EXH. MRM-8
DOCKETS UE-19___/UG-19___
2019 PSE GENERAL RATE CASE
WITNESS: MATTHEW R. MARCELIA

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **PUGET SOUND ENERGY,** **Respondent.**	**Docket UE-19____** **Docket UG-19____**

SEVENTH EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF

MATTHEW R. MARCELIA

ON BEHALF OF PUGET SOUND ENERGY

JUNE 20, 2019

Budget Process Transformation Project Overview/White Paper

This white paper describes the purpose of the budget program, the current state issues it will rectify, the future state it will achieve, and the master sequence to get there. It is organized in these sections:

I. Executive Summary
II. Current State
    a. Systems
    b. Processes
    c. Performance and Accountability
III. Future State
    a. Business Processes
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    c. User Interface
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I. Executive Summary

Our Integrated Strategic Plan (ISP) guides us to attain our Mission—Safe, Dependable, Efficient—and to measure our progress in achieving our mission.

In addition to the metrics in our ISP, attaining the mission requires us to map how we use our financial resources to the work we do every day and the results we produce through that work. Then we can manage financial resources to get the most for our customers from the dollars we spend.

But we do not closely map financial resources to the work we do. We fall short of that mark. While we are meeting all the accounting requirements, the accounts we use and the way we budget just do not relate to our day-to-day work as well as they should. And budgeting and accounting are complicated and cumbersome in comparison to other utilities. So this takes too much time and frustration.

The Budget Process Transformation project will address these issues. The purpose of the project is to redesign PSE's budgeting process, tools, accounting structure, reporting, and financial accountabilities in order to:

- Better align how we keep track of the dollars we use to run our business and the work that we do, not just accounting requirements (which we will continue to meet)
- Improve how we use financial information to make decisions
- Reduce the work on budgeting, accounting, and reporting—and get more value out of it

The SAP/BPC project is an important step in the journey that began with the ISP.

<u>Current State</u>

PSE's current budgeting, forecasting, and planning processes and their associated systems hinder financial management, limit operational transparency, and blur line-of-site accountabilities. We cannot

easily organize our financial data and use it to make decisions to spend money, assess the work that the money produces, and drive the metrics we aim to achieve.

An important component of this problem is PSE's SAP configuration. Our SAP configuration is non-standard and highly customized. That precludes the use of the system as designed and limits our use of solutions *that PSE already owns*. This configuration has been described by SAP as "unprecedented." PSE's current custom SAP configuration:

- Prevents PSE from maximizing return on currently spent license fees and maintenance dollars
- Increases maintenance costs and the cost of implementing new technology
- Limits PSE's ability to leverage new SAP functionality as it becomes available
- Encourages the development of workaround solutions (spreadsheets and/or databases) which present a data risk, use resources to build and maintain, and inhibit comparisons across units

The Project

This project will simplify our financial information. We will organize our information about O&M dollars in three categories:

Cost Category	What It Explains
Cost Type	• What is the source of this cost? Was it parts, straight time, overtime, etc.?
Work Activity	• What kind of work did we use the resources associated with this cost to perform, (e.g., preventive maintenance, predictive maintenance, corrective maintenance)?
Cost Center	• Who in the organization is responsible/accountable for the work?

Financial information organized this way is much more useful. For instance, let's say we are improving our reliability metrics (dependable element in our Mission) because we are shifting labor and materials from corrective to preventive maintenance on a boiler feed pump, based on its condition. Using the new information, we would see that costs are lower and reliability is higher with this maintenance strategy. We could then use a similar approach on other, similar boiler feed pumps. Then we would get more dependability for the dollar. Today, information like this is very difficult to obtain, analyze, and use.

We will organize our financial information about capital projects in a Work Breakdown Structure. That is how we organize the work, so that is how we should organize the dollars. We will be able to link scope, budget, and schedule for all of our critical/key projects. Without information about all three, it is impossible to discern how any project is performing. If we are on budget but ahead of schedule and have performed more scope than planned, the project is doing better than expected. But if all we can see is that we are on budget, we cannot know that.

To achieve these things, we have to get our SAP house in order. We must remedy the SAP system configuration challenges to improve the budgeting, accounting, reporting, analysis, and decision business processes that SAP supports. This technical work will minimize the customization in PSE's SAP configuration. We will return SAP Financials to a plain "vanilla" configuration, in line with industry standards. This includes:

- New SAP Enterprise Central Component (ECC)
    - Fix the core of our SAP system to enable other improvements
- New SAP Business Planning and Consolidation (BPC)
    - Deploy the budgeting module as SAP intended, eliminating multiple applications today to create a single source of the truth, a standardized process, and less manual work
- Upgrade SAP Business Warehouse (BW) – completed
    - Improve the place where our data is now
- New SAP HANA platform
    - Establish the place where we will keep our data in the future for faster access and more flexible analysis
- Design of the SAP Profit Center Accounting hierarchy
    - Improve how we organize our account structure and house our chart of accounts in SAP
- New SAP cost flow model
    - Improve the linkage between how we allocate costs and the work those costs support
- Redesign of the Work Breakdown Structure and Investment Management modules in SAP
    - Improve how we organize costs for projects and assets
- New FERC accounting/derivation model
    - Simplify how we comply with our FERC accounting requirements and make this process more automated and vastly easier for Field Operations—and improve the reliability and validity of the data

When the technical changes are in place, we can improve our operational business processes.

- New budget process using accounts that relate to the work, assets, and projects
- New reporting process to compare actuals to budget so we can learn from variances
- Better analysis to support decisions we must make every day
- Redefined line of sight from decision maker to resources to put resources to their best use
- Simplified PSE activity rates to simplify and standardize costing and analysis

This will mean a lot of change for many people. So, Organizational Change Management (OCM) will be integral to the project's success. We expect to adopt a standard method and toolset for OCM. OCM is a systematic method to increase the ability, willingness, and confidence of the organization to make specific changes in how it does work. Through OCM, we will help our people understand what is needed, why, what they need to do differently, and how to be successful in doing those things.

To be clear, getting from current to future state will not be easy. OCM will help, but it will still take hard work. It will require effort and support from all of our leaders and most of our employees. We will have to learn new methods and apply them. We will have to help and support each other. There will be significant challenges, speed bumps, and potholes. However, this is work that we can accomplish, if we approach it in a thoughtful manner and learn from past efforts. And when we do accomplish it, it will improve how we make decisions, use our resources, and serve our customers.

Future State

We will more clearly link the dollars we use to the work we accomplish and the results we produce. We will use that information to get more for our customers from the dollars we spend. We will do that by making better resource-informed decisions. Our information will be more transparent. We will have a clear line of sight for the people responsible for our business every day, in our generating plants, in our trucks, in our substations, on our wind farms, in our customer care centers, and in all our departments and activities. We will have better visibility into the costs of our major projects. We will be able to see how costs, scope, and schedule tie together. This information will be easier to use and understand and more useful to manage by.

Together, this will be a significant step forward in achieving the goals of the ISP, our long-term objectives, and our Mission—Safe, Dependable, Efficient. Booga Gilbertson, Vice President, Operations, said it best:

> "I am most eager to fully and completely retire the broom, the mop, and the bucket as management tools.
>
> Enabling the organization to succeed through adequate tools, communication, organizational change management, practical processes, and constructive accountability is where we need to be."

II. Current State

PSE's current budgeting, forecasting, and planning processes and their associated systems hinder efficient financial and operational transparency, blur line-of-site accountabilities, and rely on inconsistent methodologies.

In addition, PSE lacks ready access to standard information and is challenged to cohesively, easily, and promptly respond to business changes, what-if analyses, and vital business inquiries that drive strategic direction, transparency, and accountability.

Systems

PSE's nonstandard SAP configuration makes simple tasks difficult. For example, basic functionality such as running a trial balance straight out of standard SAP Finance or getting a P&L statement out of the current chart of accounts is not possible in the current system. We cannot use all the functionality we have, the cost of maintaining it is high, and it is hard to implement enhancements. This requires additional manually built customizations to replicate standard SAP functionality. Left as is, this has the potential to become a vicious circle of increasing customization and reducing stock capabilities which would make the current situation worse and more expensive.

As an example, the SAP Investment Management module was designed to support capital investment across the enterprise. However, PSE's current SAP configuration fails to take advantage of many of the basic capabilities present in the Investment Management module—only two Investment Management features are partially used while seven features are not used at all. In this way, PSE is prevented from maximizing its return on license fees and maintenance dollars that are currently spent.

Other embedded SAP functionality such as Operation Level Accounting (OLA) and Profit Center Accounting are present in the current SAP configuration but are not leveraged due to the PSE practice of using the Work Breakdown Structure to assign costs relative to the type of work being performed rather than for major projects as intended. If implemented, the appropriate module for this (Profit Center Accounting) would allow for line-of-business accounting by "rescuing" the Work Breakdown Structure so it can be used appropriately for project management accounting.

Lastly, limited SAP functionality encourages the development of workaround solutions in external spreadsheets and/or databases which proliferate. This presents a significant data risk, in addition to requiring extensive resources to build and maintain. Standards of practice become increasingly hard to maintain with many different systems in use making cross-company comparisons difficult. Providing the needed functionality within a standard SAP configuration will limit the need to use shadow systems.

Processes

PSE's current system is a workaround that uses order types organized for FERC accounting. This prevents use of standard SAP FERC reporting functionality – industry practice proven by utility market leaders. As a workaround, large numbers of orders are created to feed solutions outside SAP. We currently have 1.5 million orders. This undermines transparency, reliability, and validity of certain data.

Capital work at PSE is not tracked by Work Breakdown Structure element due to PSE's use of Work Breakdown Structure as an organizational hierarchy (meaning how we organize our accounts in a tree structure). So, while we plan and manage our projects through a Work Breakdown Structure, we do not track our dollars that way in the accounting system. That makes it difficult to tie dollars to scope and manage our projects. SAP was designed to map the accounts to the Work Breakdown Structure used to plan and manage the project. It can even accept direct Work Breakdown Structure inputs from Primavera or MS Project, the software used to plan and manage projects. PSE pushes or translates all costs to Work Breakdown Structure elements to represent the description of the work product or service output, not the actual project being funded. Consequently, the budget housed in SAP's Work Breakdown Structure does not align with the actual phases of capital projects that have been funded.

Orders are created according to the FERC account to be charged. Embedding FERC account numbers into orders gives rise to many problems. First, it adds to the number of orders required to complete work. Because each order can only go to one Work Breakdown Structure, and each Work Breakdown Structure can only go to one cost center, work spanning multiple Work Breakdown Structures requires multiple orders. The proliferation of orders makes line of sight and cost transparency very difficult to achieve.

Second, it requires PSE to use far more allocations (assessments) than is typical because all costs must be assigned to orders for PSE to generate a profit and loss statement. Any costs charged to a cost center

initially must be moved using an assessment to one or more orders. PSE does not use the general ledger to generate profit and loss results, which is a departure from industry best practices. Utilizing the GL would improve internal controls and mitigate potential audit risks.

Third, it requires far more involvement from Field Operations than in utilities with standard order management configurations. Project managers and planners must know the correct FERC account to charge work. When orders are set up to the wrong FERC account, or when work is charged to the wrong order, the correction process results in potentially confusing results (e.g., an order with one embedded FERC account number that is part of a different FERC account order group). Automating the process of assigning correct FERC accounts to each order would eliminate the need for Operations to be responsible for detailed accounting and increase the level of data integrity around O&M and A&G expenses. We want our Field Operations people to concentrate on Field Operations, not on accounting complexities that are automated at other utilities.

Performance and Accountability

Today, PSE's actuals are not summarized with dollars, only with a master data association. What this means is the budget is created at high level, but the actuals are detailed and very difficult to map back to the budget. This creates two problems. First, a critical management control and learning system is undermined. By comparing actual to budget, we understand how we are performing and learn how to run the business better. Second, as employees try to bridge this gap, they create labor-intensive workarounds with data validity issues. The combination of high-level budgets and very detailed actuals with no matching cost elements between them requires a proliferation of off-system Excel workbooks. Employees use these Excel workbooks to summarize actuals and attempt to align these actuals to budgets.

Assessments are required at PSE to produce a P&L statement. Assessments are also used to allocate indirect costs such as supervision, engineering, and transportation. Though assessment is a standard allocation tool in SAP, PSE's non-standard order management system causes the organization to overuse it. This means that assessed costs are hard to understand and manage.

PSE's order management system is so integral to the creation of financial statements that all users of financial information must input high volumes of order data into other applications, such as PowerPlan and UI Planner. As mentioned above, PSE also relies on spreadsheets and databases outside SAP, which require significant effort to maintain and have the potential to undermine data integrity.

Typically, expenses are settled to cost centers and capital projects to Work Breakdown Structure elements. In turn, the Work Breakdown Structure elements should be settled to a general ledger account. However, settlement at PSE is not performed in this way today. Instead, settlement of capital orders to a general ledger account is performed to create a clearing pool for distribution to balance sheet accounts using PowerPlan. This workaround is how we comply with accounting rules for plant accounting including construction work in progress (CWIP), removal costs, and installation costs. Orders are not settled to cost centers because doing so would make the P&L statement malfunction (because it is based upon actual values in the orders).

Inconsistent budget process philosophies (zero-based budgeting, activity-based budgeting, etc.), practices, and standards across business units add to the complexity of aligning budget to actuals. SAP components such as cost centers, attributes, drivers, Work Breakdown Structure elements, account structures, and orders, are used inconsistently across the Company. In addition, different standards exist across the organization. For example, there is varying understanding on what gets budgeted at a Work Breakdown Structure level and what gets budgeted at a cost-element level. Multiple cost-element hierarchies are maintained on different schedules adding to inconsistent reporting.

When managers work around the system this way, it erodes governance and adherence to standards. Accountability resides at different levels throughout the organization, and budget and forecast level of detail does not match across business units. As a result, the ability to drill down and align costs to plan is severely limited. This limits visibility and accountability. Limited visibility into resource requirements and use impedes capacity and other critical business decisions throughout the enterprise.

III. Future State

In the future, we will have fewer accounts that map more closely to the work we do in the real world. We will be able to more clearly link the dollars we use to the work we accomplish and the results we produce to answer the following questions:

"Did the dollars spent match the work we promised to do?"
"Did the dollars and work produce the results that they should?"

We will spend less time on budgeting, accounting, and cost reporting and get more value out of it. Period.

Business Processes

We will achieve significant improvement for PSE in these business process areas:

- Budgeting, forecasting, and management reporting
- Regulatory planning and reporting
- Project development and management
- Work identification, crew dispatch, and control
- Financial and tax reporting
- Customer scheduling and responsiveness

Strengthened Core Capabilities

Beginning in the budgeting arena, we will strengthen key capabilities of the enterprise using industry best practices implemented using necessary OCM practices, integrating lessons learned, and earning the trust of our employees through demonstrated action.

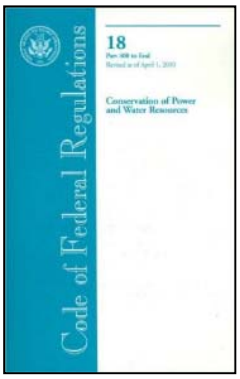
- *Accounting governance and control:* In the future, we will centralize governance and control and eliminate many disparate account code structures around what are otherwise common scopes of work spanning the company's operating units.

  - Cost reports will be tracked in a single system as opposed to numerous individual Excel spreadsheets
  - Budget managers will be able to "roll up" and compare across projects in total or based on common elements of the work, and data will no longer be manually pulled from numerous individual work orders
  - Project cost reports will be standardized, eliminating the multitude of unique reports that require numerous manual steps for their maintenance and upkeep and create data integrity risk
  - We will manage the Company through a significantly reduced and more manageable set of cost elements along with consistent and repeatable project Work Breakdown Structure cost codes for capital and larger maintenance work, providing consistency across all projects and operational programs
  - Project performance tracking and management will be proactive and based on total lifetime cost as opposed to the current annual "reset" process today, while maintaining fiscal-year reporting
  - Budget and accounting data will be centrally governed and supporting internal controls will be based on industry best practices

- *Capital allocation decisions:* Today, capital allocation is an extremely difficult, time-consuming, frustrating, and sometimes contentious process due to silo-oriented planning and prioritization processes. This is further hindered by the lack of transparency and unclear/unknown interdependencies, potential duplication, and even potentially conflicting objectives within the business.

  In the future, we will use the improved business information to invest in the projects of highest enterprise priority and value, better mitigating corporate risk and ensuring the allocation of capital in a way more closely aligned with the interests of our customers, employees, and investors. Our priorities will be funded, measured, and monitored for both cost and benefit performance vis-à-vis a portfolio allocation process that promotes appropriate review, analytical rigor, and approvals in order to ensure achievement of our ISP objective.

  This will not make capital prioritization a walk in the park. It never is. But better information will lead to more constructive dialogue and better decisions.



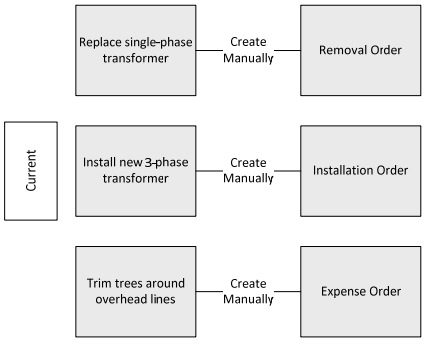
- *Simple and transparent corporate, project, and operations accounting:* Today, FERC reporting requirements dominate PSE's accounting model and impede managerial accounting for corporate, project, and operational aspects of day-to-day utility operations. For example, once a capital project is approved or approved maintenance is ready to be scheduled, one of the first things a planner does is plan the accounting – that is, he or she creates a work order or multiple work orders in order to track, measure, and monitor the work being performed. Because our current accounting system is regulatory-focused and not managerially focused, this requires an intimate knowledge of the *United States Code of Federal Regulations*, specifically *Title 18—Conservation of Power and Water Resources, Subchapter U—Regulations Under the Public Utility Holding Company Act of 2005, Federal Power Act and Natural Gas Act, Part 367—Uniform System of Accounts for Centralized Service Companies subject to the Provisions of the Public Utility Holding Company Act of 2005, Federal Power Act and Natural Gas Act*.

  Sounds easy, right? For trained accountants, this would be an intellectually stimulating and appropriate work environment. For the rest of us, it's an unnecessary burden, a waste of time, and an impediment to focusing on what really matters—getting electricity or gas service to our customers safely, dependably and efficiently.

  When the project is completed and fully deployed, planners and schedulers will benefit from greatly simplified work order creation and accounting determination processes. Specifically, a new SAP feature will allow a single work order to be used for all phases of work, irrespective of the accounting requirements. Work order creation will be simple and based on the work being performed, not the accounting, and "behind-the-scenes" accounting rules governed by PSE's Accounting department will ensure compliance with all applicable rules and regulation.

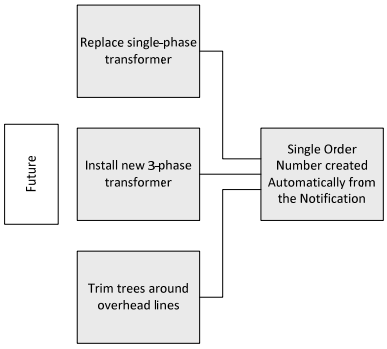
  For example, today a crew replacing a pole top transformer may be required to charge time to three separate work orders:

  1. An order to remove the old transformer
  2. An order to install a new one
  3. An order to trim trees along the overhead distribution line

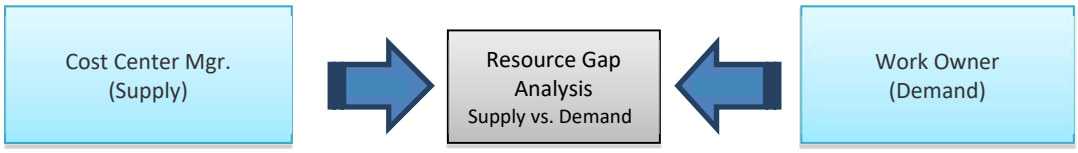


  In the future, all three of these activities may be combined into a single work order number. The crew will no longer be asked to parse their time out, and budget managers will have a single stop for reviewing plan to actual performance for this work. But wait—there's more! The planner will have created only one work order—reducing the amount of time he or she spent on

this work by two-thirds. Now multiply that time savings by the number of work orders created every day of the year (PSE has ~1.5 million work orders in total). There is a significant opportunity to increase resource availability and focus toward higher-value activities supporting PSE's customers. Deployment of this capability will be phased in as part of PSE's future project management and work management initiatives.



- *Budgeting, accountability model, and analytics:* PSE is a matrix organization without an effective means of allocating people and resources on a cross-department basis. Let's explore this further… You're the project manager of an IT or operational project that requires people spanning multiple business units. How do you secure the resources needed to ensure successful delivery of your project? This includes not only bringing the right technical expertise to bear, but ensuring the necessary business unit sponsorship, operational representation, champions, and coaches internal to the affected business units/processes. How do you even know they're available to support your schedule and delivery requirements? You're accountable. You are expected to deliver on scope, schedule, cost, and benefits delivery objectives.



In the future, resource allocation will be enabled with stronger transparency between supply (sending) cost centers and demand (receiving) cost centers. For example, the Energize Eastside project is pulling (or "demanding") resources from numerous sending cost centers (e.g., Planning, Real Estate, Engineering, Project Management, Information Technology, Corporate Communications, etc.) How are these needs balanced against other corporate priorities? What priorities are consuming what resources? How do we want the resources allocated?

As discussed under *"Capital allocation decisions"* above, we first create a shared understanding of priorities. We share an understanding of the ISP, and now we need to make sure we can connect our day-to-day activities to it. We need to support this through:

- Reorganization of the work into more operationally meaningful buckets so that we have a better understanding of what we're doing, how we're performing against plan objectives, and how similar functions compare across business areas
- Development and implementation of budget templates and standardized reports by business unit that make sense to the end users, align with the work being performed, are intuitive, and improve our ability to manage company resources

- Quick and easy access to transaction-level detail to support variance analysis and improve how we are monitoring, managing, and adjusting to changing operational conditions and the needs of our customers

In summary, we will better align our account structure with the work we do and redesign PSE's actual and budget account structure for O&M, Capital, and Major Projects.

User Interface

Familiar and Simplified User Interface. The web interface will make the application easily available and accessible to people throughout PSE, enabling budget and forecasting collaboration and providing clearly defined process flows for ease of use. Drag-and-drop functionality will enable report creation, and a centralized view of all reports will facilitate searching and navigating content. PSE business users will be able to more efficiently share ideas, comment on reports, and add "unstructured data" such as e-mails or spreadsheets for a deeper understanding of business content and decision record.

Integration with Familiar Applications. Imagine creating a PowerPoint presentation on your annual budget for your management team and having to manually update 20 different tables through each iteration draft, each depicting a cost center within your organization. Now imagine having the tables dynamically linked to your budget system and leaving the updates to the budget system and PowerPoint. SAP BPC includes an add-in for Microsoft Office with this functionality.

Significantly Improved Reporting. PSE business users will be able to access information and create reports with the Web or Microsoft interfaces without having to make requests to the IT department—a significant improvement over today's management reporting environment. In addition, Business Objects will empower PSE business users with easy access to the business intelligence and data visualization tools solutions to make faster, more-informed management decisions.

IV. Master Sequence

The Budget Program is a combination of two highly integrated implementation work streams—an operational work stream that serves to achieve specific business process and performance objectives and an enabling technical work stream. The proposed schedule integrates both work streams as well as reflects due consideration of the following business constraints:

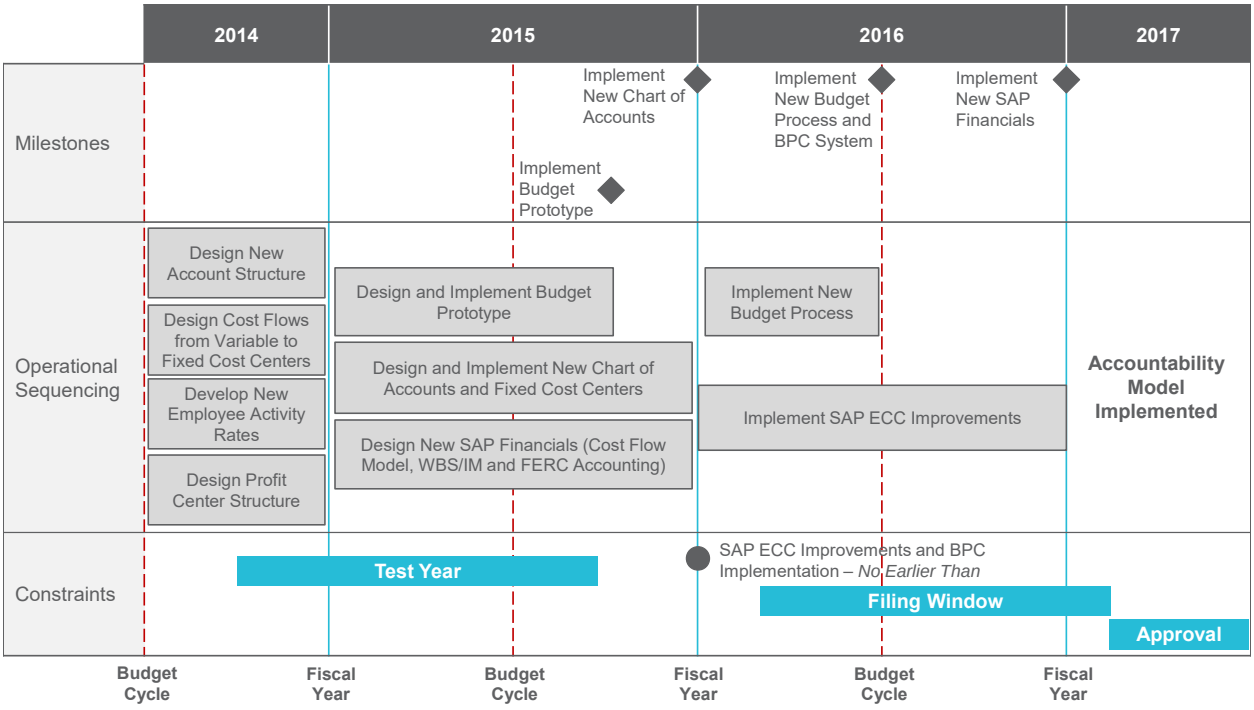
- *Regulatory:* PSE plans to file a General Rate Case no later than April 1, 2016, that will be based on a test year beginning October 1, 2014, and ending September 30, 2015. No system changes will be made in a production environment during this period.

- *Fiscal Year:* PSE uses a calendar year fiscal year for budgeting and financial reporting. Implementation of system changes will coincide with the start of a new fiscal year in order to minimize SOX and other financial reporting complications and to create full calendar year alignment of budget and actual data.

- *Organizational Readiness:* Notwithstanding a new budget process and system, numerous business processes will be affected (and improved), spanning the entire company and SAP end-user community. Accordingly, the operational schedule has been designed to accommodate the magnitude of changes and ensure their successful deployment over a longer period using an incremental as opposed to "big-bang" approach and appropriate OCM.
- *System Development:* PSE has numerous projects either underway or in the queue that support our ISP objectives and also constrain availability of IT and business resources. Accordingly, the technical schedule has been designed to accommodate the multitude of projects while also providing additional time for system and business process testing and validation—again, to ensure their successful deployment over a longer period using an incremental as opposed to "big-bang" approach.

The overall tentative program schedule is depicted in **Figure 1** below.

Figure 1: Tentative Implementation Schedule



Technical Work Stream

The technical work stream is being developed in coordination with the operational work stream and will be finalized during Fall 2014. The following activities are proposed to commence during August 2014 and support technical and operational delivery of the project:

1. *Design of a new and simplified account structure* that reduces the number of cost elements from the current 5,000+ in SAP to a number that is more manageable and meaningful. In addition, the design will address how PSE will use work orders and cost centers on a going-forward basis.

2. *Design of new SAP cost flow model* that results in a configuration aligned with an SAP Financials plain "vanilla" configuration and integrates the SAP FERC derivation model. The new cost flow model will eliminate variable cost centers, and costs will settle to capital work orders or receiving costs centers for O&M work orders, enabling the budget transparency PSE lacks today. In addition, the income statement will be rendered using general ledger accounts by incorporating the SAP FERC module and separating FERC from managerial accounting.

3. *Development of new and simplified PSE activity rates* by employee class that will significantly reduce the complexity of planning and financial/HR data maintenance. This change, along with the elimination of variable cost centers, will enable the cost element reductions designed as part of PSE's simplified account structure.

4. *Design of the SAP Profit Center Accounting hierarchy* that will replace the current Investment Management and Work Breakdown Structure hierarchies. The Investment Management and Work Breakdown Structure hierarchies will be used for project management purposes as intended.[1]

   Completion of these four pre-system design activities during Fall 2014 and early 2015 will enable detailed design and development to commence for the new budget system that will be tested vis-à-vis a prototype prior to deployment on an enterprise-wide basis.

5. *Design new Work Breakdown Structure/Investment Management and FERC Accounting* may commence upon completion of the preceding four activities and is the final technical predecessor activity to the SAP development phase of the project. The final design, build out, and testing of the SAP Financial modules may occur in 2015 or carry over into 2016. Technical readiness is envisioned no earlier than January 1, 2016, and the project team is recommending a January 1, 2017, cutover as part of the operational plan described below. Nonetheless, PSE may evaluate the merits of an earlier transition based on organizational change readiness assessments to be conducted as part of the 2015 project plan.

6. *Design and implement Budget Prototype* may commence upon completion of the preceding five work activities such that the budget system reflects the cost flow, account structure, and organizational hierarchies of the "to-be" state (profit centers and cost centers for the business areas participating in the prototype process). The prototype will serve as a test and validation tool, both technically and operationally, and will be scaled to the entire organization for deployment in 2016 in support of the 2017 planning cycle.

Operational Work Stream

The operational work stream has been organized to ensure the proper orientation and training necessary for effective process and system installation, and their repeatability and sustainability. Specifically, the following milestones reflect implementation of business process, system(s) changes, and OCM to install PSE's new accountability model:

1. *Implement Budget Prototype:* As discussed in the technical work stream, a BPC system prototype is proposed to serve as a conduit between the end-user community and the development team for both business process flow and user-experience testing and validation. The prototype represents the end-users' opportunity to "test-drive" the system, view and comment on its look and feel, and begin the acclimation process. It will be used extensively as part of the overall communication and organizational readiness processes. The final system will reflect the experience of these early adopters and will be scaled to the entire organization mid-

[1] Profit centers represent areas of the company with responsibility for achieving productivity goals; e.g., new customer construction, substation maintenance, generation, fisheries operations, construction, and accounting. There will be many profit centers within each of PSE's business units; i.e., Electric Operations, Gas Operations, Finance and Accounting, and Customer Care. Profit Center hierarchy may not necessarily align with the cost center management hierarchy.

2016 to budget for 2017. In addition to the budget prototype, a standard suite of management reports will developed, validated and deployed as part of the overall program to ensure a common view and interpretation of business performance, create the formal basis for consistent Outlook planning and discussions, and enable a "five minute budget manager" skillset among PSE's budget managers.

2. *Implement New Chart of Accounts and Cost Flows.* The proposed schedule makes certain operational process and data flow changes within PSE's existing SAP system beginning on January 1, 2016. Specifically, the use of variable cost centers will be greatly reduced if not eliminated outright and will coincide with the introduction of direct time reporting for all employees. These changes are not insignificant in and of themselves from an organizational readiness and change management perspective. Accordingly, the proposed schedule plans their implementation a full calendar year in advance of the broader SAP and budget system changes. With the implementation of these changes, the organization as a whole will begin to realize incremental benefits of improved transparency as the "peanut butter" spreading of variable cost centers will be eliminated and the chart of accounts simplified.

3. *Implement New Budget Process.* In addition to a new budget system, we will also be redesigning the budget process, which will include the sequencing, data requirements, roles and responsibilities of budget owners and analysts, and cross-organizational communication, coordination, and collaboration steps for resource planning—all within a much shorter and technology-enabled schedule. A comprehensive process and Budgeting 101 training curriculum will precede the deployment of the new BPC system and will be tested during the prototype phase for expanded rollout as part of the enterprise-wide process/system deployment.

4. *Implement New SAP Financials.* With the design, build, and testing work complete in 2016, PSE will be ready for the rubber to hit the road and deliver effectively on achievement of overall program objectives.