

Petition Of Tennessee American Water  
Company To Change And Increase  
Certain Rates And Charges So Far As To  
Permit It To Earn A Fair And Adequate  
Rate Of Return On Its Property Used And  
Useful In Furnishing Water Service To Its  
Customers

**DIRECT TESTIMONY**  
of  
**WILLIAM H. NOVAK**

*August 27, 2012*

IN THE TENNESSEE REGULATORY AUTHORITY  
AT NASHVILLE, TENNESSEE

IN RE: PETITION FOR A GENERAL RATE  
INCREASE, IMPLEMENTATION OF A  
DISTRIBUTION SYSTEM INFRASTRUCTURE  
CHARGE AND THE ESTABLISHMENT OF  
TRACKING MECHANISMS FOR PURCHASED  
POWER, PENSIONS AND CHEMICAL EXPENSES

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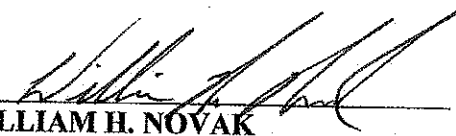
DOCKET NO. 12-00049

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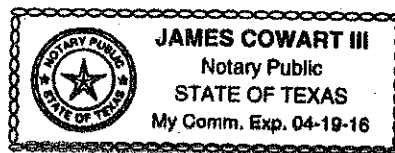
I, William H. Novak, CPA, on behalf of the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

  
WILLIAM H. NOVAK

Sworn to and subscribed before me  
this 23 day of August, 2012.

  
NOTARY PUBLIC

My commission expires: 4-19-16



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## ATTACHMENTS

Attachment WHN-1	William H. Novak Vitae
Attachment WHN-2	Documents relating to Business Transformation.

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND***  
2 ***OCCUPATION FOR THE RECORD.***

3 ***A1.*** My name is William H. Novak. My business address is 19 Morning Arbor Place,  
4 The Woodlands, TX, 77381. I am the President of WHN Consulting, a utility  
5 consulting and expert witness services company.<sup>1</sup>  
6

7 ***Q2. PLEASE PROVIDE A SUMMARY OF YOUR BACKGROUND AND***  
8 ***PROFESSIONAL EXPERIENCE.***

9 ***A2.*** A detailed description of my educational and professional background is provided  
10 in Attachment WHN-1 to my testimony. Briefly, I have both a Bachelors degree  
11 in Business Administration with a major in Accounting, and a Masters degree in  
12 Business Administration from Middle Tennessee State University. I am a  
13 Certified Management Accountant, and am also licensed to practice as a Certified  
14 Public Accountant.  
15

16 My work experience has centered on regulated utilities for over 30 years. Before  
17 establishing WHN Consulting, I was Chief of the Energy & Water Division of the  
18 Tennessee Regulatory Authority where I had either presented testimony or  
19 advised the Authority on a host of regulatory issues for over 19 years. In  
20 addition, I was previously the Director of Rates & Regulatory Analysis for two  
21 years with Atlanta Gas Light Company, a natural gas distribution utility with  
22 operations in Georgia and Tennessee. I also served for two years as the Vice  
23 President of Regulatory Compliance for Sequent Energy Management, a natural

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<sup>1</sup> State of Tennessee, Registered Accounting Firm ID 3682.

1 gas trading and optimization entity in Texas, where I was responsible for ensuring  
2 the firm's compliance with state and federal regulatory requirements.  
3

4 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?**

5 **A3.** I am testifying on behalf of the Consumer Advocate & Protection Division  
6 ("CAPD" or "the Consumer Advocate") of the Tennessee Attorney General's  
7 Office.  
8

9 **Q4. HAVE YOU PRESENTED TESTIMONY IN ANY PREVIOUS**  
10 **TENNESSEE AMERICAN WATER COMPANY RATE CASES?**

11 **A4.** Yes. I presented testimony in Dockets U-86-7402, U-87-7534, 89-15388, 91-  
12 05224, 93-06946 and 10-00189 concerning Tennessee-American Water Company  
13 ("TAWC" or "the Company") rate cases as well as other generic tariff and  
14 rulemaking matters. In addition, I previously advised the TRA on issues in other  
15 TAWC rate cases in dockets where I did not present testimony.  
16

17 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
18 **PROCEEDING?**

19 **A5.** My testimony will support and address the CAPD's positions and concerns with  
20 respect to the Company's Petition. Specifically, I will address the following:

- 21 i. CAPD's proposed attrition period revenue calculations;
- 22 ii. CAPD's proposed attrition period rate base calculations;
- 23 iii. CAPD's position on TAWC's proposed Class Cost of Service Study; and

1           iv.    CAPD's position on TAWC's special cost recovery proposals.

2  
3   **Q6.   WHAT DOCUMENTS HAVE YOU REVIEWED IN PREPARATION OF**  
4   **YOUR TESTIMONY?**

5   **A6.**   I have reviewed the Company's Rate Case Application as filed on June 1, 2012,  
6           along with the testimony and exhibits presented with their filing. In addition, I  
7           have reviewed the Company's workpapers supporting their attrition period  
8           revenues, rate base and cost of service study. I have also reviewed the  
9           Company's responses to the relevant data requests submitted by the TRA as well  
10          the Company's responses to CAPD's discovery requests in these same areas.

11  
12   **Q7.   WHAT TEST PERIOD AND ATTRITION PERIOD HAS THE CAPD**  
13   **ADOPTED FOR THIS CASE?**

14   **A7.**   The Company has proposed the twelve months ended December 31, 2011 as its  
15          test period with attrition adjustments through the 12 months ending November 30,  
16          2013. Both of these review periods appear reasonable. Therefore, the CAPD has  
17          adopted both the Company's proposed test period and attrition period for this  
18          case.

19  
20   **Q8.   WHAT IS THE CAPD'S REVENUE DEFICIENCY CALCULATION FOR**  
21   **THIS CASE?**

1 A8. As shown on CAPD Exhibit, Schedule 1, the CAPD's revenue deficiency  
2 calculation required to produce the 6.94% overall return recommended by Dr.  
3 Klein is approximately \$2.8 million.  
4

5 **I. ATTRITION PERIOD REVENUES**  
6

7 ***Q9. MR. NOVAK, PLEASE DESCRIBE THE MAJOR AREAS OF***  
8 ***DIFFERENCE BETWEEN THE COMPANY'S AND CAPD'S***  
9 ***CALCULATION OF ATTRITION PERIOD REVENUES.***

10 A9. As shown on CAPD Exhibit, Schedule 9, the difference between the Company  
11 and the CAPD's revenue calculations are approximately \$800,000 out of  
12 approximate \$43 million. Although the Company and the CAPD have used  
13 different methods to project revenues, the final results are closely related as  
14 shown on CAPD Exhibit, Schedule 9, with the primary differences due to the  
15 Company's error in calculating residential customer growth, errors in calculating  
16 sewer billing revenues and different methodologies used to project customer  
17 usage.  
18

19 ***Q10. PLEASE DISCUSS THE COMPANY'S ERROR IN PROJECTING***  
20 ***CUSTOMER GROWTH.***

21 A10. The Company intended to include an increase in their case of 45 residential  
22 customers per month for customer growth.<sup>2</sup> However, the Company appears to  
23 have mistakenly increased the test period amount bills by 11,925 bills in their

---

<sup>2</sup> Company response to TRA Data Request, Item 9.

1 residential revenue calculation.<sup>3</sup> To correct this error, the CAPD has only  
2 included the actual test period bill count in its forecast.  
3

4 ***Q11. PLEASE DISCUSS THE COMPANY'S ERROR IN CALCULATING***  
5 ***SEWER BILLING REVENUES.***

6 A11. As the TRA is aware, the Company recently discontinued third-party billing for  
7 sewer service providers.<sup>4</sup> Instead, the Company now only provides meter read  
8 data to these municipalities. In its projection of attrition period sewer billing  
9 revenues, the Company included an increased number of disconnection orders  
10 that it expects to receive from municipal sewer companies for non-payment.  
11 However, the Company included these revenues in the attrition period at the  
12 Company's proposed disconnection rate of \$31.00 instead of the current  
13 disconnection rate of \$15.50.<sup>5</sup> The CAPD's attrition period revenue calculation  
14 corrects this error.  
15

16 ***Q12. DID THE CAPD ALSO INCLUDE AN ADJUSTMENT FOR DECLINING***  
17 ***CUSTOMER USAGE IN THIS CASE?***

18 A12. Yes.  
19

20 ***Q13. PLEASE EXPLAIN THE CAPD'S METHODOLOGY FOR COMPUTING***  
21 ***CUSTOMER USAGE.***

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<sup>3</sup> Company Exhibit REV-3-Revenue by Class-DJP, Schedule REV 3.1, Chattanooga-Residential.

<sup>4</sup> TRA Docket 12-00042.

<sup>5</sup> Company Exhibit, REV-1-Summary-DJP, Schedule REV-1.1, Page 1, Line 30 and also Company Exhibit REV-2-Other Revenue-DJP, Schedule REV-2.1, Workpaper 1, Page 2.



1 A13. We began by examining the Company's water sales per customer for residential,  
2 commercial and public authority customers over the last six years. We then used  
3 regression analysis to forecast customer usage to the midpoint of the attrition year  
4 based upon the actual observations of water sales per customer for the last six  
5 years.

6  
7 ***Q14. WHAT DID YOUR ANALYSIS OF CUSTOMER USAGE REVEAL?***

8 A14. For the residential and commercial customers, our analysis showed a clear decline  
9 in usage per customer. As a result, we have reduced the test period residential  
10 customer usage by 76,136 CCF<sup>6</sup> and reduced the test period commercial customer  
11 usage by 26,457 CCF.<sup>7</sup> However, our analysis of usage for public authority  
12 customers revealed an increase in customer usage. As a result, we increased the  
13 test period public authority customer usage by 44,580 CCF.<sup>8</sup>

14  
15 ***Q15. ARE THERE ANY OTHER REVENUE ADJUSTMENTS THAT SHOULD***  
16 ***BE BROUGHT TO THE TRA'S ATTENTION?***

17 A15. Yes. The Company currently provides water service to Fort Oglethorpe, Catoosa  
18 County, Signal Mountain, and Walden's Ridge at special contract rates.  
19 However, the Company has no contract in place with either Catoosa County or the  
20 Town of Signal Mountain and the contracts with for Fort Oglethorpe and  
21 Walden's Ridge are dated in 2003 and 2004.<sup>9</sup> As a result, we are unable to

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<sup>6</sup> CAPD Revenue Workpaper R-R-6.00.

<sup>7</sup> CAPD Revenue Workpaper R-C-6.00.

<sup>8</sup> CAPD Revenue Workpaper R-OPA-6.00.

<sup>9</sup> Company response to CAPD Data Request, Item 11.

1 determine any support for the Company's current billing rates for these  
2 customers. In addition, it appears that the Company has increased the rates during  
3 the test period to these customers without the approval of the TRA. The CAPD  
4 has requested supplemental information concerning its billing rates to special  
5 contract customers but has not received a response as of the date for filing  
6 testimony. Going forward, the Company has proposed to include the billing rates  
7 for these special contract customers in its tariff.<sup>10</sup> This change in tariff structure  
8 will eliminate the need for Special Contract altogether and makes the most sense  
9 from a rate administration viewpoint.

10  
11 **II. ATTRITION PERIOD RATE BASE**

12  
13 ***Q16 MR. NOVAK, PLEASE DESCRIBE THE MAJOR AREAS OF***  
14 ***DIFFERENCE BETWEEN THE COMPANY'S AND CAPD'S***  
15 ***CALCULATION OF RATE BASE.***

16 A16. As shown on CAPD Exhibit, Schedule 3, the total difference between the  
17 Company and the CAPD's rate base calculation is approximately \$13.6 million.  
18 The primary difference in rate base is due to the CAPD's exclusion of costs  
19 related to the Company's proposed Business Transformation. In addition,  
20 significant differences between the Company and CAPD's calculations for  
21 accumulated deferred federal income taxes and customer advances also result in  
22 major variances in the two rate base calculations.

23  

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<sup>10</sup> Company Proposed Tariff, Sheet No. 4-S2.

1    ***Q17. PLEASE BRIEFLY DISCUSS THE COMPANY'S PROPOSED BUSINESS***  
2    ***TRANSFORMATION PROJECT.***

3    A17   According to the Company, its proposed Business Transformation project will  
4       include Enterprise Resource Planning, Enterprise Asset Management and the  
5       Customer Information System.<sup>11</sup> Also, according to the Company, the total  
6       projected cost of the Business Transformation system is over \$320 million, or  
7       12% of consolidated revenues, with Tennessee-American's allocated share  
8       projected at \$7.8 million.<sup>12</sup>  
9       At \$7.8 million, the cost for Tennessee-American's share of Business  
10      Transformation comes to just over \$104 per customer. At an installed cost of  
11      \$104 per customer, Business Transformation would be one of the most expensive  
12      non-revenue producing projects that the Company has ever undertaken. By  
13      comparison, the Company's complete cost to physically extend service to new  
14      customers is only \$1,277 making Business Transformation an expensive addition  
15      for the Company's customers.<sup>13</sup>  
16      Furthermore, these systems rarely come in at the budgeted amount and are often  
17      delayed. Also, in extreme cases, the implementation of these systems has resulted  
18      in the bankruptcy of the individual companies choosing them. I have included in  
19      Attachment WHN-2, a number of documents relating to the Company's Business  
20      Transformation proposal which I refer to in my testimony that follows.

11 Direct testimony of Company witness VerDouw, Page 27.

12 Direct testimony of Company witness VerDouw, Page 37.

13 Company response to the TRA's Minimum Filing Requirements, Item 24.

1   ***Q18. WHY HAS THE CAPD CHOSEN TO EXCLUDE BUSINESS***  
2   ***TRANSFORMATION COSTS FROM RATE BASE?***

3   A18. The CAPD feels that the Company has simply not done enough to justify this  
4   material expenditure. According to the Company, its existing systems are  
5   “antiquated” and at the end of their useful lives.<sup>14</sup> This appears to be the only  
6   justification for Business Transformation in the Company’s case. However, these  
7   systems still appear to be working correctly and are currently getting the job done  
8   for the Company. Furthermore, just because the existing systems have already  
9   been fully depreciated and paid for by the Company’s customers, does not mean  
10   that they are at the end of their useful lives.

11   In addition, the Company’s expected benefits from the Business Transformation  
12   system are esoteric and obscure. The Company’s benefit description includes  
13   items such as opportunities for “enhanced bill presentation” or “greater first  
14   contact resolution” but doesn’t specifically go into why these abilities are  
15   currently needed. The CAPD believes that the TRA needs a firmer grasp of the  
16   customer benefits from Business Transformation before committing to its \$7.8  
17   million cost.

18   Finally, a significant number of companies that have attempted to implement the  
19   same SAP system platform that TAWC now proposes, have failed dramatically.  
20   In fact, the SAP system itself is notorious for problematic implementations and  
21   not delivering what was promised. These failures have resulted in several  
22   lawsuits against SAP<sup>15</sup> and have contributed to the bankruptcy of at least one

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<sup>14</sup> Direct testimony of Company witness VerDouw, Page 29.

<sup>15</sup> Attachment WHN-2, Item 1.

1 company<sup>16</sup> and shareholder actions against management<sup>17</sup> in another. All of these  
2 failed implementations are similar in size and scope, when measured against  
3 revenues, to that of AWWC. Even SAP itself has admitted to substantial usability  
4 problems in its software.<sup>18</sup>

5 One would expect that a capital expenditure of the magnitude that the Company  
6 has proposed for Business Transformation would at least partially pay for itself by  
7 decreasing costs. TAWC initially identified cost savings and benefits when  
8 Business Transformation was first presented to its board, but has since said that  
9 any cost savings or benefits are too uncertain to quantify.<sup>19</sup> For these reasons, the  
10 CAPD has chosen to exclude the Company's proposed costs for Business  
11 Transformation from rate base.

12  
13 ***Q19. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE COMPANY***  
14 ***AND CAPD'S FORECAST OF ACCUMULATED DEFERRED FEDERAL***  
15 ***INCOME TAXES.***

16 A19. Accumulated Deferred Federal Income Taxes ("ADFIT") represent the difference  
17 between expenses that recognized for tax and book purposes with the largest  
18 portion related to accelerated depreciation for tax purposes. The Company's  
19 forecast calculation of ADFIT appears to have only included the test period  
20 amount while the CAPD's calculation included growth related to additional plant  
21 to be placed in service through the attrition year.

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<sup>16</sup> Attachment WHN-2, Item 2.

<sup>17</sup> Attachment WHN-2, Item 3.

<sup>18</sup> Attachment WHN-2, Item 4.

<sup>19</sup> Attachment WHN-2, Item 5.

1  
2 ***Q20. PLEASE DISCUSS THE DIFFERENCES BETWEEN THE COMPANY***  
3 ***AND CAPD'S FORECAST OF CUSTOMER ADVANCES.***

4 A20. Customer Advances represent refundable non-investor supplied funds that the  
5 Company has used to finance a portion of its plant investment and should  
6 therefore be treated as a deduction in computing rate base. In computing  
7 Customer Advances, the Company neglected to include the portion of Customer  
8 Advances projected to be refunded during the attrition year. In addition, the  
9 CAPD included a two year average of Customer Advances in its calculation  
10 resulting in the remaining difference.  
11

12 **III. CLASS COST OF SERVICE STUDY**

13  
14 ***Q21. PLEASE BRIEFLY EXPLAIN THE PURPOSE OF THE ALLOCATION***  
15 ***PROCESS IN THE COMPANY'S CLASS COST OF SERVICE STUDY.***

16 A21. The purpose of any Class Cost of Service Study ("CCOSS") is to arrive at the cost  
17 of serving each customer class and present a systematic approach to allocating  
18 this cost (or total revenue requirement) to the different classes of customers. The  
19 CCOSS can then provide a measure of guidance for the TRA to consider how to  
20 adjust individual rates for each customer class to produce the total revenue  
21 requirement. In this case, the Company has developed a CCOSS using twenty-  
22 three (23) separate allocation factors.<sup>20</sup>  
23

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<sup>20</sup> Direct testimony and exhibits of Company witness Herbert, Schedule C.

1    ***Q22. DO YOU AGREE WITH THE COMPANY'S CCOSS METHODOLOGY***  
2    ***IN THIS CASE?***

3    A22. No. Many components of the 23 allocation factors used in the Company's  
4    CCOSS are based on judgment without any substantiation whatsoever.<sup>21</sup> In my  
5    opinion, it is unacceptable to use "judgment factors" for a CCOSS because the  
6    result is a study that cannot be independently verified or corroborated.

7  
8    ***Q23. HOW DOES THE CAPD PROPOSE TO ALLOCATE ANY REVENUE***  
9    ***DEFICIENCY TO EACH OF THE CUSTOMER CLASSES?***

10   A23. The CAPD has traditionally proposed to increase service charges and volumetric  
11   rates in a manner so that each customer class receives the same approximate  
12   percentage increase. Incidentally, this methodology is identical to what the  
13   Company proposed in their last rate case.<sup>22</sup> The CAPD believes that an across-  
14   the-board increase to all customer classes most equitably spreads the burden of  
15   any increase in rates and is preferable to the Company's CCOSS results. The  
16   calculation of the CAPD's proposed rate design and resulting rates from it are  
17   shown on CAPD Exhibit, Schedules 16 and 17.

18  
19   However, the CAPD does recognize that the Company and intervenors have  
20   presented material testimony and evidence relating to the impact on large water  
21   users and sale for resale customers from across-the-board rate design allocations.

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<sup>21</sup> Direct testimony of Company witness Herbert, Page 10. See also Company response to CAPD Data Request, Item 50.

<sup>22</sup> TRA Docket 10-00189.

1 The TRA may want to give appropriate weight to this evidence when setting rates  
2 in this docket.  
3

4 **IV. TAWC COST RECOVERY PROPOSALS**

5  
6 ***Q24. HAS TENNESSEE-AMERICAN WATER COMPANY PROPOSED ANY***  
7 ***PARTICULAR PROGRAMS IN THIS RATE CASE WHERE IT SEEKS***  
8 ***SPECIAL COST RECOVERY?***

9 A24. Yes. The Company has proposed what it calls a Distribution System  
10 Infrastructure Charge ("DSIC") to recover its cost of infrastructure replacement  
11 between rate cases. In addition, the Company has proposed a Purchased Power  
12 and Chemicals Charge ("PPACC") tariff rider to recover any incremental changes  
13 to these expenses from the level set in the rate case. Finally, the Company has  
14 proposed a Pension Cost Tracker to defer and recover changes in pension  
15 expenses from the amounts recognized in the Company's rate case.  
16

17 ***Q25. DO YOU AGREE WITH THE COMPANY'S PROPOSALS FOR THESE***  
18 ***SPECIAL COST RECOVERY MECHANISMS?***

19 A25. No, I do not. Each of these proposals is designed to minimize the Company's risk  
20 of operations without any corresponding concession to the Company's proposed  
21 return on equity. In addition, there is simply not enough demonstrated volatility  
22 within any of these categories to justify the cost tracking structure that the  
23 Company proposes. Finally, the implementation of such a tracking proposal in  
24 these categories would be unprecedented for any private utility in Tennessee. The



1 CAPD therefore asks the TRA to reject each of the Company's proposals for  
2 special cost recovery.  
3

4 ***Q26. DOES THIS COMPLETE YOUR TESTIMONY?***

5 ***A26.*** Yes it does. However I reserve the right to incorporate any new information that  
6 may subsequently become available.



# ATTACHMENT WHN-1

William H. Novak Vitae

**William H. Novak**

19 Morning Arbor Place  
The Woodlands, TX 77381

Phone: 713-298-1760

Email: halnovak@whnconsulting.com

**Areas of Specialization**

Over twenty-five years of experience in regulatory affairs and forecasting of financial information in the rate setting process for electric, gas, water and wastewater utilities. Presented testimony and analysis for state commissions on regulatory issues in four states and has presented testimony before the FERC on electric issues.

**Relevant Experience****WHN Consulting – September 2004 to Present**

In 2004, established WHN Consulting to provide utility consulting and expert testimony for energy and water utilities. Complete needs consultant to provide the regulatory and financial expertise that enabled a number of small gas and water utilities to obtain their Certificate of Public Convenience and Necessity (CCN) that included forecasting the utility investment and income. Also provided the complete analysis and testimony for utility rate cases including revenues, operating expenses, taxes, rate base, rate of return and rate design for utilities in Tennessee. Assisted American Water Works Company in preparing rate cases in Ohio and Iowa. Provided commercial and industrial tariff analysis and testimony for an industrial intervenor group in a large gas utility rate case. Industry spokesman for water utilities dealing with utility commission rulemaking. Consultant for the North Carolina and Illinois Public Utility Commissions in carrying out their oversight functions of Duke Energy and Peoples Gas Light and Coke Company through focused management audits. Also provide continual utility accounting services and preparation of utility commission annual reports for water and gas utilities.

**Sequent Energy Management – February 2001 to July 2003**

Vice-President of Regulatory Compliance for approximately two years with Sequent Energy Management, a gas trading and optimization affiliate of AGL Resources. In that capacity, directed the duties of the regulatory compliance department, and reviewed and analyzed all regulatory filings and controls to ensure compliance with federal and state regulatory guidelines. Engaged and oversaw the work of a number of regulatory consultants and attorneys in various states where Sequent has operations. Identified asset management opportunities and regulatory issues for Sequent in various states. Presented regulatory proposals and testimony to eliminate wholesale gas rate fluctuations through hedging of all wholesale gas purchases for utilities. Also prepared testimony to allow gas marketers to compete with utilities for the transportation of wholesale gas to industrial users.

**Atlanta Gas Light Company – April 1999 to February 2001**

Director of Rates and Regulatory Analysis for approximately two years with AGL Resources, a public utility holding company serving approximately 1.9 million customers in Georgia, Tennessee, and Virginia. In that capacity, was instrumental in leading Atlanta Gas Light Company through the most complete and comprehensive gas deregulation process in the country that involved terminating the utility's traditional gas recovery mechanism and instead allowing all 1.5 million AGL Resources customers in Georgia to choose their own gas marketer. Also responsible for all gas deregulation filings, as well as preparing and defending gas cost recovery and rate filings. Initiated a weather normalization adjustment in Virginia to track adjustments to company's revenues based on departures from normal weather. Analyzed the regulatory impacts of potential acquisition targets.

**Tennessee Regulatory Authority – Aug. 1982 to Apr 1999; Jul 2003 to Sep 2004**

Employed by the Tennessee Regulatory Authority (formerly the Tennessee Public Service Commission) for approximately 19 years, culminating as Chief of the Energy and Water Division. Responsible for directing the division's compliance and rate setting process for all gas, electric, and water utilities. Either presented analysis and testimony or advised the Commissioners/Directors on policy setting issues, including utility rate cases, electric and gas deregulation, gas cost recovery, weather normalization recovery, and various accounting related issues. Responsible for leading and supervising the purchased gas adjustment (PGA) and gas cost recovery calculation for all gas utilities. Responsible for overseeing the work of all energy and water consultants hired by the TRA for management audits of gas, electric and water utilities. Implemented a weather normalization process for water utilities that was adopted by the Commission and adopted by American Water Works Company in regulatory proceedings outside of Tennessee.

**Education**

B.A, Accounting, Middle Tennessee State University, 1981

MBA, Middle Tennessee State University, 1997

**Professional**

Certified Public Accountant (CPA), Tennessee Certificate # 7388

Certified Management Accountant (CMA), Certificate # 7880

Former Vice-Chairman of National Association of Regulatory Utility Commission's Subcommittee on Natural Gas



# ATTACHMENT WHN-2

## Business Transformation

Item	Description
1	List of lawsuits against SAP
2	Shane Company Bankruptcy
3	Select Comfort Shareholder Actions
4	SAP Owns up to Usability Issues
5	Excerpt from California PUC Order on BT

**List of Companies Filing Lawsuits Against SAP****SAP – Press Articles on Failed Implementations, Lawsuits and Other Unnatural Disasters**

This document contains a compiled list of links to public articles and web sites that document 37 lawsuits, project failures and cost overruns SAP customers have endured. This is only a subset of failures that have been publicly covered.

**Failed Implementations:**

Shane Co.....	2
British Airways .....	2
Bedford Borough Council.....	2
City of Portland .....	2
Novatek Corporation.....	3
Collins County.....	3
Waste Management Company .....	3
Birmingham City Council .....	4
Brihanmumbai Municipal Corporation .....	5
Fonterra Brands New Zealand.....	5
Rowe Furniture .....	5
Cadbury Schweppes.....	5
NASA .....	6
City of Tacoma.....	6
National Australia Bank .....	7
MFI.....	7
Hewlett Packard.....	7
SA Municipal Workers' Union .....	8
Fluor Corp. ....	8
Bata.....	8
BOC .....	9
ICI .....	9
Brady.....	10
General Motors .....	10
Volkswagen.....	10
Somerfield.....	10
Whirlpool.....	10
WH Smith.....	11
The BBC .....	11
W W Grainger .....	11
Newcastle University .....	12
Lego .....	12
Hershey.....	12
Bang and Olufsen .....	12
Allied Waste Industries .....	13
Corporacion de Supermercados Unidos .....	13
Justin Industries.....	13
FoxMeyer.....	13



### Lumber Liquidators

*Since this list was created, Lumber Liquidators also filed suit in 2010.*

### Shane Co.

**Summary:** Shane Co., a Colorado-based retail jewellery chain, has filed for Chapter 11 bankruptcy protection and partly attributed the move to rampant cost overruns and functionality problems on an SAP software implementation. Costs of the project increased from \$8m to \$36m.

**Article:** <http://www.independent.co.uk/news/business/news/i-dont-believe-in-publicly-executing-loyal-people-who've-made-an-honest-mistake-547614.html>

**Title:** SAP project costs cited in jeweller's bankruptcy filing

**Source:** Computer World

**Date:** 14<sup>th</sup> January 2009

### British Airways

**Summary:** Problems with a SAP system designed to catalogue aircraft spares led to problems accessing spare parts to fix aeroplanes, contributing to BA's decision to cancel flights.

**Article:** <http://www.independent.co.uk/news/business/news/i-dont-believe-in-publicly-executing-loyal-people-who've-made-an-honest-mistake-547614.html>

**Title:** I don't believe in publicly executing loyal people who've made an honest mistake

**Source:** The Independent

**Date:** Sunday, 26 September 2004

### Bedford Borough Council

**Summary:** Bedford has replaced its SAP financial system with one from Agresso which is better value for money.

**Article:** <http://uk.news.yahoo.com/vdunet/20080904/ttc-bedford-borough-council-dumps-sap-6315470.html>

**Title:** Bedford Borough Council dumps SAP

**Source:** VNU Net, Janie Davies

**Date:** Thursday, September 4 01:30 pm

### City of Portland

**Summary:** Portland's SAP project, budgeted at \$31 million in 2006 for a 2007 go-live date, is now estimated to be nearly \$50 million and won't be complete until 2009

**Article:** [http://sap.blogs.techtarget.com/2008/05/16/portlands-busted-sap-implementation/?track=NL-869&ad=640621&asrc=EM\\_NLN\\_3708683&uid=6379031](http://sap.blogs.techtarget.com/2008/05/16/portlands-busted-sap-implementation/?track=NL-869&ad=640621&asrc=EM_NLN_3708683&uid=6379031)

**Title:** Portland's busted SAP implementation

**Source:** The SearchSAP.com Editorial Team

**Date:** May 16th, 2008

### Novatek Corporation

**Summary:** Novatek, a former Syspro customer, reinstalled its Syspro solution after it failed to implement SAP BusinessOne/Fourth Shift edition. It believed that SAP had superior technology and it would get better support from SAP USA's headquarters. However Novatek discovered that its business was being negatively impacted by the lack of required functionalities in the SAP product, and it would be cost prohibitive to install the additional SAP functionality required.

**Article:**

<http://www.forbes.com/businesswire/feeds/businesswire/2008/08/19/businesswire20080819006212r1.html>

**Title:** Floor Prep Leader Drops SAP, Reinstalls SYSPRO Software

**Source:** Business Wire - Press Release

**Date:** 8/19/08, 3:33 PM ET

### Collins County

**Summary:** A settlement was signed in which SAP and Siemens jointly agree to pay Collin County \$1 million to settle a long running lawsuit. In 2005, Collin County filed a \$16 million lawsuit against SAP and Siemens over the purchase and implementation of SAP's ERP software package. After beginning the implementation and training with Siemens, the county was dissatisfied with the performance of SAP and decided to back out of the deal and file suit. Their suit alleged that soon after implementation of the system began, problems arose and that later, SAP and Siemens informed county officials they could not implement the changes as originally represented and promised.

**Article:** <http://www.baumbach.org/b2evolution/blogs/index.php?p=690&more=1&c=1&tb=1&pb=1>

**Title:** County Wins Million Dollar Settlement

**Source:** The Collin County Observer

**Date:** 6/26/08

### Levi Strauss

**Summary:** Levi Strauss blamed a \$47m drop in profits in its quarter end May 25<sup>th</sup> 2008 on the implementation of an ERP system, identified as a SAP installation purchased in 2003. The implementation led to "Order fulfillment issues and higher operating expenses related to the implementation and stabilization of the system (which) negatively impacted our net revenue and operating income." The CFO who purchased the system has now left Levi Strauss

**Articles:**

<http://www.accountingweb.com/cgi-bin/item.cgi?id=105658&d=883&h=884&f=882&dateformat=%o%20%B%20%Y>

**Title:** Levi Strauss blames profit drop on SAP enterprise software system

**Source:** AccountingWeb.com

**Date:** 7/29/08

### Waste Management Company

**Summary:** Waste Management Company is suing SAP claiming that executives participated in a fraudulent sales scheme that resulted in a failed ERP implementation. It is claiming over \$100m in project costs as well as the benefits that the SAP scheme was supposed to deliver.

**Article:**

[http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9112658&source=NLT\\_AM&nId=1](http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9112658&source=NLT_AM&nId=1)

**Title:** Update: SAP fires back at Waste Management; Files a counterclaim in the fight over a problematic ERP implementation

**Source:** Computerworld, Chris Kanaracus

**Date:** 8/14/08

**Article:**

<http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=9072478>

**Title:** Waste Management sues SAP over ERP implementation; Company seeks more than \$100M in expenses

**Source:** Computerworld, Chris Kanaracus

**Date:** 3/27/08

**Article:** <http://www.itbusinessedge.com/blogs/tve/?p=294>

**Title:** Who's to Blame for Failed ERP Project that Prompted SAP Lawsuit?

**Source:** IT BusinessEdge, Ann All

**Date:** 4/1/2008, 11:55 am

**Article:** <http://www.theinquirer.net/qb/inquirer/news/2008/03/27/waste-company-sues-sap-rubbish>

**Title:** SAP supplies rubbish software; Bin there, done that

**Source:** The Inquirer, Sylvie Barak:

**Date:** 3/27/08, 3:47 PM

**Article:**

[http://www.cio.com/article/205852/Waste\\_Management\\_Sues\\_SAP\\_Over\\_ERP\\_Implementation](http://www.cio.com/article/205852/Waste_Management_Sues_SAP_Over_ERP_Implementation)

**Title:** Waste Management Sues SAP Over ERP Implementation

**Source:** CIO.com, Chris Kanaracus

**Date:** 3/27/08

**Article:** <http://blogs.zdnet.com/BTL/?p=8338>

**Title:** Promises, promises: A look at Waste Management's case against SAP

**Source:** ZDNet, Larry Dignan

**Date:** 4/1/08, 3:44 AM

<b>Birmingham City Council</b>
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**Summary:** Problems installing SAP software have led to delays and failures in the implementation of a council-wide system. This has resulted in a backlog of unpaid invoices, the visits of bailiffs to try to recover money owed, and suppliers withdrawing goods and services from the council

**Article:** <http://www.computerweekly.com/Articles/2008/02/04/229239/birmingham-city-councils-bills-unpaid-as-sap-project.htm>

**Title:** Birmingham City Council's bills unpaid as SAP project falters  
**Source:** ComputerWeekly.com, Tony CollinsPosted  
**Date:** 2/4/08, 09:50

#### **Brihanmumbai Municipal Corporation**

**Summary:** Brihanmumbai Municipal Corporation's (BMC) encountered problems following a poor implementation of the SAP enterprise resource planning system. Central to this was a computerised procurement system for medicines and equipment, but poor coding and implementation has meant that hospitals cannot order all necessary supplies and are not receiving the supplies they have ordered.

**Article:** <http://cities.expressindia.com/fullstory.php?newsid=245881>

**Title:** Civic ERP solution causes medicine crunch  
**Source:** Mumbai Newslane, Swatee Kher & Jinal Shah  
**Date:** 7/14/07, 04:58 AM

#### **Fonterra Brands New Zealand**

**Summary:** The installation of new SAP software to control manufacturing operations led to significant disruption and supply chain failures for cheese manufacturer, Fonterra Brands, forcing it to apologise to shoppers for the unavailability of its goods.

**Article:** <http://computerworld.co.nz/news.nsf/news/C2DAB9993BA17848CC25726900042CCE>

**Title:** Supply chain issues dog Fonterra SAP project has "mind of its own"  
**Source:** Computerworld New Zealand, staff Auckland  
**Date:** 1/24/07

#### **Rowe Furniture**

**Summary:** Rowe Furniture announced that production levels and shipments had been adversely affected by changes in manufacturing processes made in connection with the roll out of SAP R/3. This led to the company being unable to keep up with demand, building up a backlog and posing a \$149k loss in its first quarter.

**Article:**

<http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=101444>

**Title:** Difficult ERP Rollout Slows Furniture Maker; Rowe blames backlog, losses on SAP implementation and training problems  
**Source:** Computerworld  
**Date:** 5/2/05

#### **Cadbury Schweppes**

**Summary:** Problems with a SAP implementation have hit revenues and profits in the UK. The implementation led to a build up of high levels of inventory which Cadbury Schweppes then had to clear with high discounting.

**Article:** <http://www.mcsolutions.co.uk/article/5017/Cadbury-Schweppes-takes-12m-hit-on-SAP-implementation-.aspx>

**Title:** Cadbury Schweppes takes £12m hit on SAP implementation

**Source:** Manufacturing Computer Solutions,

**Date:** 6/22/06

**Article Title:** IT system causes chocolate log jam

**Source:** ComputerWeekly.com, Antony Savvas

**Date:** 6/0/06

#### NASA

**Summary:** NASA uses SAP R/3 financial applications and in March 2006 embarked on a \$116m financials upgrade project. This encountered resistance from end users and questions from NASA's inspector general. Problems were encountered integrating the SAP system to other applications, such as NASA's workforce management system, it was reported to be difficult to use and NASA could not see clear evidence that it was increasing productivity,

**Article:**

<http://www.computerworld.com/action/article.do?command=viewArticleBasic&articleId=109906>

**Title:** NASA's SAP Launch Drags ; Inspector general blasts the \$116M financial systems upgrade

**Source:** Computer World, Marc L. Songini

**Date:** 3/27/06

#### State of Arkansas

**Summary:** Problems with a roll out of SAP's software across the State of Arkansas led to a lawsuit which alleged that an initial budgeting application delivered by SAP failed to work as promised and that the state's core IT system based on SAP's R/3 software didn't meet specifications for accessibility by handicapped users. The State of Arkansas was preparing to scrap its performance based budgeting system, and encountered significant cost overruns in the implementation.

**Article:** <http://www.computerworld.com/softwaretopics/erp/story/0,10801,99578,00.html>

**Title:** Arkansas set to pull the plug on ERP-driven budgeting approach; State moves to scrap 'performance-based' methodology; lawsuit continues against SAP over initial software rollout

**Source:** Computerworld, Marc L. Songini

**Date:** 2/7/05

#### City of Tacoma

**Summary:** The City of Tacoma's implementation of SAP's ERP, CRM and other business applications led to end-user complaints, bad press and a call for an audit to determine the cause of the problems. Problems occurred with payroll, billing, budgeting and customer service performance. The City of Tacoma had to spend an unforeseen \$700k with consultants for additional customization work.

**Article:** [http://www.crm-daily.com/story.xhtml?story\\_title=---Million-SAP-Rollout-Runs-Into-Trouble&story\\_id=28832](http://www.crm-daily.com/story.xhtml?story_title=---Million-SAP-Rollout-Runs-Into-Trouble&story_id=28832)

**Title:** SAP's \$50 Million Rollout Runs Into Trouble

**Source:** CRM Daily, Computer World

**Date:** 3/12/04, 2:18PM

#### National Australia Bank

**Summary:** The National Australian Bank wrote down the asset value of its software by \$409m, including a \$200m writedown of its SAP-based group wide ERP system. Following a review the Bank delayed indefinitely the roll out of its Integrated Systems Implementation program, which was a group-wide project designed to be rolled out to all banks across the globe. Following a series of cost over-runs and implementation problems the relationship between NAB and its implementation partner Deloitte Consulting broke down and Deloitte sued NAB for \$28m in unpaid fees.

**Article Title:** NAB in \$409m software disaster

**Source:** James Riley

**Date:** 11/10/04

**Article Title:** UK banks hit by SAP roll-out delays

**Source:** CW360, Antony Savvas

**Date:** 4/3/02

#### MFI

**Summary:** Problems with MFI's SAP inventory system led it to issue a profits warning and fire two board members. MFI invested £50m in the system but faced additional costs of £30m to sort out problems with customer orders and fix the system.

**Article:** [http://www.theregister.co.uk/2004/09/14/mfi\\_sap\\_problems/](http://www.theregister.co.uk/2004/09/14/mfi_sap_problems/)

**Title:** MFI gets caught in SAP trap

**Source:** The Register, John Oates

**Date:** 9/14/04, 11:19 GMT

**Article:** <http://www.vnUNET.com/computing/news/2071006/mfi-hit-supply-chain-problems>

**Title:** MFI and BA hit supply chain problems; Retailer and airline experience disruption to processes in SAP legacy systems update

**Source:** VNUNET.com, Computing, James Watson

**Date:** 9/15/04

#### Hewlett Packard

**Summary:** Problems during the roll out of SAP supply chain software led to the sacking of three Hewlett Packard executive and hit Hewlett Packard's bottom line. Quarterly results for the Enterprise Servers and Storage group saw a 5% fall in revenue to %3.4bn, a large part of this was due to problems with the implementation of a new order processing and supply chain

system. The problems were quantified as costing the ESS group about \$400m in revenue and \$275m in operating profit. Hewlett Packard faced huge delays in delivering laptops, resellers said only 40% of laptops were delivered on time.

**Article:** <http://www.computerworld.com/softwaretopics/erp/story/0,10801,95223,00.html>

**Title:** SAP implementation contributed to HP shortfall

**Source:** Computerworld, Marc L. Songini

**Date:** 8/13/04

**Article:** <http://www.theinquirer.net/en/inquirer/news/2004/03/15/sap-fusion-database-delays-cause-massive-hp-product-shortfall>

**Title:** SAP "Fusion" database delays cause massive HP product shortfall ; Update Delays all round

**Source:** The Inquirer, Esther Tigre

**Date:** 3/15/04, 09:54

#### **SA Municipal Workers' Union**

**Summary:** SA Municipal Workers' Union (SAMWU) says it is unhappy with the City of Cape Town's SAP payroll system, which it says has been unable to produce a flawless pay run since around July last year. There have been many problems since the implementation of the SAP system and in particular the payroll module.

**Article:** <http://www.itweb.co.za>

**Title:** SAMWU unhappy with CT SAP system

**Source:** ITWeb, Stephen Whitford

**Date:** 1/28/04

#### **Fluor Corp.**

**Summary:** Fluor had many problems installing SAP software, it replaced its CIO, ditched part of the software and took a \$13m charge.

**Article:** <http://people.ischool.berkeley.edu/~hal/Courses/StratTech07/Lectures/Lock-in/Articles/software-upgrade-revolt.html>

**Title:** Large Software Customers Refuse to Get With the Program; Some Corporate Buyers Start To Resist Forced Upgrades, Higher Maintenance Fees

**Source:** KEVIN J. DELANEY and DAVID BANK, Staff Reporters of The Wall Street Journal

**Date:** 1/2/04

#### **Bata**

**Summary:** Bata Ltd issued a claim against SAP Canada alleging that SAP installed "inadequate software, design flawed software" that ultimately forced the retailer to reinstate its own in-house system, which SAP was hired to replace. R/3 lacked "significant functionality" and was unable to manage footwear distribution, accounting and inventory, Bata claimed. The speed of processing orders across the chain slowed by at least 30 per cent, the shoe company alleged. The cost of

the system increased to over \$8m, from an estimated \$2.8m and Bata cancelled the contract in 2001.

**Article Title:** Bata, SAP in contractual dispute over software program, retail sales taxes; Shoe giant claims system 'extremely cumbersome and retailer-unfriendly'

**Source:** The Globe and Mail, Keith Damsell, Technology Reporter

**Date:** 10/17/03

#### BOC

**Summary:** BOC lost £5m following problems with a SAP implementation in its US operation.

**Article Title:** SAP roll-out troubles cost BOC £5m

**Source:** ComputerWeekly

**Date:** 5/20/03

#### ICI

**Summary:** ICI had to write off a total of £25m as a result of a failed mySAP Business Suite supply chain software implementation in its Quest flavours and fragrances division. A profits warning issued by ICI resulted in a drop of 39% in its share price. The system went live in 2002 at 4 locations in the Netherlands but encountered problems from the start, with staff unable to locate materials and fulfil orders. As a result some of Quest's customers defected to competitors and its chief executive left the company.

**Article:** <http://www.information-age.com/articles/297461/sap-supply-chain-implementation-ravages-ici.html>

**Title:** SAP supply chain implementation ravages ICI

**Source:** Information Age

**Date:** 3/26/03

**Article:** <http://www.computerweekly.com/Articles/2003/02/12/192464/ici-loses-23m-over-sap-failure.htm>

**Title:** ICI loses £23m over SAP failure

**Source:** ComputerWeekly

**Date:** 2/13/03

**Article Title:** SAP Drops After Customer Reports Failed Installation (Update1)

**Source:** Bloomberg, Jennifer Sondag

**Date:** 02/06 17:04

**Article Title:** Supply chain failure dents ICI profits

**Source:** CW360, Cliff Saran

**Date:** 8/2/02



### Brady

**Summary:** Milwaukee-based manufacturer Brady claimed its attempts to install SAP led to disruptions in its direct marketing business forcing it to miss its earnings targets. In total it missed revenue targets by 50%. Problems were attributed to the fact that data was loaded from other systems incorrectly, and Brady employees found it difficult to use the SAP software.

**Article Title:** Software troubles hit firm's bottom line

**Source:** ZDNet News, Alorie Gilbert

**Date:** 1/31/03

### General Motors

**Summary:** Problems with a SAP R/3 implementation brought the spare parts business at the locomotive unit of General Motors almost to a standstill. 6 months after the software went live, General Motors had to launch an emergency turnaround strategy. This involved reconfiguring the software, flushing it and repopulating it with clean data. General Motors claimed the applications were not properly configured to its business and so the aftermarket department could not forecast demand or manage its parts inventory.

**Article Title:** GM forced to take emergency measures

**Source:** CW360.com

**Date:** 2/11/02

### Volkswagen

**Summary:** Volkswagen hit problems with the installation of a SAP R/3 system at its warehouse in Kassel in Germany, intended to help it extend its just in time supply of spares. Problems occurred in making the new installation work, VW's warehouse was so big SAP had to modify its software, and in data conversion and synchronisation, which VW staff had to work over Christmas to sort out.

**Article:** [http://greenspun.com/bboard/q-and-a-fetch-msg.tcl?msg\\_id=0021h0](http://greenspun.com/bboard/q-and-a-fetch-msg.tcl?msg_id=0021h0)

**Title:** VW in trouble over SAP roll-out

**Source:** Computer Weekly, Mike Simons

**Date:** 12/16/99

### Somerfield

**Summary:** Following its merger with Kwik Save, Somerfield, the UK supermarket group, delayed plans for a company-wide roll out of SAP R/3 whilst it evaluated cheaper alternatives.

**Article Title:** SAP plans on hold

**Source:** Computer Weekly, Bill Goodwin

### Whirlpool

**Summary:** Problems with a newly installed SAP system at Whirlpool led to missed and delayed shipments. This led to Home Depot cancelling an agreement to sell Whirlpool appliances and would instead sell appliances from its rival Maytag. The agreement with Home Depot was reportedly worth \$650m in annual sales. Whirlpool lost the ability to track orders properly, it decided to focus on larger orders from its main customers, but this meant it overlooked Home Depot, whose stores typically placed small individual orders.

**Article Title:** SAP Software Snarls Cost Whirlpool a Contract With Home Depot  
**Date:** San Rafael, California, April 28

**Article Title:** Whirlpool latest to hit ERP production snags; Whirlpool blames SAP R/3 installation for shipping delays  
**Source:** InfoWorld  
**Date:** 11/8/99

#### WH Smith

**Summary:** WH Smith's roll out of its SAP system to its newspaper and magazine distribution depots was reported to be £8m over its £15m budget. Problems faced by newsagents, who claimed they had to clear up delivery problems in the areas covered by the SAP system, led to threats of legal action.

**Article Title:** SAP under fire from retailers  
**Source:** Computer Weekly, Bill Goodwin  
**Date:** 2/3/00

#### The BBC

**Summary:** The BBC announced that its implementation of SAP R/3, begun in 1994 and expected to be completed by 2000, would not now be completed until 2001 or later due to technical difficulties and organizational resistance.

**Article Title:** UK: DEADLINE FOR BBC SAP INSTALLATION EXTENDED.  
**Source:** Computing  
**Date:** 1/20/00

#### W W Grainger

**Summary:** For three consecutive quarters problems related to the installation of a new SAP R/3 system have hit earnings at W W Grainger. Profits for the fourth quarter were expected to be as much as 45% below expectations and problems with the system have already cost Grainger \$19 million in lost sales and \$23 million in reduced earnings in the second and third quarters of 1999.

**Article Title:** ERP Woes Hit Grainger Again; W.W. Grainger's SAP R/3-based enterprise resource planning software hurts earnings for third consecutive quarter  
**Source:** Computerworld, Craig Stedman  
**Date:** 1/10/00

### Newcastle University

**Summary:** Staff at Newcastle University in the UK claimed management imposed an inappropriate SAP R/3 system on them, claiming it is "inappropriate, overbudget, late, slow and not user friendly." An internal audit from Price Waterhouse Coopers confirmed that the project was £1m over budget.

**Article Title:** SAP roll-out £1m over budget; Cost over-runs and project implementation headaches have begun to dog enterprise resource planning installations

**Source:** Computer Weekly

**Date:** 11/18/99

**Article Title:** Newcastle, SAP and the £1m overspend

**Source:** Computer Weekly

**Date:** 11/25/99

### Lego

**Summary:** Lego threw out its SAP R/3 system in favour of Oracle Applications which it said would offer simplified business and working processes:

**Article Title:** Lego throws out SAP R/3

**Source:** Computer Weekly

**Date:** 12/2/99

### Hershey

**Summary:** Problems with a new computer system using SAP (and Manugistics and Siebel) software affected customer service, warehousing and other operations, leading to a fall of 19% in net income and 12% in sales for its third quarter 1999. The system, intended to ease shipping and logistics between Hershey plants and retailers, was three months late and problems resulted in lost sales and increased freight and warehousing costs.

**Article Title:** Hershey's Earnings Drop 19%, Hurt by Computer Problems

**Source:** Dow Jones Newswires

**Date:** 4/11/99

**Article Title:** SAP installation creates financial scare at Hershey

**Source:** Computer Weekly

**Date:** 9/30/99

### Bang and Olufsen

**Summary:** Bang and Olufsen blamed lower than expected financial results on problems related to its SAP R/3 enterprise resource planning (ERP) system. Problems included an 8 day stop on deliveries and problems with supply of finished goods and spare parts. It also restricted the company's financial oversight and Bang and Olufsen claimed it damaged their credibility.

**Articles Title:** Danish firm blames SAP software for some financial woes

**Source:** ComputerWorld, Dorte Toft

**Date:** 8/18/99

#### Allied Waste Industries

**Summary:** After purchasing Browning-Ferris Industries Allied Waste Industries cancelled a new \$130m SAP R/3 installation. It claimed the SAP software was too expensive and too difficult to operate and it required Allied Waste Industries to change its business processes to fit the way the software operated.

**Article Title:** Trash Haulers Dump SAP Software; Firms Seek Cheaper, Easier Choices

**Source:** The Wall Street Journal, Jeff Bailey

**Date:** 9/6/99

#### Corporacion de Supermercados Unidos

**Summary:** Corporacion de Supermercados Unidos, a San Jose, Costa Rica, company that runs about 100 grocery stores in Central America, suffered multiple performance problems when it went live with an early-release version of SAP Retail 4.0. The problems slowed down key business tasks such as processing merchandise orders from stores, reporting their daily sales and shipping goods from the company's central warehouse which forced CSU to assign teams of workers to manually clear transactions around-the-clock and then to clean up incorrect data produced by all the manual work.

**Article Title:** Grocer trips over SAP - Performance Issues with SAP Retail 4.0

**Source:** Computerworld, Craig Stedman

**Date:** 7/12/98

#### Justin Industries

**Summary:** The implementation of a SAP system caused Justin Industries to sharply reduce shipments in October and November 1998, which significantly hit fourth quarter revenue and net income.

**Article Title:** Justin Issues a Profit Warning After Having Software Problems

**Source:** The Wall Street Journal Europe, Bob Ortega

**Date:** 12/08/1998

#### FoxMeyer

**Summary:** The bankruptcy trustee for FoxMeyer Corp. sued Andersen Consulting for \$500 million, alleging that the consulting giant botched a SAP installation and helped hasten the drug distributor's demise. The suit alleged that Foxmeyer ended up paying Arthur Andersen \$30m to install the software - double the original estimate. When the system was installed, the court papers allege that its volume limitations made it usable at only six of FoxMeyer's 23 distribution warehouses and Foxmeyer had to revert to its old Unisys system.

**Article Title:** Andersen's alleged faulty SAP software installation 'played a crucial role in plunging FoxMeyer into liquidation.'" FoxMeyer's Bankruptcy Trustee Has Sued Andersen Consulting

**Source:** Wall Street Journal, Elizabeth MacDonald

**Date:** 7/2/98

**Article Title:** Users Claim SAP Can Damage Your Wealth

**Source:** Computergram

**Date:** 11/4/99

## Shane Says SAP Costs Helped Cause Jeweler's Decline (Update1)

*By Erik Larson - January 13, 2009 19:17 EST*

Jan. 13 (Bloomberg) -- Shane Co., the family-owned jewelry retailer that sought bankruptcy yesterday, told a U.S. judge the company's decline was triggered partly by delays and cost overruns for a \$36 million SAP AG inventory-management system.

SAP, the world's biggest maker of business-management software, took almost three years to install and implement the system instead of one year, while costs "ballooned" to \$36 million from a projected maximum of \$10 million, Shane said in papers filed yesterday in U.S. Bankruptcy Court in Denver.

Shane, based in Centennial, Colorado, became "substantially overstocked with inventory, and with the wrong mix of inventory" when Walldorf, Germany-based SAP finished the system in September 2007, according to the filing. The software "adversely affected sales" through the first nine months of 2008, it said.

Shane, with 23 stores in 14 states, blamed the Chapter 11 filing primarily on the U.S. recession and a 32 percent decline in holiday sales from 2007. U.S. retailers suffered from what was the worst holiday-shopping season in four decades, triggered by rising unemployment and declines in credit, according to the International Council of Shopping Centers.

SAP spokesman Saswato Das said today by telephone that the company was "assessing the situation" and couldn't provide additional comment. No legal claims against SAP were made in the court filing.

### Owner's Loan

Shane, which said it's one of the 10 biggest U.S. jewelry retailers, plans to reorganize the company with a \$10.5 million loan from an entity partly controlled by the retailer's owner, Tom Shane, according to Caroline Fuller, the company's lawyer. Tom Shane earlier loaned the company \$20 million, Fuller said today in an e-mail.

Shane's assets and debt both exceed \$100 million, the company said in its bankruptcy petition. The retailer projected sales of no more than \$210 million for 2008, compared with sales of \$275 million in 2007, court papers show.

During the past two years, as Shane's debt grew, the company fired at least 177 workers, closed two stores and abandoned an "ill-advised" plan to open other locations, according to court papers. The company also abandoned a plan to relocate to a larger headquarters, it said.

Shane owes \$15 million on a term loan arranged by Crystal Capital Fund LP and secured by a second lien on its assets, court papers show. The company owes another \$12.6 million to a vendor under a three-year supply agreement, while total unsecured trade debt is \$49 million, it said.

### 'Full Functionality'

The SAP system didn't become "stable and functional" until the fall of 2008 and still doesn't operate as initially planned, Shane said in the court filing. The retailer now employs eight contractors to modify the SAP system and "bring it to full functionality," it said.

Shane owes as much as \$26.2 million to its 20 biggest unsecured creditors, court papers show. The largest unsecured creditor in the case is New York-based Dison Gems Inc., with a \$4.7 million claim, the company said. Shane's 6,000 creditors include 550 employees as well as 4,600 customers who placed special orders or made

## Shane Says SAP Costs Helped Cause Jeweler's Decline (Update1) - Bloomberg

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layaway deposits on future purchases.

The company, formerly Western Stone & Metal Corp., said on its retail Web site that its customers "pay no middleman markup" because Shane buys diamonds and other gems directly from cutters in Antwerp, Belgium, Tel Aviv, Bangkok and Bombay.

Shane's products include wedding rings with 14 diamonds for \$700 and 18-inch white gold necklaces with a trio of 1.25 carat diamonds for \$3,295, according to its Web site. The company also sells loose diamonds and has a collection for men.

More than two dozen retailers filed for bankruptcy last year, including Circuit City Stores Inc., Linens 'n Things Inc., Mervyn's LLC, KB Toys Inc. and Sharper Image Corp.

The case is Shane Co., 09-10367, U.S. Bankruptcy Court, District of Colorado (Denver).

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## SAP Project Costs Cited in Jeweler's Bankruptcy Filing CIO.com

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Shane Co listed SAP costs  
as one reason per BR
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## SAP Project Costs Cited in Jeweler's Bankruptcy Filing

A Colorado retail jewelry chain that filed for Chapter 11 bankruptcy on Monday has partly attributed its move to rampant cost overruns on an SAP implementation, according to a court filing.

By Chris Kanaracus  
Wed, January 14, 2009

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IDG News Service — A Colorado retail jewelry chain that filed for Chapter 11 bankruptcy on Monday has partly attributed its move to rampant cost overruns on an SAP implementation, according to a court filing.

Shane Co. entered a contract with SAP in 2005 for a "highly sophisticated 'point of sale' and inventory management system" at an original projected cost of US\$8 million to \$10 million and a one-year project schedule, the document states. But costs ended up skyrocketing to \$36 million and the implementation stretched out to 32 months, eventually going live in September 2007.

The company subsequently found that the system "did not yet provide accurate inventory count numbers," causing it to become "substantially overstocked with inventory, and with the wrong mix of inventory," adding to Shane Co.'s capital costs and affecting sales through year-end 2007 and the first nine months of 2008, the court document says.

The system "became stable and functional" toward the end of 2008, but still does not deliver "the full functionality originally contracted for," the filing states. Eight independent contractors are now attempting to remedy the problems.

But a "precipitous decline in retail sales, particularly in luxury goods," due to the recession was the biggest reason for the company's bankruptcy filing, not the SAP project, according to the document, filed in the U.S. Bankruptcy Court for the District of Colorado.

Sales in 2007 were \$275 million, but the company expected 2008 returns to be between \$207 and \$210 million. The company's bankruptcy petition listed both its assets and debts as being between \$100 million and \$500 million.

SAP spokesman Saswato Das said Wednesday that SAP could not immediately comment.

Shane Co.'s news follows another recent public disclosure of trouble with an SAP implementation. Late last year, bed-maker Select Comfort said it was halting work on an SAP ERP (enterprise resource planning) project as part of a cost-cutting plan.

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Today, cloud adoption is rapidly expanding its footprint and is no longer simply a theoretical or academic conversation that enterprise organizations are debating. The reality is that companies across a wide variety of sectors are actively engaged in cloud adoption. This includes everything from strategy and planning, to pilot solutions, and production roll-out. However, business cases for cloud services often focus on financial return on investment (ROI). While that's a compelling argument, the full value of cloud computing extends beyond cost savings.

#### Monitoring Real End User Experience of SAP

Is your organization currently among nearly half of all SAP customers (43%) who are dissatisfied with response times across all components? A recent survey indicated that 40% of businesses said they could NOT detect SAP issues in real-time, and instead relied on user feedback to try to remediate and resolve performance issues. Now is the time to gain the insight and recommendations needed to identify and eliminate common SAP application



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Speaker: Gary Nakamura, General Manager

Gary Nakamura is the General Manager of Terracotta. He is responsible for Terracotta's strategy, operating P&L, and business operations, including Sales, Marketing and Product Management. Gary has over 20 years of experience as a business executive, with extensive experience in enterprise software, global sales, and market development and strategy. Gary has a winning track record in technology companies in high-growth markets.

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## SAP project halted after shareholder pressure


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## SAP project halted after shareholder pressure

— Chris Kanaracus, IDG News Service

December 17, 2008

The weak economy has companies of all sizes and types moving to cut costs, and for U.S. bedding manufacturer Select Comfort, those choices have included a decision to halt all work associated with a wide-ranging SAP ERP (enterprise resource planning) project. And documents on file with a government regulator indicate that shareholder pressure may have contributed to the move.

Select Comfort, maker of the "Sleep Number" bed, will also cut 22 percent of its workforce, or about 120 jobs, and combined with other actions under consideration, the moves will save the Minneapolis, Minnesota, company about US\$15 million each year, according to a [statement](#).

A company spokeswoman declined to comment further on Wednesday.

Documents on file with the U.S. Securities & Exchange Commission [show](#) that Select Comfort planned to implement an integrated suite of SAP applications, including modules for ERP, CRM (customer relationship management), SCM (supply chain management) and many others. The company initially expected the project would be complete during the first half of its fiscal 2008.

"We believe this SAP-based IT architecture ... will provide greater flexibility and functionality for our growing and evolving business model and be less expensive to maintain over the long-term," one filing states in part.

But other SEC filings show that Select Comfort officials had for months been under pressure by a shareholder, the Clinton Group, to spike the project.

In letters to Select Comfort's board, the Clinton Group characterizes the ERP implementation as significantly over budget and behind schedule, and the company's leadership as reckless.

"We believe that spending on the SAP system installation should be deferred until an expeditious, detailed review of information technology needs is undertaken and completed by an independent consultant, particularly in light of the departure of the Company's Chief Information Officer," states a [letter](#) dated March 6.

The Clinton Group also said Select Comfort spent \$12 million on the implementation in 2007 and "anticipates spending another \$8 million in 2008, assuming no additional costs. ... It is difficult for us to envision, given the size of the Company, that the Company could ever achieve cost savings to justify such a large expense."

"Select Comfort's plan to continue with the implementation using internal resources that have at best limited experience implementing a new enterprise software system is indicative of extremely poor judgment by management," states a [letter](#) sent by the Clinton Group in June. "Select Comfort's

## SAP project halted after shareholder pressure

management has never articulated why it needs to spend tens of millions of dollars on implementing an enterprise software system, and given Select Comfort's financial performance the implementation should cease immediately."

While Select Comfort's statement did not rule out the possibility it would revive the implementation, unfinished ERP projects are "more common than you might think and more common than [they] should be," said Frank Scavo, managing partner of Strativa, an IT consulting firm in Irvine, California.

"Ceasing an implementation midstream is certainly not a pleasant decision, because assuming that at some point, this organization is going to restart the implementation, they're going to have additional costs," Scavo said.

For example, a company might have to retrain workers on processes they're already been taught, and any implementation partners being used may not be available. "But sometimes financial realities are what they are, and companies need to make a decision," he said.

Another industry observer said Wednesday that overall, the economy is undoubtedly having some chilling effect on ERP projects.

"A number of our companies are in the process of conserving cash," Forrester Research analyst Ray Wang said via e-mail Wednesday. "For some, this means the delay on implementing certain modules, reducing costs in maintenance, and also renegotiating implementation contracts."

Customers do have ways to hedge their bets during the planning stages of a project, Wang said. "If you design your contract in phases, you have the opportunity to put in clauses around phase completion and kick-off. This is more a system integrator issue than a software vendor issue.

"We typically tell customers it's best to budget for a project in good and bad times in order to achieve the best ROI," Wang added. "Delays do impact the ROI. However, when cash is king, you have to protect cash flow, and that will win out."

One thing financially strapped software customers don't tend to have is the opportunity to return the product and get their money back, according to Scavo.

"The only time I've seen that is if there's a non-performance issue or breach of contract on the part of the vendor," he said. "The customer would not be entitled to get money back just because they can't afford the system anymore."

Moreover, licensing costs don't even represent the bulk of software costs; implementation and support fees rack up a bigger percentage, Scavo noted. "There's probably more money sitting ahead of [Select Comfort] than there is behind them."

It is not SAP's place to comment on the financial well-being of a particular customer, but Select Comfort's decision appears to be an anomaly, according to SAP spokeswoman Natalie Fine.

"We fully recognize these are truly critical times for our customers ... [but] what we're seeing is this is not a trend. SAP projects are continuing to go forward," she said. "Our experience is that even in this macro environment, companies are standing firm."

Like other vendors, SAP has announced ways it is trying to help customers weather economic difficulties, such as zero-percent financing offers.

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## SAP Owns Up to Usability Problem - The CIO Report - WSJ

Wednesday, August 15, 2012 10:52:38 GMT New York 84°/72°

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## SAP Owns Up to Usability Problem

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Rachael King

Reporter

SAP knows it has a usability problem and is actively trying to do something about it. It's become an urgent issue for customers such as Varian Medical Systems, a manufacturer of medical devices and software. For years, Varian Medical Systems had taken an SAP-first approach but recently the company started to find good reasons not to buy SAP. "It was not a good user experience," said Tom Rodden, senior director of enterprise applications at Varian Medical Systems. "We were losing the hearts and minds of the users." The company, like other businesses, had begun to look for replacements to SAP for non-core applications.

Yet, SAP wasn't going to let Varian slip away that easily. "Admitting there's a problem is the first step to fixing it," SAP senior vice president Denis Browne told CIO Journal. The software-maker asked Varian — and five other companies — to participate in an SAP pilot program that addressed usability. SAP has taken what it learned in that project and plans to make it available to other customers. By the first quarter of 2013, SAP will sell software that will let both IT departments and end users personalize most classic SAP screens, said Browne at an event at the company's offices in Palo Alto.



Michael Hickins/WSJ

Waiting room at one of SAP's offices in New York City. Maybe next SAP could improve the usability of its couches.

User experience is a crucial issue for enterprise IT, especially now that expectations have been raised in the age of the iPad. "Usability is going to make or break every major decision in the IT world," said Rodden. People won't use technology if it's not intuitive which means money is wasted. It also gives employees incentive to find their own solutions which may not be secure and could make companies vulnerable to data breaches and jeopardize CIO jobs.

Today millions of employees around the world use SAP software in the workplace, said Browne. In many companies it's very difficult or nearly impossible to rip and replace an SAP enterprise resource planning system. Many large companies rely on SAP systems to run core functions including product development and manufacturing, procurement and logistics, financials, sales and service and human resources. In fact, one of the reasons companies began to use SAP in the first place was because it could connect and automate much of the business.

Companies like Varian have remained loyal to SAP products because they didn't want costly integration headaches. But, the rise of user-friendly devices including the iPhone and iPad changed worker expectations. "The world has changed dramatically," said SAP's Browne.

Part of that change is a function of demographics. By 2014, 47% of the workforce will be born after 1980, and younger workers have different expectations of software, said Sanjay Poonen, president of global solutions and head of mobility at SAP.

Until the pilot program, Varian Medical Systems had thought the issues with SAP

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## SAP Owns Up to Usability Problem - The CIO Report - WSJ

interfaces were insurmountable. The company had already turned to cloud provider SuccessFactors – which has since been bought by SAP – for its performance management capabilities. Rodden says he's happy that SAP purchased SuccessFactors because it will make the integration with SAP systems faster. But he says there are still areas where Varian Medical Systems may turn to other software providers.

Still, SAP's attention to usability now makes it possible for Rodden to improve the look and feel of the software, simplify the screens and the number of clicks it takes to finish tasks. If Varian can make it easier for employees to complete their work, and to help reduce errors, it will be a step in the right direction, he said.

**Correction:** This story has been corrected to say that millions of employees around the world use SAP software. The story originally said 1 million employees use the software.

Write to [rachael.king@wsj.com](mailto:rachael.king@wsj.com)

Read More About:

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9:41 pm August 7, 2012

Sara Richmond wrote:  
Usability has never been a strong suit of SAP. Reliable yes and something can be said for that.

I recently chose to look for a new job and was quite surprised with the experience at SAP.

<http://www.careersatsap.com/CareerCenter.aspx#mainView=search;popUps=0>

5:31 pm August 8, 2012

Bill Wood wrote:  
This is one of the areas I have been suggesting that SAP address for a long time. It is good to hear they are looking to get serious about it and are actively pursuing solutions!

<http://www.r3now.com/the-sap-user-experience/>

10:50 am August 8, 2012

Mike Zuckerman wrote:  
SAP(r) has made tremendous strides in enhancing the user experience. They resell a product from KNOA Software that impacts user experience in a measurable and impactful way.

KNOA's product, SAP UEM application by KNOA, enables a view of user performance as viewed from the desktop specific to each and every user. So the IT service desk, functional support and training team can understand what the user experiences from the time they hit the "enter" key to the time they get a response back. They can see, at any moment, what are the user problems (system, user and master data) which are impacting productivity.

The KNOA software provides insight into the performance and proficiency of the user. They can understand issues in custom transactions that may be affecting usability, across a global

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ALJ/LRR/acr

**Date of Issuance 6/14/2012**

Decision 12-06-016 June 7, 2012

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$4,134,600 or 2.55% in the year 2011, by \$33,105,800 or 19.68% in the 2012, by \$9,897,200 or 4.92 % in 2013, and by \$10,874,600 or 5.16% in the year 2014.

Application 10-07-007  
(Filed July 1, 2010)

And Related Matter.

Application 11-09-016

(See Attachment A for a list of appearances)

**DECISION ADOPTING THE 2011, 2012, 2013, AND 2014  
REVENUE REQUIREMENT FOR  
CALIFORNIA-AMERICAN WATER COMPANY**

A.10-07-007, A.11-09-016 ALJ/LRR/acr

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Therefore we adopt the labor escalation factor as Cal-Am's increase for group insurance expense.

#### **8.4.4. Special Request #11 - Business Transformation Memorandum Account**

Cal-Am's business transformation project was implemented to automate, update and modernize all aspects of the information technology platforms and business processes used by American Water Works and all its operating companies, including Cal-Am.<sup>54</sup> The original estimate for the project was \$280 million with Cal-Am's portion set at \$14 million. An updated estimate is set at \$317 million with Cal-Am's allocation increasing proportionately.

Cal-Am proposes that: 1) the revenue requirement on Cal-Am's allocated portion of the full \$280 million originally requested for the business transformation project be included in rate base; 2) that Cal-Am be authorized to earn a return on and recovery of those business transformation project capital expenditures; and either that 3) Cal-Am track in a memorandum account the revenue requirement of all additional business transformation project costs as well as any cost savings generated by the project and that the memorandum account be the subject of review by all parties and the Commission pursuant to a Tier 3 advice letter filing in May 2015, or (in the alternative) 4) the revenue requirement on the updated \$317 million budgeted for the business transformation project be included in rate base.<sup>55</sup>

Cal-Am's position regarding how the business transformation project costs should be recovered has evolved over the course of this proceeding. In

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<sup>54</sup> Exhibit CAW-27 at 54.

<sup>55</sup> Cal-Am's Reply Brief at 70.

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Special Request #11, Cal-Am originally sought to include its estimated business transformation project costs in revenue requirement and requested a balancing account to track differences between the estimated and actual project costs. Special Request #11 also requested that the balancing account earn interest at Cal-Am's authorized rate of return.

In its opening brief, Cal-Am requests a memorandum account rather than a balancing account to track project costs, but still seeks to earn rate of return. And, for the first time in its reply brief, Cal-Am seeks to track the savings generated by the business transformation project in the memorandum account.

DRA agrees that the business transformation project costs should be allowed in revenue requirement, but only under three conditions.<sup>56</sup> First, DRA recommends that the Commission adopt only Cal-Am's original estimated costs of the project. Second, DRA requests that the Commission impute a 5.3% reduction in the costs to Cal-Am in recognition of the benefits of the business transformation project that inure to the parent company's unregulated affiliates. Third, DRA proposes that the Commission reduce the revenue requirement by savings that have been identified in a confidential document prepared by American Water Works and presented to its board of directors in May 2010.

DRA points out that the Commission already rejected a Cal-Am request for a balancing account to track all costs of the business transformation project because it was determined that the program costs were within the control of Cal-Am's parent company, American Water Works, the costs were not

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<sup>56</sup> DRA does not comment on Cal-Am's requested rate base treatment of the business transformation project expenses.

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exceptional in nature and were more like standard operating expenses that could be reasonably forecast.<sup>57</sup>

TURN objects to Cal-Am's request for memorandum account treatment since the costs are within the company's control. TURN, like DRA asks that the Commission recognize the cost savings identified in the document presented to American Water Work's board of directors and reduce the revenue requirement accordingly.

Cal-Am claims that capitalizing rather than expensing the project costs is the proper regulatory treatment and the Commission should reject both DRA's and TURN's recommendation. Cal-Am justifies the need for memorandum account treatment stating that even if memorandum account treatment is approved, there will still be substantial under-recovery of costs because a return on the costs incurred prior to authorization will never be recovered. Cal-Am points out that ratepayer interests are protected because a Tier 3 advice letter is subject to review by all parties and the Commission prior to recovery.

Cal-Am states that the alleged savings identified in the confidential document are only estimates and that both DRA's and TURN's recommendations ask the Commission to recognize savings without recognizing the costs that are necessary to produce the savings. Although Cal-Am agrees that there will likely be savings in reduced personnel costs over time, the ability to measure those savings today is a matter of timing. Cal-Am states that attempts to estimate savings before system implementation would be very

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<sup>57</sup> Exhibit DRA-13 at 2.2-2.3.

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preliminary and of limited predictive value and therefore should not be imputed.

We agree with DRA and TURN that the estimated benefit or savings identified by Cal-Am should inure to ratepayers during this rate case cycle. Cal-Am states that the estimates are preliminary and of limited predictive value. We understand Cal-Am's concern regarding the accuracy of estimates, but general rate cases are fundamentally based on estimates of future expenses. Also, the estimates were provided to American Water Work's board of directors, the people who use the information to make decisions affecting the company. We assume that the accuracy of a presentation for the board of directors is at least the same as that of a general rate case filing. And, as Cal-Am's witness stated, there have been no revisions to the estimates of savings since that information was presented to the American Water Work's board of directors in May 2010.<sup>58</sup>

Therefore, we will adopt Cal-Am's estimated savings for 2012, 2013 and 2014, as presented to the American Water Work's board of directors and entered into the record of this general rate case by DRA. The estimated savings are calculated using figures from the confidential document; however, the figures here do not compromise the confidentiality of that document.

As with most estimates in a general rate case, if Cal-Am realizes greater savings than those identified, Cal-Am retains the savings. If project costs exceed the amount authorized, Cal-Am absorbs them. This equilibrium provides the

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<sup>58</sup> Reporter's Transcript 890:3-13.

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incentive for Cal-Am to estimate projects accurately, which benefits ratepayers, and reduces costs, which benefits Cal-Am.

We do not approve Cal-Am's request for a memorandum account to track the difference between the estimated costs of the business transformation project and the actual costs of the project. We have confidence in Cal-Am's estimates and assurances by its witness that the project will be brought in on-time and within the budget.

However, Cal-Am is authorized to file a Tier 2 advice letter to move project costs into rate base when each phase of the business transformation project is complete, used and useful. Total recovery for the business transformation project will be capped at \$14 million, reduced by 5.3% in recognition of the benefits of the business transformation project that inure to the parent company's unregulated affiliates. Cal-Am's initial Tier 2 advice letter to move costs associated with the first live phase of Enterprise Resource Planning will include the savings of \$111,066 as an expense offset to the rate base addition requested in the initial Tier 2 Advice Letter. The projected savings for 2013 of \$998,037 and 2014 of \$1,777,056 attributable to Enterprise Resource Planning will be included in the advice letter filing for the attrition years as expense offsets. Cal-Am's Tier 2 advice letter to move costs associated with the first live phase of Customer Information Systems, which is scheduled for 2014, will include the savings of \$873,996, attributable to the Customer Information Systems as an expense offset. We will not impute the project savings until the project costs have been added to rate base.

Additional estimated savings from the business transformation project that Cal-Am projects to occur after this rate case cycle should be recovered in the next general rate case.