

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-170485

DOCKET NO. UG-170486

REBUTTAL TESTIMONY OF

JAMES M. KENSOK

REPRESENTING AVISTA CORPORATION

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**I. INTRODUCTION**

**Q. Please state your name, employer and business address.**

A. My name is James M. Kensok. I am employed by Avista Corporation as the Vice-President and Chief Information and Security Officer. My business address is 1411 E. Mission Avenue, Spokane, Washington.

**Q. Have you filed direct testimony in this proceeding?**

A. Yes. I have filed direct testimony in this case addressing the Company’s Information Technology Capital and Operating & Maintenance expenses.

**Q. What is the scope of your rebuttal testimony in this proceeding?**

A. My rebuttal testimony will address the Company’s Information Service / Information Technology (IS/IT) capital projects included in the Company’s pro forma capital adjustment based on a “functionalized” threshold as further discussed by Company witness Ms. Schuh, in response to the use of a much higher, and inappropriate, threshold used by Staff witness Ms. Scanlan.

**Q. Are you sponsoring any exhibits?**

A. No.

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1           **II.    THE COMPANY’S RESPONSE TO STAFF’S USE OF ITS THRESHOLD**

2           **Q.    In its original filing in May 2017, did the Company provide a description**  
3 **of the need and timing for each capital project for purposes of deriving a revenue**  
4 **requirement?**

5           A.    Yes. In my direct testimony, labeled Exh. JMK-1T, I explained why the  
6 information technology investments are necessary and how they are generally driven by the  
7 need for cyber security systems to protect customer data and critical utility operations, to meet  
8 legal and regulatory requirements, allow for cost-effective replacement of information  
9 technology assets, as well as the management of information technology obsolescence,  
10 efficient and cost-effective work processes, and training. These projects are also driven by  
11 the “Investment Driver” classification used to categorize our infrastructure investment needs.<sup>1</sup>  
12 In addition, I provided the capital Business Case summary documents for each of the  
13 information technology investments described in my testimony in Exh. JMK-2. The Business  
14 Cases generally provide an overall description of the project, the problem being addressed, as  
15 well as proposals and a recommended solution, together with approvals and authorizations.<sup>2</sup>

16           **Q.    Of the 11 projects contained in the original filing that you supported, how**  
17 **many projects were the subject of additional discovery by Staff?**

18           A.    In Staff’s response to data request No. 1, Ms. Scanlan points to pages 20 and  
19 21 of Exh. KBS-1T, Tables 1 and 2, which identify those projects that exceeded Staff’s 0.5%

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<sup>1</sup> The six investment driver criteria include: 1) Respond to customer requests for new service or service enhancements; 2) Meet our customers’ expectations for quality and reliability service; 3) Meet regulatory and other mandatory obligations; 4) Address system performance and capacity issues; 5) Replace infrastructure at the end of its useful life based on asset condition; and 6) Replace equipment that is damaged or fails, and support field operations.

<sup>2</sup> “Project” refers to an individual investment for a specific period of time. “Programs” represent investments that address systemic needs that are ongoing with no recognized endpoint, such as wood pole management program. For ease of reference, the term “project” will be used to represent both capital projects and capital programs.

1 “threshold”, and were the subject of additional discovery by Staff. These tables include a total  
2 of only 2 of the 11 projects I supported in the original filing. Stated differently, Staff chose  
3 to audit over the last five months, only 2 projects out of the 11 projects for which information  
4 was provided, based on the application of a “threshold”. There were no other constraints on  
5 time or the availability of supporting documentation that would prevent an audit.

6 **Q. What is your understanding of why Staff only selected certain projects?**

7 A. As described in greater detail in Ms. Schuh’s rebuttal testimony, Staff’s case  
8 only includes those projects where the Washington-allocated share of the total project cost is  
9 greater than 0.5% of the Company’s latest year-end Washington-allocated net utility plant in  
10 service.

11 **Q. What is the result of applying such a threshold in this case for purposes of**  
12 **deriving a revenue requirement as it relates to the projects you are supporting?**

13 A. For electric, the use of an \$8.6 million threshold only captures 1 project and  
14 \$3.1 million out of a total of 11 projects and \$31.1 million. For natural gas, the use of a \$1.7  
15 million threshold only captures 2 projects and \$1.4 million out of a total of 10 projects and  
16 \$8.8 million. These thresholds say nothing about the level of plant that will be in service and  
17 used and useful when rates go into effect in May 2018. In the end, it leaves 9 projects (1  
18 electric-only project and 8 projects allocated between electric and natural gas \$27.9 million  
19 electric and \$7.4 million natural gas), which I support, on the “cutting room floor”. Table No.  
20 1 below provides comparisons of the electric and natural gas capital projects included in the  
21 Company’s filed case to that of Staff and the Company’s rebuttal case:

1 **Table 1: Capital Project Comparison (For Projects Addressed in My Testimony)**

		<b>Electric</b>	
		<b>Total Investment</b>	<b>Number of</b>
		<b>Amount (Gross Plant)</b>	<b>ER Projects</b>
4	Avista Filed	\$ 31,085	11
	Staff	\$ 3,144	1
5	Avista Rebuttal	\$ 18,067	7
		<b>Natural Gas</b>	
		<b>Total Investment</b>	<b>Number of</b>
		<b>Amount (Gross Plant)</b>	<b>ER Projects</b>
8	Avista Filed	\$ 8,771	10
	Staff	\$ 1,365	2
9	Avista Rebuttal	\$ 5,417	7

10 **Q. As Company witness Ms. Schuh discusses in her testimony, please briefly**  
 11 **explain the Company’s methodology on rebuttal regarding pro forma capital additions.**

12 **A.** Certainly. As Ms. Schuh describes in further detail in her rebuttal testimony at  
 13 Exh. KKS-3T, the Company is removing the original pro forma adjustment proposed in its  
 14 direct filed case and also removing the capital associated with the 2017 EOP Study. On  
 15 rebuttal, the Company is including, instead, a calculation for only a subset of pro forma  
 16 adjustments that are calculated using a similar methodology as Staff used in the recent Puget  
 17 Sound Energy general rate case (Docket Nos. UE-170033 and UG-170034). In that case,  
 18 Staff witness Mr. Wright used a “functionalized” threshold for determining the capital projects  
 19 included in that case. He states:

20 First, the Commission recently found it reasonable to define a major plant  
 21 addition as at least 0.5 percent of the utility’s rate base.<sup>3</sup> However, Staff  
 22 found smaller adjustments that would otherwise be reasonable, such as  
 23 Distribution plant adjustments, would not be captured if the threshold were  
 24 only applied to gross rate base. Therefore, Staff refined the standard in this  
 25 case, applying the one-half of one percent threshold to net utility plant in

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<sup>3</sup> Wash. Utils. & Transp. Comm’n. V. Avista Corp., Dockets UE-150204 and UG-150205, Order 05, ¶ 40 (Jan. 6, 2016).

1 service by category instead of rate base.<sup>4</sup> Staff believes the refinement will  
2 allow a better review of plant adjustments in this, and future, rate cases.<sup>5</sup>

3 **Q. In your rebuttal testimony, which IS/IT projects that were originally**  
4 **included in Avista's filing are still accounted for in the Company's rebuttal case.**

5 A. Using the functionalized threshold methodology discussed by Ms. Schuh, in  
6 my area, of the 11 projects, which are allocated to both electric (\$31.1 million) and natural  
7 gas (\$8.8 million), which I previously testified to in Exh. JMK-1T, Avista's rebuttal case still  
8 only captures 7 projects allocated to electric (\$18.1 million actuals through October) and  
9 natural gas (\$5.4 million actuals through October). It still excludes 4 projects, 1 electric-only  
10 project and 3 projects allocated between electric and natural gas (\$13.0 million electric and  
11 \$3.4 million natural gas).

12 **Q. What are the projects included using this "functionalized" threshold?**

13 A. Table No. 2 below represents the 7 capital projects, allocated between electric  
14 and natural gas, included in the Company's functional group method and represented in my  
15 rebuttal testimony. What that table shows are the ER number and Business Case name, by  
16 functional area, for electric and natural gas service. The next column, "Total Project Amount,  
17 As Filed, For 2017" shows the total amount of the project, through December 31, 2017, that  
18 was included in Avista's original case. As Ms. Schuh describes in her testimony, Avista is  
19 only including on rebuttal the actual transfers to plant for each ER, as functionalized, through  
20 October 2017. As you will see, the overall amount transferred through October by plant  
21 category is significantly less than the annual amount for 2017. Typically such a variation is  
22 due to the projects in those ER's transferring later to plant in service in November or

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<sup>4</sup> The categories are Production, Distribution, Transmission, and General, as reported on the most recent FERC reports. 2015 Puget Sound Energy, Inc., FERC Form 1 and Form 2.

<sup>5</sup> Docket Nos. UE-170033 and UG-170034, Exh. ECW-1T, pp. 6:21 – 7:6

1 December 2017. The final two columns shown in the table provide where in my exhibits you  
 2 will find the Business Cases supporting the project, as well as where I describe the project in  
 3 my direct testimony.

4 **Table 2: Capital Projects By Functional Group Included in Company's Rebuttal Case**

ER	Business Case Name - 7 Projects	Total Project Amount, As Filed, for 2017	Rebuttal Case Actual Transfers Through October	Business Case Ref. - JMK-2	Testimony Ref. - JMK- IT
<b>WA Electric</b>					
*	5005 Information Technology Refresh Program	\$ 10,319	\$ 5,127	pg. 1, 10-14	pg. 11-12
	5006 Information Technology Expansion Program	6,789	3,995	pg. 1, 38-42	pg. 11-12
	5014 Security Systems	1,858	451	pg. 1, 34-37	pg. 11, 15-16
	5121 Microwave Replacement with Fiber	2,592	2,172	pg. 1-5	pg. 11-12
	5143 AU.com & AVANet Redevelopment	4,428	5,693	pg. 1, 15-20	pg. 11, 13
	5147 Project Atlas	2,936	247	pg. 1, 6-9	pg. 11, 13
	5151 Customer Facing Technology	891	382	pg. 1, 21-23	pg. 11, 13-14
	<b>Total - Electric Service (Kensok)</b>	<b>\$ 29,812</b>	<b>\$ 18,067</b>		
<b>WA Natural Gas</b>					
*	5005 Information Technology Refresh Program	2,973	1,627	pg. 1, 10-14	pg. 11-12
*	5006 Information Technology Expansion Program	1,956	1,113	pg. 1, 38-42	pg. 11-12
	5014 Security Systems	535	135	pg. 1, 34-37	pg. 11, 15-16
	5121 Microwave Replacement with Fiber	747	650	pg. 1, 2-5	pg. 11-12
	5143 AU.com & AVANet Redevelopment	1,276	1,704	pg. 1, 15-20	pg. 11, 13
	5147 Project Atlas	846	74	pg. 1, 6-9	pg. 11, 13
	5151 Customer Facing Technology	257	114	pg. 1, 21-23	pg. 11, 13-14
	<b>Total - Natural Gas Service (Kensok)</b>	<b>\$ 8,588</b>	<b>\$ 5,417</b>		
<b>Total WA</b>					
	5005 Information Technology Refresh Program	13,291	6,754	pg. 1, 10-14	pg. 11-12
	5006 Information Technology Expansion Program	8,744	5,107	pg. 1, 38-42	pg. 11-12
	5014 Security Systems	2,393	585	pg. 1, 34-37	pg. 11, 15-16
	5121 Microwave Replacement with Fiber	3,338	2,822	pg. 1, 2-5	pg. 11-12
	5143 AU.com & AVANet Redevelopment	5,703	7,397	pg. 1, 15-20	pg. 11, 13
	5147 Project Atlas	3,782	321	pg. 1, 6-9	pg. 11, 13
	5151 Customer Facing Technology	1,148	496	pg. 1, 21-23	pg. 11, 13-14
	<b>Total (Kensok)</b>	<b>\$ 38,401</b>	<b>\$ 23,484</b>		

18 \* Staff included and audited these projects

19 **Q. Will you give a brief description for the IS/IT projects allocated to electric**  
 20 **and natural gas included in Table No. 2 that are above the "threshold" applied on a**  
 21 **"functionalized" basis?**

1           A.     Yes. Summarized below are excerpts from my direct testimony, Exh. JMK  
2 1T, that describe each of these projects, including the total Washington electric and natural  
3 gas cost of the project:

4 **ER 5005 - Information Technology Refresh Program** – The Technology Refresh Program  
5 is an annual program that consists of projects, driven by planned obsolescence and technology  
6 roadmaps. The projects include hardware and software upgrades supporting various existing  
7 business processes. The Information Technology Refresh Program investment of \$6.8 million  
8 (Washington total) included in the Company's rebuttal case has transferred to plant and I can  
9 attest that the amounts included are used and useful and in service for customers as of  
10 10/31/17.

11  
12 **ER 5006 Information Technology Expansion Program** – The Technology Expansion  
13 Program facilitates technology growth throughout the Company, including technology  
14 expansion for the entire workforce, business process automation, and increased technology to  
15 support efficient business processes. The Information Technology Expansion Program  
16 investment of \$5.1 million (Washington total) included in the Company's rebuttal case has  
17 transferred to plant and I can attest that the amounts included are used and useful and in service  
18 for customers as of 10/31/17.

19  
20 **ER 5014 Security Systems** – The Security Systems program consists of physical and cyber  
21 security projects that improve Avista's security posture and respond to regulatory obligations.  
22 The Security Systems investment of \$0.6 million (Washington total) included in the  
23 Company's rebuttal case has transferred to plant and I can attest that the amounts included are  
24 used and useful and in service for customers as of 10/31/17.

25  
26 **ER 5121 Microwave Replacement with Fiber** – Avista's microwave infrastructure is a  
27 critical component of the overall network backbone for voice and data transmission across our  
28 service territory. The current microwave equipment is past its useful life and no longer  
29 supplied or supported by the manufacturer. The Microwave Replacement with Fiber  
30 investment of \$2.8 million (Washington total) included in the Company's rebuttal case has  
31 transferred to plant and I can attest that the amounts included are used and useful and in service  
32 for customers as of 10/31/17.

33  
34 **ER 5143 AU.com & AVANet Redevelopment** – Avista invested in replacement of its  
35 website through the AU.com & AVANet Redevelopment projects to provide self-service  
36 functionality to its customers, employees and drive out costs associated with in-person visits  
37 or telephone calls. The AU.com & AVANet Redevelopment investment of \$7.4 million  
38 (Washington total) included in the Company's rebuttal case has transferred to plant and I can  
39 attest that the amounts included are used and useful and in service for customers as of  
40 10/31/17.

41  
42 **ER 5147 Project Atlas** – The Project Atlas program is an investment to replace Avista's  
43 Facilities Management (AFM) system, which is a collection of legacy custom-coded



1 applications that we use to manage the location and current operating state of our electric and  
2 gas assets (e.g. pipes, poles and wires). It is the system of record for spatial electric and gas  
3 facility data and provides the connectivity model to support the AFM applications, such as  
4 Electric and Gas Design, Electric and Gas Edit, Outage Management Tool, Engineering  
5 Analysis and the Distribution Management System. The Project Atlas investment of \$0.3  
6 million (Washington total) included in the Company's rebuttal case has transferred to plant  
7 and I can attest that the amounts included are used and useful and in service for customers as  
8 of 10/31/17.

9  
10 **ER 5151 Customer Facing Technology** – In an effort to keep pace with customer  
11 engagement trends and quickly changing technologies, Avista intends to expand on the  
12 foundational technologies (e.g., Interactive Voice Response or IVR) and offer more channels  
13 of choice including self-service options that meet customer needs and help optimize overall  
14 business cost. Efforts like this are focused on providing tools for our customers that support  
15 general consumer preferences for mobile devices. The Customer Facing Technology  
16 investment of \$0.5 million (Washington total) included in the Company's rebuttal case has  
17 transferred to plant and I can attest that the amounts included are used and useful and in service  
18 for customers as of 10/31/17.

19  
20 **Q. For the projects Avista is including using its “functionalized” threshold,  
21 are there any O&M offsets that should be accounted for?**

22 A. Yes. It is important to note that many projects undertaken by the Company  
23 do not have, and have not been justified by, O&M offsets. That in no way should be a reason  
24 as to why these projects are excluded from the Company's case. Ms. Schuh discusses the  
25 O&M offsets the Company is including in its rebuttal case.

26 **Q. You also mentioned 4 projects (\$13.0 million electric and \$3.4 million  
27 natural gas) that have been excluded in the Company's rebuttal filing because they still  
28 did not meet the “threshold” even as applied on a “functional” basis. Will those projects  
29 also be completed by the end of the year?**

30 A. Yes. The Company excluded these projects simply as a way to strike a balance  
31 between Avista's original filing and Staff's position, as discussed by Ms. Schuh.

1           **Q.     What are some examples of the projects that have effectively been left on**  
2 **“the cutting room floor”, but otherwise will be used and useful and in-service in the rate**  
3 **effective period?**

4           A.     Below are only two examples of projects that will be in service and used and  
5 useful when rates go into effect in May 2018, yet have been excluded even from the  
6 Company’s rebuttal case. Those serve to make the point that even the Company’s rebuttal  
7 proposal will exclude some very basic capital investments made in the ordinary course of  
8 business.

9           **ER 5142 High Voltage Protection for Substations** – These projects have been designed to  
10 lower potential risks to our personnel and equipment. Because the telecommunication  
11 facilities, including Phone, Communication Switches, SCADA, and Metering & Monitoring  
12 systems, are commonly co-located inside Avista’s high voltage substations, this requires  
13 communications technicians to work in close association with our high-voltage electrical  
14 equipment. Under Tariff FCC Number 1, Section 13.7, Avista is required to provide high  
15 voltage protection of communication circuits in the high voltage areas newer than September  
16 12, 1994. In order to balance the need for communications from devices at substation  
17 locations with safety of personnel and equipment and to be in compliance with Tariff FCC  
18 Number 1, Section 13.7, Avista has implemented new high-voltage protection & isolation  
19 standards that will lower risk and meet compliance requirements. The decision to make this  
20 technology investment at this time will ensure implementation of the clearance changes  
21 required to meet the new standards and will result in a safer working environment for our  
22 crews who work in close proximity to high voltage electrical equipment. If we delay or cancel  
23 this high voltage protection upgrade investment, Avista crews will be at a higher risk of injury  
24 or death.

25  
26           **ER 5106 Next Generation Radio Refresh** - This project is refreshing Avista’s 20-year-old  
27 Land Mobile Radio system. Avista maintains this private system because no public provider  
28 is capable of supporting communications throughout our rural service territory. And, since  
29 our systems comprise a portion of our nation’s critical infrastructure, Avista is required to  
30 have a communication system that will operate in the event of a disaster.

31  
32           These two projects are considered to be “bread and butter” type projects that have effectively  
33 been left out in an attempt by the Company to find common ground between Staff’s position  
34 and the Company’s filed case.

35

1           **Q.    Does this conclude your rebuttal testimony?**

2           A.    Yes.