

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518
(consolidated)

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 Officer (CIO). My business address is 1411 E. Mission Avenue, Spokane, Washington.

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

A. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Management Information Systems. I have experience through direct application and management of Information Services over the course of my 30 year information technology career. I joined the Company in June of 1996. Over the past 13 years, I have spent approximately one year in Avista’s Internal Audit Department as an Information Systems Auditor with involvement in performing internal information systems compliance and technology audits. I have been in the Information Services Department for approximately 12 years in a variety of management roles directing and leading information technology and systems; planning, operations, system analysis, network advancement, telecommunications, information security, applications development, outsourcing agreements, contract negotiations, technical support, cost management, data management and strategic development. I was appointed Vice-President and CIO in January of 2007.

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

A. I will provide the Company’s reply to the direct testimony of the Staff and Public Counsel regarding the Company’s request for pro forma levels of Information Service expense.

1 **Q. Given your position and responsibilities, are you directly familiar with the**
2 **components of this pro forma adjustment?**

3 A. Yes, I am.

4 **Q. Please provide some background regarding Avista’s Information Services**
5 **(IS) Department current level of cost.**

6 A. Avista has been, and continues to be focused on cost-effective solutions that
7 meet our customer needs. Over the past several years, Avista has focused on reducing
8 customer transaction costs through the use of technology. Along with meeting customer needs
9 through the use of technology, Avista continuously works to minimize the cost of back office
10 technology and to maximize employee efficiency with the use of appropriate technology.

11 In 2002, Avista engaged Gartner Measurement Services, a global technology
12 benchmarking company, to conduct a benchmark study. The results of a very detailed analysis
13 comparing Avista with its peers within the utility industry, as well as financial institutions and
14 insurance companies, were as follows:

15 “At a summary level, total costs for the functions measured are 27%
16 lower than what the peer group would expect to spend to support the
17 same workload.”
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19 After the favorable benchmark results, Avista continued to drive down operating costs
20 through centralization of services, reduction of custom delivery applications and infrastructure
21 consolidation. During the period 2002 through 2005, the Information Services budget at Avista
22 was reduced by nearly 25%. The 2009 operating expense level is nearly at the same level as
23 2002. However, over the same time period the Company has completed and supported many
24 new IS system projects (such as mobile dispatch, outage management, and web support), from
25 which customers benefit today with little change in IS support costs.

1 **Q. Staff and Public Counsel have argued to remove the specific IS Costs**
2 **included in the Company’s direct case as not “known and measureable,” do you agree**
3 **with their assessment?**

4 A. No. As I will discuss below, the costs requested in this case are known and
5 measureable and should be recovered in this case. These costs are associated with existing
6 technology and labor that are already employed, and therefore are known and measureable. I
7 will discuss this further below as I discuss each of the specific pro formed expenses.

8 **Q. Will each of the pro formed IS expense items yield “offsetting” savings?**

9 A. No, not all of the requested costs will yield savings or cost reductions, as some
10 systems are simply required for compliance purposes; disaster recovery and business continuity
11 are just a couple of these examples. Another example is where Avista must maintain a secure
12 cyber and data environment that protects Avista’s customer data and the delivery of power and
13 natural gas, which itself yields no savings.

14 **Q. Could you please now briefly explain the additional costs included within**
15 **the pro forma adjustment?**

16 A. Yes. The following table summarizes each component and identifies any
17 “offsets”:
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1 **Table 1** **Information Services Costs (System)**

Project Description	Cost	Offset %	Offset Amount	Revised Expense
Mobile Dispatch Labor	\$80,000	0%	\$0	\$80,000
Outage Mgmt & Construction Design Labor	\$160,000	0%	\$0	\$160,000
Web Application Support Labor	\$320,000	0%	\$0	\$320,000
Crew Callout Hosting Fee	\$120,000	0%	\$0	\$120,000
Enterprise Voice Portal Hosting Fee	\$331,000	0%	\$0	\$331,000
New Mobile Dispatch Application – Electric	\$395,000	20%	(\$79,000)	\$316,000
Infrastructure Growth and Expansion	\$138,000	0%	\$0	\$138,000
New Software License Fees	\$131,000	0%	\$0	\$131,000
New Hardware Maintenance Fees	\$120,000	0%	\$0	\$120,000
Annual Increase for Existing Software License Fees	\$146,000	0%	\$0	\$146,000
Annual Increase for Existing Hardware License Fees	\$141,000	0%	\$0	\$141,000
New Spokane Valley Call Center Recurring Costs	\$51,000	0%	\$0	\$51,000
Wireless Wide-Area Network	\$174,000	20%	(\$34,800)	\$139,200
Security and Compliance	\$240,000	0%	\$0	\$240,000
2009 Efficiency - Reduction in Technology & Electronic Payment Service Providers Expense	(\$200,000)	100%	(\$200,000)	(\$200,000)
Work Management System (removed)	\$1,120,000	100%	(\$1,120,000)	(\$1,120,000)
Total	\$3,667,000		(\$1,433,800)	\$2,233,200

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3 **Q. In the table above, many of the cost items show 0% for a related offset. Will**
 4 **you please explain this?**

5 A. Yes. The majority of costs included above, other than specifically noted below,
 6 are support costs for existing applications prior or during the test period (i.e., incremental labor
 7 and increased non-labor expense for software maintenance and licensing fees, software and
 8 hardware costs). Therefore, certain offsets and/or benefits would already be reflected in the
 9 operating areas where these applications are being utilized and will not provide additional
 10 offsets within the IS department. The offsets included in the Company's revised revenue
 11 requirement, as discussed below, are for specific savings the IS department will experience or
 12 where the offset would not otherwise have already been reflected in the Company's test period.

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1 **Q. Please provide a summary of the additional costs included within the pro**
2 **forma adjustment.**

3 A. The following is additional information for the requested cost recovery of
4 Information Technology:

- 5 • Mobile Dispatch Labor [\$80,000]:

6 The labor associated with the Mobile Dispatch Application was a “temporary”
7 full time employee of Avista since 2008 and was hired as a “permanent” full
8 time Avista employee in February, 2009. This cost is the amount that was
9 previously capital costs. This position supports the natural gas service mobile
10 dispatch and soon will start supporting the electric service mobile dispatch
11 business process and application. This application has been in operation since
12 2007 and therefore existing improved efficiencies or cost savings would already
13 be represented in the test period.
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- 15 • Outage Management and Construction Design Application Support Labor
16 [\$160,000]:

17 The labor associated with this application is employed under an existing contract
18 with Electronic Data Services (EDS). The existing cost is known and
19 measureable. This application has been in existence for many years. The value
20 of the application is measured in efficiency through improved customer response
21 time for outage restoration and provides the customer with real-time access via
22 the telephone or web on estimated restoration times, and therefore efficiencies
23 and cost savings would already be included in the test year. This position is
24 moving from capital project development into full-time technical support which
25 will be expensed rather than capitalized and therefore will not provide additional
26 savings.
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- 28 • Web Application Support Labor [\$320,000]:

29 The labor associated with this application is employed under contract with EDS
30 and other services providers. These costs have already been incurred and are
31 known and measureable. These positions are moving from capital project
32 development into full-time technical support moving from capital to expense,
33 and therefore will not provide additional savings. The WEB application has
34 been and continues to provide a reduced transaction cost for customers paying
35 their bills on-line and in search of information related to energy savings through
36 reduced calls to Avista’s contact center. These savings are already reflected in
37 the test period.
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1 • Crew Callout Application Hosting Fee [\$120,000]:

2 This application provides an efficient method for contacting Avista’s natural gas
3 and electric crews for service restoration and regular daily work. This cost is
4 known and measureable as this was an incremental fee starting in fall, 2008. The
5 efficiency measurement is the reduced time and number of dispatchers required
6 to contact crews however, does not reduce labor and therefore has no associated
7 savings expected with this incremental cost. The cost is reflected in an existing
8 contract with a service provider where Avista pays a flat fee with a “per-call”
9 cost adder. Through automation, the dispatcher is freed up to manage customer
10 restoration and dispatching functions without having to manually contact crews.
11

12 • Enterprise Voice Portal Application Hosting Fee [\$331,000]:

13 This application provides the customer the ability to transact business with
14 Avista via their telephone and is required with the Company’s new Interactive
15 Voice Response System (IVR). This hosting fee expense is an incremental fee
16 that the old IVR system did not require because it was managed in-house. These
17 fees are currently being incurred and therefore are known and measureable.
18 There are no offsetting efficiencies associated with this fee.
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20 • New Mobile Dispatch Application – Electric [\$395,000]:

21 Avista is broadening the use of the gas mobile dispatch application from gas
22 only to gas and electric service work. This application builds on the success in
23 efficiency gains Avista has seen with the gas service mobile dispatch
24 application. This cost has already been incurred and is known and measureable
25 as we have been running this application in Avista’s gas service work for several
26 years. These savings would not be reflected in the test period, and although
27 difficult to quantify at this time, to be conservative (overstate, if anything, the
28 offsets) the Company has included a reduction of 20% of the total cost in its
29 revised adjustment, reducing the Company’s request in its original filing.
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31 • Infrastructure Growth and Expansion (hardware, networks, etc.) [\$138,000]:

32 This cost is associated with improving capacity congestion on networks due to
33 increased data volume, improving performance of hardware that has reached
34 capacity such as file and data servers due to increased load, etc. An example is
35 new compliance rules for additional documentation. This documentation has
36 increased the use of graphics, drawings and pictures which increase the need for
37 disk space and file server performance. Through trend analysis of prior year
38 growth, this is a predicable growth activity year over year. The costs for existing
39 hardware and networks have already been incurred and are known and
40 measureable. There are no efficiencies or cost savings attainable for these costs,
41 therefore none have been included.

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- New Software License Fees (Ultimate, IEE, etc.) [\$131,000]:

There are capacity issues with databases that require Avista to add new data bases for testing environments, software development and for efficiency reasons. With that growth comes increased license fees. In addition, as new staff is hired or existing staff require access to an application, typically a license must be purchased for their use of the application. An example is the use of Microsoft Office. The cost is known and measurable and through trend analysis predictable. There are no savings associated with these fees. Avista works to minimize the need for additional licenses through strong controls over existing licenses and through a program to know if any licenses are not in use that can be redeployed.

- New Hardware Maintenance Fees [\$120,000]:

For each new critical piece of technology hardware, Avista pays a maintenance fee to ensure that we meet compliance and system availability requirements. The fee has already been incurred and is known and measureable. The customer benefits by systems they rely on being supported in the event of failure such as the WEB, Enterprise Voice Portal, etc. There are no efficiencies or cost savings attainable for these costs, therefore none have been included.

- Annual Increase for Existing Software License Fees [\$146,000]:

With certain software licenses utilized by the Company, there is an automatic, annual contractually-specified license fee increase. These costs are known and measurable. There are no efficiencies or cost savings attainable for these costs, therefore none have been included.

- Annual Increase for Existing Hardware Maintenance Fees [\$141,000]:

With computer and network hardware, some require an automatic annual contractually-specified maintenance fee increase. These costs have been incurred and are known and measurable. There are no efficiencies or cost savings attainable for these costs, therefore none have been included.

- New Spokane Valley Call Center Recurring Costs [\$51,000]:

This is the cost for the network services required for the Spokane Valley Call Center. The Spokane Valley Call Center serves the needs of all of Avista's customers. These costs are known and measurable and have been incurred since

1 Q4 of 2008. There are no efficiencies or cost savings attainable for these costs,
2 therefore none have been included.
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4 • Wireless Wide-Area Network [\$174,000]:

5 This is the cost associated with Avista's mobile workforce. In order to send and
6 receive data in the field, a wireless network is required. This cost has been
7 incurred and is known and measurable. The value to Avista customers is
8 improved efficiency in responding to outage calls, service locating calls,
9 customer inquiries, crew efficiency, etc. Although difficult to quantify, to be
10 conservative (overstate, if anything, the offsets) the Company has removed 20%
11 of these additional costs from its original filing.
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14 • Security and Compliance [\$240,000]:

15 Security and compliance for customer data and Avista's natural gas and electric
16 infrastructure is mandatory. Currently, Avista does not have any fully dedicated
17 staff to manage its data and network security requirements. This is a position
18 that will start employment with Avista in September 2009 and will provide
19 service to improve protection of vulnerable areas in Avista's network. The
20 service is scheduled to be turned on in late September after the position is hired
21 and available to monitor the additional required security service. There are no
22 efficiencies or cost savings attainable for these costs, therefore none have been
23 included.
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25 • Reduction in Technology and Electronic Payment Service Providers (\$200,000):

26 In 2009, Avista changed the technology and electronic payment service
27 providers, reducing the annual expense for this service by approximately
28 \$200,000. This savings has been reflected in the Company's revised IS
29 adjustment reducing the request in its original filing. This was removed from the
30 IS budget effective 2009 as the work for migrating to the new platform and
31 vendor was done in 2008.
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35 **Q. As noted by staff, one project included in the Company's direct filing has
36 been delayed until 2010, can you please explain this?**
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1 A. Yes, the delayed project is the Work Management System, which is used to
2 schedule, track and account for customer projects and work activity. The custom application
3 system was designed in the early 1990's and was moved into production around 1996.

4 When replacing applications, Avista determines the business need to continue operating
5 the application, the value to its customers, potential cost savings, improvement in business
6 process or processes it currently supports and those it will need to support into the future, and
7 technology life-cycle obsolescence of the system.

8 Avista has determined that there is a need to continue with a work management
9 application system either through replacement of the technology or a major upgrade of the
10 technology.

11 The delay from 2009 to 2010 is in identifying business process design changes and
12 potential cost savings. Avista wants to ensure that a major system upgrade and/or replacement
13 will deliver a high degree of customer value, streamline work processes and realize potential
14 cost savings where possible. The work in these areas has taken longer than anticipated.

15 Therefore, Avista is delaying the project until the final business process design is
16 complete, which will be in 2010. At that time, when the project moves ahead, it will most
17 likely be a capital project in 2010 with the associated increase in expenses starting in 2011. The
18 Company will seek cost recovery for this capital project and its on-going expenses in a future
19 rate filing.

20 **Q. Has Avista reflected the “offsets” and other adjustments noted above in its**
21 **revenue requirement?**

22 A. Yes it has. As discussed by Company Witness Ms. Andrews, the Company has
23 revised its original revenue requirement to reflect the \$200,000 Reduction in Technology and

1 Electronic Payment Service Providers expense, the removal of the Work Management System
2 and the other offsets described above. The Company was unable to specifically quantify, but to
3 be conservative (overstate, if anything, the offsets) included a 20% reduction of the cost for the
4 new Mobile Dispatch Application and the Wireless Wide-Area Network cost. The combination
5 of these offsets and the removal of the one project reduced the Company's original revenue
6 requirement request by \$717,000 for Washington electric and \$182,000 for Washington natural
7 gas.

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

9 A. Yes.