

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Aqua)	
Ohio, Inc. to Increase Its Rates and Charges)	Case No. 16-0907-WW-AIR
for Its Waterworks Service.)	

**SUPPLEMENTAL DIRECT TESTIMONY OF
WHITNEY KELLETT
ON BEHALF OF AQUA OHIO, INC.**

- ☒ Management policies, practice and organization
- ☐ Operating income
- ☐ Rate base
- ☐ Allocations
- ☐ Rate of return
- ☐ Rates and tariffs
- ☐ Other

Supplemental Direct Testimony of Whitney Kellett

I. INTRODUCTION AND SUMMARY

Q1. Please introduce yourself.

A. My name is Whitney Kellett, and I am Chief Information Officer for Aqua Services, Inc. My business address is 762 Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. I am not an employee of Aqua Ohio, Inc. (Aqua) but I am offering testimony on its behalf.

Q2. What are your general duties and responsibilities as Chief Information Officer?

A. I am responsible for all information technology systems, services, and support, including for Aqua Ohio. Information technology includes computer systems and programs, corporate data, office equipment and networks, mobile devices, and all technology policies and procedures.

Q3. Please outline your educational background and business experience.

A. I am a 1993 graduate of the University of Virginia with a B.A. degree in Economics. From June 1993 to May 2000, I was employed by Bank of America, where I held the position of Vice President in Information Technology. I was then employed by NeoModal.com (Senior Project Manager), Descartes Systems Group (Senior Project Manager), Navigate Corp (Senior Manager) and Atlas Energy, Inc. (Chief Information Officer). I joined Aqua Services, Inc. in April 2016.

Q4. What is the purpose of your supplemental direct testimony?

A. This testimony is intended to support the Company's objections to the recommendations made by the Staff of the Public Utilities Commission of Ohio (Staff) in its Report of Investigation (Staff Report) regarding the management of information technology (IT) initiatives.

1 **II. STAFF’S MANAGEMENT AND OPERATIONS REVIEW**

2 **Objection Nos. 39–41: Information technology management**

3 **Q5. Among other things, the Staff Report reviewed Aqua’s management and operations;**
4 **what area did it focus on?**

5 A. Staff focused on the management and oversight of IT projects.

6 **Q6. Aqua’s last rate case was resolved by the Commission’s approval of a stipulation**
7 **between Aqua, Staff, and other parties. Did that stipulation address the**
8 **management of IT projects?**

9 A. Yes.

10 **Q7. What did the stipulation provide?**

11 A. It stated that Aqua should “include, as part of its next base rate filing for water rates,
12 information demonstrating that Aqua Ohio engages in rigorous, regular, PMI [Project
13 Management Institute] driven budget development and oversight of IT projects.” (13-
14 2124 Stip. at 3.) The Stipulation also provided that “[s]uch information will be provided
15 to Staff no later than one year from the adoption of this Stipulation by the Commission.”
16 (*Id.*) The Stipulation was approved on September 10, 2014.

17 **Q8. Did Aqua provide the required information to Staff and address this as required as**
18 **part of the base rate filing?**

19 A. Yes. Company representatives met with Staff in August 2015 and provided information
20 that demonstrated compliance with this requirement. Mr. Hideg testified to these facts in
21 his direct testimony filed in this case.

22 **Q9. What does the current Staff Report say regarding the management of IT initiatives?**

23 A. The Staff Report acknowledged that Staff had received updated policies and procedures
24 applicable to IT initiatives in July 2015, and that it reviewed “whether or not Aqua
25 America is actively engaged in financial control and oversight of its IT projects occurring

1 in 2016.” (Staff Report at 41.) Staff then reviewed documentation associated with several
2 projects.

3 **Q10. What findings did Staff make?**

4 A. Staff stated that “the required documentation was not uniformly developed for each
5 project” at initiation and while the project was ongoing. (*Id.* at 44.) Staff also believed
6 that post-completion analysis was lacking, although it did observe that “monthly variance
7 reports” tracked and forecasted expenditures for each project. (*Id.*) Staff also stated that
8 several projects “experienced significant cost overruns from the approved budget” but
9 that documentation did not demonstrate change-control, scope-change, and budget-
10 change processes. (*Id.*)

11 **Q11. What did Staff recommend?**

12 A. Staff recommended that Aqua “be directed to engage an external auditor,” “to be paid for
13 by Aqua America from non-regulated funds, but . . . chosen by and under the direction of
14 the Staff.” (*Id.*)

15 **Q12. Please summarize your view of Staff’s findings.**

16 A. First, I would clarify that Aqua Services, and not Aqua America, is directly responsible
17 for the management and implementation of IT projects. I will assume here that Staff’s
18 recommendations are directed to Aqua Services.

19 As I will explain below, although I do not agree with some of the Staff Report’s
20 findings, I do recognize that the concerns expressed by Staff are valid ones, and I share
21 Staff’s goal that Aqua Services employ an effective IT management process that is
22 reviewable and appropriately manages costs. With respect to Staff’s concerns about cost
23 overruns, I believe that Staff may have misinterpreted some of the data that was provided,
24 although I can understand how such interpretations could have occurred without an

1 explanation of the information in question. The remaining concerns relate to the level of
2 documentation provided. While I believe that sufficient project documentation did exist
3 in 2016, this is a moot point, as we were already in the process of improving
4 documentation as to the precise issues identified by Staff, and these new systems will be
5 in place throughout 2017.

6 But regardless of whether the findings of the Staff Report are correct, the larger
7 point is that Aqua Services is actively in the process of improving these processes. A
8 management change occurred during 2016, when I was brought on as the company's first
9 Chief Information Officer, and I have been overseeing numerous changes to our business
10 policies and processes that I believe directly address Staff's concerns. Given the fact that
11 we are in a process of transition and already working on these issues, an external audit
12 would likely only hinder those efforts at this time.

13 **Q13. Moving to the findings of the Staff Report, it found that "the required**
14 **documentation was not uniformly developed for each project." Do you agree?**

15 A. Although it is true that uniform documentation was not developed for every project, I
16 would also clarify that uniform documentation is not necessarily appropriate for every
17 project. Projects can vary greatly in cost, size, complexity, personnel involved, and other
18 factors. I would not expect a simple, low-cost, or routine project to require the same
19 documentation as a novel or highly complex project. I believe that the variations
20 observed by Staff can, in large part, be explained on that basis, and in my judgment the
21 documentation necessary to each project was generally created.

22 **Q14. Does this mean that you do not believe any improvement could be made to the**
23 **documentation processes?**

24 A. No. I agree that the documentation processes observed by Staff could be improved and
25 that is taking place under my supervision. One of the changes that we began developing

1 prior to the release of the Staff Report was to establish a standard project delivery
2 “checklist.” The checklist sets forth the full list of project documentation available to
3 complete any given project. As I explained above, every project is different, and some
4 projects may not require every item on the checklist to be completed. But this document
5 will improve the process by clarifying what items did and did not apply, as well as
6 showing when and how the applicable items were satisfied. I believe that this change
7 would directly address the concerns raised by Staff regarding consistency of
8 documentation.

9 **Q15. When does Aqua Services intend to implement this change?**

10 A. It has already been implemented. Any projects started after October 1, 2016, are being
11 completed using this project checklist. My tenure did not begin until April 2016, and I
12 used the first six months to acclimate and assess the state of the IT department at Aqua.
13 This was one of the changes I identified, but for projects started earlier in 2016, it was not
14 deemed cost-beneficial to essentially recreate past documentation describing projects (or
15 project stages) already completed or well along the path. But all projects started after
16 October 1, 2016, are being carried out consistent with this requirement.

17 **Q16. The Staff Report also found that there was “no substantive post-completion analysis**
18 **conducted for any of the projects” other than “a one page or one paragraph**
19 **qualitative ‘lessons learned’ summation” for some projects. Do you agree with this**
20 **finding?**

21 A. My response to this finding would be similar to my prior response. From my review of
22 the projects, Aqua Services did engage in and complete substantive post-completion
23 analysis. And again, projects can greatly vary in cost and complexity, and I would not
24 expect every project to receive an identical level of analysis and review. So I would
25 disagree that there was “no substantive post-completion analysis.” Having said that, I can

1 also understand where Staff's concerns arose, and I believe that Aqua Services'
2 documentation of this analysis could have been improved.

3 **Q17. What is Aqua Services doing to improve this process?**

4 A. We have created a standard project closure document. Going forward, upon completion
5 of every project, the project manager or one of his or her team members will be required
6 to complete the project-closure report. This will help ensure that post-completion analysis
7 is carried out consistently, memorialized, and available for later review.

8 **Q18. Will this apply to every project?**

9 A. At this time, yes. As we gain experience with this process, we may determine that a
10 report is not required for projects under certain thresholds. To be clear, this is not planned
11 at this time, and if such a change occurs, the decision will be made at the appropriate
12 management level and will be documented and consistently implemented.

13 **Q19. Do you agree with the Staff Report's finding that, at the time of Staff's review,**
14 **several high-budget projects were higher than the approved budgeted amount?**

15 A. No, I do not, although I can understand how this might have been perceived from the
16 particular format in which the data was provided.

17 **Q20. Please explain.**

18 A. For 2016 and earlier years, Aqua Services budgeted for IT projects using something of a
19 two-part process. The initial capital budget would allocate a certain amount of capital to a
20 number of named projects, with a large remainder left in various "unallocated" categories
21 (these were known as "spread" categories). As the named projects were developed during
22 the year, it was understood that unallocated dollars would be pulled and applied to the
23 named projects, as well as being applied to new projects as they emerged. Among other

1 things, this meant that project-specific budget figures as of January 1 were subject to
2 change as the year progressed.

3 **Q21. Did this system have benefits?**

4 A. Yes. The primary benefit was that it allowed some flexibility within the budget to deal
5 with emergent situations, both in terms of new projects and changes to named projects, as
6 happens to all businesses to a certain degree throughout a year.

7 **Q22. How do you believe this system could have led to misperceptions?**

8 A. In response to data requests, Staff was provided with documentation that set forth these
9 initial figures, and without proper explanation, these figures could easily have been
10 construed as a solid baseline for a project's budget, when in fact the figures were
11 understood internally as being provisional and subject to further development as the year
12 progressed. These figures would not have shed much light on whether a project had
13 actually gone over the budgeted amount.

14 **Q23. Does this mean that Aqua Services did *not* establish project budgets or monitor**
15 **whether projects stayed within budget?**

16 A. No. Both initial project budgets, and further development or changes to those budgets,
17 were established and carried out under the supervision of the steering committee. And the
18 steering committee monitored both changes to these budgets and how they were being
19 implemented. As the Staff Report noted, "monthly variance reports . . . track original,
20 actual, and estimated expenditures for each project and also provide a year-end forecast
21 of expenditures for each project." These reports enabled the committee to monitor project
22 costs.

1 **Q24. Did this system succeed in keeping costs under control?**

2 A. Yes. Historically, the IT department actually spent less than its total budgeted amount in
3 2013, 2014, and 2015. In 2016, the department is on track to spend more than the amount
4 originally budgeted, but this reflects a considered decision by senior management. The
5 steering committee met in October 2016 to discuss and approve a budget increase for the
6 IT department. At this time, the IT department expects to spend a bit less than the revised
7 budget amount. So while I would agree improvements can be made to optimize our
8 processes, the processes that were in place did succeed in controlling costs.

9 **Q25. Is Aqua Services continuing to utilize this system going forward?**

10 A. No. Another change that has been underway since August 2016 is to shift the IT
11 budgeting process from a more reactive model to a more proactive one, with the goal of
12 establishing more and firmer project targets as of January 1. In particular, unallocated
13 funds will no longer be used to supplement named-project budgets; instead, the initial
14 budget figure will establish the baseline, and any changes to the initial figures must be
15 accompanied by a documented change request. This will be in effect for the 2017 budget.

16 **Q26. Do you agree with the Staff Report's finding that, at the time of Staff's review, there**
17 **was a lack of "formal change control processes and authorizations with respect to**
18 **scope and budget changes"?**

19 A. No, I do not. Once again, I believe this may have stemmed from an understandable
20 misperception of the budget data. But, as I explained, all changes in scope or budget were
21 overseen by the steering committee. Although I recognize Staff's concerns regarding the
22 documentation of these processes, the reality is that scope and budget changes were
23 properly authorized.

1 **Q27. Do you believe that the changes currently being implemented will address this**
2 **concern?**

3 A. Yes. As noted, beginning in 2017, any changes to the initial budget figure will require the
4 completion and approval of “change request” form. I believe this will provide the
5 documentation that Staff may have found lacking.

6 **Q28. Are there any facts that you believe should be taken into account by the**
7 **Commission?**

8 A. Yes. In 2016, Aqua Services endeavored to implement the policies discussed with Staff
9 in August 2015. But all of this was taking place at the same time as a change in
10 management and organization. As discussed, I began serving as Chief Information
11 Officer in the middle of 2016, and it takes time to become familiar with existing policies
12 and processes, to identify improvements, and then to implement them. The fact that Aqua
13 America made a management change, and is supporting the initiatives and changes
14 discussed in my testimony, demonstrates the company’s commitment to ensuring that its
15 business units and customers benefit from all the convenience and assistance made
16 available by continuing developments in technology.

17 But any time there is a change in management, a period of flux usually follows. In
18 my view, the negative findings in the Staff Report reflect the fact that Staff’s review
19 occurred during such a period of flux.

20 **Q29. Do you believe that the fact that Staff raised concerns regarding IT management in**
21 **Aqua’s last rate case suggests additional action is needed by the Commission?**

22 A. If Staff’s findings were accompanied by evidence that Aqua Services was doing nothing
23 to implement agreed-upon changes, I would tend to agree that further action may be
24 warranted. But the reality is that Aqua Services is doing much more than making changes

on paper: it has been pursuing and continues to pursue structural and organizational changes that directly respond to the concerns raised by Staff.

Q30. Was Aqua Services already addressing these processes and issues before issuance of the Staff Report?

A. Yes. All of the changes discussed in my testimony were underway well before the Staff Report was released.

Q31. Do you believe that an external audit would be productive at this time?

A. No. The Staff Report acknowledged that in 2016 the company was in the first year of adopting new principles and management tools. And as I just described, during 2016, Aqua Services was also in the process of reorganizing the business unit in question and introducing new management. I recognize that there was room for improvement in the implementation of these policies in the first half of 2016—the precise period in which management changed. And many changes are still being implemented. This is why I do not believe an audit would be a good remedy at this time. Auditing new policies and practices when a company is still in the process of implementing them would not bring to light helpful or actionable information. In fact, to the extent an external audit consumed time and resources that could be devoted to implementation, it would actually be counterproductive.

Q32. What do you recommend?

A. I recommend that the Commission should allow more time for Aqua Services to implement the changes that are underway. Aqua Services has been actively addressing the issues raised by Staff, and it continues to do so. I do not believe that this is the right time for the Commission to consider ordering an external audit.

1 **Q33. Is Aqua Services willing to work with Staff to demonstrate that these changes are**
2 **being implemented?**

3 A. Yes. While I do not necessarily agree with all of the findings in the Staff Report, the
4 kinds of issues raised by Staff are always worth discussing and following up on. We are
5 willing to provide information to Staff that will help it confirm that the changes discussed
6 in my testimony are being implemented and are addressing its concerns.

7 **III. CONCLUSION**

8 **Q34. Does this conclude your supplemental direct testimony?**

9 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Supplemental Direct Testimony was served by electronic mail this 19th day of December, 2016 to the following:

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Summary: Text Supplemental Direct Testimony of Whitney Kellett electronically filed by Ms. Rebekah J. Glover on behalf of Aqua Ohio, Inc.