

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-150204

DOCKET NO. UG-150205

REBUTTAL TESTIMONY OF

JAMES M. KENSOK

REPRESENTING AVISTA CORPORATION

REDACTED

1 **I. INTRODUCTION**

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

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

6 **Q. Mr. Kensok, please provide information pertaining to your**
7 **educational background and professional experience?**

8 A. I am a graduate of Eastern Washington University with a Bachelor of Arts
9 Degree in Business Administration, majoring in Management Information Systems, and a
10 graduate of Washington State University with an Executive MBA. I have experience
11 through direct application and management of Information Services over the course of my
12 32-year information technology career. I joined the Company in June of 1996. Over the
13 past 18 plus years, I have spent approximately one year in Avista's Internal Audit
14 Department as an Information Systems Auditor with involvement in performing internal
15 information systems compliance and technology audits. I have been in the Information
16 Services Department for approximately 17 years in a variety of management roles
17 directing and leading information technology and systems, planning, operations, system
18 analysis, complex communication networks, cyber security, applications development,
19 outsourcing agreements, contract negotiations, technical support, cost management, data
20 management and strategic development. I was appointed Vice-President and CIO in
21 January of 2007 and Chief Security Officer in January of 2013.

22

1 **Q. Please summarize your testimony?**

2 A. My testimony will demonstrate that, contrary to the claims of Staff witness
3 Mr. Gomez, the overall timeline and costs to complete Project Compass were reasonable,
4 and the Company made prudent decisions in managing the challenges it faced, including
5 the performance of its many contractors. In the end, the Company successfully and cost-
6 effectively delivered these new systems to our customers.

7 A table of contents for my testimony is as follows:

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25 **Q. Are you sponsoring any exhibits in this proceeding?**

26 A. Yes. I am sponsoring Exhibit Nos. ____ (JMK-7) - ____ (JMK-12C). Exhibit
27 No. ____ (JMK-7) is an overview report of Avista's Project Compass. A summary table of
28 contract and spending information for the contract companies who supported Project
29 Compass is provided as Exhibit No. ____ (JMK-8C). The Company's response to
30 Staff_DR_141C Supplemental is provided as Exhibit No. ____ (JMK-9C). An excerpt of the
31 Company's response to Staff_DR_140C is attached as Exhibit No. ____ (JMK-10C). The

1 Company's response to Staff_DR_152C is attached as Exhibit No. ____ (JMK-11C), and the
2 Project Compass employee bonus plan is provided as Exhibit No. ____ (JMK-12C).

3 **Q. Would you please briefly summarize the role, responsibilities, and**
4 **qualifications for both yourself, and the Project program manager responsible for**
5 **Project Compass, as they relate to the development and implementation of the**
6 **Project?**

7 A. Yes. As described in my qualifications, for over 32 years I have worked
8 in many capacities in the field of information technology, and have led complex projects
9 and organizations in both utility and non-utility enterprises. For Project Compass, I served
10 as a member of the Executive Steering Committee for the Project, which was established
11 to ensure appropriate executive oversight and direct communications between the Project
12 co-sponsors and Avista's executive leadership. As a Committee, we were regularly
13 updated by the Compass leadership team, during which time we delved into areas of
14 identified Project risk, asked questions, at times made special assignments for report back,
15 made executive-level decisions as appropriate, and took additional actions such as
16 traveling to the overseas operations of our contract companies for onsite evaluations, and
17 face-to-face problem solving, and issue resolution. Overall, we ensured there was direct
18 accountability for performance of the Project, ensuring we had the information and
19 understanding required to make effective and timely decisions. I also represented the
20 Executive Steering Committee in presentations and discussions with the Company's
21 Board of Directors, related to Project Compass.

22 Dr. Greg Jones was the project program manager responsible for Project Compass.
23 He is employed by Black & Veatch (B&V) which is a leading global engineering and

1 consulting company serving the energy industry. He possesses extensive knowledge and
2 expertise in the use of project management methodologies and tools. He has 32 years of
3 IT experience, 25 of that in the utility industry. He has led the successful implementation
4 of five Customer Information System/Asset Management Systems for utilities, and has
5 successfully completed two other implementations for non-utility clients. He serves on
6 the Board of Directors of the Oracle Utility Users Group (four years as chair) and has 18
7 years experience leading large, complex multi-country utility projects.

8 Dr. Jones' responsibilities for Project Compass included managing multiple
9 project managers (of which several are Project Management Institute [PMI] certified) and
10 project support staff. He tracked project milestones making adjustments as required,
11 communicated regularly with the Executive Steering Committee, business leadership, and
12 consultants on project status, project scope, timing, and budgets.

13 **Q. What is Staff witness Mr. Gomez proposing in his testimony regarding**
14 **Avista's requested recovery of costs associated with the recent implementation of its**
15 **customer information and work and asset management systems (Project Compass)?**

16 A. Staff witness Mr. Gomez alleges that the actual time and cost required to
17 successfully implement these new systems was excessive, due primarily to the
18 performance of one contractor that he believes the Company failed to properly manage.¹
19 As a result, Mr. Gomez argues that a portion of the implementation costs were not
20 prudently incurred,² and should not be recovered by the Company.

¹ Staff witness Mr. Gomez Exhibit No. __CT (DCG-1TC) 52:17; 53:1,2.

² Exhibit No. __CT (DCG-1TC) 49:8-12.

1 **Q. What was the basis of Mr. Gomez’ proposal?**

2 A. Mr. Gomez alleges that Five Point Partners (“Five Point”),³ which was one
3 of the 34 contract companies hired by Avista to support the Project, was not properly
4 managed by the Company.

5 Specifically, Mr. Gomez asserts that:

- 6 • A conflict of interest⁴ arose with Five Point, suggesting it may have
7 engaged with another company (EP2M) to influence Avista’s vendor
8 selection process;⁵
- 9 • The Company failed to manage the risks of this potential conflict of
10 interest;⁶
- 11 • Five Point failed to perform under the terms of its contract, and that was
12 the primary reason for increased costs and an extension of time to
13 complete;⁷
- 14 • Avista did not properly respond to the performance of Five Point⁸ and did
15 not demonstrate prudence in its decision to retain Five Point and extend
16 their contract with the successor company Ernst and Young;⁹ and
- 17 • Based on his assertion that the Project was late and over budget, Avista
18 should not be entitled to recover the bonuses paid to employees for
19 successfully implementing the Project.¹⁰

20
21 **Q. Does Mr. Gomez otherwise argue that Project Compass was not**
22 **successfully implemented?**

23 A. No, he does not. The Project was successfully launched on February 2,
24 2015, and has performed very well since that time. This is a tribute to the hard work and
25 dedication of our employees and many contractors. The Company took the time and made

³ Five Point Partners was hired by Avista in June of 2011 to help the Company develop its system requirements for the RFPs that would be sent to potential application and system integration vendors. The firm, EP2M, was hired by Avista in July 2012 as its system integrator for the Oracle Customer Care & Billing application. The purchase of EP2M by Five Point was announced in January 2013, and Five Point was subsequently purchased by the firm Ernst and Young, which was announced in June 2014.

⁴ Exhibit No. __CT (DCG-1TC) 53:15,16.

⁵ Exhibit No. __CT (DCG-1TC) 55:2-13.

⁶ Exhibit No. __CT (DCG-1TC) 52:12-17.

⁷ Exhibit No. __CT (DCG-1TC) 52:8-11.

⁸ Exhibit No. __CT (DCG-1TC) 57:1-4.

⁹ Exhibit No. __CT (DCG-1TC) 57:9-12.

¹⁰ Exhibit No. __CT (DCG-1TC) 60:5-11.

1 the investments required to assure success in the implementation of the system, which is
2 noteworthy when compared with similar efforts across the utility industry.

3 **Q. What is Avista’s response to the assertions and conclusions of Staff?**

4 A. In this testimony I will demonstrate that Project Compass was capably and
5 successfully managed and implemented, and that the time required and the costs incurred
6 were reasonable, and prudent. Specifically, this testimony will show that:

- 7 • The Project timeline and costs were reasonable and prudent;
- 8 • Avista made prudent decisions in relation to all agreements involving Five
9 Point;
- 10 • The increased Project cost was not primarily caused by Five Point;
- 11 • The Company made prudent decisions managing Five Point and its
12 successor, Ernst & Young; and
- 13 • The employee bonuses were directly related the successful completion of
14 the Project, and should be recovered by Avista.

15
16

17 **II. THE PROJECT TIMELINE AND COSTS WERE REASONABLE**
18 **AND PRUDENT**

19
20

Q. Please provide an overview of the Project Compass timeline?

21 A. The Company’s legacy customer service and work management system
22 was placed into service in 1994, and through prudent investments to refresh and expand its
23 capabilities, it remained in service for 20 years. In 2010, Avista began the effort to replace
24 its legacy system, and in 2012, after selecting primary vendors, the Company prepared an
25 implementation plan and initial capital budget. Avista chose Oracle’s “Customer Care &
26 Billing” system (“CC&B”), and the “Maximo” work and asset management application
27 (“MAXIMO”) sold by IBM. The firm EP2M was selected as the primary installation
28 contractor for CC&B, and IBM was hired to install its Maximo system. In June of 2014,
29 the Company extended its in-service date (the “Go-Live”) from July 2014 to early 2015

1 and, correspondingly, increased the amount of the initial budget estimate. The final
2 addition to the budget estimate was made in November 2014, and the Go-Live took place
3 on February 2, 2015.

4 **Q. Why does Avista believe these revisions to the timeline and budget**
5 **were reasonable?**

6 A. It is the nature of predicting the cost of large, enterprise-wide computer
7 applications, that the accuracy is highly-dependent on the implementation stage of the
8 project. Avista described this phenomenon in relation to the Project Compass budget and
9 timeline, in a report prepared by the Company in 2013, titled, “An Overview of Avista’s
10 Project Compass,” which is attached to this testimony as Exhibit No.__(JMK-7).¹¹ This
11 report was also previously provided to all parties in Avista’s prior general rate case as
12 Exhibit No.__(JMK-2) in Dockets UE-140188 and UG-140189. A relevant excerpt from
13 page 37 of that report is provided, below.

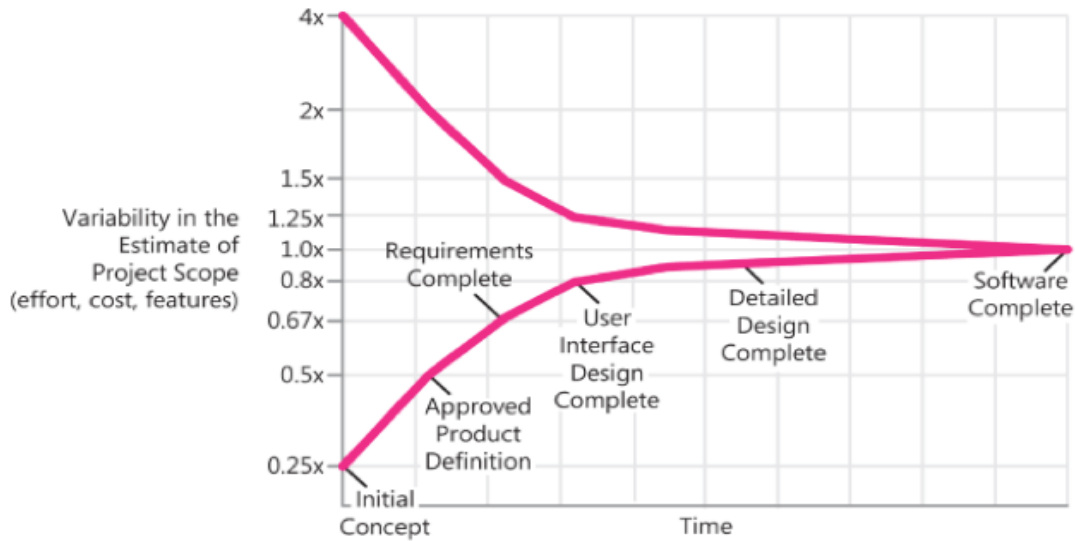
14 “Early in the scoping of a software project, particular details of the application
15 being designed/installed, a detailed knowledge of the Company’s specific business
16 requirements, details of the solution sets, the management plan, identified staffing
17 needs, and many other variables are simply unclear. Accordingly, estimates of the
18 potential cost of the project are highly variable. As these sources of variability
19 continue to be investigated and reduced, the project uncertainty decreases;
20 likewise, so does the variability in estimates of the project cost. This phenomenon,
21 widely discussed in the literature, and often associated with author Steve
22 McConnell¹², is known as the “Cone of Uncertainty,” presented in Figure 4¹³,
23 below.” (emphasis added)

¹¹ Due to the voluminous nature of the Attachments to this report, they are being provided in electronic format only.

¹² Software Estimation: Demystifying the Black Art. Steve McConnell, Microsoft Press, 2006

¹³ id. Figure 4.2, 96.1/751.

1 **Figure 4.** The ‘Cone of Uncertainty’ describing the relationship between the
2 variability in the estimates of a software projects’ costs and the stage of the project
3 at which the estimates are developed.



4

5

6 As illustrated in this “Cone of Uncertainty,” there is significant uncertainty in the early
7 stages of developing accurate estimates of the cost and time necessary to complete a
8 project of the size and scope of Project Compass.

9 **Q. At approximately what point of development on this chart was Project**
10 **Compass when the initial budget of \$78.9 million was estimated?**

11 A. The Project was generally at the point of the “Approved Product
12 Definition.” At this point, Avista had surveyed its business requirements in support of
13 evaluating the capabilities of the candidate vendor applications.

14 **Q. According to this chart, what degree of variability could one assign to**
15 **Avista’s initial budget, with respect to the ultimate project cost?**

16 A. It could be expected to potentially range as high as two-times the budget
17 that was estimated at that point, or a total of \$157.8 million.

1 **Q. Generally, at what point on the above chart was the Company's**
2 **Project Compass at the time the budget was revised up to \$98.6 million?**

3 A. The revision occurred after the Detailed Designs were finally completed.

4 **Q. What degree of variability could one assign to the predicted final cost**
5 **at that point?**

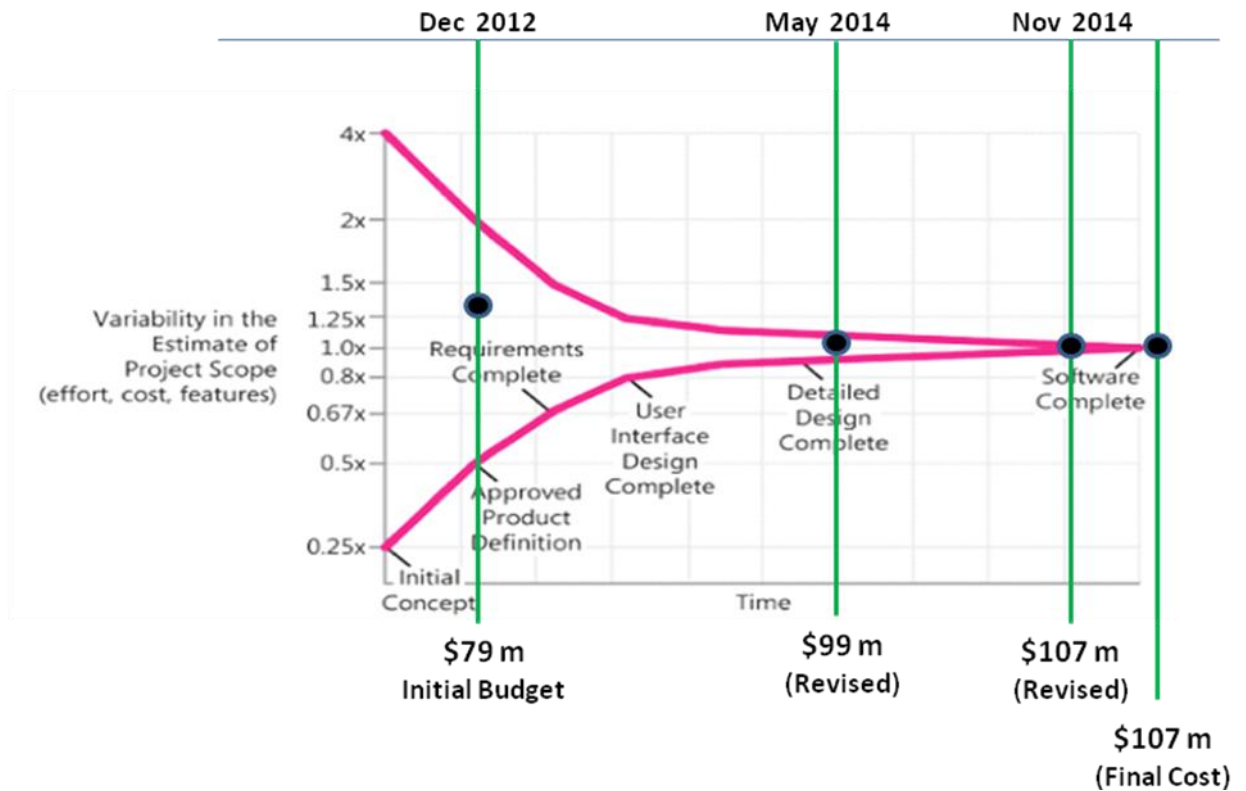
6 A. Generally, about ten percent, or a total of \$108.5 million.

7 **Q. What was the final capital cost of the implementation of Project**
8 **Compass?**

9 A. Approximately \$107 million.

10 **Q. Can you duplicate the McConnell chart with an overlay showing the**
11 **points at which the Project Compass budget was revised, as discussed above?**

12 A. Yes. The chart below shows the initial Project budget and revisions,
13 including the calendar dates. The black dots represent where the final cost fell within the
14 range of the Cone of Uncertainty, for each of the respective dates.



Q. Did the Company provide an explanation of the activities responsible for the additional time and cost required to successfully implement the Project?

A. Yes. In June 2014, Avista prepared a report titled “Revised Timeline and Budget Forecast – Avista’s Project Compass.” This report was filed during the course of the Company’s last general rate case in Washington in 2014, as PC_DR_181 Supplemental Attachment A, in Dockets UE-140188 and UG-140189, and was also included in this case as Exhibit No.__(JMK-2).

The report explains that the complexity of the Project was greater than initially estimated in 2012, which resulted in a greater workload than was initially budgeted. The additional effort impacted the progress made by Avista and its many contractors, leaving too little time in the initial schedule for completing and adequately testing the new

1 systems. The report described some of the factors influencing the complexity of the
2 Project, as noted in the excerpt below:

3 “While it’s common for a business to install one major
4 system at a time, such as a customer service, financial
5 management, supply chain or asset management system, the
6 Company is installing two major systems simultaneously
7 (CC&B and Maximo Asset Management). Avista is required to
8 implement both new applications because our legacy System
9 contains a customer service module and work and asset
10 management module that are highly integrated, mainframe
11 based, and both in need of replacement. As described above, this
12 effort requires not only that these two systems be custom
13 integrated, but that together, they be integrated with the
14 approximately 100 other applications and systems required to
15 perform the Company’s integrated business operations.

16 In addition to the number of other applications and
17 systems, Avista has several complex applications that many
18 utilities do not possess. Some of these include our Avista
19 Facilities Mapping system (“AFM”), which geographically
20 displays every element of our electric and natural gas facilities in
21 a Geographic Information System (GIS) map format; our Outage
22 Management System, which integrates outage management
23 computer logic with the AFM system to provide accurate outage
24 information for customers and diagnostic tools that reduce
25 outage restoration time and costs; and our Central Dispatch
26 System, which integrates AFM, the Outage Management
27 System, and our Mobile Workforce Management application, to
28 optimize the dispatch and management of restoration crews in
29 real time across our entire electric and natural gas system.

30 The degree of complexity of the new System is also
31 impacted by the diversity of service provided by the utility.
32 Because Avista provides both natural gas and electric service,
33 the complexity is substantially greater than that of a utility
34 providing either one or the other. Further, the Company provides
35 service in three regulated jurisdictions, each of which has
36 separate and unique operating tariffs and rules that must be
37 coded into the new applications. For portions of our new System,
38 Avista’s application configuration and specialized coding will be

1 roughly five times greater than that of a single-fuel utility
2 operating in one state.” (Exhibit No.__(JMK-2), at pages 7,8))
3

4 As discussed above in relation to the “Cone of Uncertainty,” as Avista and its
5 many contractors progressed in the implementation phase, it became clear that the time
6 and costs involved in completing these very-complex systems would be greater than
7 initially estimated.

8 **Q. Has the Company provided additional information in this case that**
9 **documents the activities requiring additional time and budget to complete?**

10 A. Yes. In response to a Staff data request,¹⁴ Avista provided contracts for
11 each of the 34 companies that supported the successful completion of Project Compass,
12 including every amendment, addendum, and extension made to each of the contracts. In
13 another response, to Staff_DR_141C (Confidential Attachment A), the Company created a
14 table that includes all of the contract companies, including the statements of work and the
15 contract deliverables for each company for each year of the Project, including the annual
16 and total amounts paid to each contractor. I have attached that table (Confidential
17 Attachment A), as an excerpt from Staff_DR_141C, to my testimony as Exhibit
18 No.__(JMK-8C). Avista also provided a table in response to Staff_DR_141C
19 Supplemental (Confidential Attachment B) that includes a summary of the “Project
20 Change Request” documents approved over the course of the Project. These change
21 requests describe the need for each change, including the added cost to the Project, and
22 identify, as applicable, the contract company or Avista staff associated with the project
23 change. The table is organized by contract company and provides a chronological
24 sequence of the activities related to Project changes, as associated with that company,

¹⁴ Staff_DR_141C Confidential Attachment B.

1 including the incremental cost of each change, as well as the total incremental cost
2 associated with that vendor over the life of the Project. I have attached Staff_DR_141C
3 Supplemental to my testimony as Exhibit No.__(JMK-9C). All of the Project Change
4 Request documents were also provided (Confidential Attachment A) in response to
5 Staff_DR_141C, Exhibit No.__(JMK-9C).¹⁵ I have included one of the Change Request
6 Documents, as an example, excerpted from Confidential Attachment C, in Exhibit
7 No.__(JMK-9C).

8 In summary, the ultimate complexity of the Project, and the resulting effort
9 required, were greater than initially estimated. Two examples of the added complexity and
10 effort, include the need to upgrade the version of the Company's ARC GIS (computer
11 mapping) application to provide Maximo data compatibility, and the added coding for
12 substantial extensions required to support the Company's comfort-level-billing and credit
13 and collections activities. As we have discussed, this greater required effort is not
14 unexpected given the point in the "Cone of Uncertainty" when Avista's initial plan and
15 budget were developed. The Company made extensive efforts and adjustments during
16 implementation to minimize the time and costs associated with the successful launch of
17 the new systems.

18 **Q. Did the June 2014 report, Exhibit No.__(JMK-2), describe actions**
19 **taken by the Company to remain on the initial time and budget?**

20 A. Yes. The report describes the efforts of the Project Compass team to assess
21 the relationship between the complexity of Avista's code requirements, the project
22 schedule, and the level of staffing applied to the work. The end result was that Avista's

¹⁵ Due to the voluminous nature of these documents, they are being provided in electronic format only.

1 CC&B integration contractor retained additional resources to bolster its overseas code-
2 development team. Progress on the other activities that were taking additional time
3 (application configuration, data conversion, integration code, and writing the test cases)
4 was managed to help ensure that applicable portions were ready for System Testing once
5 the CC&B Extension code was available. Through this analysis and the actions taken, the
6 Company believed it could better manage the overall time required for coding extensions.

7 In addition to these steps, the report describes how the Project Compass team
8 revised the standard testing protocol, to partially overlap the phases of testing to be
9 conducted. In this approach, completed “portions” of an application were subjected to
10 limited testing with similarly-completed portions of the other application, including the
11 required integrations. The objective of this testing protocol was to reduce the overall
12 calendar time required for testing.

13

14 **III. AVISTA MADE PRUDENT DECISIONS**
15 **MANAGING ITS RELATIONSHIP WITH FIVE POINT**

16

17 **Q. Please describe the initial role of Five Point in supporting Project**
18 **Compass?**

19 A. Five Point was hired by the Company in June 2011, to provide Project
20 support in the areas of documenting Avista’s system requirements used in the Request for
21 Proposals process for selecting the new computer applications and key installation
22 vendors, and assisting in the review of proposals.

23 **Q. When did Avista receive proposals from qualifying vendors for**
24 **application systems and installation services?**

1 A. Vendor proposals were received by Avista in October 2011. Winning
2 vendors were selected in March 2012, and contracts were negotiated and signed in July
3 2012. This concluded the “procurement phase” of the Project, which was immediately
4 followed by “project implementation.”

5 **Q. Did Avista’s contract with Five Point include an implementation role?**

6 A. No. As distinct from implementation, the role of Five Point was to support
7 Avista’s procurement process. In January 2013, Avista was notified by EP2M that it had
8 been purchased by Five Point. Prior to this time, Avista had no knowledge of any
9 relationship between Five Point and EP2M, or at what point in time those discussions may
10 have commenced.

11 **Q. What concern did Mr. Gomez express regarding this transaction?**

12 A. He asserts that a conflict of interest arose when Five Point acquired EP2M,
13 and that the Company’s vendor selection and contracting processes may have been
14 negatively impacted as a result. Through discovery,¹⁶ Mr. Gomez asked Avista to explain
15 any conflict of interest in its procurement process, to explain whether it was appropriate
16 that Five Point personnel were involved in contract negotiations with EP2M, and to
17 explain how Avista addressed these conflicts of interest.

18 **Q. What was the Company’s response to this request?**

19 A. In its response to Staff_DR_140C, Avista corrected Mr. Gomez’ erroneous
20 assumption that Five Point was in the contract negotiations between Avista and EP2M,
21 noting that Avista’s employee team was in these negotiations -- not Five Point. An excerpt
22 of Staff_DR_140C is attached to my testimony as Exhibit No.__(JMK-10C).

¹⁶ An excerpt of Staff_DR_140C is attached as Exhibit No.__(JMK-10C).

1 The Company also explained that it learned of the acquisition many months
2 following its decision to select EP2M as a contractor. The Company explained that its
3 customers were protected from any potential conflict of interest by the rigorous and
4 objective processes established for developing vendor proposals, evaluating and scoring
5 proposals, making final vendor selections, and in negotiating the final contracts, purchase
6 agreements, and purchase prices. Avista supported this position by referring Staff to the
7 comprehensive documentation of these processes, provided on pages 29 – 36 of the
8 Company’s 2013 report “An Overview of Avista’s Project Compass,” (Exhibit
9 No.__(JMK-7). Relevant attachments to the report include 81 pages of process
10 documentation, including information such as rating criteria, weightings, scores, and
11 Avista’s team selections.

12 **Q. Did Mr. Gomez challenge or otherwise question the vendor selection**
13 **processes used and documented by Avista, or assert that the Company’s processes**
14 **were less than comprehensive and objective?**

15 A. No, he does not.

16 **Q. What facts are relevant in evaluating the prudence of the Company’s**
17 **contracting with EP2M?**

18 A. At the time EP2M submitted its bid in October 2011, there was no
19 evidence of any relationship between EP2M and Five Point. The acquisition of EP2M by
20 Five Point was announced in January 2013. Only Company employees scored the
21 proposals of the vendors, based on results of a comprehensive and objective review and
22 scoring process, which is well-documented, and has not been challenged by Staff. At the
23 time EP2M was selected by Avista in March 2012, there was no evidence of any

1 relationship between Five Point and EP2M. As described above, and as depicted in the
2 illustration below, there is no evidence of any relationship between Five Point and EP2M
3 until January 2013.



10 **Q. Based on the foregoing facts, what would you conclude about Mr.**
11 **Gomez’ allegation that Avista failed “...to recognize, evaluate, identify, document**
12 **and mitigate the possible risks...” associated with Five Point’s acquisition of**
13 **EP2M.¹⁷**

14 A. Avista selected qualified vendors following a robust RFP process. At the
15 time EP2M was selected as a vendor, there was no evidence of any relationship between
16 Five Point and EP2M. Among the prudence criteria of this Commission is “...what would
17 a reasonable board of directors and company management have decided given what they
18 knew or reasonably should have known to be true at the time they made the decision.”
19 (emphasis added) (Eleventh Supplemental Order, Docket No. UE-920433, September 21,
20 1993)

¹⁷ Exhibit No. __CT (DCG-1TC) 52:13-17.

1 Mr. Gomez' speculation about any potential conflict of interest is just that -
2 speculation. The ultimate evaluation and selection of EP2M was made by Avista, on the
3 merits, without any undue influence of a third party.

4 **IV. THE REVISED PROJECT COST**
5 **WAS NOT PRIMARILY CAUSED BY FIVE POINT**
6

7 **Q. How do you respond to the assertion of Mr. Gomez that the additional**
8 **time and cost required to successfully complete the Project was primarily due to the**
9 **performance of Five Point?**¹⁸

10 A. As described earlier, the greater complexity of the Project, and the
11 associated increased effort, required more time for many Avista employee teams and
12 Project vendors, not just Five Point, to complete their work.

13 **Q. Has the Company demonstrated that this greater workload impacted**
14 **the progress of others, in addition to Five Point?**

15 A. Yes. In the Company's response to Staff_DR_140C (Exhibit No.__(JMK-
16 10C)), Avista provided weekly and monthly Project status reports (Confidential
17 Attachments B) that clearly document the progress on many parts of the Project, and
18 showing the Project taking longer than was initially planned. The reports list key activities
19 or issues, including, as applicable, the original due date, the revised due date, the impact
20 or consequence of an activity taking longer to complete than planned, actions developed
21 to resolve the issue, the overall risk status (green, yellow, or red), and the expected trend
22 for that issue.

¹⁸ Exhibit No. __CT (DCG-1TC) 52:8-11.

1 The Project status report for the week of April 7, 2014, as an example, highlights
2 progress on several key activities that were taking more time to complete than planned,
3 and as a result, were coded as moderate risk (yellow) or high risk (red). This report, which
4 encompasses pages 503-541 of Confidential Attachment B, is excerpted and attached to
5 this testimony in Exhibit No.__(JMK-10C). These moderate and high-risk, key activities,
6 along with the organizations who shared in their completion, included the following:

- 7 • Defect Resolution Process for Integration Code supporting Customer Care
8 and Billing (CC&B). **Avista, Five Point, Intellitect**
- 9 • Testing Cycles for the Credit and Collections System Test and System
10 Integration Testing. **Avista, Five Point, Intellitect**
- 11 • Data Conversion for the Maximo Work and Asset Management System
12 (“Maximo”). **IBM, HP**
- 13 • Maximo System Integration Testing Data. **IBM, Avista, Intellitect**
- 14 • ARC GIS 10.2 Upgrade. **ESRI, Avista**
- 15 • Data Extraction and Conversion of Validated Data. **Avista, IBM**
- 16 • Blocking Code Defects pace will not allow Exit from System Integration
17 Testing (“SIT”). **Avista, Five Point, Intellitect**
- 18 • System Integration Testing is not currently on pace. **Avista, Five Point,**
19 **Intellitect**
- 20 • Development of Bill. **Transcentra, Avista**
- 21 • CC&B impact on Training Materials Development. **Avista, Five Point,**
22 **Intellitect, Mosaic**
- 23 • Data Conversion impact on Training Materials Development. **IBM, Avista,**
24 **Mosaic**
- 25 • Late Code impact on Training Materials Development. **Avista, Five Point,**
26 **Intellitect, Mosaic**
- 27 • Number of Testing Environments is creating difficulties with technical
28 teams. **Avista**
- 29

30 As is evident from the listing above, most portions of the Project required the shared
31 contribution of more than one organization.

32 **Q. Were there multiple major activities that had not reached a sufficient**
33 **stage of development required to successfully execute the Go Live, as initially**
34 **scheduled for July 2014?**

1 A. Yes. These include the following:

- 2 • CC&B Integrations
- 3 • CC&B and Maximo System Integration Testing
- 4 • Field Activities
- 5 • Credit & Collections
- 6 • Meter Data Synchronization
- 7 • Development of Test Cases
- 8 • Maximo Data Conversion
- 9 • ARC GIS 10.2 Upgrade

10

11 **Q. Would it have been possible to successfully implement the new systems**
12 **with any of these activities not complete?**

13 A. No. The new systems could not have functioned properly without each of
14 these, and with every other key activity timely and sufficiently completed.

15 **Q. Please describe the role of Five Point in accomplishing the major**
16 **activities listed above?**

17 A. Five Point shared the responsibility with others for completing CC&B
18 Integrations, CC&B and Maximo System Integration Testing, Credit & Collections, and
19 Development of Test Cases. As such, Five Point was not, by itself, responsible for any of
20 these four activities. The remaining four activities, Field Activities, Meter Data
21 Synchronization, Maximo Data Conversion, and ARC GIS 10.2 Upgrade, did not require
22 the participation of Five Point in any way. The progress made on these activities was not
23 impacted by, or dependent on the performance of Five Point. And, in addition, these four
24 activities, which did not involve Five Point, required more time and budget to complete
25 than the original estimate, and were not ready for implementation on the original Go Live
26 date in July 2014.

1 **Q. What does the evidence in this case demonstrate with regard to the**
2 **assertion of Mr. Gomez that the additional time and cost required to complete the**
3 **Project was primarily caused by the performance of Five Point?**

4 A. That assertion is not supported by the evidence in this case. The evidence
5 provided to all parties, and included in the record in this case clearly shows that the
6 additional time and costs required to complete the Project were not primarily due to the
7 performance of Five Point, alone. Furthermore, the record shows that the extended
8 timeline and implementation costs were reasonable and prudent in order to achieve the
9 successful completion of the Project.

10
11 **V. THE COMPANY WAS PRUDENT IN RETAINING FIVE POINT AND**
12 **ERNST & YOUNG TO COMPLETE THE PROJECT**
13

14 **Q. What does Mr. Gomez assert with respect to Avista’s management of**
15 **its contract and relationship with Five Point?**

16 A. Essentially, Mr. Gomez claims that when Avista first noted that Five Point
17 was not completing its deliverables according to the required schedule, that the Company
18 should have immediately ceased payments to Five Point, according to the provisions of its
19 contract.¹⁹ Because the Company did not exercise this provision, Mr. Gomez asserts that
20 it failed to act prudently.

21 Upon acquiring EP2M, in January 2013, Five Point assumed the lead role in
22 implementing the CC&B application. The performance issues raised by Mr. Gomez
23 pertain to this implementation role of Five Point. In June 2014, Avista learned that Five

¹⁹ Exhibit No. __CT (DCG-1TC) 57:1-4.

1 Point had been acquired by the firm Ernst & Young, with whom Avista contracted to
2 complete the closing months of the Project.

3 **Q. Did Mr. Gomez suggest what result would be achieved by Avista**
4 **ceasing payments to Five Point?**

5 A. Yes. Mr. Gomez claims this action would have forced Five Point to meet
6 its deliverables schedule, thus likely avoiding the need to extend the timeline and
7 budget.²⁰

8 **Q. What is your response to this assertion?**

9 A. Mr. Gomez' proposed actions on the part of Avista, and his speculation
10 about the likely response of Five Point and the success of the Project, does not square with
11 the realities faced by the Company or the ultimate prudence of its decisions.

12 **Q. Please explain?**

13 A. As described earlier in this testimony, neither the Company, nor EP2M or
14 Avista's other contractors could have known the ultimate complexity of the Project at the
15 time the initial workplan was developed, and the contracts were negotiated and signed. As
16 more information was developed during the Detailed Design phase, Avista and its
17 contractors were able to more-accurately estimate the required workload. The increased
18 workload was attributed to the size and complexity of the Project, and its many
19 interdependencies, as the Company has explained in detail through information provided
20 for the record in this case.

21 **Q. What actions did Avista and Five Point, in particular, take in an**
22 **attempt to help deliver the Project on its original timeline?**

²⁰ Exhibit No. __CT (DCG-1TC) 57:2,3..

1 A. As described in Avista’s 2014 report “Revised Timeline and Budget –
2 Avista’s Project Compass” (Exhibit No.__(JMK-2), Five Point added staff to its
3 complement of code developers, and Avista and Five Point worked together to improve
4 the processing time being required to complete activities, particularly in the area of defect
5 remediation. At the Company’s request, Five Point replaced its project manager, and also
6 moved its key developer to Spokane to work directly with Avista employees in reducing
7 the turnaround time for resolving defects. Avista also restructured the testing phases of the
8 Project, in an attempt to reduce the overall calendar time required for these activities.

9 **Q. What was Avista’s overall assessment of the impact of the effort that**
10 **was being required to complete the deliverables?**

11 A. The Company recognized that, despite the progress being made by Avista,
12 Five Point, and the Company’s many other contractors, successful completion of the
13 Project would require additional time and budget.

14 **Q. Did Avista consider the option of exercising its contract provisions in**
15 **an attempt to force Five Point to perform according to its initial contract schedule?**

16 A. Yes. In Avista’s response to Staff Data Request 152C (Exhibit
17 No.__(JMK-11C), the Company listed a range of factors considered in evaluating what
18 steps might be taken regarding the performance of Five Point. Avista took these factors
19 into consideration in its decision to continue to use Five Point to complete Project
20 Compass. These factors included:

- 21 • Ability of Avista to work successfully with Five Point in completing the
- 22 Project.
- 23 • Consequences if Avista were to terminate payments to Five Point.
- 24 • Potential outcome of litigation with Five Point.
- 25 • Finding a suitable replacement contractor who was also available.

- 1 • Significant delay and increased costs caused by changing contractors.
2 • Cost of a replacement contractor.
3

4 **Q. Were there any other considerations?**

5 A. Yes. Many of the Five Point staff were among the original authors of the
6 CC&B application when it was developed at the firm Cordaptix, which was acquired by
7 the firm SPL, and then subsequently acquired by Oracle. These staff were part of the
8 Oracle CC&B “systems implementation team,” before joining EP2M, and were now
9 supporting Project Compass as part of Five Point. Therefore, when considering
10 alternatives to Five Point, we had to weigh the risks of finding a replacement team that
11 had sufficient knowledge, experience, skills, and familiarity with the application, which
12 was an important element of our successful implementation.

13 **Q. What was the context for consideration of these issues?**

14 A. The overarching consideration for Avista, in determining its course of
15 action with Five Point, was how a particular decision would impact the Project timeline
16 and, most importantly, the overall cost to our customers for installing these new systems.
17 Members of the Company’s Executive Steering Committee, composed of the President of
18 Avista Utilities, myself, the VP of Energy Delivery, the VP and Treasurer, and the VP of
19 Energy Resources, discussed the likely consequence of each of these factors with the
20 Project Compass leadership team, and concluded that the clear choice was to complete the
21 Project with Five Point.

22 **Q. Were you an active participant in this process?**

23 A. Yes, I was. As a member of Executive Steering Committee, I participated
24 in the meetings that occurred where these issues were discussed.

1 **Q. Why did the Executive Steering Committee reach this conclusion?**

2 A. Importantly, Five Point, together with our other contractors, had the
3 capability and availability needed to complete the Project, and Avista was able to work
4 successfully with them in continually adjusting work processes to optimize the completion
5 of tasks. Evaluation of the other factors considered by the Executive Steering Committee
6 was described in the Company's response to Staff_DR_152C (Exhibit No. __ (JMK-11C)),
7 an excerpt of which is provided below.

8 “Avista also concluded that even if another suitable contractor was
9 immediately available to step in, that the effective transition would, in the
10 very best case, add several months to the Project timeline (i.e. several
11 months beyond the actual February 2, 2015 Go Live). Avista also
12 concluded that it was inevitable that if the Company rejected the
13 deliverables of Five Point, ceased paying them, and retained their
14 holdback payments, it would in all probability result in immediate
15 litigation. Finally, Avista concluded that litigation between the parties
16 would seriously impede the effective transfer of information from Five
17 Point to the new contractor, which would further lengthen the transition
18 time and add costs.”

19
20 An additional significant factor was that Five Point, in any litigation, could
21 reasonably point to the performance of Avista and other contractors as contributing to
22 their need for additional time to meet contract deliverables.

23 As we have explained in detail above, along with significant documentation, there
24 were multiple components of the Project that were behind schedule, for which Five Point
25 had no direct involvement. Compared with the decision to continue the Project with Five
26 Point, the Committee concluded that any alternative action would have seriously delayed
27 the Project and added significantly to the final cost. It was estimated that any delay
28 beyond February 2, 2015, could cost upwards of \$3.6 million per month, as noted in
29 Exhibit No. __ (JMK-11C).

1 Finally, and very importantly, since the Committee understood that the Project
2 timeline and budget would have to be extended anyway, to complete other work not
3 involving Five Point, it made no sense to take actions that would jeopardize the success of
4 the entire Project.

5 The evidence supports Avista's decision to retain Five Point as prudent, and it
6 produced a very successful outcome, and at a lesser cost compared with an alternative
7 decision that would have required the Company to start all over again with a new
8 contractor, if and when such a contractor became available. There is no evidence in this
9 record that indicates that a different decision by the Company would have delivered
10 Project Compass more quickly, more successfully, or at a lesser cost.

11 Recognizing the greater workload, across the board, that was required to
12 successfully complete the Project, the Company extended the contracts and compensation
13 of many of its other vendors, including Five Point and Avista's other primary installation
14 contractor, IBM. These additions were accomplished through the "Project Change
15 Request" process.

16 As described earlier in my testimony, in the Company's supplemental response to
17 Staff_DR_141C (Exhibit No.__(JMK-9C), Avista provided a table that includes a
18 summary of the "Project Change Request" documents approved over the course of the
19 Project. These change requests describe the need for each change, including the cost
20 added to the Project, and identify, as applicable, the contract company or Avista staff
21 associated with the project change. The table is organized by contract company, and
22 provides a chronological sequence of the activities related to Project changes, as
23 associated with that company, including the incremental cost of each change, as well as

1 the total incremental cost associated with that vendor over the life of the Project. In total,
 2 the change requests show increased costs for 25 of the contract companies who supported
 3 Project Compass. The table, below, is a summary derived from Confidential Attachment B
 4 showing the total incremental cost associated with the Project Change Requests for each
 5 of the Project Compass contractors. The table lists the 16 contractors whose incremental
 6 cost was greater than \$100,000. The individual incremental cost for nine contractors, not
 7 shown, was below \$100,000.

Contractor	Number of Change Requests²¹	Incremental Cost
IBM	█	██████████
Five Point ²²	█	██████████
Intellitect	█	██████████
Other Software/Tech. Vendors	█	██████████
Hewlett Packard (HP)	█	██████████
Black & Veatch (B&V)	█	██████████
Utility Solutions Partners	█	██████████
Dinero / Emtec	█	██████████
Intervoice (Convergys)	█	██████████
Oxford	█	██████████
TransCentra	█	██████████
Senturus	█	██████████
Gartner QA	█	██████████
Benchforce IT Consultants	█	██████████
Volt	█	██████████
Fujitsu America	█	██████████
Mosaic	█	██████████

8

²¹ Includes only those change requests associated with changes in Project cost.

²² Based on the initial contract with EP2M and the contract extension with Five Point / Ernst and Young.

1 The Company's contract with Five Point was nearing its conclusion at the time it
2 was acquired by Ernst & Young. In agreeing to extend its contract with Ernst & Young,
3 the Company was able to retain the Five Point team for the balance of the Project, as well
4 as to add additional expertise and support from the staff of Ernst & Young. The contract
5 extension was based on the hourly rates of named personnel and an estimate of the hours
6 to be spent on the Project for each person, based on the estimated time needed to complete
7 the Project. The Company chose a time-and-materials-based contract, because it provided
8 greater transparency and more control over the ultimate amount Avista would spend in
9 successfully completing the Project. The contract extension allowed the Company to
10 continue the implementation, without interruption or delay, and to very successfully
11 complete, launch, and support the new systems.

12
13 **VI. COMPANY EMPLOYEES EARNED BONUSES BASED ON A VERY**
14 **SUCCESSFUL EFFORT IMPLEMENTING PROJECT COMPASS**

15
16 **Q. Mr. Gomez recommends that the bonus amounts paid to Avista**
17 **employees should not be recovered by the Company. What is Avista's response?**

18 A. The bonus plan, which I have attached as Exhibit No.__(JMK-12C),
19 recognized the significant challenge and the effort involved to complete Project Compass,
20 and that employees would have to make a substantial and sustained contribution over a
21 period of approximately two years (much longer for some employees). When the timeline
22 was extended, it required our employees to maintain a high level of intensity through the
23 February 2015 Go Live date. The continuity that comes with retaining the same
24 employees over a multi-year period, on an effort as complex as Project Compass, warrants
25 a bonus plan to help encourage employees to stay with the Project to the end.

1 **Q. How was the bonus plan developed and approved?**

2 A. The plan was developed by Avista's Executive Steering Committee and the
3 Project Compass leadership team. It specified that only Company employees were
4 eligible, and that the amount received was based on the person's contribution to the
5 Project. Amounts received by employees were based on objective and measurable
6 benchmarks established at the beginning of the Project. The plan was audited by our
7 internal audit group, and approved by the Company' senior executives and the Board of
8 Directors. The Executive Steering Committee authorized bonuses being paid based on the
9 achievement of project benchmarks as required in the plan.

10 The amounts paid to employees in recognition of their effort and success were
11 reasonable. The Project was ultimately very successful, and employees dedicated a very
12 difficult two-plus years of their working life to seeing it through to completion, and the
13 bonuses were reasonable and appropriate.

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

15 A. Yes.