

Application: A.17-04-027

Exhibit No.: SDG&E-14

Witness: Swartz

PREPARED REBUTTAL TESTIMONY OF

CHRISTOPHER SWARTZ

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

CHAPTER 14



BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

November 13, 2017

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	TRANSITION, STABILIZATION AND ORGANIZATIONAL CHANGE MANAGEMENT	2
	A. SDG&E’s Transition and Stabilization Costs Are Appropriate	2
	B. SDG&E’s Organizational Change Management Costs are Appropriate	5
III.	SDG&E PRE-PLANNING O&M COSTS.....	7
	A. UCAN’s Assertion of Duplication of Pre-2019 GRC O&M Funding Is Incorrect.....	7
IV.	SUMMARY AND CONCLUSION	9

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

**PREPARED REBUTTAL TESTIMONY OF
CHRISTOPHER SWARTZ
CHAPTER 14**

I. INTRODUCTION

The purpose of my rebuttal testimony is to respond to the prepared direct testimony submitted by intervening parties in San Diego Gas & Electric Company's ("SDG&E's") Customer Information System ("CIS") Replacement Program Application ("A.") 17-04-027. In my rebuttal testimony, I will address the following recommendations from the intervening parties:

- Office of Ratepayer Advocates ("ORA") Witness Laserson¹ – Proposed cost tracking and recovery for costs associated with Transition period, Stabilization period and Organizational Change Management.
- Utility Consumers' Action Network ("UCAN") Witness Jones² – Proposed reduction to SDG&E's Operations & Maintenance ("O&M") forecast for 2017 and 2018.

My rebuttal testimony is organized as follows:

- Section II – Transition, Stabilization and Organizational Change Management
- Section III – SDG&E Pre-Planning O&M Costs
- Section IV – Summary and Conclusion.

¹ Exhibit ("Ex.") ORA-3, *Report on San Diego Gas & Electric Company Implementation of Customer Information System Replacement Program* (October 20, 2017) ("Laserson Testimony").

² Ex. UCAN-1, *Testimony of Garrick F. Jones in San Diego Gas and Electric's Customer Information System Replacement Application* (October 20, 2017) ("Jones Testimony").

1 **II. TRANSITION, STABILIZATION AND ORGANIZATIONAL CHANGE**
2 **MANAGEMENT**

3 **A. SDG&E's Transition and Stabilization Costs Are Appropriate**

4 As discussed in my prepared direct testimony (Chapter 5), SDG&E has proposed a
5 detailed transition timeline and staffing strategy based upon the forecasted needs of its
6 business units to (1) accommodate the transition from the legacy CIS and subsystems to
7 SAP Customer Relationship and Billing ("CR&B") and (2) support the nine-month post-
8 implementation period as SAP CR&B is stabilized. The requested temporary incremental
9 staffing is required to support the need for significant employee training, address any
10 technical issues with the legacy CIS and SAP CR&B that arise, and account for an initial
11 delay in processing as employees become more comfortable with the new system. Based
12 upon recent similar implementations at other comparably-sized utilities, SDG&E expects an
13 initial increase in average call handle time, billing exceptions, and general customer
14 inquiries once the new SAP CR&B is implemented. To ensure customers are not negatively
15 impacted, SDG&E needs the proposed temporary incremental staffing.

16 The staffing strategy that SDG&E proposed was co-developed by SDG&E and its
17 third-party vendor specializing in this field, HCL America, Inc. ("HCL"). The strategy is
18 founded upon HCL's recommended industry best practices, and has been customized for
19 SDG&E based upon its number of customers, organizational structure, and employee
20 experience levels. The staffing strategy also considers recent utility CIS implementations
21 and identifies key challenges and roadblocks that other utilities experienced and that
22 SDG&E will consciously aim to avoid.

23 Specifically, SDG&E proposed temporary staffing increases for four of its most
24 impacted business units: (1) Customer Contact Center and Branch Offices, (2) Billing, (3)

1 Credit and Collections, and (4) Commercial and Industrial Services. The total labor/non-
2 labor costs for these four areas was \$19.4 million (\$1.4 million labor and \$18.0 million non-
3 labor). SDG&E proposed a total duration of 17 months for the increased staffing, which
4 would begin eight months prior to the implementation of CR&B (the start of the “transition
5 period”) and would continue for another nine months post-implementation (the end of the
6 “stabilization period”). Table CDS-2 in my direct testimony (Chapter 5) summarizes the
7 breakdown of costs and timelines for SDG&E’s incremental staffing needs.³

8 ORA “opposes SDG&E’s request for up-front ratepayer funding to hire incremental,
9 transitional staff, which SDG&E anticipates is not needed until year 2020. ORA
10 recommends that SDG&E be required to track costs associated with hiring supplemental
11 staff in a memorandum account separate from the Customer Information System
12 Memorandum Accounts (“CISMA”) authorized by the Commission in an Administrative
13 Law Judge’s Ruling dated May 30, 2017.”⁴

14 ORA provides no arguments or analysis challenging the need for the temporary
15 incremental staffing, but rather focuses on the anticipated timing of the costs and how the
16 costs will be tracked and ultimately recovered. ORA’s purported support for this
17 recommendation is that a separate memorandum account will protect ratepayers from the
18 uncertainty associated with whether SDG&E will require the additional funding for an
19 expense that will not occur until 2020 and whether SDG&E will execute the proposed CIS
20 Replacement Program on schedule, without delays. ORA recommended the same tracking
21 approach in the Southern California Edison Company (“SCE”) 2018 General Rate Case

³ See, Direct Testimony of Christopher Swartz (Chapter 5) at 26:4.

⁴ See, Laserson Testimony at 6:4-9.

1 (“GRC”) for its proposed CIS re-platform, where SCE proposed a one-time O&M expense
2 for incremental staffing.⁵

3 SDG&E does not agree that ORA’s memorandum account approach is beneficial in
4 this case. To the contrary, it will unnecessarily create a separate track for the costs
5 associated with the Transition and Stabilization periods’ incremental staffing, even though
6 these costs have similar timing to other costs on the project, such as testing and
7 implementation.

8 As outlined by Witness Jasso’s direct testimony (Chapter 9) and rebuttal testimony
9 (Chapter 17), SDG&E’s proposal of recording revenue and costs associated with the CIS
10 Replacement Program in a two-way interest bearing balancing account until the project is in
11 service and submitted as part of the base margin revenue requirement in a future GRC is
12 reasonable. The proposal allows SDG&E to compare the authorized revenue for the project
13 to actual costs, thereby ensuring that ratepayers only are charged for actual costs and
14 refunded any overcollections. Therefore, ORA’s concern about the uncertainty of the costs
15 is unfounded under SDG&E’s two-way balancing account approach.

16 Furthermore, it is unclear why ORA singled out these specific costs as requiring a
17 separate memorandum account, when ORA is proposing a similar two-way balancing
18 account for all other costs.⁶ Throughout the course of the project, costs will be tracked in
19 the two-way balancing account as they are incurred. For instance, costs related to Pre-
20 Planning activities are forecasted to be incurred and recorded in 2017 and 2018, while those
21 associated with testing and implementation are not forecasted to be incurred and recorded

⁵ See, Laserson Testimony at 6:10-16.

⁶ See, Ex. ORA-1, *Report on San Diego Gas & Electric Company Implementation of Customer Information System Replacement Program* (October 20, 2017) (“Logan Testimony”) at 1:23-27.

1 until 2020. There is no need to partition accounting for the incremental staffing costs, which
2 share similar timing to testing and implementation costs. SDG&E’s proposed two-way
3 balancing account should be consistently used for all costs associated with the CIS
4 Replacement Program.

5 **B. SDG&E’s Organizational Change Management Costs are Appropriate**

6 In my direct testimony (Chapter 5), SDG&E also presented its proposed costs and
7 timelines for Organizational Change Management (“OCM”).⁷ OCM costs primarily will be
8 utilized to help SDG&E employees make successful personal transitions to adopt and realize
9 the changes inherent in the new CIS implementation. This will benefit employees (who will
10 be more comfortable with the services that they are providing), and customers (with whom
11 the employees are interacting daily). As with the Transition and Stabilization processes,
12 SDG&E worked with HCL to review the utility industry’s best practices to mitigate
13 identified OCM challenges, and to assess recent CIS implementations to identify the most
14 effective OCM strategies. Based upon this collaborative analysis, SDG&E developed an
15 OCM strategy that is comprised of three key components: (1) creating “SAP CR&B
16 champions,” (2) communicating frequently and often with employees, and (3) providing
17 extensive employee training. All three components are critical to the successful employee
18 transition and adoption of the new SAP CR&B system.

19 Specifically, SDG&E forecasted incremental labor O&M costs of \$2.8 million and
20 non-labor O&M costs of \$5.0 million, totaling \$7.8 million for OCM.⁸ OCM activities are
21 scheduled to begin in the third month of the Project Preparation period and to be completed

⁷ OCM is also referred to as Operational Change Management in my direct testimony (Chapter 5).

⁸ Direct Testimony of Christopher Swartz (Chapter 5) at 29:19-21.

1 after the eighth month in the Stabilization period, for a total duration of 36 months.⁹ As
2 employees become more experienced with SAP CR&B, SDG&E plans to reduce the staffing
3 levels accordingly.¹⁰

4 ORA opposes SDG&E's request for incremental OCM staffing for the same reasons
5 that it opposes SDG&E's request for incremental staffing for the Transition and
6 Stabilization periods, and similarly proposes a separate memorandum account for these
7 costs.¹¹ As with the incremental staffing for the Transition and Stabilization periods, ORA
8 provides no argument or analysis challenging the need for the incremental OCM costs, but
9 rather focuses on the timing of the costs and how they will be tracked and ultimately
10 recovered. SDG&E does not believe that a separate tracking mechanism for OCM costs is
11 needed or beneficial, for the same reasons discussed in Section II.A with respect to
12 Transition and Stabilization costs.

13 Moreover, ORA's contention that the OCM costs are not needed until 2020 is
14 incorrect. As stated in my direct testimony (Chapter 5), SDG&E forecasts that OCM
15 activities will begin running from the third month of the Project Preparation period to the
16 eighth month in the Stabilization period, totaling a 36-month duration.¹² Aligning with
17 SDG&E's proposed timeline,¹³ the costs for OCM are forecasted to be incurred starting in
18 Q3 2018 and running through Q3 2021. The specific OCM-related activities that SDG&E
19 forecasts will begin in Q3 2018 include:

⁹ *Id.* at 30:3-10.

¹⁰ *Id.* at 29:18-19.

¹¹ *See*, Laserson Testimony at 7:14 – 8:4.

¹² *See*, Direct Testimony of Christopher Swartz (Chapter 5) at 29:12-16.

¹³ *See*, Direct Testimony of Daniel Linder (Chapter 6) at 22:1 (Figure DL-5: Implementation Timeline by Phase).

- 1 • Development and execution of a project communication plan;
- 2 • Development and execution of a business engagement plan to include the
- 3 identification and creation of an SAP CR&B champion team;
- 4 • Business readiness assessments;
- 5 • Change and culture training for leaders;
- 6 • Stakeholder analysis and alignment activities; and
- 7 • Project staffing and capacity assessments.

8 Thus, OCM costs, which will begin in 2018, should be balanced, like all other CIS
9 Replacement costs, in a two-way interest bearing balancing account until the project is in
10 service and submitted as part of base margin revenue requirement in a future GRC. The
11 two-way balancing account approach ensures that the actual OCM costs for these activities
12 will be recorded as they are incurred and will be used to appropriately track the OCM costs
13 in 2018 through 2021.

14 **III. SDG&E PRE-PLANNING O&M COSTS**

15 **A. UCAN's Assertion of Duplication of Pre-2019 GRC O&M Funding Is** 16 **Incorrect**

17 In the Direct Testimony of Daniel Linder (Chapter 6), SDG&E discusses the various
18 phases of the project life cycle that SDG&E is proposing for its CIS Replacement Program,
19 the first of which is the "Pre-Planning" phase, which began in Q2 2017 and is forecasted to
20 run through Q2 2018. During the Pre-Planning phase, SDG&E has refined and will
21 continue to "refine the business capabilities and benefits, perform process prototypes and
22 further define the scope. Key activities including developing data cleansing and conversion
23 strategies. The OCM strategy will be finalized and activities will begin. Finally, requests for
24 proposals ("RFP") will be developed. This phase of the project will require an average of
25 approximately 20 resources."¹⁴

¹⁴ See, Direct Testimony of Daniel Linder (Chapter 6) at 18:8-13.

1 Due to the complex nature of the project, the resources needed to effectively fill the
2 Pre-Planning roles required strong subject matter expertise in multiple business processes, as
3 well as a plethora of different technical skills. The specific staffing for these resources was
4 implemented with a combination of (1) existing SDG&E resources, who transitioned from
5 other roles within SDG&E to the CIS Program Replacement team and (2) external resources
6 from vendor partners who possessed previous experience with SAP CR&B implementations.
7 This staffing approach is typical for CIS replacement programs and was co-developed with
8 SDG&E's vendor partner, HCL.

9 UCAN's Witness Garrick Jones argues that cost recovery for the existing SDG&E
10 resources, who transitioned from other roles within SDG&E to the CIS Program
11 Replacement team, should be removed from SDG&E's proposal.¹⁵ UCAN argues that "the
12 provision of incremental revenue for such staff would double count the cost of the
13 reassigned staff, assuming that they were assigned to an O&M role leading up to the CIS
14 project, given that SDG&E presumably was provided funds for such staff in the previous
15 rate case. As such, these cost forecasts should be removed from any spending decision the
16 Commission makes in this proceeding."¹⁶ UCAN specifically requests to reduce the 2017
17 and 2018 O&M forecasts by \$474,760 and \$667,800, respectively, to avoid the alleged
18 double counting.¹⁷

19 SDG&E disagrees with UCAN's double counting assertion. The SDG&E resources,
20 who transitioned from other O&M roles within SDG&E to the CIS Program Replacement
21 team, all vacated a previous role that was funded through SDG&E's Test Year 2016 GRC.

¹⁵ Jones Testimony at 26:8-13.

¹⁶ *Id.* at 26:21-25.

¹⁷ *Id.* at 25:11-13.

1 UCAN appears to be operating under the assumption that these vacated roles have not been
2 filled. To the contrary, since these vacated roles perform tasks that remain critical to
3 SDG&E, all of these roles have been backfilled by either internal labor or third-party
4 contractors. These backfilled roles are appropriately being funded under SDG&E's GRC
5 budget. As such, SDG&E's proposal for the incremental CIS staffing is not "double
6 counting," as UCAN asserts.

7 **IV. SUMMARY AND CONCLUSION**

8 In summary, my rebuttal testimony responds to the prepared direct testimony
9 submitted by intervening parties ORA and UCAN. For the reasons stated in this rebuttal
10 testimony, the Commission should:

- 11 1. Adopt the implementation costs and timelines presented in my direct
12 testimony (Chapter 5) and incorporated into the total program costs and
13 benefits delineated in the prepared direct testimony of Laura Atkinson
14 (Chapter 4). These proposals include:
 - 15 • Total Transition and Stabilization labor costs of \$1.4 million and non-
16 labor costs of \$18.0 million; and
 - 17 • Total OCM labor costs of \$2.8 million and non-labor costs of \$5.0
18 million.
- 19 2. Adopt SDG&E's proposal to record revenue and costs associated with the
20 CIS Replacement Program in a two-way interest bearing balancing account
21 until the project is in service and submitted as part of base margin revenue
22 requirement in a future GRC, including costs for the identified Transition and
23 Stabilization labor and non-labor costs; and reject ORA's proposal to track
24 costs associated with hiring supplemental staff in a memorandum account

1 separate from the CISMA authorized by the Commission in the
2 Administrative Law Judge's Ruling dated May 30, 2017.

3 3. Adopt SDG&E's proposal of recording revenue and costs associated with the
4 CIS Replacement Program in a two-way interest bearing balancing account
5 until the project is in service and submitted as part of base margin revenue
6 requirement in a future GRC, including costs for the identified OCM labor
7 and non-labor costs; and reject ORA's proposal to track OCM costs in a
8 memorandum account separate from the CISMA authorized by the
9 Commission in an Administrative Law Judge's Ruling dated May 30, 2017.

10 4. Reject UCAN's proposed 2017 and 2018 O&M forecast reductions of
11 \$474,760 and \$667,800.

12 This concludes my prepared rebuttal testimony.