call Center
 •Customer Appointment Improvements
 •Intuitive User Interface for Call Center
 •Landlord Agreements
 •Connect Customer Centricity

FIELD Value
 •Mobilization of all Field along with new devices
 •Common Field Mgmt and Tools across Ops, Distribution and System Ops
 •Global Workforce Utilization
 •Real-time Crew Status
 •Mobile Hardware Reliability

BILLING Value
 •Unisys Downgrade
 •Billing Flexibility Enhancements
 •Payment Processing Improvements
 •Improved Billing Quality Assurance

Diagram 7



We have also identified the appropriate metrics, which will drive realization of these benefits. A benefit realization plan will be completed which will establish baseline measurements and targets.

Intangible benefits have not been quantified. These include interdepartmental synergies and reduction in handoffs, which are expected to be achieved. We have already learned from Credit and Collections that there are many hidden benefits, which were unseen prior to implementation. We expect that to happen with release 2 as well.

One key intangible benefit, Customer Satisfaction, will certainly be improved. It is difficult at best to quantify its value in a regulated environment. Customers will have improved one-call resolution from the call center (access to more info), improved time-based scheduling to better meet customer needs, etc. Indirect impact in sales of new products and services and less scrutiny from regulators could result as well.

Another key benefit not included in the economics relates to ongoing system maintenance. We believe that ongoing enhancements in the new platform could be 1/3 the cost of making such changes in legacy. As we have averaged nearly \$3 million in enhancements annually, this could translate into a cost avoidance of \$2 million per year. Additionally, the synergy of combining the Customer Care and the Field Force Management projects will avoid \$5-6 million of integration costs. None of these items are included in the economics calculated for this program.

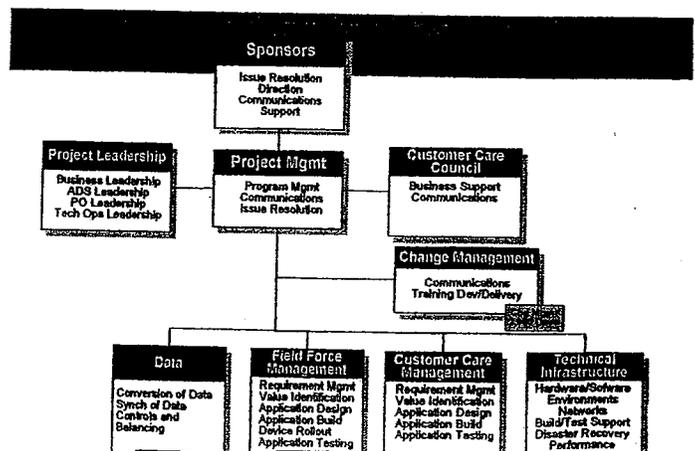
Overall economics on this program show a negative NPV of (\$25million). Some additional items of note: This doesn't include intangibles or cost avoidance items mentioned above. It does include \$6 million of mobile hardware that will need to be replaced regardless of software and process changes. The economics were calculated using a 15 year life – the system should last even longer. The economics on this project continue to be negative regardless of which approach is taken. However, potential customer care, employee efficiency benefits, IT infrastructure stability issues must be considered in the decision-making process.

Change Management: From a change management perspective, the alignment of three key changes occurs together. 1) Customer Service Reps (CSR's) (and many others) impact due to a new CIS system and platform change; 2) Field personnel due to a change in Field Force hardware change; and 3) Impacts on Dispatch and Workload Admin (and many others) due to new scheduling software impacts. We will have a focused approach to change management and have already begun to prepare the organization for such changes through the Building Our Future Together (BOFT) initiative in the Distribution organization as well as the culture shift initiative within IT. Nearly 1,100 employees will be impacted through this program, with over 7,000 training days planned. We expect the cutover for both releases to occur at times that best fit the business cycles, thus mitigating risk. We will look to more modern approaches for the development and delivery of training, thus establishing a new model for the future. This could include web-based training, and others methods. Note: The cost of people to be in training is not included within the project costs. Training development and training delivery (ie. Trainers) is included.

Next Steps

The size of this project from a resource perspective is significant, averaging 50 FTE's, and peaking at near 80. Interim steps include contract negotiation; value finalization and commitment; business requirement validation; and resource planning. As can be seen from diagram 8, the workday efforts are significant and are organized around a team structure similar to the structure used for the credit project.

The project team is expected to be fully engaged beginning in January 2003. This release is expected to be in production in mid-2005. Planning for the third and





final release is expected to begin in early 2005 and be ready for production in mid 2007.

That sounds like a long way off. But given our functional migration approach, a three-phase approach seems to be the best at balancing financial impact while mitigating risks.

Critical Success Factors

The success of this program (on time/on budget) will be dependent on many factors.

1. Management of scope
2. Reliability of the purchased software
3. Technical Integration methods (e.g. EAI)
4. Visible Sponsorship
5. Business ownership and resource availability
6. Change management – breadth and support
7. Commitment to benefit realization
8. Focus on the customer
9. Consistent/uniform approach to all business units
10. Alignment from all business leaders
11. Ability to ramp-up/ramp-down as players change (inevitable over 5 years)
12. Connecting with ALL hidden business units/processes – back office especially

Conclusion

Funding for the following releases will be approved on an annual basis. (See Diagram 9). These numbers have not yet been leveled.

	2003	2004	2005	2006	2007	2008	2009	2010	Total
Infrastructure \$	8,041	3,229	4,845	410	747	-	-	-	17,272
Application \$	9,477	14,785	14,834	2,488	364	-	-	-	41,948
Functional Migration \$	924	800	568	1,320	1,320	-	-	-	4,932
Duration \$	-	-	-	2,970	2,970	-	-	-	5,940

Diagram 9

Milestones and accountability will be driven for each fiscal year. Funding for 2003 of \$15 million capital has been approved by FPC and is pending approval from the Board. The project team will now begin its development efforts.

C.A.R.E.
EXECUTIVE PRESENTATION
Nov. 11, 2002

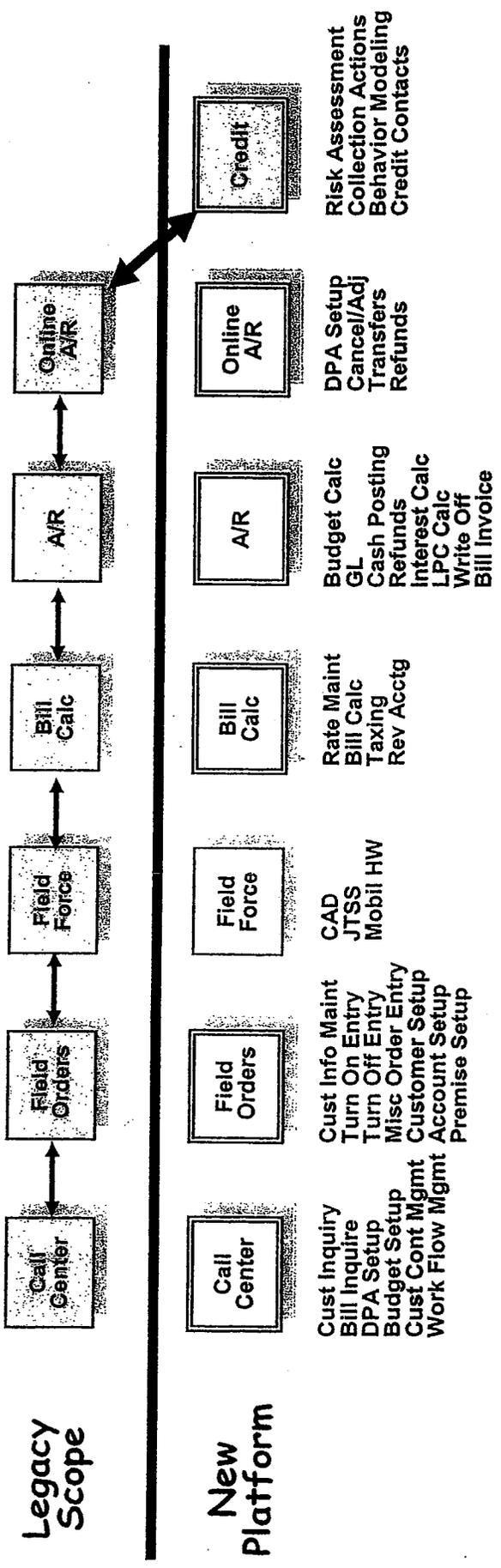
FPC
IT STEERING

**Field Force Management and
CIS Analysis**
November 2002

Agenda

- **Objective of Meeting**
- **Review of Past Discussions**
- **Recommendation**
- **Next Steps**

Existing Landscape



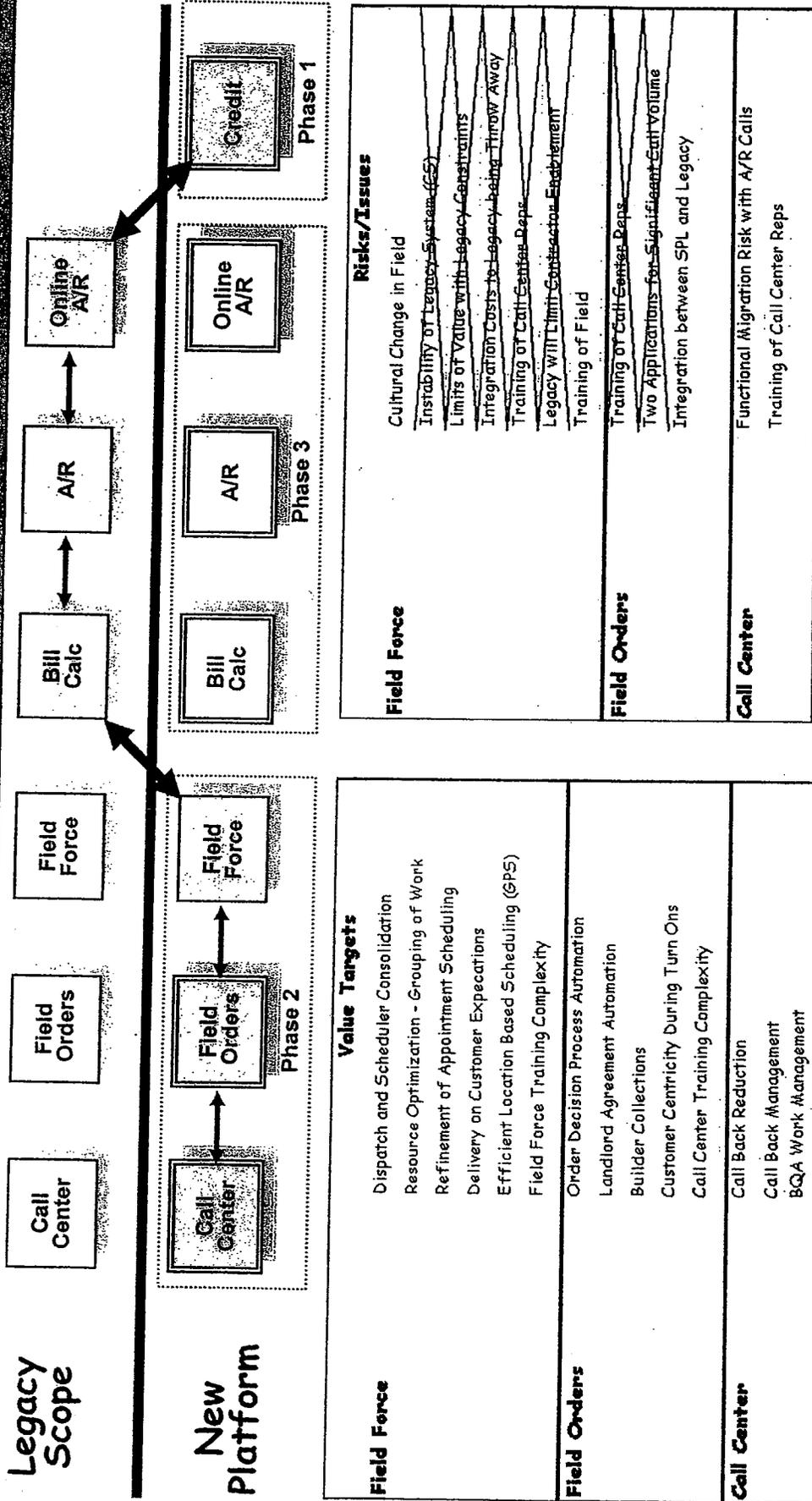
- | | |
|---------------------|--|
| Legacy Scope | New Platform |
| Call Center | Call Center |
| Field Orders | Field Orders |
| Field Force | Field Force |
| Bill Calc | Bill Calc |
| A/R | A/R |
| Online A/R | Online A/R |
| | Credit |
| | <ul style="list-style-type: none"> Cust Inquiry Bill Inquiry DPA Setup Budget Setup Cust Cont Mgmt Work Flow Mgmt |
| | <ul style="list-style-type: none"> Cust Info Maint Turn On Entry Turn Off Entry Misc Order Entry Customer Setup Account Setup Premise Setup |
| | <ul style="list-style-type: none"> CAD JTSS Mobil HW |
| | <ul style="list-style-type: none"> Rate Maint Bill Calc Taxing Rev Acctg |
| | <ul style="list-style-type: none"> Budget Calc GL Cash Posting Refunds Interest Calc LPC Calc Write Off Bill Invoice |
| | <ul style="list-style-type: none"> DPA Setup Cancel/Adj Transfers Refunds |
| | <ul style="list-style-type: none"> Risk Assessment Collection Actions Behavior Modeling Credit Contacts |

Legend

	- MDSI
	- SPL CorDaptix



Recommended Approach



Cost and Value Proposition

Project Framework:

- \$75-77 million
- 4 1/2 year implementation - 2 phases
- Full CIS and Field Force Mgmt

Value Proposition:

- \$55-62 million Bottom-line Savings (15 years)
- \$3-5 million Employee Efficiency per year
- Increased Customer Satisfaction generates add'l employee efficiencies

Field Force First

	2003	2004	2005	2006	2007	2008	2017	Total
Total Costs	\$ 20,975	\$ 20,702	\$ 22,325	\$ 7,904	\$ 6,264	\$ -	\$ -	\$ 77,970
Infrastructure	\$ 8,994	\$ 3,588	\$ 5,383	\$ 456	\$ 830	\$ -	\$ -	\$ 19,191
Application	\$ 10,517	\$ 16,314	\$ 16,374	\$ 3,158	\$ -	\$ -	\$ -	\$ 46,363
Functional Migration	\$ 924	\$ 800	\$ 568	\$ 1,320	\$ 2,464	\$ -	\$ -	\$ 6,076
Duration	\$ -	\$ -	\$ -	\$ 2,970	\$ 2,970	\$ -	\$ -	\$ 5,940
Value	\$ -	\$ -	\$ 650	\$ 2,445	\$ 3,314	\$ 3,819	\$ 5,329	\$ 55,309
Bottom Line	\$ -	\$ -	\$ 650	\$ 2,445	\$ 3,314	\$ 3,819	\$ 5,329	\$ 55,164
Employee Efficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Satisfaction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Billing First

	2003	2004	2005	2006	2007	2008	2017	Total
Total Costs	\$ 17,912	\$ 11,467	\$ 19,852	\$ 16,476	\$ 9,572	\$ -	\$ -	\$ 75,278
Infrastructure	\$ 8,434	\$ 2,858	\$ 5,320	\$ 1,186	\$ 1,393	\$ -	\$ -	\$ 19,191
Application	\$ 9,478	\$ 8,609	\$ 14,532	\$ 10,999	\$ 2,745	\$ -	\$ -	\$ 46,363
Functional Migration	\$ -	\$ -	\$ -	\$ 1,320	\$ 2,464	\$ -	\$ -	\$ 3,784
Duration	\$ -	\$ -	\$ -	\$ 2,970	\$ 2,970	\$ -	\$ -	\$ 5,940
Value	\$ -	\$ -	\$ 650	\$ 4,011	\$ 4,235	\$ 5,329	\$ 5,329	\$ 62,162
Bottom Line	\$ -	\$ -	\$ 650	\$ 4,011	\$ 4,235	\$ 5,329	\$ 5,329	\$ 62,162
Employee Efficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Customer Satisfaction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -