Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to
Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-13-617

Exhibit _____

Test Year Revenue Requirements

September 30, 2013

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I. INTRODUCTION AND QUALIFICATIONS

1

2   Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3   A.   My name is Brian E. Kage. My business address is Integrys Business Support LLC

4   ("IBS"), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001.

5

6   Q.   BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7   A.   I am the General Manager of Strategy and Business Performance of Integrys Energy

8   Group, Inc. ("Integrys"). Both IBS and Minnesota Energy Resources Corporation

9   ("MERC") are wholly-owned subsidiaries of Integrys.

10

11 Q.   PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

12 A.   I graduated from Texas Christian University with a Bachelor of Business Administration

13   in Finance. I began my career with Integrys in January 2007 as Value Manager in the

14   Corporate Development area.   In April 2008, I assumed my current position as General

15   Manager of Strategy and Business Performance in the Customer Relations department.

16   Prior to working for Integrys, I worked for Accenture and Black & Veatch where I

17   provided services for North American and International utilities in the areas of Customer

18   Operations & Application Strategy, Merger & Acquisitions Value Capture, and CIS

19   implementations.

20

21 Q.   FOR WHOM ARE YOU PROVIDING TESTIMONY?

22 A.   I am providing testimony on behalf of MERC.

23

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Kage Direct

1	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?
2	A.	The purpose of my pre-filed direct testimony is to describe the Integrys Customer
3		Experience ICE 2016 ("ICE 2016") project, as well as the Intangible Benefits of the ICE
4		2016 project to MERC and the other five Integrys regulated utilities.
5		
6	Q.	ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR
7		TESTIMONY IN THIS PROCEEDING?
8	A.	Yes, I am. I am sponsoring Exhibit_____(BEK-1), consisting of 3 pages.
9		
10	Q.	WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION AND
11		SUPERVISION?
12	A.	Yes, it was.
13		
14	Q.	PLEASE PROVIDE A HIGH LEVEL EXPLANATION OF YOUR EXHIBIT.
15	A.	Yes. Exhibit_____ (BEK-1) summarizes the various cost and savings inputs to the
16		economic analysis used to evaluate the various options considered for the ICE 2016
17		project. These values were used in the economic analysis described in the pre-filed direct
18		testimony of Mr. Michael E. Gerth.
19		
20		

1		**II. ICE 2016**
2		
3	Q.	WHAT IS THE ICE 2016 PROJECT?
4	A.	The ICE 2016 Project intends to unify the various billing systems currently in use across
5		the Integrys platform. The Integrys family of six regulated utilities currently operate with
6		three distinct billing systems:
7		1. The "Open-C" system for Wisconsin Public Service Corporation ("WPSC")
8		and Upper Peninsula Power Company ("UPPCO"),
9		
10		2. The "Vertex" system for MERC and Michigan Gas Utilities Corporation
11		("MGUC") , and
12		
13		3. The "C-First" system for The Peoples Gas Light and Coke Company ("PGL")
14		and North Shore Gas Company ("NSG").
15		
16		The ICE 2016 Project will result in a single billing system for all six Integrys regulated
17		utilities.
18		
19	Q.	OTHER THAN PROVIDING A SINGLE BILLING SYSTEM FOR ALL SIX
20		INTEGRYS REGULATED UTILITIES, WHAT OTHER FEATURES AND BENEFITS
21		RESULT FROM THE ICE 2016 PROJECT?
22	A.	The ICE 2016 Project will provide significant tangible and intangible benefits to MERC
23		and the other Integrys regulated utilities. Intangible benefits include improved efficiency

1   and productivity as a result of converting from the current MERC Customer Information

2   System ("CIS") technology platform (Vertex) onto the Open-C technology platform.

3

4   One of the most important benefits of the ICE 2016 Project is that it will provide overall

5   standardization of internal delivery processes and system technology platforms which

6   will improve customer satisfaction, increase productivity, and increase efficiency by

7   lowering overall operating costs.

8

9   Next, the ICE 2016 Project will improve and enhance the features of our Billing,

10   Collections, Call Center, and Self-Service related offerings by ensuring that these

11   functions are staffed appropriately to continue to leverage the opportunities of a large

12   corporation, while maintaining the high level of service of a local utility.

13

14   Further, the ICE 2016 Project will provide a standardized process architecture and

15   technology platform that will enable the Integrys regulated utilities to achieve and sustain

16   first quartile performance in cost management (cost per customer), customer satisfaction,

17   and service quality for the Billing, Collections, Call Center, and Self Service functions.

18   Specifically, the benefits of this project include improved customer experience through

19   implementation of several improvements to our Interactive Voice Response ("IVR") and

20   web self-service channels that will increase our customer's use of these channels, and

21   reduce the number of inbound calls to our call centers. These improvements include:

22   • The automation of customer turn-offs,
23

1   • The ability to schedule service appointments,
2

3   • Improved use of bill analyzer tools,
4

5   • Providing customers with web access to their bill image,
6

7   • Several usability type improvements, and
8

9   • Consolidating all utilities onto a single web, telephone and IVR
10   platform.
11

12   Several improvements that will increase our first call resolution and customer satisfaction

13   include:

14   • An improved call center agent on-line encyclopedia,
15

16   • Deployment of a First Call Resolution analytical tool,
17

18   • Improved call center Q&A and agent monitoring, and
19

20   • An improved complaint identification and resolution process.
21

22   Other functions that ICE 2016 will provide include:

23   • Deployment of a Credit Model which improves collections
24   performance through implementation of a customer behavioral/risk
25   score that will help to improve the efficiency and effectiveness of our
26   collection actions,
27

28   • Improved collection schedules that will work in conjunction with the
29   customer behavioral/risk score to further ensure increased
30   effectiveness of our collection actions,
31

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1   • Improved enrollment processes for new customers that will secure
2   deposits for high risk customers, and implement additional steps to
3   verify customer identity, thereby reducing the number of fraudulent
4   applications,
5

6   • The reporting of customer payment behavior, both positive and
7   negative, to the Credit Bureaus, and
8

9   • Improved processes for locating and contacting customers who have
10   finalized their account.
11

12   Finally, ICE 2016 will provide improved Billing and Payment related performance by

13   continuing to implement our strategy for:

14   • Increased e-Bill adoption,
15

16   • Making improvements in the Bill Estimation routine,
17

18   • Improving our bill printing, document imaging, and document storage
19   capabilities,
20

21   • Providing real-time electronic payment information to our Call Center
22   and Self Service channels to improve the customer reconnection for
23   nonpayment process, and
24

25   • Automating the Non-Sufficient Funds check process with our banks.
26

27   Q.   WHAT OPTIONS WERE CONSIDERED FOR THE ICE 2016 PROJECT?

28   A.   Option 1 assumed Integrys would consolidate from the current three CIS platforms and

29   associated business operating models to one enhanced Open-C platform that will support

30   standardized business processes for all six regulated utilities by 2016. Open-C is the CIS

1		currently used by Integrys affiliates WPS Corp and UPPCO. This is known as the "3 to 1
2		Option."
3		
4		Option 2 assumed Integrys would consolidate from three to two CIS platforms: Open-C
5		for all Integrys utilities except PGL and NSG, which would remain on their currently
6		existing CIS known as C-First. Option 2 was assumed to be completed by 2015. This is
7		known as the "3 to 2 Option."
8		
9		Option 3 assumed Integrys would first consolidate from three to two CIS platforms (same
10		as Option 2) by 2015, and then move to one CIS platform (Open-C) by 2018. This is
11		known as the "3 to 2 to 1 Option."
12		
13	Q.	HOW WERE THE VARIOUS COSTS USED IN THE ECONOMIC ANALYSIS
14		DERIVED?
15	A.	For the 3 to 1 Option, the various costs were developed during a Business Requirements
16		Design phase which designed all Customer Operations related processes and the
17		requirements necessary to implement those processes. Those requirements were then
18		analyzed to determine the technology changes necessary to implement those processes
19		across all six utilities. In addition, the necessary change management impacts were
20		analyzed and estimated.
21		
22		For the 3 to 2 Option, the various costs were developed by limiting the scope to
23		converting MERC and MGUC to the same platform as WPS Corp and UPPCO (i.e.,

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1		Open-C), while PGL and NSG would remain on their existing platform (i.e., C-First).
2		Limited changes to the processes in Open-C would be made to accommodate MERC and
3		MGUC.
4		
5		For the 3 to 2 to 1 Option, the costs for the 3 to 1 option were analyzed to determine the
6		impact of an elongated schedule and two distinct implementations.
7		
8	Q.	HOW WERE THE COST SAVINGS FROM THE ECONOMIC ANALYSIS
9		DERIVED?
10	A.	The technology and operational costs for our current state customer operations were
11		modeled over a 15 year period from 2012-2026. For each of the three different options
12		analyzed, the reductions in O&M and Capital expenditures was determined and applied
13		in the appropriate year. For on-going savings, they were inflated by 2.7% from the year
14		identified to 2026.
15		
16		The various costs and savings for each option are summarized on Exhibit_____(BEK-1).
17		
18		MERC's O&M costs associated with the 2014 projected test year are included in
19		Exhibit_____(SSD-2), which are sponsored by Mr. Seth DeMerritt.
20		
21		

IX. CONCLUSION

2 Q.   DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON THE ICE 2016

3   PROJECT?

4 A.   Yes, it does.

Integrys Energy Group, Inc.
ICE 2016 Project
Inputs Into Summary of Calculations of Net Present Value of Revenue Requirement ("NPVRR")

Option 1- Conversion from 3 Customer Information Systems to 1 by 2016

Cost To Achieve - Capital

Hardware	$	3,201,000
Software		5,285,000
Miscellaneous Inv. & Exp		5,208,000
Internal Labor		16,405,000
External Labor		34,237,000
Total	**$**	**64,336,000**

Cost To Achieve - O&M

Hardware	$	-
Software		883,000
Miscellaneous Inv. & Exp		870,000
Internal Labor		4,255,000
External Labor		6,392,000
Total	**$**	**12,400,000**

Undiscounted Estimated Savings - Capital

Hardware	$	(16,709,000)
Software		(255,000)
Miscellaneous Inv. & Exp		(227,000)
Internal Labor		(3,064,000)
External Labor		(4,595,000)
Total	**$**	**(24,850,000)**

Undiscounted Estimated Savings - O&M

Hardware	$	-
Software		(9,459,000)
Miscellaneous Inv. & Exp		(124,045,000)
Internal Labor		(60,238,000)
External Labor		(1,149,000)
Cost of Capital Reduction		(5,675,000)
Reduction in Bad Debt Expense		(3,784,000)
Total	**$**	**(204,350,000)**

Integrys Energy Group, Inc.
ICE 2016 Project
Inputs Into Summary of Calculations of Net Present Value of Revenue Requirement ("NPVRR")

Option 2- Conversion from 3 Customer Information Systems to 2 by 2015

Cost To Achieve - Capital

Hardware	$	841,000
Software		1,388,000
Miscellaneous Inv. & Exp		1,368,000
Internal Labor		4,246,000
External Labor		8,964,000
Total	**$**	**16,807,000**

Cost To Achieve - O&M

Hardware	$	-
Software		232,000
Miscellaneous Inv. & Exp		229,000
Internal Labor		1,072,000
External Labor		1,660,000
Total	**$**	**3,193,000**

Undiscounted Estimated Savings - Capital

Hardware	$	-
Software		-
Miscellaneous Inv. & Exp		-
Internal Labor		-
External Labor		-
Total	**$**	**-**

Undiscounted Estimated Savings - O&M

Hardware	$	-
Software		-
Miscellaneous Inv. & Exp		(36,309,000)
Internal Labor		-
External Labor		-
Cost of Capital Reduction		-
Reduction in Bad Debt Expense		-
Total	**$**	**(36,309,000)**

Integrys Energy Group, Inc.
ICE 2016 Project
Inputs Into Summary of Calculations of Net Present Value of Revenue Requirement ("NPVRR")

Option 3- Conversion from 3 Customer Information Systems to 2 by 2015 and to 1 by 2018

Cost To Achieve - Capital

Hardware	$	3,613,000
Software		5,966,000
Miscellaneous Inv. & Exp		5,880,000
Internal Labor		18,465,000
External Labor		38,625,000
Total	**$**	**72,549,000**

Cost To Achieve - O&M

Hardware	$	-
Software		997,000
Miscellaneous Inv. & Exp		983,000
Internal Labor		4,769,000
External Labor		7,202,000
Total	**$**	**13,951,000**

Undiscounted Estimated Savings - Capital

Hardware	$	(16,709,000)
Software		(255,000)
Miscellaneous Inv. & Exp		(227,000)
Internal Labor		(3,064,000)
External Labor		(4,595,000)
Total	**$**	**(24,850,000)**

Undiscounted Estimated Savings - O&M

Hardware	$	-
Software		(7,527,000)
Miscellaneous Inv. & Exp		(108,899,000)
Internal Labor		(48,090,000)
External Labor		(1,149,000)
Cost of Capital Reduction		(4,516,000)
Reduction in Bad Debt Expense		(3,011,000)
Total	**$**	**(173,192,000)**