Q. Please state your name, business address and present position with PacifiCorp , dba Rocky Mountain Power ("the Company").

A. My name is Nancy K. Kent. My business address is 825 NE Multnomah St., Suite 400, Portland, Oregon 97232. My present title is Managing Director, Risk & Insurance, Corporate Security and Information Technology.

Qualifications

Q. Briefly describe your education and business experience.

A. I joined PacifiCorp in 1984 as data center manager. As director for corporate security I was responsible for physical and Information security, disaster recovery, risk management, business continuity and emergency management policies and programs. As managing director in my current role I am responsible for physical and logical security, risk and insurance for the MidAmerican Holding companies, delivery systems, compliance and delivery services supporting approximately 400 plus systems including SAP, EMS/SCADA, customer service system and several hundred smaller stand-alone integrated systems that support the company's business operations.

Prior to joining PacifiCorp, I worked at North Pacific Insurance in Portland as an information technology specialist. I earned an associate degree in business from the Nebraska Western College and hold numerous certificates in management and leadership education.

Purpose of Rebuttal Testimony

Q. Please explain the purpose of your rebuttal testimony in this proceeding.

A. The purpose of this rebuttal testimony is to respond to proposed intangible and

general plant addition adjustments that were included in the direct testimony of Mr. Richard S. Hahn, of La Capra Associates, filed on behalf of the Division of Public Utilities ("DPU"). More specifically, my rebuttal testimony responds to Mr. Hahn's proposed adjustments to the following three Information Technology (IT) project categories that were included in Table 1 of Exhibit DPU 3.0 Dir-Rev Req and further detailed in Mr. Hahn's direct testimony:

1) *Upgrades and Enhancements*, also known as asset maintenance are modifications or additions to existing internal-use software systems in support of business initiatives that result in additional functionality, such that the software system is able to perform tasks that it was previously incapable of performing. Such modifications normally require a change to all or part of the existing software specifications and are necessary to support regulatory compliance and/or enhance business operations. The activities attributed to this blanket project are predominately associated with the system portfolios for the operational business units;
2) *Corporate Optimization*, also known as asset maintenance are modifications or additions to existing internal-use software systems in support of business initiatives that result in additional functionality, such that the software system is able to perform tasks that it was previously incapable of performing. Such modifications normally require a change to all or part of the existing software specifications and are necessary to support regulatory compliance and/or enhance business operations. The activities attributed to this blanket project are predominately associated with the corporate systems portfolio;

3) *Technology Obsolescence Management*, is a strategy of planned replacement of data and voice infrastructure hardware and software components based on evaluation of company needs and expected obsolescence according to key vendors' and service providers' end of life policies, limited by funds available under the Company's planned capital expenditures. This strategy is designed for availability, consisting of reliability and maintainability, to assure the infrastructure continues to serve the business need at the lowest overall cost. Expenditures associated with these activities are typically numerous but may individually be relatively small in magnitude. Expenditures are budgeted by evaluating historical technical trends, age of assets currently in service and other known facts or anticipated business need.

I will demonstrate that the analysis Mr. Hahn used to support his adjustment is both flawed and inappropriately applied. I will also show that the current level of capital investment for these three projects is in line with the levels projected in this case. Mr. Hahn's proposed adjustments for these projects should be rejected and the full level of investment for these project categories, as projected by the Company, should be included in the test period rate base in this case.

Q. Does Mr. Hahn's trending analysis support his proposed adjustment to the three IT projects identified above?

A. No. Mr. Hahn's argument is incorrect on two counts. His trending model misrepresents the level of recent IT capital investment and the application of his trending method to future capital investment is inappropriate because it does not follow the actual IT decision-making process.

Q. In what ways is his trending analysis inaccurate?

A. Mr. Hahn's "23-month total" values for the "upgrades and enhancements", "corporate optimization" and "technology obsolescence management" categories shown in Figure 1 of his testimony do not reflect the level of IT plant placed in service in recent years or the level of IT plant that will be placed in service through the end of the test period in the case. This is shown in Table 1 below. The first column of Table 1 shows the actual plant placed in service during 2010 and 2011 for the three categories of IT projects. The second column shows the capital additions included in the rate case for those same three project categories for the 23 months from the end of the historical period through the end of the test period. The third column shows Mr. Hahn's trend based estimate for the same period from Figure 1 of his direct testimony. As can be seen in Table 1, the IT capital additions included in the case are in line with the plant placed in service for the most recent two year period, while Mr. Hahn's proposed level of IT capital investment, is significantly lower in every category.

Table 1

Actual IT Plant Placed in Service Compared to Hahn Estimate

	Plant Placed In Service 2010 & 2011 Actual	GRC Capital Additions June 2011 - May 2013	Hahn Proposed June 2011 - May 2013
Upgrades	15,855,965	17,638,000	4,144,000
Obsolescence	22,550,235	21,191,000	13,765,000
Optimization	2,485,609	4,388,000	926,000
Total	40,891,809	43,217,000	18,835,000

Q. Were the general and intangible plant capital expenditures during this period in line with the capital budget?

A. Yes. As shown in Table 2, for budget year 2010 and 2011 the plant placed in service for these projects was approximately 88 percent of budget. While there has been some under spending of the capital budget in prior years, in total or by category, this was primarily due to labor resource constraints and/or shifting priorities within the broader capital plan. This under spend, however, resulted in the deferral, not elimination, of necessary capital investment.

Table 2

Actual IT Plant Placed in Service Compared to Budget

	2010 Actual	2011 Actual	Total	
Upgrades	8,145,920	7,710,045	15,855,965	88%
Obsolescence	12,236,301	10,313,934	22,550,235	89%
Optimization	233,868	2,251,742	2,485,609	74%
Total G&I Plant	20,616,089	20,275,720	40,891,809	88%

	2010 Plan	2011 Plan	Total
Upgrades	11,072,924	6,878,542	17,951,466
Obsolescence	14,289,197	10,996,314	25,285,511
Optimization	1,401,169	1,965,298	3,366,467
Total G&I Plant	26,763,290	19,840,154	46,603,443

In contrast, as a result of his inappropriate and inaccurate trending analysis, Mr. Hahn proposes to remove from the case over 56 percent of the projected capital investment for these three project categories. His flawed analysis provides no basis for his proposed adjustment. For this, and additional reasons to be addressed later in my testimony, Mr. Hahn's proposed adjustment to projected plant investment should be rejected.

Q. Does trending analysis of past IT investments provide a reasonable basis for assessing the appropriate or expected level of investment in this case?

A. No. Even if a trending analysis using accurate information showed that the projected capital investment in this case was higher than historical levels, the past spend in these IT project areas does not predict the future IT budget. Mr. Hahn's premise assumes that past capital expenditures form a basis for predicting future capital expenditures – that there is a correlation between the two. This is not correct.

There is no causal relationship; the determining factors in IT budgeting and planning decisions derive from a combination of technical factors, technical risk and functionality requirements that are uniquely regarded each year. Trade-offs are made between the technology obsolescence management, upgrades and enhancement, and corporate optimization budgets as a result of these factors. There is no linear relationship between time and spend. The drivers are based on meeting availability, functionality and regulatory requirements.

The technical elements are considered year-to-year. Maintaining system reliability; minimizing restoration if failures occur; continuing vendor supportability for systems and components and a number of other inputs, such as location, type of asset and business processes supported. The technical elements involved in the decision-making are described in the technology obsolescence management document.

Asset maintenance, consisting of "upgrades", "enhancements" and "corporate optimization" modify or add functionality to existing internal-use software systems. These adjustments extend the system to provide tasks it was previously incapable of performing. Such modifications may be requested to

enhance business operations or required to support compliance with regulatory mandates.

Because the asset base continues to have new components added in different combinations at different years, the maturity of the different components requires continual year-to-year review. The historical technical trend of the technology components is the significant factor. Mr. Hahn has superimposed his assumptions of incremental budgeting on an approach that is really driven by technology considerations.

When Mr. Hahn erroneously states "since the Company stated that it established capital budgets for this project based upon, among other considerations, historical spending . . ." he misinterpreted or misunderstood the decision method, which referred to the technical evaluation mentioned above. The technology obsolescence management strategy states "expenditures are budgeted by evaluating historical trends, age of assets currently in-service and other known facts or anticipated business needs". Once the annual spend is established, month-to-month allocations are based on historical timing and delivery factors. The strategy in fact implies the evaluation of "historical technical trends"; not financial ones.

Year-to-year, there are tradeoffs between the line items of upgrades, optimization and obsolescence. The technology drivers listed above, business priorities and labor constraints influence the systems and components, which can be addressed in any one year. Hardware, database or operating system updates (technology obsolescence management) may be required to support new software (optimization) needed for business functionality. Because of technical inter-

dependencies, the work and investments may span a number of years. The trade-offs are indicated in the fluctuations between the IT line items, such as those between 2008 to 2009, where preparations for major upgrades were undertaken in both areas at different times.

The decision and planning is about what investment is necessary for a particular year and what can be deferred. The varied requirements are reviewed annually, leading to the line item adjustments from year-to-year among the three categories. Mr. Hahn's recommendation would transform deliberate decisions about deferred investments into eliminations, jeopardizing the stability and reliability of core systems that support the company's ability to provide safe, reliable low-cost power to our customers.

Q. Does the Company still plan to place in service by May 2013, the level of general and intangible plant projected in the case?

A. Yes. As evidence of this, through the five months ended May 31, 2012 the Company has overspent the capital budget by $975k and anticipates spending the entire budget by year end 2012 as well as the capital investments projected for 2013.

Table 3

IT Capital Spending YTD May 31, 2012			
	Actual	**Budget**	**Variance**
Upgrades	2,085,013	1,399,634	685,378
Obsolescence	1,411,413	1,151,301	260,113
Optimization	377,006	347,214	29,792
Total	3,873,432	2,898,149	975,283

Q. Why are these investments needed to serve customers?

A. These investments ensure the stability and reliability of core systems that support the company's ability to provide reliable low-cost power to our customers. Examples of enhanced functionality provided by asset maintenance investments for these systems include, but are not limited to, upgrades to the energy management system, online customer bill payment capabilities and service tracking, investments in system disaster recovery and compliance with the North American Electric Reliability Corporation's critical infrastructure protection standards.

Q. Please summarize your rebuttal testimony.

A. In summary, Mr. Hahn's proposed removal of over 60 percent of the projected capital investment that is actually required to support and sustain the distribution of low-cost, reliable power, was based on flawed analysis, without regard to the profound service impact which would ensue. He disregarded actual technical influences, trade-offs and planned deferrals, which combined with labor resource constraints to determine priority within the broader capital plan.

His analysis is faulty and significantly understates the upgrades and enhancements that were placed in service during 2010 and 2011. Moreover, his assumptions were inappropriately applied, erroneously substituting the position that past capital expenditures correlate with future capital expenditures, instead of

accepting the long-practiced, annual technical consideration based on maintaining system availability, adding required functionality or making adjustments to support compliance requirements.

Mr. Hahn's proposed adjustments for these projects should be rejected and the full level of investment for these blanket projects, as projected by the Company, should be included in the test period rate base in this case.

Q. Does this conclude your rebuttal testimony?

A. Yes.